House of Commons

Committee of Public Accounts

Strategic financial management of the Ministry of Defence and Military flying training

Eleventh Report of Session 2015–16

HC 391, Incorporating HC 392

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The Department has addressed the £38 billion funding gap that emerged prior to 2010 between the funding it expected and the forecast cost of Defence over the following ten years. It has also cut its costs to live within a reduced budget. However, this has been achieved not just by delivering financial savings, but also by deferring some costs into future years, at the risk that these costs could increase because of the delay. The stability of the Department's financial position depends on the accuracy of a large number of assumptions it has to make, many of which have proved over-optimistic in the past, and its ability to: control its costs, achieve the significant savings anticipated in the equipment and infrastructure budgets, and manage the cost of the Department's portfolio of nuclear-related programmes.

The Department is reliant on contractors to fill gaps in its skills and capacity and to help it achieve savings and operate more efficiently. But the Department's management of its contractors has often been poor. For example, the introduction of a new military flying training system has been delayed by six years due to poor contractor performance and significant changes to the assumptions underpinning the contract on the number of students, the method of financing and the total forecast cost. The position has improved, but we are concerned by how slow the Department was to take action to address these issues with its contractor and its ability to determine whether the expected benefits of the new training system are being delivered. This programme demonstrates the need for the Department to identify and address under performance quickly as it becomes increasingly dependent on contractors to improve its skills and capabilities and deliver its programme. We remain concerned about project and contract management by the Department, particularly in relation to the Armed Forces who are now responsible for managing over 70% of the defence budget. Failure to improve its skills and capabilities in these areas and to put in place strong assurance mechanisms to identify any problems at the earliest opportunity could threaten the Department's ability to maintain the stability of its financial position.

Introduction

Prior to the 2010 Strategic Defence and Security Review, a £38 billion gap was identified between the funding the Ministry of Defence (the Department) expected and the forecast cost of Defence over the following ten years. This funding gap was having a destabilising effect on the defence budget. Since 2010, the Department has adopted a two-pronged approach to improving its financial management. It has sought to:

- address the funding gap in its equipment programme and reduce costs in all areas of the defence budget to meet the Spending Review 2010 settlement; and
- improve its management structure by delegating greater financial responsibilities to the Armed Forces who, since April 2015, have managed over 70% of the £34 billion defence budget.

The Department has sought to reduce costs by reforming its Head Office, its procurement arm (Defence Equipment and Support) and its estate management organisation (Defence Infrastructure Organisation). Reform of the procurement and estate management functions is being sought through contracts with industry to provide additional skills and capabilities the Department does not hold.

The use of industry expertise to reform areas of the Department's business is not new. In 2008, the Department signed a 25 year contract with Ascent, to develop and manage a new approach to core flying training. Under this approach, Ascent is responsible for providing aircraft and simulators for training, running training courses and training an agreed number of aircrew from all three of the Armed Forces each year. The Department remains responsible for many aspects of core training. These include providing military instructors, determining the number of students it needs and setting the training input and output standards. However, full implementation of the new core training has been delayed by nearly six years. Several events affected the Department's original assumptions about how its 25-year contract with Ascent would work. These include the government's decision to reduce the size of the front line fleet of aircraft, resulting in a substantial reduction in the number of aircrew entering training each year; a decrease in overall funding from a forecast of £6.8 billion to £3.2 billion; changes to the funding approach (from PFI to conventional funding); and poor contractor performance between 2008 and 2012. These events took the Department time to resolve but contractor performance has since improved.

Conclusions and recommendations

1. **Although the Department has addressed the £38 billion black hole in its finances, and lived within its reduced budget, significant risks to the future stability of its budget remain.** The Department has lived within a reduction in its budget of nearly £10 billion between 2010 and 2015. However, it has not adequately tracked how it achieved the savings necessary to do this and the extent to which they relate to achieving greater efficiency or to stopping or delaying programmes. The Department addressed an in-year reduction of £0.5 billion to its budget in 2015–16 solely by delaying a number of programmes where contracts had not been signed. There is a risk that just delaying projects could see the costs of these programmes increase overall. While at times a delay may be prudent or necessary to balance the books, we want the Department to be clear about the possible risks to spending and operational capability of such delays. The Department's future spending plans are underpinned by a large number of assumptions. These include its ability to operate more efficiently; to realise significant savings already removed from equipment and estates budgets; and to manage the cost of its portfolio of nuclear-related programmes, which it is currently forecasting will exceed £5 billion a year if the nuclear deterrent is replaced. Many of the Department's past assumptions, including those relating to the Aircraft Carrier programme and military flying training, have proved over-optimistic.

