



House of Commons  
Defence Committee

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# Ministry of Defence Main Estimates 2007–08

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**Twelfth Report of Session 2006–07**

*Report, together with formal minutes and  
written evidence*

*Ordered by The House of Commons  
to be printed 3 July 2007*

**HC 835**

Published on 9 July 2007  
by authority of the House of Commons  
London: The Stationery Office Limited  
£10.00

## The Defence Committee

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## Summary

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This report presents the evidence we have obtained from the Ministry of Defence (MoD) during our scrutiny of the Main Supply Estimates 2007–08.

We have identified no issues which require to be debated by the House of Commons before it is asked to agree to the Main Estimates, but we point out that the MoD's request for resources of £33.7 billion in the Main Estimates does not include the expected costs of military operations in Iraq and Afghanistan and so greatly underestimates the total expected cost of the MoD's activities in 2007–08. Provision for operations in Iraq and Afghanistan exceeded £1.7 billion in 2006–07.

We argue that the MoD should include estimated costs of military operations in its Main Estimates, instead of waiting for the Supplementary Estimates as it does at present. We find it unacceptable that the MoD is incurring costs on military operations, without parliamentary approval and without even providing Parliament with an outline of the anticipated costs.

We present a breakdown of the MoD's planned conflict prevention activities in 2007–08, for which it is requesting £44 million in the Main Estimates.

We state that the costs of peacekeeping operations in the Balkans, for which provision is made in the Foreign and Commonwealth Office's estimate, are currently estimated to be £22.5 million in 2007–08.

We also highlight a number of changes in the MoD's Top Level Budget structure which are reflected in the Estimates.

# Report

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## Our scrutiny of the Main Estimates

1. The Main Supply Estimates 2007–08—by which the Government requests resources from Parliament to meet its expenditure plans for the financial year ahead—were laid before the House on 30 April 2007.<sup>1</sup> The House of Commons will be asked to agree them on 9 July.

2. The Main Estimates contain a resource-based Estimate for each department and, separately, for public service pension schemes. This Committee's interest has focused on the Ministry of Defence (MoD) Estimate<sup>2</sup>, though we have also examined the Estimate for Armed Forces retired pay, pensions etc, which covers both the Armed Forces Pension Scheme and the Armed Forces Compensation Scheme.<sup>3</sup>

3. The MoD provided the Committee, on publication of the Main Estimates, with a memorandum on each of these two Estimates. These are printed as Appendix 1 to this report.<sup>4</sup> We asked the MoD to answer some additional questions arising from the Estimates and the Department's Estimates memoranda. The MoD's response is printed as Appendix 2 to this report.<sup>5</sup>

**4. We commend the MoD for improving the format of its Estimates memoranda, and for engaging positively with the Committee over its presentation of financial information. Its response to our additional questions is helpful and thorough.**

5. The purpose of this report is to publish the evidence received from the MoD on the Main Estimates, to highlight some of the issues raised, and to reiterate our concerns about the omission from the Main Estimates of any estimates of the costs of military operations.

## Ministry of Defence Requests for Resources

6. The MoD's Main Estimate requests resources of £33.7 billion, with a net cash requirement of £31.7 billion. The MoD's Estimate is split between three Requests for Resources (RfR):

- RfR1: Provision of defence capability
- RfR2: Conflict prevention
- RfR3: War Pensions and Allowances, etc

The headline figures are set out in table 1.

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1 Central Government Supply Estimates 2007–08, Main Supply Estimates, 30 April 2007, HC 438

2 HC (2006–07) 438, pp 313–335

3 *Ibid.*, pp 337–347

4 See Ev 1

5 See Ev 8

**Table 1: The Ministry of Defence's Requests for Resources**

| <b>£'000</b>                           |                   |                        |                         |                   |
|--|-------------------|------------------------|-------------------------|-------------------|
|  | <b>2007–08</b>    | <b>2006–07</b>         |                         | <b>2005–06</b>    |
|  | <b>Provision</b>  | <b>Final Provision</b> | <b>Forecast Outturn</b> | <b>Outturn</b>    |
| RfR1: Provision of defence capability  | 32,608,197        | 32,349,202             | 32,311,906              | 32,780,865        |
| RfR2: Conflict prevention              | 44,303            | 1,427,526              | 1,382,791               | 1,015,634         |
| RfR3: War Pensions and Allowances, etc | 1,027,007         | 1,047,661              | 1,039,950               | 1,068,595         |
| <b>Net resource requirement</b>        | <b>33,679,507</b> | <b>34,824,389</b>      | <b>34,734,647</b>       | <b>34,865,094</b> |
| <b>Net cash requirement</b>            | <b>31,677,308</b> | <b>33,746,052</b>      | <b>31,755,167</b>       | <b>30,687,372</b> |

Source: HM Treasury: Main Supply Estimates 2007–08<sup>6</sup>

### Provision of defence capability

7. By far the largest part of the resources requested falls within RfR1, which covers the personnel, equipment and support costs for the Armed Forces. It includes, for example, the nuclear warhead programme.<sup>7</sup>

8. The Estimate breaks down RFR1 by Top-Level Budget (TLB).<sup>8</sup> This year's breakdown reflects some recent organisational changes within the MoD. The changes are reducing the number of TLBs, some of which now command a significant share of the Defence Vote. The changes are:

- In 2006–07, Commander-in-Chief Fleet and Second Sea Lord/Commander in Chief Naval Home Command were merged into a single TLB called Commander-in-Chief Fleet (or Fleet). The 2007–08 resource provision for Fleet is £2.1 billion.
- On 2 April 2007, the Defence Procurement Agency and the Defence Logistics Organisation were merged to form the Defence Equipment and Support (DE&S) TLB. The 2007–08 resource provision for DE&S is £15.7 billion—some 48% of the total RfR1 resource provision.
- From 2 April 2007, General Officer Commanding (Northern Ireland) and elements of the Adjutant General's TLB have been incorporated into the Commander-in-Chief Land Command TLB. The 2007–08 resource provision for Land Command is £5.8 billion.

