



House of Commons  
Defence Committee

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**Costs of peace-keeping  
in Iraq and  
Afghanistan: Spring  
Supplementary  
Estimate 2005–06**

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**Fourth Report of Session 2005–06**

*Report, together with formal minutes and  
written evidence*

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## The Defence Committee

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Ministry of Defence and its associated public bodies.

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### Contacts

All correspondence should be addressed to the Clerk of the Defence Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5745; the Committee's email address is [defcom@parliament.uk](mailto:defcom@parliament.uk). Media inquiries should be addressed to Jessica Bridges-Palmer on 020 7219 0724.

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## Summary

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The Ministry of Defence's Spring Supplementary Estimate 2005–06 seeks additional provision of some £1,890 million. Of this, some £1,264 million is in respect of peace-keeping in Iraq and Afghanistan.

We found the information provided in MoD's initial Estimates Memorandum inadequate and present a further break-down which we have obtained from MoD. We draw attention to the large element of contingency, some £146 million.

We call on MoD to provide better information in future in support of its requests for resources and more detail on outturn costs of operations in the Annual Report and Accounts.

We express concern about the arrangement by which MoD waits for the Spring Supplementary Estimates before seeking Parliament's approval of expenditure on operations and recommend that, in future, provision for commenced operations be made in the Main Estimates in the usual way, if necessary with a large element for contingency. We also recommend that MoD provide to this Committee regular updates of the cost of operations, in the same way as it provides information to the Treasury.

We outline the reductions in the overall size of the Armed Forces set out in the Votes A for the financial year 2006–07.



# Report

## Background

1. The Spring Supplementary Estimates for the Financial Year 2005–06 were laid before the House on 14 February.<sup>1</sup> In total, the Government requests additional provision of £7,637.727 million.<sup>2</sup> Of this, £1,889.814 million is requested by the Ministry of Defence (MoD).

2. MoD's Spring Supplementary Estimate sets out the purposes for which this additional provision is required.<sup>3</sup> The item which is most significant, in both financial and political terms, is an increase of £933.565 million resources and £329.997 million capital to reflect the costs of peace-keeping in Iraq and Afghanistan.

## Estimated costs of peace-keeping in Iraq and Afghanistan

3. MoD's Estimates Memorandum breaks down the costs of peace-keeping in Iraq and Afghanistan as follows:<sup>4</sup>

**Table 1**

### Summary of Resources Requested for Operations in Iraq and Afghanistan at Spring Supplementary Estimates 05/06

Cost Type	Iraq £M 2004/5	Iraq £M 2005/6	Afghanistan £M 2004/5	Afghanistan £M 2005/6
Cash Resource Costs	732.300	<b>784.877</b>	48.900	<b>148.688</b>
Capital Costs	218.500	<b>259.944</b>	3.600	<b>70.053</b>
Non-cash Resource <sup>5</sup>	23.900	<b>53.215</b>	0.300	<b>1.756</b>
<b>Total</b>	974.700	<b>1,098.036</b>	52.800	<b>220.497</b>

1 HM Treasury, *Central Government Supply Estimates 2005–06 Spring Supplementary Estimates*, HC 827, February 2006

2 Net additional cash requirement

3 HM Treasury, *Central Government Supply Estimates 2005–06 Spring Supplementary Estimates*, HC 827, February 2006, pp 227–229

4 Ev 4, para 5.15, Table 5

5 The non-cash resource figures reflect a transfer from Request for Resources (RfR) 1 (provision of defence capability) to RfR2 (conflict prevention) to cover depreciation and cost of capital charges associated with equipment purchased under Urgent Operational Requirement arrangements. See Ev 4, para 5.16

4. The Estimates Memorandum explains that this expenditure is funded from the Treasury Reserve.<sup>6</sup> In other words, it is money that is new to MoD: the cost of operations is funded by the Treasury.

5. We considered the information provided in the Estimates Memorandum to be inadequate and sought a more detailed breakdown from MoD. The Department's response breaks down the requested increase as follows:<sup>7</sup>

**Table 2**

**Make up of Iraq and Afghanistan Resource DEL estimate**

<b>RDEL Expense Category</b>	<b>IRAQ – £ M</b>	<b>AFGHANISTAN – £ M</b>
Service Manpower	80.278	7.172
Civilian Manpower	11.688	1.116
Infrastructure costs <sup>1</sup>	84.082	25.663
Equipment Support <sup>2</sup>	243.097	14.832
Other Costs & Services <sup>3</sup>	103.984	46.070
Income foregone <sup>4</sup>	3.812	5.917
Stock Consumption	202.936	33.918
Contingency <sup>5</sup>	55.000	14.000
<b>Total Direct Resource DEL</b>	<b>784.877</b>	<b>148.688</b>

Notes:

<sup>1</sup> Establishment of forward/deployed operating bases.

<sup>2</sup> Maintenance and small repairs to equipment.

<sup>3</sup> Consumables and other miscellaneous costs.

<sup>4</sup> Income that would have been generated if the operation had not taken place.<sup>8</sup>

<sup>5</sup> Contingency—to allow for changes in resources.

**Table 3**

**Make up of Iraq and Afghanistan Capital DEL estimate**

<b>CDEL Expense Type</b>	<b>IRAQ – £ M</b>	<b>AFGHANISTAN – £ M</b>
UORs and Recuperation	199.944	53.053
Contingency	60.000	17.000
<b>Total Capital DEL</b>	<b>259.944</b>	<b>70.053</b>

6 Ev 4, para 5.15

7 Ev 7, Table 1

8 See Ev 9, for a further explanation of income foregone

6. MoD's second memorandum explains that this capital expenditure relates principally to equipment purchased as Urgent Operational Requirements (UORs) and accelerated capital repair costs on equipment in operational use. And it states that the majority of UORs authorised over the last year, relate to Force Protection (around 87 per cent), helicopters, communications, surveillance equipment, and medical equipment.<sup>9</sup>

7. We questioned MoD on why it was necessary to include such a large element of contingency, so near to the end of the financial year, and how each of the contingency figures was calculated. MoD's response was as follows:

The Request for Resources is based upon forecast costs two thirds of the way through the financial year. Due to the often rapidly changing operational situation it is prudent to include a contingency figure within the estimates. This figure is based upon a comparison of previous years' final outturn figures and the latest forecasts available when we prepare Spring Supplementaries (effectively November), and an analysis of past UOR costs to give an indication of potential short notice operational equipment requirements.

