



House of Commons

Committee of Public Accounts

Providing the UK's Carrier Strike Capability

Fifty-sixth Report of Session 2010–12

*Report, together with formal minutes, oral and
written evidence*

*Ordered by the House of Commons
to be printed 23 November 2011*

HC 1427

Published on 29 November 2011
by authority of the House of Commons
London: The Stationery Office Limited
£11.00

Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

Current membership

Rt Hon Margaret Hodge (*Labour, Barking*) (Chair)
Mr Richard Bacon (*Conservative, South Norfolk*)
Mr Stephen Barclay (*Conservative, North East Cambridgeshire*)
Jackie Doyle-Price (*Conservative, Thurrock*)
Matthew Hancock (*Conservative, West Suffolk*)
Chris Heaton-Harris (*Conservative, Daventry*)
Meg Hillier (*Labour, Hackney South and Shoreditch*)
Joseph Johnson (*Conservative, Orpington*)
Fiona Mactaggart (*Labour, Slough*)
Mr Austin Mitchell (*Labour, Great Grimsby*)
Nick Smith (*Labour, Blaenau Gwent*)
Ian Swales (*Liberal Democrats, Redcar*)
James Wharton (*Conservative, Stockton South*)

The following Members were also Members of the committee during the parliament:

Dr Stella Creasy (*Labour/Cooperative, Walthamstow*)
Justine Greening (*Conservative, Putney*)
Eric Joyce (*Labour, Falkirk*)
Rt Hon Mrs Anne McGuire (*Labour, Stirling*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccom@parliament.uk.

Contents

Report	<i>Page</i>
Summary	3
Conclusions and recommendations	5
1 Part 1: The decision-making process	7
2 Part 2: Managing risks	9
Formal Minutes	11
Witnesses	12
List of printed written evidence	12
List of Reports from the Committee during the current Parliament	13

Summary

The 1998 Strategic Defence Review committed to replace the three existing Invincible Class aircraft carriers with two larger, more versatile, carriers capable of carrying a more powerful aircraft. By the time the 2010 Strategic Defence and Security Review (SDSR) started, the Department had signed manufacturing contracts for two carriers with an estimated cost of £5.24 billion and delivery dates of 2016 and 2018. The construction of the carriers by the Aircraft Carrier Alliance is going well to date. The majority of build targets have been met and the project is on track to be within budget.

The Department entered the 2010 SDSR with an expected deficit in its equipment programme over the next ten years of up to £38 billion. Decisions taken as part of the Review significantly changed the way the United Kingdom will deliver its Carrier Strike capability. The UK will have no carrier aircraft capability from 2011-2020. While two carriers are still being built, only one will be converted to launch the planes that have now been selected, and the other will be mothballed. The UK will only have one operational carrier with a significantly reduced availability at sea when Carrier Strike capability is reintroduced in 2020. That carrier is being built according to the old design and will have to be modified to make it compatible with the requirements of the new aircraft.

The SDSR decision to change the aircraft flown from the carriers from the Short Take-Off and Vertical Landing (STOVL) variant of the Joint Strike Fighter to the carrier variant changed, but did not necessarily reduce, the balance of risks and uncertainties to the programme in ways which are not yet fully understood. The carrier variant will be more capable with greater operational range and the ability to carry a heavier payload. However, they will require the installation of catapults and arrestor gear on the carriers to help them take-off and land. The technology proposed has yet to be tested and the version the UK intends to buy will be unique to Britain. The costs of converting the carrier for use with the carrier variant aircraft will not be known until 2012.

Whilst the strategic policy decision to re-focus investment in both the carriers and the linked combat aircraft was well informed, it will only become apparent whether the Department can secure value for money in implementing the strategic policy decision when it fully develops and costs detailed delivery plans to support robust investment decisions, probably in late 2012.

As we have commented before, the Department's singular failure to manage its equipment programme within affordable limits has had damaging consequences for both military capability and value for money. It meant that options prepared by the Department to support the SDSR were heavily influenced by the need to make cash savings and by short-term affordability. The Department believes that the SDSR decision will save £3.4 billion, but only £600 million of this is cash savings while the remainder is simply deferring expenditure beyond the Department's 10 year planning horizon. The decision will lead to nine years without Carrier Strike and full capability will not be achieved until 2030. It has also acknowledged that there is more work to do to get the best and most flexible operational use from the carrier.

The Accounting Officer confirmed that a policy decision was taken in the SDSR to have aircraft carriers and we do not question this. However, decisions on how to deliver this capability were operational judgements with major cost and value for money implications. We are concerned that the National Audit Office did not have access to all the information it requested to prepare and conclude on value for money in its report of 7 July 2011 on this project. Nevertheless we took evidence from the Department on the basis of that report, on whether the strategic decision to refocus investment was well informed and whether the Department has plans to cost effectively deliver the Carrier Strike capability now required. We welcome the subsequent decision by the Prime Minister and the Cabinet Secretary, in response to our concerns, to allow the National Audit Office access to the relevant material.¹

In November 2011, the Comptroller and Auditor General produced a memorandum for the Committee on Carrier Strike² drawing out the key messages emerging following his access to the relevant papers. Our report draws on the hearing we held on 11 July 2011 and evidence from the Comptroller and Auditor General's report and subsequent memorandum. We are disappointed that the systemic issues that have appeared in our other recent defence reports continue to arise. In making our recommendations we have built on what we have said in past reports and focussed on two key areas: strategic decision-making and delivery of capabilities.

1 Ev 26

2 Ev 22

Conclusions and recommendations

1. **We hold departments to account for delivering value for money by considering the reports of the Comptroller and Auditor General. Our ability to do this was hampered in this case by the fact that the National Audit Office did not have access to all the information it needed when preparing its first report to the House.** Ultimately access to the relevant material in the Cabinet Office was provided after sustained pressure from this Committee and others in the House of Commons. We welcome this decision. Government departments must not hinder the Comptroller and Auditor General's ability to report to Parliament by denying him prompt access to evidence he considers necessary to conclude on value for money, and the Treasury's guidance, *Managing Public Money*, should be revised to make this clear.
2. **To convert the ship has changed the profile of risks and costs, and the costs are not yet fully understood.** The switch from the Short Take-Off and Vertical Landing (STOVL) variant of the Joint Strike Fighter to the carrier variant has reduced the technical risks associated with the STOVL aircraft. But the costs of converting the carrier for the carrier variant aircraft will not be known until December 2012, leaving the project at risk of cost growth and slippage, and there are new technical risks and challenges integrating the new aircraft with the carriers. The Department should fully understand the risks and costs within 18 months and have appropriate mitigation plans in place.³ We will seek a further report from the National Audit Office on the project in 18 months' time.
3. **In the past the Department has entered into commercial agreements without ensuring it has sufficient budget to meet its commitments, leading to a shortfall of up to £38 billion over the next ten years.** Having overcommitted its budget the Department has had to delay projects resulting in increased costs over the longer term. We welcome the assurance from the Accounting Officer that the Department will only commit to the purchase of equipment/capability when there is a confirmed allocated budget both in the short and long-term. We will hold her to this promise.
4. **In preparing options, the Department concentrated on immediate cash savings and short-term affordability, and did not focus strongly on long-term value for money.** The Department's strategic planning ahead of the next SDSR in 2015 should give more weight to through-life costs and long-term value for money in evaluating procurement and delivery options.⁴
5. **The decision to withdraw the current carriers and Harrier aircraft has introduced a nine-year gap when the UK will have no Carrier Strike capability.** While two carriers will be built, only one will be converted for the new aircraft. The UK will therefore have one operational carrier with a significantly reduced availability at sea.

3 A similar recommendation was made in: *The Major Projects Report 2009*, 23rd Report of Session 2009-10, HC 338, paragraph 4.

4 A similar recommendation was made in: *The Major Projects Report 2009*, Twenty-third Report of Session 2009-10, HC 338, paragraph 6.

In future we expect the Department to offer us a clear explanation as to why it has reached judgements on which individual capabilities it will procure, retain or delete and for these judgements to be underpinned by robust cost and operational analyses.⁵

6. **There is no one person responsible for delivering the Carrier Strike project below the Accounting Officer.** The Senior Responsible Owner (SRO) has a co-ordinating role, rather than real budgetary and implementation authority. This Committee has consistently identified the Department's weak SRO role as a systemic problem. The Department should give SROs the authority and information they need to manage the delivery of the equipment and capabilities for which they are in theory accountable.⁶

5 Similar recommendations were made in: *Management of the Typhoon Project*, Thirtieth Report of Session 2010-12, HC 860, paragraphs 3 and 4.

6 Similar recommendations were made in: *Management of the Typhoon Project*, Thirtieth Report of Session 2010-12, HC 860, paragraph 8, and *Accountability for Public Money*, Twenty-eighth Report of Session 2010-11, HC 740, paragraph 6.

1 Part 1: The decision-making process

1. The 2010 Strategic Defence and Security Review (SDSR), in contrast to previous Strategic Defence Reviews, was cross-departmental, rather than focusing on the Ministry of Defence (the Department). The key objectives of the SDSR were to “set a clear target for the national security capabilities the UK will need by 2020, and chart a course for getting there.”⁷ The SDSR changed the way in which the Department will use and deliver Carrier Strike capability. Both carriers will be built, but only one will be fitted with catapults and arrestor gear so that the newly selected carrier variant planes can be launched from it.⁸

2. The Accounting Officer confirmed that a policy decision was taken in the SDSR to have aircraft carriers.⁹ However, decisions on how to deliver this capability were operational judgements with major cost and value for money implications. In undertaking its original examination the National Audit Office only saw information produced by the Department on the cost of the options being considered. The Cabinet Office withheld papers from the National Audit Office showing how this information was used when the decision was made limiting our ability to understand how the Accounting Officer had been able to reach a judgement on the value for money of the SDSR decision.

3. In response to our concerns about these restrictions the Prime Minister wrote to the Chair of this Committee on 5 September 2011 explaining that, in the interests of transparency, he and the Cabinet Secretary had decided to allow the National Audit Office access to the relevant material on an exceptional basis. Having reviewed the papers, the National Audit Office concluded that the policy decision had been taken on an informed basis which could have given the Accounting Officer confidence that the overall strategic direction was sound and could offer value for money.

4. The briefing papers prepared by the National Security Secretariat set out a range of options for the future of Carrier Strike. The papers examined the implications for affordability, military capability and inter-operability with allies of each option and were supported by detailed analyses of the industrial implications and the choice between retaining Harrier or Tornado aircraft. The minutes of the key National Security Council meetings record that the relevant issues were discussed and the implications of each assessed.¹⁰ The decision was taken on proper policy grounds, not on the basis that the UK was locked into contracts which would have cost more to break than to maintain.

5. The SDSR was conducted in parallel with the Spending Review and the available level of funding was only determined at the end of the process. As a result, there was considerable uncertainty with regard to future budgets when strategic decisions were being made. The Department initially anticipated larger cuts to its budget, and put forward four options for the Carrier Strike programme which did not include the carrier variant even though it considered that this aircraft offered the best value for money.¹¹ The Department confirmed

7 C&AG's Report, para 2.3

8 C&AG's Report, para 2.1

9 Q 13

10 Ev 22

11 Q 13

that this option was not presented initially because converting the carrier to fly the aircraft was not considered to be affordable at the time.¹²

6. The Department supported the SDSR by providing cost and analyses for a range of options to support strategic decisions. It originally produced four options and then responded to requests from the National Security Secretariat to prepare other options. The initial four options were subject to a good quality decision-making process and had a sound evidence base.¹³ The option selected in the SDSR was subject to less scrutiny and rigour than the other options considered.¹⁴

7. The Department has set out in the past that it has had a £36 billion to £38 billion deficit in the overall defence budget.¹⁵ Having signed the carrier contract, the Department realised it could not afford it and to make short term savings it delayed the project increasing estimated costs by £1.6 billion.¹⁶ The Accounting Officer confirmed that the Department is now committed to living within its budget and that the Department will only commit to spend on projects when it has the budget to do so.¹⁷

8. The Department believes that the SDSR decision will result in overall savings in the next ten years of £3.4 billion (Figure 1). These savings will come from changes to current and future carrier and associated aircraft projects. They are a mixture of real cash savings and deferral of costs.¹⁸ The expected cash savings to be realised are £0.6 billion achieved by introducing a capability gap by the withdrawal of the existing carriers and Harriers. The remainder of the £3.4 billion savings to be made relate to the deferral of the JSF to the next decade.¹⁹ There remains however considerable uncertainty about the actual costs of the decisions made to switch to the carrier variant aircraft.

Figure 1:

Savings on Carrier Strike in 10 year period to 2021	£ billion
Cash saved on withdrawal of current carriers and Harriers	(1.6)
Conversion costs for catapult and arrestor gear	1.0
Net cash saved in ten years	<u>(0.6)</u>
Deferral of JSF to after 2021	(2.8)
Overall Savings	<u><u>(3.4)</u></u>

12 Qq 34, 35

13 Q 80-82

14 Q 82, C&AG's Report, para 2.12

15 Q 37

16 Q 1, Committee of Public Accounts, *The Major Projects Report 2010*, Twenty-third Report of Session 2010-11, HC 687

17 Qq 162, 164

18 Qq 26-Q28

19 Q 27

2 Part 2: Managing risks

9. The construction of the carriers is progressing well.²⁰ So far the Aircraft Carrier Alliance has delivered 98 per cent of the work originally planned and the project achieved 48 of the 53 target milestones in 2010-11 on time. In cost terms, the project is currently forecast by the Alliance to cost £5.461 billion, £219 million higher than the contracted Targeted Cost, with a planning trajectory to meet the Target Cost.²¹

10. Converting the carrier to fly the carrier variant of Joint Strike Fighter requires the installation of catapults and arrestor gear. The Department's preferred solution is to use an Electromagnetic Aircraft Launch System (EMALS) rather than steam powered catapults.²² This system is currently untested in the UK configuration and dependent upon USA trials.²³ If this system is found to be unfeasible, the Department will need to go back to using steam powered catapults which will require significant redesign of the carriers.²⁴

11. The carrier variant aircraft now chosen is a more capable aircraft than the STOVL variant. The carrier variant is a less complex aircraft and has the ability to fly further and carry a greater payload.²⁵ However, the Department's understanding of the risks associated with the carrier variant is not as developed as they are for the STOVL variant.²⁶

12. Changing the aircraft will necessitate modifying the carrier after it has been built and before it becomes operational. The cost of up to £1.2 billion for conversion of the operational carrier remains an estimate and the Department does not expect to have a better understanding of costs for 18 months.²⁷ There is a lack of competition in the market for the provision of the EMALS system with only one supplier and the Department is exposed to the price the US Navy will pay for their systems.²⁸ Furthermore whilst the USA is building a system with four catapults the UK requires a system with only two catapults and estimates of the cost of this modification remain uncertain. The Department is still examining how it might trade capabilities on the programme if the costs increase.²⁹

13. The SDSR decision to use carrier variant aircraft instead of the STOVL variant has also resulted in a nine year capability gap for Carrier Strike and lower levels of capability when it is reintroduced.³⁰ The conversion of the carriers to using catapults and arrestor gear will push back the in-service date by two years to 2020 and sortie rates will not reach the

20 Q 164

21 C&AG's Report, para 3.3

22 Qq 55-61, 67

23 Qq 55, 59-60

24 Q 67

25 Qq 13, 111

26 Q 112

27 Qq 15-17

28 Qq 62-65

29 Qq 43-47

30 Q 100

maximum full operating capability until 2031.³¹ When the carrier is introduced it will be able to operate at sea for only 150 to 200 days a year, compared with the original plan to provide carrier capability for 435 days a year using two carriers.³² However, the choice of aircraft has offered the prospect of improved interoperability with allies.³³

14. There is no single person responsible for all the risks to the delivery of the Carrier Strike programme below the Accounting Officer. The Senior Responsible Owner confirmed he had a co-ordinating role, but does not have responsibility over the budget for manpower and training and the Chief of Defence Materiel is responsible for the equipment budget.³⁴

31 Qq 91, 98, 117

32 Q 100, C&AG's Report, para 2.28

33 Q 116, C&AG's Report, para 2.29

34 Qq 128-132

Formal Minutes

Wednesday 23 November 2011

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon

Stephen Barclay

Matthew Hancock

Chris Heaton-Harris

Meg Hiller

Jo Johnson

Fiona Mactaggart

Austin Mitchell

Nick Smith

Draft Report (*Providing the UK's Carrier Strike Capability*) proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 14 read and agreed to.