6 HC (2006–07) 438, p 15 and p 316

7 A full description of what costs fall under each of the RfRs is given in the Main Estimates, HC (2006–07) 438, p 315

8 HC (2006–07) 438, pp 317–319

- Since 2006–07, fixed assets have been accounted for in a centralised manner under the Defence Estates and DE&S TLBs, rather than by the TLBs which hold and use them.<sup>9</sup>

9. Next year's Estimates are expected to reflect further changes:

- The merger between the RAF's Personnel and Training Command and Strike Command to form Air Command from 2 April 2007. The combined 2007–08 resource provision for these two TLBs is £2.5 billion.
- The incorporation of the remainder of the Adjutant General's TLB within one Land Forces TLB. The combined 2007–08 resource provision for these two TLBs is £6.5 billion.<sup>10</sup>

## Conflict prevention

10. The Estimate states that RfR2 covers “conflict prevention, early warning, crisis management, conflict resolution, peacemaking, peacekeeping and peacebuilding activity and ... associated strengthening of international and regional systems and capacity; and other associated non-cash items”.<sup>11</sup> It is under RfR2 that the costs of military operations fall, though provision for this is not made in the Main Estimates (an issue to which we return in paragraph 16 below). In our report on the Spring Supplementary Estimates, we expressed our concern that use of the term “conflict prevention” was misleading, as it appeared to cover military operations of all kinds, from war-fighting to peacekeeping operations.<sup>12</sup> The Government's response stated that “conflict prevention” was a generic term used to describe RfR2, but that it noted our comments and was currently reviewing the layout of the Estimate with a view to providing greater clarity in future Estimates.<sup>13</sup> **We welcome the MoD's intention to provide greater clarity in the Estimates. The headings used should be readily understandable, and it should be clear where the costs of military operations—which cannot fairly be described as conflict prevention—are accounted for.**

11. The Main Estimate includes provision for conflict prevention of £44 million for the MoD, of which £29 million is shown to be for Sub-Saharan Africa and £15 million for the rest of the world.<sup>14</sup> We asked the MoD why conflict prevention operations were divided in this way, between Sub-Saharan Africa and the rest of the world. Its response states that the figures relate to the MoD's contribution to the African Conflict Prevention Pool (ACPP) and the Global Conflict Prevention Pool (GCPP), respectively, and that the ACPP was

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9 Ev 1 and Ev 2, para 7 and HC (2006–07) 438, p 313, paras 2–3 and p 317

10 Ev 2, para 7 and HC (2006–07) 438, p 317

11 HC (2006–07) 438, p 315

12 Defence Committee, Tenth Report of Session 2006–07, *Cost of military operations: Spring Supplementary Estimate 2006–07*, HC 379, para 3

13 Defence Committee, Twelfth Special Report of Session 2006–07, *Cost of military operations: Spring Supplementary Estimate 2006–07: Government Response to the Committee's Tenth Report of Session 2006–07*, HC 558, Appendix, response to recommendation 1

14 HC (2006–07) 438, p 319; Ev 3, para 10

maintained as a separate fund in order to reflect the high priority which the Government placed on African development and security issues.<sup>15</sup>

12. The MoD's memorandum explains that programmes of conflict prevention activity are determined by officials in MoD, the Foreign and Commonwealth Office (FCO) and the Department for International Development (DfID), and the costs of activity are apportioned to whichever Department is best placed to oversee project delivery from a financial perspective<sup>16</sup> Some defence projects are funded through the FCO, as they may be best placed to manage activities through their Embassy in the country concerned. Table 2 sets out the 2007-08 provision for conflict prevention for the MoD, FCO and DfID as requested in the Main Supply Estimates.

**Table 2: 2007-08 provision for conflict prevention for the MoD, FCO and DfID**

| <b>£'000</b>                                     |            |            |             |
|--|------------|------------|-------------|
|  | <b>MoD</b> | <b>FCO</b> | <b>DfID</b> |
| <b>Programme expenditure: Sub-Saharan Africa</b> | 29,063     | 4,510      | 23,578      |
| <b>Programme expenditure: Rest of World</b>      | 15,240     | 50,240     | 8,520       |
| <b>Peacekeeping: Sub-Saharan Africa</b>          |            | 100,141    |             |
| <b>Peacekeeping: Rest of World</b>               |            | 101,269    |             |
| <b>Post-conflict reconstruction</b>              |            |            | 6,000       |

Source: HM Treasury: Main Supply Estimates 2007–08<sup>17</sup>

13. In 2006–07, the GCPP supported activities in Iraq, Afghanistan, the Balkans, Caribbean, Latin America, Sri Lanka, India and Pakistan, Indonesia, East Timor, the Middle East and North Africa, Nepal, and Russia and the Commonwealth of Independent States. Military activity funded under the ACPP in 2006–07 included:

- Pre-deployment training of around 7,000 African peacekeepers from Nigeria, Rwanda, South Africa, Ghana and Gambia, for African Union or United Nations peacekeeping missions in Sudan, Democratic Republic of the Congo and Burundi.
- Funding and supply of instructors to support the International Mine Action Training Centre.
- A training programme for the Republic of Sierra Leone Armed Forces.

15 Ev 9, answer 4

16 *Ibid.*

17 HC (2006–07) 438, p 319, pp 351–352, and p 368

- Funding and instructor support for the Kofi Annan International Peacekeeping Training Centre in Ghana, training African military and police officers.<sup>18</sup>

14. The MoD's memorandum provides a breakdown of the provision requested in the Main Estimates for conflict prevention in 2007–08, by country and by activity.

