



House of Commons
Defence Committee

**Ministry of Defence
Annual Report and
Accounts 2005–06:
Government Response
to the Committee's
Second Report of
Session 2006–07**

**Seventh Special Report of Session
2006–07**

*Ordered by The House of Commons
to be printed 6 March 2007*

HC 376
Published on 9 March 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

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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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at:

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Committee staff

The current staff of the Committee are Philippa Helme (Clerk), Eliot Wilson (Second Clerk), Ian Rogers (Audit Adviser), Stephen Jones (Committee Specialist), Adrian Jenner (Inquiry Manager), Richard Dawson (Committee Assistant), Sheryl Dinsdale (Secretary) and Stewart McIlvenna (Senior Office Clerk).

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. Media inquiries should be addressed to Alex Paterson on 020 7219 1589.

Report

The Defence Committee published its Second Report of Session 2006–07 on the Ministry of Defence Annual Report and Accounts 2005–06 on 13 December 2006, as House of Commons Paper HC 57. The Government's response to this report was received on 5 March 2007. This is appended below.

Appendix: Government response

Operational Performance Reporting

We strongly regret the MoD's refusal to supply us even with a classified summary of the information against which it assesses the success of its military operations. This makes it impossible for us to assure the House of the validity of its assessment. The Annual Report is strong on describing what the Armed Forces have been doing but weak on explaining how this is judged to have contributed to the achievement of its objectives. We hope that the MoD is right in assessing that it is on course to achieving its military objectives in Iraq and Afghanistan but the Annual Report does not provide us with the evidence to support this assessment. We accept that there are limitations to what can be said in public but do not believe that this absolves the MoD from the responsibility to provide a proper account of its performance against this key target. We recommend that, in future Annual Reports, the MoD publish clear performance indicators against which performance against target 1 is to be judged. If it cannot provide evidence for its performance against the target, the MoD must accept that, in this form, it is not a sensible target for PSA and Annual Report purposes. (Paragraph 10)

1. As the Committee has noted, success on military operations is our key target; this is the fundamental purpose of the Ministry of Defence and the Armed Forces. We agree entirely with the Committee that we have a responsibility to provide a proper account of how we are performing. In addition to the very considerable amount of information provided to Parliament and the media on a daily basis on operations in Iraq and Afghanistan, we also provide a periodic and formal overall assessment through our Public Service Agreement and Annual Performance Reports. Our reporting is underpinned by an appropriate and robust system for judging performance on operations and military tasks against the objectives established by Ministers, as explained in our supplementary memorandum to the Committee and published in its report. This system is scrutinised by the National Audit Office. In its recent Third Validation Compendium Report on the quality of data systems underpinning Public Service Agreement targets, published on 19 December 2006, the National Audit Office concluded that "the data system is fit for the purpose of measuring and reporting performance" against this target. The National Audit Office also reported that it found no weaknesses in the quality of disclosure of Ministry of Defence public performance reports. We believe that this should provide the Committee and Parliament with substantive assurance of the validity of our formal assessments of success on military operations.

Conflict Prevention Reporting

It is useful to have a joint peacekeeping target given the joint nature of the Government's undertaking in many areas of operations. But the performance indicators in target 2 are too outcome-oriented to be very effective as a measure of the MoD's performance. (Paragraph 12)

2. We agree with the Committee on the merits of a joint conflict prevention target covering the work of the Ministry of Defence, Foreign and Commonwealth Office (FCO) and

Department for International Development (DfID). The Public Service Agreement regime is designed to focus on outcomes rather than outputs, but in a joint target such as this that inevitably means it is more difficult to quantify the contribution made by individual Departments. We have therefore been working with the FCO and DfID to develop our performance reporting against this target in a way that maintains the essential joint overall assessment of performance, but brings out more clearly in future reporting the specific contributions that the Department concerned has made against individual performance indicators. We hope that this will go some way towards addressing the point identified by the Committee, although the nature of international conflict prevention work is such that it is unlikely ever to be possible to assess with precision how effective such contributions have been in achieving the overall outcome.