More specifically, in Direct Resource DEL the contingency figure for Afghanistan was added because when we prepared the Estimate there were remaining uncertainties over the planned expansion of our commitments. In the case of Iraq the contingency of £40M represents only around 5% of the total cost and reflects the uncertainties mentioned above. In addition to this HM Treasury has recently approved additional expenditure for equipment support to the Iraq Security Services of which £15M is expected to be expended in this financial year.

In Capital DEL the bulk of the contingency arises from our need to be able to respond to the rapidly evolving threat to our forces on both a tactical and technical level. Against that need we seek additional funding for unforeseen Urgent Operational Requirements (UORs) for the purchase of, for example, force protection equipment.<sup>10</sup>

8. We do not find this explanation entirely convincing. Undoubtedly, the operational situation can change, and it is certainly prudent to include a contingency figure within the estimates. But the size of the contingency is surprisingly large: over 23 per cent in the case of capital. Of course, MoD needs to respond to the changing threat; and it is essential that it has the financial flexibility to buy new equipment when operational need arises. Force protection—notably, against increasingly sophisticated Improvised Explosive Devices—is a serious concern: a matter of life and death to our Service personnel in Iraq and Afghanistan. We were briefed on the acquisition of UORs when we visited the Defence Procurement Agency in January, and were impressed by the speed and efficiency with which this is managed. But none of this obviates the need for proper financial forecasting. **Including £146 million contingency in the request for resources, without full supporting detail, is asking Parliament to take too much on trust.**

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9 Ev 7

10 Ev 8

9. It would have been helpful if the break-down of the requested resources had been provided in MoD's initial Estimates Memorandum, rather than having to be prised out of them in stages as the Estimates Day approached. We note that our predecessors raised the lack of information provided in support of the Spring Supplementary Estimate 2005 in its 2005 Report on *Iraq: An initial assessment of post-conflict operations*.<sup>11</sup> It recommended that "a more detailed breakdown of costs, for operations involving such substantial sums of money, should be provided in future to facilitate effective parliamentary scrutiny".<sup>12</sup> The Government's response did not directly address this:

While MoD forecasts future costs for planning purposes the costs remained uncertain and to publish them would be misleading. Actual annual costs ... are reported at the end of the year.<sup>13</sup>

**We regret that MoD does not appear to have taken seriously our predecessors' recommendation that more information be provided in support of the Spring Supplementary Estimate. We recommend that the Department ensure that in future its Estimates Memoranda contain a full break-down of the resources requested.**

### Information on outturn

10. The lack of information in the Estimates is not made up for by a wealth of information in the end-of-year Departmental Report. MoD's Annual Report and Accounts 2004–05 gives the overall outturn for each operation, but disappointingly little detail. It presents one small table:<sup>14</sup>

	<b>Operating Costs £000</b>
<b>Operation</b>	
Balkans	84,677
Afghanistan	57,937
Iraq	747,068
	<b>889,682</b>
Programme Expenditure	48,499
<b>Total</b>	<b>938,181</b>

11 Defence Committee, Sixth Report of Session 2004–05, *Iraq: An Initial Assessment of Post-Conflict Operations*, HC 65-I

12 *Ibid*, para 109

13 Defence Committee, First Special Report of Session 2005–06, *Iraq: An Initial Assessment of Post Conflict Operations: Government Response to the Committee's Sixth Report of Session 2005–06*, HC 436

14 Ministry of Defence, *Annual Report and Accounts 2004–05*, HC 464, 28 October 2005, p 188

And it provides a few additional notes on the cost of the Iraq deployment:

1. The MoD had £0.975Bn (2003-04: £1.539Bn), including £219M (2003-04: £334M) for capital expenditure, in voted provision for Operation TELIC<sup>15</sup> in the Spring Supplementary Estimates 2004–05.
2. The resource outturn in 2004–05 for the operation was £0.747Bn (2003–04: £1.051Bn), which reflects the costs for the period to 31 March 2005.
3. The capital expenditure for Operation TELIC paid and accrued in the financial statements amounted to £163M (2003–04: £260M).<sup>16</sup>

**We recommend that in future MoD’s Annual Report and Accounts contain significantly more detailed information on the cost of operations.**

### Authority for expenditure on operations

11. The motion to approve the Spring Supplementary Estimates is the first and only occasion on which the House of Commons is asked to approve expenditure on operations. MoD’s second memorandum states that:

historically the Department has not made any requests under RfR2 at either Main Estimates or Winter Supplementary Estimates for the costs of operations. The Spring Supplementary Estimates is the first time that we request such resources and we do then for the total forecast expenditure for the whole year.

That is not to say that we do not forecast and monitor expenditure on operations throughout the year. Indeed each TLB does so from the start of the financial year. You will appreciate, however, that, because of the nature of operations, there are usually significant changes in the demand for military involvement in conflict prevention activities through the year and it is often not possible to estimate the likely cost of any major new operations with accuracy early on. As a result forecasts will fluctuate during the year, and so, with the agreement of HM Treasury, we await the Spring Supplementary Estimates before requesting the additional resources, thereby ensuring the Estimate is as accurate as possible. In the meantime we provide regular information to HM Treasury, which includes a best estimate of outturn.<sup>17</sup>

12. We pressed MoD for further details on the rationale, and the historical basis, for it seeking parliamentary authority for expenditure on operational deployments (including those of a long-term and anticipatable nature) only in the Spring Supplementary Estimates. It responded as follows:

Expenditure on operations such as those in Iraq and Afghanistan varies depending on troop numbers, activities and force protection requirements. As a consequence we cannot provide a detailed forecast at the beginning of the financial year that is accurate to the standards which we would normally place before Parliament for