**Table 3: Africa Conflict Prevention Pool Strategy for 2007–08**

| Country/Region                                     | Activity   | Allocation (£) |
|--|--|----------------|
| Economic Community of West African States (ECOWAS) | Support to the development of the ECOWAS Standby Force (sub-element of the ASF)  | 957,000        |
| West Africa  | British Military Advisory and Training Team West Africa—support to regional PSO capability   | 2,096,260      |
| West Africa  | Support to Kofi Annan International Peacekeeping Training Centre   | 1,180,000      |
| Ghana  | PSO capacity building  | 696,000        |
| Senegal  | PSO capacity building and SSR  | 298,000        |
| Gambia   | PSO capacity building and SSR  | 284,000        |
| Nigeria  | PSO capacity building and SSR  | 1,642,000      |
| Sierra Leone                                       | SSR programme for the Republic of Sierra Leone Armed Forces and Defence Ministry conducted by UK-led International Military Advisory and Training Team (IMATT) | 13,484,195     |
| Liberia  | Support to SSR activity  | 175,000        |
| South Africa                                       | British Peace Support Team South Africa—support to PSO and SSR work  | 1,346,000      |
| Angola   | PSO capacity building  | 197,500        |
| Mozambique   | PSO capacity building and SSR  | 206,200        |
| Botswana   | PSO capacity building and SSR  | 106,000        |
| Malawi   | PSO capacity building  | 346,000        |
| Zambia   | PSO capacity building and SSR  | 109,000        |
| East Africa  | British Peace Support Training Team East Africa – support to regional PSO capability   | 2,412,000      |
| Kenya  | Support to International Mine Action Training Centre   | 987,000        |
| Kenya  | PSO capacity building and SSR  | 359,000        |
| Tanzania   | PSO capacity building and SSR  | 322,000        |

| Country/Region | Activity   | Allocation (£)    |
|----------------|--|-------------------|
| Sudan          | Support to Comprehensive Peace Agreement security implementation and Joint Integrated Forces | 371,600           |
| Ethiopia       | Programme subject to confirmation  | 350,145           |
| Uganda         | PSO capacity building and SSR  | 437,000           |
| DRC            | PSO capacity building and SSR  | 163,100           |
| Rwanda         | PSO capacity building and SSR  | 538,000           |
| <b>Total</b>   |  | <b>29,063,000</b> |

Source: Ministry of Defence <sup>19</sup>

**Table 4: Global Conflict Prevention Pool Strategy for 2007–08**

| Strategy  | Allocation (£)    |
|---|-------------------|
| Afghanistan/Iraq                                  | 1,667,000         |
| Balkans   | 1,283,000         |
| Caribbean   | 155,000           |
| India-Pakistan                                    | 71,000            |
| Indonesia/East Timor                              | 289,000           |
| Latin America (including Belize/Guatemala)        | 30,000            |
| Middle East & North Africa                        | 231,000           |
| Nepal   | 322,000           |
| Russia and the Commonwealth of Independent States | 3,347,000         |
| Security Sector Reform                            | 3,287,000         |
| Small Arms/Light Weapons                          | 500,000           |
| Sri Lanka   | 490,000           |
| UN  | 3,568,000         |
| <b>Total</b>                                      | <b>15,240,000</b> |

Source: Ministry of Defence <sup>20</sup>

15. It is interesting to note from tables 3 and 4 above that 46% of the MoD's contribution to the Africa Conflict Prevention Pool this year is directed to security sector reform in Sierra Leone, and that 22% of its contribution to the Global Conflict Prevention Pool is to go to Russia and the Commonwealth of Independent States.

19 Ev 10, answer 4

20 *Ibid.*

## Cost of military operations

16. There is no provision in the Main Estimates for the costs of operations in Iraq and Afghanistan, nor for peacekeeping in the Balkans. Provision for these will be included in the Supplementary Estimates process, as in previous years.<sup>21</sup> **In 2006–07, the MoD brought forward the presentation of estimates on the costs of operations in Iraq and Afghanistan to the Winter Supplementary Estimates, rather than waiting for the Spring Supplementary Estimates as in the past. We trust that this will continue.**

17. In previous reports we have repeatedly recommended that the MoD include provision for operations in the Main Estimates, rather than leaving them to the Supplementary Estimates.<sup>22</sup> In our report on the Spring Supplementary Estimate 2006–07, we concluded:

While we accept that it is difficult for the MoD to provide accurate estimates of the costs of operations at the beginning of the financial year, we cannot see how this can be a sufficient reason for making no forecast at all. We recommend that the MoD reflect the forecast costs of operations in Iraq and Afghanistan in its Main Estimates for 2007–08. The MoD could usefully include in its Estimates Memorandum (which we would intend to publish) an account of its planning assumptions for the costs of these operations.<sup>23</sup>

The Government response merely restated its position:

Requests for resources for [operations] have normally been made in the Supplementary Estimates because costs are difficult to forecast in fast moving operational circumstance: Supplementary Estimates are the first occasion when the Department can reach a reasonably firm conclusion on likely costs.<sup>24</sup>

There was no response to our suggestion that the MoD might usefully include in its Estimates Memorandum for the Main Estimates an account of its planning assumptions for the costs of these operations. The Estimates memorandum contains no such account, and merely restates that Requests for Resources to cover the costs arising from operations will be made “in Supplementary Estimates, as they offer the first opportunity to present robust costs against a backdrop of fast moving operations”.<sup>25</sup>

**18. We remain of the view—set out in previous reports—that the MoD should include estimated costs of military operations in its Main Estimates, rather than waiting for the Supplementary Estimates. We acknowledge that these estimates would be subject to change, but point out that the Estimates process is designed to allow for changes in forecast expenditure over the year. Military operations are not unique in being subject to uncertainty and fast-moving circumstances. Under the present practice, the MoD is incurring costs in the current financial year on military operations, without**

21 Ev 3 and Ev 4, para 4

22 For example, Defence Committee, Fourth Report of Session 2005–06, *Costs of peacekeeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06*, HC 980, para 15; Ninth Report of Session 2005–06, *Ministry of Defence Main Estimates 2006–07*, HC 1366, para 9

23 HC (2006–07) 379, para 4

24 HC (2006–07) 558, Appendix, response to recommendations 2 and 3

25 Ev 3, para 11

parliamentary approval and without even providing Parliament with an outline indication of the costs likely to be incurred. This is entirely unacceptable and we cannot understand why the MoD fails to see this. We recommend that—at least—the MoD provide in its estimates memorandum for the Main Estimates an account of its planning assumptions for the costs of military operations in the financial year ahead. We expect a considered response to this recommendation in the Government's response to this report.