Conclusions and recommendations 1 to 6 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Fifty-sixth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Monday 28 November at 3.00pm]

Witnesses

Monday 11 July 2011

Page

Ursula Brennan, Permanent Under-Secretary, **Rear Admiral Amjad Hussain CB**, Director (Precision Attack) and Controller of Navy, and **Jon Thompson**, Director General, Finance, Ministry of Defence

Ev 1

List of printed written evidence

1	Chairs of the Committee of Public Accounts and Treasury Select Committee	Ev 21
2	National Audit Office	Ev 22
3	Prime Minister	Ev 26

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty –third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397

Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398
Fifty-third Report	Managing high value capital equipment	HC 1469
Fifty-fourth Report	Protecting Consumers – The system for enforcing consumer law	HC 1468
Fifty-fifth Report	Formula funding of local public services	HC 1502
Fifty-sixth Report	Providing the UK's Carrier Strike Capability	HC 1427

Oral evidence

Taken before the Committee of Public Accounts on Monday 11 July 2011

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Stella Creasy
Jackie Doyle-Price
Matthew Hancock

Austin Mitchell
Nick Smith
Ian Swales
James Wharton

Michael Whitehouse, Chief Operating Officer, NAO, **Martin Sinclair**, Assistant Auditor General, NAO, **Tim Banfield**, Director, NAO, and **Gabrielle Cohen**, Assistant Auditor General, NAO, gave evidence. **Paula Diggle**, HM Treasury, Treasury Officer of Accounts, and **Marius Gallaher**, HM Treasury, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Ministry of Defence: Carrier Strike (HC 1092)

Examination of Witnesses

Witnesses: **Ursula Brennan**, Permanent Under-Secretary, Ministry of Defence, **Rear Admiral Amjad Hussain CB**, Senior Responsible Owner, Director (Precision Attack) and Controller of Navy, and **Jon Thompson**, Director General of Finance, Ministry of Defence, gave evidence.

Q1 Chair: Welcome to this very large room. I hope the acoustics enable us to have a proper conversation. Thank you for coming. I think the last hearing, Ms Brennan, went really well, so if we can have as direct answers to the questions as we had last time, it will be really helpful for us to consider the issues that we have before us.

Can I start by saying we have looked at the carrier project a number of times? I think this is the third time in this Parliament that it has been subject to some interrogation by this Committee. We have already commented on the actions taken by the previous Government and the failure to have a letter of direction and the additional costs incurred by delay—£1.6 billion. Where we want to focus this hearing is on the SDSR, the decisions taken there and the implications for the future. Can I start by saying, as you read this Report, you get the impression that we are going forward with an untested and untried new idea, in relation to the carrier itself, without any assurances that it will be delivered at all and without any clear understanding of what it will cost the taxpayer. In those circumstances, how could you justify that a decision was taken that reflected value for money for the taxpayer?

Ursula Brennan: You have raised a couple of separate things there. I would like to try to deal with them separately and distinctly. One was around an untried decision and one was around costing. If I may, I think we should address those as two separate issues. Starting with whether this is an untried proposition, the NAO themselves comment on the way that the carrier programme as a whole is progressing and the assurance around the way that is working. The bit that is new, post-SDSR, is about the conversion to

catapults and arrestor gear: cats and traps. That is indeed a change from where we were going to be, but it is our contention that that is not completely untried. Work has been done on cats-and-traps solutions in the past; therefore, we did not approach it completely cold in the SDSR, and we believe that we have a strategy for managing the risks that are associated with cats and traps. Finally on that point, the cats-and-traps approach actually removes some risks that were associated with the Short Take-Off and Vertical Landing aircraft approach. It is not simply that we went from risk-free to some new risks; there was a change in the balance of risks.

Q2 Chair: I am trying to find the bit; it is in the summary somewhere. Here we are, paragraph 24: “To be successfully applied, the concept will require the Department to achieve a level of flexibility not seen elsewhere in the world with comparable carriers.” There is another reference later in the Report that makes the same point, so nobody else has managed to do that. The NAO have not seen any evidence that the way you have approached that gives them comfort that you will actually be able to deliver this at all. We will come then to the costs. Do you disagree with that paragraph of theirs? One assumes you agreed with that.

Ursula Brennan: No, we do not agree with that.

Q3 Chair: What do you not agree with?

Ursula Brennan: In relation to the Carrier Enabled Power Projection—that is what the paragraph is about, which is how we are actually going to operate the carrier—we do believe that we have prepared for the change to a different way of operating the carrier. The

11 July 2011 Ministry of Defence

critical point there is that the carrier provides a wide range of possibilities for how we might seek to use it. Carrier Enabled Power Projection is something that we had been thinking about before the SDSR, and had done some work on. What we are now proposing to do is to build up that work, to extend it and to undertake more work on it.

Q4 Chair: I have to say, in paragraph 2.21, there seems a rather sudden change of heart, because in paragraph 2.21, which is where you were looking at the various options as part of the Defence Review, you looked at whether or not you should move to using this variant on the Strikers and decided it was unaffordable. You had rejected it before. We have not talked about costs yet. Our view is you have absolutely no idea what the costs are going to be, or at least that is the NAO's view, and we would like to question you on that. There are two aspects here, which you rightly picked up. One is that you do not know the technology. It goes on and on and on. Technology is mentioned time and time again. There is risk, paragraph 27; it is a risk. It goes on right throughout the Report. I cannot believe the NAO would have written a report of that nature if you had evidence within the Department, in the papers they saw, that you were on top of the technology and therefore confident that this was implementable.

Ursula Brennan: The first thing, just to respond to that, is that paragraph 24 is about Carrier Enabled Power Projection, which is to do with the way we will operate the carrier and the different capabilities that we would use off it. That is not the same as the question of which variety of aircraft we should have flying off the carrier.

Q5 Chair: You have to have the new capability, because you have got a different aircraft, presumably.

Ursula Brennan: If we are concentrating on the aircraft—

Q6 Chair: No, we are not. Do not take us off it and do not move on to another issue. What we are concentrating on is whether you have the knowledge to ensure that the technical capability to put these variant Joint Strike Fighters on the aircraft is there. There are endless references within this Report that suggest that you have not the technical capability and that this is a high area of risk. You in your evidence have said this is not true. I think it is a bit odd that the NAO, in looking at your papers, found it to be true and you are now saying it is not true. Address that first and then we will come to the costs, which is the other part.

Ursula Brennan: Forgive me, but paragraph 24 is about something different. It is not the same issue as is addressed in paragraph 2.21.

Q7 Chair: Paragraph 24 is about the changes you have made to the carrier to take the other. Rather than trying to divert, I would really be grateful if you would answer the questions directly.

Ursula Brennan: I am not trying to divert, but you asked me two questions about two distinct things. Paragraph 24 is about a particular issue called Carrier

Enabled Power Projection. I am very happy to answer about paragraph 2.21, which is about the change in the variety of aircraft, the variant of the aircraft.

Q8 Chair: For heaven's sake, the whole thing is related. I think you are in a way evading the answer. You have changed the design of the—it is no good smiling at me because, if we are going to carry on like this, it will become an aggressive and not very constructive way of having a hearing. You have changed the design of the aircraft carriers, so that they can take a different aircraft. The Report throughout has references that you do not have the technical know-how to know that this will work.

Ursula Brennan: I am very happy to answer on that question. We have indeed changed the aircraft variant to a variant that is more capable and actually less risky than the variant that we were previously planning to have. That was one of the reasons why we are comfortable about the changes planned—

Q9 Chair: What is less risky? Why does this Report say throughout that it is more risky?

Rear Admiral Amjad Hussain: It is worth disassociating some of these items. If we just concentrate on paragraph 24, we did spend quite a lot of time ahead of the Defence Review analysing the ability to carry out what we now call Carrier Enabled Power Projection from the Queen Elizabeth—

Chair: Cats and traps?

Rear Admiral Amjad Hussain: More than cats and traps, but fundamentally around cats and traps. What we are trying to do is not dissimilar to what the US Marine Corps do, but they do it with a STOVL aircraft. Our sense at the time that we studied it was that the interplay and the movement on board ship was easier with the STOVL variant, the one on which we had previously embarked. We did gather together a number of military experts to sit down, go through and analyse our ability, were we to change to the carrier variant, to do this level of complexity. The view at the end of a number of meetings was that this was difficult but achievable, but there was further work to do in the operational analysis to be able to refine the detail of timings and sequencing at a much greater level of granularity than we did at the time. We were pretty confident that we would be able to do this. The paragraph says this: "If the Department is able to deliver this outcome...it would provide a potent combination of air and amphibious forces." That is what we are aiming to do.

Q10 Chair: I am going to bring Tim in, because he wrote the Report and perhaps you are deliberately being selective on the Report. I read paragraph 27, which says, "Risks include technical immaturity, safety issues, access to data", blah, blah, blah.

Tim Banfield: If I start with paragraph 24, it is about the way that the aircraft carriers would be used and getting much more flexibility into the way they would be used, compared to the way that was thought before the Strategic Defence and Security Review. Paragraph 25 is about the risks of converting the aircraft carrier with cats and traps, so that they can fly the different variants off. The key point in there is

 11 July 2011 Ministry of Defence

the sentence in the middle of it: “The Department has embarked upon an 18-month Conversion Development Phase to understand the costs and risks.” That is where there is a difference. One is about how you operate it and one is about how you modify it to be able to use the aircraft.

Q11 Chair: And Paragraph 27?

Tim Banfield: 27 is about some of the risks with modifying the aircraft carrier, assuming that it is the Electromagnetic System that goes on rather than steam. That is what that 18-month phase, without wishing to put words into the witnesses’ mouths, is trying to address.

Q12 Chair: So the answer is you do not know at present.

Tim Banfield: That is what is being explored.

Q13 Stephen Barclay: There is a distinction between what is a policy issue and what is a value-for-money issue. Could we just get a sense from the Department? The policy issue around capability, where you are making a decision because of capability, there is a distinction there in terms of value for money—you are not understanding your costs. Could we just get your sense as to whether it is the Department’s view that these are legitimate policy issues or whether it is an issue of value for money?

Ursula Brennan: The big policy issue is whether you want to have a Carrier Strike capability at all. Once you have decided to have a Carrier Strike capability, all the evidence that we have shows that the carrier variant, the changed type of aircraft on the carrier, is the best value for money, the most capable and it delivers us the best bang for our buck. Changing from one to the other introduces some new risks, but it also takes some risks out. I think that was the point that we were trying to make. The thing is not risk-free, at all times we are managing risks. There were risks associated with the STOVL aircraft, which is a more complicated aircraft. We have switched to a less complicated and more capable aircraft. We have taken some risks out but, simply by switching, we have put some risks in. 18 months seems to us a perfectly normal length of time for us to bottom out those risks.

Q14 Chair: Why does the Report then, in paragraph 26 in the summary, say “incomplete understanding of the costs”? Paragraph 32 challenges the value for money on costs as well. Taking it on that issue, where is your certainty that you actually understand the costs of the decision you have taken?

Ursula Brennan: The costs around the conversion, the change to go from the STOVL to the carrier variant aircraft, was the subject of analysis during the SDSR, and the Report quotes a number of those areas where we undertook costings in relation to that. We undertook costings at different times, as we progressed through the SDSR, of what this would cost, and we are refining those costs. We do not, at this present moment, expect to know in detail what the costs of conversion are, they are, but we were confident, because of the analysis that we had done previously, that our estimate of the scale of the

financial benefit from converting to the carrier variant would have to be huge orders of magnitude out to be outweighed by the costs of converting to cats and traps. The balance between what it would cost us to convert the aircraft carriers and the huge savings we could make by moving to this aircraft, because it enabled us to delete a whole class of aircraft we otherwise had been intending to buy, if you add those two things together, we were clear that we had a good enough and granular enough costing to be able to proceed with confidence, in the knowledge that we would refine that in detail as we went along.

Q15 Chair: I am sorry; I just want to pursue this. Can I just get from you various things? At the moment, my understanding from the Report is you have an incomplete understanding of the costs. You may have a complete understanding in 18 months’ time. Are you now assuring this Committee that the costs of the conversion of the carriers will not exceed £1.2 billion per carrier?

Ursula Brennan: That is our estimate at present.

Q16 Chair: One of the real irritating things about the MOD is to get some certainty. The figure in the Report says £800 million to £1.2 billion. Can you give this Committee an assurance that the MOD, under your leadership and with Rear Admiral Hussain being the Responsible Officer, will not in the future exceed £1.2 billion—I am being generous to you—in the actual costs of conversion?

Rear Admiral Amjad Hussain: I do not think at this stage one can give an absolute guarantee. We work in terms of probabilities, and our estimates are pretty well founded.

Chair: Your estimates are usually wrong.

Rear Admiral Amjad Hussain: The estimates are quite well founded. I would not expect it to exceed that cost, but there are a number of levers to pull across this carrier programme. The cats-and-traps cost in isolation should not be taken away from the cost of the aircraft.

Q17 Chair: You gave me an answer to that, which is that you cannot assure the Committee that, at the higher figure of the cost of conversion in our Report, you can stand by that. That is an estimate; it is not an actual cost.

Ursula Brennan: It is currently an estimate and, until the work is completed, it remains an estimate. We believe that that is a good estimate but, until it is definitively nailed down and contracted for, we cannot give you a guarantee about that.

Q18 Nick Smith: Is that the cost or the estimate that you gave the Prime Minister at the time, when the National Security Council agreed this?

Ursula Brennan: The cost was within that range, yes.

Nick Smith: That is what the Prime Minister thinks it is going to cost.

Ursula Brennan: Yes.

Q19 Chair: But it is an estimate.

Ursula Brennan: It is an estimate.

11 July 2011 Ministry of Defence

Q20 Chair: Can I then go to the actual aircraft and your savings? It is one of the issues that we have raised with the NAO and we would like, in the future, to look at. The so-called savings of £3.4 billion, if you look at the very crude key facts that the NAO now usefully put at the front of their document—they talk about a £3.4 billion saving—I want to know how much of that is actually just deferring expenditure to a future period and how much of that is an actual saving, and if you can define the various things. My understanding of it is that only £1 billion is a real saving and £2.4 billion is deferring expenditure for future decisions, which is a typical MOD decision-making process. Please come back on it.

Ursula Brennan: Indeed, I will ask my colleague Jon Thompson to comment on that. Just on deferring things, one of the things that we have been seeking to do is to avoid deferral of cost when we have already started spending. When you defer cost, saying—

Chair: I understand the theory. You do not have to explain the theory. The practice is I think you are deferring here.

Ursula Brennan: It is important to distinguish between saying, “We can live without something until a later point,” and deferring something on contract, which increases the cost. It is just to distinguish two types of deferral.

Q21 Chair: If you can live with something and it increases the cost, value for money for the taxpayer is an issue.

Ursula Brennan: If it increases the cost, yes, but if you simply live without it and incur the cost later, that was the point that I was making.

Q22 Chair: If it increases the cost, there is a value-for-money issue for this Committee. Jon Thompson, £3.4 billion: explain how much of that is a real cut or a saving, where it is and how much is just deferring expenditure to a future period.

Jon Thompson: Certainly, I will try, Chair. Interestingly we have this little star. Our view is that the saving here is £4.4 billion, because you need to include the footnote at the bottom.

Chair: We will come to your £4.4 billion in a minute. It would be really nice if you would just answer the questions.

Jon Thompson: What is actually saved is in relation to the current carriers, the Harrier and so on, offset by the cats and traps. Just to clarify, on cats and traps, what is assumed is £950 million in that £800 million to £1.2 billion range.

Chair: Say that again. Just to make it clear.

Jon Thompson: The assumption on cats and traps, which is in the £6.2 billion on the key facts—

Chair: No, I want the £3.4 billion saving.

Jon Thompson: I am getting to that. What is included in the £6.2 billion is £950 million for the cats and traps. That is obviously up. Then there is £1.5 billion saved from current carriers, withdrawal of the Harrier and so on, and £1 billion from deleting the DPOC.