   Recommendation: ***The Department should be alert to the risks and pressures on its budget and report regularly and transparently to Parliament about how it is managing them. It should also put in place a clear process for monitoring how it is achieving savings and whether these are through efficiency measures, cutting programmes or moving costs to future years by delaying planned expenditure. Where it achieves savings by moving costs to future years the Department should ensure it does so only following a thorough assessment of the risks to operational capability and the potential for increased costs overall.***

2. **The Department has delegated over 70% of its budget to the Armed Forces whose staff have no previous experience of managing such large budgets.** To address weaknesses that led to the £38 billion funding gap the Department implemented a new organisational model which gives the Armed Forces responsibility for determining the equipment they need and for managing the related equipment programmes and budgets. The Department anticipates that the delegated model will encourage the Armed Forces to make better use of their resources. However, the Armed Forces have not previously managed their equipment budgets and there are significant gaps in their skills and expertise to take on their enhanced role. In addition, there is a risk that actions the Department may be required to take to balance its overall budget, such as moving budget between the individual Armed Forces, may undermine the model and disincentivise the Armed Forces from operating more efficiently.

   Recommendation: ***The Department should put in place strong assurance mechanisms to identify and address urgently any risks arising from its new delegated model, such as poor project management by the Armed Forces. It should also report regularly to Parliament on how the new model is working in practice and how it is managing any associated risks.***

3. **The Department does not have all the skills it needs across the organisation to address the risk of its budget 'overheating' again.** From April 2015, the Armed Forces have been responsible for managing their equipment programmes and Defence Equipment and Support has been responsible for delivering to their requirements. The Department is seeking to address gaps in the Armed Forces' skills and expertise through contractor support. It also intends to use contractor support to improve the ability of staff in Defence Equipment and Support to manage contracts. More generally across the Department, there are too few qualified accountants in finance roles and only 42% of finance staff are either qualified or part-qualified accountants. Finance staff also reported gaps in the skills they needed for their roles, including basic accountancy and analytical skills.

   Recommendation: ***The Department must do more to identify and develop the skills it needs across both the military and civilian elements of the organisation to manage contracts and finances. It should set out a clear and coherent plan for how, and by when, it will secure those skills to ensure the success of its new management structure. The development of these skills should be a priority for the Armed Forces.***

4. **The Department has not yet balanced the cost of the defence estate with the funding available.** The estate is larger than needed, under-used, too expensive to maintain and does not meet the future needs of the Armed Forces. In 2010, the previous Committee called on the Department to improve the way it manages the defence estate. Although the Department believes it has made some progress, including consolidating its information on the estate into one system, there remain significant weaknesses. For example, there is an £8.5 billion hole in the estate maintenance budget and it can only afford to fund half of the investments in the estate that the Armed Forces say they need to deliver the Department's overall plans for the military in the 2020s. In 2014–15 the defence estate was valued at £31 billion and the Department spent nearly £5 billion on estate and infrastructure costs. The Department intends to reduce the size of the estate by 30% over the next ten years and it is important that the Department is transparent in its decision-making regarding its land disposal programme.

   Recommendation: ***The Department should, as a matter of urgency, produce a coherent plan setting out how it will transform the estate to address the forecast gap in funding, reduce maintenance costs and provide an estate that is fit for purpose. The plan should include a comprehensive set of assessment criteria for determining which estate sites to dispose of to maximise value to the taxpayer and local communities in the long term.***

5. **The Department's ability to manage the risks it faces is dependent on improving its management of contractors.** The Department has put its faith in contractors to improve both its approach to procuring and supporting equipment and its management of the defence estate. This risks undermining progress in stabilising the defence budget if these contractors cannot deliver the performance improvements required to secure in practice the £11 billion of savings already removed from budgets. The Department must act quickly to address any issues with contractor performance but past experience indicates that it has often been slow to do so. In the case of military flying training the Department took 4 years to address poor

performance by its contractor Ascent. Both Ascent and the Department accepted that during this period there had been a blurring of responsibilities under the contract and Ascent acknowledged that it had not had the right people with the right skills to deliver the programme. This led to the entire senior management of Ascent being replaced, but there was not similar accountability within the Ministry of Defence. The result has been a flying training system that is almost 6 years late, has so far cost the taxpayer £143 million and has only produced 151 trained aircrew in total compared with the 320 expected each year.