19. **Because the Main Estimates contain no provision for operations in Iraq and Afghanistan, they greatly underestimate the total expected cost of the MoD's conflict prevention activities.** In 2006–07, provision for operations in 2006–07 was £1,002 million for Iraq and £770 million for Afghanistan.<sup>26</sup> The outturn has not yet been published, and—judged by previous years—may be somewhat less. While the costs of operations in Iraq may be expected to decrease in 2007–08, with the drawdown of UK Forces in that theatre, it is reasonable to assume that the cost of operations in Afghanistan will be at least of the same order.

20. Provision for the cost of peacekeeping operations in the Balkans has—to date—been requested by the FCO in the Main Estimates, and transferred to MoD at the Spring Supplementary Estimates. We have repeatedly recommended that provision for operations in the Balkans be set out in the MoD's Main Estimates instead.<sup>27</sup> In response to our report on the Winter Supplementary Estimate 2006–07, the Government stated that it would reconsider this recommendation in the preparation of Main Estimates for 2007–08.<sup>28</sup> Clearly it decided against. The FCO's Main Estimate contains provision for £100 million for peacekeeping in Sub-Saharan Africa and £101 million for global peacekeeping. The MoD's memorandum confirms that the cost of Balkans operations is contained in the FCO's global peacekeeping provision, and will be transferred to the MoD by Supplementary Estimate. It states that the current estimate is that Balkans operations will cost £22.5 million in 2007–08.<sup>29</sup> This is significantly less than the £53 million requested in 2006–07, in line with the announced withdrawal of most of the UK Forces in the Balkans.<sup>30</sup> **It is disappointing that the Government has not accepted our recommendation that provision for operations in the Balkans be set out in the MoD's Main Estimate, instead of in the FCO's Estimate. We note that the Government current estimate of the cost of operations in the Balkans in 2007–08 is £22.5 million.**

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26 HC (2006–07) 379, paras 6 and 12

27 For example, HC (2005–06) 980, para 17; HC (2005–06) 1366, para 12

28 Defence Committee, Fourth Special Report of Session 2006–07, *Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2006–07: Government Response to the Committee's Third Report of Session 2006–07*, HC 317, para 4

29 Ev 11, answer 5

30 See HC (2006–07) 379, paras 5 and 16–17

## Conclusion

21. We recommend that the House of Commons approve the MoD's Main Estimate, and have identified no issues which require a debate before it does so. But the House should be aware that, because of the omission of the costs of military operations in Iraq and Afghanistan, the Main Estimates greatly underestimate the total expected cost of the MoD's activities in 2007–08.

## Conclusions and recommendations

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1. We commend the MoD for improving the format of its Estimates memoranda, and for engaging positively with the Committee over its presentation of financial information. Its response to our additional questions is helpful and thorough. (Paragraph 4)
2. We welcome the MoD's intention to provide greater clarity in the Estimates. The headings used should be readily understandable, and it should be clear where the costs of military operations—which cannot fairly be described as conflict prevention—are accounted for. (Paragraph 10)
3. It is interesting to note ... that 46% of the MoD's contribution to the Africa Conflict Prevention Pool this year is directed to security sector reform in Sierra Leone, and that 22% of its contribution to the Global Conflict Prevention Pool is to go to Russia and the Commonwealth of Independent States. (Paragraph 15)
4. In 2006–07, the MoD brought forward the presentation of estimates on the costs of operations in Iraq and Afghanistan to the Winter Supplementary Estimates, rather than waiting for the Spring Supplementary Estimates as in the past. We trust that this will continue. (Paragraph 16)
5. We remain of the view—set out in previous reports—that the MoD should include estimated costs of military operations in its Main Estimates, rather than waiting for the Supplementary Estimates. We acknowledge that these estimates would be subject to change, but point out that the Estimates process is designed to allow for changes in forecast expenditure over the year. Military operations are not unique in being subject to uncertainty and fast-moving circumstances. Under the present practice, the MoD is incurring costs in the current financial year on military operations, without parliamentary approval and without even providing Parliament with an outline indication of the costs likely to be incurred. This is entirely unacceptable and we cannot understand why the MoD fails to see this. We recommend that—at least—the MoD provide in its estimates memorandum for the Main Estimates an account of its planning assumptions for the costs of military operations in the financial year ahead. We expect a considered response to this recommendation in the Government's response to this report. (Paragraph 18)
6. Because the Main Estimates contain no provision for operations in Iraq and Afghanistan, they greatly underestimate the total expected cost of the MoD's conflict prevention activities. (Paragraph 19)
7. It is disappointing that the Government has not accepted our recommendation that provision for operations in the Balkans be set out in the MoD's Main Estimate, instead of in the FCO's Estimate. We note that the Government current estimate of the cost of operations in the Balkans in 2007–08 is £22.5 million. (Paragraph 20)

8. We recommend that the House of Commons approve the MoD's Main Estimate, and have identified no issues which require a debate before it does so. But the House should be aware that, because of the omission of the costs of military operations in Iraq and Afghanistan, the Main Estimates greatly underestimate the total expected cost of the MoD's activities in 2007–08. (Paragraph 21)

## List of Abbreviations used in the Report and Evidence

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|        |   |
|--------|---|
| ACPP   | African Conflict Prevention Pool                  |
| AFPS   | Armed Forces Pension Scheme                       |
| AME    | Annually Managed Expenditure                      |
| ASF    | African Standby Force                             |
| AU     | African Union                                     |
| CCF    | Combined Cadet Force                              |
| DE     | Defence Estates                                   |
| DE&S   | Defence Equipment and Support                     |
| DEL    | Departmental Expenditure Limit                    |
| DfID   | Department for International Development          |
| DRC    | Democratic Republic of the Congo                  |
| ECOWAS | Economic Community of West African States         |
| FCO    | Foreign and Commonwealth Office                   |
| GCPP   | Global Conflict Prevention Pool                   |
| GEP    | Government's Expenditure Plans                    |
| GNI    | Gross National Income                             |
| HMG    | Her Majesty's Government                          |
| HQ     | Headquarters                                      |
| IBAN   | International Board of Auditors for NATO          |
| IMATC  | International Mine Action Training Centre         |
| IMATT  | International Military Advisory and Training Team |
| JFAI   | Joint Formal Acceptance Inspection                |
| MoD    | Ministry of Defence                               |
| MoG    | Machinery of Government                           |
| NATO   | North Atlantic Treaty Organisation                |
| NSIP   | NATO Security Investment Programme                |

