



House of Commons  
Defence Committee

---

# Ministry of Defence Annual Report and Accounts 2005–06

---

**Second Report of Session 2006–07**

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by The House of Commons  
to be printed 28 November 2006*

**HC 57**  
**[Incorporating HC 1655, Session 2005–06]**  
Published on 13 December 2006  
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.

### Current membership

Rt Hon James Arbuthnot MP (*Conservative, North East Hampshire*) (Chairman)  
Mr David S Borrow MP (*Labour, South Ribble*)  
Mr David Crausby MP (*Labour, Bolton North East*)  
Linda Gilroy MP (*Labour, Plymouth Sutton*)  
Mr David Hamilton MP (*Labour, Midlothian*)  
Mr Mike Hancock MP (*Liberal Democrat, Portsmouth South*)  
Mr Dai Havard MP (*Labour, Merthyr Tydfil and Rhymney*)  
Mr Adam Holloway MP (*Conservative, Gravesham*)  
Mr Bernard Jenkin MP (*Conservative, North Essex*)  
Mr Brian Jenkins MP (*Labour, Tamworth*)  
Mr Kevan Jones MP (*Labour, Durham North*)  
Robert Key MP (*Conservative, Salisbury*)  
Willie Rennie MP (*Liberal Democrat, Dunfermline and West Fife*)  
John Smith MP (*Labour, Vale of Glamorgan*)

The following Members were also Members of the Committee during the Parliament.

Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)  
Derek Conway MP (*Conservative, Old Bexley and Sidcup*)  
Mr Mark Lancaster MP (*Conservative, North East Milton Keynes*)  
Mr Desmond Swayne MP (*Conservative, New Forest West*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### 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:

[www.parliament.uk/defcom](http://www.parliament.uk/defcom)

### 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](mailto:defcom@parliament.uk). Media inquiries should be addressed to Alex Paterson on 020 7219 1589.

# Contents

---

<b>Report</b>	<i>Page</i>
<b>Summary</b>	<b>3</b>
<b>1 Introduction</b>	<b>5</b>
<b>2 Annual Performance Report</b>	<b>6</b>
Achieving military objectives	7
Conflict prevention	8
Readiness	9
Helicopters	10
Air transport	11
NATO and ESDP	12
Recruitment and retention	12
Manning Balance	13
Recruitment	14
Voluntary outflow	15
Manning pinchpoints	16
Separated Service against Harmony Guidelines	17
Training	18
Stretched or overstretched?	19
Civilian staff	20
Diversity	21
Defence Procurement	23
Value for Money	24
2002 Spending Review Value for Money Target	24
2004 Spending Review Efficiency Target	24
Agencies	25
Agency status	25
Agency performance	28
<b>3 Consolidated Departmental Resource Accounts</b>	<b>29</b>
Unqualified audit opinion	29
Laying of Annual Report and Accounts	29
Losses	29
Reducing losses	30
Specific cases	30
<b>Conclusions and recommendations</b>	<b>32</b>
<b>Annex: List of Abbreviations</b>	<b>37</b>

<b>Formal Minutes</b>	<b>38</b>
<b>List of written evidence</b>	<b>40</b>
<b>Defence Committee Reports in this Parliament</b>	<b>41</b>

## Summary

---

This report analyses the Ministry of Defence's Annual Report and Accounts 2005–06 which combines the Annual Performance Report and the Consolidated Departmental Resource Accounts.

The MoD's assessment is that it is on course to achieve its Public Service Agreement (PSA) targets which run until March 2008.

The Annual Report describes military operations undertaken in 2005–06, but the MoD has refused us the information on which it bases its assessment that these operations are on course for success. Future MoD Annual Performance Reports should provide clear performance criteria.

The MoD's performance against its PSA target for generating forces has deteriorated, which is understandable given the level of operational deployments. The readiness targets should be made more challenging in the longer term. The reliability of air transport and the shortage of serviceable battlefield helicopters should be addressed.

The MoD has broadly achieved its manning requirement for the Armed Forces but this is because the manning targets have fallen. It needs to revise its Defence Planning Assumptions to take into account the increased level of operational activity. The Armed Forces continue to experience difficulties in the recruitment and retention of personnel although the outflow figures provide no evidence of an exodus. The MoD has introduced financial incentives to improve retention in certain trades, but significant shortages of personnel remain in some areas. The Armed Forces are operating in challenging conditions and without all the equipment they need. The current level of commitments is impacting on training. 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.

The MoD's performance against its diversity targets is poor. The Royal Navy and the Royal Air Force, in particular, have failed to recruit sufficient people from ethnic minorities. Progress has been made in the number of women joining the Services but there are alarming levels of recorded sexual harassment.

The MoD met its procurement targets. The merger of the Defence Procurement Agency and the Defence Logistics Organisation will shift focus onto through-life support of equipment, and the PSA targets should reflect this.

The MoD's performance against its value for money targets is good. It has exceeded its efficiency savings targets but should continue to improve the way efficiency savings are measured.

The MoD is rationalising the number of Defence Agencies. The Committee would be concerned if this reflected a wider centralist tendency or led to less transparency in the MoD's work.

New and potential losses reported in the MoD's Resource Accounts totalled some £143 million in 2005–06, a lower figure than the previous year. The MoD should continue to make improvements in the way it records and reports losses.



# 1 Introduction

---

1. The Ministry of Defence's Annual Report and Accounts 2005–06, published on 14 July 2006, combines the Annual Performance Report and Consolidated Departmental Resource Accounts for the year ended 31 March 2006.<sup>1</sup> This is the fourth year in which the Ministry of Defence (MoD) has combined its Annual Performance Report and Consolidated Departmental Resource Accounts into one document and the first year in which, in line with other Government departments, the MoD has published its Accounts before the Summer parliamentary recess.

2. Our inquiry examined both the Annual Performance Report and the Consolidated Departmental Resource Accounts. We took evidence from Mr Bill Jeffrey, the MoD's Permanent Under Secretary of State (PUS) and Mr Trevor Woolley, the MoD's Finance Director, on 24 October 2006. We received written evidence from the MoD both before and after the oral evidence session. Both oral and written evidence are printed with this report.

---

1 Ministry of Defence, *Annual Report and Accounts 2005–2006*, HC 1394

## 2 Annual Performance Report

3. The Annual Performance Report provides a summary of performance against the 2004 Spending Review Public Service Agreement (PSA) Objectives and Targets.<sup>2</sup> There are three overarching objectives: Achieving success in military tasks at home and abroad; Being ready to respond to tasks that might arise; and Building for the future. The three objectives are supported by six targets, set by the 2004 Spending Review, which run until March 2008. In addition there is a value for money target which runs in part until March 2008 and in part until 2010. For these targets the MoD provides an interim assessment only.

4. A further value for money target ran until March 2006 and, at the time of this report's publication, the MoD's performance was being validated.<sup>3</sup>

5. A summary of MoD's performance in 2005–06 is provided in the table below.

PSA Target	Achievement
<b>Objective I: Achieve success in the military tasks that we undertake at home and abroad</b>	
1. Achieve the objectives established by Ministers for Operations and Military Tasks in which the UK's Armed Forces are involved, including those providing support to our civil communities.	<b>On course</b>
2. Improve effectiveness of the UK contribution to conflict prevention and management as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and a reduction in potential sources of future conflict, where the UK can make a significant contribution (Joint target with DFID and FCO).	<b>On course</b>
<b>Objective II: Be ready to respond to the tasks that might arise</b>	
3. Generate forces, which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives.	<b>On course</b>
4. Play a leading role in the development in the European Security agenda, and enhance capabilities to undertake timely and effective security operations by successfully encouraging a more efficient and effective NATO, a more coherent and effective ESDP operating in strategic partnership with NATO, and enhanced European defence capabilities (Joint target with FCO).	<b>On course</b>
5. Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives.	<b>On course</b>

2 HC (2005–06) 1394, pp 12–23

3 HC (2005–06) 1394, p 22

<b>Objective III: Build for the future</b>	
6. Deliver the equipment programme to time and cost.	<b>On course</b>
<b>Other targets</b>	
7. 2002 Spending Review Value for Money Target: Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. Year-on-year output efficiency gains of 2.5% will be made each year from 2002–03 to 2005–06, including a 20% output efficiency gain in the DLO.	<b>To be determined</b>
8. 2004 Spending Review Value for Money Target: As part of Spending Review 2004, the Department agreed that it would realise total annual efficiency gains of at least £2.8 billion by 2007–08, of which three quarters will be cash releasing. As part of this programme the MoD will by 31 March 2008: Reduce its civilian staff by at least 10,000; Reduce the number of military posts in administrative and support functions by at least 5,000; Be on course to have relocated 3,900 posts out of London and the South East by 2010.	<b>On course</b>

Source: Ministry of Defence

## Achieving military objectives

6. PSA target 1 is to achieve the objectives set for the Armed Forces' operations and military tasks, both overseas and in the UK. During 2005–06, UK Forces were deployed on military tasks in 28 locations around the world. Operational deployments included major deployments in Iraq, Afghanistan and the Balkans as well as contributions to United Nations peacekeeping missions.<sup>4</sup> The Annual Report provides information about the activity of the Armed Forces in these deployments.<sup>5</sup>

7. Other tasks within PSA target 1 include the maintenance of the UK military deterrent, the security of the UK's overseas territories and support to civil authorities in response to civil emergencies.<sup>6</sup> The Annual Report notes that the number of requests from civil authorities for the MoD to provide support during 2005–06 declined markedly compared to previous years.<sup>7</sup>

8. The Annual Report judges that it is on course to meet PSA target 1 but gives no information of the performance indicators against which it makes this judgment. We asked the MoD how it measured performance of its operations and military tasks. The MoD told us that that the assessment is made by the Defence Management Board (DMB) based on an assessment of quarterly reports from commanders in the field and military staff at Permanent Joint Headquarters (PJHQ).<sup>8</sup> The MoD's submission noted that:

4 Cyprus, the Democratic Republic of Congo, Georgia, Liberia, Sierra Leone and Sudan

5 HC (2005–06) 1394, pp 27–35

6 HC (2005–06) 1394, para 20

7 *Ibid.*

8 Qq 5–6

The aggregate assessment—based on the reports from the relevant Commanders—is that we are meeting our Military Strategic Objectives, despite significant challenges in Iraq and Afghanistan in particular.<sup>9</sup>

The PUS acknowledged that this “is inevitably a subjective judgment to an extent”.<sup>10</sup>

9. We asked the PUS if we could see a copy of the quarterly report and to provide us with summaries of future quarterly reports.<sup>11</sup> He told us “we can certainly provide a summary or some relevant information of that sort”.<sup>12</sup> These summaries were not forthcoming. The MoD’s subsequent submission stated that:

We have considered whether we can provide a classified summary of the underpinning analysis of the success of operations contained within the Defence Balanced Scorecard. Taking into account the unavoidably subjective nature of the process and the sensitivity of details of operations, we have concluded that doing so would raise too high a risk of inhibiting the free and frank provision of advice to Ministers and the DMB that is particularly important in this area.<sup>13</sup>

**10. 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.**

## Conflict prevention

11. PSA target 2 is a joint target with the Foreign and Commonwealth Office (FCO) and the Department for International Development (DfID) “to improve the effectiveness of the UK contribution to conflict prevention as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and a reduction in potential sources of future conflict”.<sup>14</sup> Performance against the target is assessed according to twelve performance indicators: the situation in 12 areas of operation. Nine indicators are reported

---

9 Ev 18, para (c)

10 Q 2

11 Q 6

12 *Ibid.*

13 Ev 30, para (1)

14 HC (2005–06) 1394, p 14

as being on course and three reported as experiencing slippage.<sup>15</sup> The performance indicators reported as being on course are Afghanistan, Balkans, Democratic Republic of Congo, Iraq, Nigeria, Sierra Leone, UN peacekeeping (two separate indicators) and African peacekeeping. Slippage is reported in the Middle East Peace Process, Nepal and Sudan.<sup>16</sup>

12. These performance indicators are, in each case, a statement of what the UK would like the situation to be in each area of operations by the end of 2007–08. The indicator for Afghanistan, for example, relates to the establishment by the end of 2007–08 of “Accountable and democratic structures for Afghanistan’s governing institutions”,<sup>17</sup> progress against which would be influenced by the wide range of international organisations in Afghanistan and not least the Afghans themselves. It is clearly beyond the ability of the UK Government alone to deliver these aims. As our colleagues on the Foreign Affairs Committee have observed, performance is influenced by a range of external actors.<sup>18</sup> **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.**

## Readiness

13. PSA Target 3 relates to the MoD’s ability to generate air, naval and army forces as required for deployments.<sup>19</sup> The MoD notes that measuring and aggregating readiness is complex and that it uses a variety of matrices including manning levels, equipment support and collective training.<sup>20</sup>

14. The MoD uses two performance indicators to assess target 3. The first indicator—“By 2008, ensure more than 73% of force elements show no serious or critical weakness against their required peacetime readiness levels”—was achieved two years early, with 77% of force elements showing no serious or critical weakness.<sup>21</sup> The figures for the first quarter of 2006 show a deterioration in force readiness to 69% in April–June 2006. The MoD attributes the deterioration in force readiness to the continued high level of operational commitment.<sup>22</sup>

15. The second performance indicator is “By 2008, ensure more than 71% of force elements show no serious or critical weakness against the ability to generate from peacetime readiness to immediate readiness for deployment on operations”.<sup>23</sup> The readiness target was achieved in the second and third quarters of 2005–06 but was missed by 1% in the fourth quarter.<sup>24</sup> The MoD’s submission states that in the first quarter of

---

15 HC (2005–06) 1394, p 14

16 *Ibid.*

17 *Ibid.*, Annex C, p 254

18 Foreign Affairs Committee, Second Report of Session 2005–06, *Foreign and Commonwealth Office Annual Report 2004–05*, HC 522.

19 HC (2005–06) 1394, p 15

20 *Ibid.*, paras 32, 39

21 *Ibid.*, p 15

22 Ev 18, para (3)

23 HC (2005–06) 1394, p 16

24 *Ibid.*, Figure 5, p 40

2006–07, 69% of force elements showed no serious or critical weakness against the ability to generate from peacetime readiness to immediate readiness for deployment on operations.<sup>25</sup>

**16. 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.**

17. The Annual Report does not provide a statistical breakdown of readiness by Service but does identify particular Service weaknesses. In the Army, there were weaknesses in the Army's "ability to provide a further High Readiness Brigade sized grouping to the Joint Rapid Reaction Forces second echelon for any additional contingent operation had this been required".<sup>26</sup>

18. In the Royal Navy there were two critical weaknesses which contributed to undermining force readiness: shortages of Merlin helicopter spares and specialist manpower and shortages of amphibious support shipping. The MoD told us that programmes were now in place to address these weaknesses.<sup>27</sup>

19. In the Royal Air Force (RAF) there were critical weaknesses in the readiness levels of Hercules C130, Nimrod MR2, Nimrod R1, Sentry E3D and air transport aircraft owing to upgrade and maintenance programmes, periods of poor serviceability and specific manning imbalances.<sup>28</sup> Critical weaknesses were also identified with the RAF Regiment which experienced manning shortages of approximately 20% as well as a significant breach of harmony guidelines. Manning balance is not expected to be restored to the RAF Regiment until 2011–12.<sup>29</sup>

### **Helicopters**

20. We were surprised that the list of weaknesses provided by the MoD made no mention of the shortage of helicopters. During our visits to Iraq and Afghanistan in the Summer of 2006, Service personnel told us of their concerns about the number and condition of battlefield helicopters available to them. In Afghanistan, it was emphasised that battlefield helicopters were key to the successful outcome of operations because they enabled the speedy manoeuvre of personnel, machinery and supplies over long distances which would otherwise not be possible owing to the risk of attack and poor condition of the road network.

---

25 Ev 18, para (3)

26 HC (2005–06) 1394, para 40, p 41

27 Ev 19, para (c)

28 HC (2005–06) 1394, para 41, p 40; Ev 19, para (d)

29 Ev 21, para (d)

21. In Iraq we were told that there were insufficient numbers of all types of serviceable helicopters available to commanders and that those that were available were overused.<sup>30</sup> In both theatres we were told that helicopters had to operate in extremes of weather and terrain to which some older types were not suited.

22. When we questioned the PUS about the availability of helicopters in both theatres, he noted that the Secretary of State for Defence, Rt Hon Des Browne MP had, in July 2006, announced the provision of more support helicopters and an additional Hercules C130 for Afghanistan.<sup>31</sup> The PUS added that “although commanders on the ground could always do with more, there was now sufficient [helicopters] for purpose”.<sup>32</sup>

23. We asked the MoD to consider greater use of commercially contracted helicopters in theatre. In response, the MoD’s submission stated that senior commanders continue to judge that deployed forces were receiving adequate helicopter support but that the leasing of commercial aircraft would remain under consideration.<sup>33</sup>

**24. 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.**

### **Air transport**

25. The availability of air transport is a matter which we have raised before.<sup>34</sup> During our visits to Iraq and Afghanistan in the summer of 2006 we witnessed at first hand some of the frustrations experienced by Service personnel whose return home had been delayed owing to failures of aircraft. A day or more delay is particularly unwelcome when it cuts into two weeks’ leave.

26. We questioned the PUS about the reliability of the airbridge from Iraq and Afghanistan to the UK.<sup>35</sup> The PUS told us that he recognised that the airbridge had experienced significant shortcomings but noted that the MoD was considering how airbridge reliability could be improved.<sup>36</sup> The MoD’s memorandum states that the fitting of Defensive Aid Suites to the Tristar, to be completed by May 2007, will greatly improve the resilience of the airbridge.<sup>37</sup>

**27. 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.**

---

30 Defence Committee, Thirteenth Report of Session 2005–06, *UK Operations in Iraq*, HC 1241, paras 64–68

31 HC Deb, 26 July 2006, col 74WS

32 Q 10

33 Ev 34, para (10)

34 HC (2005–06) 1241, paras 69–75

35 Qq 12–15

36 Q 13

37 Ev 20

**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.**

28. The MoD's second submission states that two HS 125 aircraft had been based in the Middle East since January 2003.<sup>38</sup> Their purpose was described by the MoD as "to provide rapid, secure and flexible inter and intra-theatre transport to high value personnel as determined by operational priorities not the rank of passenger".<sup>39</sup> The MoD submission put the marginal costs of operating one HS 125 aircraft (excluding fixed costs relating to personnel, depreciation and cost of capital) at:

- 2003–04: £376,000;
- 2004–05: £364,000; and
- 2005–06: £380,000.<sup>40</sup>

## NATO and ESDP

29. PSA target 4 is a joint MoD / FCO target to "play a leading role in the development of the European Security agenda and encouraging a more efficient and effective NATO, a more effective European Security and Defence Policy...and enhanced European defence capabilities".<sup>41</sup>

30. The performance indicators used by the MoD are:

- a more efficient and effective NATO;
- a more coherent and effective ESDP operating in strategic partnership with NATO; and
- enhanced European defence capabilities.

The MoD's performance against this target is assessed as "On Course".

31. We intend to hold an inquiry in 2007 into the future of NATO and European defence in depth beginning in early 2007. This will provide an opportunity to consider the MoD's effectiveness in this area.

## Recruitment and retention

32. PSA target 5 relates to the MoD's performance in "recruiting, training, motivating and retaining Service personnel".<sup>42</sup> The MoD must maintain sufficient levels of personnel in

---

38 Ev 31, para (2)

39 *Ibid.*

40 *Ibid.*

41 HC (2005–06) 1394, p 17

42 *Ibid.*, p 18

each Service so that it can provide the resources to meet its military commitments. The MoD’s performance against this objective is assessed as “On Course”.

### **Manning Balance**

33. The first supporting performance indicator is to “achieve manning balance”, defined as between -2% and +1% of the total manning requirement.<sup>43</sup>

34. MoD performance since 2004 is shown in the table below:

	Percentage of overall requirement		
	1 April 2004	1 April 2005	1 April 2006
Royal Navy / Royal Marines	96.8	95.1	96.3
Army	97	98.3	98.8
RAF	98.5	101	99.2

Source: Ministry of Defence

35. As at 1 April 2006, there was a 3.7% shortfall in the Royal Navy / Royal Marines; a 1.2% shortfall in the Army; and a 0.8% shortfall in the RAF.<sup>44</sup> Only the Royal Navy / Royal Marines failed to achieve manning balance as defined by the MoD. However, by July 2006, the RAF had fallen to a deficit of 4.4%, reflecting a programme of reduction in personnel as part of the restructuring of the RAF in April 2006.<sup>45</sup> The manning requirements had been reducing in line with the plans set out in the July 2004 Defence White Paper, *Future Capabilities*.<sup>46</sup>

36. Looking to the future, we asked the MoD to provide information about the trained requirement for each Service against anticipated levels in April 2007 and April 2008.<sup>47</sup> For 2007, the MoD forecast a shortfall of 4.1% and 3.2% for the RAF and Royal Navy respectively but forecast an improvement in the situation in 2008 following the implementation of managed redundancy programmes in both Services.

**37. 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.**

38. To assist its planning, the MoD periodically develops Defence Planning Assumptions. Last updated in 2004, they currently assume that the MoD should be able to support one medium-scale and two small-scale operations concurrently.<sup>48</sup> Since 2001, the Armed

43 HC (2005–06) 1394, p 18

44 *Ibid.*

45 National Audit Office, *Recruitment and Retention in the Armed Forces*, HC 1633-i, Nov 2006, para 1.8

46 Ministry of Defence, *Delivering Security in a Changing World, Future Capabilities*, Cm 6269, July 2004

47 Ev 20, para (4) (a)

48 Small scale operation: 500–1,000 personnel. Medium scale operation: 3,500–5,000 personnel and large-scale operation: 10,000–20,000 personnel.

Forces have been operating well above these assumptions and the MoD expects that it will continue to do so into 2007.<sup>49</sup> Manning requirements have not been adjusted to reflect this level of activity. This has resulted in our Armed Forces being asked to achieve more demanding military objectives with fewer resources.

**39. 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.**

### **Recruitment**

40. The recruitment of sufficient numbers of personnel is a key performance indicator to achieving manning balance. The Annual Performance Report states that:

2005–06 was a difficult year for recruitment, especially for the Naval Service and the Army. The Armed Services continue to face stiff recruiting competition in the face of high levels of employment.<sup>50</sup>

In 2005–06, the total intake into the Services was 18,060 personnel. Of this 3,940 joined the Royal Navy / Royal Marines, 12,690 joined the Army and 1,430 joined the RAF. The Annual Report identifies particular difficulties in recruiting Naval Service Officers (90% of target recruited) and Other Rank Army personnel (84% of target recruited).<sup>51</sup> The RAF met its recruitment targets in 2005–06 but this coincided with a period of planned reduction of RAF personnel.<sup>52</sup>

41. The National Audit Office (NAO) report on recruitment and retention states that the MoD spent £145 million on recruitment in 2004–05.<sup>53</sup> It is critical of the management information which underlies the MoD's decision-making on recruitment initiatives—a criticism which has been accepted by the MoD.<sup>54</sup>

---

49 Ev 18, para (b)

50 HC (2005–06) 1394, para 281, p 139

51 *Ibid.*

52 *Ibid.*

53 HC (2005–06) 1633-i, p 31

54 Oral evidence taken before the Committee Of Public Accounts on 15 November 2006, HC (2006–07)43-i, Q 12 [Mr Jeffrey].

## Voluntary outflow

42. The MoD describes Voluntary Outflow as “the number of Service personnel voluntarily leaving the Forces before the end of their agreed term”.<sup>55</sup> The voluntary exit rates for each Service is shown in the table below.