15 Operation TELIC is the name given to operations in Iraq.

16 Ministry of Defence, *Annual Report and Accounts 2004–05*, HC 464, 28 October 2005, p 188

17 Ev 7–8

figures for that financial year. At the time the Winter Supplementary Estimates are prepared the most up to date financial information on operations would be complete up to August: clearly much can change between then and the end of the year. We have therefore historically taken the view that it would be better to wait to provide a forecast until later in the year when the underpinning figurework is more robust and we have a more detailed understanding of the likely operational profile to the end of the year. We have therefore delayed the Estimate for operations such as Iraq and Afghanistan to Spring Supplementaries.<sup>18</sup>

13. It is clear from these explanations that the reason for delaying the request for resources to the Spring Supplementaries is financial uncertainty, not security considerations or the need to keep information about operations confidential. Financial uncertainty afflicts all Government Departments to a varying extent, and it is not seen as an excuse for not presenting full and proper Estimates to Parliament. The Estimates process is designed to allow for change. We fully accept that the demand for military involvement in peacekeeping operations can change significantly over the course of a financial year. New deployments may arise, and we accept that it can be—as MoD argues—“difficult to estimate the likely cost of any major new operations with accuracy early on”. But, for an ongoing operation such as Iraq, we cannot accept that MoD is unable to report the broadly anticipated costs to Parliament at the beginning of the financial year. The fact that MoD cannot provide information that is accurate to the standards which it would normally place before Parliament is no reason for not providing Parliament with any information at all.

14. MoD’s explanation gives the strong impression that, in its view, the important factor is providing information to, and satisfying the requirements of, the Treasury: Parliamentary approval seems to be regarded as a rubber stamp. For this, Parliament must take some of the blame: for too long we have allowed Parliamentary approval of the Estimates to be taken for granted. **MoD must recognise that the agreement of the Treasury is not a substitute for Parliamentary approval, and that providing information to the Treasury is not enough.**

15. **We consider that the arrangement by which MoD waits for the Spring Supplementary Estimates before seeking Parliament’s approval of expenditure on operations is unsatisfactory, and we recommend that it cease. We recommend that in future provision for commenced operations be made in the Main Estimates in the usual way, if necessary with a large element for contingency.**

16. **We also recommend that in future MoD provide to this Committee regular, perhaps quarterly, updates of the cost of operations, in the same way as it provides information to the Treasury.**

## The cost of Balkans operations

17. MoD's Spring Supplementary Estimate contains provision for the transfer of of £64 million from the Foreign and Commonwealth Office (FCO) in respect of the Balkans Conflict Prevention Pool.<sup>19</sup> MoD's third memorandum states that:

funding for the operations in the Balkans, which is now considered to be financially stable, is currently sought by the FCO at Main Estimates, and transfer made to MoD at Spring Supplementary Estimates.<sup>20</sup>

We fail to understand why funding is not sought directly by MoD in the first place, and we **recommend that in future provision for operations in the Balkans be set out in MoD's Main Estimates.**

## Future cost of operations in Afghanistan

18. MoD has stated that the estimated cost of the UK's deployments to Afghanistan will be £1 billion over the five years 2005–06 to 2009–10.<sup>21</sup> We asked for a breakdown of this cost by financial year and by purpose. MoD responded as follows:

expenditure on operations varies depending on troop numbers, activities and force protection requirements. As a consequence, we cannot currently provide a breakdown of the estimate that is accurate in detail to the standards which we would normally place before Parliament.<sup>22</sup>

We fully appreciate that the costs of operations are uncertain, but that is not a reason to deny Parliament any information at all. **Telling Parliament that the costs of the deployment to Afghanistan is “around a billion” is just not good enough. This is a very large amount of public money, and the public deserve better information on how it is going to be spent.** We will be pursuing this further in our inquiry into the UK deployment to Afghanistan.

## Form of the Estimates Memorandum

19. The Supplementary Estimates are very hard to understand by any but the most expert reader. The Departmental Estimates Memorandum is intended to present the information in a manner which is more accessible, and allows read-across to the resource priorities and Public Service Agreement (PSA) targets set out in the Departmental Annual Report. During our scrutiny of the Winter Supplementary Estimates 2005, we identified a number of deficiencies in the format of MoD's Estimates Memorandum and MoD was sent the guidance for Departments produced by the House of Commons Scrutiny Unit on the form and content of estimates memoranda.<sup>23</sup> It is disappointing that this guidance has not been

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<sup>19</sup> HM Treasury, *Central Government Supply Estimates 2005–06 Spring Supplementary Estimates*, HC 827, February 2006, p 228; see Ev 2, para 5.1, Table 2.

<sup>20</sup> Ev 8

<sup>21</sup> HC Deb, 26 January 2006, Col 1532

<sup>22</sup> Ev 9

<sup>23</sup> By letter of the Clerk of the Committee of 21 December 2005.

followed in a number of respects in the preparation of MoD's Estimates Memorandum on the Spring Supplementary Estimate. The section relating to the impact on PSA targets does not comply with Treasury guidance: it merely gives a brief account of the current status of targets (reporting "slippage" on the procurement target and "on course with some slippage" against the conflict prevention target, with the rest "on course") and does not provide any information about how the changes in the estimate will impact on the progress towards targets.<sup>24</sup> The memorandum is not signed by anyone, and therefore offers no assurance that it has been reviewed by senior management. The memorandum states the change to the net cash requirement and to the Departmental Expenditure Limit, but fails to provide figures for the past three years to facilitate comparison. It would be helpful if the memorandum outlined the current End Year Flexibility position. **We recommend that MoD take steps to ensure that the Scrutiny Unit's guidance on the production of estimates memoranda is followed in future.**

## Votes A

20. The Votes A for the financial year 2006–07<sup>25</sup> were laid before the House on the same day as the Spring Supplementary Estimates. The Votes A provide the mechanism by which Parliament exercises control over the maximum number of personnel in the Armed Forces. This has historical links to the provision in the Bill of Rights 1689 that "the raising or keeping a standing army within the kingdom in time of peace, unless it be with consent of Parliament, is against law". Motions to approve the maximum numbers for each Service, set out in the Votes A, will be put to the House after the debate on the Spring Supplementaries.<sup>26</sup>

21. The Votes A show a reduction in the Regular Forces: 2,130 for the Royal Navy/Royal Marines; 1,535 for the Army; and 3,820 for the Royal Air Force.<sup>27</sup> This reflects the drawdown in the size of the Armed Forces announced in the Government's 2004 *Future Capabilities* White Paper.<sup>28</sup> There is a decrease of 650 in the number of naval reservists, and an increase in the number of the special members<sup>29</sup> of the reserves to reflect the gradual transfer in of Royal Fleet Auxiliary personnel. There is no change to the reserves or special members of the Army or Reserved Air Force.