Recommendation: ***When entering into a contract, the Department should:***

i) ***set clear indicators or milestones that will alert it to poor performance and monitor them to enable it to intervene quickly if contractor performance falls below the required level; and (Paragraph 2.i))***

ii) ***consider adding clauses to its contracts placing a duty on contractors to give early warnings of problems with contracts–even if this could be financially disadvantageous to the contractor. Ultimately, it is the taxpayer who picks up the bill for failure. It is not acceptable for contractors being paid by the government to see failure and not act to safeguard the interests of the taxpayer. (Paragraph 2.ii))***

6. **Flaws in the Department's approach to managing contractors are evident from the military flying training programme:**

a) **Key elements of the contract with Ascent to deliver improvements in military flying training no longer meet the Department's needs.** The decision to contract out military flying training was based on assumptions that have fundamentally changed. As a result, the original contract no longer meets the Department's or the contractor's needs. For example, the 2010 defence review changed the annual aircrew requirement from 480 to 320 with the result that Ascent can never achieve some of the contract incentives that were based around pre-SDSR training levels. The majority of payments to Ascent have also been related to it running courses, rather than improving training.

Recommendation: ***The Department should ensure that:***

i) ***incentive payments are aligned to match the aims of the contract and incentivise the contractor to seek continuous improvement in time, cost and quality; and***

ii) ***when its performance requirements change during the life of a contract, reward mechanisms for contractors are realigned as soon as possible to incentivise achievement of the contract's intended outcomes.***

b) **The Department lacks basic data on military flying training to help it understand training performance and hold its contractor to account.** The Department has limited management information on flying training. This undermines the credibility of the original decision to contract out military flying training and limits the Department's ability to hold the contractor to account for training performance. The lack of sufficient management information is a matter that we and the previous Committee have encountered repeatedly. The Department is undertaking work designed to get a better understanding of flying training from a 2010 baseline onwards. However, it could not tell us when this would be complete.

Recommendation: ***The Department must ensure that sufficient management information is available for it to make informed decisions about whether use of contractors represents good value for money and to monitor achievement of the anticipated benefits as programmes progress.***

1 Stability of the defence budget

1. On the basis of two Reports by the Comptroller and Auditor General, we took evidence from the Ministry of Defence (the Department) and Ascent on Military flying training and from the Department on Strategic financial management in the Ministry of Defence.[1]

2. Prior to the 2010 Strategic Defence and Security Review, a £38 billion gap emerged between the funding the Department expected and the forecast cost of Defence up to 2020. This funding gap was having a destabilising effect on the defence budget. Since 2010, the Department has adopted a two-pronged approach to improving its financial management. It has sought to:

a) address the funding gap in its equipment programme and reduce costs in all areas of the defence budget to meet the Spending Review 2010 settlement; and

b) improve its management structure by delegating greater financial responsibilities to the Armed Forces and reforming its Head Office and its procurement arm (Defence Equipment and Support) and estate management organisation (Defence Infrastructure Organisation). The Armed Forces now manage over 70% of the £34 billion defence budget, having gained responsibility for managing equipment budgets in April 2015.[2]

3. The Department told us that it had got the defence budget under control, avoiding a "technical financial collapse", through a combination of actions: delivering "a series of genuine efficiencies", deferring some equipment purchases and by "cutting some outputs".[3] The National Audit Office reported that in total the Department had sought to cut or avoid costs totalling nearly £10 billion between 2011 and 2015 and had lived within reduced budgets reflecting those savings. However, the Department had not tracked the success of individual savings initiatives and therefore did not have a full assessment of the extent to which savings had been made through genuine efficiency measures, or the potential impact on future costs.[4] The Department accepted that it did not track savings in detail, but thought that it had a "good handle" on 70% of efficiencies pursued and would track future savings through an Efficiency Delivery Board.[5]

4. In June 2015 the Chancellor announced that the Department would make £0.5 billion of savings from in its 2015-16 budget to help bring down national debt.[6] The Department told us that the £0.5 billion would not be achieved by making efficiencies, but by delaying a number of programmes where contracts had not yet been signed.[7] The Department did, however, expect to come forward in the next spending round with a "significant further financial efficiency package" of between £15 billion and £20 billion over the next ten years.[8]

