



House of Commons
Defence Committee

**Future Carrier and Joint
Combat Aircraft
Programmes: Government
Response to the
Committee's Second
Report of Session 2005–06**

**Second Special Report of Session
2005–06**

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The Defence Committee

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Future Carrier and Joint Combat Aircraft Programmes

The Defence Committee published its Second Report of Session 2005–06 on the Future Carrier and Joint Combat Aircraft Programmes on 21 December 2005, as House of Commons Paper No. 554. The Government's response to this report was received on 14 February 2006. This is appended below.

Appendix: Government Response

The House of Commons Defence Committee published a report, analysing the progress made by the Ministry of Defence in acquiring two new aircraft carriers and the related Joint Carrier Aircraft programme, on 21 December 2005. The Government's response to that report's conclusions and recommendations is set out below.

1. Given that the original target date for Main Gate approval on the CVF programme was two years ago, it seems to us extraordinary that there is now no target date at all. MoD should have a target date, even while accepting that it may not be achieved because work to clarify programme timescale, costs and risks is still being undertaken. (Paragraph 22)

As announced on 14 December 2005, the project has now entered its Demonstration phase. This will be focussed on delivering the maturity of design, detailed cost definition, programme risk reduction and contractual framework that will allow a decision to be made to commit to manufacture. This main investment decision will be only taken when all of these key elements have been fully developed. Setting an arbitrary target date by which all these should be achieved would not be in the best interests of the project.

2. It is disappointing that design definition work on the CVF programme has not progressed much in the last year, even though it is a key objective of the Assessment Phase. (Paragraph 25)

The maturity of design of the Future Carrier, and any major warship, is not linear in its relationship to time. Generally, the design would be assessed against its ability for use in production engineering. During the Assessment phase, the design (previously, in 2004, described at "60% maturity") was subjected to value engineering which was part of the process of risk elimination. Nevertheless, the design reached a sufficient level of maturity to allow the project to move to the Demonstration phase, and further work will now be undertaken to achieve the required level of design definition to allow the main investment decision to be made to move to manufacture.

3. We welcome MoD's decision to commission an independent analysis by the RAND Corporation to identify options for reducing costs on the CVF programme. We acknowledge that the cost reduction options have been considered and are mostly being implemented. The CVF programme is likely to be very costly, both in terms of procurement and construction costs, and through-life costs. It is essential that MoD and the other Alliance partners continue to identify ways to drive down costs. If costs are not constrained, there is a very real risk that the CVF programme could become unaffordable. (Paragraph 35)

The project team has taken full cognisance of the RAND report and will continue to use its suggestions as well as other innovative and pragmatic approaches to ensure that procurement, construction and through-life costs are constantly re-assessed for possible savings.

4. We remain to be convinced that the date for Main Gate approval and the In-Service Date are not directly related. While we acknowledge that some slippage of the Main

Gate date can be contained, there must be a point at which the lack of Demonstration and Manufacture phase funding, including the purchase of long lead items, impinges on the In-Service Date. (Paragraph 39)

The timescales for the transition from Assessment to Demonstration to Manufacture are not proscribed and therefore the date at which the main investment decision is taken cannot be accurately predicted. Setting an arbitrary date would not be in the best interests of the project. At the time of the main investment decision – when the design, detailed cost definition, programme risk reduction and contractual framework are fully developed – a clear production schedule will also be agreed with the contracted companies and at this time it will be possible to set an In Service Date.

5. We welcome the frankness of the new Minister for Defence Procurement with regard to the target In-Service Dates for the CVF programme. But, while we agree that the programme needs to be fully de-risked and understood before proceeding to the Main Gate decision, we are concerned that further delays to the main investment decision will lead to slippage to the In-Service Dates well beyond those which MoD originally set itself. (Paragraph 40)

It is only at the time of the main investment decision – when the design, detailed cost definition, programme risk reduction and contractual framework are fully developed and a clear production schedule is agreed – that it is possible to set an In Service Date. This is the case not only for CVF but for all other projects.

6. If the In-Service Dates for the CVF programme are substantially later than 2012, there is a serious risk of a capability gap emerging which would impact upon the ability of the Royal Navy to undertake its role effectively. If there is a serious risk of slippage, MoD and the Royal Navy must make plans for bridging this gap, which might include extending the lives of the current aircraft carriers and the aircraft which operate from them. This could be at substantial additional cost, particularly if the current carriers require major refits. We expect MoD to demonstrate that appropriate contingency plans are in place to address any potential capability gap. (Paragraph 41)

The In Service Dates for the future carriers will not be fixed until the main investment decision is taken. It is therefore too soon to know whether there will be implications for the planned out of service dates for the Invincible class carriers. However, the Department is alert to the need for coherency in maintaining continuity in our carrier capability. For this reason, the announcement on 14 December outlined our intention to consider, subject to negotiation, how the CVF build contract can be extended to encompass not only the carriers' initial support but also the support for the Invincible class carriers until their out of service dates.