Q23 Chair: The DPOC is not in the £3.4 billion. Can we come to the £3.4 billion and can you answer the question? I gave you £1.2 billion for converting the

carriers and you were not even prepared to stick to that as a figure. You said it was an estimate. How do you define the £3.4 billion? It is your figure, not the NAO's. It is your figure.

Stephen Barclay: It is the NAO's.

Jon Thompson: To be fair, it is the NAO's figure. I am happy to try to explain it to you. As I just said, there is a saving from withdrawing the current carriers, the Harrier and so on, at £1.5 billion.

Q24 Chair: This is the nine years we will not have carrier capability.

Jon Thompson: Yes, that is £1.5 billion.

Q25 Chair: So it is a cut in service.

Jon Thompson: We have assumed, in the £6.2 billion, that £950 million is spent on the cats and the traps; you net those two together. That gives you £570 million, plus the saving from deleting the further plane by switching to the carrier variant at £1 billion. What is actually saved in the 10-year period is £1.57 billion of that £4.4 billion. The remainder is moving the JSA into the second decade.

Q26 Chair: I just want to go through that clearly. £1.5 billion is by taking the current carrier capability out, so leaving us without a capability. How much is deferring purchase of the new Joint Strike Fighters?

Jon Thompson: £2.8 billion, but it moves it from the current decade to the second decade, but does not increase the total envelope over the period.

Q27 Chair: It shows us a saving because you have moved it a decade. That is what I am trying to get at. How much of that, whether you go for £4.4 billion or £3.4 billion, is by moving forward the purchase of the aeroplanes?

Jon Thompson: £2.8 billion is from moving from the current decade to a second decade, but not increasing the total amount.

Chair: I understand that, and then the other bit is—go on.

Jon Thompson: The other bit is real cash.

Chair: Is what?

Jon Thompson: Is actual cash.

Chair: From how? From what?

Jon Thompson: From withdrawal of the current carriers and withdrawing the current Harriers. That is £1.5 billion, plus the DPOC £1 billion at bottom, offset by the cats and traps at £950 million. That is £1.5 billion plus £1 billion minus £950 million.

Q28 Chair: That does not get me anywhere close to understanding the relationship between that, with £3.4 billion or £4.4 billion. Can Tim help us please?

Jon Thompson: Would it help if I split the £4.4 billion into what is saved and what is moved back from the current decade?

Chair: Yes.

Jon Thompson: What is saved in cash, total net over the 10 years, is £1.57 billion and what is moved from the next 10 years to the following 10 years is £2.78 billion, without increasing the total programme of the Joint Strike Fighter. That is how you get to £4.3 billion. Is that clear?

11 July 2011 Ministry of Defence

Q29 Chair: Does that make sense? Tim, does that reconcile with your figures?

Tim Banfield: Yes, that does. That makes sense, and it includes the DPOC numbers in there, so the £1 billion from that programme as well. That makes sense; we can understand that.

Q30 Matthew Hancock: Could I just come in on this point, just to clear something up before we go any further in this hearing? In one of your earlier answers, Ms Brennan, you said that you did not agree with paragraph 24. We have just had a long and arduous discussion of figures to try to get to figures that are in the book. I am concerned that these things should be sorted out beforehand. Are you happy with the NAO Report and the facts in it?

Ursula Brennan: There was a problem with this NAO Report. As I think the Committee knows, we have a couple of NAO Reports running at the same time. The hearing date for this particular Report happened to occur before the hearing date for the next one, which is about land vehicles, whereas the land vehicles Report had already been finalised. We had a good time to finalise the land vehicles Report ahead of the hearing date. We did not have sufficient time to agree this rather complicated Report.

Q31 Chair: Can I have Michael Whitehouse on that, because that is a very serious allegation, which I want to have the answer to?

Michael Whitehouse: We set a timetable for agreeing this Report at the outset.

Chair: As you do across Government.

Michael Whitehouse: As we do across Government. As far as I am concerned, we complied with that timetable, particularly at the Accounting Officer draft, and we allowed an extra day for Accounting Officer comments, recognising the tight timetable and the fact that there was going to be a second PAC hearing on a defence issue next week. As far as I am concerned, in the correspondence that I had with Ms Brennan, we have taken on board all the comments that were offered to us, where it was appropriate to do so. As the Committee will know, what we agree are the facts and figures in the Report. The interpretation of that evidence is the right of the C&AG and, in particular, the value-for-money conclusion.

Where there are instances where the Department disagrees with our value-for-money conclusion, as they do from time to time, we do incorporate their observations on our VFM conclusion to make sure that the Report is balanced. In this instance, we did not get formal written comments from the Accounting Officer in terms of the value-for-money conclusion. We had some comments relating to the accuracy of the Report. In the final letter that we received, we took on board four of the five comments. The fifth comment was an issue of interpretation. So as far as I am concerned, the facts and figures in this Report are agreed with the Department. It was communicated to us in discussion, as the study progressed and when we had an early draft of the Report, that the Department did not necessarily agree with our value-for-money conclusion but, as I said, that is our interpretation and the prerogative of the Comptroller and Auditor

General to actually form a judgment on the facts and figures, as they are presented.

Q32 Stephen Barclay: The C&AG was not involved in this though, was he, because the C&AG is conflicted on this report?

Michael Whitehouse: That is right, and it was agreed with the Committee.

Q33 Stephen Barclay: Can I just clarify how many drafts of the Report have been submitted to the MOD?

Jon Thompson: I believe I received five in seven working days.

Michael Whitehouse: Chair, could I challenge that please, because I do think this is important? I sent one draft Report to the Accounting Officer, which is the normal process that we would go through, so I would dispute that there have been five drafts. Could I ask Martin Sinclair, my colleague who led the day-to-day negotiations with the Department on this, because I do think it is important to get on the record what the actual situation is?

Martin Sinclair: The process we went through was we recognised that there was a short time period available to clear this Report, and so we did have a number of sessions with Jon Thompson intended to clear some of the points that were likely to cause difference between the Department and the NAO, and to prevent the problem of Ms Brennan having to deal with multiple drafts. That was a working-level process and, if I may say so, Jon Thompson and our team worked very constructively to clear through a range of issues. That dialogue was going on throughout the two-week period we had left to the Accounting Officer to clear the Report, and was very much intended to be a working-level practice to reach clearance. It was not a case of offering five entirely different drafts to the MOD. It was working through a series of detailed points and reaching conclusion on them.

Q34 Chair: Okay, I am going to move on from that. Jon Thompson, can I just ask you to look at paragraph 2.22, where it says, "The Department recognised the attractiveness of the carrier variant but on the basis of the additional costs and its anticipated Spending Review settlement, the Department considered the conversion unaffordable as the emphasis was on not adding costs to the project in the short term. There is no documentary trail showing that the Department's position on this changed from mid-August to late-September when the Department was asked by the National Security Council to provide...costs"? What changed? Why have you given evidence that is totally contrary to that paragraph this afternoon?

Jon Thompson: I am not sure I have given any evidence that is contrary to paragraph 2.22.

Chair: You thought it was unaffordable then; you think it is affordable now.

Jon Thompson: As the Report demonstrates, there is a complicated interaction between the ongoing negotiations on the Comprehensive Spending Review and the potential funding that would be available for the Ministry of Defence, over the 4- and 10-year

11 July 2011 Ministry of Defence

period, and the SDSR and this being a significant part of the SDSR. At a particular point in time, 2.22 may have been a view. What changed, and indeed the Report acknowledges this at various times, was in the CSR we were looking at potential scenarios of -20% in terms of spend, -10%. The ultimate settlement was at -7.5% flat real. That clearly did not ultimately settle until the Comprehensive Spending Review was finally settled in the same week as the SDSR. The Report recognises that there is an interaction between the two. If I could find the paragraph, I would.

Q35 Chair: It is because you had less of a cut than you thought you were going to have.

Jon Thompson: There are a number of moving parts, of which this is a significant one clearly, but overall numbers in the army, what the funding envelope might be, what future estimates you might make on inflation and so on. There are 14 significant drivers of the MOD's budget. If any one of those changes, it may well be that you can afford a slightly different track on the SDSR and the capabilities within it.

Q36 Chair: So your view is that it is affordable now.

Jon Thompson: My view is that it is currently affordable.

Q37 Chair: Do you still have a spending gap? There was a £36 billion to £38 billion spending gap. Has that been closed, because that is the other element in this whole saga?

Jon Thompson: Departmental Ministers have committed to making a public statement on that and having the NAO review this situation and publish something in the autumn, so you will be able to get the information then.

Q38 Chair: When you took this decision on the carrier, was there still a spending gap?

Ursula Brennan: When the decision was taken on the carrier and the decision was announced in the SDSR, the Prime Minister said that he recognised that the Future Force 2020, of which the carrier was a part, was not affordable on a flat real funding line going beyond the CSR years. He acknowledged that that was the case, but he committed also that the Department should continue to plan to deliver Future Force 2020. There was a recognition that the whole of the SDSR package, which included the Carrier Strike decision, was part of a proposition that was an aiming point for 2020, where the CSR funding settlement would leave a gap in those later years. The Department has committed to reviewing the actions that are necessary to deal with that gap.

Q39 Chair: You are telling this Committee that, for this Spending Review period, your income matches your expenditure.

Ursula Brennan: For this Spending Review period, we have committed to living within our budget.

Q40 Chair: When you took this decision, you had enough money in your budget for your income to match your expenditure over the period of the CSR. You cannot commit future Governments with future

CSRs. Over the period of this CSR, you had sufficient income in your budget to match your expenditure on this carrier decision.

Jon Thompson: Yes, but with the caveat that there are sufficient uncommitted equipment programmes in the future, which allow you to turn down expenditure.

Q41 Chair: You mean you could decide to further delay?

Jon Thompson: Not in relation to this. There is a series of projects that, if you like, are programmed to start at some point either in the Spending Review period or in the decade, which you could make a decision to not start.

Q42 Stella Creasy: This one has a blank cheque. Which are the ones that do not have a blank cheque?

Jon Thompson: This one does not have a blank cheque.

Q43 Stella Creasy: You have committed to funding it, but this Report tells us you are uncertain about some of the costs to it. You have just said it will happen, so what are the ones that will not happen if the costs on this change?

Ursula Brennan: The first thing to say on the costs on the Carrier Strike changing is I look to the SRO, Amjad Hussain, to manage those costs within the entire construct. Bear in mind that if costs change on any one element in this large programme, the very first place we would look would be to contain those costs from within other elements of the programme.

Q44 Nick Smith: Does that mean having fewer fighters?

Ursula Brennan: It does not necessarily mean having fewer fighters. It might mean differences about the way that you look at the capabilities on the fighters and the way you bring them in. There are also a thousand things—

Q45 Stella Creasy: Sorry, I am not military. Can you explain? Differences in the capabilities, what does that actually mean? If you have to cut costs on this, what are the things that will go?

Rear Admiral Amjad Hussain: The Carrier Strike programme, now the CEPP programme, includes the seagoing tankers, the solid support ships that provide all the logistic stores to the carriers and to the aircraft, the aircraft themselves, the weapons fit for those aircraft, the training of the crews, optimisation of helicopters to fit on the carriers; there are quite a few elements to this programme.

Q46 Stella Creasy: They all sound very important, so which are the bits that go if the costs change?

Rear Admiral Amjad Hussain: I think we have to look at those if and when the costs change. The whole idea of what we are trying to do is to corral those costs and make sure that we take the best cost capability trades when we need to.

Q47 Stella Creasy: I appreciate that, but this Report says that there is not yet a mature understanding of that, so I am asking you: have you prioritised the

11 July 2011 Ministry of Defence

things you have just outlined? If the costs change, as the NAO Report suggests to us they might, what are you going to cut to keep within budget?

Rear Admiral Amjad Hussain: What the NAO Report does is say there are a lot of risks in here, and it itemises some of them. It does not outline the opportunities, and we are going through a number of opportunities. There are ways where some elements of the programme may reduce in price. It is not all one-way traffic.

Q48 Chair: What would reduce in price?

Rear Admiral Amjad Hussain: The aircraft, as an example. We have made assumptions on the price of the aircraft, and that is not fixed yet.

Chair: But it depends how many you buy.

Q49 Nick Smith: How many JSF aircraft do you think we will have for 2020?

Rear Admiral Amjad Hussain: Here is the difference between the test aircraft and the operational aircraft. Can I come back to you on the exact number? I can tell you that, as an operational squadron, we will effectively have six operational aircraft, for which there will also be training aircraft and test aircraft. The programme is building up at that stage.

Q50 Nick Smith: I thought we were going to have 20. Are you now saying we are only going to have six?

Rear Admiral Amjad Hussain: At 2020, on that date, we will have six¹.

Chair: They build up over time.

Q51 Nick Smith: How many will we have altogether then, after 2020, do you think? What will be the fleet of aircraft?

Rear Admiral Amjad Hussain: At the moment, we are looking at a programme to build up to our first squadron of 12. We have time in the downstream decision-making process, at the next Defence Review and on, to take decisions about the number and rate of purchase of the others.

Q52 Matthew Hancock: On this point about opportunities, could you spell out a bit more about what you are doing to make the most of those opportunities for maximising value for money which, after all, is what this Committee is interested in?

Rear Admiral Amjad Hussain: What we are trying to do is, for instance, work with our American colleagues to see how much we could share with them. This is not one-way travel, but it is the degree to which their solutions, for instance for air-to-air refuelling, which is one of the risks in here, might well become our solutions for it rather than having bespoke solutions. The danger is that we go down bespoke UK routes; we are trying desperately hard not to. We are working with the Americans to have common solutions to common problems, where by doing so we can actually reduce our costs.

Q53 Ian Swales: Could I pick up that very point you have just made and refer to figure 8, where we talk about some of the conversion costs? To me, that is a litany of where problems are likely to occur. You have just said, your very words were, that you are trying not to go down bespoke solutions. In figure 8, under the description of the potential new launch system, we actually have the words basically that it is untried: "The United Kingdom system will differ (it is a 2-rail system whilst the Americans will operate a 4-rail system)." Why on earth, in something that is not even tried and tested or in service anywhere, is the UK already saying it is going to do something different to the people who actually sell the system?

Rear Admiral Amjad Hussain: In this instance, our ships are smaller and there is a limit to how many rails we need or can actually fit in. At the simplest level, it is about volume, but the technology is the same.

Q54 Ian Swales: I had the privilege of visiting the shipyards two weeks ago, and a fantastic job the people there are doing. The people there said that they thought this was highly risky, actually putting planes of this size—I remember the figures: 35 tonnes at 160 miles an hour—on to a ship of this size. Is it true that our carriers are smaller than the US ones that are going to take the same planes?

Rear Admiral Amjad Hussain: Yes, they are smaller, but I am not sure that the shipyard workers that you talked to would be qualified to judge the risk inherent in the aircraft landing on the deck.

Q55 Ian Swales: Even though the people who supply this system are General Atomics, and the last part of that figure says we will not have much ability to negotiate on price because there is only one supplier, even though it is not in operational service anywhere, we are already saying we are clever enough to have a different system to the suppliers.

Rear Admiral Amjad Hussain: It is very easy to go on difference. It is not a different system; it is the EMAL system. It is substantially the same system, using the same technology, production line, people and supply chain. It is the same. It is being tested at the moment. I have some figures here. When we talk about the risks, I think it has done 3,800 manoeuvres—movements of the catapult system; 1,096 loads without weight attached; 1,311 dead loads, which is with a jet-equivalent weight; and 48 aircraft launches already. This is not something that is on a drawing board. It is alive; it is real. Aircraft have been launched using it. It will go into the Gerald Ford before we get it.

Q56 Ian Swales: Are you confident then that we will be using this system and will not have to go back to a steam-driven system?

Rear Admiral Amjad Hussain: I am confident but, before we take the investment-grade decision, we will want to analyse this in much greater depth. For all these things, we want to analyse on which ship to fit it and the programme for fitting. We want to ensure that our programme is aligned with the US programme in a seamless way, so we move from

¹ Point of clarification: The six aircraft referred to is the number of force elements that the Department plans to deliver in 2020. The precise number of aircraft required to support this figure is yet to be endorsed.

11 July 2011 Ministry of Defence

Gerald Ford to our ship to the John F Kennedy. We want to make sure that nothing happens late in the technology maturation that could upset us. That is why we are studying this and will take that investment-grade decision at the end of next year.