|       |  |
|-------|--|
| OCS   | Operating Cost Statement                                 |
| PEOWP | Public Expenditure Outturn White Paper                   |
| PFI   | Private Finance Initiative                               |
| PSA   | Public Service Agreement                                 |
| PSO   | Peace Support Operations                                 |
| RfR   | Request for Resources                                    |
| RN    | Royal Navy   |
| SBSO  | Single Balance Sheet Owner                               |
| SCAPE | Superannuation Contribution Adjusted for Past Experience |
| SR04  | Spending Review 2004                                     |
| SSR   | Security Sector Reform                                   |
| TLB   | Top Level Budget   |
| UN    | United Nations   |

# Formal minutes

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**Tuesday 3 July 2007**

Members present:

Mr James Arbuthnot, in the Chair

Mr David Crausby

Linda Gilroy

Mr Mike Hancock

Mr Bernard Jenkin

Robert Key

Willie Rennie

John Smith

## **Ministry of Defence Main Estimates 2007–08**

The Committee considered this matter.

Draft Report (Ministry of Defence Main Estimates 2007–08), 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 21 read and agreed to.

Annexes (Summary and List of Abbreviations) agreed to.

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

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That several papers relating to the Main Estimates be reported to the House for printing with the Report.

[Adjourned till Tuesday 17 July at 10.00 am

## List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### 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 peacekeeping 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 ( <i>HC 180</i> )  |

**Session 2006–07**

|                 |   |                                    |
|-----------------|---|------------------------------------|
| First Report    | Defence Procurement 2006  | HC 56 ( <i>HC 318</i> )            |
| Second Report   | Ministry of Defence Annual Report and Accounts 2005–06  | HC 57 ( <i>HC 376</i> )            |
| Third Report    | Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2006–07            | HC 129 ( <i>HC 317</i> )           |
| Fourth Report   | The Future of the UK’s Strategic Nuclear Deterrent: the Manufacturing and Skills Base         | HC 59 ( <i>HC 304</i> )            |
| Fifth Report    | The work of the Committee in 2005 and 2006  | HC 233 ( <i>HC 344</i> )           |
| Sixth Report    | The Defence Industrial Strategy: update   | HC 177 ( <i>HC 481</i> )           |
| Seventh Report  | The Army’s requirement for armoured vehicles: the FRES programme                              | HC 159 ( <i>HC 511</i> )           |
| Eighth Report   | The work of the Defence Science and Technology Laboratory and the funding of defence research | HC 84 ( <i>HC 512</i> )            |
| Ninth Report    | The Future of the UK’s Strategic Nuclear Deterrent: the White Paper                           | HC 225-I and –II ( <i>HC 551</i> ) |
| Tenth Report    | Cost of military operations: Spring Supplementary Estimate 2006–07                            | HC 379 ( <i>HC 558</i> )           |
| Eleventh Report | Strategic Lift  | HC 462                             |

# Written evidence

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## APPENDIX 1

### Memorandum from the Ministry of Defence on the Ministry of Defence Main Estimate 2007–08

#### INTRODUCTION

1. This Memorandum covers the Main Estimate for the Ministry of Defence (MOD). The Department's spending plans for 2007–08 are based upon the outcome of the Government's Spending Review 2004 (SR04), as published in the Government's Expenditure Plans 2006–07 to 2007–08 (Cm 6822). As announced by the Secretary of State for Defence on 21 July 2004, the key features of the settlement for Defence were:

- An increase in the Defence budget of £3.7 billion, representing 1.4% average annual growth in real terms over the period to 2007–08.
- A commitment to achieving £2.8 billion of efficiencies by 2007–08, all of which would be reinvested in Defence.

2. This Estimates Memorandum should be read in conjunction with the Department's Main Estimate. The Introduction to the Estimate explains some of the changes that have taken place since the 2006–07 Estimates, together with the total for each of the Requests for Resources (RfR).<sup>1</sup> There are no contingencies in this Estimate. Should we need to access the Departmental Unallocated Provision (see paragraph 9) we will seek Parliamentary authority to do so in Supplementary Estimates.

3. The Department is presenting a separate Estimates Memorandum for the Main Estimate for the Armed Forces Retired Pay, Pensions Vote.

#### RESOURCES SOUGHT IN THE ESTIMATE

4. Part I of the Estimate sets out the new resource and cash requirements for the Department for the year ending 31 March 2008. The resources requested are set out in Table 1 below.

**Table 1**

#### SUMMARY OF RESOURCE AND CAPITAL EXPENDITURE

| <i>Resource Expenditure</i>            | <i>£m</i> |
|--|-----------|
| Provision of Defence Capability (RfR1) | 32,608    |
| Conflict Prevention (RfR2)             | 44        |
| War Pensions and Allowances (RfR3)     | 1,027     |
| Total Net Request for Resources        | 33,679    |
| <i>Capital Expenditure</i>             |           |
| Provision of Defence Capability (RfR1) | 7,550     |
| <i>Cash</i>                            |           |
| Net Cash Requirement                   | 31,677    |

5. The derivation of the net cash requirement from the net request for resources is explained in Part II of the Estimate ("Resource to Cash Reconciliation").

#### THE COMPOSITION OF MAIN ESTIMATES

6. A number of transfers and other changes have taken place since SR04, and are set out in detail in the Introduction to the Estimate.

7. The principal organisational changes include:

- Reorganisation in 2006–07 of the two Royal Navy Top Level Budget Holders (TLBs)—Commander-in-Chief Fleet and Second Sea Lord/Commander-in-Chief Naval Home Command—into a single TLB called "Commander-in-Chief Fleet" (referred to as "Fleet" in the Estimate, where the 2005–06 outturn is shown against the two previous TLBs' lines).

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<sup>1</sup> For detail on the different Requests for Resources, see Definition of Terms, Ev 6.