7. It is disappointing that the Alliance Agreement has still to be finalised, eighteen months after our predecessors were told that there were only “one or two loose ends” to tidy up. We remain unclear as to what the precise role of the Physical Integrator is and will be. If the Alliance partners continue to be unable to finalise the Alliance Agreement, we consider that this might indicate that the Alliance approach is not suited to this particular programme, or that there are issues with the individual partners which cannot be resolved. (Paragraph 49)

The six Alliance members (Babcock, BAE Systems, KBR, MOD, Thales and VT Group) have signed an Alliance Charter and agreed the roles and responsibilities of each member within the Alliance. The final Alliance Agreement will not be completed until the main investment decision is taken.

8. There continues to be uncertainty about the precise roles and responsibilities of each of the Alliance partners. The proposed risk-sharing on the CVF programme will be different to the risk-sharing arrangements on previous defence equipment projects and the contractual arrangements between the Alliance partners have still to be finalised. Sharing risks should incentivise the Alliance partners to deliver a positive result on the programme, but we were concerned by talk of ‘sink or swim together’. If the Alliance approach does not deliver the expected results, the real losers will be the British taxpayers and the Royal Navy. (Paragraph 55)

The six Alliance members (Babcock, BAE Systems, KBR, MOD, Thales and VT Group) have signed an Alliance Charter (which confirms and commits each member to achieving the objectives of the Alliance) and agreed the roles and responsibilities of each member within the Alliance. The final Alliance Agreement will specify the risk and reward levels attributable to each member.

9. We have some concerns about potential conflicts of interest for Alliance partners and expect MoD to have in place appropriate arrangements to ensure that these are properly managed. (Paragraph 56)

It is accepted that Alliance Industry participants remain employees of their company but the overall Risk & Reward in which they share is determined by the success of the Alliance as a whole and not the performance of individual companies. Corporate Governance is addressed by a system of checks and balance: the Alliance Management Board which steers the project is chaired by MOD and includes senior company representatives. The Chief Executive Officer of the Alliance Management Team which manages the work acts under the authority of the AMB and is constrained by his need to seek AMB approval and, in certain areas, MOD commercial and financial concurrences

10. The Alliance approach is a novel approach for MoD and we consider it too early to assess whether the Alliance approach on the CVF programme has been successful. We expect MoD to identify lessons from the experience of using an Alliance approach on the CVF programme, and to ensure that such lessons are implemented if an Alliance approach is to be used on other equipment procurement programmes. (Paragraph 57)

The MoD will regularly apply lessons learned from the CVF project to other areas/projects as appropriate, including the use of the Alliance approach to deliver its procurement programmes.

11. MoD has yet to reach a view on the optimum shipbuild strategy for the CVF programme. We note that MoD’s plan is to build the two carriers in the United Kingdom but it has yet to decide on which shipyards will be involved in the construction of the two carriers. (Paragraph 63)

Plans for the construction and assembly of the ships were announced by the Secretary of State on 14 December 2005. The ships will be constructed in yards owned by members of

the Alliance - hull block 4 at BAES Govan, block 3 at BAES Barrow, block 2 at VT Group Portsmouth, and the bow (block 1) and final assembly at Babcock Rosyth. Award of manufacture contracts are still subject to value for money and cost effectiveness considerations. Other substantial elements of the ship's super structure are to be competed for by other UK shipyards and manufacturing facilities.

12. We welcome MoD's decision to produce a Defence Industrial Strategy, which will include a Maritime Industrial Strategy. The CVF programme is vital to the future of the UK's military shipbuilding industry and its importance will need to be reflected in the Maritime Industrial Strategy. We plan to examine the Defence Industrial Strategy in the New Year. (Paragraph 70)

The CVF programme of work was fully taken into consideration during the Defence Industrial Strategy (DIS) review of the Maritime Sector. The Maritime Industrial Strategy will be the primary vehicle for delivery of DIS in the maritime sector and will build on the industrial and commercial arrangements being put in place for CVF as we work to develop an industrial strategy for the UK maritime sector that will deliver improved performance, quality and competitiveness and sustain key skills and capabilities in the longer term.