	Target	As at 31.3.06	As at 31.3.05	As at 31.3.04
RN / RM Officers	2.0%	2.8%	2.5%	2.5%
RN / RM Ratings	5.0%	6.0%	6.4%	5.7%
Army Officers	4.1%	4.3%	3.9%	3.7%
Army Soldiers	6.2%	5.5%	5.7%	5.3%
RAF Officers	2.5%	2.5%	2.4%	2.1%
RAF Other Ranks	4.0%	4.8%	3.8%	3.7%

Source: Ministry of Defence

43. The MoD explains the increase in RAF Other Ranks volunteering to leave the Service in 2005–06 as caused by the faster processing of voluntary applications for redundancy during the planned redundancy programme.<sup>56</sup> It explains the above target voluntary outflow rates for Royal Navy / Royal Marine Officers and Ratings, and Army Officers as “partly a reflection of employment opportunities outside the Services”.<sup>57</sup>

44. The NAO conducted a survey in 2006 to identify the reasons given by former Service personnel for leaving the Armed Forces.<sup>58</sup> Over 50% of former Service personnel gave “the inability to plan life outside work” as the most important reason for leaving, closely followed by “better employment prospects in civilian life”. The response “Too many deployments” scored under 30%.<sup>59</sup>

**45. 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.**

46. The NAO report noted that the MoD is using financial and non-financial methods to improve retention.<sup>60</sup> Such methods include fixed sum payments to personnel in return for them committing to a defined “Return of Service” period. The NAO report noted that the offering of such payments has been “an effective short-term fix to stabilise outflow and

55 HC (2005–06) 1394, para 282, p 140

56 *Ibid.*

57 *Ibid.*

58 HC (2005–06) 1633-i, paras 2.1–2.24

59 *Ibid.*, p 21

60 HC (2005–06) 1633-i, para 2.25

improve manning in some trades”.<sup>61</sup> **We welcome the MoD’s decision to introduce financial initiatives to aid retention.**

47. On 10 October 2006, the Secretary of State for Defence announced a new tax-free flat-rate operational bonus for Armed Forces personnel serving in Afghanistan, Iraq and the Balkans.<sup>62</sup> This would amount to just under £100 a week, or for a six-month tour £2,240, roughly equivalent to the amount of tax paid over a six month operational tour by junior ranks. The bonus would be backdated to 1 April 2006. The bonus will cost around £60 million a year, funded by new money from the Treasury. The Secretary of State told the House in October that details of eligibility would be published shortly: these are still awaited. **We welcome the MoD’s decision to pay an operational bonus to Armed Forces personnel and trust that it will be annually updated.**

### **Manning pinchpoints**

48. Underlying the overall manning balance, there are areas within each Service where there are insufficient personnel to meet specific skill requirements. These areas are described by the MoD as “manning pinchpoints”.<sup>63</sup>

49. The Annual Report gives examples of manning pinchpoints by Service.<sup>64</sup> For the Royal Navy, the Report identifies shortages in Petty Officers, Nuclear Marine Engineering Watchkeepers and Royal Marine Other Ranks. For the Army, the report identified 24 manning pinchpoints including in the Royal Artillery and infantry.<sup>65</sup> For the RAF, manning pinchpoints were identified in Junior Officer Pilots, Fighter Controllers and Medical Officers.<sup>66</sup>

50. The MoD provided us with a list of the pinchpoint trades for all three Services as at 31 March 2006.<sup>67</sup> Some trades, including Army Movement Controllers and RAF Technicians, were not now considered to be a pinchpoint. Overall, more trades had been added to the list than had been removed. New additions included Royal Navy Mine Clearance operatives, and RAF Police.<sup>68</sup> The NAO report on recruitment and retention in the Armed Forces identified 88 manning pinch points as at 1 July 2006.<sup>69</sup>

**51. 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 pinchpoints risk impacting on long-term effectiveness.**

---

61 HC (2005–06) 1633-i, para 2.28

62 HC Deb, 10 October 2006, col 175

63 HC (2005–06) 1394, para 279, p 138

64 *Ibid.*, para 279

65 *Ibid.*

66 *Ibid.*

67 Ev 28–30

68 *Ibid.*

69 HC (2005–06) 1633-i, para 1.14

52. In our report on the MoD’s Annual Report and Accounts 2004–05, we expressed particular concern at the recorded shortfall of medical personnel of 20%.<sup>70</sup> The Government’s response to our report stated that the MoD was addressing the shortfall in medical personnel through pay incentives to aid retention and by utilising civilian agency contractors on operations when shortfalls remained.<sup>71</sup> On 9 October 2006, the Secretary of State outlined the recommendations of the Armed Forces Pay Review Body (AFPRB) with regard to Service medical personnel.<sup>72</sup> Mr Jeffrey told us that the AFRB recommendations, which included “golden hello payments”, would be implemented. He added that the MoD would from 1 November make a “consolidated payment of £6,500 to medical and dental officers”.<sup>73</sup>

**53. We welcome the decision of the MoD to implement the recommendations of the Armed Forces Pay Review Body 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 pinchpoints in a similarly imaginative way.**

### **Separated Service against Harmony Guidelines**

54. A further key supporting performance indicator for PSA target 5 is to “achieve levels of individual Separated Service against harmony guidelines”.<sup>74</sup> All three Services have harmony guidelines designed to allow personnel to have sufficient time to recuperate from operations and for unit formation and personnel training and development. The MoD Annual Performance Report identifies the performance of the three Services against harmony guidelines as at 31 March 2006.<sup>75</sup>

	<b>Guidelines</b>	<b>Performance</b>
Royal Navy / Royal Marines	In any 36 month period, no one to exceed 660 days separated service.	At 31 March 2006 less than 1% of the Royal Navy had exceeded the guidelines
Army	In any 30 month rolling period no one to exceed 415 days separated service.	At 31 March 2006, 15.1% of the Army personnel on current trained strength had exceeded the guidelines
Royal Air Force	Not greater than 2.5% of personnel exceeding more than 140 days of detached duty in 12 months.	At 31 March 2006, 4.6% of the RAF had exceeded 140 days of detached duty in the last 12 months.

Source: Ministry of Defence

70 Defence Committee, Sixth Report of Session 2004–05, *Ministry of Defence Annual Report and Accounts 2004–05*, HC 822, para 18

71 Defence Committee, Seventh Special Report of Session 2005–06, *Ministry of Defence Annual Report and Accounts 2004–05: Government Response to the Committee’s Sixth Report of Session 2005–06*, HC 1293, para 6

72 HC Deb, 9 October 2006, col 190W

73 Q 67

74 HC (2005–06) 1394, p 20

75 *Ibid.*

55. All three Services breached their guidelines to some degree. The Army recorded the biggest breach and the Royal Navy was the smallest. The Annual Report states that the situation in the Royal Navy and the Army may be understated due to the weaknesses in their respective information systems, and that this was being addressed by the introduction of the Joint Personnel Administration programme.<sup>76</sup>

56. The NAO report on retention and recruitment identifies concerns that the information systems might underestimate the true level of Separated Service for two reasons: short absences are not always recorded ; and each Service differs in the way it records data.<sup>77</sup>

57. The MoD attributes the breaching of harmony guidelines to having had to sustain commitments, since 2001, at the limit of its Defence Planning Assumptions.<sup>78</sup> This, according to the MoD, has “inevitably limited its ability to meet harmony guidelines”.

**58. 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.**

### **Training**

59. The Annual Report recognised that the current level of deployments had impacted on the MoD’s ability to provide collective training.<sup>79</sup> In 2005–06, 14% of training exercises were cancelled (compared to 20% cancelled in 2004–05).<sup>80</sup> Mr Woolley told us that while there had been no reduction in pre-operational training, there had been a reduction in training for contingent operations,<sup>81</sup> and the BATUS<sup>82</sup> training facilities in Canada were not being utilised fully.<sup>83</sup>

60. The MoD’s second submission provided a breakdown of the reasons for the cancellation of contingent operations:

- 30 exercises were cancelled due to operational commitments
- 13 exercises were removed on the grounds of cost
- 10 exercises were cancelled by other nations
- 5 exercises were cancelled in response to changing priorities or rescheduling.<sup>84</sup>

**61. 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**

76 HC (2005–06) 1394, para 182, p 99

77 HC (2005–06) 1633-i, para 5

78 HC (2005–06) 1394, para 180, p 99

79 *Ibid.*, Preface, p 7

80 *Ibid.*, para 44, p 42

81 Q 55

82 British Army Training Unit Suffield

83 Qq 53–54

84 Ev 31, para (2)

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.

### *Stretched or overstretched?*

62. The Annual Report states that the proportion of regular Armed Forces deployed to support military operations and tasks increased from 18% in the first quarter of 2005–06 to just under 20% in the last quarter of the year.<sup>85</sup> This upward trend continued into the first quarter of 2006–07 with 20.2% of regular forces undertaking operations or military tasks.<sup>86</sup> The MoD anticipates the numbers deployed will remain “broadly constant” at these levels until February 2007 when the approximately 1,000 strong, UK-led, Allied Rapid Reaction Corps (ARRC) hands over command of the International Security Assistance Force (ISAF) in Afghanistan to a new, composite command.<sup>87</sup>

63. In our report on UK Operations in Iraq, we considered whether the current level of commitments was sustainable and concluded that “the Armed Forces can tolerate short-term pressure but sustained breaches of harmony guidelines will damage the Services’ operational capability”.<sup>88</sup> On 11 July 2006, the Secretary of State told us “I do not accept that we are overstretched; I accept that there is stretch”.<sup>89</sup>

64. In October 2006, General Sir Richard Dannatt, Chief of the General Staff, was reported as saying that the Army was “running hot” and “stretched to capacity”.<sup>90</sup> In a wide-ranging interview, General Dannatt spoke of the importance of the “Military Covenant” between Service personnel and the Government and his concern that this would potentially be undermined over the longer-term if current levels of commitments were maintained.<sup>91</sup> Our impression is that he was reflecting a view widely held in the Armed Services.

65. We asked the PUS whether he considered UK Armed Forces were overstretched. Mr Jeffrey responded they were “stretched but not overstretched”.<sup>92</sup> He noted that the proportion of Service personnel deployed on operations in Iraq and Afghanistan were at historically high levels but did not regard the situation as unsustainable. When we asked what the difference was between Forces being stretched and overstretched, Mr Woolley replied that “making a simple distinction ...is unhelpful”.<sup>93</sup> Mr Woolley went on to

---

85 HC (2005–06) 1394, p 26

86 Ev 18, para (a)

87 *Ibid.*, para (b)

88 HC (2005–06) 1241, para 79

89 Oral evidence taken before the Defence Committee on 11 July, HC (2005–06) 1458, Q 25

90 Daily Mail, *Sir Richard Dannatt: A very honest General*, 10 October 2006

91 Service personnel making personal sacrifices while serving their country in return for being treated commensurately by the Government for this sacrifice.

92 Q 28

93 Q 41

acknowledge, however, that, at the current level of commitments, the UK would not have sufficient resources to engage in a further major deployment.<sup>94</sup>

66. **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.**

67. **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.**

68. **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.**

## Civilian staff

69. As at 1 April 2006, the MoD employed 103,930 Full Time Equivalent Staff.<sup>95</sup> This represents a reduction since 1 April 2005 of 4.2%. To meet its efficiency targets the MoD plans to reduce the number of civilian workers by a further 8,320 staff by March 2008. The MoD Annual Report states that the MoD “is making every effort to minimise and where possible avoid compulsory redundancies”.<sup>96</sup> It plans to do so through reduced recruitment and voluntary early release. The reduction in civilian personnel will result from the merger of the Defence Procurement Agency (DPA) and the Defence Logistics Organisation (DLO). The merger of the DPA and DLO is considered in our report on Defence Procurement.<sup>97</sup> In our report on the MoD Annual Performance Report 2004–05 we expressed our support for the MoD’s drive for greater efficiency but noted the likely impact on civilian jobs. We looked to the MoD to undertake the appropriate consultation with organisations which represent its civilian staff.<sup>98</sup> **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.**

---

94 Q 41

95 HC (2005–06) 1394, para 292, p 144

96 *Ibid.*

97 Defence Committee, First Report of Session 2006–07, *Defence Procurement 2006*, HC 56

98 HC (2005–06) 822, para 25

## Diversity

70. The Annual Performance Report states that “despite continuing efforts, we continue to find recruiting proportionately from UK ethnic minority groups to the Armed Services difficult”.<sup>99</sup> Although overall Service black and ethnic minority representation (including Commonwealth recruits) increased to 5.5% at 1 April 2006 (from 5.3% at 1 April 2005), none of the Services met its individual Service target for black and ethnic minority recruitment. By Service, the black and ethnic minority intake was: RN 2.0% (target 3.5%, 2004–05 2.3%); Army 3.6% (target 3.9%, 2004–05 3.7%); RAF 1.5% (target 3.6%, 2004–05 1.5%). The Services have a target of 8% black and ethnic minority representation by 2013.

71. If it were not for the recruitment of black and ethnic minority Service personnel from the Commonwealth, the situation would look even worse. Figures provided by the MoD show that 1.1% were recruited from Fiji and 0.5% from Jamaica.<sup>100</sup>

72. Recruitment of ethnic minorities at officer level in all Services has barely increased over recent years. On 1 April 2003, black and ethnic minority personnel represented 2.5% of officers, on 1 April 2006 the figure was 2.4%.<sup>101</sup> By Service, the figures for the Royal Navy and Army remained steady; for the RAF, representation fell.<sup>102</sup>

73. When we asked the MoD why the Services had failed to reach this target for ethnic minority intake, Mr Jeffrey replied that:

It’s not for the want of trying. We need to think quite hard about how we impact on that part of the population...whether it is to do with perceptions about the Armed Forces being a good organisation to join I do not know.<sup>103</sup>

Mr Jeffrey insisted that the Service Chiefs were personally committed to achieving increased black and ethnic minority representation in the Services.

**74. 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.**

---

99 HC (2005–06) 1394, para 283, p 141

100 Ev 36

101 HC (2005–06) 1633, Appendix 6, p 55

102 *Ibid.*

103 Q 70

75. The Annual Report states that women comprise over 9% of UK Regular Forces and over 9.5% of the total intake.<sup>104</sup> It does not provide a breakdown of these figures by Service or by rank. We asked the MoD for information on the number of senior officers who were women. The table below shows the numbers of female senior officers as at 1 April 2006:

Rank (includes RN and RAF equivalents)	2005		2006	
	Female	% Female	Female	% Female
Major General and above (2* and above)	0	0	3	0.6
Brigadier (1*)	4	1.1		
Colonel	39	3.2	41	3.4
Lieutenant Colonel	170	4.1	180	4.5

Source: Ministry of Defence

76. When the Secretary of State for Defence gave evidence to us on 11 July 2006, he told us:

The evidence suggests that women are progressing through the officer ranks in greater number than before and that there has been a notable increase in the proportion of women at officer rank below one star.<sup>105</sup>

**77. 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.**

78. During 2005–06, the MoD undertook a survey designed to reveal the nature and extent of sexual harassment in the Services. The survey found that 99% of Service women who responded had been in situations where sexualised behaviours (jokes, stories, language and material) had taken place in the previous year. 15% reported having had a ‘particularly upsetting experience’ and 67% reported having had such behaviours directed at them personally.<sup>106</sup> The MoD recognises that it has a serious problem with sexual harassment and on 26 May 2006, it agreed an Action Plan with the Equal Opportunities Commission to “prevent and deal with sexual harassment in the Armed Forces”.<sup>107</sup>

**79. 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**

104 HC (2005–06) 1394, para 286, p 142

105 HC (2005–06) 1458-i, Q 84

106 HC (2005–06) 1394, para 286, p 142

107 *Ibid.*

**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.**

80. The proportion of women and black and ethnic minority senior civil servants in the MoD increased in 2005–06.<sup>108</sup> The number of disabled people who were senior civil servants declined slightly. At all other levels of the MoD civil service the proportion of women, disabled people and black and ethnic minorities increased. The targets for civil servants were missed in all three categories at all levels of the civil service (apart from women at B1 grade).<sup>109</sup>

81. Mr Jeffrey noted that because the MoD was reducing its number of employees, increasing the diversity of its staff was “not straightforward”.<sup>110</sup> He also recognised that the MoD had been traditionally a white male organisation but pointed out that as of July 2006, 46% of fast-stream intake were women and 11.4% were black and ethnic minority.<sup>111</sup>

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

## Defence Procurement

83. PSA target 6 relates to the MoD’s performance in delivering the equipment programme to time and cost, which was assessed as “On Course”. The MoD met all three supporting Performance Indicators relating to this Target.<sup>112</sup> Table 3 in the Annual Report provides details of the Defence Procurement Agency’s achievements against PSA target 6 and also against its five Key Targets which are set by Ministers. In 2005–06, the Defence Procurement Agency (DPA) met, for the first time, all its Key Targets.<sup>113</sup>

84. We examine the performance of the DPA’s performance against PSA target 6 and Key Targets in our Defence Procurement 2006 report. We also examine in that report the progress on a number of key defence programmes and four smaller-size equipment projects, and the merger of the DPA and the DLO which was announced in July 2006.<sup>114</sup> **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.**

---

108 HC (2005–06) 1394, Table 26, p 145

109 *Ibid.*

110 Q 72

111 *Ibid.*

112 HC (2005–06) 1394, p 21

113 *Ibid.*, p 79 (Table 3) and para 137

114 HC (2006–07) 56

## Value for Money

85. The MoD has two Targets relating to Value for Money and Efficiency: 2002 Spending Review Value for Money Target; and 2004 Spending Review Efficiency Target.

### *2002 Spending Review Value for Money Target*

86. The 2002 Spending Review Value for Money Target requires the MoD to achieve “year-on-year output efficiency gains of 2.5%...each year from 2002–03 to 2005–06, including through a 20% output efficiency gain in the DLO”.<sup>115</sup> There are five supporting performance indicators relating to this target. One of these, relating to the cost of training, has been discontinued. The MoD’s performance against this target is assessed as “to be determined”. The MoD believes, that subject to confirmation and validation, the overall target has been met.<sup>116</sup>

87. In our report on the MoD’s 2004–05 Annual Report and Accounts, we examined the MoD’s claimed efficiency savings of £400 million relating to logistics and asked whether this figure had been validated.<sup>117</sup> MoD subsequently informed us that some of the operating costs savings could not be validated. The MoD reported that its validation concluded that “there was evidence to substantiate at least £280M of benefits” and that “while the reduction from the initial estimate was disappointing, it demonstrated the rigour of the process to ensure that our efficiency savings are fully supported by evidence”. MoD has improved the guidance on what can be claimed as efficiency and how to measure it and expected to complete the validation of the 2002 Spending Review Value for Money Target by the autumn of 2006.<sup>118</sup> **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.**

### *2004 Spending Review Efficiency Target*

88. The 2004 Spending Review Efficiency Target requires the MoD to “realise annual efficiency gains of at least £2.8 billion by 2007–08, of which three quarters will be cash releasing”. As part of the programme the MoD has, by 31 March 2008, to reduce its civilian staff by at least 1,000; reduce the number of military posts in administrative and support functions by at least 5,000; and be on course to have relocated 3,900 posts out of London and the South East by 2010. By 31 March 2006, the MoD reported that between £1.323 billion and £1.398 billion of efficiencies had been delivered. The efficiencies achieved by 31 March 2006 were provisional and subject to final validation. The MoD’s performance against this target was assessed as “On Course”.<sup>119</sup>

89. The MoD provided us with the results of the validation of the efficiency savings relating to the 2004 Spending Review Efficiency Target. The validation showed that the £662

115 HC (2005–06) 1394, p 22

116 *Ibid.*

117 HC (2005–06) 822, paras 41–43

118 HC (2005–06) 1394 paras 231–232

119 *Ibid.*, p 23

million achieved in the year related to the Defence Logistics Transformation Programme (DLTP), which was much higher than the £500 million to £575 million which had been expected. As a result, the overall level of efficiency achieved in the year was £1.485 billion, substantially higher than the £1.323 billion to £1.398 billion provisional figure in the published report. The MoD told us that the validation had “shown that there has been a substantial improvement in the level of evidenced benefits but there was still room for further improvement in some areas”.<sup>120</sup> **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.**

90. In our Defence Procurement 2006 inquiry we examined the merger of the DPA and the DLO which was announced in July 2006. The merger will result in substantial job losses. The collocation of the DPA and the DLO is expected to release some £200 million over a 25 year period. The future planned efficiency gains for procurement and logistics do not take account of the merger of the DPA and the DLO. The merger is expected to deliver more effective and efficient working, but the MoD considers that it is too early to predict the efficiency gains.<sup>121</sup> The MoD subsequently told us that the overall efficiency target of £2.8 billion will not change as a result of the merger of the DPA and the DLO. Any efficiency gains from the merger achieved in 2007–08 “would be held as contingency against the 2004 Spending Review target. We expect any efficiencies achieved from 2008–09 onwards would score against new targets for the 2007 Comprehensive Spending Review”.<sup>122</sup> **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.**

## Agencies

### Agency status

91. During 2004–05, the MoD had 20 Defence Agencies, and five Trading Funds which in this year’s Report are listed as a class apart. These are listed in the table below:

---

120 Ev 35, para (13)

121 HC (2006–07) 56, paras 30–33

122 Ev 35, para (13)

<b>Defence Agencies</b>	
Armed Forces Personnel Administration Agency Army Training and Recruiting Agency British Forces Post Office Defence Analytical Services Agency Defence Bills Agency Defence Communications Services Agency Defence Estates Defence Medical Education and Training Agency Defence Procurement Agency Defence Storage and Distribution Agency	Defence Transport and Movements Agency Defence Vetting Agency Disposal Services Agency Duke of York's Royal Military School MoD Police and Guarding Agency Naval Recruiting and Training Agency Pay and Personnel Agency Service Children's Education RAF Training Group Defence Agency Veterans Agency

<b>Trading Funds</b>
ABRO (Army Base Repair Organisation) Defence Aviation Repair Agency (DARA) Defence Science and Technology Laboratory (DSTL) Met Office UK Hydrographic Office

92. In our report on the MoD's Annual Report and Accounts 2004–05, we noted a reduction in the number of defence agencies and concluded that:

In principle, we support MoD's policy of rationalising the number of Defence Agencies, particularly those very small agencies where the costs of retaining agency status can be high. However, for some agencies there may be a strong case for retaining agency status and we expect MoD to review each agency on a case by case basis.<sup>123</sup>

The Government's response stated:

We keep our organisational structure under review to ensure that it remains efficient and effective. We have reduced the number of agencies in the Department in recent years as we have rationalised and improved Departmental processes. There is no specific policy to remove agency status across the board and each case is examined on its merits, with the burden of proof resting on demonstrating that the benefits which will result from the removal of agency status are greater than those of retaining it.<sup>124</sup>

93. The Annual Report and Accounts 2005–06 state that from 1 April 2006 agency status was removed from three Service Training Agencies (the Army Training and Recruiting Agency, the Naval Recruiting and Training Agency and the RAF Training Group Defence Agency). The Pay and Personnel Agency became part of a new People, Pay and Pensions Agency.<sup>125</sup> In July 2006, the MoD announced that the Defence Procurement Agency and

123 HC (2005–06) 822, para 56

124 HC (2005–06) 1293, para 32

125 HC (2005–06) 1394, p 260

the Defence Logistics Organisation were to merge: it has been decided that the merged organisation (Defence Equipment and Support) will not have agency status.<sup>126</sup>

94. On 10 October 2006, the Chief of Defence Procurement told us why the MoD had decided not to give the new Defence Equipment and Support organisation agency status:

An agency, however hard it tries, tends to develop over time a rather inward-looking culture ... over time you get a certain amount of benefit by agency status and you then have to decide on your evaluation whether or not you are going to take the next step into trading fund status, whether or not you are going to remain as an agency, or whether or not, frankly, agency status is beginning to be counter-productive.

He argued that:

A top-level budget arrangement, which is what the new organisation will be, is now capable of being given the same precision in terms of objectives that any agency would get, the same budgetary disciplines, and to a large extent the same delegated powers to deal with its personnel management issues.<sup>127</sup>

95. The PUS told us that it was quite likely that more defence agencies would lose their agency status.<sup>128</sup> He pointed out that some of those whose agency status had been removed recently—the Queen Victoria School, for example<sup>129</sup>—had very small budgets.