Readiness

The MoD's performance against its force readiness targets has deteriorated in recent quarters on account of the current level of operational deployments. In the circumstances this is understandable. Over 30% of units are showing serious or critical weaknesses against both their peacetime readiness levels and their ability to generate from peacetime readiness to immediate readiness for deployment. This gives us cause for concern. (Paragraph 16)

It is clear that the current level of commitments is impacting on training. Over time this will impact on military effectiveness and in the Armed Forces' ability to "fight the next war" which could present entirely different challenges. In view of the crucial importance of training to the quality of our Armed Services, this is of the deepest concern to us. We expect the MoD to address the shortfall in the provision of training for contingent operations as a matter of urgency. (Paragraph 61)

3. As the Committee notes, our continuing high level of operational commitment has limited our ability to maintain the high level of performance against our force readiness targets achieved during 2005–06. We monitor this closely. Our most recent assessment was set out in the Autumn Performance Report published in December 2006. In it, we forecast that Defence will meet the Public Service Agreement target of 73% of force elements showing no serious or critical weakness against their required peacetime readiness levels in April 2008, but that we are likely to dip below it in the meantime. The 1% shortfall against the 71% target of force elements reporting no serious or critical shortfalls against the ability to generate from peacetime to immediate readiness is also a reflection of the current level of operational commitment and the adjustments made to optimise force preparation for current operations. The target does not measure risk against our ability to meet our current operational commitments.

4. We are very conscious of the pressure of operational tempo on all aspects of training, as the Annual Report and Accounts 2005-06 made clear, and the amount of collective training conducted for contingent operations has reduced. Our principal focus is to deliver Pre-Deployment Training to a sufficient standard to support current operations. This we continue to do, but at present there is insufficient capacity to conduct a full training programme for general war fighting tasks, particularly for the Army. This is not something that can be easily redressed simply by providing extra resources, as the National Audit Office recognised in its 2005 report into Assessing and Reporting Military Readiness. Our

military personnel, particularly in the Army, are engaged to such an extent on supporting and sustaining our current operational commitments that they do not have the time available to conduct the level of collective training needed to prepare fully for other contingent operations. It is therefore not possible to address this shortfall as the Committee seeks without reducing the standard of training and preparation for the operations we are currently fighting. We do not think this would be the right thing to do. The current position inevitably has a medium to long-term impact on readiness for contingent operations. We are analysing the qualitative impact of this and are developing a programme aimed at restoring the full capability to conduct all types of military operations as soon as possible after commitments return to the levels assumed in the Defence Planning Assumptions.

Support to Operations

We remain concerned at the availability of serviceable battlefield helicopters, especially support helicopters, in Iraq and Afghanistan. We welcome the MoD's response that the potential use of private lease helicopters would remain under consideration. In Afghanistan the MoD should first press NATO partners to provide additional helicopter support. (Paragraph 24)

We are concerned about the reliability of the airbridge between operational theatres and the UK, which has implications both for morale and for operational effectiveness. If the MoD is committed to the expeditionary approach, it must ensure that it has sufficiently reliable transport aircraft to deliver its troops to theatre. We look to the MoD to provide the case to the Treasury for a significant increase in investment in the transport fleet. (Paragraph 27)

5. We note the Committee's concerns over the availability of battlefield helicopters and the air transport fleet. Senior commanders continue to judge that deployed forces are receiving sufficient helicopter support to fulfill current tasks, although they could of course do more if they had additional resources. As we have made clear, the situation is kept under constant review. We deployed two additional CH47 helicopters to Afghanistan over the period August to September 2006 and we also increased available flying hours, following previous reviews. All available options, including innovative solutions such as the leasing of commercial aircraft, will remain under consideration as necessary to meet any requirement for additional intra-theatre helicopter lift capability.