1 C&AG's Report, Military flying training, Session 2015-16, HC 81, 12 June 2015; C&AG's Report, Strategic financial management in the Ministry of Defence, Session 2015-16, HC 268, 17 July 2015
2 Strategic financial management in the Ministry of Defence, paras 1.4, 2.4 and 3.9
3 HC 392, Qq 2, 4
4 Strategic financial management in the Ministry of Defence, paras 5, 7, 1.6, 1.7
5 HC 392, Q 4
6 https://www.gov.uk/government/news/chancellor-announces-4-billion-of-measures-to-bring-down-debt
7 HC 392, Qq 90, 91
8 HC 392, Q 89

5. The National Audit Office reported that while the Department had brought its costs under greater control, there were some significant risks to the continued balance of the defence budget. The Department had assumed savings of £6.4 billion would be made in its plan to buy and support military equipment (known as the Equipment Plan). It was confident that it could deliver £3.3 billion of these savings, leaving over £3 billion of savings still to find. The Department acknowledged that not having plans to deliver the remaining savings was an inherent risk, but was confident that it could identify the required savings over the life of the 10 year Plan. The Department had also assumed savings of £5 billion would be made in its infrastructure budgets between 2015–16 and 2024–25, which it planned to achieve with the support of its contractor and by estate disposals and by reducing utility costs.[9]

6. In addition to identifying savings, the Department's budget faces pressures from an estate that is larger than required, under-used, too expensive to maintain and that does not meet the future needs of the Armed Forces. In 2010, the previous Committee called on the Department to improve the way it manages the defence estate. The Department created a dedicated estate management arm—Defence Infrastructure Organisation—in 2011 from various parts of the Department to improve management of the Defence estate. The Department told us that it had also consolidated 70 computer systems used to manage the estate into one computer system.[10]

7. The National Audit Office reported that the Department's progress addressing the 2010 recommendations had been slow. In its latest report, the National Audit Office reported that the Department faces an £8.5 billion shortfall in its estate maintenance budget and it can only afford to fund half of the investments in the estate that the Armed Forces say they need to deliver the Department's overall plans for the military in the 2020s.[11] The Department told us that it would address the gap in its estate budget by agreeing on a sustainable size of the estate, which it thought would be "significantly less" than the current size.[12] It planned to go through and prioritise what the Armed Forces wanted and establish what the Department felt they actually needed, and what was affordable, within the available budget. Overall, the Department had set itself the goal of reducing the estate by 30% over the next ten years.[13]

8. The Department had already released 153 sites it no longer needed, earmarked for building 38,778 homes. The Department told us that the sites were sold for £427 million. It had not tracked the exact number of houses that had been built on those sites as it had never been asked to do this. However, the Department told us that it did track the state of developments after sale and it was able to identify where they were in the planning process. The Department had not yet identified how many homes were to be built during the next phase of land release as this had not yet been determined.[14]

9. Stability of the defence budget would also be affected if the Department's assumptions on future costs turn out to be incorrect. Staff costs represent around 30% of the defence budget. Military pay is set differently from that of civil servants. The Armed Forces' Pay

9 HC 392, Qq 77-81; Strategic financial management in the Ministry of Defence, para 1.25

10 HC 392, Qq 35, 36; Strategic financial management in the Ministry of Defence, paras 1.25, 3.18; HC Committee of Public Accounts, Managing the defence budget and estate, Tenth Report of Session 2010-11, December 2010

11 Strategic financial management in the Ministry of Defence, para 6

12 HC 392, Q 40

13 HC 392, Qq 39 - 41

14 HC 392, Qq 102, 104-106

Review Body provides independent advice to the Prime Minister and Secretary of State for Defence on the remuneration and charges for members of the Armed Forces. The National Audit Office reported that if pay assumptions change the Department's pay bill might increase by £6.5 billion over the next ten years. The Permanent Under Secretary told us that he did not believe that this risk would materialise and was confident that the Department would not have to find the additional £6.5 billion. Similarly, the Department forecasts for the cost of buying and supporting military equipment are based on numerous assumptions that may change or prove to be incorrect in practice.[15] For example, the Department's past assumptions on the cost of the Aircraft Carriers have changed from £3.5 billion at the time the project was approved to over £6 billion at present.[16]