Q57 Ian Swales: I just want to bring it back to the costs, because one of the things we learned at the shipyard was that the pre-planning of this was so vital that they were even putting kitchen equipment in before they were putting the parts together. If you have to radically redesign this, for example put huge boilers in that are not there at the moment, you are going to have to actually cut these ships to pieces again, aren't you, in order to do that?

Rear Admiral Amjad Hussain: Which is why the EMAL System is the more attractive, or one of the reasons. There are three reasons: one, it gives us more operational flexibility in the future; two, it is less intrusive and invasive than the steam system; three, it uses less manpower. And it is the future system that the US Navy will operate, so there are very, very good reasons for us to draw conclusions, at this stage, that this is the preferred solution, but we will spend time and effort analysing it in depth and doing that pre-planning that you have mentioned to make sure we can fit it in. That is part of what the next 18 months' work is all about.

Q58 Ian Swales: The last point though is, if you actually read all that, including things like "The very high voltages...may represent a risk," in terms of interference with existing ship systems and so on, this sounds like potentially a high-cost area that you do not yet understand or have confidence in knowing what the final figure is going to be.

Rear Admiral Amjad Hussain: It does sound that, but I am told that most of the electromagnetic pulse effects are bounded within the equipment themselves. This would have been a worry before but, with the number of launches that have been undertaken and the amount of tests that have already happened, there is good reason to believe that this is not an issue within the ship.

Q59 Ian Swales: Has the UK system been tested, because it is different? In the Audit Report, it says it will differ from the American system.

Rear Admiral Amjad Hussain: Technologically, it is the same system and when you look down the rail, it will look the same.

Q60 Stella Creasy: It will be a different system. Can we just be clear that you are talking about tests that have taken place with a different operating system on American ships, aren't you? The system that will be bespoke for the UK has two rails, rather than four. That is a variation. Could we just get that right, because actually all along the Rear Admiral has said there have been tests and flights on this? Actually, we are talking about a different system for the UK, aren't we?

Ursula Brennan: We are talking about different ships for the UK. It is just worth being clear.

Stella Creasy: Is it a different system?

Ursula Brennan: We are not buying American ships.

Chair: Can Rear Admiral Hussain answer, because he is doing rather well on trying to get us to understand what is happening.

Rear Admiral Amjad Hussain: The number of rails is different. That is the number of launches and the layout of an American ship is different. If you think about the layout of the ship, there are issues indeed in that that we will need to analyse, because we want to make sure our layout is consistent with the operational aims that we are trying to do. It is true that we have further work to do in being absolutely sure that this is the right system, and that we can integrate it to our ships and our weapon systems. We are not out of the woods, but it is not the technology itself that is frightening us at the moment, because that appears to be working.

Q61 Stella Creasy: But it is a bespoke solution that you are going to have to get made for the UK ships to work in the UK ship system, isn't it?

Rear Admiral Amjad Hussain: There are elements of it that will be bespoke, because that will be in the integration of the ship.

Q62 Ian Swales: While we are on this figure, can you just pick up the final point? Can you say something about the comment at the bottom, "lack of competition"? One of the things that one senses in this Committee, and particularly around MOD contracts, is one wonders how truly competitive some of the procurement actually is, because of the limited number of suppliers of specific equipment that the military may ask for. Here we have another example, where this equipment that we are talking about has one supplier. The NAO says, "The sole-source supply...reduces ability to negotiate on price." Can you comment on how you are dealing with this commercially, alongside all this technical testing that is going on?

Rear Admiral Amjad Hussain: I cannot comment on the detail of commercial negotiations that are in train at the moment.

Q63 Ian Swales: What type of way would you approach a negotiation?

Rear Admiral Amjad Hussain: What I could say is we will be exposed to what the US Navy are paying for their systems. They are buying more than one. They are buying, over a length of time, systems for all their ships.

Q64 Ian Swales: When you say you are "exposed" to what they are paying, does that mean you have some sort of arrangement that you will pay a similar price or a related price?

Rear Admiral Amjad Hussain: I am afraid I cannot answer. I just do not know the detail of where we are with those negotiations.

Q65 Chair: You are the Senior Responsible Officer.

Rear Admiral Amjad Hussain: I am not the negotiating officer for every nut and bolt that we buy.

Chair: Presumably the negotiating officer is accountable to you as the Senior Responsible Officer.

 11 July 2011 Ministry of Defence

Rear Admiral Amjad Hussain: When they carry out the negotiations, they will come back and we will discuss how far they have gone and where we are with price on this programme. EMALS, as we said, has 18 months of work to do, which will include the negotiation on price.

Q66 Ian Swales: Sorry, but if you get to the point where you say, “We have done all this testing; this is exactly the system we want. It is fantastic, now let us talk about how much,” they could say anything, couldn’t they, and you would have to pay it, because you have actually taken the whole programme down that road? Surely some commercial work should be happening in parallel, not in series.

Rear Admiral Amjad Hussain: I am absolutely confident there is commercial work going on in parallel and not in series. We will not come at the end of 18 months and say, “Yes, please. How much is it going to cost?” That will be in parallel all the way through, as part of understanding not just whether this is technically feasible and the right solution for our ships, but also whether we can afford the price.

Q67 Chair: It is very helpful that you are doing all this work and I think it is really good. Certainly from the value-for-money committee, we welcome it. What I want to know is what the option is. What happens if you then find it is not technically feasible for whatever reason, it is not affordable within the envelope that you have got? What other option for carrier capability have we got? What are we left with?

Rear Admiral Amjad Hussain: We will then need to look again at steam catapults, which we have not wanted to do at the moment. EMALS is our preferred solution, but if the technical problems are insurmountable, then we will look again at steam.

Q68 Chair: Do you know the cost implications of that or have you no idea?

Rear Admiral Amjad Hussain: Our first estimate was that the cost of procurement may be cheaper, but actually in fitting the ship—and I cannot remember who said it, but I think it was Mr Swales—it will be a very intrusive fit. The helpful thing about EMALS is effectively it is done at a high level, so the lower blocks of the ship are built, whereas a boiler needs to go deep into the ship and it is much more intrusive. It is a more difficult job.

Q69 Chair: It sounds to me that the work you are doing is very proper and absolutely, I am sure, has the full support of the Committee. However, you would accept that that puts a lot of question marks over both the viability and affordability of the new plan.

Rear Admiral Amjad Hussain: I am trying to be cautious in not leaping off and saying, “Yes, it is fine, it will be okay”, because we have work to do, but we would not be heading down this track unless we were fairly confident. We would not be heading down this track if we thought the US Navy, which has based its future plans on EMALS, would not be able to get it working. We have a lot of confidence that they will, and they will get it in advance of us.

Q70 James Wharton: Admiral, I think you referred to the Carrier Enabled Power Projection programme. Is that what you are calling this project?

Rear Admiral Amjad Hussain: Yes, we are.

Q71 James Wharton: I am quite interested in getting an understanding of that. I know we touched on it right at the beginning. Am I right, at a very broad level of my understanding, that CEPP is about not having a carrier in the traditional role, which is air supremacy and bombing things, but also allowing it to play a more integrated role in terms of putting a ground force ashore and evacuating people, making it more of a multi-role platform, as part of a group of ships? Is that broadly what it is?

Rear Admiral Amjad Hussain: Absolutely, yes it is.

Q72 James Wharton: Why have we waited until we started building them before deciding that, actually, we do not want what we originally wanted, which was the carrier in the traditional role, but we wanted to develop a completely new role? We see time and time again in this Committee that costs are driven up because we start a project and say that is what we want and, halfway through, we change our mind. Why are we changing our mind about what we want the carriers to do?

Rear Admiral Amjad Hussain: I do not think we are changing our mind about what we want the carrier to do. It will still be able to fly 36 jets in the form that we originally intended. What we have realised is that we can build more flexibility into it and make it more useful. In doing so, we have made savings elsewhere.

Q73 James Wharton: If we had set out with the intention of this new role that we have realised, with this greater flexibility, would we have designed them differently?

Rear Admiral Amjad Hussain: Probably.

Q74 James Wharton: We are moving from STOVL aircraft to cats and traps, and we have discussed at some length the details around that. Does that move have a negative impact on the ability to bring in this new capability? The Report seems to indicate that it does. It talks about the only other country doing anything close being the US Marine Corps. They operate STOVL, “making concurrent fast jet and helicopter operations easier”. Has changing our plane made it more difficult to do this new thing that we have decided we want to do?

Rear Admiral Amjad Hussain: We are not sure. It is not as straightforward as that. Before we started studying this, well before the Defence Review, our intuitive sense was that it would be more difficult. When we got people into the room and started analysing this—people who had flown jets, flown helicopters off carriers who knew about this—they took the view that actually, because of the design of the carrier, this was not as difficult as we had originally, perhaps intuitively, thought. There are complications that having a carrier variant gives you that STOVL does not, but STOVL carries a lot of other risks as well. You retire some risks and take some others on. But the plane goes farther. It stays in

 11 July 2011 Ministry of Defence

the air longer. It carries more. That brings a lot of additional capability as well when you are trying to package these things up.

Q75 James Wharton: Absolutely, and I appreciate you have to make a judgment. I am sure you can see where my concern lies. It appears that we started the project, then decided we wanted to do something else, and we would probably have designed it differently had we set out to do that. It appears we have changed the type of plane for a variety of reasons, and there are positives and negatives. One of the negatives is that it may have a detrimental impact on a role that is now so important that you have renamed the programme after it, which is a concern.

My final question is: no other country operates carriers in the way that you want to operate this carrier, in terms of the CEPP role. If it does not quite work, are we likely to either find ourselves paying more money down the line to make amendments or changes, or having to acquire additional equipment, be that ships or whatever it might be, to complement what already exists because of this change in the perceived role that we wanted to have? Is this change to CEPP going to cost us any more money down the line, either on these carriers or on acquiring new additional equipment of whatever sort?

Rear Admiral Amjad Hussain: The NAO is right to say no one else in the world is trying this with conventional launch aircraft. There are very few nations with CV aircraft, for a start, from their carriers. The Americans of course have the luxury of not having to do so. We do not have the size and scale that they are able to deploy, so it is a matter of trying to get as much from a small pot as possible to be as efficient as possible. The bit at which it may not work, and this is where the focus of the risk is, is on one role out of the five we plan, which is to be able to launch fixed-wing aircraft at the same time as carrying out a commando group amphibious operation. We believe this possible. In fact, more than that, we think it is a very doable proposition. What we now need to do is the operational analysis to underpin the timings and make sure it is as safe as it could possibly be. Imagine there are complications that we have not yet thought of; then there will be limitations to our performance. Do I believe the concept, the proposition as a whole, will not work? No, it will not fail; it will work, but we may need to bring in a greater degree of timing separation between the launch of aircraft and the launch of helicopters. There will be things that we will have to do. There will be limitations on performance that will result from that.

Q76 James Wharton: Just to be clear, what you are saying is that, if it does not work perfectly smoothly, you will not turn up and say, "Well, actually we have now decided we need a new ship," or "We need to send this ship with the carrier, and that costs more." What I am trying to get at is, if we had got it right in the first place and designed the carrier specifically to carry out this task rather than what we actually designed it for, would we have saved money in the long run? What is the cost of the fact that you have changed your mind about what you want the carrier

to do? Is there a danger that there is going to be a cost to that?

Rear Admiral Amjad Hussain: What we have shown, and the NAO has agreed, is that there is a saving, not a cost.

Q77 Chair: Well, it is a saving by deferral mainly. Can I just ask you a question around this? The answers you gave to James Wharton are very interesting, but if the CEPP was under consideration well before the Strategic Defence Review and if it was the best option, why on earth was it not your option A when this matter was first considered by either Ministers within the Department or Ministers in the Security Council? If this has always been your best option, why was it not up there as option A? Perhaps you would answer that, Rear Admiral.

Rear Admiral Amjad Hussain: I did not say it was our best option. I said we had looked at these. We worried about whether the CV aircraft and helicopters could be operational.

Q78 Chair: What was your best option?

Rear Admiral Amjad Hussain: I do not think we had a best option. What we did was see what the options were that we could put to the Defence Review.

Q79 Chair: It was not your option 1, was it? Your option 1, if I can get to these options that are somewhere in a table, is the one we have ended up with—it was not one of the four at the top.

Rear Admiral Amjad Hussain: I have tried not to, but I may have confused the situation. Before the SDSR, what I and others around me in the team did was to try to understand what the options might be and understand whether they were achievable or not. We put effort into that. That informed the team that then put forward the options for the Defence Review. Part of the CEPP concept, or what has come out of this, was very much in line with our thinking, but it was in prior work to say, "Is that possible? Is that possible? Is that possible?" and get experts to see if it was reasonable.

Q80 Chair: Your four options were A, B, C and D, and then the National Security Secretariat asked you to also prepare other options, which included these. What changed?

Ursula Brennan: Could I just add something?

Chair: It would be nice if somebody answered the question, and Rear Admiral seems to be doing really well in being direct.

Ursula Brennan: Indeed, but it is just that the Carrier Enabled Power Projection is how we use the carrier that we have, not about the variant of the carrier we buy.

Chair: What changed? We were getting really a good conversation and progress. What changed?

Ursula Brennan: Nothing changed.

Chair: You had A, B, C and D, which you had thought about, and then you come forward with 1, 2 and 3, they are in our document here, which incorporated your final decision. What changed to make you look at this as suddenly the best-value option?

 11 July 2011 Ministry of Defence

Rear Admiral Amjad Hussain: I would ask others to describe the process in the SDSR rather than me. What we did was test beforehand whether these things were possible. You will understand, a separate team did the initial analysis of the air options. They were informed by our work on what was and was not possible. When these options were put during the Defence Review, question one was whether this was plausible or not. The answer, I hope, would have been that, yes, some people have studied it and this is a perfectly sensible option or not.

Q81 Stella Creasy: That is quite a critical point though, because what the Report tells us is that, in the initial four options that you looked at, there was a sound evidence base for them. It then goes on to say that the following two options that were presented later on to the National Security Council were not cost-assured. From our perspective, it is quite a critical thing as to why, with the first four options, issues around value for money and the thought process there seemed to be undertaken very well, but the latter two, not so much. Can you explain that discrepancy to us?

Ursula Brennan: We are talking about two different things. The Carrier Enabled Power Projection is about the uses we make of the carriers. Carrier Strike, flying the jets off them, is one. What the Admiral is explaining is that whichever—

Q82 Stella Creasy: With respect, what we are looking at is the decision-making process here, how you got to where you are from where you were. Where you were was four reports produced in September, which this Report independently scrutinises. It says actually there was a good, sound decision-making process undertaken here. Where you got to was two reports that did not have the same level of rigour attached. Some of the previous conversation we have had about some of the unknowables and risks that you are facing suggest some of those risks may well need to be looked at. How did you get from A, B, C and D to option X?

Ursula Brennan: The way of using the carriers that the Admiral is describing—

Chair: Please answer the question. Please answer the question.

Ursula Brennan: I am sorry, but these are two distinct issues. What the Admiral has been describing is something that we could have applied to any of these options in different ways. He is describing the way you would use the carrier, once you have got it. You can do more than fly jets off it; you can do lots of other things.

Stella Creasy: Looking at it the other way round, if really the option that you are talking about was the best-case scenario—it was certainly a scenario worth looking at—why was it not in the first four that you did scrutinise? Either you missed a trick the first time round or something changed.

Q83 Mr Bacon: The thing I have been failing to understand all along is you describe, Ms Brennan, very effectively how the carrier variant got you more bang for your buck. The Admiral explained that the

magnetic trap was more flexible, less invasive and required less manpower, and that was to produce an aircraft that could go farther, stay up longer and carry more. It all sounds pretty good stuff. Why was that not one of the original options that was considered? That is what I do not understand. Why wasn't it?

Ursula Brennan: We looked at a whole range of options in the SDSR.

Mr Bacon: I am sorry. Ms Brennan, if I asked you the question, "Did you look at a whole range of options?" the answer might very well be, "We looked at a whole range of options." It wasn't. For the avoidance of doubt, my question was: why was not this great option—which was flexible, was less invasive, involved less manpower, gave you more bang for your buck, goes farther, stays in the air longer and carries more—one of the original options?

