

STEPHEN LOVEGROVE



Ministry
of Defence

MINISTRY OF DEFENCE

LONDON SW1A 2HB

PERMANENT SECRETARY
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13 July 2017

Meg Hillier MP
Chair, Public Accounts Committee
Sent electronically

Dear Meg

Contingent Liability

I would like first to offer my congratulations to you on your re-election as Chair of the Public Accounts Committee.

My Director General Finance (Louise Tullet) wrote to you on 30th March 2017 on the issue of Contingent Liabilities. I am writing to update you on the current position and the work we have underway to urgently improve the situation.

Let me start by extending my apologies for the position we are in. Since December 2016, the department has on three occasions been unable to meet its obligation to provide Parliament with the customary 14 days' notice in which to consider a proposed contingent liability. Each of these three cases arose for a different reason, but clearly it is unacceptable that Parliament has not been afforded the time to consider a contingent liability or, in the case of the Phalanx ship defence system and Astute Submarines 4 and 5, to have been asked to consider a retrospective notification.

You will be aware that on 27th June a Departmental Minute was laid notifying Parliament of contingent liabilities in respect of the Type 26 Frigate Manufacture Phase contract. In this case, the commercial position necessitated a contract signature by 30th June to deliver the negotiated best value for money deal. Unfortunately, the dissolution of Parliament meant that there were not sufficient sitting days available before the last date on which the contract could be signed. In these circumstances, the Defence Secretary decided that it was best to provide Parliament with the maximum time possible to raise objections consistent with maintaining the negotiated contact agreement.

It has become clear through the cases of Phalanx, Astute and Type 26 that we have to review our procedures to ensure the correct reporting of contingent liabilities to Parliament. As I mentioned at my last appearance before the committee, the relevant Departmental guidance has been revised to provide greater clarity and enhanced support has been provided to our

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commercial teams. These measures will result in a more consistent assessment of contingent liabilities, together with a greater awareness of the department's reporting requirements.

The changes I set out above will do much to improve the situation looking forward. Nevertheless, I continue to be uncomfortable that we do not have the full picture and I am loathe to repeatedly have to come back to the committee with one case after another. Accordingly I have also asked the Chief Executive of DE&S to conduct a full and thorough investigation of Defence Equipment & Support contracts to ensure that there are no further contracts which give rise to a Contingent Liability which might have been missed and have asked this to be expedited with all possible haste. This is now underway and I will write to you again after the Summer Recess to report on its findings.

Again let me reiterate my apologies for this situation having arisen and assure you that I am giving my personal attention to its remedy.

I am copying this letter to the Comptroller and Auditor General and Tony Douglas, CEO of DE&S

Yours sincerely

A handwritten signature in blue ink, appearing to read "Stephen L", is positioned below the typed name.

STEPHEN LOVEGROVE