



Ministry
of Defence

PERMANENT SECRETARY

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22 January 2018

Meg Hillier MP
Chair of the Public Accounts Committee
Sent electronically

Dear Chair,

**PUBLIC ACCOUNTS COMMITTEE 10 JANUARY EVIDENCE SESSION: WRITTEN
RESPONSE**

During the oral evidence session on 10 January, covering Contingent Liabilities, Non-Competitive Procurement and Naval Spares Cannibalisation, I committed to write to the Committee with further information on several points.

Contingent Liabilities

I agreed to confirm the legal position on those DE&S contracts where we have not obtained HM Treasury approval and, where necessary, notified Parliament of reportable contingent liabilities.

Legal advice has confirmed that there is no circumstance where a court would regard such arrangements as being legally unenforceable because the Department had not followed an internal government administrative process, in failing to declare contingent liabilities arising from those contractual arrangements. The contracts therefore remain fully enforceable.

I can also confirm that DE&S currently has 344 internally approved contingent liabilities across 276 contracts. These include contingent liabilities under £300k in value, and those covering special and generic risks. In addition, there are 58 externally (HM Treasury) approved contingent liabilities across 46 contracts. These have all have been subject to the correct approvals and reporting process.

We will continue our work to complete the wider Departmental review of contingent liabilities, on which I will write in due course, and work with HM Treasury to regularise the position on retrospective approvals, Parliamentary notification and the Annual Report and Accounts.

Challenge to Non-Competitive Procurement

The Committee recognised that the NAO had identified fourteen occasions where the Department's Investment Approvals Committee (IAC) had challenged a non-competitive approach or indicated that a competitive solution would be expected, but asked for details of cases where the IAC had specifically directed a project to change from a single source to competitive response.

We have not identified any such instances as the IAC has been content that where single source has been the proposed way forward this represented the best value for money approach for the Department in the circumstances presented by that particular case. This is a reflection of the robust scrutiny process underpinning the major cases that are approved by the IAC which means that cases where a single source approach is clearly unjustified change to competition under influence of the scrutineers, either at central or Top Level Budget level, before reaching the Committee. These instances arise in the course of normal business and are not currently recorded.

As Ms Little indicated to the Committee, the investment approvals process is currently under review. This will consider what more the Department can do to capture improved approvals data in future.

Cannibalisation of Equipment in the Royal Navy

There were two questions on which the Committee requested further advice: one seeking confirmation that no Type 45 Destroyer or Astute Class submarine have been unavailable for planned operations due to equipment cannibalisation/store robbing; and the other requesting information of how the rate of cannibalisation in the Royal Navy compares to the Army and Royal Air Force (RAF). I have addressed each of these in turn below.

I can confirm that the answer given by Rear Admiral Stokes to the Committee is correct; there have been no occasions on which a Type 45 Destroyer or an Astute Class submarine have been unavailable for planned operations due to equipment cannibalisation.

Regarding comparisons of the rate of cannibalisation in the Royal Navy with that in the Army and RAF, as I suggested at the evidence session, providing the level of detail that I think the Committee would wish to see is not possible. For the Army and the RAF, cannibalisation is a recognised practice, when all other sources of supply have been explored, to meet operational or training commitments and maximise the availability of platforms and aircraft, and stringent processes are in place to authorise and control the cannibalisation of equipment at the appropriate level.

The Army, where possible, will limit cannibalisation to taking spares from platforms that have been authorised for disposal. On the rare occasions an item is removed from a fit platform, a

replacement is ordered and actively managed to ensure its installation back on the original platform.

For the RAF, cannibalisation will be considered when an aircraft is unserviceable and the spare part is not available in a timescale suitable for meeting the operational or training requirement. If a Squadron has an aircraft which is unserviceable and not likely to be made available in the short term, as it is undertaking deep rectification work, then the item required will be removed and backfilled on the unserviceable aircraft when the spare part is available.

In both the Army and RAF, information on the occasions of cannibalisation is held at a local level and not centrally, so I am unable to provide the Committee with authoritative information that has the necessary accuracy and integrity. However, as I said at the evidence session, we will look at the RAF and Army data to ensure that we take some of the lessons that have very helpfully emerged from this NAO Report, and to make sure that we are applying the same level of rigour to the other domains.

What I can assure the Committee is that, following the NAO Report, we are ensuring that the same level of rigour is applied to cannibalisation in the land and air domains as well as the maritime.

I am copying this letter to the Comptroller and Auditor General and to the Chair of the House of Commons Defence Committee.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Stephen L', is positioned above the printed name.

STEPHEN LOVEGROVE