Ursula Brennan: We came to the option late because, in the early stages of the analysis that we were doing, we were looking at the possibility of a larger cut in the budget, which would have had big implications for what we spent in the early years of the SDSR. Conversion to cats and traps is a good value-for-money proposition, because it gives you better value across the life of the aircraft, but it costs you money for the conversion in the early stage.

Q84 Chair: This is why we get so bloody irritated, if I am honest with you. You can tear that argument apart. When you took this decision, you hadn't a clue, actually. My understanding of the Report, and I do not believe it is wrong in fact, was that you had not got a clue what your CSR settlement was—one. Two, when you took this decision, you did know you had a £36 billion to £38 billion gap between what you are spending and what you can afford. To suggest somehow that you took the decision because you knew you were going to have a better CSR is just not true. It would be really helpful if you had a little bit of honesty and truth in this. That is why there is great frustration, certainly by the Chair, if not other members, in the way that you respond to things in this Committee. Can you help us? Three of us have asked the question now. Can we get a straight answer from somebody or can we not?

Ursula Brennan: You suggested there that we did not know the size of our budget at the time we took this decision. That is not correct.

Q85 Chair: Is the Report wrong, Tim? The Report says they took the decision before they knew the CSR.

Tim Banfield: The CSR settlement was only agreed at a very late stage in the SDSR.

Chair: Thank you. One of you is telling the truth.

Ursula Brennan: This was agreed at a late stage in the CSR, as is evident from the NAO Report, where you can see costings that we did early on in the summer and different costings later.

Q86 Chair: Tim, is it your view that the decision was taken before or after they knew the CSR?

Tim Banfield: They were taken at the same time from what we have seen. The decisions were coming through—I think it was 7 October that the final decision was made.

11 July 2011 Ministry of Defence

Q87 Chair: They were taken at the same time. Did you know that you would have more money? Is that why this option came up, Rear Admiral?

Rear Admiral Amjad Hussain: I am sorry; I was not there to witness—

Q88 Chair: You have been the Senior Responsible Officer for two years.

Rear Admiral Amjad Hussain: Yes, but I was not at the NSC or the DSGs. My job is delivering what comes out of this, not necessarily advocating one or the other during.

Chair: Okay, we are not going to get an answer.

Q89 Stella Creasy: There is a very important point here, because it says the 28 September options were reviewed by the Treasury, so what did the Treasury know that you do not know as the Rear Admiral overseeing this project that then affected the decisions you were making?

Rear Admiral Amjad Hussain: It would be fair to say that we focused quite significantly on the short-term implications of moving to cats and traps. I do not know quite what the study team will do but, in my mind, I probably had come to the conclusion that we would not be able, within the financial package and everything else that was going on, to consider sensibly cats and traps at that stage. As the financial situation worked through and people—not me—had a better understanding, it became a more attractive option.

Q90 Stella Creasy: You are saying when that decision, which was not cost-assured, was reviewed by the Treasury, the Treasury said, “You can have more money.”

Jon Thompson: I will attempt to clarify. Tim was right that the final decision was not made until a particular point, but there were a series of concurrent negotiations, which overlapped significantly. The spreadsheets that are used in figure 4 for example are exactly the same as the spreadsheets that are being used with the Treasury, in terms of negotiating the Comprehensive Spending Review, so they overlap significantly. It is for that reason that the Treasury are therefore heavily involved in seeing the numbers, which are in figure 4 and elsewhere in the Report, because they are exactly the same numbers that were in the Comprehensive Spending Review. They then crystallise 24 hours apart, in accordance with what Tim said to clarify what the Chairman said.

Stella Creasy: 24 hours apart?

Jon Thompson: The SDSR was announced on one day and the Comprehensive Spending Review was announced a day after. For a period of several months, there were concurrent negotiations with exactly the same data, which is spread across both sets of negotiations.

Q91 Nick Smith: I want to go back to the issue of planes and military capacity, Rear Admiral. On page 29, the Report states, “The Department had stated a requirement for the Carrier Strike capability to be able to generate daily sortie rates of 72 with 36 fast jets embarked. As a result of the SDSR decision, the sortie rate will reduce to 20.” Now you have just

told us earlier on that you think we are going to be buying 12 of these planes. How was this number of 20 reached and can you assure the Committee that, with this significant reduction in capability, from 72 down to 20 and many fewer planes, the carriers will be able to fulfil the role outlined for them in the National Security Strategy?

Rear Admiral Amjad Hussain: Despite our advice, the Report continues to show this sortie rate and it is a bit of a red herring. The sortie rate is something we use substantially to design our systems, logistics systems principally, and maybe the size of the ship.

Q92 Nick Smith: Is it about bangs for bucks? Surely the extra planes you can get out working for you is really what it is about.

Rear Admiral Amjad Hussain: The sortie rate, the peak sortie rate and the amount of time over which you sustain that sortie rate are all about the reliability of your aircraft, the number of bombs and rockets you carry in your supply ships, how much fuel you produce, the movement across the deck that you can manage and the number of crew you have. It is one of the ways of setting out the total size at the peak capability that you would want to achieve.

Q93 Nick Smith: We understand that, but you are reducing it from 72 to 20.

Rear Admiral Amjad Hussain: It does not explain the build-up to that. What I have tried to say is that while the 72 relates to the sortie rate we can achieve when we have all the jets, the same still applies. What we have done, and you have brought this out, is we have changed the aircraft delivery plan. The 72 was never going to be achieved in 2020.

Q94 Chair: Why did you never make that clear? We have had major project review after major project review, which has focused a lot on this, because it has been such a difficult project. As I understand it, unless the NAO contradicts me, it was never said that it would take 17 years after the carrier first came into service for you to get into the optimum sorties that you wanted out of it. Why did you never make that clear? Surely you have this massively long timescale and that is a failure of the planning—17 years after it first comes into service.

Rear Admiral Amjad Hussain: Not at all; it is about the rate at which we buy the aircraft.

Q95 Chair: You mean you have again delayed. There has been a decision, which is massive delay, which will probably cost us hundreds of millions, if not billions, down the line, and you have never made clear to the NAO, or to the public or anybody who looks at these things for value for money that it would take 17 years for you to have full capability.

Rear Admiral Amjad Hussain: I am not sure if it was or was not clear. I think it was—

Q96 Chair: Was it clear, Tim?

Rear Admiral Amjad Hussain: I think it was pretty clear that 2031 was when we would have achieved the full operating capability.

11 July 2011 Ministry of Defence

Tim Banfield: The Major Projects Report does not give a date when the full sortie rate would be available. What it does give is a blanket assurance that, yes, that will be achieved. It does not give an idea about timescale.

Q97 Nick Smith: So 2030 is when we will have the maximum or the right number of planes on the aircraft carrier.

Rear Admiral Amjad Hussain: We can decide. You could advance it or delay it, and those are decisions that can be taken downstream. What I can say is, we have done nothing to stop us meeting that capability aspiration, should we choose to want to meet it. The world changes; I do not know what will happen.

Q98 Nick Smith: Just to be clear, it is going to be 20 years before we get that full capability.

Rear Admiral Amjad Hussain: It could be. It could be shorter; it could be longer. Those are decisions that still need to be taken. There is an aircraft production line and we have to put forward a programme of when we will buy the aircraft. Can I just pick up on one other point? It is one of the things on a large production run such as this aircraft has: strangely, buying later gives you a lower unit price.

Q99 Chair: How does that follow?

Rear Admiral Amjad Hussain: Because the efficiency in production occurs a little way down the journey. As you produce more and more, you get more and more efficient, and our expectation is the price should go down.

Chair: What seems so odd to me is you had a £36 billion to £38 billion gap, which was identified a heck of a time ago. If you could have taken a decision to buy later and it did not interfere with your military capability, why on earth did you not take that decision earlier? If there was a real cost saving without any operational detriment from it, why on earth did you not do it earlier? It is bonkers.

Q100 Ian Swales: Is not the key point here that it is operational detriment? That is the issue. We have these carriers. For the first nine years, we will not have any aircraft at all. If we can do without this capability for nine years, then we are only going to have it, according to paragraph 2.28, for about half the year, 150–200 days, and then we are going to build up over an optional long period to this capability; the sceptical public are bound to ask, “What is this aspiration and is it actually one we should be aspiring to, given this first 10 to 20 years of having much lower operational capability? Why are we even doing it?”

Ursula Brennan: The point that the Admiral was making was that the sortie rate was always planned to be built up to over a period of time. Nothing that we have done in the SDSR changes our ability to build up over that period of time. It was always the intention to build up the number of jets that built up the sortie rate.

Q101 Chair: Were you always clear that you would not be operationally fully effective until 2031? Were you clear on that?

Ursula Brennan: I think it is not a matter of being operationally fully effective. It was the point at which we had that number of jets.

Q102 Chair: When were you clear on that?

Ursula Brennan: We would have to write and tell you exactly when, but—

Chair: Tell us now. I cannot believe you have not prepared and do not know.

Ursula Brennan: We never had a plan to buy all the jets in one go. It was always the plan to build them up.

Q103 Chair: Then it is the issue of why that was not out in the open before. If it was cheaper, why did you not buy them later anyway?

Ursula Brennan: Just to come back to the point about buying them later and the sortie rates, the second thing about the sortie rates is that the sortie rate of 72 related to a less capable smaller aircraft, capable of shorter sorties, so we would expect to do fewer sorties with the carrier variant than we would expect to do with the STOVL variant. That is one of the reasons why the sortie rate was described by the Admiral as a ‘red herring’.

The question about why the gap in Carrier Strike—this is a policy matter that Ministers made clear in the SDSR, when they said that the original intention to buy the Carrier Strike was because we could not guarantee for the future that we would not be able to operate without it. We have, as it happens, in recent years, been able to conduct operations through land basing, as we are, for instance, in Libya, where we are based in Gioia del Colle in Italy. The presumption was that while, in the past we have used carrier strike capability we have recently been through quite a long period when we have not actually had to call on it, but we cannot guarantee, looking forward in the future, that that will always be the case. That was the decision that Ministers made, to say that they wanted to bring back to that capability, because they could not guarantee being able to cope without it for so long.

Q104 Nick Smith: Chair, I want to move on from this fact that we will not be at optimum fighting capacity for another 20 years. The original two-carrier solution would have allowed approximately 435 days at sea a year. Post SDSR, the outcome will give us approximately 150 to 200 days at sea each year, on average. With the ship at sea for only half a year, how can the country combat the threat set out in the Strategic Defence Review?

Rear Admiral Amjad Hussain: What we are describing with 150 to 200 days a year is a planning figure. If we think of it in normal operation, the expectation is that it will be at sea for this amount of time a year and that is the basis on which we plan how we do the training and so on. We are developing that as we go on. That is not to say it cannot be at sea for longer. If there was an operation, of course it would be at sea for longer. It is not limited to 200 days a year. There is not a switch that goes off at the end of this; we can keep it at sea longer if needs be.

Q105 Nick Smith: It needs to be rearmed; it needs to be refuelled; it could be damaged in operations.

11 July 2011 Ministry of Defence

These are all difficult things that you have to deal with. What you are saying is we are going to have wait 20 years until it is an optimum fighting machine and, when it comes, we are only likely to be able to use it for half a year.

Rear Admiral Amjad Hussain: In terms of rearming, we would expect the stores ships to hold the weapons and the fuel. You brought another piece in; if it is damaged, that is a different situation. I would fully expect that, if there was an operational imperative and a reason for it to stay at sea for 300 days in a year, it would do so.

Q106 Stella Creasy: One of your problems is that one of the things you have done to mitigate risk is to try to talk to other allies, except, as the Report points out, “The feasibility of flying the JSF carrier variant from the French carrier and the French aircraft...from the United Kingdom carrier is as yet unclear.” Nick’s point is that you have it for 150 days a year, as you are planning for, but in the worst-case scenario of wanting to use it for more, if anything were to go wrong, what is the backup option and what are the costs of that? When you eventually get all these lovely planes, you do not know you can fly them off the French carriers, do you?

Rear Admiral Amjad Hussain: No, we have further work to do to study how we would do that, and that is work that again will take us at least another year; but it seems unlikely that you would want to keep it on station for two years at a time without going alongside. I am trying to work through the scenario in which that would happen.

Q107 James Wharton: Mine is a very quick question. Going right back to our discussion about the different options that were put forward for how to save money and go forward with this project. I note a key difference with the option on page 22, which was put to the National Security Council. It was the same as option A but without Tornado. The overall option was, broadly speaking, the same as option A but, instead of being without Tornado, it was delaying JSF and it was without Harriers. Going back to previous hearings in which you appeared in front of us, Ms Brennan, if Typhoon was capable of delivering its ground attack ability—and we had a hearing with a great deal of discussion about the fact that very few of the Typhoons are actually, for various reasons, able to do this—would it have been more realistic to keep the Harriers going so we do not actually need Tornado? It strikes me that the reason we need Tornado is probably that it is the only plane that can effectively do what it does, which we have at the moment. Just a brief answer—I am just trying to get some link between our different hearings. I appreciate that the cost of not getting Typhoon right may be even greater than we thought.

Ursula Brennan: The question about which aircraft you delete comes down to not having lots of different types of aircraft. We set out in the SDSR why we came to the conclusion that the Harrier was the more sensible aircraft to delete than the Tornado.

Chair: Ms Brennan, the question was: if we put extra money into the Typhoon, would that have changed? Ask it again, James.

Q108 James Wharton: If the Typhoon could do the ground attack job, do you think that you would then be able to delete a Tornado?

Ursula Brennan: I would have to come back to you on that, because there is a timing issue as to how many Tornados you have got at any given time. The Typhoon is still building up in terms of its capability.

Q109 Chair: Timing is irrelevant. The whole criticism that James is alluding to is the criticism that we did not invest to have that ground attack capability.

Ursula Brennan: It would still be affected though by the physical number of airframes that you had. Tornado is at its peak, so we have lots of them; Typhoon is still building up. I am not sure that you could simply do that equation.

Q110 James Wharton: I do not want to explore this in too much detail. I appreciate it is a little bit of a side issue to the actual Report. I think it is important to put on the record that, when we looked at Typhoon, we found that one of the issues was that its ground attack capability was not developing, or had not developed at that stage, appropriately. If it had, it may have opened up further options in this regard. Therefore, the cost of Typhoon’s lack of ground attack capability could be significant.

Ursula Brennan: It is a numbers issue. There were not enough. The simple issue is, because the Tornado is already built up and we have lots of them, you could not just swap it for the Typhoon, because the Typhoon is still building up in terms of physical numbers of airframes. That is why you could not simply swap them around.

Chair: It does not quite answer the question, but never mind.

Q111 Matthew Hancock: Can I come back to the question of the balance of risks? I want to draw on something that both you, Ms Brennan, and also Rear Admiral Hussain said. Both of you have said that, while the risks are set out in the Report, the opportunities are not or some of the risks that were removed are not. Can I ask you to set out the analysis that you have made in terms of the balance of risks for taxpayer money? Really, when we are talking about projects like this, you cannot only look at the risks in one direction; you have to look at the balance of risks. Can you set out why you came to the judgments that you did in terms of balance of risks?

Rear Admiral Amjad Hussain: If we start perhaps with the aircraft, the STOVL aircraft is more complicated. It has an extra engine. It is trying to do some difficult things by a short take-off and vertical landing. It is simply more complex. That is to some extent reflected in its price per unit and also its progress in trials last year. Since then, it has been effectively—I am not sure of the right term—put on probation to see how it goes along in the trials programme, before the US takes a decision where they go with it in the future. It is evidently a more

11 July 2011 Ministry of Defence

complicated aircraft. That is a risk, if you like, that has been retired.

It had a smaller bomb bay. That meant that, for the integration of UK weapons, we were going to have more difficulty. Having the larger bomb bay in the carrier variant should make some of the integration of UK weapons, which we consider to be a sovereign capability, relatively easier to do. Size helps in this regard. That is another key risk that we held before.

Third, because of the nature of a short take-off and vertical landing aircraft, if it is going to return to a ship and land vertically, it requires an awful lot of power. To do that, especially in hot climates, it probably needs to lose its stores or, in other words, drop its weapons before it can come on and land. In order to get round that, we were planning on a rolling landing—again something that nobody else is doing. It was going to be innovative in itself. That was an issue that we worried about. We thought we were able to deal with it, but it is still a risk and it is a risk that we have now removed.