22. The Secretary of State announced to the House in December 2005 some minor changes in the presentational format of the Votes A.<sup>30</sup> The figures for "Commonwealth troops in the United Kingdom" are no longer reported, and the numbers of the Queen Alexandra's Royal Army Nursing Corps and Princess Mary's Royal Air Force Nursing Service are now incorporated in the figures for the Regular Army and Regular Air Force.

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24 Ev 5, para 6.1.

25 *Ministry of Defence Votes A 2006–07*, HC 869

26 Under Standing Order No. 55 (1) and (3), the question on any outstanding vote relating to numbers for defence services is put at the conclusion of the Spring Estimates Day, without debate.

27 See Ev 6

28 *Delivering Security in a Changing World: Future Capabilities*, Cm 6269, July 2004, para 3.6.

29 The category of "special members" or "sponsored reserves" was introduced under the Reserve Forces Act 1996. Employees become special members of the reserves pursuant to a contractual arrangement between their employer and MoD.

30 HC Deb, 6 December 2005, Col 86WS

## Conclusion

23. We do not propose that the House should refuse the request for resources set out in MoD's Spring Supplementary Estimate. On the contrary, we believe it is essential that peace-keeping operations in Iraq and Afghanistan should be properly funded. But we believe that the House should be properly informed of the expenditure it is being asked to approve and that it should be aware of our concerns about the manner in which MoD presents its estimates to Parliament. We believe that the House should have an opportunity to debate these matters before it approves the Spring Supplementary Estimates.

## Conclusions and recommendations

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1. Including £146 million contingency in the request for resources, without full supporting detail, is asking Parliament to take too much on trust. (Paragraph 8)
2. We regret that MoD does not appear to have taken seriously our predecessors' recommendation that more information be provided in support of the Spring Supplementary Estimate. We recommend that the Department ensure that in future its Estimates Memoranda contain a full break-down of the resources requested. (Paragraph 9)
3. We recommend that in future MoD's Annual Report and Accounts contain significantly more detailed information on the cost of operations. (Paragraph 10)
4. MoD must recognise that the agreement of the Treasury is not a substitute for Parliamentary approval, and that providing information to the Treasury is not enough. (Paragraph 14)
5. We consider that the arrangement by which MoD waits for the Spring Supplementary Estimates before seeking Parliament's approval of expenditure on operations is unsatisfactory, and we recommend that it cease. We recommend that in future provision for commenced operations be made in the Main Estimates in the usual way, if necessary with a large element for contingency. (Paragraph 15)
6. We also recommend that in future MoD provide to this Committee regular, perhaps quarterly, updates of the cost of operations, in the same way as it provides information to the Treasury. (Paragraph 16)
7. We recommend that in future provision for operations in the Balkans be set out in MoD's Main Estimates. (Paragraph 17)
8. Telling Parliament that the costs of the deployment to Afghanistan is "around a billion" is just not good enough. This is a very large amount of public money, and the public deserve better information on how it is going to be spent. (Paragraph 18)
9. We recommend that MoD take steps to ensure that the Scrutiny Unit's guidance on the production of estimates memoranda is followed in future. (Paragraph 19)

# Formal minutes

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**Tuesday 14 March 2006**

Members present:

Mr James Arbuthnot, in the Chair

Mr David Crausby

Linda Gilroy

Mr Dai Havard

Mr Adam Holloway

Robert Key

John Smith

**1. Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06: consideration of Chairman’s draft Report**

The Committee considered this matter.

Draft Report (*Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06*), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman’s draft Report be read a second time, paragraph by paragraph.

Summary agreed to.

Several papers were ordered to be appended to the Report.

*Resolved*, That the Report be the Fourth Report of the Committee to the House.

[Adjourned till Tuesday 21 March at Ten o’clock

## List of written evidence

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Ministry of Defence:

Memorandum on the Spring Supplementary Estimates 2005–06	Ev 1
Letter from the Ministry of Defence to the Clerk of the Committee on the Votes A for financial year 2006–07	Ev 6
Second memorandum on the Spring Supplementary Estimates 2005–06	Ev 6
Third memorandum on the Spring Supplementary Estimates 2005–06	Ev 8

# Defence Committee Reports in this Parliament

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## Session 2005–06

First Report	Armed Forces Bill	HC 747
Second Report	Future Carrier and Joint Combat Aircraft Programmes	HC 554 ( <i>HC 926</i> )
Third Report	Delivering Front Line Capability to the RAF	HC 557

Government Responses to Defence Committee Reports are published as Special Reports from the Committee (or as Command Papers). They are listed here in brackets by the HC (or Cm) No. after the report they relate to.



