



National Audit Office

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Ministry of Defence

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# Observations on the Ministry of Defence major investment approval process

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# **Observations on the Ministry of Defence major investment approval process**

# Observations on the Ministry of Defence major investment approval process

Between 2009 and 2012, the Ministry of Defence (the MoD) took, on average, 120 decisions each year to start, continue or refocus its major projects and approved investments worth £41 billion. A well-functioning and effective investment approvals process is therefore a key business control for the MoD, provides the Accounting Officer with comfort in discharging his/her duties to Parliament and gives HM Treasury confidence to delegate responsibility for investment decisions.

In late 2011, we began an examination of the core MoD approvals process. As the scale of change within the MoD affecting the future characteristics and operation of the approvals processes became apparent we concluded the timing would not be optimal for publication of a full value-for-money report. For example, we are unclear about what effect the governance and accountability arrangements underpinning the establishment of delegated Investment Approvals Committees within each of the Services, for Category B, C and D projects will have on the separation between operational activity and approvals. We will draw on the evidence we have already gathered to support our future programme of work, particularly on aspects of Transformation.

From the fieldwork we did undertake our overall view is that there have been some encouraging signs of improvement in the robustness of the approvals process in recent years but there remain a number of areas where a greater focus would add value. This document offers five observations which we hope will be helpful to those revising approvals and supporting processes within the Future Operating Model.

## **The IAC is an authoritative body and the approvals process is largely independent, although there are risks arising from perceived conflicts of interest**

We found that the Investment Approvals Committee (the IAC) provided the only route to obtaining a decision to commit to expenditure which could not be ignored or bypassed and, 'subject to the caveat below', was not subject to special pleading. We noted, in particular, the willingness in recent cases such as the Type 26 frigate to say 'no' and to challenge business cases which are not sufficiently mature or evidenced.

To ensure investment decisions are free from bias and made in the MoD's best interests there should be a clear separation between operational activity and those involved in scrutinising and taking investment decisions. With one exception, we were satisfied that, under the existing organisational structures, scrutineers, the Secretariat and IAC members are sufficiently independent. The exception relates to the role senior Defence Equipment & Support (DE&S) staff, or those they line manage, play in preparing business cases, approving investments and subsequently delivering projects. Although we note that Director General Finance, as Chair of the IAC, has sole accountability for decisions and thus does not need consensus, there are potential issues about the independence of the IAC. For example, the Chief of Defence Materiel is a member of the IAC. There is no formal record of his appointment or how any potential conflict would be reconciled. We do, however, note that senior officials told us that the Chief of Defence Materiel is careful to avoid bias in his consideration of business cases and that his perspective on the deliverability of projects is useful.

### **IAC is supported by staff with good expertise**

To support IAC in making effective decisions its advisers should have an appropriate range of skills and experience which is widely recognised and credible both within the MoD community and externally. The direct scrutiny and secretariat cost of support to the IAC is around £3.3 million each year, 0.04 per cent of the £7.8 billion of central approvals in 2011. We found that scrutiny teams had the requisite levels of expertise and skills:

- many technical scrutineers have experience of working on project teams and have built up specialist knowledge over a number of years within the MoD;
- legal and commercial scrutineers were also appropriately qualified and experienced;
- the build-up of the Cost Assurance and Analysis Service (CAAS) and its increasing influence is a strength. But risks remain given that the Service is still carrying 80 vacancies and, even with the support being provided by KPMG, when these posts are filled, there will be a timelag as new staff develop the necessary range of expertise and experience;
- the IAC Secretariat comprises 27 staff and IAC members told us that they valued the support they received. Project teams we met said that they had a generally good interaction with the IAC and its support teams; and
- the Treasury told us they are generally satisfied with the work performed by the MoD's scrutineers and are content to rely on it. The Major Projects Authority also places reliance on the MoD's scrutiny function.

The main risk we identified was with the sufficiency of skills and expertise at the project team level where shortages can adversely affect not just the delivery of the project but the preparation of well prepared, evidence-based business cases to support effective and timely investment decisions. For example, there are currently around 150 commercial vacancies in the MoD. Such shortcomings put additional strain on the relatively small scrutiny community and the risks are likely to increase as constraints on the size of the workforce bite. This is an area we will return to in future.

