Dear Chair,

MINISTRY OF DEFENCE – SAVINGS ASSOCIATED WITH THE SINGLE SOURCE CONTRACT REGULATIONS

Following the PAC Hearing on the 10 January to consider acquisition and support of Defence equipment, I committed to write to the Committee with an update on our review of methods used to measure savings and track progress against savings associated with the Single Source Contract Regulations.

The review has re-iterated that the increased transparency and accountability provided by applying the Single Source Contract Regulations has delivered significant benefits to defence – including financial savings. However, it has also demonstrated the extreme difficulty in accurately separating these financial savings and benefits from those delivered through other commercial and contractual levers, a view which was confirmed by an independent study into our savings targets commissioned earlier in the year from Oliver Wyman.

In part because of this difficulty, we have consciously adjusted our approach to delivering our challenging efficiency targets in the Equipment Plan – only one of which was associated with the Single Source Contract Regulations. To maximise our ability to deliver, the department has “pooled” all DE&S efficiency targets relating to the Equipment Plan. This has drastically improved buy-in and focus, the benefits of which have far outweighed our reduced ability to allocate efficiency savings specifically to the application of the Single Source Contract Regulations.

We remain committed to delivering our efficiency targets and this approach has so far proved successful. The delivery agencies have implemented robust processes to drive and monitor
delivery of this pooled target, and are making good progress; based on current plans they forecast to deliver £9.5 billion of efficiency savings over the next 10 years (representing 71% delivery against a £13.4 billion target), and are working hard to identify further opportunities to deliver the remainder.

Yours sincerely,

STEPHEN LOVEGROVE