# Written evidence

## Memorandum from the Ministry of Defence on the Spring Supplementary Estimates 2005–06

### SUMMARY OF CHANGES SOUGHT IN THE ESTIMATE

1. The Ministry of Defence's Spring Supplementary Estimate requests additional provision above Winter Supplementary Estimates totals of:

**Table 1**

### SUMMARY OF RESOURCE, CAPITAL AND CASH REQUIRED

<i>Net Resources Requested</i>	<i>£ million</i>
Request for Resources 1	716.331
Request for Resources 2	1,055.736
Request for Resources 3	4.000
<b>Total Resources</b>	<b>1,776.067</b>
<hr/>	
<i>Capital Requested</i>	<i>£ million</i>
Request for Resources 1	(70.000)
Request for Resources 2329.997	
<b>Total Capital</b>	<b>259.997</b>
<hr/>	
<b>Net Cash Requirement</b>	<b>£ 1,889.814 million</b>

2. The most significant changes to the DELs for both RfR1 and 2 arising from the Estimate for Resources are:

2.1 various transfers to and from other government departments under RfR 1 which net to an outflow of £164.796 million and an inflow under RfR 2 of £67.200 million;

2.2 to draw down the Department's Unallocated Provision of £885.000 million to meet additional requirements for depreciation and provisions;

2.3 to increase Non-Budget Expenditure by £267.606 million to reflect the impact of the revised Treasury discount rate on provisions;

2.4 to reduce resource provision by £65.000 million to reflect a technical agreement agreed in the 2004 Spending Review relating to changes in the handling of cash release of provisions;

2.5 to transfer £54.971 million from RfR 1 to RfR 2 to cover cost of capital and depreciation charges associated with fixed assets purchased under Urgent Operational Requirements (UORs);

2.6 to increase RfR2 by £933.565 million to reflect the costs of peace-keeping in Iraq and Afghanistan;

2.7 there are also Appropriations in Aid of £10.000 million and a small Grant in Aid of £0.175 million.

3. Under Annually Managed Expenditure (AME) the most significant changes arise from:

3.1 a reduction in AME of £43.825 million to reflect TLB forecasts, principally relating to the reduction of nuclear provisions;

3.2 a reduction in AME of £107.683 million to reflect the impact of the transfer of civil nuclear liability provisions to the Department of Trade and Industry (DTI);

3.3 an increase in War Benefits Programme costs to cover additional widows' payment expenditure of £4.000 million.

4. The change in the capital element of the DEL arises from:

4.1 in recognition of a Capital DEL reduction of £15.000 million in RfR1, the advanced purchase of programmed equipment as UORs, under RfR2 in 2004–05;

4.2 a reduction of capital provision by £55.000 million to reflect a technical agreement in the 2004 Spending Review relating to changes in the handling of cash release of provisions;

4.3 an increase in Capital Appropriations in Aid of £27.857 million relating to the redemption of preference shares held by the MOD in QinetiQ;

4.4 an increase in RfR 2 Capital DEL of £329.997 million to reflect the costs of peace-keeping in Iraq and Afghanistan.

5. Detailed explanation of the changes

5.1 The Other Government Department transfers outlined in the Introduction to the Estimate Memorandum are analysed in the table below:

**Table 2**

SUMMARY OF TRANSFER TO/FROM OTHER GOVERNMENT DEPARTMENTS

<i>Detail</i>	<i>Giving/Receiving Dept</i>	<i>RDEL £ million</i>	<i>RfR</i>
Funding for centralised admin. facilities	Cabinet Office	0.104	RfR1
Extension of the aircraft out of service date for Operations	Foreign & Commonwealth Office	2.100	RfR1
Start up cost for the Nuclear Decommissioning Agency	Department of Trade & Industry	(167.000)	RfR1
Balkans Conflict Prevention Pool contribution	Foreign & Commonwealth Office	64.000	RfR2
Rest of the World Conflict Prevention Pool contribution	Foreign & Commonwealth Office	3.200	RfR2
<b>TOTAL</b>		<b>(97.596)</b>	

Request for Resources 1: Provision of Defence Capability:

*Draw down of Department Unallocated Provision—£885.000 million*

5.2 The latest forecasts of Indirect Resource spend from Top Level Budget Holders indicated that the Department would need to draw down the Department Unallocated Provision of £885.000 million to ensure that sufficient resources were available for the current year.

5.3 The draw down includes cover for the following redundancy provisions which have not been disclosed on the face of the Spring Supplementary Estimate. The terms of redundancies associated with drawn down of forces in Northern Ireland have not yet been finalised. The value of the provisions thus represents a judgement of the possible cost. They are shown in the table below:

**Table 3**

NEW PROVISIONS RAISED—RESOURCE

<i>Provision Detail</i>	<i>£ million</i>	<i>TLB</i>
DARA and ABRO	43.000	Centre
Northern Ireland—civilian	56.383	Centre and Defence Estates
Northern Ireland—military	173.320	Adjutant General
<b>Total</b>	<b>272.703</b>	

*Cash Release of Provisions—£65.000 million RDEL & £55.000 million CDEL*

5.4 This reflects agreement in the Spending Review 2004 that certain increases in cash releases of provisions above previous estimates would result in reductions in near cash RDEL and CDEL.

*Transfer of IRDEL from RfR 1 to RfR 2—£54.971 million*

5.5 The transfer of £54.971 million Resource from RfR 1 to RfR 2 is to cover cost of capital and depreciation charges associated with fixed assets purchased under Urgent Operational Requirement arrangements. These are continuing non-cash charges associated with holding these assets for as long as they are required. The cash procurement and running costs of these equipments while being used on operations are met from the Contingency Reserve.

5.6 The internal funding transfer, rather than asking Treasury for a draw down on the reserve, was also adopted in 2004–05.

*Resource Appropriations in Aid—£10.000 million*

5.7 The Central TLB income forecast for the year is £10.000 million above the control totals issued at Main Estimates. The £10.000 million adjustment has been made so that we retain the resource at year end.

*Grant In aid—£0.175 million change*

5.8 Until now, it had been assumed that the insurance risks of the Royal Hospital Chelsea (RHC) and National Army Museum (NAM) would be underwritten by MoD. However, Charity Commission guidance and Government Accounting rules make clear that MoD should not be providing indemnity to independent bodies, even if they receive the majority of their funding from Central Government. Because of this, insurance brokers have been instructed by the trustees of both organisations to test the market for appropriate and cost effective insurance. These costs are £0.130 million for the RHC and £0.045 million for the NAM. This is reflected in the transfer from “other current” to “grants” of £0.175 million.