The fourth thing was that the sheer heat and power from the STOVL had an impact on deck coatings. That was more work, another risk that we were going forward with, as to how we were going to manage that amount of heat and blast from the aircraft. There were probably other risks, but I have brought out the four biggest ones there for us. All of those, effectively, we have retired.

Q112 Matthew Hancock: They are all technical risks. Can I push you a bit more on the project management risks? For instance, of course there are risks of delays to the project and there always are. What has the new set-up had in terms of impact on the balance of risks for delivering the project?

Rear Admiral Amjad Hussain: The advantage we had with STOVL was that we had studied it for some time, so we were more confident in making our risk judgments. We need a bit more time to be equally confident on the CV, so intuitively I think it is a less risky undertaking, but I would like to spend time and effort understanding what we are doing to the degree that we understood it before.

Q113 Matthew Hancock: Finally, in terms of those sorts of risks, if there had been no delay previously to the project, do you think that there would have been as long a gap, in terms of having no capability, as there will be under the current plan, Ms Brennan?

Ursula Brennan: That is needing to disentangle—

Q114 Chair: The Report says on key facts, if you look at it, “main investment decision (2007)...carrier availability continuous”. Are you disagreeing with those facts, Ms Brennan?

Ursula Brennan: No, I am not, but I thought you were asking about the time during which we would be without Carrier Strike.

Q115 Chair: It says they would not be without. If you look at the Report, it says, under “key facts”, page 4, “carrier availability” under the 2007 decision is “continuous”. Under the 2007 decision as updated with the delay, July 2010, it still costs us £1.6 billion,

so there are concerns about that, but the capability is “continuous”. Are you denying those are correct facts?

Ursula Brennan: Not at all, but I thought Mr Hancock was asking something different.

Matthew Hancock: I was asking a different question.

Ursula Brennan: I thought you were asking me about the time between now and 2018–20.

Matthew Hancock: Precisely.

Ursula Brennan: You are asking me, therefore, whether if we had not had a delay earlier, this problem would arise. I think that is almost an impossible question to answer, because we would have progressed to a different point. Would the SDSR then have chosen to reopen that and go down a different path? I think it is really difficult to judge that. As it happens, we were at the point in the SDSR when we were able to say, “Let’s change direction and go for the carrier variant.” Would we have done that if we were further down the track? Possibly not, but I do not know. It is a hypothetical question.

Q116 Jackie Doyle-Price: Just following on from that, obviously we are without capability now presumably for another nine years. What assurances have we had from the French and the Americans that they will be able to plug that gap, if we need it?

Ursula Brennan: It is not about them plugging the gap because, with all these capabilities, most of the time when you envisage using them with allies it is not so much that you plug each other’s gaps, but that you work with allies so that you try to ensure that your carrier is not in refit at the same time as their carrier, and that kind of thing. That is the sort of thing that we have been discussing with the French. We have also been discussing more technical interoperability with the French and the Americans.

Q117 Jackie Doyle-Price: That begs the question that, if we can do without an aircraft carrier from here until 2020, why do we need one in 2020?

Ursula Brennan: This is the point I was making earlier that, as it happens, in recent years, we have not been using the carrier. When this was very first discussed in the 1990s, we had been using the carrier. We have been through quite a long period when it has not been essential to the way we do business, because we have been able to rely on access, basing and overflight agreements with other countries. Looking forward—and this is a policy judgment that was made by Ministers—Ministers concluded that we could not guarantee in an uncertain world that we would be able to do without the carrier in the future. We have lived without it for a while. They concluded that they were prepared to live without it for a bit longer, but they could not guarantee being able to do without it over the long lifetime that we will get out of the carrier.

Q118 Chair: You see, I would find that argument more convincing if you just said we want to maintain our industrial capability and we want to keep the shipyards going. But the idea that we have put over £10 billion into something that we have managed without over recent years and we are going to be forced to manage without over the next nine years,

11 July 2011 Ministry of Defence

and we are still going to spend £10 billion, knowing you have a £36 billion to £38 billion gap, and knowing, as I assume from the Report, that actually the armed services do not think this is a priority—they think other things are a priority—just beggars belief. If you said to me that you want to keep the industrial capability going, I think that is a legitimate argument, but to argue it in terms of defence capability leaves us bewildered.

James Wharton: I think it is very important, Chair, that some of us do believe the carrier is a necessary defence capability. As a policy decision, it is one that some of us on this Committee would support. That is an issue where we stray beyond our remit, I think.

Chair: No. I think, from what the Permanent Secretary was saying, that it is our remit to make sure they plug the gap of £36 billion to £38 billion, of which over £10 billion is going on this. If we are saying we managed without it, we are managing without it now and will be forced to manage without it over the nine-year period when we have not got one, and in the Report armed personnel are saying that this was not their top priority in terms of the Navy and yet we are going ahead, there is a real value-for-money issue, not a political issue, which I would find easier to understand if it was around industrial capability. I find it impossible to understand in relation to defence capability.

Ursula Brennan: I can only refer the Committee to the SDSR and what the SDSR actually said about why we need this.

Q119 Chair: So you are saying this is entirely policy, but you do not necessarily endorse it.

Ursula Brennan: No, not at all. But you are asking me to say that the reason we bought them was not the reason that was quoted in the SDSR, and I am simply referring you to the SDSR.

Chair: It is your evidence, Ms Brennan. You said that we have managed without it for the last few years. The way that decisions have been taken to delay expenditure means we are going to have to manage without it for nine years. Anyway, we have been there; we have done that one.

Q120 Stephen Barclay: Can we just come back to the Report and to page 16, paragraph 1.14? I was struck by the comment that “the carrier project has consistently exceeded the Department’s budgetary provision.” Then we have a £312 million “cost challenge”. Are there any years where the budget and specification to date has not changed?

Ursula Brennan: The cost has not changed since the MPR 2010 figures that we gave you.

Q121 Stephen Barclay: Which was?

Jon Thompson: £5 billion, I believe it was.

Ursula Brennan: Apart from the cats and traps.

Q122 Stephen Barclay: If I can come back to the original question, is there any year to date that the budget and specification has not changed? I am just trying to draw from past performance. Past performance is not always an indicator of future performance, but is there any year to date where the

budget and specification on this contract has not changed?

Ursula Brennan: It has not changed in the last year, apart from the policy decision to change the nature of the capability on it.

Q123 Stephen Barclay: What I am trying to drive at is the element of change. We will come on to the number of people with fingers into buy in terms of specifications. Let us take something really simple then, like when there was a change in VAT amounts, which I would have thought was a force majeure really, from the MOD’s point of view; that is decided by the Treasury. Do you in the MOD pick up the costs of any change in VAT on defence procurement projects or do you get indemnified by the Treasury?

Jon Thompson: It depends on what exactly we are purchasing. Some things we purchase are subject to the full rate of VAT; some things, partially; some things are exempt. I will get clarification, if you like, specifically on the carrier, but I believe these numbers—he said, looking at the Admiral.

Rear Admiral Amjad Hussain: I am just checking but, in this instance—

Q124 Stephen Barclay: You are the Senior Responsible Owner. It is a pretty big cost on this contract. I would have thought you would know.

Rear Admiral Amjad Hussain: I was just checking that I had my facts correct, but on ship-building contracts we do not pay VAT.

Q125 Stephen Barclay: You do not pay on that element. But other elements of the project, would you bear those costs? Are there any elements of this project where you would pick up—I am just taking that as one example.

Rear Admiral Amjad Hussain: Yes, we would.

Q126 Stephen Barclay: You would. So there is part of this where perhaps the Treasury changes VAT and that is something that would be in your budget and your figures would change. Are you, Amjad, as the SRO, the top-level budget holder for this project?

Rear Admiral Amjad Hussain: No.

Stephen Barclay: You are not.

Rear Admiral Amjad Hussain: No.

Stephen Barclay: You are the Senior Responsible Owner but you do not control the budget.

Rear Admiral Amjad Hussain: I monitor the programme, try to work out, if there is an excess in one area, what is the best way of matching that elsewhere with cost capability trades and I put those together through our Departmental process.

Q127 Stephen Barclay: Who is the top-level budget holder for this project?

Ursula Brennan: We do not have top-level budget holders for projects.

Stephen Barclay: Covering this project?

Ursula Brennan: The top-level budget holder covering this project would be—

Jon Thompson: The budget would be in the Defence Equipment and Support budget, which would be the Chief of Defence Materiel.

11 July 2011 Ministry of Defence

Q128 Stephen Barclay: So it would be Bernard Gray who actually holds the purse strings on this project, rather than you, as SRO.

Rear Admiral Amjad Hussain: He holds the purse strings on the equipment side of this budget, yes.

Q129 Stephen Barclay: What about manpower and training? Would you, as the SRO, control that? One of the previous issues was Apache, where we bought a load of Apache helicopters but we forgot to buy the training simulators, and therefore we had them but we could not use them, because we did not have pilots trained. Are you, as the Senior Responsible Owner, in charge of manpower and training responsibility for the carriers?

Rear Admiral Amjad Hussain: I am responsible for making sure it all comes together and is delivered as a capability, as a war-fighting package.

Q130 Stephen Barclay: With respect, that was not quite my question. Are manpower and training issues dealt with by the service chiefs or are they dealt with by you, within the MOD main building?

Rear Admiral Amjad Hussain: It depends what you mean by 'dealt with'. If in analysing the issue my team or I become concerned that we do not have sufficient personnel or they are not sufficiently trained, that is something that we would take up with the relevant service, through our system, and make sure that they are indeed engaging on that. As an example, on this programme, we are working together to work out what the training plan is. Indeed, the frontline commands will effectively bring that training plan to me, but I do not have the expertise to do it in detail. I need to make sure it comes together and it has goodness to it.

Q131 Stephen Barclay: Would the budget for manpower and training fall within Mr Gray's budget?

Rear Admiral Amjad Hussain: No.

Q132 Stephen Barclay: In other words, manpower and training are dealt with in a different budget.

Rear Admiral Amjad Hussain: Yes.

Q133 Stephen Barclay: In essence, it is a different accountability. That is what I am driving at. What I am really trying to get at, Amjad, is how linear the decision-making is within this programme. I think it has been a well documented concern on other MOD projects. There is a concern always that there are a very large number of people involved in changes to specification; there are a number of people with a say in the direction of travel, and yet, as a Committee, as you know, we often have difficulty in terms of where accountability sits. What I am just trying to clarify is, accountability for the budget sits with Mr Gray; accountability for the programme, in terms of the Senior Responsible Owner, sits with you; the person day-to-day who is the expert on this is not with us—he was going to be. Tony Graham, I think, is the head of ships. Something like manpower and training are dealt with by the relevant service. Just to give us a ballpark, not a precise figure, how many people have

a say in changes to specification on a programme like this?

Rear Admiral Amjad Hussain: Very few have a say in changes to specification. We have set out the specifications. What we now need to do is deliver it, not change it, just deliver it. That means having the infrastructure in place at the right time, having the pilots trained and able to do their job, and having the ground crews able to do it and the maintainers, the equipment arrive and the stores in place. It is a complex undertaking undoubtedly, across many lines of development and with lots of people having to be brought together to make sure they are delivering their individual part to this enterprise to make it work.

Q134 Stephen Barclay: Within the Ministry of Defence main building alone, how many people would be involved in looking at specifications here?

Rear Admiral Amjad Hussain: I go back and say I do not think we are changing the specification. If we are changing it in a material way, I would expect it to go through me.

Q135 Stella Creasy: I want to go back and really bottom out this idea about how decisions are being made here, because it is not clear to me that the motivations are to do with value for money. In particular, some of the concerns that I have that this Report sets out are about at just what point assessments of the value for money of options have been made. Frankly, the concerns I think all of us have is that the paperwork behind that was not made available to the National Audit Office to be able to be assured of that. In particular, paragraph 2.12 talks about these subsequent decisions and goes back to Jackie's exact point about understanding the capability implications of operating for a decade without Carrier Strike capabilities or what capabilities it would forgo to provide the additional £2 billion of funding required when compared to the National Security Council option. Can you talk us through how a decision can be made without those cost assurance figures, or what was in these papers that was not available to help us understand the cost assurance implications of this?

Ursula Brennan: The papers that the National Audit Office talks about not being able to see were minutes of the National Security Council meetings that discussed this subject and a paper that went to the NSC. The NAO may want to comment in particular. The reason that was given, and there was correspondence with Sir Gus O'Donnell, there was a meeting with the National Security Adviser and the issue was, I believe, put to the Prime Minister to confirm that the papers that were withheld were policy papers related to policy discussions, which are, by Government policy, not revealed to the NAO. The papers that dealt with the costs, which included the documents that came from the MOD, were made available to the NAO.

Q136 Chair: Ms Brennan, would you, however, agree that it is up to the auditor to decide what information he or she requires to enable him to make a judgment on whether or not there is value for money

11 July 2011 Ministry of Defence

in the decisions taken around this project? Is it for the auditor to decide or is it for the Cabinet Office to decide?

Ursula Brennan: It is for the National Audit Office to decide what satisfies them, but it is for the Cabinet Office to say—as has been a longstanding policy—whether or not the National Audit Office should have access to papers that are concerned with Government policy, which is not—

Q137 Chair: No, the National Audit Office does not want to look at policy. The National Audit Office requires access to the information it believes is relevant to enable it to take the necessary decisions on whether or not a project has value for money. That is an issue that only the National Audit Office can take. My understanding is that never before, since the 1983 Act, has the National Audit Office come to this situation where it feels it requires information to see whether or not a value-for-money decision was taken, and the Cabinet Office decided not to give it that information.

Ursula Brennan: I am sorry that the National Audit Office felt that. I cannot comment on whether this is the first time this has ever happened.

Chair: It is.

Ursula Brennan: I do not know whether the NAO has asked for Cabinet Office papers previously, but the view of the Government is very clearly that the National Audit Office were given access to all the papers that had the information that related to value for money. What they were not given access to were papers that they do not generally get given access to, which relate to policy.

Q138 Nick Smith: Sorry, did you just say that the Prime Minister blocked the NAO asking for the papers that it wanted?

Ursula Brennan: I am saying that it was confirmed with the Prime Minister whether or not the National Audit Office should have access to Cabinet papers.

Q139 Nick Smith: So the Prime Minister stopped the NAO having the papers it wanted?

Ursula Brennan: Yes².

Chair: I am going to bring Michael in.

Michael Whitehouse: Possibly I could clarify on this to start with. Firstly, under the 1983 Act, there is no bar on the NAO seeing policy papers. That is absolutely clear. We have access to policy papers where we need to form a judgment as to whether policy implementation and the way that policy was decided could have consequences for value for money. So we do not question policy, but we can look at the documentation underpinning it. The Chair is correct that it is absolutely the right of the auditor to decide access, not the auditee, and we do not know of any incidents—we cannot recall—where we have not been able to form a judgment about value for money to our satisfaction, because we have not been given access.

Q140 Nick Smith: Mr Whitehouse, did the Prime Minister deny you access to those papers?

Michael Whitehouse: The correspondence—

Chair: I do not think he can answer that. I am going to rule that out of order, because I think that is an unfair question.

Q141 Stella Creasy: What is a fair question is that one of the assessments that we have been told was taken into this was, “We were signed up to a contract we couldn’t get out of,” so there was a value-for-money assessment made. Would you say that is a fair thing to have said?

Ursula Brennan: Sorry, what are you quoting there?

Stella Creasy: The Chancellor said that one of the reasons why this decision was taken is that they were signed up to a contract that we could not get out of. So when we read in the National Audit Office Report that they have not been able to see the evidence to see how that decision was made about cost assurance, can you understand the concern from this Committee that actually those policy papers were particularly relevant to our remit around value for money? Because if the Chancellor is justifying this decision as a value-for-money judgment but the National Audit Office is not able to scrutinise that, how are we to know what is right?

Ursula Brennan: The question about the cost assurance of the decisions around all of this, all of the papers on that were made available to the National Audit Office. All of those papers originated, as Cabinet documents nearly always do, from the Government Department in question, the Ministry of Defence. All that information was made available, first of all. That is the first point.

Chair: Michael, come back.