**96. 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.**

97. The PUS assured us that it was no part of the MoD’s purpose to reduce parliamentary scrutiny. In the case of the Defence Equipment and Support organisation, the MoD had not decided whether it would continue to produce a free-standing annual report, but he accepted the need for “a full and informative account of the business and activities” of the organisation as a basis for scrutiny.<sup>130</sup> We address the reporting of the DE&S organisation in our report on Defence Procurement 2006.<sup>131</sup> More generally, **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.**

---

126 HC Deb, 3 July, col 27 WS

127 HC (2006–07) HC 56, Q 130

128 Q 109

129 The Queen Victoria School lost agency status on 1 April 2005

130 Qq 111–112

131 HC (2006–07) 56, para 64

### Agency performance

98. In our report on the Annual Report and Accounts 2004–05, we recommended that the MoD change the way in which the performance of Defence Agencies was reported in the Annual Report and Accounts, so that it was easier to assess whether their performance was improving.<sup>132</sup> The Annual Report and Accounts 2005–06 contains tables—separately for Agencies and for Trading Funds<sup>133</sup>—which helpfully show the overall performance for the three years since 2003–04 and the change in performance for comparable targets between 2005–06 and the previous year. The report also includes a short report of the year’s activities of each of the Agencies and Trading Funds.<sup>134</sup> **We commend the Department for the improved presentation of agency performance data in the Annual Report.**

99. The tables in the Annual Report and Accounts show that there continues to be wide variety in the number of targets set for agencies (from 34 for Service Children’s Education to 4 for the Army Training and Recruiting Agency) and in their performance (from 100% of targets achieved by the British Forces Post Office, the Defence Bills Agency, the Defence Communications Services Agency, the Defence Procurement Agency, the Defence Storage and Distribution Agency, the Pay and Personnel Agency, the Veterans Agency and the Met Office to only 25% achieved by the Army Training and Recruiting Agency).<sup>135</sup> **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.**

100. During the past year, we have examined in detail the performance of a number of agencies and trading funds: the Defence Procurement Agency;<sup>136</sup> the Defence Aviation Repair Agency;<sup>137</sup> the Met Office;<sup>138</sup> Service Children’s Education.<sup>139</sup> We have also given consideration to the work of the Duke of York’s Military School<sup>140</sup> and the UK Hydrographic Office.<sup>141</sup> We are currently inquiring into the work of DSTL. **We intend to continue our programme of scrutiny of the work of Defence Agencies on a regular basis.**

---

132 HC (2006–07) 56, para 64

133 HC (2005–06) 1394, pp 260, 259 and 263

134 *Ibid.*, pp 260–265

135 *Ibid.*, p 259 and 263

136 HC (2006–07) 56

137 Defence Committee, Third Report of Session 2005–06, *Delivering Front Line Capability to the RAF*, HC 557

138 Defence Committee, Tenth Report of Session 2005–06, *The work of the Met Office*, HC 823

139 Defence Committee, Eleventh Report of Session 2005–06, *Educating Service Children*, HC 1054

140 *Ibid.*

141 HC (2005–06) 82

## 3 Consolidated Departmental Resource Accounts

---

### Unqualified audit opinion

101. The Departmental Resource Accounts for 2005–06 were given an unqualified audit opinion by the Comptroller and Auditor General.<sup>142</sup> **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.**

### Laying of Annual Report and Accounts

102. The Annual Report and Accounts 2005–06 were published on 14 July 2006, three and a half months after the end of the financial year to which the reported performance and financial accounts relate. This represented a marked improvement compared to the laying of the 2004–05 Annual Report and Accounts which were published on 28 October 2005, some seven months after the end of the financial year. **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.**

103. On 19 September 2006, PriceWaterhouseCoopers, in association with the National Audit Office, awarded the MoD’s 2005–2006 Annual Performance Report the ‘Building Public Trust Award: For Telling It How It Is in the Public Sector’.<sup>143</sup> The criteria for this award included “the sufficiency, quality, scope and robustness of communications to stakeholders in relation to: the Service Delivery Environment; Strategy and Structure: Managing Delivery and Performance”.<sup>144</sup> **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.**

### Losses

104. The Departmental Resource Accounts provides details of losses and special payments as follows:

- the total value of new and potential losses and special payments arising in year (both closed cases and advance notifications) was £143 million in 2005–06. This represented a reduction of 36% compared with 2004–05 when the figure was £222 million.

---

142 HC (2005–06) 1394, p 186

143 [www.bptawards.com/2006\\_winner.htm](http://www.bptawards.com/2006_winner.htm)

144 *Ibid.*

- the value of cases closed during the year amounted to £394 million, a decrease of 6% compared with 2004–05.<sup>145</sup> £252 million was from two cases over five years old: £105 million from the UK’s decision not to proceed with the medium range anti-tank guided weapon system (MR TRIGAT) in 2000; and £147 million from the failure of the project to construct a Radioactive Liquid Effluent Treatment Plant at the Atomic Weapons Establishment Aldermaston.
- the estimated value of advance notifications of losses and special payments “reduced by about 25% over the year, from about £817 million to about £607 million”. 84% of the value of the advance notifications comes from cases identified before 1 April 2005. It includes two cases, each of £205 million: the UK’s withdrawal from the multinational long range anti armour missile programme (LR TRIGAT) in 1995; and writing-down the value of Chinook Mk 3 helicopters.<sup>146</sup>

### Reducing losses

105. The MoD is seeking to improve processes for losses and special payments in three areas:

- greater consistency in recording and reporting, based on a clearer understanding of the purpose of the losses statement in public sector accounting;
- improvements in the identification and dissemination of lessons learned; and
- more systematic review of the information and actions relating to losses by MoD management boards and audit committees, with due regard to materiality and proportionality.<sup>147</sup>

**106. 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.**

### Specific cases

107. During our inquiry into the MoD Annual Report and Accounts 2004–05 we examined the £147 million loss relating to a building at AWE Aldermaston.<sup>148</sup> We examined the £205 million loss relating to Chinook Mk 3 helicopters in our Defence Procurement 2006 inquiry.<sup>149</sup> We therefore focussed on the two losses, totalling £310 million, relating to the MR and LR TRIGAT programmes. Details on these two losses are set out in Note 31 to the Annual Report and Accounts:

---

<sup>145</sup> “Closed Cases” are where the losses and special payments have been formally signed off. “Advance Notifications” are where the losses and special payments arose during 2005-06 and prior years but where the cases have not been formally signed off and the amounts are the MoD’s best estimates. Once they are formally signed off they will appear in future accounts as closed cases (HC (2005–06) 1394, p 135)

<sup>146</sup> HC (2005–06), 1394 paras 267–268 and pp 236 and 240

<sup>147</sup> *Ibid.*, p 135

<sup>148</sup> HC (2005–06) 822, paras 83–87

<sup>149</sup> HC (2006–07) 56, paras 63–70

- MR TRIGAT—constructive loss of £105.343 million arose from the UK Government decision not to proceed into production for the medium range anti-tank guided weapon system.<sup>150</sup>
- LR TRIGAT—constructive loss of £205 million arose from the UK Government decision not to proceed into production for the long-range anti-tank guided weapon system.<sup>151</sup>

108. The MoD reports that losses “also result from sensible management decisions” such as the decision to withdraw from the Medium Range TRIGAT project to procure a more advanced solution more quickly at a lower through-life cost.<sup>152</sup> We sought further information on what the UK had gained from its involvement in the early stages of these two equipment programmes, and whether the UK would be entitled to any payment should these weapon systems be sold to other countries in the future. The MoD told us that:

Involvement in the early stages of the Long Range and Medium Range TRI-national Guided Anti-Tank (TRIGAT) programmes improved MoD’s understanding of Guided Weapon performance modelling and demonstrated the capabilities and limitations of relevant technologies. Under the terms of the Memoranda of Understanding and contracts, MoD is entitled to share with the participating nations the Commercial Exploitation Levy which would accrue from sales to 3rd parties.<sup>153</sup>

**109. 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.**

---

150 HC (2005–06) 1394, p 236

151 *Ibid.*

152 HC (2005–06) 1394, p 135

153 Ev 26, para (17)

## Conclusions and recommendations

---

1. 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)
2. 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)
3. 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)
4. 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)
5. 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)
6. 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)

7. 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)
8. 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)
9. We welcome the MoD's decision to introduce financial initiatives to aid retention. (Paragraph 46)
10. 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)
11. 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 pinchpoints risk impacting on long-term effectiveness. (Paragraph 51)
12. 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)
13. 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)
14. 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)
15. 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)

16. 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)
17. 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)
18. 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)
19. 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)
20. 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)
21. 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)
22. We are disappointed that the MoD continues to miss its diversity targets in relation to civilian personnel. (Paragraph 82)
23. 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)

24. 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)
25. 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)
26. 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)
27. 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)
28. 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)
29. We commend the Department for the improved presentation of agency performance data in the Annual Report. (Paragraph 98)
30. 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)
31. We intend to continue our programme of scrutiny of the work of Defence Agencies on a regular basis. (Paragraph 100)
32. 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)
33. 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)

34. 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)
35. 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)
36. 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)

## Annex: List of Abbreviations

---

AFPRB	Armed Forces Pay Review Body
ARRC	Allied Rapid Reaction Corps
BATUS	British Army Training Unit Suffield
DE&S	Defence Equipment and Support
DfID	Department for International Development
DLO	Defence Logistics Organisation
DLTP	Defence Logistics Transformation Programme
DMB	Defence Management Board
DPA	Defence Procurement Agency
DSTL	Defence Science and Technology Laboratory
ESDP	European Security and Defence Policy
FCO	Foreign and Commonwealth Office
ISAF	International Security Assistance Force
JPA	Joint Personnel Administration
MoD	Ministry of Defence
NAO	National Audit Office
NATO	North Atlantic Treaty Organisation
PJHQ	Permanent Joint Headquarters
PSA	Public Service Agreement
PUS	Permanent Under Secretary of State
RAF	Royal Air Force
TRIGAT	Tri National Guided Anti-Tank programme
UK	United Kingdom
UN	United Nations

# Formal Minutes

---

**Tuesday 28 November 2006**

Members present:

Mr James Arbuthnot, in the Chair

Mr David S Borrow

Mr David Crausby

Linda Gilroy

Mr David Hamilton

Mr Mike Hancock

Mr Dai Havard

Mr Adam Holloway

Mr Bernard Jenkin

Mr Brian Jenkins

Willie Rennie

## **Ministry of Defence Annual Report and Accounts 2005–06**

The Committee considered this matter.

Draft Report (Ministry of Defence Annual Report and Accounts 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.

Paragraphs 1 to 109 agreed to.

Annexes (Summary and List of Abbreviations) agreed to.

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

Several papers were ordered to be appended to the Minutes of Evidence.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

*Ordered*, That the provisions of Standing Order No. 134 (select committee (reports)) be applied to the Report.

[Adjourned till Tuesday 5 December at 10.00 am.]

## List of witnesses

---

**Tuesday 24 October 2006**

**Mr Bill Jeffrey CB**, Permanent Under Secretary of State, and **Mr Trevor Woolley**, Finance Director, Ministry of Defence

Ev 1

## List of written evidence

---

1	Memorandum from the Ministry of Defence	Ev 18
2	Supplementary memorandum from the Ministry of Defence	Ev 30

# Defence Committee Reports in this Parliament

---

## Session 2005–06

First Report	Armed Forces Bill	HC 747 ( <i>HC 1021</i> )
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 ( <i>HC 1000</i> )
Fourth Report	Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06	HC 980 ( <i>HC 1136</i> )
Fifth Report	The UK deployment to Afghanistan	HC 558 ( <i>HC 1211</i> )
Sixth Report	Ministry of Defence Annual Report and Accounts 2004–05	HC 822 ( <i>HC 1293</i> )
Seventh Report	The Defence Industrial Strategy	HC 824 ( <i>HC 1488</i> )
Eighth Report	The Future of the UK's Strategic Nuclear Deterrent: the Strategic Context	HC 986 ( <i>HC 1558</i> )
Ninth Report	Ministry of Defence Main Estimates 2006–07	HC 1366 ( <i>HC 1601</i> )
Tenth Report	The work of the Met Office	HC 823 ( <i>HC 1602</i> )
Eleventh Report	Educating Service Children	HC 1054 ( <i>HC 58</i> )
Twelfth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 ( <i>Cm 6954</i> )
Thirteenth Report	UK Operations in Iraq	HC 1241 ( <i>HC 1603</i> )
Fourteenth Report	Armed Forces Bill: proposal for a Service Complaints Commissioner	HC 1711

## Session 2006–07

First Report	Defence Procurement 2006	HC 56
--------------	--------------------------	-------

# Oral evidence

---

## Taken before the Defence Committee

on Tuesday 24 October 2006

Members present:

Mr James Arbuthnot, in the Chair

Mr David S Borrow  
Mr David Crausby  
Linda Gilroy  
Mr David Hamilton  
Mr Adam Holloway  
Mr Brian Jenkins

Mr Kevan Jones  
Robert Key  
Mr Mark Lancaster  
Willie Rennie  
John Smith

*Witnesses:* **Mr Bill Jeffrey CB**, Permanent Under Secretary of State, and **Mr Trevor Woolley**, Finance Director, Ministry of Defence, gave evidence.

**Q1 Chairman:** Good morning to both of you. Thank you for coming along to talk about the accounts. You have both been before us before and I do not think there is any need to ask you to introduce yourselves. I congratulate you on getting your accounts out before the summer recess, which is a very good thing, and for winning the Building Public Trust Award. What exactly does that mean?

**Mr Jeffrey:** It is an award entitled “Telling it like it is in the Public Sector”. I think we were all very pleased that the report and accounts were seen by the judges as a model of their kind. The Committee will no doubt want to get under the surface to see what they contain, but we are very pleased that, against quite a strong field, the judges decided that our report and accounts were the most informative and compared well with anything they had seen. I think that a lot of credit is due to the Finance Director and his team. Thank you for that.

**Q2 Chairman:** On the basis of telling it like it is, the Annual Report says that you are on course to achieving your military objectives. Is that a subjective judgment?

**Mr Jeffrey:** I think it is inevitably a subjective judgment to an extent. You may have noticed that when we recently published our report for the first quarter of this financial year against the PSA’s target 1—achieving the military objectives—we described the assessment as being “on course with some risk”. That was not intended to carry a huge amount of weight, but we have to acknowledge that in both major theatres we face challenges at the moment. There is no reason to suppose that these challenges cannot be overcome.

**Q3 Chairman:** Did you say there is no reason to suppose that these challenges cannot be overcome?

**Mr Jeffrey:** The view of my military colleagues is that these challenges can be overcome, but there is no doubt that they exist. To an extent it is a matter of judgment. It also rests to an extent on some of the observable facts about the achievement of military objectives on the ground.

**Q4 Chairman:** Therefore, whether or not you are meeting these objectives rests on quarterly reports from commanders. How detailed are these objectives?

**Mr Jeffrey:** They reflect the targets that commanders on the ground have set themselves and they report on progress towards these. They are also brought together at the centre and ultimately are reflected in the Balanced Score Card that the Defence Management Board receives. I do not know whether the Finance Director would like to say more about the content of that and the contributing elements of it.

**Mr Woolley:** It is true that the judgments are those made by the Defence Management Board informed by the reports from both commanders in the field and the senior military staff in the Ministry of Defence and Permanent Joint Headquarters (PJHQ).

**Q5 Chairman:** Therefore, a report is presented to the Defence Management Board?

**Mr Woolley:** There is a quarterly report to the board which assesses the performance of the Armed Forces on military operations. As a result of that, a judgment is made as to how to report this in the quarterly report against the PSA target.

**Q6 Chairman:** Can we see a copy of that report?

**Mr Jeffrey:** We can certainly provide a summary or some relevant information of that sort.<sup>1</sup> I get the drift of the question which is about the extent to which this is a detailed objective assessment. Inevitably, to an extent it is subjective; it relies on the military judgment of those who are closest to the action mediated through PJHQ at Northwood and the intelligent assessment of the Chiefs of Staff themselves who pay quite regular visits to theatre.

**Q7 Chairman:** Do you think that the Chiefs of Staff believe that we are on course to achieving our military objectives?

---

<sup>1</sup> See Ev 30, para 1.

**Mr Jeffrey:** The Chiefs of Staff believe that we are on course with some risk of the kind that we have identified.

**Q8 Mr Holloway:** It is said that only 60% of force elements reported no serious or critical weaknesses in their ability to generate an immediate readiness. I am not quite clear what that actually means.

**Mr Jeffrey:** Again, there is a fairly detailed process of assessing each unit against the criteria which are set for readiness and determining any weaknesses that may exist in their state of readiness. It is aggregated across the department and brought to the attention at the management board through the Balanced Score Card system.

**Q9 Mr Holloway:** You say that readiness levels for air transport—C130s, Nimrods etc—are lower than they should be. Do you really think that we can undertake our commitments in Iraq and Afghanistan on the basis of that?

**Mr Jeffrey:** There is no reason to believe that we cannot undertake our commitments there. They undoubtedly put the Armed Forces under considerable stretch, but the readiness criteria are really a measure of how ready these units would be in the event of any other decision to deploy. It is undoubtedly the case, however, that the longer we are operating at the present level, which exceeds the defence planning assumptions, the more difficult it will be to keep as many of these units at the required state of readiness. Our assumption in the most recent performance report is that although this is a target that is not free of risk, since it relates to our position in the spring of 2008, there is a good prospect that we can recover the position. It is not free of risk because there is no doubt that the Armed Forces are more heavily deployed now than is envisaged in the defence planning assumptions, and the longer that continues the harder it will be, in the language that my senior military colleagues use, to attend to the seed corn and ensure that those force elements that are kept ready for deployment are in the correct state of readiness.

**Q10 Mr Holloway:** I am confused. In Iraq and Afghanistan commanders are screaming out that they do not have enough helicopters, and yet your report does not suggest that there is any problem with their levels of readiness.

**Mr Jeffrey:** As to helicopters, the position is that the Secretary of State made two statements on Afghanistan in July. In the first he announced the deployment of additional personnel and said that there would be increased flying hours for attack and support helicopters, more support helicopters and an additional C130. In his second statement on 26 July he expanded on that and announced that two extra Chinooks would be deployed, the first in early September and the second in October. That is happening or has happened. Last night I spoke to the Secretary of State who is in Afghanistan. He said that he had been asking military commanders particularly about helicopter support and was told that there was now sufficient for purpose. In Iraq the

advice is that there are sufficient for purpose, although commanders on the ground could always do with more. In the longer term I think we accept that there is a need to address helicopter capability, and there is a strategy about which I could say more if you wish.

**Q11 Mr Holloway:** From where you sit do you believe there is a problem in the MoD in terms of the whole procurement process? It is Mr Lancaster's theme that the RAF is run by former fast jet pilots, that it is all about air defence and the machine is not able to provide the things we now need which are relatively boring, for example air bridges into theatres and the movement of men and materiel around those theatres.

**Mr Jeffrey:** It is certainly true that the events of the past year when I have been around demonstrate that when we are as heavily deployed as we now are we learn lessons about requirements. Requirements now become evident which were not as evident before. It is certainly the case that we have had to respond to requirements for vehicle protection, lift and helicopter support. Like the Chiefs of Staff, I am very keen that we should be in a position to respond to these matters in as agile a fashion as possible. I recognise the argument that as a department we tend to look very much to the big long-term investments, and inevitably we will do so, but one of the very clear lessons of the past year or so is that we also have to try to create enough space both administratively and within the equipment programme to respond rapidly when these sorts of requirements emerge. I believe that we are doing so, but it is a definite shift of gear from what must have been the case some years ago.

**Q12 John Smith:** Following Mr Holloway's question, there seems to be a glaring difference within the Services. I think we could understand challenges in force requirements if they were evenly spread over the three Services because of the nature of the deployments that perhaps had not been planned previously. What I do not understand is that one force, the RAF, is so far behind the other two. There must be an explanation for that. You imply that there is no effect on the front line. There is. We have troops who have served tours of duty and are stuck in airports, very often for long periods of time, because we cannot get them home, without going into possible operational challenges. We know that the RAF has gone through a radical transformation in its logistical support. Is there any evidence that this is now resulting in serious shortfalls in its ability to deliver at the front line? It is not obvious why the RAF is doing so badly compared with the other two Services.

**Mr Jeffrey:** I have responded to the point about helicopters. As to air transport, I certainly accept—I know that at least one Member of the Committee has experience of this—that there have been shortcomings in maintaining the air bridge to theatre. In part it has been about the need to equip aircraft with defensive aids and other materiel, but it has also been about the inherent complexity of the logistic task.

---

24 October 2006 Mr Bill Jeffrey CB and Mr Trevor Woolley

---

**Q13 Chairman:** If I may stop you there, when the Committee has travelled to various theatres most of the Members have experienced this to some degree or other. If that is the experience of Members of Parliament, who can have some expectation that people might treat them with kid gloves—we should not be so treated but nevertheless sometimes we are—then we can guess that the experience of the regulars will be significantly worse.

**Mr Jeffrey:** I certainly accept without hesitation that there have been failings. The RAF is working hard. When there is a particular issue, as I had drawn to my attention recently, the RAF works hard to try to deal with it. I do not believe that it is systemic; it is about trying to get the existing system to work better and also about being ready to look imaginatively at solutions like contracts with commercial brokers. I certainly do not deny that these disruptions take place. People are delayed and it is very annoying when it happens.

**Q14 Mr Jones:** It is not just a matter of delay; it is the quality of the aircraft in question. In March of this year I flew back from Qatar having been in Iraq in an aircraft that you would use to go on holiday in Spain. You are expecting troops who have been in theatre and are going home to be crammed into seats and endure for seven hours a flight in an aircraft which, frankly, is unacceptable in my opinion. Does the Chief of the Defence Staff ever travel on some of these aircraft? I suggest that if some of the senior officers did so they would be raising issues about the quality of the service being given and also the suitability of some of these aircraft. There is a big difference between what is now available and what was provided with the Tri-Stars or the old VC10s. I suggest that you, the Chief of the Defence Staff and others might want to sit in those for seven hours. In the case of my flight, having been in Iraq some people were sitting on the ground in Qatar for about four hours waiting for other flights, including mine which broke down in Basra, to Cannock. This is not acceptable to people.

**Mr Jeffrey:** I agree that it is not acceptable. I believe that the Chief of the Defence Staff sometimes does travel by these means.

**Mr Jones:** Not if I remember rightly, given that he has an HS-125 stationed constantly in Kuwait for his use and the use of other senior officers.

**Q15 Mr Lancaster:** I was going to steer clear of this subject. It slightly irritates me that you seem to boil it down to the frustration of delay. The frustration is the apparent complete lack of customer focus, if you like, in the way the Royal Air Force treats its passengers. You are aware of the contents of a particular letter which I will not go into now. But I should like to go back briefly to your understanding that there are now sufficient helicopters in theatre. Take Afghanistan for example. Is that the message you are getting back?

**Mr Jeffrey:** That is the message that I am getting back.

**Q16 Mr Lancaster:** I suppose that it depends on what yardstick is used. I have to be slightly cautious. Is that because we have now changed the focus so that, rather than helicopters being there to support troops on the ground so that if they want to do something at a certain time for tactical reasons they have some form of air support, now troops are being told what time air support in what shape or form will be available and they have to adjust their tasks on the ground to suit the air support? If that is the yardstick you are using I can understand why you say there is sufficient in theatre, but that is not the yardstick you should be using; it should be the other way round. Does that make sense?

**Mr Jeffrey:** It makes perfect sense, but what I have been told is that the number of hours that military commanders on the ground say they require of various types of helicopter deployed in theatre are available. It is also worth bearing in mind that there has been some change in the past month or so, not least following the announcements of the Secretary of State in July, but that is what I am hearing.

**Q17 Chairman:** When in Iraq we heard that the 17 British helicopters there were desperately overused. Is that not the message you are hearing?

**Mr Jeffrey:** We are certainly hearing that they are being intensively used, yes.

**Q18 Chairman:** Is that like the difference between the Armed Forces being stretched but not overstretched?

**Mr Jeffrey:** No; it is a statement which means what it says. Again, what I am being told is that the helicopter deployment to Iraq is sufficient, although obviously commanders on the ground could make use of more if it was available. It is also worth bearing in mind that in both theatres we are able to draw to a certain extent on the helicopter resources of allies with whom we are working very closely.

**Mr Holloway:** I simply make the suggestion that you ask to see the daily graph at the commander's conference in Afghanistan showing the over-usage of helicopters.

**Q19 Mr Jones:** When we were there in July clearly we were being told about the helicopters. I have not been there more recently to see it first hand. There are reports about the views of commanders who are more lucid and open about what they say to the press. Somehow it gets to the MoD and there must be some type of filter or mechanism which changes that round. Can you say why the Committee, press and public are becoming very cynical when clearly people looking at it first hand are being told *x* but when it comes from you and the MoD it is *y*?

**Mr Jeffrey:** I can see that, but in the end we can operate only on the requirement as it is stated by military commanders on the ground.

**Mr Jones:** But when we were there they said quite clearly that there was a problem with helicopters. General Richards was quite open about it.

**Q20 Chairman:** Was he saying it to us but not to you?

**Mr Jeffrey:** I am giving you the picture as I understand it to be now, which is some months later than your visit.

**Q21 Mr Hamilton:** To a layman like myself who has a steep learning curve in relation to what happens in the Armed Forces, I would have thought that, although activities have started to increase somewhat, preparedness is something that has been considered over the past few years. Surely, the relatively quiet period in Afghanistan for about four years would have allowed us to prepare for what we knew would come at some point or other. I find it disquieting to sit here and listen to one report in the press from officers on the ground and hearing from them when we meet them in Afghanistan. They are telling us privately that they are rather concerned about what is happening in the air. We went to one area and found that they were taking parts from one aircraft to maintain another. As someone who used to work for the National Coal Board, a big nationalised industry, I know that that was exactly why people scavenged from one place to assist another in order to save money, but potentially it did not cost lives and it was not at the front line, as at the present time. Taking away all the comments in the papers, anyone looking at it in a balanced way would find it very disconcerting. How do you overcome that? You have had five years to get to a position where you should now have a slick operation.