10. The Permanent Under Secretary told us that the area he worried about most in relation to future financial risk was the Department's nuclear-related programmes. This was a "monster" and the biggest project the Department "will ever take on". It was an "incredibly complicated area in which to try and estimate future costs". The annual cost was in excess of £3.5 billion, and if the Government proceeded with renewing the deterrent, that cost would exceed £5 billion a year, a significant element of the Department's £15 billion a year spending on equipment and support. The Department had set up a 'nuclear enterprise board', reporting directly to the Defence Secretary and other Ministers to oversee the programme.[17]

11. To address the weaknesses that led to the £38 billion funding gap, the Department has implemented a new organisational model to increase the focus on, and responsibility for, financial management throughout defence. In April 2015 the Armed Forces assumed responsibilities for determining the equipment they need to meet their strategic objectives, and for managing those equipment programmes and budgets. The Department anticipates that this will encourage the Armed Forces to make better use of their resources. Defence Equipment and Support (DE&S), the Department's procurement arm, is now focused on delivering to the Forces' specification, acting as their agent and engaging with industry. The Armed Forces now manage over 70% of the £34 billion defence budget.[18]

12. The National Audit Office reported that the Armed Forces were taking greater ownership of their significant budgets and building their capabilities at varying paces. There was, however, significant gaps in their skills and expertise to take on their enhanced role, which the Department acknowledged was a risk to public money.[19] The Department had recently appointed a contractor to act as an "acquisition support partner" to help the Armed Forces improve their ability to handle their relationships with DE&S.[20] The Department also wanted to see DE&S improve their contract management of defence suppliers. DE&S's contractors, brought in to improve its skills and capabilities and referred to as Managed Service Providers, were expected to help with that. DE&S was also recruiting additional contract managers.[21]

15 HC 392, Qq 83-87; Strategic financial management in the Ministry of Defence, paras 1.3, 1.15, 1.16, 1.22; https://www.gov.uk/government/organisations/armed-forces-pay-review-body

16 C&AG's Report, Major Projects Report 2014 and the Equipment Plan 2014 to 2024, Session 2014-15, HC 941-I, 13 January 2015, Appendix Two