*Non Budget Expenditure—£267.606 million*

5.9 The Treasury discount rate was reduced from 3.5% to 2.2% effective 1 April 2005. The net impact on the non-budget areas of the Department is a forecast increase in non-budget expenditure of £267.606 million. This has been allocated across all TLBs.

*QinetiQ Flotation*

5.10 The estimate does not include any anticipated receipts from the QinetiQ flotation in order that we do not compromise our ability to gain best value from the flotation.

*Annually Managed Expenditure—net reductions of £43.825 million and £107.683 million*

5.11 The £43.825 million reduction relates to TLB forecasts (Fleet, DLO, CJO and Centre)—principally for the impact of the reduction in nuclear provisions.

5.12 The £107.683 million reduction relates to the transfer of MoD civil nuclear liability provisions to the DTI, as part of the start up costs for the newly established Nuclear Decommissioning Authority. The AME reduction from the DPA has been agreed with the DTI, who have incorporated these costs as an addition in their Spring Supplementary Estimate.

CAPITAL

*UORs—reduction of £15.000 million*

5.12 The reduction in CDEL for 2005–06 reflects the advance purchase of previously planned equipment purchases under the Urgent Operational Requirements procedure in 2004–05, the costs at the time being met by the Treasury Reserve. With the equipment already purchased, the MoD’s Capital DEL requirement this year is correspondingly less.

*Preference Share Redemption—£27.857 million*

5.13 This relates to the preference share redemption from QinetiQ, which HM Treasury have agreed is retained as CDEL.

*Top Level Budget (TLB) Sub Head changes*

5.14 The changes under these sub-headings reflect alterations to TLB allocations of Resources and Capital funding as detailed in the Estimate, and to bring the allocations into line with responsibility transfers

between TLBs and other adjustments to reflect the defence outputs required since WSE. These comprise a large number of individual charges, but reasons for some of the more significant allocations are set out in the table below:

**Table 4**

## MAJOR TLB RE-ALLOCATIONS

<i>TLB Sub Head</i>	<i>RDEL Direct £ million</i>	<i>Capital £ million</i>	<i>Notes</i>
DLO	13.900		1
DPA	(80.000)	80.000	2
DPA	(13.900)		1
LAND	(1.500)		3
DLO	1.500		3
Total	(80.000)	80.000	

Notes:

1. Transfer of £13.900 million RDEL Direct from DPA to DLO reflecting a transfer of responsibility for equipment coming into service.
2. Transfer from RDEL to CDEL of £80.000 million to reflect accounting treatment for project post main gate expenditure originally classified as RDEL (research).
3. Transfer of AS90 repair cost from LAND to DLO.

## REQUEST FOR RESOURCES 2: CONFLICT PREVENTION

*Peace-keeping Costs*

5.15 This estimate covers forecast peace-keeping costs for operations in Afghanistan and Iraq, based on our forecast at AP8. This expenditure is funded from the Treasury Reserve. The costs are as follows:

**Table 5**

## SUMMARY OF RESOURCES REQUESTED FOR OPERATIONS IN IRAQ AND AFGHANISTAN AT SPRING SUPPLEMENTARY ESTIMATES 2005-06

<i>Cost Type</i>	<i>Iraq—£ million 2004-05</i>	<i>Iraq—£ million 2005-06</i>	<i>Afghanistan—£ million 2004-05</i>	<i>Afghanistan—£ million 2005-06</i>
Cash Resource Costs	732.300	784.877	48.900	148.688
Capital Costs	218.500	259.944	3.600	70.053
Non-cash Resource	23.900	53.215	0.300	1.756
Total	974.700	1,098.036	52.800	220.497

5.16 The Resource figures for Iraq and Afghanistan also include in the £54.971 million of non-cash Resource transferred from RfR1 to cover depreciation and cost of capital charges associated with equipment purchased under Urgent Operational Requirements arrangements.

5.17 The estimate includes cover for the planned operations in Afghanistan, which may occur later this year.

*Conflict Prevention Pool costs—£67.200 million*

5.18 This element of RfR2 covers the Programme Conflict Prevention Pool Programme Costs relating to MoD activities in the Balkans and the rest of the world. All of this expenditure is covered by PES transfers from the Foreign & Commonwealth Office, as detailed in the transfer section.

## REQUEST FOR RESOURCES 3: WAR PENSIONS AND ALLOWANCES, ETC

AME—£4.000 million

5.19 At the Veterans Summit on 14 March 2005, the Minister for Veterans announced an increase of £2 per week in the War Widows Supplementary Pension. This benefits approximately 40,000 widows. This is paid to reflect the fact that these widows did not benefit from the improvements made to the occupational Armed Forces Pension Scheme introduced in 1973.

5.20 Whilst the increase was effective from 6 April 2005, it could not be paid until the related legislative amendments were made (laid before Parliament on 7 June 2005).

## 6. IMPACT ON THE DEPARTMENT'S PUBLIC SERVICE AGREEMENT (PSA)

6.1 As at 30 September, when the latest report was compiled, we are "On Course" to meet our SR2004 PSA targets for Operations, Readiness, Manning and European Security. We are reporting "Slippage" against our Procurement target and are "On course with some slippage" against the Conflict Prevention target. In addition we are "On Course" to meet both our SR2002 PSA Value for Money and SR2004 Efficiency targets. Further information is available on the MoD website.

## 7. NET ADDITIONAL CASH REQUIREMENT—£1,889.814 MILLION

7.1 Cash projections from the MoD Treasury Management Team indicate a possible cash outflow of circa £31.500 million. This amount has been factored into the requirement above.

## 8. DEPARTMENTAL EXPENDITURE LIMIT

8.1 The Supplementary Estimate will increase the MoD Resource DEL to £33,727.344 million and the Capital DEL to £6,798.278 million as set out in the table below:

Table 6

## DEL CHANGES AT SPRING SUPPLEMENTARY ESTIMATES

	<i>£ million Change</i>	<i>New DEL Voted</i>	<i>£ million Non-voted</i>	<i>Total</i>
Resource	770.794	33,330.552	396.792	33,727.344
Capital	259.997	6,797.534	0.744	6,798.278
Depreciation*	272.703	(8,168.297)	—	(8,168.297)
Total	1,303.494	31,959.789	397.536	32,357.325

\*Depreciation, which forms part of Resource DEL, is excluded from the total DEL since capital DEL includes capital spending and to include depreciation of those assets would lead to double counting.