**Mr Jeffrey:** There are aspects which logistics support in particular have improved over that period. I know that this Committee's predecessor devoted a lot of time to that. The supply of logistic materiel into theatre in all the reports that I see is very much improved from several years ago. As to readiness, I acknowledged earlier that the levels as assessed in our annual report on the measure of our ability to generate force elements from peacetime to immediate readiness, for example, have been declining. That is a consequence of deployment to the extent we experience at the moment. I do not disguise the fact that our state of readiness for the future is less good than it has been.

**Q22 Mr Borrow:** For several years one of my big concerns as far as concerns the MoD is the tendency in the military culture to tell the officer above what you think he wants to hear. When the Secretary of State and Prime Minister have to make key decisions to send troops to Afghanistan and/or Iraq and take part in international operations there they need to do it on the basis of honest and complete advice as to what the real situation is. For years my concern has been that as it goes up the Chain of Command everybody says that it is a little better than it actually is. The Ministers who have to make these key decisions do so in an optimistic scenario rather than a realistic one. The past few months have confirmed my worst fears that Ministers are not being given honest and true information as to what things are like on the ground. Do you think I am wrong in making that assumption?

**Mr Jeffrey:** I certainly believe it is very important—a lifetime of government service in a different part of the forest has made me feel very strongly—that Ministers should take decisions based on an entirely cool and realistic assessment of the implications of those decisions. I have spent 12 months in the MoD and have got to know the military culture better during that period, particularly that of the very senior military officers whom I respect greatly. I do not believe that they are doing other than giving Ministers their best assessment of the position as they see it. That is not to say that that position may not subsequently change. Life is like that. But I do believe that people are giving their honest assessment of the position and the prospects. It is the prospects which are sometimes the difficult bit to get right.

**Q23 Mr Jones:** You say that logistics have improved, but I argue that part of logistics involves getting people from A to B. Clearly, what has been described—I have seen it first hand—is not satisfactory. Further, are you aware that if you are to mess people around in terms of long flights, delays etc it will have an impact on their quality of life, not only in terms of their return to families in the UK and so on but the way they view the Armed Services? It has always bugged me that if ordinary soldiers have to put up with these conditions clearly senior officers do not. I understand that we have an executive jet on standby all the time in the Middle East which is at the disposal of senior officers. What is that costing the MoD? Could we divert some of that money into the provision of decent flights for people who want to get out?

**Mr Jeffrey:** I do not know the answer to the direct question, but we can certainly try to provide it. I do not question for a moment that when things do go wrong and there is a shortcoming of service of the kind to which Mr Lancaster referred, or there is delay, the impact on our returning troops is serious. Obviously, it goes beyond the inconvenience of being delayed; it impacts on their view of the organisation and their general wellbeing.

**Q24 Chairman:** Will you write to us about that?

**Mr Jeffrey:** We will.<sup>2</sup>

**Mr Jones:** Can you please supply us with the costs and tell us who uses these jets?

**Q25 Willie Rennie:** When we were in Afghanistan I got the distinct impression that the commanders there would ask only for what they thought they could get and adapted their operations to fit that. Therefore, at the end of the day they would not ask for something that would never be delivered. That chimes with your remark that commanders on the ground always want more. Do you think there is a curtailing of requests in that regard?

**Mr Jeffrey:** What I said was not that commanders always wanted more but they could undoubtedly always use more. I cannot say whether there is a tendency to, as it were, self-censor. Certainly,

<sup>2</sup> See Ev 30, para 2.

---

24 October 2006 Mr Bill Jeffrey CB and Mr Trevor Woolley

---

Ministers would look to commanders on the ground to give a clear assessment of what they needed to do the job.

**Q26 Mr Jones:** If I may turn now to PSA target 5, which is the recruitment, training, motivation and retention of sufficient military personnel, in the Committee's report on the UK operations in Iraq the MoD said it was confident that our Armed Forces were not overstretched, but there is a clear perception, whether it be in Parliament or the media, that our Armed Forces are overstretched. Do you still believe that they are stretched, or are they now overstretched?

**Mr Jeffrey:** One can play with words.

**Q27 Mr Jones:** No, you are going to tell us how it is.

**Mr Jeffrey:** The assessment is that our Armed Forces are stretched but not overstretched. As I said earlier, it is certainly the case that at the moment the operations particularly in Iraq and Afghanistan are of such scale and intensity as to exceed the planning assumptions on which we are currently operating.

**Q28 Mr Jones:** Given the new openness of the MoD in explaining things as they are, what is your definition of "stretched" as opposed to "overstretched"?

**Mr Jeffrey:** The word "overstretched" implies that what we are doing now is not sustainable. We do not believe that to be the case, but we do not question the fact that the Armed Forces in terms of size of deployment and in particular the percentage of the Army that is deployed either on operations or other military tasks is running at about 25%. If one takes the other Services into account, it is somewhat less than 20%. These are historically high figures. That is why we use the word "stretched", but that is not to say it is unsustainable.

**Q29 Mr Jones:** How close are we to overstretch?

**Mr Jeffrey:** I think that is very hard to say. As we get into next year there is every prospect that we will see some easing of the position. We shall almost certainly be drawing down in the Balkans to some extent; we shall see the end of Operation Banner in Northern Ireland which will make available another three battalions, as I understand it; and we can see some draw-down, though it is now a matter of some speculation depending on progress, in Iraq. Therefore, there is the prospect as we get into next year that the position will become somewhat less stretched than it is now.

**Q30 Mr Jones:** Personally, I am no clearer given your definition of "stretched" and "overstretched". Perhaps I may help you with one definition or measure that could be used. Your memorandum says that the Harmony Guidelines were exceeded by 15.1% in March 2006 and 14.5% in June 2006. Does this reflect different parts of the Army in different ways? Can you give some indication of which parts of the Army are under pressure?

**Mr Jeffrey:** The first point to make is that the guidelines are just that; that is what we try to meet rather than, as it were, strict regulations. Different parts of the Services reflect different conditions.

**Q31 Mr Jones:** Of what use are they if they are just guidelines?

**Mr Jeffrey:** They are what we are trying to achieve.

**Q32 Chairman:** When did you last achieve it?

**Mr Jeffrey:** I do not know the answer to that question, but I can certainly find out.<sup>3</sup> At the moment, the guideline for the Navy is that it should not exceed 660 days deployed in 36 months. Our first quarter report for 2006–07 shows that fewer than 1% of naval staff were exceeding that figure. That was unchanged from the published report last March. For the Army the guideline is 415 days in 30 months. Our most recent figure was that 14.5% of Army personnel exceeded that figure, which was unchanged since December last. For completeness, the most recent report for the Air Force showed 3.9% exceeding the guideline of 2.5% which, on the face of the figures, was slightly better than the March figure. Within these totals for the Army in particular undoubtedly there are some units which are—

**Q33 Mr Jones:** But of what use are they if they are just guidelines? What would make you sit up at your desk in the MoD when you reached a certain point in those guidelines? Is there anything that would ring alarm bells with you?

**Mr Jeffrey:** Failure to observe these guidelines in itself rings alarm bells and directs our attention to the areas which are proving hardest to meet.

**Q34 Mr Jones:** But if you want a definition of "stretched" and "overstretched" surely these are a good guideline in that process, are they not?

**Mr Jeffrey:** Yes, they are.

**Q35 Mr Jones:** Therefore, what is your definition under these guidelines of "overstretched"?

**Mr Jeffrey:** What they do is give an indication of the fact that when our Armed Forces are deployed in theatre—

**Q36 Mr Jones:** The question is quite clear. We did not get a very clear answer when you were defining "stretched" and "overstretched". Therefore, you must have some measurement of it. Are these not the nearest things to be able to measure "stretched" and "overstretched"? What I am asking is: under these guidelines what is your definition of "stretched" and "overstretched"?

**Mr Jeffrey:** I cannot answer the question with the degree of precision that you imply. These are a definite indication of how stretched the Armed Forces are at any one time, but in the end we retain them in order to deploy them when Ministers so decide.

---

<sup>3</sup> See Ev 31.

**Q37 Mr Jones:** I appreciate that, but when you are advising Ministers, for example, that you can deploy in a certain area because there is the capacity to do it you must have some measurement of that. I accept that perhaps “stretched” and “overstretched” are superfluous words and you have to be able to quantify it. Are these not the mechanisms by which it can be quantified? What you are trying to tell me is that they are not; they are just guidelines. Surely, you must be able to get to a point where you can say that a guideline has been breached to the extent of  $x$  and that means we are stretched or, in this case, overstretched; otherwise, the guidelines are a complete waste of time, are they not?

**Mr Jeffrey:** They certainly draw our attention not just to how many guidelines are not being observed but the areas where there is the greatest problem. For example, it is evident from the figures that we need more air crew.

**Q38 Mr Jones:** Obviously, I am not getting very far, but what measures do you use to define whether our Armed Forces in different areas are rather stretched or overstretched if you do not use these guidelines?

**Mr Jeffrey:** I say that we do use them.

**Q39 Mr Jones:** Tell me what would be your definition in these guidelines of “stretched” and “overstretched” so you can say to a Minister, “We have got to the point here where we are overstretched and we cannot undertake any more operations”?

**Mr Woolley:** I think the point is that these measure degrees of stretch and are used to inform Ministers when decisions are taken by them on the level of forces to be deployed on operations.

**Q40 Mr Jones:** We are getting to “degrees of stretch”. Can you answer my question? What level do you reach in terms of the Harmony Guidelines when you say that the Armed Forces are stretched or overstretched?

**Mr Woolley:** I think the point is that it is a question of the level you reach where you take a different decision about the level of commitment that you are prepared to undertake.

**Q41 Mr Jones:** What is your definition of “stretched”?

**Mr Woolley:** These measure degrees of stretch. I am not sure that making a simple distinction between “stretched” and “overstretched” is helpful.

**Mr Jeffrey:** To take an extreme example, the measures for the intervals between deployments give a sense of how stretched the Armed Forces are. If there was now a proposal for us to engage in a further major deployment I am fairly certain that Ministers would decide that they would not be able to do so, and they would do that by reference to the fact that on these measures the Armed Forces are already fully stretched.

**Q42 Mr Crausby:** Is it not overstretched to the point where we are about to be defeated? In those circumstances, is it not unlikely that anybody would

ever admit to overstretch without resigning? Therefore, is there not an incentive never to admit to overstretch but just to refer to it in terms of “stretched” and “more stretched”?

**Mr Jeffrey:** I do not think it is about incentives. I come back to what I said earlier. These are important pieces of management information about the deployment of the Armed Forces and the extent to which its present heavy deployment reduces intervals that we would like to see between the deployment of individuals and units. They enable Ministers to make judgments about, for example, whether to deploy any more.

**Q43 Mr Jones:** They cannot. You cannot give me the definition of “stretched”. My fear is that, as Mr Borrow said, there is a “can do” culture up the ranks until it gets to your desk. People never want to say to Ministers that they cannot deliver something. Clearly, General Dannatt had an opinion on this in the past few weeks. It would be interesting to ask him for his definition of “overstretched” and how he came to that conclusion. Clearly, from what he says he has some clear views as have others we have met lower down the Chain of Command.

**Mr Jeffrey:** I do not think General Dannatt was saying that the Army was overstretched.

**Q44 Mr Holloway:** To pursue the points raised by Mr Jones and Mr Borrow about senior commanders, do you believe there is a problem with what has been described as “short-tourism” where someone goes, say, to Iraq for six months and spends the first two months learning about what is going on, the middle two months dealing with it and the last two months getting their story right for his report to PJHQ? Therefore, there is one graph for Iraq overall which is descending into chaos and insecurity and another graph every six months where people say how wonderfully they and their troops have done. Is there not a problem there in terms of misreporting? There is a specific example, which we will not go into in this forum, where that has happened.

**Mr Jeffrey:** I do not recognise that general picture you describe. It is certainly the case that very senior officers are deployed for the sorts of periods you mention. I have talked to commanders in the field who would say there is some advantage in turning over as regularly as that because it brings a fresh pair of eyes to the situation. It is also the case that these are assignments that are as testing for commanding officers as for troops on the ground and one would not want them to be too protracted.

**Q45 John Smith:** As I understand it, it is not just a question of increasing numbers of our troops being deployed more regularly; it is also a question of a higher proportion of them experiencing what I believe to be unprecedented front line battle conditions. Is any assessment being made of the impact of that front line battle experience of our troops on their morale and effectiveness?

**Mr Jeffrey:** It is. The Armed Forces look very carefully after the event at experience of deployments of this kind and would certainly address issues of the kind you identify.

**Q46 Mr Jones:** In terms of the impact which breach of the Harmony Guidelines has on our Armed Forces, particularly in relation to retention we have heard first hand that the more people are deployed on a regular basis the greater the pressure on them at home, etc. Have you looked at, or measured the effect of, breaches of these guidelines and continued operations on retention?

**Mr Jeffrey:** We are not complacent about it at all for the very reason you give, that people at home are often a very important and strong influence. As a matter of fact, our voluntary outflow rates from all three Services have not changed much over the past few years. There is a very slight increase over the past year of .3% for officers and .2% for other ranks. While we are not complacent about it, it suggests that some of the media reporting to the effect that people would be leaving in droves, for example, is not borne out by the facts.

**Q47 Willie Rennie:** We have talked in general about the Harmony Guidelines, but there seem to be two: the unit guidelines and the individual ones. Have you been referring to the individual or unit guidelines, or is it a combination of both?

**Mr Jeffrey:** I have been referring to the individual guidelines. I remarked upon them a little earlier, but you are quite right to say that we address this by unit. As you would expect, there are some significant variations depending on the function of the unit.

**Q48 Willie Rennie:** Do you have figures for that?

**Mr Jeffrey:** They are in the annual report, and I can certainly try to pull them out.

**Q49 Chairman:** Could you please write to us and set out the Harmony Guidelines and the extent to which, broken down by branch, for example the infantry, they are being exceeded? Can you also write to us to show how that compares with the Defence Planning Assumptions—you have said that people are being deployed more heavily than the defence planning assumptions—and when those assumptions were last complied with?

**Mr Jeffrey:** I will certainly do so.<sup>4</sup>

**Q50 Mr Jenkins:** In addition, could you say what is needed to bring it back within the guidelines and what the cost would be?

**Mr Jeffrey:** Obviously, Mr Jenkins' point depends on deployment at the time, but we shall certainly try to address it.

**Mr Jenkins:** You now have an historical base on which to work for the past year or two. You know where the pinch points are and the Harmony Guidelines are being breached. What procedure do you have to adopt to overcome that situation? It might require a bit more manpower and capital.

**Q51 Willie Rennie:** There are two additional matters. Can you break it down by unit and the Harmony Guidelines and also do it over time so we can track how it has changed over the years?

**Mr Jeffrey:** We will certainly do that.<sup>5</sup>

**Q52 Mr Lancaster:** I suppose that one thing I have learnt this morning is that the principal difference between stretch and overstretch is that one is a politically acceptable term and one is not. Overstretch is causing other problems within the British Army at the moment. You acknowledge that in your report when you say that we are not carrying out the degree of collective training that we would like to do. Can you give some specific examples?

**Mr Jeffrey:** It is certainly the case that a combination of forces being deployed—although they are becoming more experienced at it they are not doing training—and the fact that much training is directed towards preparing them for deployment means there is less routine training going on than would normally be the case. As I said earlier, my military colleagues refer to that as the “seed corn” issue. Are we doing enough to keep people as well prepared and well trained as we would like them to be? I think the answer to that is that we are doing less than we would wish as a consequence of the levels of deployment at the moment. I am trying to think of examples.

**Mr Woolley:** We are not doing as much training at British Army Training Unit Suffield (BATUS) as we have done in previous years.

**Q53 Mr Lancaster:** That has now been slashed to the bone. I understand that next year it is less than 50%.

**Mr Woolley:** It may be of that order.

**Q54 Mr Lancaster:** It is of that order.

**Mr Woolley:** That is recognised.

**Q55 Mr Lancaster:** It is the same for Kenya as I understand it. That is having a major impact on our forces. There is now an impact on their post-tour leave; people are not getting what they are entitled to, so I understand, and the traditional building-up exercises like at BATUS and Kenya are not happening at formation level. Therefore, we are not giving them the collective training that is necessary before they go back on operations. That will have a lasting impact, will it not, on their ability to operate?

**Mr Woolley:** There is no cutback in pre-operational tour training, but there is a reduction in training for contingent operations. A decision has been made that the priority in the current circumstances must be to focus on current operations and, therefore, the training that is taking place is focused very much on those units that are about to deploy on current operations. Because of the very high level of commitment of the Army on operations it is not possible to utilise BATUS fully in the way we would have liked to do in the past.

<sup>4</sup> See Ev 31.

<sup>5</sup> See Ev 31.

**Q56 Mr Lancaster:** You said there had been no cutback on pre-deployment training. Is that also the case for OPTAG which is the immediate pre-deployment training that all people deploying on operational theatres undergo?

**Mr Woolley:** My understanding is that there has been no reduction in that.

**Q57 Mr Lancaster:** Perhaps you would check that.

**Mr Woolley:** We can certainly check it, but that is my understanding.<sup>6</sup>

**Q58 Mr Borrow:** There has been quite a lot in the media in the past few weeks about Servicemen and women returning from Iraq and Afghanistan who are in need of medical services allegedly not receiving proper care and not being treated in the way in which the British people would expect them to be treated. Would you like to comment on that?

**Mr Jeffrey:** The first point I make is that we believe our medical personnel both at the front line and in the UK to be of very high quality. We also believe that the standards of clinical care both at the front line and at the major facilities in this country, particularly Selly Oak in Birmingham, are high. Certainly, one issue that has arisen in recent weeks, which we have been very keen to address, is the extent to which the facilities at Selly Oak are sufficiently responsive to the need for members of the Armed Forces in these circumstances to feel that they are being cared for in an environment which is supportive in a military sense. We recognise that we need to provide a more military environment at Selly Oak. There is already a significant military staff presence, but we have recently increased it. There is at the moment a process taking place for the establishment of a military-managed ward which will be done very closely with the NHS. We believe that that is the best way to tackle it. If we try to go back to the days when there were separate military hospitals not as closely in touch with leading edge thinking in the NHS as they are now we will lose out. What we are keen to do is get the best of both worlds by having services that are fully integrated with the best of the NHS but provide a more military environment for those who need to make use of them.

**Q59 Mr Borrow:** Are you saying that there is legitimate criticism in the sense that if there was a dedicated ward at Selly Oak for military personnel run in a military way it would make Servicemen and women returning feel more comfortable and in a better environment, but in terms of clinical care you do not believe there is any legitimate criticism to be made?

**Mr Jeffrey:** We believe that the clinical care is of the highest standard. It is also the case that I do not think we can ever hold out the prospect of returning Servicemen and women being in wards where everyone else is military, not least because sometimes the nature of the treatment that they require, for example a specialist burns or brain

damage unit, is best provided in a specialist ward. But what we are trying to achieve in the main facility at Selly Oak is a more military environment and a greater degree of military management, and we are doing so in very close co-operation with the local health service trust.

**Q60 Mr Borrow:** The Prime Minister mentioned the creation of a special military ward at Selly Oak some weeks ago. Do you have a timetable for that development, or can you not be more precise about it?

**Mr Jeffrey:** Before the end of the year.

**Q61 Chairman:** How does that differ from what already happens?

**Mr Jeffrey:** It will have a greater military component and military management.

**Q62 Chairman:** It varies in degree rather than in concept?

**Mr Jeffrey:** The concept is not an exclusively military one; it is one in which the facilities would be militarily managed with a much heavier concentration of our own people than has been the case in the past.

**Q63 Robert Key:** How is that being achieved? Is it being done through a memorandum of association between the Ministry of Defence and the trust, which is the usual vehicle for the MDHU arrangement over the years? Perhaps it is unfair to ask you that. Would you write to us and tell us how it is being achieved at Selly Oak?

**Mr Jeffrey:** I certainly will write if what I am about to say turns out not to be true, if I may put it that way.<sup>7</sup> I do not know whether or not there is a memorandum of association. If there is I will certainly write to say so. What I do know is that throughout this there has been very close contact between the Ministry of Defence under the Deputy Chief of the Defence Staff responsible for health matters and the trust management to talk openly about the best way to deal with this. We have not by any means found the management of the NHS trust to be unresponsive to this. The trust is as keen as we are to get this right.

**Q64 Mr Borrow:** I should like to touch briefly on the question of Reservists needing medical treatment on their return. There have been suggestions that Reservists have not received the sort of medical support and care that they need. What is your view on that? How confident are you that we are treating returning Reservists with medical needs in a proper manner?

**Mr Jeffrey:** I visited the main Reserve centre a month or so ago and talked to staff there about what is being done. I think it is better than it was. There is definitely an issue about how best to address the situation in which the Reservist returns to normal life, as it were, and sometimes continues to attend

<sup>6</sup> See Ev 32, para 5.

<sup>7</sup> See Ev 32, para 6.

---

24 October 2006 Mr Bill Jeffrey CB and Mr Trevor Woolley

---

regular NHS facilities. We then need to be sure that we do not lose touch. But my strong sense is that there has been some improvement in that area.

**Q65 Mr Borrow:** In May there was an announcement of improved mental health care for Reservists. Is that now in place; if so, what impact is that having?

**Mr Jeffrey:** It has now been implemented. I did not come briefed to give you a very detailed account of the impact. I am not sure that I could do so, and perhaps it is another matter on which I should write to the Committee.

**Mr Borrow:** That would be helpful.<sup>8</sup>

**Q66 Linda Gilroy:** Staying with the medical services, I think it has been acknowledged that it is affected by significant recruitment and retention problems. What impact is that having on military operations in Afghanistan and Iraq and the care and rehabilitation of injured soldiers returning from operations?

**Mr Jeffrey:** To date, all of the operational requirements placed on the Defence Medical Service have been met in theatre, so I do not believe there is any lack of appropriate support on deployment. Within the total assessed requirement for medical staff we undoubtedly have shortages, especially in key areas such as A&E and anaesthetics and some of the consultant and nursing specialties. The last figure I have is that we assessed our total requirement for defence medical services at 7,200 and our trained strength in April was 6,610 which is more than a little short but over 100 up on a year earlier. We have 1,000 more in training or in reserve. We are trying to make up the shortfall, but the broad picture is that it is not impacting adversely on our ability to staff medical facilities at the front line.

**Q67 Linda Gilroy:** It still sounds to me like a considerable shortfall. We were told in response to our questions last year that a number of matters were being done to address the situation. Can you tell us those things that have a positive impact now that you have established the right direction of travel? Can you tell us whether pay will be part of the package to recruit and retain particularly those personnel you have mentioned where shortages exist?

**Mr Jeffrey:** We have certainly been targeting our recruitment efforts in the areas where we have the greatest shortages. As to pay, at our prompting and without any resistance on its part the Armed Forces Pay Review Body endorsed a special consolidated payment for Defence Medical Service medical and dental officers of £6,500 which will be payable from 1 November and is intended to address any disparity with their counterparts in the NHS. I think that pay is relevant. As we look forward certainly in our report to the AFPRB for next years we will be drawing attention to the shortfall in these areas and the kinds of targeted measures that could help us to address it.

**Q68 Linda Gilroy:** Do you say that that is being implemented? There was a Written Answer on 9 October that the Government wanted carefully to consider the Armed Forces Pay Review Board report. Has it now been accepted?

**Mr Jeffrey:** I am briefed to the effect that the payment of £6,500 will come into play at the beginning of next month.

**Q69 Linda Gilroy:** So, the answer is yes?

**Mr Jeffrey:** Yes.

**Q70 Mr Crausby:** All the Services missed the target for UK ethnic minority intake in 2005–06, but the RAF and Royal Navy did particularly badly despite the fact that the MoD said that it would take action in the past year. Why have the actions that you implemented not improved the position, and what further action is being taken to address this problem particularly in the case of the RAF and Royal Navy?

**Mr Jeffrey:** We certainly acknowledge that we have not been nearly successful enough in this area. I am persuaded that it is not for want of trying. We had a discussion, as it happens, in the Defence Management Board about this last week with the Deputy Chief of the Defence Staff on the personnel side and my own civilian personnel director present. The Army is managing to achieve its recruitment targets for black and minority ethnic recruits in particular; the Navy and Air Force are well short. It is not for want of trying. We need to think quite hard about how we impact on that part of the population and in particular those among them who have the kind of technical and other skills that the Navy and Air Force need. Whether it is to do with perceptions about the Armed Forces being a good organisation to join I do not know, but it is something that is exercising the chiefs and myself and we are determined to keep working on it.

**Q71 Mr Crausby:** It seems odd that members of the ethnic minorities think that the Army is a good thing to join but not the Navy and Royal Air Force. I would have thought that the rest of the population might see that almost in reverse. Is it not unusual that the Royal Navy and RAF should struggle in that way? Does it come from the desire of ethnic minorities to join or from within the Services themselves?