- The merger, on 2 April 2007, of the Defence Procurement Agency and the Defence Logistics Organisation to form “Defence Equipment and Support” (DE&S). Again, balances for prior years (provision and outturn) within the Estimate are shown against the old organisations.
- The inclusion (from 2 April 2007) of the General Officer Northern Ireland TLB, and elements of the Adjutant General’s TLB (including the Army Recruiting and Training Division) into Land TLB; again balances for prior years (provision and outturn) within the Estimate are shown against the old organisations. From April 2008 we expect that there will be one Land Forces TLB which will include the remainder of the Adjutant General’s TLB.
- The RAF’s Personnel and Training Command and Strike Command formed Air Command from 2 April 2007. The Estimates will, for the next year, reflect two TLBs, with a merged TLB reflected in the Main Estimates for 2008–09.
- During 2006–07, the Department centralised fixed asset management under four single balance sheet owners (SBSOs), which are now held within two TLBs: Defence Estates (DE) and DE&S. Fixed Assets will be held and used by all TLBs and their “asset custodians” (those personnel charged with managing and holding the assets), but will be accounted for by the SBSOs. DE will hold all land and buildings and related plant and machinery assets, and the DE&S will hold all single use military equipment, guided weapons, missiles and bombs, capital spares, plant and machinery, transport, all assets under construction and Government furnished equipments held in project accounts, and all information technology and communication equipment.

8. A number of changes have occurred under Request for Resources 1 (RFR1—Provision of Defence Capability):

- Last year’s Estimates included accounting changes for 2007–08 relating to interest charges on PFI deals. This change was the result of amendments to the budgeting guidance issued by HM Treasury. Departments were previously required to split the recording of payments on PFI deals so that the interest payable below 3.5% was charged to non-budget<sup>2</sup> (ie not within the DELs) and that over 3.5% was scored to Direct R DEL. The new arrangements require that the full amount of interest is charged to Direct R DEL. The cost of capital credit was in non-budget, and it is now within Indirect R DEL. This technical accounting change has simplified the recording of transactions. These were originally based on data from the Department’s 2005 planning round, and have been updated in these Estimates to take account of amendments in the 2007 planning round. The impact is a reduction of £68 million in Direct Resource DEL and an increase of £68 million in Indirect Resource DEL.
- A further technical accounting change, also included in last year’s Estimates, was made when updated Treasury guidance<sup>3</sup> required that prepayments relating to large and complex transactions such as PFI deals are treated as capital in budgets. These were originally based on data from the Department’s 2005 planning round, and have been updated in these Estimates to take account of amendments in the 2007 planning round, and the impact is an increase of £60 million in Direct Resource DEL, a decrease of £60 million in Capital DEL and an increase of £28 million in Capital DEL to reflect the prepayments position.
- The net effect of these two technical changes, which have been agreed by HM Treasury, is a decrease in Direct Resource DEL of £8 million, an increase in Indirect Resource DEL of £68 million and a decrease in Capital DEL of £32 million.
- Transfers to and from Other Government Departments are shown in Tables 2 and 3 respectively; these include some where funding has been agreed for more than one year, and are a continuation of transfers made in last year’s Estimates.
- SR04 included agreement that the Department would have a degree of flexibility in 2007–08, within agreed limits, in switching resources from Indirect Resource DEL to Direct Resource DEL. This arrangement was brought forward to 2006–07, and as a consequence, the changes that were included in Cm 6822 have been reversed in this Estimate.
- There is additional funding agreed by HM Treasury for the creation of six new state school cadet units, to be set up for three year pilot periods.
- The Department is required to repay the capital element of a 1997–98 loan from the National Loans Fund for the refurbishment of MOD housing stock.

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<sup>2</sup> See “definition of terms”, Ev 6.

<sup>3</sup> See paragraph 6.25 of HM Treasury Consolidated Budgeting Guidance 2007–08.

**Table 2****TRANSFERS INTO MOD FROM OTHER GOVERNMENT DEPARTMENTS IN RfR1**

| <i>Exporting Department</i>            | <i>£m</i>    | <i>Purpose</i>   |
|--|--------------|--|
| Department of Transport                | 3.903        | Contribution to National Meteorological Programme and Severe Weather Warning System.   |
| Department for Trade and Industry      | 2.314        | Contribution to National Meteorological Programme and Severe Weather Warning System.   |
| Department of Culture, Media and Sport | 3.080        | Contribution to National Meteorological Programme and Severe Weather Warning System.   |
| Department of Trade and Industry       | 0.210        | Contribution to the Principal Non-Industrial Superannuation Scheme (PNISS) for individuals who transferred to the MOD from the UK Atomic Energy Authority. This follows on from the transfer made in Winter Supplementary Estimates 2006–07. |
| <b>Total</b>                           | <b>9.507</b> |  |

**Table 3****TRANSFERS OUT OF MOD TO OTHER GOVERNMENT DEPARTMENTS IN RfR1**

| <i>Importing Department</i>              | <i>£m</i>     | <i>Purpose</i>  |
|--|---------------|---|
| Department for International Development | –7.000        | Capital transfer of MoD's contribution to the UK/ Spain/Gibraltar trilateral agreement to provide financial support to Spanish pensioners previously employed in Gibraltar. |
| Cabinet Office                           | –1.000        | MoD's Contribution to the Security and Intelligence Agencies funding.   |
| <b>Total</b>                             | <b>–8.000</b> |   |

9. Changes under RFR1 include “non-voted” items. These are items that form part of the Department's budget but are not voted by Parliament. These are:

- The Departmental Unallocated Provision (DUP) which is a part of the DEL allocated in SR04 that Departments hold back to deal with unforeseen pressures in accordance with the Consolidated Budgetary Guidance issued by HMT. This year the DUP comprises £200 million of Indirect Resource DEL.<sup>4</sup> This is a Departmental reserve that can be drawn down in year as required.
- The cash release of nuclear provisions. These are payments made for the decommissioning of nuclear facilities and sites, including submarines. The provisions were created in previous years and payments will be made this year.
- The running costs of the Royal Hospital Chelsea.
- The Department's grant to the Fleet Air Arm Museum for its running costs, which is classified as a subsidy because more than half of its income comes from private sources.
- Long service advances of pay<sup>5</sup> which are recorded as debtors on the balance sheet and not shown on the Part II table of Estimates. This is as a result of an accounting change which was introduced in 2006–07.<sup>6</sup> The amount shown in Table 4 is the difference between what will be advanced and repayment of advances.