6. Strategic airbridges to operational theatres carry an inherently higher risk of delay and disruption than civilian air travel, due to threat levels, more basic levels of infrastructure at deployed air fields, and the weather and climatic conditions encountered. We are already making or planning for large investments in the air transport fleet, in particular through the A400M and Future Strategic Tanker Aircraft projects. We are also acquiring a fifth C-17 transport aircraft, as announced in August 2006, which is due for delivery in 2008 alongside the procurement of the four C-17 aircraft currently leased from Boeing. While these programmes will provide a robust medium to long-term solution, they do not provide immediate relief; we are well aware of the shortcomings of the current airbridge and apply much effort to its management. Airbridge reliability is affected by the availability of suitably protected TriStar aircraft able to fly directly into operational theatres and a number of other factors. The following work is underway:

- **Airbridge Review.** The Chief of the Air Staff has directed an end-to-end review of the airbridge. Senior stakeholders drawn from MoD Headquarters, the Permanent Joint Headquarters, Defence Supply Chain Operations and Movements and the Front Line Commands are considering further opportunities for improvements to the current and planned processes. Army and Royal Navy staff have formed a customer-focused team to review and assess the infrastructure, processes and procedures underpinning the airbridge;
- **Improvements to RAF Main Air Transport Bases.** A number of material and process changes have been made recently to the airbridge, with improvements implemented to facilities at both RAF Brize Norton and RAF Akrotiri. For example, at Brize Norton a new café has been opened and a passenger information helpdesk/helpline has been established.
- **Improvements to Kandahar Runway.** Following the refurbishment of the runway at Kandahar Airfield, UK troops deploying to Afghanistan now fly directly to Kandahar rather than transiting through Kabul. This reduces the journey time for UK troops and releases approximately 12 hours of C130 flying time per week, to be made available to the International Security Assistance Force effort. The improvements have simplified the airbridge task by avoiding the transfer of passengers to C130s within Afghanistan;
- **Forward Basing of TriStar.** We are also continually looking at ways in which we might improve the airbridge in terms of aircraft basing. Options such as forward-basing RAF Tristar aircraft are under consideration.

Manning Levels

The MoD broadly achieved manning balance in 2005–06 but this is largely explained by the fact that the manning requirement had been reducing. The crucial question is whether the manning requirement is sufficient. (Paragraph 37)

We note that the Armed Forces have been operating at levels well above the Defence Planning Assumptions. The manning requirement has not been adjusted to take this into account. The MoD can no longer rely on the current level of operational deployments being a temporary aberration: it should revise its manning requirement upwards to fit the realistic need. (Paragraph 39)

7. We note the Committee's views. As was brought out in evidence to the Committee, there are some identifiable respects in which the level of commitment is likely to reduce in the coming years. Examples include the drawdown of troops in Bosnia announced on 1 March, which will free up some 600 troops, and the reposturing of UK forces in Iraq announced by the Prime Minister on 21 February, which will allow us to reduce our commitment to Op TELIC by 1,600 troops later this year. This will result in net decrease in the numbers of troops deployed overseas on operations even in light of our decision to increase our commitment to NATO in Afghanistan, an increase of around 1,400 troops.

Retention

While overall exit rates have risen slightly over the last two years, there is no evidence that reported overstretch has led to a mass exodus. Nevertheless there is a risk that pressures rise to a point at which Service personnel—or their families—feel that enough is enough. The MoD must monitor closely any indications of retention problems arising. (Paragraph 45)

We welcome the MoD’s decision to introduce financial initiatives to aid retention. (Paragraph 46)

We welcome the MoD’s decision to pay an operational bonus to Armed Forces personnel and trust that it will be annually updated. (Paragraph 47)

While the overall manning balance may be within acceptable levels the number of trades experiencing shortages of personnel has increased since 2004–05. Although we have received no evidence that our Armed Forces are operating with anything other than their usual professionalism, the growing number of manning pinch points risk impacting on long-term effectiveness. (Paragraph 51)

We welcome the decision of the MoD to implement the recommendations of the Armed Forces Pay Review Board to increase the pay of medical personnel. We consider the decision to remove the disparity between the pay of Service medical personnel and their civilian counterparts to be helpful in addressing shortfalls in this key skill area. We look to the MoD to address other manning pinch points in a similarly imaginative way. (Paragraph 53)

8. We welcome the Committee’s recognition of the professionalism and commitment of our Service personnel, and its endorsement of the measures we have taken to address particular pinch points and retention concerns. We continue to keep these under close review and do not take the present relatively steady voluntary outflow rates for granted. Data on gains to trained strength and voluntary outflow rates are reviewed by the Defence Management Board and Ministers on a quarterly basis and we report publicly every quarter on our performance against Public Service Agreement Target 5.