**Mr Jeffrey:** I do not believe that it comes from within the Services. I have talked about this to the Chiefs of the Naval Staff and Air Staff and both are personally very committed to achieving a change in the composition of their Services. I think that we just need to look hard again at recruitment materials, how well targeted they are and whether our offer, in the language of the private sector, is the right one for these purposes.

**Q72 Mr Crausby:** I turn to civilian personnel. The performance in that area in relation to diversity targets was more mixed. What further action could the MoD take to improve its performance in this

---

<sup>8</sup> See Ev 32, para 7.

area? Does the MoD believe that the relocation of staff as a result of the Lyons review is likely to help or hinder the performance?

**Mr Jeffrey:** On the civilian side I would break it down between recruitment and advancement once one is in. Our recruitment rates for both women and black and minority ethnic people are reasonably good. My big challenge, which I faced elsewhere in the Civil Service—as diversity champion for the whole of the Service I am very keen that we should address it—is to bring through into senior positions those women and BME people who are in more junior positions. We start from a very low base because the MoD has traditionally, in comparison with other government departments in which I have served, been a very white male department for all sorts of historical reasons. We have also been shrinking, so to get the movement that I certainly want to achieve is not straightforward, but we are working on it. One quite good sign is that as of July of this year just over 46% of our fast stream intake are women and 11.4% are Black and Minority Ethnic. In both cases that is an increase on the previous 12 months. Coming along among the younger capable people who ought to be able to advance to more senior positions within the department is a more representative group. It is undoubtedly the case that the sheer make-up of the population is such that we are likely to recruit more black and minority ethnic staff in London than in most other parts of the country.

**Q73 Mr Lancaster:** I am slightly concerned. Before we pat ourselves on the back about these achievements, one matter that struck me recently was how many foreign and Commonwealth soldiers are serving in the Army at the moment, and very welcome they are too. Presumably, these figures include Fijians and soldiers recruited in the Caribbean. If we take away the Commonwealth soldiers from these figures the number of British nationals as a percentage will be significantly lower?  
**Mr Jeffrey:** That is a fair point, and I certainly did not want to sound self-congratulatory about the Army.

**Q74 Mr Lancaster:** I did not mean that. I was just struck by how many Commonwealth soldiers serve in the Army at the moment. Can you supply the figures minus the Commonwealth and foreign soldiers?

**Mr Jeffrey:** Not today, but we can certainly try to do so. As I have gone around the place I have been struck, for example, by the number of Fijians we have in the Army. We shall try to get that figure.<sup>9</sup>

**Q75 John Smith:** It is my view that there is something seriously wrong with the recruitment policies in the three Services regarding ethnic minorities. It may not be through want of trying, but quite clearly we are not trying in the right way. Far from achieving good results in the civilian MoD where 10 or 11% is roughly a reflection of the ethnic mix of the

population in general, in my opinion we do appallingly with the incredibly modest targets in our three Services which do not reflect the composition of ethnic minorities in the population as a whole. One would reasonably expect to see a better result in the uniformed disciplined services than in the civilian service. If one takes other countries like the USA and Canada which do adopt proactive policies in recruitment, one finds invariably a higher proportion. In the Army of the United States of America one finds three times the proportion of recruits from ethnic minority groups than is reflected in the US population as a whole. Clearly, we are not getting this one right. Given our historical background and our links with the Commonwealth countries and everything else, I think it is a shame that we are not achieving better within the three Services. If we are trying hard then we are doing something seriously wrong and need to go back to the drawing board and look at it again. It is an appalling situation.

**Mr Jeffrey:** I believe that we are trying hard. If you look again at the report we are discussing this morning, we see from paragraph 284 that the Army topped the public sector performers list for the sixth successive year in Race for Opportunity's annual benchmarking report on race in the workplace. The Navy and RAF are in the top 10. The senior leadership is trying to improve the situation, but it is true that we are not yet cracking it. We need to look hard at the reasons for that, for example whether they are to do with the way we present ourselves and to what extent they are to do with the perception of the Armed Forces within the ethnic minority communities.

**Q76 Mr Hamilton:** One of the things that strikes me is that the Services in general and the police have similar problems. Do you have any dialogue with the police forces throughout the UK to find out how they overcome the problem?

**Mr Jeffrey:** I believe that there is such dialogue. I know from previous experience that the police have tried to tackle this issue for a very long time and in some parts of the country they have had significant success.

**Q77 Chairman:** Permanent Secretary, when you come before us next year can you do more than say that this is a real problem and we need to look harder at it, please? Next year we will certainly want some answers in terms of the specific steps you have taken as a result of the hearing today. I thought that your answers on this matter were disappointing.

**Mr Jeffrey:** I will certainly do so. I take strength from the fact that the Committee is as concerned about this as it is, because within the organisation this is something that I feel we must focus upon very hard.

**Q78 Mr Crausby:** Could you break that down between ethnic minority communities? I do not accept that there is just one ethnic minority community. One is concerned also with Muslims and others.

<sup>9</sup> See Ev 36.

---

24 October 2006 Mr Bill Jeffrey CB and Mr Trevor Woolley

---

*Mr Jeffrey:* We can certainly break down those whom we do recruit in that fashion.<sup>10</sup> I entirely agree that there are likely to be differences in attitude and interest in joining the Armed Forces among the different communities. One example that I know perplexes my service colleagues is our relative lack of success in recruiting people from the Sikh community which has a very strong military tradition. We do not succeed in getting nearly as many of them as we would wish.

**Q79 Robert Key:** You are right that we had Sikh regiments in the British and Indian Armies. Ten years ago or more the predecessor Defence Committee inquired into it and asked the Sikh community why there was so little recruitment. The answer was because nobody had asked them. It was not that there was any reason why they would not seek opportunities in the Armed Forces but no effort was being made to ask their young people. If so, I think that is a great loss to the British forces. I very much hope that whoever is responsible for this error will be able to tell us that they have a Sikh recruitment programme.

*Mr Jeffrey:* I certainly believe there is more outreach, in the jargon, than there was at the time you describe, but I confess that it is not yet yielding results.

**Q80 Mr Holloway:** Thirteen per cent of my constituents are Sikh. As a former soldier, often when I chat to young Sikhs we discuss this. I try to do my own bit of recruitment. The replies are always very much the same: it has become rather dangerous in recent years to join the Army, particularly when you are in an environment when a young man can start to concentrate on making money. You are probably up against an economic argument.

*Mr Jeffrey:* Yes.

**Chairman:** Please bear that in mind.

**Q81 Mr Borrow:** When you appeared before the Committee in January you mentioned that you would hold a review into the question of defence acquisition. The report which was published in July recommended the merger of the DPA and DLO. Would you explain the timetable for that merger and what you believe will be the benefits?

*Mr Jeffrey:* To start with the benefits, we did indeed mount the review to which you referred. It is not just about the merger; there are other important things that we are trying to do to improve our capability in this area. The merger was, however, the most significant headline item to come out of this. The thinking behind it was simply that if we really wanted not just to acquire equipment but capability and its management over time it did not make sense to have two separate organisations, one responsible for the initial acquisition of the equipment and the other for its support through life. In practice, under the leadership of Sir Peter Spencer and Sir Kevin O'Donoghue the two organisations have been moving closer together; they have shared services for

some purposes. But our main conclusion was that we should complete that process and we would be stronger if in particular we had project teams that dealt not just with the acquisition of bits of kit but their support afterwards. We paused quite hard over accepting the recommendation because we were conscious of just how much else was going on both in relation to the main operational deployments which we discussed earlier but also in terms of the efficiency of other programmes in the department to which we may come later. But we felt that we had to make the change and do so in a reasonable timeframe. At the moment the plan is that by next April there should be a single merged organisation under one leadership. We have identified the present CDL, Sir Kevin O'Donoghue, as the person who will take over at that point, but there should be a bedding down period of about a year. Therefore, in practice from the moment we accepted the recommendation to the point when we feel we have carried it through and are in steady state we should have about 18 months to make the change.

**Q82 Mr Borrow:** As a committee we were concerned to hear in our session with the Chief of Defence Procurement earlier this month that under the Astute programme there was unlimited financial liability. The Committee has been to Barrow to look at that programme. Obviously, the price for the second and third boats has not been agreed. Would you comment on the fact that there is unlimited financial liability?

*Mr Jeffrey:* There is in the sense that the prices have not yet been agreed for the second and third boats, and we are very keen to pin that down. At the moment the position is that as the build of the first boat reaches maturity we and the builders, BAE Systems in particular, can have a more confident take on costs. We have now got provisional prices from BAE Systems for boats 2 and 3 and we are in a position to have more detailed discussions with them. From the point of view of an accounting officer, I am very keen that we should get a degree of clarity on the cost of the Astute programme that hitherto has not been there.

**Q83 Mr Borrow:** How do you feel that the recommendations on defence procurement that came out in July will improve the situation and stop us getting into a position where we have unlimited financial liability?

*Mr Jeffrey:* It is worth bearing in mind that the remaining two large and very significant programmes, the Type 45 and Astute, go back a number of years. Peter Spencer who is a more colourful presenter than I am likes to refer to them as the toxic legacy. If you look at the more recent programmes that are covered in the major projects reviewed each year the evidence of the NAO report in the past year or so shows that we are making progress. What the July review is intended to do is build on that and bring all of our practice up to the standard of the best, in particular to bring into the organisation more commercial astuteness than there has tended to be in the past. It is not just about

<sup>10</sup> See Ev 35.

merging the two organisations; it is also about an important agenda to develop skills and embed in the organisation the defence acquisition values which Lord Drayson published a year or so ago. I think that there is also a job for us to work with industry so that that relationship is changed and, following through the defence industrial strategy. I think that broadly speaking the relationship is improving and becoming more transparent.

**Q84 Mr Jones:** Referring to the merger, clearly there will be a reduction in numbers of personnel and a saving there, but as the Defence Industrial Strategy develops and it goes more towards through life support is it the case that this organisation will shrink in the sense that a lot more long-term decision-making will be pushed out to industry? Is that sustainable post-Lord Drayson? I said to Sir Peter Spencer when he was before us a few weeks ago that there is a feeling in industry that this is being driven very strongly by the Minister and there is a fear that if at some distant time in the future he leaves that post the civil servants will get back to their old ways of trying to pull everything back in-house.

**Mr Jeffrey:** The short answer to that is: not if I can help it. I have talked quite a lot to senior industrialists in the defence industry. I know that feeling is about and it was reflected in a survey that the Royal United Services Institute conducted a month or so ago. I have been very keen to emphasise to my own friends and contacts in the defence industry that nothing can be further from the truth. I believe that although it is an enormous benefit to have the energy and commercial background that Lord Drayson brings to his post, in the end it is the responsibility of the senior management of the department to make these changes stick.

**Q85 Mr Jones:** Sir Peter said that he was passionate about it. Are you?

**Mr Jeffrey:** Yes, I am. I am perhaps less colourful, as I said earlier. When I first met you almost a year ago I said that this was about the most important thing I had going on. When we received and accepted the Enabling Acquisition Change report we decided that uniquely for all these programmes I should appoint myself as senior responsible officer. I chair a regular steering group that now meets about once a month in particular to keep on top of the plans for the merger. Believe me, there is no lack of commitment on the part of the senior permanent management of the department, if I can put it that way. I am working extremely closely with Lord Drayson and intend to carry on doing so.

**Q86 Robert Key:** Recently, the Prime Minister told the nation that our forces in Afghanistan would get whatever they wanted. What does that mean in practice?

**Mr Jeffrey:** It brings us back to the discussion that we had earlier. I know that some of your colleagues expressed scepticism about whether they would ask for what they needed. But it means that if military requirements are properly laid down by

commanders on the ground, who are best placed to judge what their requirements are, through the normal processes of acquisition but as quickly as we can do it those requirements will be met.

**Q87 Robert Key:** The problem is that it is quite clear that “as quickly as we can do it” is not good enough for our forces on the ground. When the Chairman asked Sir Peter Spencer on 10 October whether his heart leapt with joy when he heard the Prime Minister say that he said, “Yes of course”, but went on to say, “There is no basis on which the Ministry of Defence would go out without the Treasury having endorsed the expenditure of money; that is the way the process works.” The problem is that I and, I suspect, other Members of this Committee feel that there is no sense of urgency. When Sir Peter was pressed on helicopters and one of my colleagues asked whether he was looking perhaps at renting them—because there are a lot of commercial-type functions in Afghanistan, for example the transport of water, that do not need an Apache—he said that it was something the department was looking at. This is not good enough when our forces are dying on the ground for lack of helicopter support. Can you reassure us that there is some sense of urgency?

**Mr Jeffrey:** There is a sense of urgency. I dealt with the issue of helicopters earlier. When requirements have been stated in theatre as being urgent operational ones the department has moved quickly. We have never been turned down by the Treasury in funding such requirements and we have operated on a pretty fast track. What Sir Peter was probably saying in relation to the Prime Minister’s comments was that one needed a properly expressed requirement before one could act on it.

**Q88 Robert Key:** That is fair enough, Permanent Secretary. If we turn, however, to Chinooks we have had eight in Afghanistan. I know that in my constituency there are eight Mark 3 Chinooks sitting in Boscombe Down and they have been there since they were delivered in 2001, five years ago. When I pressed Sir Peter Spencer on it he said he thought that closure on a deal with Boeing could be found by the end of this month, which is fine. Can you report on that? Have you had a successful deal with Boeing to bring those into service?

**Mr Jeffrey:** I cannot say anything of substance more than the answer given by Sir Peter Spencer. The last report that I saw was that we were close to agreeing a satisfactory understanding with Boeing.

**Q89 Robert Key:** But they will still not be in service until the early years of the next decade, according to Sir Peter. That is why I come back to the question of urgency. You mentioned operational requirements. If we turn for a moment to the Vector and Cougar, there is a very welcome announcement that the MoD is to buy these vehicles to replace snatch Land Rovers, but I point out that in 1991 the Royal Military Police requested new vehicles instead of Land Rovers for their functions and that was reported as an equipment deficiency. In 2001 that became an urgent operational requirement and it

took five years for the Ministry of Defence to react by saying, "Oh, let's buy some off-the-shelf Vectors and Cougars." Again, that does not say to me that there is a great sense of urgency.

**Mr Jeffrey:** I am not familiar with the history five years ago, but certainly ahead of the review that the Secretary of State put in hand in the summer there had been ongoing thinking on the need to provide some better protected vehicles in the middle range, as it were, between Snatch and heavy tracked tanks. We had already decided to invest in upgrading and up-armouring the FV-430 vehicles. What the Secretary of State's review resulted in, which was a reflection of the conditions being experienced in theatre, was the decision announced in July to acquire Vector and Cougar, which will be known as Mastiff in the British Armed Forces, and a further number of FV-430s to be up-armoured. That will be delivered pretty quickly. I do not have the details in my head, but they will start to be delivered from the end of this year.

**Q90 Robert Key:** Will the Treasury pay for those vehicles out of the reserves; if not, from where?

**Mr Jeffrey:** A bit of both. The cost of some will be met as unforeseen operational requirements; some will involve advancing expenditure that we had already provided for in later years.

**Q91 Robert Key:** What account does the Treasury take of procured assets costing a lot of money to maintain in the future, because that must be part of the equation? The full life cost of buying these vehicles, or a helicopter, has consequences for many years to come. It has been suggested that sometimes the modifications that the MoD insists upon in procurement of equipment costs more to maintain in the long run. Will the Treasury build that into its agreement to pay the costs?

**Mr Jeffrey:** The understanding in situations like these is that the Treasury will meet the acquisition costs. The longer run support cost implications would be picked up in the regular expenditure round. As you know, we have a spending review coming up as we go into next year. We will have to assess the implications of all these acquisitions as we cost our programme and put our proposals to the Treasury.

**Q92 Robert Key:** Is this the difference between requests for resources 1, which is the provision of defence capability, and requests for resources 2, which is conflict prevention? Do you say that the Mastiff will go into conflict prevention budgets?

**Mr Woolley:** The initial acquisition will go into RFR2; the support costs will be borne on RFR1.

**Q93 Robert Key:** With both the Mastiff and the Vector?

**Mr Woolley:** I need to check that.

**Chairman:** Perhaps you would return to us on that point.<sup>11</sup>

**Q94 Mr Hamilton:** From what you are saying, the Treasury has no problem in allocating money whenever a new conflict arises or a new decision is taken. Are arrangements then made for continuing funding? Are arrangements made in the budget of the MoD to allow for that continuous funding to take place when the materiel comes back here?

**Mr Jeffrey:** We need to budget for that. If we acquire the equipment we need to sustain it through life, and that forms part of our estimates in later years which are then put to the Treasury. But it is not the case that the initial reserve includes the through life expenditure associated with the equipment. That we need to bid for in the ordinary way.

**Mr Woolley:** To the extent that it gives rise to an additional cost in running this equipment, that will be a call on the RFR2, but to the extent that it gives rise to through life costs when the equipment is returned that will fall on RFR1 and it will have to be taken into account in the overall spending review settlement with the Treasury.

**Q95 Mr Hamilton:** But the ongoing costs will be part of the discussion at the time the initial request is made.

**Mr Woolley:** It would be taken into account when we next had a future spending review discussion with the Treasury.

**Q96 Mr Hamilton:** Perhaps you can put my fears at rest. Do you completely reject Mr Key's comment at the very beginning? There is no soldier being killed at the front because of lack of equipment. I think you should either reject it completely or accept it.

**Mr Jeffrey:** These are tragic events when they happen. I would be reluctant to say that they are never connected with failures of equipment, but I do not think there is any systemic extent to which our soldiers are more at risk than they would otherwise be because of shortcomings in the equipment programme. These risks are serious and we take them exceptionally seriously.

**Q97 Chairman:** When we find that Warriors are driving in Iraq with no air-conditioning and we are told by the Defence Medical Service that there is a real risk that somebody might die from heat stroke because of that do you say that is wrong?

**Mr Jeffrey:** These are risks like all the risks we face with deployed forces that have to be managed. As the Committee is aware, steps are being taken to address the question of air-conditioning and overheating which are obviously very serious issues.

**Q98 Mr Holloway:** Going back to Building Public Trust Awards and telling it like it is, notwithstanding the comments of senior commanders to Des Browne last night, in the past couple of days I have had communications with contacts of mine. In Helmand it is still maintained that the lack of helicopters is affecting their ability to conduct operations. To take Mr Key's point about helicopters and a couple of private companies that offer MI8s—the MTV version designed by the Russians for Afghanistan—Sir Peter Spencer said that the reason these could not

<sup>11</sup> See Ev 33, para 9.

be used was that there were problems about liability and insurance. I am assured by at least one of these companies that at relatively low cost they could have helicopters in Kandahar within a matter of weeks with no issues about liability and insurance but for the fact that the MoD procurement process is inflexible, notwithstanding requests for urgent operational requirements. They suggest that one matter which creates the problem is that the RAF does not want the money spent on helicopters to go to private companies; if money is to be spent on helicopters it should be part of the RAF budget so that in 10 years' time when perhaps our troops do not need them so badly we have a few helicopters when actually we are in a position to have them right now. What do you say to that?

**Mr Jeffrey:** I think that the sensible thing for me to do is to look into that and reply separately.<sup>12</sup> I do not think that we would be ruling out that option if we thought that it was one that we believed would make a real difference.

**Q99 Mr Holloway:** I just quoted what Sir Peter said, namely that it is a question of liability and insurance. I am assured by at least one of these companies that that simply is not an issue.

**Mr Jeffrey:** I need to take away what those companies have been saying to you and get briefed on it and give the Committee a reply.<sup>13</sup>

**Q100 Chairman:** Given what the Prime Minister said, that the troops could have anything they wanted, it is not a money issue?

**Mr Jeffrey:** Chairman, everything is a money issue, but the Prime Minister said what he said and the responsibility of our department when properly formulated requirements are put to us will be to meet them.

**Q101 Mr Borrow:** If he says they can have anything they want what do you mean by "everything is a money issue"?

**Mr Jeffrey:** In the end, everything has to be funded.

**Q102 Chairman:** Has he not committed the Government to funding it?

**Mr Jeffrey:** Yes. All our experience over the past few years has been that when we develop unforeseen operational requirements as advised by commanders in theatre and put them to the Treasury they are accepted. There is a necessary process of scrutiny as to what the costs actually are, but we have not found the Treasury unwilling to fund what we have needed to do. I am sure that that applies as much, if not more, to requirements that come forward since the Prime Minister said what he said.

**Q103 Chairman:** What did you mean exactly when you said that in some cases you would advance money out of future programmes? Does it mean that

money required for equipment in Afghanistan might be taken out of the future carrier programme, for example?

**Mr Jeffrey:** No. It means that where we have in the past few months decided to acquire equipment that we were planning to acquire later then we advance the provision that we have in any event made in the equipment programme to acquire it later.

**Q104 Chairman:** Can you give us an example of that?

**Mr Woolley:** If we are talking about armoured fighting vehicles, I am pretty sure that in the case of the Vector we had made provision for it in later years.

**Q105 Chairman:** Is the Vector funding taken out of the reserve?

**Mr Woolley:** No. We had provision in later years for a vehicle of this kind and it was advanced to meet the requirement in Afghanistan, so it will be deducted from our budget in future years, because we will not need the provision in those years.

**Q106 Mr Jones:** This is the first time I have heard of it. Where was it?

**Mr Woolley:** We had funding in our equipment plan.

**Q107 Mr Jones:** For what?

**Mr Woolley:** For an armoured fighting vehicle of this sort.

**Robert Key:** To be fair and to rush to the defence of Mr Woolley, in the answer to Written Question 21 given to us by the Ministry of Defence, which we have before us, it is explained that the MoD had planned to buy 62 Vectors at a cost of £18.8 million and they will now buy 166 at an additional cost of £29 million, £19 million of which will fall to RFR1 and the remaining £10 million to RFR2, to replace snatch Land Rovers destroyed in operations. I do not know if that helps.

**Q108 Mr Jones:** In terms of the Vectors, what were they designed to replace? Was there a capability gap or was it to replace something else?

**Mr Woolley:** I do not know the details.

**Chairman:** Perhaps you could provide a note to us.<sup>14</sup> Before we get to defence agencies, we intended to ask about efficiency targets, but we shall write to you about that.

**Q109 Robert Key:** From 1 April of this year agency status was removed from the three service training agencies, and we have been told by the Chief of Defence Procurement that the merged DPA/DLO organisation will not have agency status, and he explained why. Do you expect that more of the defence agencies will lose their agency status?

**Mr Jeffrey:** I think it is quite likely. We touched on this in the equivalent hearing to this one earlier this year. I recall Trevor Woolley saying then that there was something of a move across government, which I have certainly detected since then, towards reconsideration of whether or not bits of

<sup>12</sup> See Ev 34, para 10.

<sup>13</sup> *Ibid.*

<sup>14</sup> See Ev 34, para 11.

---

24 October 2006 Mr Bill Jeffrey CB and Mr Trevor Woolley

---

government set up as agencies were best dealt with in that fashion. At the time agency status was being widely used it was largely to give the management of relatively free-standing units a degree of freedom and authority to manage their businesses as they chose. I think that in the intervening period we have come to believe that some of the benefits of that have been achieved, but that there are economies of scale in particular to be had from providing shared services and having a more common approach across whole departments like the MoD. We have been reappraising whether some of these bodies need to be agencies. A couple of those whose agency status has been removed in the past year have been very small. For example, the Queen Victoria School has a budget of only £5 million and to have the whole panoply of agency requirements for that seems disproportionate. I believe that there is a chance as we continue to review this that some of our other agencies will have their status removed.

**Q110 Robert Key:** I recall that about five years ago the Australians went through this process and put together their equivalent of our DPA/DLO, which was the Defence Materiel Organisation and the Defence Acquisition Organisation. They created a creature called a prescribed agency which was somewhere between an executive agency and non-ministerial department as being the ideal model. Have you or your officials had any discussions with the Australians about their experience of this?

**Mr Jeffrey:** I have talked to my own opposite number in Australia in general terms about this. I was aware that they had managed it in the manner you describe. I have to say my own view is that within the Ministry of Defence this is such a complex business involving so many other players that I can see significant advantage in having the merged organisation relatively well integrated with the rest of the department. They will essentially be performing a supplier support function for a central sponsor, which is the existing central equipment customer, but to the ultimate benefit of an end user that is the single service. If one looks at the extent to which the DLO, for example, has succeeded in the past few years, that is widely acknowledged to have been because it has been successful in opening up links to the front line commands. There are senior people within the DLO whose function it is to maintain that important customer relationship. I very much want the new organisation to have the same approach to the front line and the central customer. I believe that that points towards, not inevitably but largely, a model which is closer to the department and not quite as much at arm's length as in the Australian model.

**Q111 Robert Key:** Will all the new defence equipment and support organisations be required to produce an annual report?

**Mr Jeffrey:** Its activities will certainly constitute a very substantial element of the report that we have before us here. I do not think we have finally decided whether or not there should be a free-standing annual report.