### **More probing scrutiny reports are improving the evidence base for IAC decisions**

Good investment decisions require relevant, accurate, complete and consistent data which has been appropriately validated. Previous NAO reports have repeatedly highlighted that the MoD has made major investment decisions on the basis of incomplete and over-optimistic estimates of time and cost and that technical and commercial risks have been underplayed.

While it is too early to comment definitively, the introduction of regular Scrutiny Reports and Consolidated Briefings in 2009 appears to have improved the ability of the IAC to challenge the evidence in business cases. **Figure 1** shows there has been a more robust approach since the Director General Finance assumed the Chair of the Committee in 2011, which has resulted in a greater readiness to decline business cases, particularly on grounds of affordability.

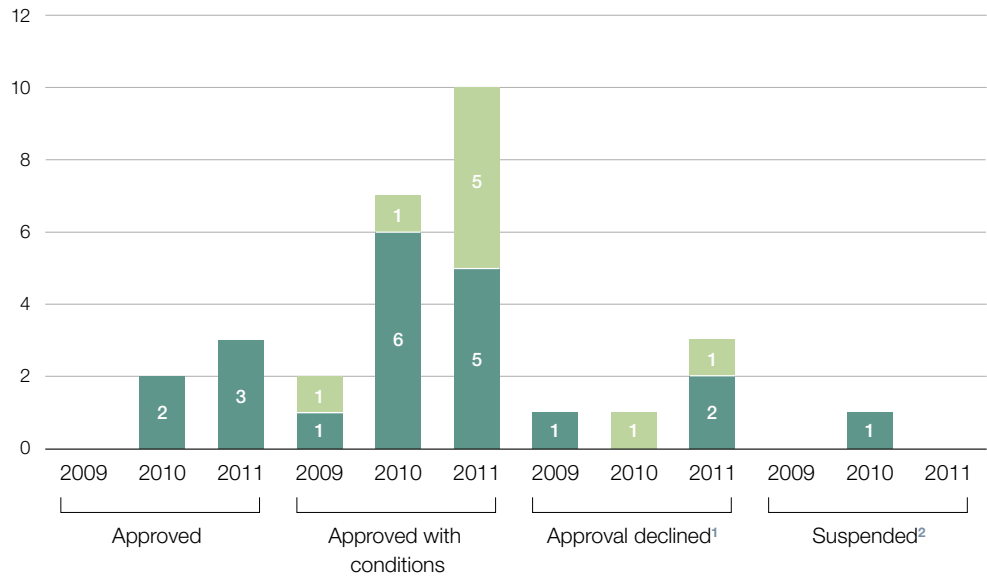
### **More could be done to understand and mitigate the burden of multiple review processes**

Scrutineers actively consider key elements such as finance, legal, commercial and technical risks and maturity. However, it is sensible that the IAC also seeks to place reliance on the MoD's broader assurance processes to check that business cases have addressed relevant components, processes and issues such as duties of care.

**Figure 1**  
Readiness of the IAC to reject business cases

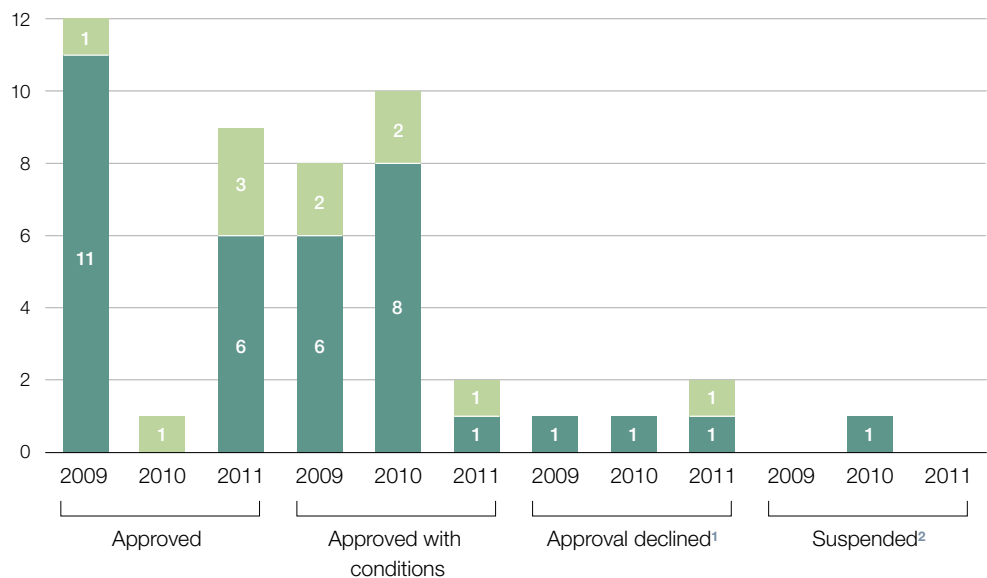
**Analysis of Initial Gate decisions by the IAC**