13. We note that MoD considers that there is enough national capacity to manufacture and assemble the two aircraft carriers. However, we are concerned that delays to Main Gate approval and the letting of Demonstration and Manufacture contracts are impacting upon UK shipyards, jobs are at risk and some potential contractors have gone into administration. (Paragraph 71)

Demonstration phase contracts for CVF are expected to be placed early in 2006. Work continues with industry to progress the design to a point of maturity such that contracts can be placed. There is no doubt about MOD's strong support for the UK naval shipbuilding sector. MOD has embarked on the largest procurement programme of new ships for the Royal Navy in many years centred on the Future Carrier, Type 45 Destroyers, new vessels for the Royal Fleet Auxiliary and the Astute submarine. There will be short term fluctuations in work at a number of shipyards across the country prior to CVF coming fully on stream. However, the MOD order book alone cannot be expected to sustain shipyards, and they need to remain competitive and also seek alternative customers.

14. If there are delays to the CVF programme, there is a risk that the construction of the two carriers will come at a time when a number of naval shipbuilding programmes will also be in the Demonstration and Manufacture phase. This is likely to put pressure on the UK's naval shipbuilding capacity and could lead to work going overseas. We recommend that MoD identify ways to manage the potential peaks in demand for naval shipbuilding programmes over the next ten years or so. (Paragraph 72)

MOD and industry have undertaken a detailed analysis of the wider forward maritime programme, looking at all military vessels (current and future) and have developed a more balanced and potentially more stable industrial demand within affordability and capability constraints, thus avoiding the damaging peaks and troughs of the past. The introduction of a managed and steady work stream will allow industry to plan efficiently and to retain its

highly skilled workforce. It is, however, primarily for the shipbuilders themselves to manage fluctuations in workload.

15. We are concerned that, once the busy period for the UK's naval shipbuilding industry ends in 2013 or so, that there will be another gap in work for UK naval shipyards. We expect MoD's Maritime Industrial Strategy to set out how the peaks and troughs seen in the UK naval shipbuilding industry in the past will be managed in the future. (Paragraph 73)

The current level of surface ship build infrastructure will be unsustainable following completion of the current substantial warship build programme. The future Defence Programme points towards the requirement for fewer, more capable, ships. The Maritime Industrial Strategy will establish a stable long-term core workload to sustain the critical maritime capabilities we need for the future on the basis of benchmarked performance. Industrial consolidation is likely to be a key feature of any improvement programme, and fundamental to creating a viable and sustainable business to meet anticipated steady state demand post CVF.

16. There could be potentially substantial benefits if France became involved in the CVF programme. These include the possibility of real cost savings, both procurement and support cost savings, and closer relations between the British and French navies. But international collaborative projects have in the past experienced problems, such as time slippage. If France decides to become involved in the CVF programme, we expect MoD to ensure that the UK programme would not suffer delays to the In-Service Date for the UK carriers. (Paragraph 80)

As announced on 24 January, we have been joined by France for the Demonstration Phase of the CVF programme. They will pay an entry fee in recognition of the investment the UK has already made in the design and will contribute one third of the demonstration phase costs of the common baseline design. But this is not a full collaborative programme - we are not harmonising requirements. The UK and French requirements remain separate: we are exploring and exploiting areas of commonality which will bring savings in design costs and procurement. Throughout our discussions with France and during industry-to-industry work, we have made it clear that any co-operative programme of work will not be allowed to impact on CVF timelines. The French concur with this approach.

17. We are concerned that the In-Service Date for the JSF has slipped from 2012 to 2014, some two years after the first carrier was originally expected to come into service. It is essential that the In-Service Dates for the CVF and JCA programmes match. If not, the UK could be left with new carriers without new aircraft to operate from them, or new aircraft with no new carriers to operate from. (Paragraph 90)

Any In Service dates are internal planning assumptions only. As stated in the memorandum, we plan to start taking delivery of aircraft from 2011 and to be conducting flight trials, including work up from the CVF, in advance of the In Service Date. This progressive approach to introducing the aircraft onto the carriers allows us to further de-risk integrating these extremely complex elements of the carrier strike capability. We intend to ensure that both programmes remain in step, but this is not dependent on In

Service Dates being simultaneous. We will set In Service dates when main production decisions are taken on both programmes.