9. Overall across the Armed Forces retention is generally satisfactory, although in some areas exit rates are higher than we would like, requiring us to work hard at retaining people in these areas. We aim to maintain stable levels of retention through policies that genuinely reflect the priorities of our people and their families whilst optimising their operational effectiveness. We therefore use measures such as Commitment Bonuses, Re-engagement Packages and initiatives to improve work/life balance and working conditions at the front line to improve retention. We will continue to consider how best to address any shortfalls of particular concern, including through financial incentives where these are judged to be likely to be effective and represent value for money. On 1 March the Government accepted the Armed Forces Pay Review Body (AFPRB) recommendation to introduce additional targeted Financial Retention Incentives for Royal Marine and Infantry Other Ranks, and an extension to the Aircrew Financial Retention Incentive, in order to meet specific challenges in retaining our experienced people.

10. The Government has also accepted the AFPRB recommendations regarding pay and allowances. As a result, the basic military salary for officers and all other ranks will increase by 3.3%. In addition, a restructuring of Pay Range 1 will see those on the lowest pay level, some 13,000 servicemen and women, receive a total pay increase of 9.2%. A further 6,000 service personnel on the next lowest level will receive 6.2%. The rates of Specialist Pay (including Flying Pay, Submarine Pay, Diving Pay and Hydrographic Pay) will increase by 3.3%.

11. We also continue to work to improve living accommodation, have improved travel allowances to permit personnel to get home more easily and continue to refine the Operational Welfare Package. The initial 100 day qualifying period for Longer Separation Allowance will be removed and all levels increased by 3.3% from 1 April. The tax free Operational Allowance introduced in October last year has so far been paid to some 31,000 servicemen and women who have served in Iraq, Afghanistan and the Balkans since 1 April 2006. The next review of the daily rate will be undertaken following the Budget Statement.

12. In total, around £350 million more per year will be going into pay and allowances: £280m more in pay and £67 million more for the operational bonus each year.

Personnel Information Systems

We are concerned that the Royal Navy and Army information systems which record individual Separated Service are inadequate. We look forward to the speedy and effective implementation of the Joint Personnel Administration programme. (Paragraph 58)

13. Reporting on individual separated service levels is included within our quarterly reports on performance against our Public Service Agreement, although as the Committee notes, it is not yet as robust as we would like. The Joint Personnel Administration (JPA) system was rolled out on time to the RAF for the April 2006 pay-run. There were some initial problems associated with basic performance, Specialist Pay and expenses, but there are now no systemic problems with the delivery of RAF pay and allowances. Roll out of JPA to the Royal Navy began in October 2006 as planned, the first RN JPA payroll in November 2006 was successful, and by the end of December 76% of Royal Navy personnel had completed their initial log-in to the JPA system. Army roll-out from March 2007 remains on track.

Pressure of Operations

Nearly one fifth of Armed Forces personnel were deployed on operations and military tasks in 2005–06 and this level has been maintained into the first quarter of 2006–07. While it is anticipated that there will be a force drawdown in Iraq during 2007, operations in Afghanistan and Iraq are at vital stages and success in either operation is not assured. The level of demand on our Armed Forces could well continue throughout 2007 and beyond. The possibility of significant additional resources being deployed to Afghanistan, in particular, remains real. The current level of deployments poses a significant risk to the MoD achieving success in its military objectives. (Paragraph 66)

Whether UK Armed Forces are stretched or overstretched is a matter for continued debate. What is certain is that they are operating in challenging conditions in insufficient numbers and without all the equipment they need. With problems of undermanning continuing, there is a clear danger that the Armed Forces will not be capable of maintaining current commitments over the medium-term. (Paragraph 67)

To some extent this strain on our Armed Forces reflects the inability of some NATO allies to generate forces. This is regrettable and raises a question over whether this new direction for NATO is sustainable. Minister should make strong representations to those allies to ensure they understand the implications of failure of the Alliance. (Paragraph 68)

14. We keep this under close review. As set out in the Autumn Performance Report, we continue to make progress, despite considerable challenges, towards achievement of the military strategic objectives set for the operations and military tasks we are conducting, although delivery has only been possible by consistently operating above the level of concurrent operations which our force structure assumes. We judge that we remain on course to achieve these objectives, albeit with some risk. We agree that the Armed Forces are operating in challenging conditions, but the personnel and equipment deployed fully reflect military assessments of requirements as they have evolved over time. We believe we have a suitable process in place to meet the long term equipment needs of the Armed Forces and we have demonstrated sufficient flexibility to address short term requirements generated by operational experience. For example, well over £500 million of Force Protection Urgent Operational Requirements have been approved for Iraq and Afghanistan in response to the specific conditions and changing threat in theatre.