10. Request for Resources 2 (RfR2—Conflict Prevention) relates to the joint funding pools which the Department holds with the Department for International Development and the Foreign and Commonwealth Office, designed to deliver improved UK and international support in conflict prevention by addressing long term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction. RfR2 includes £29 million for Sub-Saharan Africa and £15 million for the rest of the world.

11. Requests for Resources to cover costs arising from operations in Afghanistan and Iraq (which are funded from the Treasury Reserve) will be made in Supplementary Estimates, as they offer the first opportunity to present robust costs against a backdrop of fast moving operations. The request for funding

<sup>4</sup> See paragraph 1.43 of the Treasury's Consolidated Budgeting Guidance 2007–08.

<sup>5</sup> Long Service Advance of Pay—advance of pay made to service personnel to assist with purchase of a house; this is repayable over 10 years.

<sup>6</sup> See paragraph 6.30 of the Treasury's Consolidated Budgeting Guidance 2007–08.

for the Balkans (which is funded from the Reserve through the Foreign and Commonwealth Office) will be made in Supplementary Estimates, and will reflect the Minister for the Armed Forces' 1 March 2007 announcement of the withdrawal of British troops from Bosnia.

12. Request for Resources 3 (War Pensions & Benefits) seeks £1,027 million, all of which is Annually Managed Expenditure (AME). This has decreased by £20 million since last year's Estimate because the scheme was closed to new claimants from 5 April 2005 upon the introduction of the Armed Forces Compensation Scheme. Costs for the new scheme are accounted for under the Armed Forces Pension Scheme Estimate.

13. Table 4 summarises the composition of the Estimate, including changes since Cm 6822 and including Annually Managed Expenditure, non-budget and cash release of provisions.

Table 4

## DETAIL OF CHANGES TO THE ESTIMATE SINCE PUBLICATION OF CM6822

| <i>All £m</i>                            | <i>Direct<br/>R DEL</i> | <i>Indirect R<br/>DEL</i> | <i>Total R<br/>DEL</i> | <i>AME</i>     | <i>Non-<br/>Budget</i> | <i>Total Net<br/>Resource</i> | <i>Capital<br/>DEL</i> | <i>Capital<br/>AME</i> | <i>Capital<br/>Non-<br/>Budget</i> | <i>Total Net<br/>Capital</i> |
|--|-------------------------|---------------------------|------------------------|----------------|------------------------|-------------------------------|------------------------|------------------------|------------------------------------|------------------------------|
| <i>(1)</i>                               | <i>1</i>                | <i>2</i>                  | <i>3</i>               | <i>4</i>       | <i>5</i>               | <i>7</i>                      | <i>8</i>               | <i>9</i>               | <i>10</i>                          | <i>11</i>                    |
| GEP figures<br>CM6822                    | 22,126.8                | 10,590.4                  | 32,717.2               | 32.5           | 13.1                   | 32,762.8                      | 7,588.9                | 0.0                    | 0.0                                | 7,588.9                      |
| Accounting<br>Treatment<br>changes (2)   | -8.4                    | 68.9                      | 60.5                   |                |                        | 60.5                          | -32.4                  |                        |                                    | -32.4                        |
| Transfers in                             | 9.5                     |                           | 9.5                    |                |                        | 9.5                           |                        |                        |                                    | 0.0                          |
| Transfers out                            | -1.0                    |                           | -1.0                   |                |                        | -1.0                          | -7.0                   |                        |                                    | -7.0                         |
| Flexibility                              | -170.0                  | 170.0                     | 0.0                    |                |                        | 0.0                           |                        |                        |                                    | 0.0                          |
| School Cadet<br>Units                    | 0.8                     |                           | 0.8                    |                |                        | 0.8                           |                        |                        |                                    | 0.0                          |
| National Loan<br>Fund Capital            |                         |                           | 0.0                    |                |                        | 0.0                           |                        |                        | 1.9                                | 1.9                          |
| <b>Total</b>                             | <b>21,957.7</b>         | <b>10,829.3</b>           | <b>32,787.0</b>        | <b>32.5</b>    | <b>13.1</b>            | <b>32,832.6</b>               | <b>7,549.5</b>         | <b>0.0</b>             | <b>1.9</b>                         | <b>7,551.4</b>               |
| Less Non-voted<br>items in SR 04         |                         |                           | 0.0                    |                |                        | 0.0                           |                        |                        |                                    | 0.0                          |
| Departmental<br>Unallocated<br>Provision |                         | -200.0                    | -200.0                 |                |                        | -200.0                        |                        |                        |                                    | 0.0                          |
| Nuclear Cash<br>Release                  | -58.7                   |                           | -58.7                  | 58.7           |                        | 0.0                           |                        |                        |                                    | 0.0                          |
| Royal Hospital<br>Chelsea                | -12.6                   | -11.6                     | -24.2                  |                |                        | -24.2                         | -0.7                   |                        |                                    | -0.7                         |
| Fleet Arm<br>Museum                      | -0.2                    |                           | -0.2                   |                |                        | -0.2                          |                        |                        |                                    | 0.0                          |
| Long Service<br>Adv of Pay               |                         |                           | 0.0                    |                |                        | 0.0                           | -1.1                   |                        |                                    | -1.1                         |
| <b>RfR1 Total</b>                        | <b>21,886.2</b>         | <b>10,617.7</b>           | <b>32,503.9</b>        | <b>91.2</b>    | <b>13.1</b>            | <b>32,608.2</b>               | <b>7,547.7</b>         | <b>0.0</b>             | <b>1.9</b>                         | <b>7,549.6</b>               |
| <b>RfR2 Provision</b>                    | <b>44.3</b>             |                           | <b>44.3</b>            |                |                        | <b>44.3</b>                   |                        |                        |                                    | <b>0.0</b>                   |
| <b>RfR3 Provision</b>                    |                         |                           | <b>0.0</b>             | <b>1,027.0</b> |                        | <b>1,027.0</b>                |                        |                        |                                    | <b>0.0</b>                   |
| <b>Total (3)</b>                         | <b>21,930.5</b>         | <b>10,617.7</b>           | <b>32,548.2</b>        | <b>1,118.2</b> | <b>13.1</b>            | <b>33,679.5</b>               | <b>7,747.7</b>         | <b>0.0</b>             | <b>1.9</b>                         | <b>7,549.6</b>               |

(1) Definitions of the column headings are shown on Ev 6.