The table below sets out the changes which the department has made to its Departmental Expenditure Limits in the current year.

Table 7

AUDIT TRAIL OF SUPPLEMENTARY ESTIMATE CHANGES SINCE  
MAIN ESTIMATES: 2005–06

<i>Detail</i>	<i>Voted £ million</i>	<i>Non-Voted £ million</i>	<i>Total DEL £ million</i>
<b>Resource</b>			
1 April 2005	31,223.934	1,281.792	32,505.726
Changes announced at the Winter Supplementary Estimate	450.824	0	450.824
Changes announced at the Spring Supplementary Estimate (Including DUP)	1,655.794	(885.000)	770.794
Total Resource Departmental Expenditure Limit	33,330.552	396.792	33,727.344

<i>Detail</i>	<i>Voted £ million</i>	<i>Non-Voted £ million</i>	<i>Total DEL £ million</i>
<b>Capital</b>			
1 April 2005	6,879.256	0.744	6,880.000
Changes announced at the Winter Supplementary Estimate	(341.719)	0	(341.719)
Changes announced at the Spring Supplementary Estimate	259.997	0.744	259.997
Total Capital Departmental Expenditure Limit	6,797.534	0.744	6,798.278
<b>Depreciation</b>			
1 April 2005	(7,556.000)	0	(7,556.000)
Changes announced at the Winter Supplementary Estimate	0	0	0
Changes announced at the Spring Supplementary Estimate (Including DUP)	(612.297)	0	(612.797)
Total Depreciation	(8,168.297)	0	(8,168.297)
Total DEL	31,959.789	397.536	32,357.325

*\*Depreciation, which forms part of Resource DEL, is excluded from the total DEL since capital DEL includes capital spending and to include depreciation of those assets would lead to double counting.*

14 February 2006

#### **Letter from the Ministry of Defence to the Clerk of the Committee on the Votes A for financial year 2006–07**

A copy of the MoD Votes A for financial year 2006–07, which is being laid before the House, is attached. As the Committee knows, Votes A provide the formal mechanism by which Parliament maintains control over the maximum numbers of personnel maintained for service with the Armed Forces. The Vote forms part of the Parliamentary Supply process and is presented to the House by the Secretary of State for Defence shortly before the start of the financial year.

As confirmed by the Secretary of State for Defence in his Written Ministerial Statement dated 6 December 2005 (Hansard 6 Dec, Col 86WS), the presentational format of Votes A has changed. The figures for the “Commonwealth troops in the United Kingdom” category will no longer be reported, and the numbers of the Queens Alexandra’s Royal Army Nursing Corps (QARANC) and Princess Mary’s Royal Air Force Nursing Service (PMRAFNS) will be incorporated into those of the Regular Army and Regular Air Force.

All figures have been scrutinised to ensure that sufficient contingency has been included to allow for any unforeseen upward movement in numbers during the year.

By comparison with the current financial year’s Votes A figures, this submission shows the following changes:

- Regular Naval Forces have decreased by 2,130 and Reserves Naval forces by 650. Special Members have increased by 1,720 to reflect the gradual transfer in of Royal Fleet Auxiliary (RFA) personnel from 1 April 2006. The current RFA personnel will become Special Reservists on a voluntary basis but new entrants will be automatically enlisted as part of newly revised terms and conditions of service.
- Regular Army Forces have decreased by 1,535 to reflect the planned reductions in trained and untrained manpower, whilst both Reserves and Special Members remain unchanged.
- Regular Air Force shows a decrease of 3,820. There are no changes to either the Reserves or Special members of the Reserved Air Force.

14 February 2006

## Second Memorandum from the Ministry of Defence on the Spring Supplementary Estimates 2005–06

You sought further details of the Department's estimated expenditure in Request for Resources 2 (RfR2), which relates to Conflict Prevention

### RESOURCE DEL

Table 1 below breaks down the Department's estimate for Direct Resource Expenditure in RfR2 in Iraq and Afghanistan.

**Table 1**

#### MAKE UP OF IRAQ AND AFGHANISTAN RESOURCE DEL ESTIMATE

<i>RDEL Expense Category</i>	<i>Iraq—£ million</i>	<i>Afghanistan—£ million</i>
Service Manpower	80.278	7.172
Civilian Manpower	11.688	1.116
Infrastructure costs (1)	84.082	25.663
Equipment Support (2)	243.097	14.832
Other Costs & Services (3)	103.984	46.070
Income foregone (4)	3.812	5.917
Stock Consumption	202.936	33.918
Contingency (5)	55.000	14.000
<b>Total Direct Resource DEL</b>	<b>784.877</b>	<b>148.688</b>

#### Notes:

- (1) Establishment of forward/deployed operating bases.
- (2) Maintenance and small repairs to equipment.
- (3) Consumables and other miscellaneous costs.
- (4) Income that we would have generated if the operation had not taken place.
- (5) Contingency—to allow for changes in requirements

The Resource DEL costs were based on the Department's Top Level Budget (TLB) forecasts as at Accounting Period 08 (ie November 2005).

### CAPITAL DEL

The Department's estimate for Capital Expenditure in Request for Resources 2 relates principally to equipment purchased as Urgent Operational Requirements (UORs) and accelerated capital repair costs on equipment in operational use.

Table 2 below breaks down the Department's estimate for Capital DEL in RfR2 in Iraq and Afghanistan.

**Table 2**

#### MAKE UP OF IRAQ AND AFGHANISTAN CAPITAL DEL ESTIMATE ESTIMATE

<i>CDEL Expense Type</i>	<i>Iraq—£ million</i>	<i>Afghanistan—£ million</i>
UORs and Recuperation	199.944	53.053
Contingency	60.000	17.000
<b>Total Capital DEL</b>	<b>259.944</b>	<b>70.053</b>

The majority of UORs, authorised over the last year, relate to Force Protection (around 87%), helicopters, communications, surveillance equipment, and medical equipment.