Michael Whitehouse: The point I am making is yes, we saw information that was available within the Ministry of Defence and was provided to the National Security Council. I turn to figure 4, where there are at least seven options that were considered during this process. What was not clear to us—and the Report recognises that this was a very complex decision-making process—is how the different variables that were involved in coming to a judgment about VFM were resolved. This is the issue that we were looking at. We saw the underpinning documentation going in but, like anything, a decision is then made on the basis of that information. We needed to understand how that decision was reached, but I would go again not to question policy; it is around the implementation of that decision and the consequences for long-term value for money, on a programme that is in excess of £10 billion.

Q142 Matthew Hancock: I just wanted to clear a couple of things up. You referenced what had happened in the past. Has the NAO in the past requested Cabinet papers?

Michael Whitehouse: Yes.

Matthew Hancock: I would also just like to get on the record that it is not true that the Committee is entirely united on this front, as asserted by Ms Creasy. Indeed, there is a great deal of concern that we are straying into policy matters, and the NAO Report

² As set out in the earlier answers, the decision was taken by Sir Gus O’Donnell who consulted the Prime Minister, in his role as Chair of the National Security Council.

11 July 2011 Ministry of Defence

strays into policy matters that are inappropriate for this Committee.

Chair: Okay, I know that is your view, but actually this is over £10 billion of taxpayers' money. I think it is legitimate for this Committee to investigate whether or not that is value for money.

Matthew Hancock: That is not a unanimous view and figure 4 is clearly about policy.

Q143 Chair: I have two very final questions. The Prime Minister, when he made the statement on the SDSR, said, "And they signed contracts, so we were left in a situation where even cancelling the second carrier would...cost more than to build it." In figure 6, it is demonstrated that, over time, cancelling both carriers would have saved £1.2 billion. Nobody is questioning the policy decision. This is just an issue of fact. Cancelling one would have cost £200 million. What I am interested in is who wrote that sentence for the Prime Minister in the SDSR statement.

Ursula Brennan: I have a feeling that that was actually in answer to a question.

Chair: No, it was in the statement. It is actually in the statement. Normally, I say as an ex-Minister, statements, particularly of this nature, would have been written by officials and presented to Ministers for them to top and tail. They would have been written by officials. Obviously that did not tell the proper story.

Ursula Brennan: I am sure whatever was written indeed originated from drafts from officials, but can I just point out that figure 6 and figure 4 do give different costs and savings in relation to this issue? The point is brought out in the NAO Report. Figure 6, if you look at the footnote at the bottom, says that they were costings done in June 2010. If you look at figure 4, there is a range of other options that were done later in terms of the costings.

Q144 Chair: I understand about the options. I am just interested here that Parliament was told that cancelling the second carrier would cost more than to build it. Figure 6 shows that that was not correct. It does not again challenge the policy decision. There may have been really good reasons for taking the policy decision. It is not correct, and I am trying to reconcile the two and find who wrote that. I bet the Prime Minister did not write it; somebody wrote it for him.

Ursula Brennan: The point was that I was cross-referring you to their later calculations, which were in figure 4. There were different calculations done as we developed the process. If you look at figure 4, you will see that there is a different set of calculations there.

Q145 Chair: Tim, are the figures in figure 6 wrong?

Tim Banfield: No, they were correct. They were the last set of figures that we saw produced and they were on 22 June. The figures in figure 4 are the ones that the National Security Council considered on 7 October. There may have been something different underlying them, but we have not seen it.

Chair: Please stop obfuscating. Honestly, it is so irritating. All I am trying to do is to get the right figures—

Q146 Stephen Barclay: Are you saying that, by the time the statement was made, the figures had moved?

Chair: No, they had not.

Ursula Brennan: I am saying that, yes.

Chair: Tim is denying it.

Q147 Stephen Barclay: In other words, what you are saying, if I am summarising correctly, Ms Brennan, is that in June there was a belief that there might be a saving but, following further iteration, at the time the statement was made those figures had undergone more testing and the position had evolved.

Ursula Brennan: It is an immensely complex issue.

Q148 Chair: I am sorry, I am going to interrupt you on that. That is not what the National Audit Office said, is it?

Stephen Barclay: But this is an unagreed report, hence—

Chair: If we saw the papers, we might be able to see where the truth lay.

Tim Banfield: What we have not seen is whether there was further iteration underlying those numbers from 7 October, but what we did see was numbers changing as the SDSR went on, as understanding grew.

Q149 Mr Bacon: Can I explore for a second this question about access to papers? I think Mr Hancock asked you, Mr Whitehouse, if you had in the past asked for access to Cabinet papers and you said yes. The obvious next question is: in the past, when you asked for them, did you get given access to them?

Gabrielle Cohen: Yes, we have had access to all sorts of papers. Sometimes we have not had access to the entirety of the paper, but we have had access to sufficient of the various papers that we have asked for to be able to form an audit judgment. We do not need to see all of the policy dynamics on every occasion; that is clearly not the case. We had to press so far to be able to inform our own judgment, and we have had that.

Q150 Nick Smith: The key is you need the figures to enable you to take an audit judgment. That is the key point.

Michael Whitehouse: We are not getting into the policy issues.

Q151 Mr Bacon: You did say earlier that you do not question policy. That was your phrase, which I am glad to hear, because I have read the 1983 Act and it says you are prohibited from questioning policy, but you do look at the papers that underpin policy decisions to assist the NAO in assessing value for money, which is indeed your job. Can I just explore very briefly two big ways in which the costs of this programme increased? I want to be clear I have got it right. The first one was the decision to re-profile the expenditure and slow it down, which kept in-year costs lower but increased the total cost by £1.56 billion. That was one big extra lump of cost.

11 July 2011 Ministry of Defence

The second one was this big extra lump of cost that is referred to, where the decision “would be almost £2 billion more expensive over the next 10 years but with virtually all of the additional funding required after the four-year Spending Review”. That is the other big lump of extra cost. Isn’t that right? This is paragraph 2.12, compared to the National Security Council option.

Ursula Brennan: That is not extra cost in the carriers; that is simply comparing the many different options in figure 4, showing that some of them save more money and some of them cost more.

Mr Bacon: And some of them cost more, yes. I understand, and they have different permutations.

Ursula Brennan: Exactly, so it is not a change in the cost of the carriers; it is a variety of different options.

Q152 Mr Bacon: It is a total change in the amount of money, isn’t it, Mr Banfield?

Tim Banfield: It is a total change in the amount of money.

Q153 Mr Bacon: That is what I am interested in. I am a very simple person. I like to think in total amounts of money. You can call it TAOM, if you like, Ms Brennan, if it helps. I just want to know how much we are spending here. We are spending £2 billion more there than the National Security option, and we are spending £1.56 billion more because of the re-profiling. No? Am I double-counting?

Ursula Brennan: Sorry, we are not comparing like with like. The list of options in figure 4 simply has a whole raft of different approaches to what you might do with Carrier Strike, and they include within them all sorts of choices about what you do with Tornado and what you do with the Joint Strike Fighter. That is not the same as saying what has happened to the costs of the carrier.

Q154 Mr Bacon: I am one of these simple people who thinks there is not much point in having an aircraft carrier unless you have aircraft you can put on it, so I am really interested in the total cost. Mr Banfield, am I right in thinking that paragraph 2.12 describes a situation that would be almost £2 billion more expensive than the 7 October National Security Council option?

Tim Banfield: Yes, but what both of those options did was look at the carriers, the aircraft that fly from them and a range of other pieces of capability, in a big bucket.

Q155 Mr Bacon: Indeed, you are talking about a whole range of different things, and I understand that it is a series of permutations, but this particular option, this particular basket of permutations, is £2 billion more expensive than the 7 October option.

Tim Banfield: That is correct.

Q156 Mr Bacon: When it says “over the next 10 years”, what about if you looked at the entire length of the project? Is it overall more expensive or just £2 billion more over the next 10 years?

Tim Banfield: It is £2 billion more over the period that the Ministry of Defence prepares its budgets.

Q157 Chair: And over the project?

Tim Banfield: Across the whole range of those projects, I do not know the answer. We know the total costs on the aircraft carrier. £6.2 billion is the current estimate, but there is a raft of other equipment and projects in there, and we do not know the total project costs on those, because they were not considered as part of the option.

Ursula Brennan: Can I just comment that we do just need to be careful. The National Security Council looked at all sorts of options. The one that you are looking at at present included deleting Tornado. We could have thrown in deleting all sorts of other things and saved huge amounts of money in comparison to what we are doing. The more things you cut, by definition, the more you will save from that. What you are doing is comparing the option that is described at the very bottom, the option that we proceeded with, and comparing it with all the other options. The option that saved the most money was one that happened to delete the Tornado. It is not surprising it saved a lot of money, because it did that.

Q158 Mr Bacon: Obviously one might hope that if you cut more things, you would save more money, but my central point in pursuing this and labouring the point is that, overall, you appear to be doing the opposite. Originally you were going to get two aircraft carriers for just over £3.5 billion, £3.6 billion. Now you are going to get one usable aircraft carrier for nearly double that. That is correct, is it not? It is going to be one aircraft carrier for £6.24 billion, whereas right at the beginning you thought you were going to get two aircraft carriers for £3.65 billion. That is correct, isn’t it?

Ursula Brennan: That is the growth in the cost, yes.

Mr Bacon: That is correct. What I have just said is correct.

Ursula Brennan: Yes, that is correct.

Q159 Chair: The very final question. There are varying views around the table, but it just seems to me, when we last considered the carrier, our view was that the Accounting Officer ought to have given a letter of direction to Ministers, because there was not money in the budget when the additional decision was taken and, therefore, that led to the incurring of the £1.56 billion additional costs. Given the lack of certainty about the technical capability of this solution, and the lack of certainty about the costs involved in going down this road, and given that that is all in the context of a £36 billion to £38 billion hole in the MOD finances, and a 7.5% cut in the budget, are you completely satisfied that you should not have asked for a letter of direction on this particular decision?

Ursula Brennan: At the SDSR point, it would have been my predecessor rather than me, but the reason why it was not necessary to seek an Accounting Officer direction was that, having taken the decision to have Carrier Strike, this was the most cost-effective way of doing it. Yes, there was an acknowledged gap in the budget, but that was a conscious recognition by Ministers that they would need to come back to the

11 July 2011 Ministry of Defence

fact that the budget did not fund Future Force 2020, looking forward.

Q160 Chair: Goodness gracious, that is exactly where we were in 2007 and 2008. I cannot remember when that decision was taken now—July 2007. When the decision was taken, there was an acknowledgement at the time that Ministers would have to come back to review other budget decisions to make this affordable. They did and they decided to delay, and you have exactly the same scenario in 2010–11. A decision was taken around the carrier capability, which you have just told us was unaffordable within the budget constraints you had, and they have to come back with alternative cuts. Is that right?

Ursula Brennan: No, it is not the same as the position that we were in before. The outcome of the SDSR was a conscious recognition that Future Force 2020 was unaffordable on a flat real baseline, post CSR. The Government has expressly said that this Department is conducting an exercise to bring that budget back into balance. The difference this time round is that I can see actions that we would take and we will not commit the money. We are talking about money that we have not yet had to commit to spend. We will not commit to spending money on this project, unless we are confident that we have the money in the budget to cover it.

Q161 Chair: That was what happened last time but they delayed it.

Ursula Brennan: I can only assure you that we are taking action at present to get our budget back into balance, and also assure you very clearly that I have no intention of allowing anybody to write any contracts for products and projects for which we do not have the money in the budget.

Q162 Chair: So you have not signed any contract yet.

Ursula Brennan: The contracts we have signed we have the money for. We will not move forward with increased spend on this project, or any other project, if we do not have the money in the budget to pay for it.

Mr Bacon: It is a pity you had not taken that attitude over the last 20 years, as you would not be in the mess you are in now.

Q163 Stella Creasy: The NAO Report says that there is “technical, cost and schedule uncertainty”. You think you can cover all of this.

Ursula Brennan: We have given you a lot of assurances. We gave the NAO a lot of assurances of the actions we were taking. The NAO themselves comment on the good work that is being done with the Aircraft Carrier Alliance, which is about taking—

Q164 Stella Creasy: The NAO also says, “Thinking on the way the carriers will be used in operation is still evolving and there are major risks reconstituting Carrier Strike capability after a decade without it.” They are not that great on this decision-making process, are they? They are quite concerned it is going to impact your budget.

Ursula Brennan: I think that is not about impacting our budget; that is more about regenerating the capability. But in relation to impacting our budget, I simply repeat: we will not write contracts for any of this that we do not have money in the baseline for.

Chair: Thank you for that assurance. I am going to close the session now. I unfortunately had to pull out of going to visit the project up in Scotland, but I understand from all my colleagues who visited it that they were very, very impressed by the technical expertise on the ground, building the aircraft carriers. I think as a Committee we should record our acknowledgement of that fact, so thank you very much indeed.

Letter from Chair of the Public Accounts Committee and the Chair of the Treasury Select Committee to the Prime Minister

Last week you kindly offered to appear before the Public Accounts Committee to explain what discussions had taken place in the Cabinet about the aircraft carriers.

Neither we, nor the National Audit Office, have any intention of questioning the policy decisions that were taken as part of the Defence Review. Our interest is solely in value for money, and in substantiating your assertion, made on 19 October 2010, that “we were left in a situation where even cancelling the second carrier would cost more than to build it”.

Both the Public Accounts Committee and the Treasury Select Committee are concerned to be reassured on these points.

The National Audit Office told the Public Accounts Committee that without seeing the relevant information in the Cabinet Committee papers in question, they could not gain a clear understanding of the way in which the cost, affordability, military capability and industrial implications of the alternative Carrier Strike options were drawn together. Nor can the assertion that it would have been more expensive to cancel than to continue be verified.

Under the 1983 Act, there is no bar on the National Audit Office seeing policy papers. Indeed the National Audit Office told us that it was unprecedented for them to be denied access to any documentation including Cabinet papers, which they as auditors considered necessary.

In the interests of full transparency and accountability to parliament, it is vital that the National Audit Office has unfettered access to all relevant documents and information to judge the value for money of Government actions.

We would therefore ask that you now immediately release the information the auditors need.

When these papers have been made available to the NAO and they have been able to incorporate the relevant information into their VFM assessment, we would like to return to you on whether oral evidence is appropriate.

18 July 2011

Written evidence from the National Audit Office

SUMMARY

1. The core of Carrier Strike capability¹ comprises aircraft carriers and the aircraft that operate from them. The 1998 Strategic Defence Review committed to procuring “two larger, more versatile, carriers capable of carrying a more powerful force, including a future carrier-borne aircraft to replace the Harrier”. In 2002, the Ministry of Defence selected the Short Take-Off and Vertical Landing version of the United States-led Joint Strike Fighter (JSF) as the preferred aircraft to replace the Harrier. The policy decisions in the 2010 Strategic Defence and Security Review have significantly affected the delivery of Carrier Strike and the role it will be expected to fulfil over the next 50 years. In July 2011 we published a report² examining whether the strategic decision to re-focus investment in both the carriers and the linked combat aircraft was well informed and whether the Department has plans to cost effectively deliver the Carrier Strike capability now required.

ACCESS TO CABINET OFFICE PAPERS

2. The 2010 Strategic Defence and Security Review was different to previous reviews which were run largely by the Ministry of Defence and covered only defence related issues. The Review was cross departmental. Leadership rested with the newly formed National Security Council, a Cabinet Committee chaired by the Prime Minister. The key Strategic Defence and Security Review policy decisions relating to Carrier Strike were taken by this Committee. In preparing our July 2011 report we saw the Ministry of Defence’s submissions to the National Security Secretariat in the Cabinet Office. But, despite several requests, we were not given access to the documentation held by the National Security Secretariat. We considered that access to this documentation would help us to form a view on whether the policy decisions taken by the National Security Council were well informed or how the Accounting Officer for defence was able to reach a strategic judgement on the value for money of the Carrier Strike decision.

3. Following concerns raised by the Committee of Public Accounts and in Parliament more generally, on 5 September 2011 the Secretary to the Cabinet and Head of the Home Civil Service wrote to us agreeing that we should have access to the four key National Security Council papers relating to the Strategic Defence and Security Review decisions on Carrier Strike.³

4. The National Audit Act 1983 provides for the Comptroller and Auditor General to have a right of access to all such documents as he may reasonably require for carrying out value for money examinations. By convention the Comptroller and Auditor General does not have an automatic right of access to policy papers (including policy focused Cabinet Committee papers) and historically in cases where the Comptroller and Auditor General has needed to understand the policy intention in order to reach a judgement on value for money, access to policy papers has been discussed on a case by case basis. In his letter the Secretary to the Cabinet and Head of the Home Civil Service re-affirmed this general principle.