17 HC 392, Q 88

18 Strategic financial management in the Ministry of Defence, paras 9, 2.1, 2.4, 2.10

19 HC 392, Qq 65, 66; Strategic financial management in the Ministry of Defence, paras 2.6, 2.12

20 HC 392, Qq 63, 64

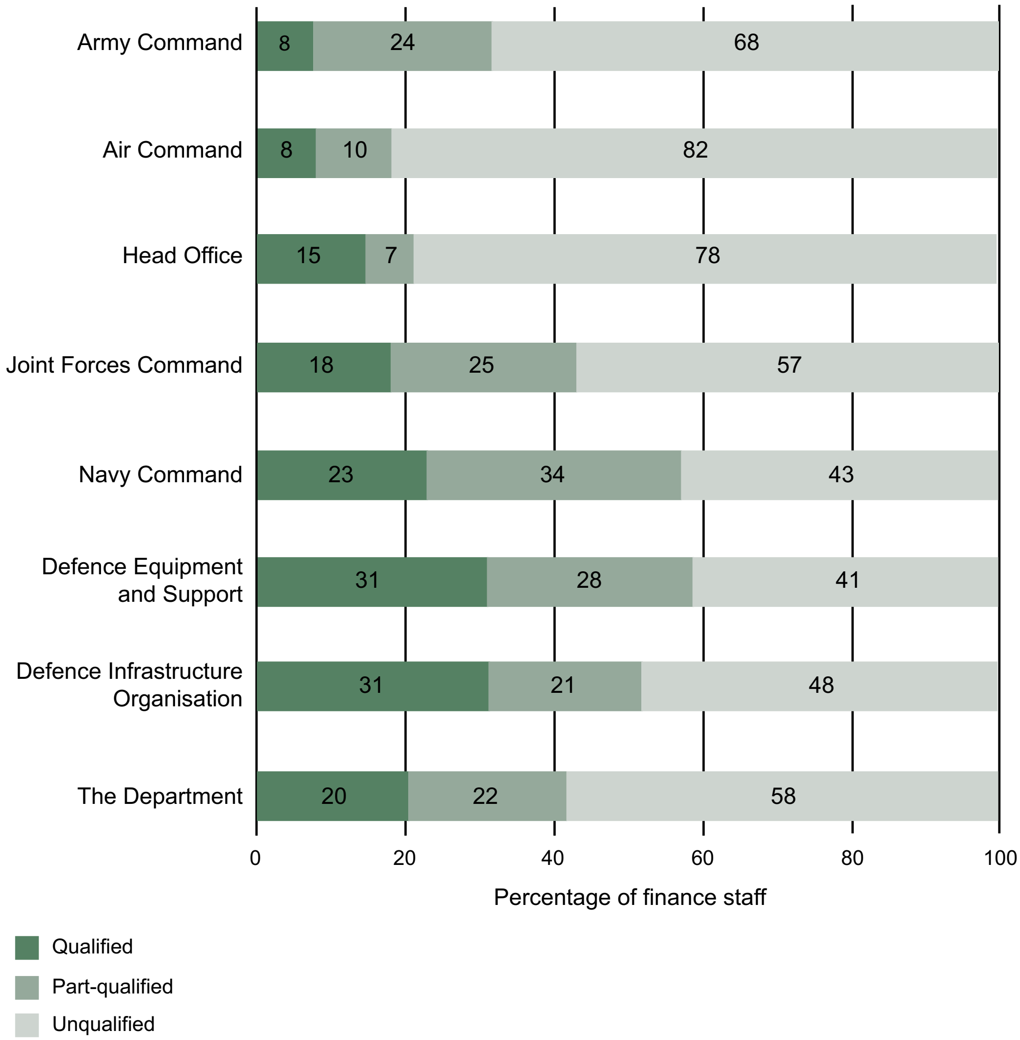
21 HC 392, Q 5

13. The Department told us that it would hold the Armed Forces to account on a quarterly basis by reviewing progress against their plans for what they proposed to deliver within their delegated budgets.[22] The Department's military capabilities function aimed to ensure that the Armed Forces' plans were coherent overall and that the Forces did not "change their programmes significantly" because of "financial incentives".[23] The Department wanted to see both good financial management by the Armed Forces and delivery of the agreed outputs in their plans. The Permanent Under Secretary told us that it was in the Armed Forces interests to save money as it will "largely be returned to them".[24] However, in the event that a Force overspends, the Department may be required to move budgets between Forces to balance the defence budget overall.[25] The National Audit Office's report noted that there was a risk of unintended behaviours emerging as a result. For example, the Armed Forces may "over-programme" to avoid the risk that they lose their budget by achieving savings or underspending.[26]

14. The National Audit Office reported that the number of qualified accountants working in finance roles varied considerably across the Department, see Figure 1. Only 42% of finance staff were either qualified or part-qualified accountants. The Department told us that it did not believe that all finance staff needed to be qualified, but it did accept that there was not enough capacity in the finance function. A Departmental survey of finance staff found that staff reported gaps in the basic accountancy and analytical skills they needed for their roles.[27]

22 HC 392, Q 65
23 HC 392, Q 16
24 HC 392, Qq 76
25 HC 392, Qq 15, 16
26 Strategic financial management in the Ministry of Defence, para 2.17
27 HC 392, Qq 67 - 69; Strategic financial management in the Ministry of Defence, paras 2.9, 3.14

Figure 1: The percentage of finance staff who hold, or who are working towards a professional accountancy qualification



Notes

1. As at 1 September 2014.
2. Civilian staff only.
3. Qualified means those staff with a qualification from a member of the Consultative Committee of Accountancy Bodies (CCAB) or Chartered Institute of Management Accountants (CIMA).
4. Part-qualified means those staff working towards a qualification from either a CCAB member or CIMA.
5. Part-qualified included Associate Accounting Technicians.