15. Meeting the shortfalls in the Combined Joint Statement of Requirements (CJSOR) is vital to mission success in Afghanistan. To this end, HMG has lobbied other NATO and non-NATO members to provide more on both the military and civilian front. This has been met with a degree of success, as illustrated by the recent announcements at the NATO Ministerial conference in Seville which included the German decision to deploy six Tornados for reconnaissance purposes, a Lithuanian SF package for the South, and more border guards from Italy. Nevertheless significant gaps in the CJSOR still remain and when it comes to the most demanding tasks such as those faced in Southern Afghanistan, only the UK and a small number of key allies are prepared to step forward.

16. That is why we announced on 26 February that an additional 1,400 troops will deploy to Southern Afghanistan later this year to consolidate and reinforce the progress we have made, creating the security and space for development and improved basic services to make a difference to the lives of ordinary Afghans. This decision was based on unequivocal military advice from the Chiefs of Staff both on the need to deploy the troops and that this additional commitment is manageable.

17. We believe that every NATO ally should be prepared to do more and continue to urge NATO allies and EU member states to invest in developing the expeditionary capabilities we all need and to take on their fair share of the burden and risk we face in delivering against the collective commitments we have made.

Efficiency

We restate our support for the MoD's efficiency programme and the need for MoD to proceed in consultation with staff representatives, particularly those staff employed by the DPA and DLO. (Paragraph 69)

We are pleased to learn that the MoD has made improvements to its method of measuring claimed efficiency savings: it is important that reported savings are based upon robust data. (Paragraph 87)

We congratulate the MoD for exceeding the efficiency gains expected in 2005–06 relating to the 2004 Spending Review Efficiency Target. We look to the MoD to continue to improve the way efficiency savings are measured, evidenced and validated to ensure that reported efficiency savings are accurate and complete. (Paragraph 89).

We would expect the merger of the Defence Procurement Agency and the Defence Logistics Organisation to result in efficiency gains. We look to the MoD to announce the likely scale of these efficiency gains and monitor whether they are delivered. (Paragraph 90)

18. We welcome the Committee's support for our efficiency programme and recognition of the significant achievements so far. By 30 September 2006 a total of £1,684 million of efficiencies had been achieved. We continue to track progress to ensure that the pace of achievement is sustained. Work continues to validate and further improve the way efficiency savings are measured in 2006–07 and 2007–08. As the Committee has noted, we made significant improvements in measuring and validating logistic efficiencies between 2004-05 and 2005-06. We will continue to learn lessons from our continuing audit and validation programme to support future efficiency claims.

19. The planned merger of the DLO and the DPA is driven principally by a desire to improve effectiveness in acquisition and enable a through life approach to the management of capability. However, there should be some efficiency gains although some, for example those arising from collocation of the DLO and the DPA, have already been assumed. In taking this forward we have continued to consult staff representatives in accordance with our agreements and obligations.

Diversity

We are very disappointed by the MoD's poor performance against its diversity targets. The UK Armed Services should reflect the people it serves and despite years of good intentions, the MoD has failed to achieve this. In addition the MoD seems to have little grasp of the reasons behind its failure to recruit black and ethnic minorities in sufficient numbers. We look to the MoD to give the issue of black and ethnic minority recruitment greater priority and recommend that it conduct research into why the Royal Navy and RAF in particular are failing to recruit sufficient numbers of ethnic minorities. We also recommend that the MoD learns from the experience of other organisations such as the Police who have increased their intake of ethnic minority personnel over recent years. (Paragraph 74)

Recent increases in the number of women entering the Services are welcome, and we accept that it will take time for this to impact on the number of women in senior ranks. The MoD should monitor the situation closely to ensure that there are no barriers to the career progression of able Servicewomen. We recommend that in future the MoD include in the Annual Report a table giving statistics for women in the Armed Forces by Service and by rank. (Paragraph 77)