**Q112 Robert Key:** If there is not one it will make scrutiny of the new organisation by this Committee more difficult. Perhaps that is why you recommend that they should not produce an annual report. But what are the implications for other agencies which have their status removed? I believe a very important and fundamental principle here is whether or not they produce an annual report specific to them rather than just the annual report of the department. From the point of view of parliamentary scrutiny I think that is something which needs a good deal of careful thought.

**Mr Jeffrey:** I can certainly assure the Committee that it is no part of the purpose to reduce parliamentary scrutiny. I believe that sessions like the one you had with Sir Peter Spencer the other day must continue to be a significant feature of your business. We need to arrange ourselves so that, whether or not there is a free-standing annual report, there is a full and informative account of the business and activities of the new merged organisation that you can bite on and scrutinise and engage with in the way you have done hitherto.

**Q113 Willie Rennie:** Is the trend to get away from agencies the reason why you are closing the Defence Diversification Agency?

**Mr Woolley:** A final decision has not been made on the future of that agency, but it is not an issue about agency status; it is an issue about whether the purposes for which it was originally created are such that they require a discrete Ministry of Defence organisation to carry them forward. Things have moved on since we created it. A lot of the work on brokerage of the technology and the interface between government and the private sector and small firms is being done in different ways from those originally envisaged at the time the agency was established. That is why we are minded not to continue with the agency.

**Q114 Willie Rennie:** Could you provide a written note giving more detail about that?

**Mr Woolley:** We certainly can.<sup>15</sup> There is a formal consultation process going on at the moment which sets out the rationale, but we can certainly let you have a note on that.

**Q115 Mr Jones:** Is it not a fact that the Civil Service did not want the Defence Diversification Agency and it was foisted on you by Ministers? Now time has moved on this is a way of killing it off quietly, if you can do so.

**Mr Woolley:** The decision whether or not to continue with it will be taken by a Minister.

**Q116 Mr Jones:** But you did not want it in the first place, did you?

**Mr Woolley:** I was not involved personally in the setting up of the DDA, so I do not have a view.

---

<sup>15</sup> See Ev 34, para 12.

**Q117 Linda Gilroy:** I have a couple of questions on job losses and staff morale. There have been numerous organisational changes. The big one we discussed earlier, the merger of DPA/DLO, will result in substantial job losses. The estimate is more than 10,000. How will the MoD ensure that those who lose their jobs are provided with advice and assistance in gaining new employment? I think there is something called the Civilian Workforce Plan referred to in the annual report, but can you tell us a bit more about it?

**Mr Jeffrey:** As to morale, I think that our twice-yearly survey of staff attitudes suggests—I do not want to overstate it—that it is holding up. To take an example, in 2005–06 when asked the question, “Considering everything, how satisfied are you with the MoD as an employer?” 77% replied “Yes” and that was up on 73% in each of the two previous years. I do not want to overstate this because I am very conscious of just how much change is going on and how unsettling that can be for staff.

**Linda Gilroy:** Is that not staff who are left rather than staff who perhaps have to cope with change?

**Q118 Chairman:** If people were asked how satisfied they were with the MoD as an employer the answer could not have been “Yes”.

**Mr Jeffrey:** I am sorry. They were positive responses, by which I mean “very” or “quite” satisfied, I suspect, though I do not have the detail in front of me. On the question of staff affected by relocations, we talk to the unions and staff concerned. Every effort is made in discussion with them to find jobs for them elsewhere if that is what they wish.

**Q119 Linda Gilroy:** That sounds a bit tepid. In paragraphs 163 to 165 of the annual report it sounds a lot more positive. At the time you first came before us the trade unions were expressing some deep concerns to some of us and you expressed the hope that you would be able to develop a positive relationship with the trade unions. How would you describe the MoD’s relationship with the trade unions over these matters?

**Mr Jeffrey:** I have met the trade unions on a number of occasions and I believe that our relationship is constructive in the sense that we discuss these matters in some depth. I am sorry if what I said about people who are in locations where we no longer require staff sounded tepid. We certainly are as committed as these paragraphs of the report you quote indicate to the people programme generally. What I am trying to get across is that where we are relocating and people are affected by it there needs to be a discussion about what it means for them and what other prospects there are within the MoD elsewhere if they are prepared to move to other locations, but they are not always willing to do so.

**Q120 Linda Gilroy:** Is there a human relations programme to work with them to find other employment if they are not in a position to move?

**Mr Jeffrey:** Yes, there is.

**Q121 Mr Jones:** As to relocation, it impacts not just on individuals but on those towns or communities from which they are moving. What discussions are you having with either the DTI or regional development agencies in those areas to minimise the impact of the relocation of jobs out of those areas?

**Mr Jeffrey:** We are certainly in touch through the regional offices and the regional development agencies about the impact in their regions, and I am keen that we should be. I believe that often within the Civil Service we tend to overlook the extent to which in the regions and in large cities and localities there are a number of different government departments involved and we can at the very least within government be thinking imaginatively about how to find other roles for people within the locality.

**Q122 Linda Gilroy:** When there are redundancies of over 100, which are termed “large scale”, does the DTI not normally swing into action in a very positive way alongside what you are doing as the MoD?

**Mr Jeffrey:** It does, but if we can we are keen to avoid redundancies in this case. Among other things, that implies looking not just at other opportunities with the MoD but within the Civil Service.

**Q123 Mr Jones:** One matter which generates press headlines on a regular basis is write-offs and losses. Obviously, you do not get headlines when you reduce the losses but only when they go up. A modicum of good news in these accounts is that there has been a fall of 36% in 2004–05. What other measures are you taking to ensure that the reduction in losses continues? Have you learnt any lessons in the past 12 months that you can project forward to help reduce this?

**Mr Jeffrey:** One feature of this is that because we report impending write-offs in the year in which we get to know of them and they appear year after year as prospective write-offs in the future this Committee has an opportunity to have a go at us every year. I do not want to claim any special credit for having got the figure down. The fact is that in an organisation as large as this for good as well as bad reasons it is sometimes the case that expenditure incurred sensibly at the time, and in the knowledge held at the time, turns out to be written off. That figure will never be zero. We are keen that it should be as low as it can be.

**Q124 Mr Jones:** What are you doing to ensure that it is as low as possible?

**Mr Jeffrey:** We try to take prudent decisions of a kind that further down the track will not lead us to conclude that there is no option but to discontinue something and lose some money in the process.

**Mr Woolley:** One of the key roles of our audit committees in respect of each of our agencies and top level budgets, as well as the Defence Audit Committee, is to review losses reported in that business area. These audit committees are becoming

much more active than they were some years ago in examining the causes of these loss reports and seeing whether there are lessons to be learnt, although as the Permanent Secretary said, in many cases it is perfectly legitimate that losses should be incurred because they represent valid management decisions.

**Q125 Mr Jones:** But some of the major ones are write-offs because of cancellation of projects. Are there any other big ones in the pipeline that we may be looking at in future years? We will not reach the point when it will be said that a project will never be cancelled, but what are you doing to ensure that projects are more robust so that they will not be cancelled?

**Mr Jeffrey:** The lesson learnt over many years is that principally there should be greater investment in the early feasibility stage. That money may itself end up being written off, but certainly there is a lot of evidence—there is argument about the exact percentage; some say it is 15%—that by careful investment of resources at the preliminary stage it is possible to proof the project against subsequent failure to a greater degree than we have sometimes done in the past. Obviously, such level of expenditure is not itself free of risk.

**Q126 Chairman:** Towards the beginning of this evidence session you said that you understood in the past year that you had to create enough space both administratively and within the equipment programme. Does it imply that you need to create a space by cancelling something?

**Mr Jeffrey:** Not necessarily. I think it implies that we need to look hard at our programme, which is what we are doing at this time of year anyway as we approach the spending review next year, and in doing so we need to be conscious that, given recent experience, it would be wise to find some way to create enough contingency to be able to react as swiftly as we would wish. Whether particular outcomes flow from that depends on how successful we are in managing the rest of the programme, delivering efficiencies and the outcome of the spending review.

**Q127 Chairman:** Therefore, is it right that space within the equipment programme means either cancelling an existing programme or increasing the size of the contingency?

**Mr Jeffrey:** It means managing the programme in such a way that as we get into the period of spend it is not so circumscribed that we are limited in what we can do in the short term.

**Q128 Chairman:** Given what the Prime Minister said, is the Treasury signed up to that?

**Mr Jeffrey:** The Treasury is signed up to and has been delivering on looking at those short-term requirements that we can properly describe as

unforeseen operational requirements in a positive fashion. That is what we have been doing. Particularly in view of what the Prime Minister said, I have no reason to suppose that that is not what they will continue to do. When it comes to the longer term size of the defence budget one would not expect Treasury Ministers to be other than cautious ahead of the discussions that they are due to have.

**Q129 Chairman:** When you say that the money should not be too circumscribed, essentially it is circumscribed by the Treasury, is it not?

**Mr Jeffrey:** Of course, the Budget is the Budget. Our responsibility is to manage the Budget and the equipment programme within it and find as many efficiencies as we can. You mentioned that you would be writing to us about that section of the report dealing with efficiencies which is a very important part of it.<sup>16</sup>

**Q130 Chairman:** I am thinking particularly about the validation of the efficiencies, because when you came before us last year you produced a lot of efficiencies which proved to be invalid.

**Mr Jeffrey:** As it transpired, last year we overestimated the efficiencies that would flow from logistics and changes in the DLO. This year, in part because I was conscious of the attention that you had given this subject last year I was very clear that the department needed to do its auditing of the DLO savings well ahead of this hearing.

**Q131 Chairman:** It is unfair of us not to ask you the question.

**Mr Jeffrey:** I am slightly disappointed that you did not ask the question—now is my chance—because we have done the audit and are able to be much further along than we were. As a matter of fact, this year it has moved the other way. Our auditors have found that, if anything, at the point when the report was published in the range that we gave we had slightly underestimated the efficiencies in the DLO, but perhaps I ought to write to you about that and give you details.<sup>17</sup>

**Chairman:** That would be very helpful. We have given you a fairly hard time on several issues. I always think that this is the most testing evidence session of anybody that we conduct during the course of the year because you are required to answer for everything that the Ministry of Defence does and are expected to do so in detail with the accounts before you. Last year you had the ability to say that you had only just arrived, although you did not then take advantage of that opportunity very much. I am extremely grateful to both of you for going into the detail that you have been able to provide but also for the commitment to write to us about various other matters and for giving evidence this morning.

<sup>16</sup> See Ev 34, para 13.

<sup>17</sup> *Ibid.*

---

**Memorandum from the Ministry of Defence**

ANNUAL REPORT AND ACCOUNTS 2005–06: HOUSE OF COMMONS DEFENCE  
COMMITTEE WRITTEN QUESTIONS

(1) PSA TARGET 1—PAGE 13

(a) *Over the year April 2005–March 2006, the proportion of regular armed forces deployed on operations and other military tasks increased from 18% in the first quarter of the year to just under 20% in the last quarter of the year. What is the percentage for the first quarter of 2006–07 (April–June 2006) overall and for each Service?*

Between 1 April and 30 June 2006, 12.6% of the Royal Navy, 25.9% of the Army and 13.4% of the Royal Air Force were undertaking operations or other military tasks. In total, some 20.2% of all regular forces (measured as man-day equivalents for each service) were undertaking operations or other military tasks.

(b) *What are MoD's planning assumptions for the percentage of forces deployed, for each Service, in the remaining quarters of 2006–07?*

Since April 2006 we have deployed the Headquarters group of the Allied Rapid Reaction Corps (ARRC) and the Helmand Task Force to Afghanistan, thereby increasing our level of commitment to about 6,000 personnel in Afghanistan. We expect our commitment to remain at this level until February 2007, falling to around 5,000 personnel in March 2007 when the ARRC is withdrawn. We expect force levels to remain broadly constant in the Balkans (around 900 personnel) and Iraq (around 7,200 personnel) for the rest of 2006–07. We also expect to continue to meet other commitments such as our support to the Police Service of Northern Ireland; other UK based standing commitments; and our commitment to support the NATO Response Force and EU Battlegroup. In summary, the percentage of our forces undertaking operations and military tasks is therefore likely to remain at current levels for the remainder of 2006–07, reducing slightly toward the end of the period.

(c) *Are there performance indicators for this target? By what criteria is it assessed that the UK Armed Forces achieved the objectives for Operations and Military Tasks in 2005–06?*

The success of operations or Military Tasks is judged against the Military Strategic Objectives given to each relevant commander by the Chief of Defence Staff. These objectives set out the military contribution to the overall UK national objectives in, for example, Iraq or Afghanistan. Progress against every objective for each operation and Military Task is reported quarterly by the relevant Commander. These reports are subject to review by the Permanent Joint Headquarters, the Directorate of Joint Capability and the Directorate for Performance and Analysis. A summary report is presented to the Defence Management Board (DMB) for its consideration as part of the Defence Balanced Scorecard report against Objective A of the Departmental Plan. This summary report forms the basis of our PSA report against target 1. The aggregate assessment—based on the reports from the relevant Commanders—is that we are meeting our Military Strategic Objectives, despite significant challenges in Iraq and Afghanistan in particular.

(2) PSA TARGET 2—PAGE 14

(a) *In describing the performance on the 12 indicators in the shared “conflict prevention” PSA target, why has the MoD adopted a different system of traffic-light colours from that used by FCO—the MoD using green for “on course” where the FCO uses amber, and amber for “slippage” where the FCO uses red [MoD Annual Report p 14; FCO Annual Report pp 113–115]?*

(b) *Why does MoD's Annual Report not include the performance indicators and assessment of progress along the lines of that provided in FCO's report?*

The performance indicators and detailed assessments of progress against them are set out in Annex C of the Annual Report and Accounts. They are identical to those in the FCO Annual Report. In representing this in the traffic-light PSA summary of performance to date at the front of the Annual Report we simply categorised those areas assessed as fully or generally on course as green, and those with significant slippage as amber.

(3) PSA TARGET 3—PAGES 15–16

(a) *The target for “peacetime readiness” of ensuring that by 2008 73% of force elements show no serious or critical weaknesses against their required peacetime readiness levels, was reported as being achieved two years early. However, the proportion of force elements reporting critical or serious weaknesses increased in the last quarter of 2005–06 [page 38]. What was the proportion in the first quarter of 2006–07?*

On average from July 2005 to June 2006, 76% of force elements reported no critical or serious weaknesses against their required peacetime readiness levels, remaining above the level of performance required to be achieved by 2008. As explained in the *Annual Report and Accounts 2005–06*, our continuing high level of

operational commitment has limited our ability to maintain the higher level of performance achieved during 2005. The proportion of force elements reporting no critical or serious weaknesses against their peacetime readiness levels has declined from 81% in September–December 2005 to 69% in April–June 2006 and the proportion reporting no critical weaknesses from 100% to 97%.

(b) *The target for “immediate readiness” of ensuring that by 2008 71% of force elements report no serious or critical weaknesses against the ability to generate from peacetime readiness to immediate readiness for deployment on operations was achieved in the second and third quarters of 2005–06, but the average was 70% in the fourth quarter. The proportion of force elements reporting critical or serious weakness increased in the last quarter of 2005–06 [page 38]. What was the proportion in the first quarter of 2006–07?*

On average from July 2005 to June 2006, 67% of force elements reported no critical or serious weaknesses against the ability to generate from peacetime readiness to immediate readiness for deployment on operations. As explained in the *Annual Report and Accounts 2005–06*, the level of performance reflects the pressure on the Armed Forces resulting from operating above Defence Planning Assumptions, and the constraints on conducting collective training over and above that required for current operations until commitments return to the levels within Defence Planning Assumptions. Over the period April–June 2006, 92% of force elements reported no critical weaknesses in their ability to generate from peacetime readiness to immediate readiness and 60% of force elements reported no serious or critical weaknesses.

(c) *What are the practical consequences of the critical weaknesses relating to Royal Navy readiness [paras 33, 39] and what action is the MoD taking to address them?*

The two key factors contributing to the Royal Navy reporting critical weaknesses relating to readiness in the final quarter of 2005–06 were shortages of Merlin Helicopter spares and specialist manpower, and shortages of amphibious support shipping.

The critical weakness relating to Merlin restricted the availability of some helicopters taking part in routine commitments to deliver the full range of Anti Submarine Warfare capabilities. All current operations were fully supported during the period. Two main initiatives have now been put in place to address the spares shortage. Firstly, the Integrated Merlin Operational Support shore support initiative went live in September 2006. This aims to provide appropriate levels of spares support in sufficient time to meet the mandated readiness profiles. In addition, the Critical Spares initiative has sought to address spares delivery rates. This has been a major partnership with industry to combine efforts to address the impact of spares shortfalls thus improving readiness. This improvement is bearing fruit and more of the Merlin Fleet is now available for longer periods. In addition, efficiency schemes covering Royal Fleet Auxiliary Naval Support Units (afloat support) and the individual Squadron logistic departments have identified a variety of local efficiency measures to add further robustness to spares provision. Even without the increased maintenance burden caused by unforeseen component failures, the availability of aircraft in each Squadron were reduced on account of a lack of sufficiently trained mechanical supervisors and aircraft engineer technicians. An increase in training capacity and the short term employment of civilian maintenance personnel is helping to mitigate these manpower shortfalls.

There was also a critical shortfall in amphibious support shipping. Although operational commitments were unaffected, the transition between the old Landing Ship (Logistic) Class and the new much improved Landing Ship Dock (Auxiliary) affected the level of contingent capability available to Defence. The new ships were delayed in entering service by considerable industrial difficulties at Swan Hunter; this was resolved in May of this year when remaining elements of the contract were passed to BAES to complete. Prolonging the older ships in service would have incurred a disproportionate cost for extending lapsed safety certification. As a result we were not able to retain a full contingent Brigade level amphibious capability during this period. This shipping shortfall did not affect the Royal Navy’s ability to deploy a Lead Commando Group, which remained at very high readiness throughout. The introduction of the new Landing Ship Dock (Auxiliary) will substantially increase the amount of sealift available and will improve overall Littoral Manoeuvre capability. Royal Fleet Auxiliary Mounts Bay, the first of the Landing Ship Dock (Auxiliary) class, came into service in July 2006 and will be followed by Largs Bay and Cardigan Bay in early 2007, and Lyme Bay towards the end of 2007.

(d) *Please provide details of those RAF Force Elements identified as having a readiness level lower than required [para 41] and their consequences.*

RAF Force Elements with readiness levels lower than required were Hercules, Nimrod MR2, Nimrod R1, Sentry E-3D, the RAF Regiment and Air Transport:

- Hercules. The high levels of tasking of Hercules C130 aircraft equipped for Special Forces (SF) operations, combined with the loss of two Hercules aircraft on operations and a major modification programme aligned to scheduled maintenance, means that the availability of such aircraft is at a premium. However, they are being carefully managed to ensure that all operations are achieved. This in turn means that aircraft availability for all training is reduced and, given the

level of support required for concurrent operations, core SF crews have to be supplemented with non-core SF capable crews, which also affects other training. This limits readiness to undertake other commitments beyond those already being met, and this situation is forecast to remain until early 2007.

- Nimrod MR2. The Nimrod MR2 fleet is committed to continuous operations. A planned reduction in aircraft numbers (the aircraft fleet of 18 reduced by two during 2006 and will reduce by a further three around 2009) resulting from Nimrod MR2 aircraft entering the MRA4 programme coupled with the recent loss of a Nimrod MR2 on operations in Afghanistan, modification programmes and trained manpower shortages combine to place pressures on the Nimrod fleet. These will continue whilst operations remain at their present levels. This limits their readiness to undertake further commitments beyond those already being met.
- Nimrod R1. The reduced readiness of the fleet is caused by a shortfall in linguists. Whilst manning and recruiting action is ongoing to rectify this, there is a long training lead time of 18 months for linguists. This exacerbates the cumulative effects of continued deployed service on a relatively small, specialised Force Element that is planned to be available for initial, rather than continued, deployment. The impact is to limit readiness to undertake further commitments beyond those already being met.
- Sentry E-3D. The capability of the Sentry E3D fleet is limited by a shortage of Weapons Controllers. This is being addressed by a review of the trade structure and specialist training, with a view to improving the operational availability of qualified controllers. The impact is to limit readiness to undertake further commitments beyond those already being met.
- RAF Regiment. RAF Regiment Field Squadrons are committed to concurrent operations and are meeting the high level of tasking at the expense of harmony guidelines, where squadrons are currently deployed in breach of those guidelines for six in every 18 months. Manning shortages of around 20% (caused by overlaps between planned RAF manpower reductions, a contribution of RAF Regiment personnel to the formation of the Special Forces Support Group, and the future disbandment of the two UK Ground Based Air Defence RAF Regiment Squadrons) mean that insufficient regular RAF Regiment personnel are available to the RAF Regiment Field Squadrons. An increase to recruiting is being considered, which would restore the balance by 2011–12. The shortfall is currently being managed by augmentation with Royal Auxiliary Air Force (RAuxAF) Regiment Squadron and Operations Support Squadron personnel. Furthermore, before their planned disbandment in 2008, two Ground Based Air Defence Squadrons will be combined, equipped and trained to deliver a Field Squadron capability for a deployment in 2007–08. This will alleviate the harmony position. Subsequently, that manpower will be redistributed to the RAF Regiment Field squadrons, reducing the requirement for RAuxAF Regiment personnel. The current high level of operations limits readiness to undertake further commitments.
- Air Transport. Limitations on the employability of Air Transport aircraft in operational theatres will be significantly reduced by the fitting of Defensive Aids Suites to Tristar. This will greatly improve the resilience of the TELIC/HERRICK airbridge. The aircraft included in the programme will be equipped by May 2007.

(4) PSA TARGET 5—PAGES 18–20

(a) *Page 18 of the Annual Report shows the Service manning position in percentage terms, and page 137 the actual levels, up to April 2006. What are the trained requirement levels for each Service for April 2007 and April 2008 and what levels of trained strength does the MoD anticipate for those dates?*

The requirement and forecast are set out below:

Service	April 2007		April 2008	
	Required	Expected	Required	Expected
Royal Navy	36,272	35,145 (– 1,127, – 3.2%)	35,654	35,128 (– 526, – 1.5%)
Army	101,800	100,356 (– 1,444, – 1.4%)	101,800	101,384 (– 416, – 0.4%)
RAF	44,854	43,054 (– 1,800, – 4.1%)	41,619	41,355 (– 264, – 0.63%)

(b) *When does the MoD expect “manning balance” to be achieved for the Royal Navy and what action is the MoD taking to achieve this? Please explain how the Royal Navy achieves harmony guidelines given its undermanning.*

The Royal Navy expects to achieve manning balance in 2008 through a continuing programme of planned reduction in the requirement combined with continued progress in both recruitment and retention. Headline manning balance will mask areas of shortages in particular groups including pinch points, such as Royal Marine Other Ranks, where we are considering the case for a Financial Retention Initiative.

The Royal Navy delivers individual harmony through unit programming and, for Junior Ratings/Ranks, by providing an additional proportion of posts to allow rotation of deployed people. In areas of manpower shortfall or higher than planned operational commitment, harmony is delivered partly by increased operational risk. People are released to return to their base port without replacement when the unit is deployed. Part of this risk is offset by increased multi-skilling.

(c) *What percentage of Army personnel exceeded harmony guidelines as at 31 March 2006?*

15.1% of Army personnel exceeded harmony guidelines as at 31 March 2006, and 14.5% as at 30 June 2006.

(d) *The Committee would like to have an updated list of the “pinch point trades” previously provided to the Committee during its inquiry on last year’s Annual Report [HC 822, Ev 23], indicating where new trades have been added to the list and noting trades taken off because they no longer present manning problems. An update of progress in addressing these pinch points would be helpful.*

A revised list of pinch point trades is attached at Annex. These can vary on a monthly basis as initiatives and regulators take effect. Operational Pinch points are continuously monitored by a tri-Service Working Group to ensure that harmony breaches are minimised. Regulators in place include: post reviews in-theatre; rank-ranging of appointments to open up the pool of manpower; more training; increased recruitment; financial incentives; extension of engagements; mobilisation of reserves; and contractorisation. Further initiatives are in place for the longer term, including the Army’s Future Army Structure programme.

(e) *Please provide an update on the conclusions of the work to refine the Deployable Medical Capability needed to meet planning assumptions [para 280] and an explanation of how the significant reduction in this requirement mentioned could be justified. A note indicating pay rates for doctors in the Armed Forces and the NHS would be helpful.*

The lack of an endorsed Defence Medical Service liability had led to imbalances in both liability and in manning. Work was therefore put in hand under a new two Star (Director General Medical Operational Capability) to define the minimum deployable medical capability required to support current Defence Planning Assumptions. Methodologies to calculate casualty numbers (and thus the medical requirement) were based on new Operational Analysis developed during LOGWAR,<sup>1</sup> scrutinised by a military judgement panel and then adjusted to reflect best current medical practice and operational experience. The liability required on deployed operations was endorsed in June 2006. Further work, which we expect will be endorsed soon, was then put in hand to identify additional uniformed liability required by the Armed Forces, including the size of the training requirement.