5. On the basis of the evidence from the four key National Security Council papers we were given access to, this short report sets out how the cost, affordability, military capability and industrial implications of the Carrier Strike options were synthesised to support the National Security Council deliberations. It does not examine any other developments relevant to Carrier Strike which have happened since July 2011.

CONCLUSION

6. As a result of our review of the National Security Council papers we have revisited the relevant part of our value for money conclusion. For the sake of clarity our complete value for money conclusion is set out below. The key change is that, having had access to the relevant papers, we can now conclude that the strategic policy decision to re-focus investment in both the carriers and the linked combat aircraft was well informed. It will only become apparent whether the Ministry of Defence can secure value for money in implementing the strategic policy decision when it fully develops and costs detailed delivery plans to support robust investment decisions, probably in late 2012.

¹ The Ministry of Defence defines the principal role for Carrier Strike as being to provide an expeditionary offensive air capability to contribute to focussed intervention, power projection and peace enforcement operations.

² Ministry of Defence: Carrier Strike HC1092, Session 2010–11, published 7 July 2011

³ The papers were relevant extracts from the briefings prepared by the National Security Secretariat for the National Security Council meetings on 28 September and 7 October 2010 and the minutes of these two meetings.

7. The briefing papers prepared by the National Security Secretariat set out a range of options for the future of Carrier Strike. The papers examined the implications for affordability, military capability and interoperability with allies of each option and were supported by detailed analyses of the industrial implications and the choice between retaining Harrier or Tornado aircraft. A key decision was around commitment to the Joint Strike Fighter which had the most radical capability implications and would have the greatest impact on budget projections.

8. The briefings were concise and clear and the data supporting the analyses was consistent with that which we had previously examined in the Ministry of Defence. The minutes of the key National Security Council meetings record that the relevant issues were discussed and the implications of each assessed.

NATIONAL AUDIT OFFICE VALUE FOR MONEY CONCLUSION ON CARRIER STRIKE

The Strategic Defence and Security Review was conducted over a period of five months. Relatively early on during the Review, the National Security Strategy provided a policy baseline against which to plan future force structures. The Review was conducted in parallel with the Spending Review and the likely level of funding was only agreed at the end of the process. The Ministry of Defence therefore had to identify, cost and prioritise alternative capability options in an environment of considerable uncertainty. In our view, this is not an ideal situation in which to have to take strategic decisions—including those relating to Carrier Strike.

The outcome of the Strategic Defence and Security Review affects Carrier Strike in two ways, both of which could adversely affect the achievement of value for money. First, the Review is unaffordable unless there is a real terms increase in defence funding in the latter half of the decade. We are worried that the continuing difficulties the Ministry of Defence is facing in balancing its budget leaves Carrier Strike vulnerable to further changes in strategic direction as a result of broader corporate decisions taken to address this generic problem.

Second, the Review decision radically changed the Carrier Strike concept and introduced a decade long capability gap. The Carrier Strike decision was part of a wider set of strategic decisions on force structures and affordability. We do not question the merits of this policy judgement and note that it was taken on an informed basis which could have given Accounting Officer for defence confidence that the overall strategic direction was sound and could offer value for money.

As we look forward, taking these two elements together, we are deeply concerned, however, about the risks to the achievement of value for money on what were previously relatively mature projects with understood risks and funded mitigation plans. The Strategic Defence and Security Review decision introduced significant levels of technical, cost and schedule uncertainty, thinking on the way the carriers will be used in operation is still evolving and there are major risks reconstituting Carrier Strike capability after a decade without it. We note that the Ministry of Defence will not have matured its understanding of the consequences of implementing the Review decision until two years after it was taken. At that point, it will more fully understand whether it has been able to develop delivery plans which will enable it to achieve value for money from an investment in Carrier Strike which will significantly exceed £10 billion.

PART ONE: NATIONAL SECURITY COUNCIL CONSIDERATION THE STRATEGIC DEFENCE AND SECURITY REVIEW

1.1 The National Security Council considered Carrier Strike at two key meetings on 28 September 2010 and 7 October 2010. We have now seen the Carrier Strike related briefing papers prepared for these meetings by the National Security Secretariat and relevant extracts from the minutes of the meetings. The following paragraphs:

- Set out the areas discussed at 28 September meeting and key actions flowing from the meeting (paragraphs 1.2–1.3);
- explain how the key factors influencing decisions were briefed to National Security Council members ahead of its final meeting on 7 October and the options which were presented to them (paragraphs 1.4–1.13); and
- how the final decision on Carrier Strike was taken (paragraphs 1.14–1.15).

THE 28 SEPTEMBER MEETING

1.2 The National Security Council meeting on 28 September 2010 included detailed discussions about alternative courses of action on Carrier Strike and the factors which would influence a final decision. Key considerations were the military requirement for aircraft carriers, the degree to which protecting the industrial base should be a constraint in decisions on Carrier Strike, whether to retain Harrier or Tornado fast jet aircraft and the risk of loss of continuity in carrier-strike capability if Harrier was retired. The briefing papers prepared by the National Security Secretariat were consistent with the analysis undertaken by that point in the preparation of the Strategic Defence and Security Review by the Ministry of Defence. The analysis is detailed in Part 2 of our July 2011 Report and we have not repeated it here.

1.3 Given the stage of the Strategic Defence and Security Review and the uncertainty about the level of funding likely to be available for defence as part of the parallel Comprehensive Spending Round negotiations, the National Security Council did not make any firm decisions at the meeting. However, it did direct that the Ministry of Defence should undertake further analysis to support its subsequent discussions. In particular, the Ministry of Defence was asked to develop rapidly an option based on building one carrier fitted with a catapult and the carrier variant of JSF to be procured which, among other things, would enhance inter-operability with French ships and aircraft. The Ministry of Defence was also asked to examine options to bring forward work on another warship—the Future Surface Combatant—to substitute for the second carrier and to look at options to sell the second carrier.

THE 7 OCTOBER MEETING

1.4 The National Security Secretariat briefing prepared for the final National Security Council meeting on 7 October put forward four options (summarised in Figure 1). For each it analysed the financial (over both the four year Comprehensive Spending Review and the 10 year Ministry of Defence planning cycle), military capability, inter-operability (notably with the United States and France) and industrial implications. The briefings offered some comparison between the options and highlighted that single biggest influence, particularly on affordability was the commitment to procure the Joint Strike Fighter.

1.5 The options are not all identical to those recorded in Figure 4 of our July 2011 report based on the information available in the Ministry of Defence. However, where there are differences they are not significant. Rather they reflect alternative presentations of possible permutations of the choices facing the National Security Council as a result of the complex web of inter-related factors affecting Carrier Strike. For example choices at which type of fast jet to retain. The minutes of 7 October meeting show that the alternative choices were discussed.

Figure 1

OVERVIEW OF OPTIONS PREPARED FOR NATIONAL SECURITY COUNCIL MEETING ON 7 OCTOBER 2010

				<i>Savings years 1–4</i>	<i>Savings years 1 to 10</i>
				<i>Impacts</i>	
National Security Secretariat options	1	— Complete 2 carriers	— Operational (neutral)	1	172
		— Operate 1 and hold 1 at extended readiness ¹	— Industrial (neutral)		
		— Reduce and delay STOVL JSF	— Interoperability with allies (positive)		
		— Retain existing Harrier and carriers to ensure continuous carrier strike capability			
	2	— Complete 1 carrier and fit with catapults and arrestor gear	— Operational (negative)	102	2,314
		— Buy reduced number of carrier variant of JSF	— Industrial (neutral)		
		— Cancel 2nd carrier and buy alternative shipping from BAE Systems	— Interoperability with allies (positive)		
		— Retain existing Harrier and carriers to ensure continuous carrier strike capability			
	3	— Complete 1 carrier and store it	— Operational (negative)	1,029	5,224
		— Cancel 2nd carrier and buy alternative shipping from BAE Systems	— Industrial (negative)		
		— Retire current carriers/ Harrier	— Interoperability with allies (negative)		
		— Retain Tornado			
		— Suspend JSF acquisition			

				<i>Savings</i>	<i>Savings</i>	
				<i>years</i>	<i>years</i>	
				<i>1–4</i>	<i>1 to 10</i>	
<i>Impacts</i>						
—	Retain amphibious shipping					
4				1,849	6,834	
—	Complete both carriers and store	—	Operational (negative)			
—	Retire current carriers/ Harrier	—	Industrial (negative)			
—	Retain Tornado	—	Interoperability with allies (negative)			
—	Suspend JSF acquisition					
—	Retain amphibious shipping					
Option presented by Secretary of State for Defence (prepared by Ministry of Defence officials)	—	Build both carriers, 1 to extended readiness, 1 converted to fly carrier variant JSF	—	Operational (negative over next decade then negative for Carrier, positive for JSF)	1,079	2,564
	—	Delete Harriers	—	Industrial (neutral)		
	—	Delay carrier variant JSF	—	Interoperability with allies (positive)		

1.6 The financial data and analysis in the National Security Secretariat briefing is consistent with that prepared by the Ministry of Defence and which we covered in Part 2 of our July 2011 Report. However, in a number of important areas likely to be key discriminators in any decision the National Security Secretariat prepared further briefings, particularly around the wider economic factors, which we had not seen in the papers held by the Ministry of Defence. This analysis—particularly on the industrial implications of alternative choices—addresses an area of weakness highlighted in our July 2011 Report. The briefing therefore offered a sounder basis for the National Security Council to make strategic judgement on the future commitment to Carrier Strike.

1.7 The following paragraphs set out the key aspects of the additional National Security Secretariat briefing. Some of the underlying analysis remains sensitive—particularly for commercial reasons—and we do not make reference to it.

Reduction in the number of fast jet fleets

1.8 Affordability constraints meant that as part of the Strategic Defence and Security Review, one of either the existing Tornado or Harrier fast jet fleets would have to be retired. The choice was discussed in both National Security Council meetings and the National Security Secretariat briefings clearly set out the implications of either choice. In terms of overall contribution to United Kingdom fast jet capability and operations in Afghanistan, Tornado was assessed as more capable. Harrier would be the preferred choice if a continuous carrier strike capability was maintained and would better support the immediate establishment of a UK-French Maritime Task-force. Retiring Tornado would save £380 million less than Harrier over the four year Comprehensive Spending Review period but £620 million more over 10 years

Industrial considerations

1.9 The National Security Secretariat briefing focussed on the industrial implications of alternative choices for both the military aircraft and ship-building sectors.

1.10 Joint Strike Fighter. United Kingdom industry has a significant stake in each Joint Strike Fighter built and will participate in support and upgrade work at a similar rate. The National Security Secretariat briefing drew on an analysis prepared by an independent economist which estimated the United Kingdom industrial stake to be worth over £100 billion over next 45 years, with United Kingdom employment benefit of around 25,000 jobs and tax revenues of approximately £10 billion.

1.11 The briefing also discussed a range of issues which remain diplomatically and commercially sensitive. Overall, the National Security Council was made aware of the implications of changing order numbers and timing. Possible alternatives which could help sustain the United Kingdom military aerospace technological basis were also examined. For example, one alternative was greater investment in Unmanned Air Vehicles.

1.12 Shipbuilding. The briefing built on the Ministry of Defence analysis of the implications of cancelling one or both of the Carriers and of whether there were alternatives which could fill the gap which would be left in the long-term Terms of Business Agreement which the Ministry of Defence had signed with BAE Systems in July 2009. The issue is explored in detail in our earlier Report (paragraphs 1.15–1.18 and paragraphs 2.17–2.18). The briefing also explored in greater detail whether there were potential sales opportunities to

export one or both of the Carriers or to build alternative ships for potential export. The briefing concluded that this was not a reliable planning assumption.

1.13 A key additional analysis was to quantify the potential employment impact of a decision to cancel the Carriers. If both Carriers were cancelled it was estimated some 10,000 jobs could be lost. Even with substitute work from other shipbuilding activities it was estimated 2–3,000 jobs could be lost. In addition to these jobs over 100 material and service contracts worth some £1.25 billion had already been placed on the Carrier project and these would also be adversely affected.

THE FINAL DECISION ON CARRIER STRIKE

1.14 The minutes of 7 October National Security Council meeting show no firm conclusion was reached on Carrier Strike but record that after a presentation from officials and a discussion there was a further short discussion involving Ministers only. The minutes recognised that a final decision on Force Structure issues would need to be taken in the context of the wider Comprehensive Spending Review settlement for defence.

1.15 There were no further minuted decisions on Carrier Strike. The National Security Secretariat told us that decisions were taken as the Comprehensive Spending Review was finalised and drafts of the Strategic Defence and Security Review were iterated and approved around Government. Various e-mails and other papers we have seen in the Ministry of Defence corroborate this explanation.

14 November 2011

Letter from the Prime Minister to the Chairs of the Committee of Public Accounts and the Treasury Select Committee

Thank you for your joint letter dated 18 July. You raise two separate points which I will deal with in turn: the decision not to provide National Security Council papers to the National Audit Office (NAO) during their recent Carrier Strike study; and the question of whether cancelling the second carrier would have cost more than building it.

First, it is the Government's established policy that the NAO do not have unfettered access to Cabinet papers, as outlined in the Treasury's guidance note "Managing Public Money". This is because Cabinet papers are primarily concerned with the formulation of policy by Ministers rather than value for money. The NAO accept that they do not have an automatic right of access and that requests should be considered on a case by case basis.

In this case, the Cabinet Secretary judged that the papers the NAO requested (two NSC papers and their associated minutes) were written to inform the Strategic Defence and Security Review policy decisions and therefore fell within the scope of the guidance. All the facts and figures in the papers were sourced from the Ministry of Defence and the NAO had, quite properly, seen all of this information during the course of their study. The information seen by the NAO would have been used by the MOD's Accounting Officer to reach a judgement on whether the proposed way ahead represented value for money. The Cabinet Secretary is therefore confident that the decision was consistent with both the guidance and the National Audit Act 1983 from which it derives. I fully support his position.

However, in the interests of transparency, recognising the strength of Parliamentary interest in this issue, we have reconsidered the matter. The Cabinet Secretary and I have decided to allow the NAO access to the relevant material from the papers on an exceptional basis. The Cabinet Office is seeking to make the necessary arrangements as soon as possible.

Although you have chosen not to reflect their views, I noted with interest that concern has been expressed by some PAC members that the Committee and the NAO risk straying into policy matters beyond their remit. I share those concerns. Both have a vitally important role to play and my Government will continue to cooperate as fully as possible with them—within their defined roles. There are other Select Committees whose role it is to hold Government to account on matters of policy. For the avoidance of doubt, it therefore remains our policy that the NAO do not have right of access to Cabinet papers. We will take a case-by-case approach should they consider that future studies require them to have access to Cabinet material.

Turning to my comment in Parliament on 19 October 2010 that, "we were left in a situation where even cancelling the second carrier would cost more than to build it", it might be helpful for you to have read my next sentence that, "I have this in written confirmation from BAE Systems". In the interests of transparency the Government released that letter into the public domain at the time. To be clear, I was quoting BAE Systems, not the MOD, or NSC papers. Their letter states that in the company's view, the cost of completing both carriers would be about £0.240 billion less than cancelling the second. The NAO report says that, "building one carrier would save just £200 million (0.4%)". The report goes on to explain that the, "low level of savings reflects the costs to the Department of either cancelling or significantly amending the contract". That is precisely the point I was trying to make. The Labour Government's commitments hugely constrained our options to the point that it was basically as expensive to cancel as to continue with the second carrier.

I stand by the difficult decisions we made in the SDSR. Decisions that were made all the more difficult by the approach to defence spending shown by the previous Government: we inherited a legacy where the aircraft carriers were less interoperable with the US and French navies, more than £1.6 billion over budget, with more expensive and less capable aircraft. There have been full debates in both Houses on the SDSR and the Defence Select Committee has conducted an Inquiry to which George Osborne, William Hague, Liam Fox and Oliver Letwin have all given evidence. I trust you agree that this, together with my decision to allow the NAO access to the NSC information, is fully transparent.

September 2011

ISBN 978-0-215-03882-1



9 780215 038821



PEFC
PEFC/16-33-622