We note the alarming levels of recorded sexual harassment experienced by women in the Services. We also note the MoD's determination to address the problem. We look to the MoD to make significant progress in reducing the incidents of sexual harassment in the Armed Forces and intend to monitor this issue closely. (Paragraph 79)

We are disappointed that the MoD continues to miss its diversity targets in relation to civilian personnel. (Paragraph 82)

20. We take our diversity goals and obligations very seriously. The Department has published an overarching Equality and Diversity Scheme covering the period 2006–2009. This sets out our arrangements for meeting our statutory general and specific duties for race, disability and gender. It also details our approach to other diversity strands (age, sexual orientation, religion or belief). The scheme is accompanied by an annual Action Plan with specific targets designed to ensure that we continue to make progress towards achieving the requirements of the Scheme. The specific targets for the Armed Forces in 2006–07 are:

- To increase the number of UK ethnic minority recruits by 0.5% above the previous year's achievement for each Service, or rolling forward the previous year's target where this would provide a greater challenge. This equates to a goal for the Royal Navy to recruit approximately 3.5% of its intake from UK ethnic minorities, the Army approximately 4.3% and the Royal Air Force about 3.6%;
- To continue to make progress towards achieving 8% representation of total strength in the three Services as a whole by members of the ethnic minorities (including Commonwealth recruits);
- To implement the actions arising from the Agreement with the Equal Opportunities Commission to prevent and deal with sexual harassment in the Armed Forces;
- Although the Armed Forces are to be exempt from the provisions of the Work and Families Bill, to carry out a review of the Armed Forces Occupational Maternity Scheme;
- To establish a methodology for collecting baseline statistics on the number of Servicewomen who return to work after the birth of a child and for how long.

21. We aim to reach 8% ethnic minority representation in the Armed Forces by 2013 (broadly in line with current ethnic minority representation in UK society) with an interim goal of 6% by 2006. We have already made substantial progress. From a baseline of just over 1% in 1999, ethnic minority representation in the Armed Forces has risen substantially. On 30 September 2006 it stood at 5.7%, slightly below the interim goal, having grown from 4.9% on 1 April 2004. (By comparison, on 31 March 2006 ethnic

minority representation in the Police Force was 3.7%, an increase from 3.3% on 31 March 2004). Our policies and practices stand up very well when benchmarked against other organisations. In 2006 the Army was judged by “Race for Opportunity” to be the top Public Sector performer for its race related policies and practices for the sixth year running and placed fifth nationally in both the Public and Private Sectors rankings, an improvement on previous years’ assessments. The Royal Navy and Royal Air Force also featured in the top ten of Public Sector organisations, being placed fifth and third respectively. The Services’ specialist Diversity Action Teams continue to engage with minority groups to raise awareness of Armed forces careers. Their efforts are concentrated on areas with large ethnic minority populations and are aimed at creating and building on ethnic minority community partnerships. The Armed Forces are keen to learn from the experience of other organisations, wherever possible. They entered into a formal Partnership Agreement with the Commission for Racial Equality in 1998 and regular meetings are held between representatives of the Commission and the Armed Forces. Recruitment is a standing item on the agenda for these meetings which provide an opportunity for the Commission to highlight examples of best practice from other employers. The Armed Forces’ membership of ‘Race for Opportunity’ and support for the ‘Next Step Foundation’ also provide opportunities to share experiences with a wide variety of employers. In addition, the Armed Forces are about to launch a research project into improving engagement.

22. The majority of posts in the Armed Forces are open to women (71% of posts in the Navy; 71% of posts in the Army; and 96% of posts in the RAF). Only cap-badged posts in the Royal Marines (General Service), the Household Cavalry and Royal Armoured Corps, the Infantry and Royal Air Force Regiment remain closed to women for reasons of combat effectiveness. For medical and health reasons, women are also not permitted to serve in submarines or as mine clearance divers. We continue to monitor progress closely. The Defence Analytical Services Agency publishes detailed information on women in the armed forces by Service and rank quarterly in Tri-Service Publication (TSP) 09. The strength of the Armed Forces by sex, rank and Service is also published in the annual Defence Statistics every autumn (tables 2.12 and 2.13 for 2005–06). In light of the Committee’s comments we will review how this data is presented in future, including in the Annual Report and Accounts.

