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PERMANENT SECRETARY

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Dame Meg Hillier MP
Chair of the PAC
Sent electronically

Dear Chair,

TYPE 26 GLOBAL COMBAT SHIP PROGRAMME ACCOUNTING OFFICER ASSESSMENT

It is normal practice for Accounting Officers to scrutinise significant policy proposals or plans to start, or vary, major projects, and then assess whether they measure up to the standards set out in Managing Public Money. From April 2017, the Government has committed to making a summary of the key points from these assessments available to Parliament when an Accounting Officer has agreed an assessment of projects within the Government's Major Projects Portfolio.

Background

The 2015 Strategic Defence and Security Review set out the Government's commitment to build eight Type 26 Global Combat Ships optimised for Anti-Submarine Warfare to replace the current eight Anti-Submarine Warfare variant Type 23 Frigates on a one-for-one basis. The programme achieved Main Gate 2 in Jun 2017¹ with approval to proceed to manufacture of Batch 1 (ships 01-03) through a single source, Target Cost Incentive Fee contract with BAE Systems. The vessels are being built on the Clyde in accordance with UK complex warship build policy². An increase in the Approved Budgetary Level and amendment to the Initial Operating Capability has been approved through a review note. This was notified to Parliament through a Written Ministerial Statement on 2 November 2022 and this Accounting Officer Assessment explains that decision.

Forecast Programme Delay and Cost Increase

The programme has had to address the challenges of greater than forecast complex warship engineering design volume (which has induced delays in completing the final stages of the design), poor supply chain performance impacting the critical path (e.g. gearbox testing issues which required additional work to deliver the required performance),

¹ T26 GCS Manufacture (Batch 1) MGBC (IAC 3889) (NAVY SHIPS T26 (00_01) V.,17 Final dtd 27 Apr 17

² National policy is that complex warships are built in the UK for reasons of national security and the sustainment of sovereign capability.

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delays to the provision of Government Furnished Equipment (military satellite communications and electronic warfare equipment) and the impact of COVID19. The first COVID19 lockdown resulted in a temporary 4 week pause in shipbuilding on the Govan site in the early months of 2020. Production was restarted following the establishment of new, safe working patterns. Smaller teams and shift working enabled work to resume but at a slower pace of delivery than usual.

These factors have resulted in the schedule and cost envelopes of the T26 Batch 1 approval being exceeded with a forecast delay of 12 months to Initial Operating Capability from October 2027 to October 2028 with work underway to bring this date forward. The associated forecast cost uplift to the programme is £233M. Despite these challenges quality has not been compromised and the T26 remains on track to meet all User Requirements and deliver world class Anti-Submarine Warfare frigates in time to replace the Anti-Submarine Warfare T23s.

Assessment against AO Standards

Regularity

The Type 26 programme complies with Parliamentary requirements for the control of expenditure with programme funds being applied only to the extent and for the purposes authorised by Parliament. HMT regularity standards continue to be satisfied.

Propriety

Parliament's intention for the programme's authorised expenditure continues to be met properly and is reviewed by the Department and Infrastructure and Projects Authority through quarterly reporting.

Value for money

Were there to be no Type 26 programme, there would be an identified capability gap when the Type 23s go out of service. A recent refresh of the operational analysis by the Defence Science and Technology Laboratory confirmed the need for 8 Type 26 anti-submarine warships. There is no alternative course of action to meet this capability gap that would offer greater value for money as to change approach would incur greater cost and time delays. The Cost Assurance and Analysis Services team has conducted a full analysis of the uplift in Batch 1 costs and estimated Batch 2 costs which underpins their work to assure value for money of the programme on a continuing basis and in the context of the shipbuilding portfolio.

The programme overall offers good value for the Exchequer as a whole owing to its contribution to the UK government's levelling up agenda and the drive to improve UK shipbuilding capability. The Type 26 programme provides the means for developing and growing UK skills: proceeding with Batch 1 and eventually into Batch 2 will see the creation of a UK skills academy and a throughput of work that will maintain a sustainable skills base.

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Feasibility

Schedule slippage in the programme will see a delay to the Initial Operating Capability and entry into service of the first of class; this was a measured decision to ensure quality is a priority and the Key User Requirements are met. The noise signature of anti-submarine vessels is fundamental to meeting the capability and issues with the gearbox put this Key User Requirement at risk. The Senior Responsible Owner's decision to focus on getting the quality right before installation in the ship has protected the overall schedule from delay downstream during the testing and noise ranging trials.

Inflation

As a result of current volatility in the global supply chain, the programme is seeing a rise in the price of defence goods. These cost increases are continuing to rise at a significant rate and are impacting the programme's real term spending. The Type 26 programme will capture where inflation is being reflected in costs prices within the supply chain and ensure there is clarity between inflationary pressures and cost growth. There is a risk that inflationary pressures may require a further uplift in the Approved Budgetary Level, the Department will keep the Public Accounts Committee updated on this risk.

Conclusion

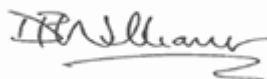
Type 26 remains a satisfactory use of public resources and the programme should continue to allow the completion of Batch 1 as well as proceed to a mature assessment of the case for manufacture of Batch 2 (the remaining 5 ships). The contract for Batch 2 has now been signed and I will write to the Committee separately with a summary of that investment decision.

As the MOD Accounting Officer, I considered this assessment of Type 26 programme and approved it on 12 December 2022.

I have prepared this summary to set out the key points which informed my decision. If any of these factors change materially during the lifetime of this programme I undertake to prepare a revised summary, setting out my assessment of those factors.

This summary will be published on the Government's website (www.gov.uk). Copies will be deposited in the library of the House of Commons and sent to the Comptroller and Auditor General and Treasury Officer of Accounts.

Yours sincerely,



DAVID WILLIAMS