The work highlighted various imbalances in both specialist and non-specialist categories across all three Services. In particular, the sum of the single Service requirements exceeded the Defence requirement, especially where some options would be met by either the Royal Navy or the Army. We therefore decided that some hospital-based capability (including Surgical Team support) should be delivered on a joint basis with, for example, the Royal Navy and the Royal Air Force contributing 75 beds hospital capability to mature operations. This has now been implemented; the Royal Air Force provided the major element of the last roulement to Iraq. The requirement was also adjusted to bring it into line with modern medical practice. The main impact of this was to increase specialist nurses at the expense of general nurses. There are also some increases and some decreases in some medical specialist groups. The overall outcome, after rebalancing between the various specialist groups, is a reduction in the total requirement of about 250, giving a new requirement (excluding the manning and training margin) of approximately 7,200.

Once we have endorsed the overall requirement, work will follow to align the established liability with the requirement, and manning with the established liability. A significant manning shortfall in overall nursing numbers and in medical specialists will remain. Nurses are currently in overall deficit, including a surplus of general nurses and a shortage of specialist nurses, although there is a healthy training tail. The nursing workforce is also relatively young, reflecting the successful recruiting campaign of recent years. The medical specialist workforce, although currently undermanned with trained specialists, also has a significant training tail working through and future surpluses are predicted in some areas.

<sup>1</sup> LOGWAR is part of the force development process assessing UK defence logistic capability.

The Department submits an annual Medical and Dental Officer paper of evidence to the Armed Forces Pay Review Body (AFPRB), which covers comparable pay issues. Last year we submitted evidence that Medical and Dental Officers had fallen behind their civilian counterparts. This was endorsed by the AFPRB. Defence Medical Services Medical and Dental Officers therefore received an across-the-board pay award of 2.2% from 1 April 2006. In addition, and closely matching the recommendation of the AFPRB, they received a further consolidated payment of £6,500 effective from 1 November 2006 to address the pay disparity which had opened up with their civilian counterparts. We are currently preparing further evidence for the AFPRB for the 2007 pay round which will take into account the 2006 military and National Health Service pay awards and any new evidence on the average pay of civilian doctors and dentists under their separate contractual arrangements.

(f) *Please provide an update on progress in delivering management systems allowing pressures on individuals to be monitored.*

The Joint Personnel Administration (JPA) programme will provide a significant improvement to the management of pressures on individuals. The system will provide common reporting of separation against harmonised criteria across the Services and information to allow analysis of pressures on harmony.

(5) 2002 SPENDING REVIEW VALUE FOR MONEY TARGET AND 2004 SPENDING REVIEW EFFICIENCY TARGET—PAGES 22–23

(a) *When does the MoD expect to reach an assessment of its performance against the 2002 Spending Review target of a 10% efficiency improvement by 2005–06 [p 22]?*

The final assessment of performance against the 2002 Spending Review value for money target is dependent upon the final assessment of the Defence Logistics Organisation's (DLO) performance against the Strategic Goal it was set on its creation in 2000. We are finalising this work and expect to reach an agreed assessment in time for the Committee's evidence session with the Permanent Secretary on 24 October.

(b) *Of the £400 million of DLO efficiency savings previously claimed for 2004–05, £280 million have now been validated [para 231]. What main types of claimed efficiency savings could not be validated and why was this?*

In auditing the Defence Logistics Organisation's benefits for 2004–05, Defence Internal Audit reviewed a total of £201 million out of the total DLO claim in respect of Total Operating Costs. Of this sample it was found that £129 million (64%) was valid. The main reasons for the remaining £72 million (36%) being invalidated were:

- A lack of supporting rationale and subsequent evidence (£23 million). A significant element of this related to a claim relating to the Gas Pipeline Storage System;
- Data recording errors identified in the Benefits Tracking Tool for which there was no evidence or satisfactory explanation as to their inclusion (£18 million);
- Inclusion of efficiency savings attributable to a different financial year (£20 million);
- Savings included which were not related to genuine efficiency (eg reduction in programme costs or cost transfers) (£11 million).

The 2004–05 audit report made 12 recommendations including improving existing processes, providing better guidance on benefits reporting, recording and validating, and instituting better review and assurance processes. The DLO is implementing all the recommendations and we expect that this will lead to an improvement in the outcome of the 2005–06 audit.

(c) *To what extent do the future planned efficiency gains relating to "procurement and logistics" [p 23] take account of the proposed merger of the DPA and DLO announced in July 2006?*

The future planned efficiency gains for procurement and logistics do not take account of the DPA and DLO merger announced in July 2006. Although the merger is likely to bring about more effective and efficient working, it is too early to predict the efficiency gains.

(d) *The Report claims an efficiency saving of £65 million in 2005–06 relating to force structure changes [para 127]. What further force structure changes are planned for 2006–07 and 2007–08, beyond those listed in para 127, to achieve the future planned efficiency gains in those years (£196 million and £90 million, it appears)?*

In addition to the force structure changes for 2005–06 reported at paragraph 127 of the Annual Report and Accounts, further efficiency savings in 2006–07 will be delivered from reductions to Army and RAF Ground Based Air Defence units as a result of the decreasing requirement for short range and very short range air defence and the creation of a single Joint Ground Based Air Defence Headquarters. These reductions were planned as part of the *Future Capabilities* work and will be reported in the Department's next Annual Report as planned efficiency savings start to accrue. The majority of the forecast planned

efficiency gains for 2006–07 and 2007–08 (£192 million and £90 million respectively) is a continuation of support and operating cost savings generated by the 2005–06 force structure changes, in particular the early write-down and decommissioning of equipment which generate cost of capital and depreciation cost savings from 2006–07 onwards.

#### DEPARTMENTAL RESOURCE ACCOUNTS

(6) *The Chief of Defence Logistics's Resource-DEL was underspent by £346 million [p 129]. Its voted RfR-1 was underspent by £484 million [p 199]. What main aspects of CDL expenditure, outside that covered by its DEL budget, accounted for the £484 million vote underspend?*

The DLO's underspend against Estimate was higher than that against the DEL because the former was prepared on the basis of the 2005–06 AP08 forecast of expenditure. Subsequent to that the DLO's Indirect Resource DEL was reduced by £220 million and Direct Resource DEL was increased by £40 million in line with revised forecasts. In addition the non-budget and AME element of DLO's outturn was some £213 million—an overspend of £44 million caused by the difference between the budgeted in-year changes to and unwinding of the Treasury Discount Rate and the actuals for 2005–06.

(7) *CDL's £346 million Resource-DEL underspend is attributed to a review of stocks and fixed assets [para 263]. To what extent was the underspend a result of:*

- (i) *reducing asset acquisitions;*
- (ii) *increased asset disposals;*
- (iii) *reassessments of asset values;*
- (iv) *lower depreciation and impairment charges associated with asset disposals;*
- (v) *lower depreciation and impairment charges associated with asset revaluations; and*
- (vi) *other factors?*

A range of issues within Indirect Resource DEL movements contributed to the variance between the DLO's Total Net Resource Outturn compared to its Net Resource Estimate. The vast majority related to improving the quality of the accounts by applying accounting policies consistently across the DLO. The outcome of this work could not have been predicted easily and it was therefore difficult to factor into the planning and estimating process. A number of accounting adjustments were made to the DLO's resource accounts between submission of the forecast for Spring Supplementary Estimate purposes and the final outturn reflected in the audited accounts. These adjustments, in the main, resulted in credits to the DLO's operating cost statement in the Indirect Resource DEL categories. The main adjustments were:

- £107 million from the release back to the operating cost statement of part of an accelerated impairment provision for aircraft spares made in previous years but no longer required;
- £110 million from releases back to the operating cost statement arising from a continuing review by Integrated Project Teams to ensure a consistent application of the DLO's stock provisioning policy; and
- £200 million from a technical accounting adjustment to reconcile the Department's asset holdings with balances recorded on the asset management systems.

(8) *The MoD called-down £816 million of its £881 million Departmental Unallocated Provision in 2005–06 "to cover forecasts of indirect resource spend" [para 263, last bullet-point], but in doing so its Resource-DEL budget was underspent by £771 million (2.4%) [Table 13]. Why was the level of Resource-DEL overspend so much over-estimated in deciding on the amount of DUP to call down?*

The Spring Supplementary Estimates were prepared at AP08 (November), using the latest available internal forecast information of outturn from Top Level Budget (TLB) organisations. TLB forecasts of indirect resource DEL indicated that the Department needed to draw down most of the available DUP to ensure that Resource DEL was not breached. In particular, the forecasts assumed increased redundancy provisions (£273 million), additional depreciation, and cost of capital, which had not been included in earlier estimates. In the event, the actual outturn was £771 million below that expected and forecast at AP08. This was because the Department was overly pessimistic in its forecasts of indirect resource, which did not materialise at the year end. Since then we have improved our control procedures to ensure that in future years forecasts for indirect resource DEL are scrutinised more closely.

(9) *What were the main factors behind the 43% increase in Defence Estates' RfR-1 net expenditure in 2005–06, compared with 2004–05 [p 199]?*

This increase represents the transfer of responsibility from other Top Level Budgets to Defence Estates for facilities maintenance in Germany and Northern Ireland, a full year of expenditure on Regional Prime Contracting in the South West and the South East, the implementation of Regional Prime Contracting in Central and East regions, the introduction of the Housing Prime Contract for married quarters estate and the first full year of Project Aquatrine PFI Projects B and C.

(10) *What factors lie behind the 16% increase in the costs of Property Management in 2005–06 [p 207]? When does the MoD expect the property disposal programme to result in a reduction in the cost of property management?<sup>2</sup>*

The increase in property management expenditure of £238 million reflects additional PFI commitments of £150.4 million and an increase in expenditure on the estate of £87.6 million.

#### PFI EXPENDITURE

The increase in PFI expenditure is set out by TLB below:

<i>TLB</i>	<i>2004–05</i>	<i>2005–06</i>	<i>Inc/(Dec)</i>
Land	–	£32.7 million	£32.7 million
DLO	–	£10.5 million	£10.5 million
2SL	–	£7.6 million	£7.6 million
AG	–	£18.3 million	£18.3 million
PTC	£4.6 million	–	(£4.6 million)
CTLB	£35.5 million	£70.3 million	£34.8 million
DE	£52.5 million	£103.6 million	£51.1 million
Total	£92.6 million	£243.0 million	£150.4 million

The increase for DE relates to the full year costs for Aquatrine Projects B (£11.2 million) and C (£32.4 million). Both projects went live during March 2005. Additional expenditure was also incurred in respect of Project A for electrical health and safety issues.

#### EXPENDITURE ON THE ESTATE

The increase in expenditure on the estate is set out by TLB below:

<i>TLB</i>	<i>2004–05</i>	<i>2005–06</i>	<i>Inc/(Dec)</i>
Land	£294.0 million	£231.5million	(£62.5 million)
DLO	£77.3 million	£48.8 million	(£28.5 million)
Fleet	£26.8 million	£25.0 million	(£1.8 million)
GOCNI	£38.9 million	£7.4 million	(£31.5 million)
STC	£126.0 million	£118.1 million	(£7.9 million)
AG	£88.8 million	£51.0 million	(£37.8 million)
CJO	£87.5 million	£74.7 million	(£12.8 million)
2SL	£26.5 million	£14.5 million	(£12.0 million)
PTC	£71.9 million	£65.7 million	(£6.2 million)
CTLB	£65.9 million	£51.7 million	(£14.2 million)
DPA	£11.5 million	£12.9 million	£1.4 million
DE	£501.2 million	£802.6 million	£301.4 million
Total	£1,416.3 million	£1,503.9 million	£87.6 million

We expect expenditure on property management to remain broadly level in real terms as we seek to improve the condition of the estate.

<sup>2</sup> See Ev 35, corrigendum.

(11) *DPA's DEL outturn was relatively close to budget (a £31 million underspend on Resource-DEL and a £177 million overspend on Capital-DEL [p 129]). What main factors accounted for its £1,359 million underspend on its RfR-1 vote [p 199]? What were the principal factors behind its 2005–06 RfR-1 provision being so much higher than the outturn for the previous year?*

The underspend of £1,359 million on the RfR-1 vote arose mainly as a result of the change to Treasury discount rate (3.5% to 2.2%) on the unwinding of nuclear provisions. The principal factor behind the difference between 2005–06 RfR-1 provision and the restated outturn for 2004–05 is that the latter was adjusted to reflect the effect of the transfer of responsibility for managing and cleaning of civil nuclear sites and associated value of provisions and funding for decommissioning costs from the MoD to the Nuclear Decommissioning Authority on 1 April 2005, while the 2005–06 provision did not reflect the transfer because the details had not been agreed at the time of Main Estimates.

(12) *Non-operating appropriations-in-aid were £374 million compared with a provision of £607 million [p 187]. What accounted for this large variation?*

At the time of compiling the Spring Supplementary Estimates our internal financial data suggested that we would receive this revenue. We have since improved our procedures to ensure that in future years, forecasts for this sort of activity are scrutinised more closely.

(13) *The gross cost of some force elements changed significantly between 2004–05 and 2005–06 [p 226]. The cost of frigates/destroyers fell by 14%; amphibious ships by 15%; fleet support ships by 16%; and strike/attack RAF aircraft by 24%. And costs increased for Army field units by 13%; reconnaissance/maritime patrol aircraft by 21%; and tanker/transport/comms aircraft by 23%. For each of these highlighted changes, what percentage changes in the number of ships/aircraft/units took place between the two years; and to what extent were the changes in the highlighted force element costs attributable to changes in force element quantities and how much to changes in the running cost of the force elements?*

<i>Force element</i>	<i>% change in cost</i>	<i>% change in number of ships/aircraft/units</i>
Frigates/Destroyers	– 14%	– 19%
Amphibious Ships	– 15%	– 14%
Fleet Support Ships	– 16%	– 8%
Army Field Units	+ 13%	– 5%
Strike/Attack Aircraft	– 24%	– 25%
Reconnaissance/Maritime Patrol Aircraft	+ 21%	– 28%
Tanker/Transport/Communications Aircraft	+ 23%	– 3%

The costs in note 24 to the Accounts are based on the total operating costs of the category of force element concerned. It is not possible to isolate changes in costs arising from changes in force elements from the costs of the force elements themselves.

(14) *The gross value of assets held under PFI contracts and finance leases was £624 million in April 2006, down from £737 million the year before [p 211]. What are the main factors behind this reduction? Which, if any, leases/contracts came to an end?*

There were major reductions in the following categories of assets held under PFI contracts and finance leases:

- a reduction of £109 million for *Other Land and Buildings* from the impairment to Main Building following the 2004–05 Quinquennial Revaluation. Although the impairment was correctly accounted for within 2004–05, it was not disclosed as a movement to a PFI asset. Consequently the gross cost balance of “Assets held under PFI contracts” at 1 April 2005, was overstated, whilst the gross cost of “owned assets” was understated. The disclosure note was corrected during 2005–06; hence the movement shown in Note 14.1;
- a reduction of £29 million for *Fighting Equipment Transport* as a result of the finance lease for RFA Bayleaf ending during 2005–06. The ship has been retained under a short term operating lease. This is offset by an increase of £60 million resulting from correct disclosure of assets within the Defence Helicopter Flying School (RAF Personnel and Training Command) as “Assets held under PFI contracts”. These assets existed in 2004–05 but were disclosed as “owned” rather than “held under PFI contract”. The assets have now been disclosed correctly. The total net Book Value of assets held (owned and under PFI contract) was correct, and no accounting action was required;
- a reduction of £40 million for *Other Transport*, reflecting reclassification by the DLO following a review of all asset classifications on formation of the DLO/DPA Joint Accounting Operations Centre. Assets previously disclosed as “held under PFI contract” could not be reconciled with the

actual assets known to be “held under PFI contract” and therefore the disclosure note was corrected. The total net Book Value of assets held (owned and under PFI contract) was correct, and no accounting action was required;

- a reduction of £8 million for *Information Technology and Communications Equipment*, as a result of impairments following annual revaluation; and
- an increase within Dwellings and Plant & Machinery following revaluation.

(15) *The Accounts report capital values for the MoD’s off-balance sheet PFI projects [p 230]. For each of the on-balance sheet PFI projects also listed [p 232], what are the capital values involved?*

Capital values for each of the on-balance sheet PFI projects listed on page 232 of the Annual Accounts are set out below.

<i>Project Description</i>	<i>Capital Value £ million</i>
Defence Helicopter Flying School: Provision of helicopter flying training services	68.0
RAF Lossiemouth Family Quarters: Redevelopment and reprovision of 279 family quarters	33.5
Joint Services Command and Staff College: Command and Staff College for military and civilian personnel (capital value includes family quarters)	93.0
RAF Fylingdales: Provision of guaranteed power supply	8.0
Main Building Refurbishment: Redevelopment and management services for Main Building	439.0
Naval Communications: Submarine fleet communications service	58.5
Defence Electronic Commerce Service: Strategic partnership to deliver e-business environment to share information between MoD and trading partners	9.0
Defence Animal Centre: Redevelopment of new office and residential accommodation, animal husbandry and training support	11.2
Heavy Equipment Transporters: Provision of vehicles to replace existing fleet and meet future requirements	65.0
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field	73.4
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base	44.5
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down	1,257.1

(16) *A number of “constructive losses” on equipment projects are identified in Note 31 in the Resource Accounts and paras 267–268. What “savings” in recurring costs result from writing off these projects, and to what extent are such savings scored against the Efficiency Programme target?*

Where projects are stopped, acquisition personnel are absorbed elsewhere. They are usually re-deployed in other project areas where there are vacancies due to staff churn. Efficiency targets are placed on the acquisition community as a whole, rather than on individual projects, and achievement reported accordingly.

(17) *Constructive losses totalling some £310 million [p 236 and p 239] relate to the decisions to withdraw from the long range and medium range TRIGAT anti-tank guided weapon systems. Give the scale of these losses, what benefits if any, were gained from the UK’s involvement in the early stages of these equipment programmes? Is the MoD entitled to any Commercial Exploitation Levy should these weapon systems be sold to nations not involved in these collaborative programmes?*

Involvement in the early stages of the Long Range and Medium Range TRI-national Guided Anti-Tank (TRIGAT) programmes improved MoD’s understanding of Guided Weapon performance modelling and demonstrated the capabilities and limitations of relevant technologies. Under the terms of the Memoranda of Understanding and contracts, MoD is entitled to share with the participating nations the Commercial Exploitation Levy which would accrue from sales to third parties.

(18) *A loss of £205 million relates to 8 Chinook Mk 3 helicopters [p 239]. When are these helicopters expected to enter operational service? The terms of the contract for these helicopters were met, but the helicopters did not meet the operational requirement and could not acquire Military Aircraft Release. What is the additional estimated cost (additional to the original contract cost) of meeting the operational requirement and acquiring Military Aircraft Release?*

The Department is working very hard to resolve the problems of the Chinook Mk 3. A Combined Operational Effectiveness and Investment Appraisal has indicated that recovery of the aircraft through a Fix to Field programme is likely to represent the best value for Defence. A risk reduction programme is now nearing completion and a recommendation is expected to be submitted to Investment Approvals Board early next year. The expected in-service date and costs of the programme will be confirmed at that time.

(19) *In relation to the cost of operations in Iraq [p 201], please explain the considerable underspend between allocation and outturn for 2005–06 on capital costs. How was the contingency of £60 million derived?*

The capital estimate was based on Urgent Operational Requirements (UORs) that had been given financial approval. Not all of these UORs were delivered before the end of the financial year, which resulted in an underspend. The Committee is aware that the Estimate is based on costs incurred two thirds of the way through the year, so it is prudent to include a contingency. This contingency was derived from the delegated authority the Treasury has agreed with the MoD for general unexpected UORs of £5 million a month, totalling £20 million, and adding in an element, based on historical knowledge, for unforeseen changes to the threat which require large force protection UORs to meet it. This has been borne out both last year and this with the need for mine counter measures and armoured patrol vehicle UORs.

(20) *In relation to the cost of operations in Afghanistan [p 201], please explain the reduction in the cost of Service manpower between 2004–05 and 2005–06 and the contrasting variation between allocation and outturn (2005–06) in respect of infrastructure costs and equipment support.*

The costs of Operations reflect the net additional costs incurred. Costs that the Department would have incurred regardless of the operation taking place, such as wages and salaries, are not included. The additional costs of Service personnel on operations are mainly the additional allowances they attract, because their salaries are met from the core budget. These costs reduced in 2005–06 because of a reduction in the requirement for Territorial Army support. As this is not normally required (and not budgeted for) their salaries are all additional costs and chargeable to the operation. So in operational funding terms Territorial Army support is more expensive. A reduction in Territorial Army support between 2004–05 and 2005–06 therefore reduced costs, but not necessarily manpower levels. Infrastructure costs were less than the allocation because planned building programmes began later than expected when the Estimate was produced. The allocation for Equipment Support was based on forecasts by the relevant budgetary areas within the MoD. We allowed within the contingency a sum to cover the additional equipment support costs of the planned expansion into the Helmand Province.

(21) *Will the cost of procuring the Vector and Cougar vehicles for Afghanistan and Iraq, announced in July 2006, be considered to be net additional costs and funded directly from the Treasury? If not, how will the expenditure on these vehicle be accounted for?*

The cost of buying Vector falls mainly to RfR1 as it is an established Equipment Plan programme. We had originally planned to buy 62 Vector Protected Patrol Vehicles at a cost of £18.8 million. We are now buying 166 Vectors at an additional cost of £29 million. £19 million of this will fall to RfR1. The remaining £10 million will come from RfR2 to replace Snatch Landrovers destroyed on operations, which as a net additional cost of operations is funded directly from the Treasury.

Subject to the finalisation of procurement and support costs, we expect the cost of buying Cougar (the UK variant, enhanced by additional armour, communications and electronic counter-measures, and now known as Mastiff) to be funded from RfR 2 as a net additional cost of operations.