23. We have made very clear that sexual harassment is not tolerated in the Armed Forces both in and of itself and because, like any form of harassment, it reduces operational effectiveness. We are committed, at the highest levels of leadership, to preventing and dealing effectively with it. We welcome the Committee’s recognition of this, and its intention to continue monitoring the issue closely. Our agreement with the Equal Opportunities Commission helps us both tackle the incidence of harassment and create an environment in which it is discouraged in the first place. The key to change is leadership but there are no quick fixes. It will take time, but we are determined to succeed. We are making clear that attitudes towards preventing and dealing with harassment must be considered in performance reporting, and are looking at the feasibility of a tri-Service system for monitoring the careers of parties involved in harassment complaints. We have recently issued revised harassment complaint procedures. We have introduced formal and informal complaints recording which will be the basis for monitoring the incidence of harassment and identifying lessons. We are currently conducting unit-level inspections to

evaluate the effectiveness of policy implementation and have recently launched a review of equality and diversity training.

24. We continue to improve the diversity of our civilian workforce, notwithstanding the constraints imposed by a demographic legacy of a historically predominantly male workforce and a continuing reduction in the size of the Department over more than fifteen years leading to very low promotion and refreshment rates and very few recruitment opportunities. We are committed to increasing numbers of staff from under-represented groups and to identifying and removing any barriers that prevent those groups from achieving their full potential. To support this, the department has agreed targets with the Cabinet Office to improve the diversity of the Senior Civil Service (SCS) and Feeder grades by 2008 and we are implementing associated actions, in accordance with the requirements of the 10 point plan, to increase diversity in our civil service. These actions are reflected in our Equality and Diversity Scheme Action plan. As a result of these actions we are seeing positive improvement in the numbers of individuals from under-represented groups participating in our development programmes at the SCS feeder grade levels, although these will take time to filter through as they are dependent on opportunities in the SCS becoming available. That we are seen to take this seriously is also demonstrated by a Silver Award in the 2006 Race for Opportunity benchmarking exercise, an improvement from Silver to Gold in Opportunity Now benchmarking, an improvement from 59th to 35th in Stonewall's 2005 Corporate Equality Index, and recent recognition as an exemplar employer for women in the UK by Opportunity Now. Such recognition supports our efforts to recruit and retain individuals from under-represented groups as we strive to be truly representative of the community we serve.

Acquisition Performance Reporting

The future focus of the new Defence Equipment and Support Organisation will be on the through-life support of equipment and there is a case for the MoD's PSA targets reflecting this. However we recommend that the MoD continue to report separately on its performance on equipment procurement so that year-on-year performance can be monitored. (Paragraph 84)

25. As the Committee notes, effective management requires monitoring performance year-on-year on a comparable basis. We therefore intend to continue reporting equipment acquisition performance as recommended, as well as ensuring we reflect through life support arrangements.

Defence Agencies

We accept that the arguments for giving parts of the Ministry of Defence separate agency status are finely balanced, and we are not opposed to the removal of agency status from small agencies. But we have two concerns. First, it would worry us if the trend against agencies was a symptom of a wider centralist tendency in the MoD, denying managers the freedom to manage effectively. Secondly, we are concerned that it may lead to a loss of transparency, if the ex-agencies no longer produce separate annual reports and accounts. (Paragraph 96)

We recommend that ex-Agencies continue to publish an account of their annual activities. The MoD must ensure that the apparent trend against Agency status does not lead to a loss of information and accountability. (Paragraph 97)

We commend the Department for the improved presentation of agency performance data in the Annual Report. (Paragraph 98)

While the appropriate number of targets may vary according to the nature of an Agency's responsibilities, we look to the MoD to ensure greater consistency in the number of targets set for Agencies and the level of challenge which they present. (Paragraph 99)

We intend to continue our programme of scrutiny of the work of Defence Agencies on a regular basis. (Paragraph 100)

26. The number of agencies in the Department continues to fall as the benefits derived from agency status have become embedded in the Department's overall business processes. The initiative for removing agency status rests with either the agency or its owner, but often follows on from a review of the agency and the environment in which it is operating. These reviews are generally conducted as a matter of routine about every three years. The main grounds for removing agency status are because the benefits are now outweighed by the additional costs associated with being an agency or in order to facilitate a wider internal re-organisation. The removal of agency status is not therefore symptomatic of a centralist tendency but reflects the department's success in delegating responsibility from the centre.

