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12 December 2022

Dame Meg Hillier MP
Chair of the PAC
Sent electronically

Dear Chair,

TYPE 31 GENERAL PURPOSE FRIGATE 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 make 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 and 2017 National Shipbuilding Strategy set the direction to deliver five general purpose frigates to replace ageing Type 23s. A key tenet of the National Shipbuilding Strategy was to seek Value for Money solution through a procurement strategy generating competitive tension, giving the market flexibility to trade within requirements and propose a design and capability solutions to the Royal Navy's requirements. Five Type 31 ships are now on contract with Babcock, with the first (HMS VENTURER) now in production at Rosyth.

Increased Funding Approval

As part of the competitive process for Type 31, the 2019 business case described a deliberate decision that Combat System integration would be subject to future and separate approvals because our understanding of the new to service combat system and equipment being procured through competition was immature. The Department has now analysed the available combat system integration options and concluded that investment in an independent UK-based facility is the Value for Money option. This decision has now been factored into updated forecast programme costs. As a result, an uplift of the programme's Approved Budgetary Level will facilitate investment in the required solution, mitigate the integration risk, and set the conditions for a smooth transition to service whilst establishing the long-term infrastructure to support combat systems through life.

Assessment against AO Standards

Regularity

The Type 31 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. HM Treasury 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

The Type 31 programme continues to provide a Value for Money solution to meet the general-purpose frigate capability requirement to meet Defence Tasks, delivering maritime security operations and freeing-up our high-end warships to undertake the tasks for which they are intended. The 2019 competition delivered unprecedented Value for Money in securing the Design and Build contract. Uplifting the Approved Budgetary Level does not change that contract or the average production cost of £250m per ship. Moreover, this proposal opens a second combat systems development pathway for the Navy (and potential for MOD revenue through exports), generating beneficial tension between a monopoly supplier and the new entrant delivering Type 31's capability. It offers commercial leverage through broadening the potential market for combat systems integration and support to the Navy, for which the current contract is due for re-let in 2027. This is within the timeframe of the Type 31 contract.

Feasibility

The Design and Build contract for delivery of 5 x Type 31 ships by the end of 2028 is unchanged by this budgetary uplift and will continue to deliver to the time and performance parameters approved at the Main Gate Investment Decision point in 2019. The contract value will also remain unchanged.

The provision of Type 31 integration solutions were investigated and assessed as either unfeasible or not delivering value for money on technical or security grounds. Instead, building on the previous MOD investment exploits the existing and performing contractual vehicle, de-risking schedule, effort, and overhead costs for both MOD and industry. It has been confirmed that the additional Type 31 scope can be included within the originally advertised contract value.

Conclusion

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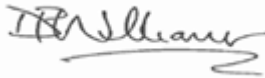
Type 31 remains a satisfactory use of public resources and the work to uplift the programme's Approved Budgetary Level will preserve confidence in the programme schedule to deliver capability to the approved In-Service Date.

As the MOD Accounting Officer, I considered this assessment of Type 31 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,

A handwritten signature in dark ink, appearing to read 'D Williams', with a horizontal line underneath.

DAVID WILLIAMS