**Number of decisions**



**Analysis of Main Gate decisions by the IAC**

**Number of decisions**



■ Cat A ■ Cat B

**NOTES**

1 'Approval declined' refers to the decision that the project team needed to resubmit the business case after further work.

2 The suspension of a project indicates a decision taken outside the approvals process to suspend the project.

Source: National Audit Office analysis of Ministry of Defence data

Well targeted assurance activity provides comfort to both senior management and those taking business investment decisions about the robustness of underpinning business processes. However, if the effort and intrusion on project teams is disproportionate then the transactional inefficiency may be significant. We heard a perception that the range of scrutiny and assurance activities in the MoD was burdensome. It is apparent that the MoD seeks assurance from a wide range of interested parties – hence the 81 signatures on some business cases. At the point we stopped our fieldwork, we had found no evidence that the MoD had gathered sufficient data to understand:

- the transactional costs of scrutiny and assurance activities;
- whether the balance between assurance and scrutiny was reasonable;
- that assurance effort was focused on activities of greatest value; or
- that the quality of the activities was consistent, robust and independent given the level of self-review involved.

There are a range of different bodies involved before a major investment decision is taken – Gateway Reviews, Major Projects Review Group, Major Projects Authority and HM Treasury. The Integrated Assurance and Approval Plans which each project should prepare sets out a schedule for internal and external reviews to help avoid duplication of assurance. They present the opportunity for the development of a more coherent and seamless approach which could help reduce transactional inefficiencies. At present the Major Projects Authority rates the quality of these documents as variable.

### **More complete recording on the key considerations underpinning IAC decisions would be helpful**

Decision-makers should be able to demonstrate in their recorded deliberations that they have understood both the long and short-term consequences of their decisions and the ramifications of individual decisions for the wider business portfolio. Alongside setting clear performance/time/cost/risk boundaries, maintaining such a clear logic map and explaining the details of any caveats or conditions is important not just for accountability but also to enable those charged with delivering the project respond appropriately and to learn lessons.



Our work showed that IAC 'out letters' clearly state performance boundaries and conditions but typically provide few other details, particularly if the business case is approved. The MoD has also recognised that the IAC needs wider contextual information if it is to make effective decisions and intends to include a relevant section within each business case. It was not clear to us what this contextual information would cover but we suggest, among other things, it should include:

- an assessment of the MoD's capability to deliver;
- the priority and affordability of the project within the Annual Budgeting Cycle;
- interdependencies with other projects in the portfolio;
- the potential effects of IAC approval and rejection of a business case; and
- when a reduction in the number of items being procured is being considered the impact on total acquisition and support unit costs.

The IAC does require updates on specific aspects of a project's performance as a condition of its funding approval, but it does not regularly receive feedback on projects progress or the realism of the key factors which influenced the investment decision. This means that lessons which might be learned from the outcome of previous decisions are not routinely identified.

There are issues concerning the retention of relevant documents and records, particularly given that the implications of investment decisions on major projects may be felt for decades. In general, business cases and supporting documents from the last two years are available, but the audit trail relating to decisions taken in earlier years is incomplete and there is no central repository of relevant documents. Illustratively, the MoD responded to some of our audit requests for information by gathering it manually. Basic information – such as the value of projects approved or rejected, the IAC's workload and a summary of the different types of decisions made – is not routinely collected.

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