27. As the Permanent Secretary assured the Committee, it is no part of our intention to reduce Parliamentary scrutiny of defence business by reducing the number of agencies. We note the Committee's recommendation that former Agencies continue to publish an account of their annual activities. We take our reporting and accountability obligations seriously, but the logic which leads to removing agency status will sometimes make it inappropriate to report discretely on the area of work previously undertaken by an agency. Neither would it make sense for those organisations where there was little public interest even before agency status was removed. In the context of producing the Department's and Agencies Annual Reports over the coming months we will therefore consider how best we can respond to the Committee's reasonable wish that the amount and quality of our public reporting should not be materially reduced as a result of any removals of Agency status and make further proposals.

28. We welcome the Committee's continuing interest in the work and performance of Defence Agencies, and its endorsement of the improved presentation of their performance in response to its previous recommendations. As the Committee recommends, we will continue to work to maximise consistency in Agency targets and their level of challenge from one year to the next, but these will always change to some degree to reflect changes in their operating environment and the task and priorities placed upon them.

Annual Report and Accounts

We note that this is the third year running in which the MoD's resource accounts received an unqualified audit opinion and commend the Department on its achievement. (Paragraph 101)

We note that the MoD fulfilled its commitment to publish the Annual Report and Accounts 2005–06 before the Summer parliamentary recess. We look forward to the MoD publishing future Annual Reports in a similarly timely fashion. (Paragraph 102)

We congratulate the MoD for winning the ‘Building Public Trust Award’ for its Annual Performance Report. We look to the MoD to make further improvements in the presentation of the Annual Performance Report next year. A more extensive index, and greater use of cross-referencing, would be helpful. (Paragraph 103)

29. We welcome the Committee’s recognition of the quality and timeliness of the MoD Annual Report and Accounts for 2005–06. We intend to publish the Annual Report and Accounts 2006–07 before the Parliamentary summer recess. We have noted the Committee’s comments on presentation of the Annual Performance Report. We work to improve this every year. Insofar as we can within a very tight publication timescale we will try to meet the Committee’s request for a more extensive index and more cross-referencing in future.

Losses

We note that losses reported in the MoD’s 2005–06 Resource Accounts have reduced compared with the previous year. We look to the MoD to continue to take action to minimise losses in the future. (Paragraph 106)

Losses resulting from the UK government’s decision to withdraw from the Medium Range and Long Range Anti-Tank Guided Weapon System programmes total some £310 million. We accept that withdrawing from equipment programmes to reflect changing requirements can be a sensible management decision. We look to the MoD to ensure that the knowledge gained from participation in these programmes is utilised and that opportunities which may result in a return on the investment from the sale of these two equipments are pursued. (Paragraph 109)

30. As the Committee rightly expects, we continue working to minimise losses and ensure those that arise are managed properly. During 2006 we reviewed our internal processes, working with the National Audit Office, to ensure that they are clear and effective. We have now rationalised and updated our primary Joint Service Publication on financial management (JSP462), and work is in hand to do the same for the associated single service publications that refer to Losses and Special Payments. We also reviewed our internal training and awareness material to ensure that all staff understand the requirement for the timely management and reporting of losses. We have identified a number of areas of best practice that will now be adopted across the Department. In order to ensure that losses are identified and managed in a timely fashion the Top Level Budget (TLB) organisations are now required to submit returns on a quarterly basis for review by the Finance Director. We will be analysing the trends of losses by TLB and type.

31. Although we decided not to proceed with the TRIGAT programmes, we accumulated some valuable Intellectual Property Rights and a deeper understanding of anti-tank guided weapon system technologies. We will, as recommended by the Committee, work to maximise the use made of this, although Guided Weapons technologies have continued to evolve. We will also seek to secure return on UK investment consistent with the relevant 3 Nation Memoranda Of Understanding which provided for the nations to share levies on any 3rd party sales.