Source: C&AG's report, Strategic financial management in the Ministry of Defence, Session 2015-16, HC 268

2 Managing contractors

15. The Department is heavily reliant on contractors to deliver the savings it needs to maintain a balanced budget. The Department had secured three contractors, called Managed Service Providers, to improve the performance of Defence Equipment and Support (DE&S) and a separate contractor to improve the performance of Defence Infrastructure Organisation. These contractors were to provide additional skills and capacity to improve cost management and achieve the significant savings the Department assumed would be made in its future equipment and estates budgets, totalling over £11 billion. The Department also expects the Managed Service Providers to reduce DE&S's running costs by 25% over a four year period.[28]

16. The use of industry expertise to reform areas of the Department's business is not new. In 2000, reports by the National Audit Office and the Royal Air Force identified that the system for training military aircrew was complicated, disjointed and inefficient and was leading to increased costs for defence.[29] The Department's solution was to create the industry-led UK Military Flying Training System. In 2008, the Department contracted with an industry provider, Ascent, to develop and manage this new flying training system for the Armed Forces. The training was expected to begin in phases from 2012 and be fully in place by January 2014. The Department told us that the contract with Ascent was intended to provide four benefits: to support the front-line by making efficiency savings and freeing up training resources for use elsewhere; to allow the Department to access external finance via private finance initiative deals; to provide a more coherent training system so that different parts of the training ran smoothly together; and, to transfer some of the risk of managing flying training from the Department to the contractor.[30]

17. The Department's approach to managing its military flying contractor highlights weaknesses in its approach to managing contractors. We heard from both the Department and Ascent that, between 2008 and 2012, Ascent's performance had been poor. This poor performance, combined with changed assumptions on the number of aircrew to be trained and the Department's assumption that it owned the helicopters to be used for some of the training, had all contributed to the programme being delayed by six years.[31]

18. We asked both Ascent and the Department why it took 4 years to get to grips with the programme. Ascent told us that changes in what was expected, taken as part of the 2010 Strategic Defence and Security Review, had led to the company "changing and revisiting everything", which "masked" the fact that it did not have the right people with the right skills to deliver the programme.[32] Both Ascent and the Department accepted that, prior to 2012, there had been a blurring of responsibilities. The Armed Forces had been involved in many aspects of Ascent's work, undermining the Department's ability to hold Ascent to account for activities it had sought to transfer out. As of 31 March 2015, the Department had only withheld payments totalling £308,000 to Ascent for failing to meet its responsibilities. While the senior management team of Ascent had been changed, the Department told us that it was likely that any Departmental staff managing the flying

28 HC 392, Q 9; C&AG's Report, Strategic financial management in the Ministry of Defence, Session 2015-16, HC 268, 17 July 2015, paras 6, 12, 3.18-3.22
29 C&AG's Report, Training new pilots, Session 1999-2000, HC 880, 14 September 2000
30 HC 391, Q 7; C&AG's Report, Military flying training, Session 2015-16, HC 81, 12 June 2015, para 5
31 HC 391, Qq 3-5, 12, 18, 20, 34-36; Military flying training, paras 10-12
32 HC 391, Q 19

training programme had moved as a result of the poor performance.[33] The Department believed that it held people to account, but conceded that it did not "exercise the ultimate sanction" of sacking people for poor performance "enough".[34]

19. As of 31 March 2015 the Department had paid Ascent approximately £143 million to deliver training services. Ascent told us that it had made approximately 5% profit on the contract and this was less than it would have expected after 7 years.[35] Ascent noted that all profits made to date on this contract had been reinvested to "cope with the delay" and it had not paid its shareholders, Lockheed Martin and Babcock, a dividend.[36] While the Department was unable to tell us how many aircrew had been trained, Ascent stated that 151 aircrew had graduated from the military flying training process to date. This was against a requirement of 320 annually.[37] In response to our questioning as to whether taxpayer money had been wasted, the Department conceded that it is possible that "some money has been wasted" on the programme so far.[38]

20. The original assumptions on which the Ascent contract was based have changed fundamentally. The 2010 Strategic Defence and Security Review reduced the number of aircrew to be trained by Ascent from an expected 450 per year at the time the contract was signed, to 320 per year. Correspondingly, the forecast value of the contract fell from £6.8 billion to £3.2 billion. Ascent told us that accounting rule changes meant that the Department could no longer access finance from the private sector to help procure new training aircraft.[39] Questioned about the flexibility of the contract, the Department told us that it did have "some flexibility" in the contract with Ascent to allow more aircrew to be trained if needed and it could negotiate with Ascent to determine the potential cost of training more aircrew.[40] Alternatively, the Department noted that it could deliver that training itself, rather than asking Ascent to deliver it, but it would need to demonstrate that this was value for money.[41]