## PINCH POINT TRADES BY SERVICE 2006

## ROYAL NAVY

<i>Previously reported</i>	<i>June 2006</i>	<i>Dropped</i>	<i>New</i>
Merlin Aircrew (including pilot/observer/aircrewmembers)	Merlin Pilots/Observers/Aircrewmembers		
Fast Jet Pilots	Fast Jet Pilots		
Lieutenant General Service Warfare (submariner)	Lieutenant General Service Warfare (submariner)		
Lieutenant Warfare Hydrographic and Meteorology	Lieutenant Warfare Hydrographic and Meteorology		
Steward (submariner)	Steward (submariner)		
Submarine/Communications Ratings (for Petty Officer, Leading Hands and Able Seamen)	Leading Hands and Operator Mechanics Communication Submarine		
Fighter Controllers	Fighter Controllers		
Surface Ship and Submarine Junior Warfare Ratings	Surface Ship and Submarine Warfare Branch Leading Hands and Petty Officers		
Air Engineering Junior Ratings	Air Engineering Mechanic		
Submarine Nuclear Watchkeepers Senior Ratings (Cat A2 and Cat B)	Submarine Nuclear Watchkeepers Senior Ratings (Cat A2 and Cat B)		
Royal Marines Junior Ranks	Royal Marines Junior Ranks		
Mine Clearance Divers Junior Ratings	Petty Officer Mine Warfare		
	Lieutenant (Warfare) Mine Clearance Diver/Mine Warfare		Lieutenant (Warfare) Mine Clearance Diver/Mine Warfare
	Leading Operator Mechanics		Leading Operator Mechanics
	Lynx aircrew observers		Lynx aircrew observers

## ARMY

<i>Previously reported</i>	<i>2006</i>	<i>Dropped</i>	<i>New</i>
Vehicle Mechanic	Vehicle Mechanic		
Recovery Mechanic	Recovery Mechanic		
Armourer	Armourer		
Ammunition Technician	Ammunition Technician		
Chef	Chef		
Movement Controller		Movement Controller	
Petroleum Operator	Petroleum Operator		
Explosives Ordnance Disposal	Explosives Ordnance Disposal		
Clerk of Works	Clerk of Works		
Military Engineer Fitter	Military Engineer Fitter		
Military Engineer C3S	Military Engineer C3S		

<i>Previously reported</i>	<i>2006</i>	<i>Dropped</i>	<i>New</i>
Military Engineer (Geographic production Technician)	Military Engineer (Geographic production Technician)		
Information Systems Engineer	Information Systems Engineer		
Operator Military Intelligence	Operator Military Intelligence		
OPMI (Linguist)	OPMI (Linguist)		
OPMI (Human Intelligence Operator)	OPMI (Human Intelligence Operator)		
Anaesthetist	Anaesthetist		
Radiologist	Radiologist		
Orthopaedic Surgeon	Orthopaedic Surgeon		
General Surgeon	General Surgeon		
General Medical Practitioner	Gen Med Practitioner		
General Duties Restricted Nurse (officer)	General Duties Restricted Nurse (officer)		
General Duties Restricted Nurse (soldier)	General Duties Restricted Nurse (soldier)		
A&E Nurse	A&E Nurse		
Intensive Care Unit Nurse	Intensive Care Unit Nurse		
	Military Engineer (Geographical)		Military Engineer (Geographical)

## RAF

<i>Previously reported</i>	<i>July 2006</i>	<i>Dropped</i>	<i>Gained</i>
General Technician Electrical		General Technician Electrical	
Environmental Health Technicians		Environmental Health Technicians	
Gunners	Gunners		
Air Traffic Controllers/ Flight Operations Manager/Flight Operations Assistant	Air Traffic Controllers/ Flight Operations Manager/Flight Operations Assistant		
	Physical Training Instructor		Physical Training Instructor
Anti ship missile Operator/Senior Non Commissioned Officer Fighter Controller	Anti ship missile Operator/Senior Non Commissioned Officer Fighter Controller		
Air Cartographers	Air Cartographers		
Medical administrators/ assistants	Medical administrators/ assistants		
Psychiatric Health Technician	Psychiatric Health Technician		
Staff Nurse (registered mental nurse)	Staff Nurse (registered mental nurse)		
Dental Technician	Dental Technician		
Dental Hygienist	Dental Hygienist		
Laboratory Technician	Laboratory Technician		
Radiographer	Radiographer		
Operating Theatre Technician	Operating Theatre Technician		
Operating Theatre Technician	Operating Theatre Technician		

<i>Previously reported</i>	<i>July 2006</i>	<i>Dropped</i>	<i>Gained</i>
Mechanical Transport Technician	Mechanical Transport Technician		
Mechanical Transport Driver	Mechanical Transport Driver		
Fire fighter	Fire fighter		
	RAF Police		RAF Police
Flying Squadron Leaders	Flying Squadron Leaders		
Junior Officer Pilots	Junior Officer Pilots		
Junior Officer Weapons System Officers	Junior Officer Weapons System Officers		
Operations Support (Fighter Control)	Operations Support (Fighter Control)		
Operations Support (RAF Regiment)	Operations Support (RAF Regiment)		
Operations Support (Provost and Security Flight)	Operations Support (Provost and Security Flight)		
Engineer		Engineer	
Administrative (Training)	Administrative (Training)		
Administrative (Secretarial)	Administrative (Secretarial)		
Administrative (Catering)	Administrative (Catering)		
Administrative (Physical Education)	Administrative (Physical Education)		
Medical	Medical		
Medical Support	Medical Support		
Dental	Dental		
Chaplains	Chaplains		
Legal	Legal		
	PMRAFNS—Nurses		PMRAFNS—Nurses
Weapons Systems Operator (Linguist)	Weapons Systems Operator (Linguist)		
Weapons Systems Operator (Air Loadmaster)	Weapons Systems Operator (Air Loadmaster)		

### Supplementary memorandum from the Ministry of Defence

1. *A summary of the last quarterly report used by the Defence Management Board to assess the performance of the Armed Forces on military operations (Q6). (The Committee would appreciate receiving this information in future on a quarterly basis).*

The success of operations or Military Tasks is judged against the Military Strategic Objectives given to each relevant commander by the Chief of Defence Staff. Progress is reported quarterly by the relevant Commander within the Defence Balanced Scorecard reviewed by the Defence Management Board, and these are subject to review by the Permanent Joint Headquarters. Assessment of success is performed through a formal process which includes endorsement by the Deputy Chief of Defence Staff (Commitments). It is based on analysis of the military strategic objectives set out for each operation or military task, and reflects the professional military judgment of senior military commanders. The Defence Management Board's conclusions are submitted to Ministers and reflected in the Department's quarterly published PSA reports. The process is periodically reviewed by the National Audit Office as part of its routine review of Departments' PSA reporting systems. Following the Committee's request we have considered whether we can provide a classified summary of the underpinning analysis of the success of operations contained within the Defence Balanced Scorecard. Taking into account the unavoidably subjective nature of the process and the sensitivity of details of operations, we have concluded that doing so would raise too high a risk of inhibiting the free and frank provision of advice to Ministers and the DMB that is particularly important in this area.

2. *A note providing details about the executive jet based In the Middle East for senior military officers, Including Information on the jet's annual running costs, entitlement to its use and usage ( Q 23 and Q 24).*

The purpose of the communication fleet is to provide rapid, secure and flexible inter and intra-theatre transport to high value personnel as determined by operational priorities not the rank of the passenger. These include senior commanders and diplomats, Special Forces, aircrew, medical or engineering personnel, and regular troops requiring immediate repatriation for compassionate reasons. The fleet has also often been used to move small amounts of highly sensitive material or cargo. There is no formal entitlement to its use on operations. Tasks are prioritised by the Air Component Commander according to the operational need. Aircraft from the communications fleet have routinely been deployed to the Middle East in support of operations since January 2003. The number of aircraft and crews has varied with operational demand. At present two aircraft are deployed covering both Iraq and Afghanistan, comprising either two HS125s or an HS125 and a BAe146 according to the need. Since the fleet was deployed over 4,000 hours and 5,300 passengers have been flown. Determining precise usage would require detailed examination of flight records in theatre, which would divert personnel in theatre from their operational duties. The average marginal cost of operating an HS125 aircraft was about £376,000 in 2003–04, £364,000 in 2004–05, and £380,000 in 2005–06. This excludes fixed costs such as personnel, depreciation and cost of capital.

3. *A note identifying when Harmony Guidelines in each Service were last met ( Q 32).*

4. *A note covering unit Harmony Guidelines, showing change over the past three years and comparison with the Defence Planning Assumptions ( Q 47–Q 51).*

Harmony performance has been included in the Department's published quarterly PSA reports from April–June 2005. Harmony guidelines for each Service, and the date they came into effect, are:

	<i>Unit Tour Interval</i>	<i>Individual Separated Service</i>
Royal Navy and Royal Marines	Fleet units to spend maximum of 60% of time deployed in a three-year cycle and 40% alongside in their base.	Individuals should spend no more than 660 days away from home over a rolling three-year period.
Date	Before 1990	Before 1990
Army	six months on operations followed by an interval of 24 months.	No more than 415 days over rolling 30 month period.
Date	2001	2003
RAF	four months on operations followed by an interval of 16 months	No more than 2.5% of personnel exceeding 140 days over rolling 12 month period
Date	2002	1995

Separated Service data are collected for all individuals by all three Services for every night, and are used by the Defence Analytical Services Agency to track and report performance against Individual Separated Service guidelines. Longer Separation Allowance (LSA), which is being harmonised across all three Services with the introduction of Joint Personnel Administration, is paid for separated service periods of 10 days or more and is administered separately through the pay system.

Fewer than 1% of Naval Service personnel are breaching Individual Separated Service guidelines. This is achieved through active management of the ship/unit programme, squad rotation, voluntary waivers and drafting. Unit level harmony in the Naval Service has been broadly met throughout with a few minor deviations judged by the Service to be tolerable and acceptable. Current activity levels are about 53% deployed, 47% base port time.

Individual Separated Service recording was only introduced in the Army in 2003. These have not yet been met since the first report against them, as of 31 December 2004, when it was estimated that up to 15% of the Army had exceeded the guidelines. As set out in the Department's most recent PSA report, for April to June 2006, as of 30 June 2006 14.5% of the Army were exceeding Individual Separated Service guidelines.

Army front line unit tour intervals are:

	<i>Current Tour interval (30 September 2006)</i>	<i>Last time guideline met, and Tour Intervals at that time</i>
Infantry	16.3 months	January 2005, 25 months
Royal Armoured Corps	20.7 months	May 2006, 24 months
Royal Artillery	26.4 months	October 2006, currently met
Royal Engineers	21.4 months	February 2006, 24.1 months

Average annual front line unit tour intervals for the last three years have been:

	<i>October 2003 to September 2004</i>	<i>October 2004 to September 2005</i>	<i>October 2005 to September 2006</i>
Infantry	20.3 months	20.9 months	17.9 months
Royal Armoured Corps	20.7 months	22.3 months	22.5 months
Royal Artillery	14.9 months	20.5 months	24.1 months
Royal Engineers	20.5 months	29.9 months	21.9 months

The Royal Air Force transferred to the Joint Personnel Administration system in March 2006, and figures are still provisional. As at September 2006, 1.7% of the Royal Air Force were exceeding 140 days Individual Separated Service over a rolling 12 month period, which is within the Royal Air Force's harmony guidelines. The Royal Air Force Regiment has exceeded Unit Tour Interval Guidelines in the last year, with Gunners currently deploying for 6 months on operations followed by a 12 month tour interval. Some specialist trades, such as fire fighters, are also deploying more frequently, but the rest of the Service is managing within the guidelines.

5. *A note on the impact of commitments on collective training including details of exercises cancelled or reduced and clarification of whether the provision of OPTAG pre-deployment training for Service personnel has been reduced (Q 57).*

The Department is very conscious of the pressure of operational tempo on all aspects of training. Our main focus is to deliver Pre-Deployment Training (PDT) to a sufficient standard to support operations. A full Pre-Deployment Training programme comprises six months training; three months of individual courses, and a further three months for the LAND directed, Land Warfare Centre-delivered Operational Training and Advisory Group (OPTAG) training. We continue to maintain the required standards, but the pressure of numbers on OPTAG pre-deployment training resources and infrastructure capacity means that in some cases it is not as thorough as we would ideally prefer. However, the operational tempo is having a significant effect on foundation training, which places a greater burden on Pre-Deployment Training, and on our ability to train for contingent operations.

During 2004–05, 379 training events were scheduled on the Defence Exercise Programme, of which 79 (20%) were cancelled. While specific reasons for cancellation are not available in many cases, and could only be provided at disproportionate cost, the Programme was affected by competing operational priorities.

During 2005–06, 533 training events were scheduled on the Defence Exercise Programme, of which 58 (10.8%) were cancelled:

- 30 exercises were cancelled due to operational commitments;
- 13 were removed as savings measures;
- 10 were cancelled by other nations; and
- five were cancelled in response to changing priorities or rescheduling.

From 1 April 2006 to 31 October 2006, 438 training events were scheduled on the Defence Exercise Programme, of which 30 (6.8%) were cancelled:

- 13 exercises were cancelled due to operational commitments;
- 11 were cancelled by other nations;
- two were removed as savings measures; and
- four were cancelled in response to changing priorities or rescheduling.

6. *A note explaining the arrangements for a military ward at Selly Oak Hospital and whether it is subject to a memorandum of understanding between the MoD and the NHS Trust (Q 63).*

The military managed Ward at Selly Oak Hospital is being developed in partnership with the University Hospital of Birmingham Foundation Trust (UHBFT). We plan to have the ward operational by the end of the year. For a variety of clinical reasons, not all military patients receiving treatment in the hospital can be gathered together on one ward. We are now introducing military management on an orthopaedic/trauma ward, since this is more likely than others to need to treat military patients. We have already put military nursing staff into that ward to provide a 24-hour military presence. We are also increasing the proportion of nurses who are military. With the agreement of the host Trust, we are taking more responsibility for the leadership and management of the ward, particularly for its military elements. Arrangements for the development of the military managed ward will be made in accordance with our existing contractual agreements with the UHBFT for hosting of military medical staff and the treatment of military patients.

7. *A note on whether the improved mental healthcare provision for Reservists, as announced by the MoD on 16 May, has been implemented fully and an assessment of its impact ( Q 65).*

The mental healthcare programme for recently demobilised Reservists will be in place before the end of the year. An announcement will be made before the end of the year to confirm the details of the service that will be provided including the location at which the assessments will be provided, and the date on which the service will commence. Currently, around 1.5% of those personnel (Regular and Reservist) who have deployed during Op TELIC are subsequently presenting with mental health problems at the MoD's Departments of Community Mental Health. We accept, however, that this total may not be fully comprehensive and may rise as more people present over time.

In order to quantify the numbers more precisely, we commissioned research by Professor Simon Wessely at Kings College, London. The study found that a measurable number of Reservists who deployed on Op TELIC (when compared either with Regulars who did deploy or Reservists who did not deploy) are showing some increased health effects as a result of deployment—particularly for common mental disorders (such as anxiety, depression and stress), post-traumatic stress disorder and fatigue. The study showed that 16% of Reservists who did not deploy on Op TELIC showed indicators of a common mental disorder, compared to 26% of Reservists who did deploy on Op TELIC. It remains the case, though, that the reported rates of indicators of common mental ill-health for both Reservists and Regulars are broadly of the same order as found in the general UK population.

We will review the assessment and treatment scheme in three years. The review will take into account the numbers of reservists who have come forward, and parallel developments in the NHS to improve the treatment paths for all Veterans with mental health problems. A decision to continue, modify or discontinue the proposed scheme will be taken following review.

8. *A breakdown, by Service, of black and minority ethnic Service personnel by nationality and by ethnic minority ( Q 74 and Q 78).*

Tables providing the information requested are attached.

The Committee specifically asked about the Department's work to engage the Sikh community. The Armed Forces have Diversity/Recruitment Teams who engage with all British minority communities aiming to ensure that they learn about Service careers available, and that parents and community leaders are properly informed about the Armed Forces and have positive perceptions based on face to face contacts. Within that specific Sikh initiatives include:

#### NAVAL SERVICE:

- *Leicester* The Royal Navy has a Sikh Community Youth Worker based in Leicester, and consequently has strong links with the Sikh Community, especially in Leicester and the surrounding areas. Regular Sikh Parent and Gatekeeper visits from Leicester to Portsmouth Dockyard are undertaken.

#### ARMY:

- *Brighton*: Attendance at the annual Chattri.
- *West Midlands*: Arrangements are made by retired Sikh Army personnel working in the recruiting organisation for recruiters of all ethnic backgrounds to visit Gurdwaras to raise their knowledge and understanding of the Sikh culture and their ability to engage with Sikhs.
- *London*: Colonel Army Recruiting made a cultural awareness visit to a Southall Gurdwara on 1 June 2006, and challenged Sikh leaders to find and nominate 200 young Sikh people to join the Army and to go through training by April 2008. Since then local recruiters have been back to the Gurdwara several times to discuss Army careers, give presentations and encourage young Sikhs to join. Colonel Army Recruiting and the Sikh Chaplain also attended the Remembrance ceremony with the Southall Sikh communities.

#### ROYAL AIR FORCE:

- *Nationwide*: Attendance at Career Fairs at Gurdwaras throughout the year.
- *Bradford*: Regular attendance at the Sikh Conference.
- *Smethwick*: Sponsor of the Smethwick Sikh Temple youth football Club.
- *London*: Careers Office staffs support Kumon Maths and Music programmes championed by Dr Kulwan Singh.

9. *A note explaining how the costs of procuring and supporting the Cougar (Mastiff) and Vector armoured vehicles will be accounted for and to what extent this will be provided for by new money from the Treasury (Q 93).*

Investment in Mastiff and Vector is split between funding from the Reserve and the Department. VECTOR is a Category C Equipment Programme that is delivering a Protected Patrol Vehicle using Urgent Operational Requirement methodology to achieve accelerated acquisition. We were already purchasing 62 VECTOR, prior to the review into Armoured Vehicles which concluded in July. As a result of the review, we decided to purchase around 100 additional VECTOR. All 160 or so vehicles will be funded by the MoD. Contract negotiations for the second tranche of vehicles are still to be finalised and therefore we are not in a position to confirm costs although it is expected to be in the region of £50 million. Some £70 million of new money will be provided by the Treasury to fund the procurement of around 100 MASTIFF vehicles, subject to finalisation of commercial arrangements.

As soon as they come into service both vehicles will be used immediately on operations and therefore support costs will be funded by the Treasury as a net additional cost of the operation in the normal way. When the vehicles are no longer needed on the operation the support costs will fall to the MoD. In the case of Mastiff, which was procured specifically for the current operations, a decision will be taken at that time as to whether or not it should be maintained in service.

10. *A note outlining the options for using private helicopters in support of operations (Q 98).*

The Department has received a number of representations, from companies and private individuals, about the potential use of private helicopters in support of operations. Senior commanders continue to judge that deployed forces are receiving adequate helicopter support, but this is kept under constant review and 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.

11. *A note identifying the vehicle or capability gap that Vector armoured vehicles has been procured to fill (Q 108).*

VECTOR is being procured to provide a Protected Patrol Vehicle (PPV) with greater payload and capacity than the SNATCH Land Rover, within a similar size (width) envelope. VECTOR carries over one third more weight than SNATCH enabling more armour to be carried, longer missions to be carried out and provision for a 5th rear passenger, such as a specialist interpreter. VECTOR's 6x6 chassis provides better mobility, enabling a greater selection of routes to be used and, due to the vehicle's width (similar to that of SNATCH), good urban terrain accessibility. Within its weight class VECTOR also offers high levels of protection, a significant improvement over the SNATCH capability.

12. *A note explaining the MoD's policy on the future of the Defence Diversification Agency (Q 114).*

The Defence Diversification Agency (DDA) was established in 1999 to facilitate defence technology transfer into the civil sector and to broker civil technology insertion back into defence. As recognised by non-government organisations such as the Defence Manufacturers' Association, the strategic landscape for technology transfer has changed significantly since then with new defence organisations such as QinetiQ emerging and subsequently spinning out their technology and intellectual property directly into the civil market. In parallel, many new MoD procurement and supply chain initiatives have been introduced which encourage the pull through of civil technology directly into the defence supply chain without the requirement for a MoD owned intermediary brokering service.

The Defence Industrial Strategy and Defence Technology Strategy underscore the importance of technology transfer, technology insertion and the promotion of greater interaction and collaboration with industry. The Department continues to work with defence contractors and industry to develop supply chain incentives to adopt innovative technology. We also continue to liaise closely with the Department of Trade and Industry and the Trades Associations, utilising their networks with the Regional Development Authorities and with small and medium sized enterprises as necessary, to ensure that we have sufficient oversight of where the civil technology exists to support our current and future capability requirements.

In the light of the above, Ministers are minded to support the 2004 recommendation to disband the Defence Diversification Agency. The department is currently consulting with the Trades Unions on options for the future of the organisation. As part of this process we are exploring whether industry or the relevant Trade Associations have an interest in acquiring the intellectual property and expertise at present sitting within the Agency. A final decision will not be taken until the consultation process has concluded later this year. Parliament will be informed of any decision to change the status of the Agency.

13. *A note on the outcome of MoD's validation of the efficiency savings achieved in the year (Q 131) and whether the efficiency targets will be amended to reflect the increased efficiencies which should result from the merger of the OPA and DLO? If so, by how much?*

The provisional efficiency achievement for 2005–06 published in the *Annual Report and Accounts 2005–06* was a range of figures (£1,323 million–£1,398 million), because the exact level of achievement in the Defence Logistics Transformation Programme (DLTP) in 2005–06 had not been validated when the Report was published. A recently completed internal audit of the DLTP's efficiency claim has resulted in a validated achievement figure of £662 million for 2005–06 against the provisional published figure of £500 million–£575 million. This brings the Department's overall efficiency achievement for the year to £1,485 million. The validated figure of £662 million includes the benefits achievement for the Defence Logistics Organisation Strategic Goal, which has been subsumed within the Defence Logistics Transformation Programme. Taking into account the achievement in previous years, the in-year efficiency target for 2005–06 was £374 million in order for the Defence Logistics Organisation to achieve the Strategic Goal. Against this target, the Defence Logistics Organisation achieved £475 million of efficiencies.

The overachievement can be explained by:

- £55 million of savings from the upkeep of capitalised assets, warships, that were not previously claimed as part of the Strategic Goal;
- £30 million of additional benefits in Strike not identified in the original claim by the DLO;
- A substantially improved performance overall in evidenced benefits.

Defence Internal Audit's work has shown that there has been a substantial improvement in the level of evidenced benefits but that there was still room for further improvement in some areas. Much of the improvement made has come from the rapid implementation of the findings of the 2004–05 audit and we will continue to learn lessons from the 2005–06 audit to support future efficiency claims against our overall 2004 Spending Review targets.

The MoD's overall efficiency target over the 2004 Spending Review period is £2.8 billion. This was agreed as part of the 2004 Spending Review, and will not change as a result of the merger of the DPA and DLO. The recommendation to merge the DLO and DPA, published in the Enabling Acquisition Change report in July 2006, was not efficiency-led, but reflected review of internal structures and processes and is intended to improve effectiveness in acquisition and the management of equipment costs through life. It is possible that savings will be achieved as a result of the merger, but the merger itself is not linked to an efficiency target. Any additional efficiencies achieved in 2007–08 would be held as contingency against the 2004 Spending Review target. We expect any efficiencies achieved from 2008–09 onwards would score against new targets from the 2007 Comprehensive Spending Review.

#### CORRIGENDUM—PROPERTY MANAGEMENT COSTS

The Committee had previously asked what factors lay behind the 16% increase in the costs of Property Management in 2005–06. In our memorandum of 16 October 2006 the Department set out that the increase in property management expenditure of £238 million identified in the Departmental Resource Accounts for 2005–06 included additional Private Finance Initiative (PFI) commitments of £150.4 million. This accurately reflected the way that costs were categorised in the Departmental Resource Accounts for 2004–05 and 2005–06, which were certified as true and fair by the Comptroller and Auditor General. However, we have since established that the accounting treatment of PFI costs for certain projects changed in 2005–06; some PFI expenditure that had been categorised as falling to other areas of the Operating Costs Statement in 2004–05 (mainly *legal and professional services* and *other expenditure*) was categorised as PFI Property Management in 2005–06. When this is taken into account the overall increase in property management expenditure from 2004–05 to 2005–06 falls to £159.4 million, or about 10%. The Department will ensure that these figures are presented on a comparable basis in future years' accounts.

A revised table comparing PFI property management expenditure in 2004–05 and 2005–06 on a consistent basis is set out below.

<i>TLB</i>	<i>2004–05</i> <i>(£ million)</i>	<i>2005–06</i> <i>(£ million)</i>	<i>Increase/(Decrease)</i> <i>(£ million)</i>
Land	29.4	32.7	3.3
DLO	—	10.5	10.5
2SL	7.5	7.6	0.1
AG	16.7	18.3	1.6
PTC	4.6	—	(4.6)
CTLB	60.5	70.3	9.8
DE	52.5	103.6	51.1
<b>Total</b>	<b>171.2</b>	<b>243.0</b>	<b>71.8</b>



<i>Country</i>	<i>All Services</i>	<i>% of total strength</i>	<i>Naval Service</i>	<i>% of total strength</i>	<i>Army</i>	<i>% of total strength</i>	<i>Royal Air Force<sup>2</sup></i>	<i>% of total strength</i>
Tanzania	~	~	–	–	~	~	–	–
Tonga	5	–	–	–	5	–	–	–
Trinidad	100	0.1	20	–	70	0.1	10	–
Uganda	40	–	–	–	40	–	–	–
Ukraine	~	~	~	~	–	–	–	–
United Arab Emirates	10	–	10	–	–	–	–	–
USA	5	–	~	~	~	~	~	–
Zambia	25	–	~	~	20	–	–	–
Zimbabwe <sup>4</sup>	585	0.3	15	–	565	0.5	5	–
Other West Indies	5	–	~	~	~	~	–	–
Other Non-British <sup>5</sup>	30	–	–	–	20	–	10	–
<b>Not Known/Stateless</b>	<b>605</b>	<b>0.3</b>	<b>505</b>	<b>1.3</b>	<b>25</b>	<b>–</b>	<b>75<sup>6</sup></b>	<b>0.2</b>

## NOTES

– denotes zero or rounded to zero.

~ denotes fewer than five or percentage based on a figure fewer than five.

Data are rounded to five to prevent disclosure of sensitive information.

1. Data are for UK Regular Forces (trained and untrained), including Nursing Services and excluding Full Time Reserve Service personnel, Gurkhas, the Home Service battalions of the Royal Irish Regiment and mobilised reservists.
2. Royal Air Force data for non-British Service personnel have been provided on an ad-hoc basis by AFPAA, as RAF nationality data are not centrally held by DASA. The number of British personnel has been inferred from the total strength of the RAF.
3. Includes personnel with nationality recorded as West German.
4. Includes personnel with nationality recorded as Rhodesian.
5. Includes personnel with nationality recorded as British Commonwealth/Foreign, Foreign/Foreign, Other African Country and Other Asiatic Country.
6. Includes 75 personnel recorded as Commonwealth by birth, but with no nationality recorded.