You also asked for an explanation of why these increases were not foreseen at the time of Winter Supplementary Estimates, noted that there have been such increases in successive years and asked in what ways MoD was seeking to improve its forecasting of costs for such operations. I should perhaps make clear that historically the Department has not made any requests under RfR 2 at either Main Estimates or Winter Supplementary Estimates for the costs of operations. The Spring Supplementary Estimates is the first time that we request such resources and we do so then for the total forecast expenditure for the whole year.

That is not to say that we do not forecast and monitor expenditure on operations throughout the year. Indeed each TLB does so from the start of the financial year. You will appreciate, however, that, because of the nature of operations, there are usually significant changes in the demand for military involvement in conflict prevention activities through the year and it is often not possible to estimate the likely cost of any major new operations with accuracy early on. As a result forecasts will fluctuate during the year, and so, with the agreement of HM Treasury, we await the Spring Supplementary Estimates before requesting the additional resources, thereby ensuring the Estimate is as accurate as possible. In the meantime we provide regular information to HM Treasury, which includes a best estimate of outturn.

We have a robust system in place to ensure that our forecasting is as accurate as possible. It includes the following elements:

- Consultation with the Army's Management Accountancy Services and the Defence Internal Audit organisations to monitor and report on best practice for cost gathering;
- provision of comprehensive instructions to TLBs on accounting for, and forecasting of, conflict prevention costs on an annual basis;
- regular monitoring of costs, and liaison with TLBs to ensure that their forecasts are robust;
- regular liaison with operational experts to ensure that costings reflect the latest known position;
- regular liaison with HM Treasury to keep them fully informed on best estimate of outturn;
- annual audit of the Conflict Prevention costs contained within the Annual Report and Accounts. Hence the final 2004-05 outturn costs for Conflict Prevention have been audited by the National Audit Office (NAO), who were satisfied that these costs had been captured and reported correctly.

6 March 2006

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### **Third Memorandum from the Ministry of Defence on the Spring Supplementary Estimates 2005–06**

*You sought further details on the rationale, and the historical basis, for the Ministry of Defence seeking Parliamentary authority for expenditure on operational deployments (including those of a long-term and anticipatable nature) only in the Spring Supplementary Estimates.*

Expenditure on operations such as those in Iraq and Afghanistan varies depending on troop numbers, activities and force protection requirements. As a consequence we cannot provide a detailed forecast at the beginning of the financial year that is accurate to the standards which we would normally place before Parliament for figures for that financial year. At the time the Winter Supplementaries Estimates are prepared, the most up to date financial information on operations would be complete up to August: clearly much can change between then and the end of the year. We have therefore historically taken the view that it would be better to wait to provide a forecast until later in the year when the underpinning figurework is more robust and we have a more detailed understanding of the likely operational profile to the end of the year. We have therefore delayed the Estimate for operations such as Iraq and Afghanistan to Spring Supplementaries.

Funding for the operations in the Balkans, which is now considered to be financially stable, is currently sought by the FCO at Main Estimates, and transfer made to MoD at Spring Supplementary Estimates.

*You asked why we judge we need to include such a large element of contingency, so near to the end of the financial year and how each of the contingency figures given in Table 1 and Table 2 of our memorandum of 6 March were calculated.*

The Request for Resources is based upon forecast costs two thirds of the way through the financial year. Due to the often rapidly changing operational situation it is prudent to include a contingency figure within the estimates. This figure is based upon a comparison of previous years' final outturn figures and the latest forecasts available when we prepare Spring Supplementaries (effectively November), and an analysis of past UOR costs to give an indication of potential short notice operational equipment requirements.

More specifically, in Direct Resource DEL the contingency figure for Afghanistan was added because when we prepared the Estimate there were remaining uncertainties over the planned expansion of our commitments. In the case of Iraq the contingency of £40 million represents only around 5% of the total cost and reflects the uncertainties mentioned above. In addition to this HM Treasury has recently approved additional expenditure for equipment support to the Iraq Security Services of which £15 million is expected to be expended in this financial year.

In Capital DEL the bulk of the contingency arises from our need to be able to respond to the rapidly evolving threat to our forces on both a tactical and technical level. Against that need we seek additional funding for unforeseen Urgent Operational Requirements (UORs) for the purchase of, for example, force protection equipment.

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*You asked what the “income foregone” in Table 1 is, in respect of each operation.*

When bidding for RFR1 at Main Estimates the MoD reduces its request by known income generating activities from spare capacity. This anticipated receipt is included in the “Appropriation in Aid” section in the Main Estimate. If during the course of the year this spare capacity is used on operational activities and the expected income is foregone, the loss of programmed income is a legitimate charge to the operation.

*You asked if all the costs of overseas operations fall under RfR2 (“conflict prevention”).*

MoD charges the net additional costs it has incurred on the three Conflict Prevention Operations Op Telic (Iraq), Op Herrick (Afghanistan) and Op Oculus (Balkans) to RFR2. The costs that the Department would have incurred regardless of the operation taking place, such as wages and salaries, are not included. Savings on activities that have not occurred because of the operation—training exercises for example—are taken into account in arriving at the net figures.

The MoD also charges to RFR2 the cost of Conflict Prevention Programme expenditure. This is a number of peacekeeping strategies agreed by the Conflict Prevention Pool partners (MoD, FCO and DFID), the bulk of the MoD element of which is bid for at Main Estimates. The total estimated cost for 2005–06 is £51 million.

MoD conducts other overseas activities in support of UN and humanitarian aid activities which are funded either through RFR1 or on a repayment basis.

*You asked for the Department to provide a breakdown by financial year, and by purpose, of the £1 billion estimated cost of UK deployments in Afghanistan over the five years 2005–06 to 2009–10.*

As highlighted above, expenditure on operations varies depending on troop numbers, activities and force protection requirements. As a consequence we cannot currently provide a breakdown of the estimate that is accurate in detail to the standards which we would normally place before Parliament.

9 March 2006

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