21. The National Audit Office reported that Ascent are primarily paid to run training and are not incentivised to improve the quality of aircrew, or reduce training time and cost, even though these were some of the key reasons for contracting out military flying training.[42] Ascent told us that aircrew were meeting the required quality standard by virtue of completing the training. They were not responsible for judging whether the aircrew were "good enough", which was the Department's responsibility.[43] Ascent's fee was primarily based on the basis of the number of aircrew trained on time. Incentives for improving the overall training system, by reducing training duration and increasing numbers, form only around 1% of potential payments to Ascent. We heard from Ascent that these incentives were linked to the number of aircrew passing through the training system, and that following cuts to the number of aircrew to be trained, this incentive became defunct as there were not enough aircrew in the system to trigger the payments.[44]

33 HC 391, Qq 21, 22, 29, 83-85; Military flying training, paras 10, 11
34 HC 391, Q 85
35 HC 391, Qq 23; Military flying training, para 11
36 HC 391, Q 24
37 HC 391, Qq 26-28, 30-32
38 HC 391, Qq 38, 39
39 HC 391, Qq 7, 32; Military flying training, para 9
40 HC 391, Q 42
41 HC 391, Qq 42-45
42 Military flying training, paras 3.1, 2.39-2.40
43 HC 391, Qq 14, 15
44 HC 391, Qq 15-17; Military flying training, paras 1.2, 3.1, 2.42, figure 14

22. The Department expected that it would take 50 months to train fast-jet pilots when the contract was in a steady state in 2019. However, the minimum and maximum time to train a sample of aircrew ranged from 53.6 to 83.4 months. Ascent explained that one of the reasons for the difference between expected and actual training times was that they were not yet in control of the entire training system and so fast-jet pilots were not yet experiencing the fully implemented system. The National Audit Office reported that the Department's own management information relating to training time is poor.[45] Data is held in pockets within the Department, and is not routinely analysed. The Department told us that it was planning on introducing a 'training management information system' so that it could better track the progress of students.[46] It admitted that this system should have been in place "significantly earlier".[47] It could not provide us with a date for when this work will be completed.[48]

45 HC 391, Q 59; Military flying training, paras 15, 3.14 and figures 17 and 18
46 HC 391, Q 63; Military flying training, para 15
47 HC 391, Q 64
48 HC 391, Q 68

Formal Minutes

Thursday 26 November 2015

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon
Deidre Brock
Chris Evans
Caroline Flint
Kevin Foster
Mr Stewart Jackson
Nigel Mills
David Mowat
John Pugh
Karin Smyth
Mrs Anne-Marie Trevelyan

Draft Report (*Strategic financial management of the Ministry of Defence and Military flying training*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 22 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Eleventh 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.

[Adjourned till Monday 30 November at 3.30 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's military flying training inquiry web page and strategic financial management of the Ministry of Defence inquiry web page.

Wednesday 14 October 2015

Question number

Jon Thompson, Permanent Under Secretary, Ministry of Defence, **Air Marshal Sir Baz North**, Senior Responsible Owner, UK Military Flying Training System, and **Paul Livingston**, Managing Director, Ascent — Q1–95

Jon Thompson, Permanent Under Secretary, Ministry of Defence, **Louise Tulett**, Director General Finance, Ministry of Defence, **Jonathan Slater**, Director General Head Office and Commissioning Services, Ministry of Defence — Q1–112

Published written evidence

The following written evidence was received and can be viewed on the Committee's military flying training inquiry web page and strategic financial management of the Ministry of Defence inquiry web page. SFM and MFT numbers are generated by the evidence processing system and so may not be complete.

1 Ministry of Defence (SFM0001)

2 Ministry of Defence (MFT0001)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/pac.

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

Session 2015-16

First Report	Financial sustainability of police forces in England and Wales	HC 288
Second Report	Disposal of public land for new homes	HC 289
Third Report	Funding for disadvantaged pupils	HC 327
Fourth Report	Fraud and Error Stocktake	HC 394
Fifth Report	Care leavers' transition to adulthood	HC 411
Sixth Report	HM Revenue & Customs performance in 2014–15	HC 393
Seventh Report	Devolving responsibilities to cities in England: Wave 1 City Deals	HC 395
Eighth Report	The Government's funding of Kids Company	HC 504
Ninth Report	Network Rail's: 2014–2019 investment programme	HC 473
Tenth Report	Care Act first-phase reforms and local government new burdens	HC 412
First Special Report	Unauthorised disclosure of draft Report in the previous Parliament	HC 539