18. We note that the weight problems on the STOVL variant of the JSF have been mitigated but we expect MoD to continue to monitor closely weight and other risks on the JSF programme. (Paragraph 95)

The Department agrees that this issue needs close monitoring and we have plans in place to do so as we approach the Production Main Gate approval points for both CVF and JCA. The UK continues to closely monitor all JSF Programme risks, including the achievement of weight reduction targets set by the JSF Programme Office.

19. We have been assured that the STOVL variant of the JSF aircraft being procured by the UK and US are identical and are being designed to the same set of requirements, though, once delivered, the aircraft will be fitted with different weapons. (Paragraph 97)

The US is developing all three variants of the aircraft - Conventional Take Off and Landing (CTOL), Short Take Off and Vertical Landing (STOVL) and Carrier Variant (CV). The UK is currently planning on buying the STOVL version. The configuration of each type can vary between platforms and users based on types of weapons carried, unique national requirements and mission specific equipment. However, the baseline configuration of the UK Joint Strike Fighters and the US jets are common.

20. We fully support MoD's position that the ability to maintain and upgrade the JSF independently is vital. We would consider it unacceptable for the UK to get substantially into the JSF programme and then find out that it was not going to get all the technology and information transfer it required to ensure 'sovereign capability'. This needs to be sorted out before further contracts are signed and we expect MoD to set a deadline by which the assurances need to be obtained. If the UK does not receive assurances that it will get all it requires to ensure sovereign capability, we would question whether the UK should continue to participate in the JSF programme. (Paragraph 107)

Information access to ensure our required levels of sovereign capability on JSF has been recognised by the US and UK in the Exchange of Letters signed between our respective Defence Secretaries. The Department also recognises that demonstrated progress on Information Exchange is a critical enabler to the signature of the Production, Support and Follow On Development MOU planned for December 2006. An engagement strategy exists to ensure that progressive and targeted pressure is brought to bear at senior political levels in the US DoD and State Departments to deliver UK Requirements.

21. We note that production and support of the JSF will be allocated on the basis of global best value. Achieving best value is important but, if this resulted in all future support of the aircraft being undertaken overseas, then achieving sovereign capability could be put at risk. We expect MoD to demonstrate that achieving global best value and ensuring sovereign capability are compatible. (Paragraph 108)

As we made clear in our response to the HCDC, this is not a work share programme but one where work will be carried out on a global best value basis to ensure that JSF remains

an affordable option for all partners. Regardless of where the aircraft are built or what arrangements are put in place to support the global fleet, the UK is taking the necessary steps to ensure that it can operate, sustain and upgrade JSF on a sovereign basis through life. Our strategic requirements for having the sovereign capabilities to operate and sustain JSF were set out in an Exchange of Letters (EOL) between Secretary of State for Defence (Mr Hoon) and the US Defense Secretary (Mr Cohen) agreed in January 2001. See also Q.20 above.

22. We note that good progress with the release of information and technological exchange on the JSF programme has been made to date, but concerns remain. MoD has focussed its efforts on the US Administration to ensure that all the information and technology it requires on the JSF programme for the future is obtained in a timely fashion. In our view, dialogue with the US Administration is not sufficient given the key role played by the US Congress. We will support MoD on this issue where we can. We intend to visit Washington in the New Year and plan to raise this issue with the US Administration and with Members of Congress. (Paragraph 113)

Recent meetings between Officials and their US Counterparts have raised to the highest level the UK requirements for sovereign operations and the need for urgent progress. Substantial headway is being made and Industry and Government currently has the access it needs at this stage of the programme. The Department welcomes the Committee's intention to raise this issue with the US Administration and with Members of Congress, but would wish to ensure that such engagement is planned and co-ordinated as part of the Department's overall strategy.

23. We are concerned by press reports suggesting that the US might cut back on the STOVL variant of the JSF as this could have serious implications for the UK JSF programme. While we note the recent assurance given by the US Defense Secretary that the US JSF programme would be 'funded robustly', we expect MoD to keep a close watch on this issue and to assess the likely impact on the UK JSF programme.(Paragraph 120)

The US remains committed to the JSF programme despite public speculation resulting from the US Quadrennial Defense Review and the current round of considerations on the Defense Appropriations – results expected early 2006 – although early indications are positive. There are no indications that the US will cancel the Short Take Off and Vertical Landing (STOVL) variant, despite recent speculation which has been linked to the Carrier Variant (CV) and Conventional Take Off and Landing (CTOL) variant. The Department will continue to monitor the situation extremely closely as we prepare for Production, Support and Follow On Development Memorandum Of Understanding.