(2) This line reflects the changes to the Treasury control regime, which affects provisions, accounting for Private Finance Initiative deals, and long term prepayments and debtors—see paragraph 8.

(3) Minor differences may occur due to roundings.

## SUPPLEMENTARY ESTIMATES

14. We expect that a number of items will change between Main and Supplementary Estimates:

- A transfer in from the Department of Environment, Food and Rural Affairs for the National Meteorological Programme.
- End of Year Flexibility will also be sought in the Winter Supplementary Estimates, following publication of HM Treasury's Public Expenditure Outturn White Paper (PEOWP), including receipts from the sale of QinetiQ agreed with the Treasury for 2007–08.
- Request for funding for operations in the Balkans, Afghanistan and Iraq (under RfR2).
- A transfer in from the Cabinet Office of support funding for the Joint Signals Services Organisation.

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 THE DEPARTMENT'S PUBLIC SERVICE AGREEMENT

15. The Department's Public Service Agreement (PSA) for 2005–06 to 2007–08 was published in the White Paper "Spending Review 2004: Public Service Agreements 2005–08" (Cm 6238, July 2004), and in Cm 6822. The Department formally reports performance against its PSA targets to Parliament in its Autumn Performance Report, in the Government's Expenditure Plans document, and in its Annual Report and Accounts. Quarterly reports are also published on the Department's website (www.mod.uk).

## DEPARTMENTAL EXPENDITURE LIMIT (DEL)

16. Table 5 shows the Total DEL from 2004–05 to 2007–08 for all RFRs. The Department's final request for cost of operations (RFR2), which is voted in Supplementary Estimates, is included for past years, but not for 2007–08.

**Table 5**

THE DEPARTMENTAL EXPENDITURE LIMIT FOR 2004–05 TO 2007–08

|                  | <i>Restated<br/>2004–05<br/>Outturn</i> | <i>Restated<sup>7</sup><br/>2005–06<br/>Outturn</i> | <i>2006–07<br/>Spring<br/>Supplementary<br/>Estimate</i> | <i>2007–08<br/>Estimate<br/>Voted</i> | <i>2007–08<br/>Estimate<br/>Non-Voted</i> | <i>2007–08<br/>Estimate</i> |
|------------------|---|---|--|---------------------------------------|---|-----------------------------|
|                  | <i>£m</i>                               | <i>£m</i>   | <i>£m</i>  | <i>£m</i>                             | <i>£m</i>                                 | <i>£m</i>                   |
| Resource DEL     | 31,327.147                              | 33,428.555  | 34,104.407   | 32,548.165                            | 283.088                                   | 32,831.253                  |
| Capital DEL      | 6,700.673                               | 6,410.232   | 7,447.660  | 7,547.626                             | 0.744                                     | 7,548.370                   |
| Depreciation     | –5,039.294                              | –6,932.505  | –7,401.000   | –6,618.451                            | –200.000                                  | –6,818.451                  |
| <b>Total DEL</b> | <b>32,988.526</b>                       | <b>32,906.282</b>                                   | <b>34,150.707</b>  | <b>33,477.340</b>                     | <b>83.832</b>                             | <b>33,561.172</b>           |

## DEL END YEAR FLEXIBILITY

17. The requirement for End of Year Flexibility (EYF) will be assessed following the publication of the Treasury's PEOWP (see paragraph 14) later this year.

## ADMINISTRATION COSTS LIMIT

18. Although the Department is not currently subject to an Administration Costs Limit, an administration cost regime will be introduced from 2008–09.

## PROVISIONS AND CONTINGENT LIABILITIES

19. Provisions for liabilities and charges are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations. Provisions are generally charged to the Operating Cost Statement (OCS). We have included £195 million for provisions in DEL and £198 million in AME for Nuclear provisions and some pension payments for personnel employed overseas who are not part of either the UK civil service or the armed forces.

20. MoD's provisions cover legal claims, civilian early departure costs, environmental costs, restructuring and nuclear decommissioning and restoration costs. Details of these are set out in the Contingent Liabilities note in the Estimate.

## MACHINERY OF GOVERNMENT CHANGES

21. A Machinery of Government (MOG) change is made when the responsibility for a service transfers from one Government Department to another. The most recent MOG was in 2002–03 when the War Pensions Agency was transferred from Department of Work and Pensions. There are no MOG changes in this Estimate.

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<sup>7</sup> These figures have been restated to reflect the change in accounting boundaries.

DEFINITION OF TERMS

1. Direct Resource Departmental Expenditure Limit (RDEL):

This is a control on current expenditure which covers, for example, pay, purchase of goods and services, net of receipts, within the resource budget. It excludes non-cash items such as depreciation, cost of capital and movement in provisions. Direct Resource DEL is also known as “near cash in the resource budget”.

2. Indirect Resource Departmental Expenditure Limit (IRDEL):

This control covers items such as depreciation, cost of capital charges, movement in provisions, and the notional auditors’ fees for the National Audit Office (NAO). This is also known as non-cash.

3. Total Resource DEL:

This is the sum of Direct and Indirect Resource DEL.

4. Annually Managed Expenditure (AME):

Annually Managed Expenditure (AME) includes Programmes that are demand-led, such as War Pensions (RfR3), and exceptionally, volatile items that cannot be controlled by the Department. AME also includes Programmes that are so large that the Department could not be expected to absorb the effects of volatility within them, such as cash release of nuclear provisions.

5. Non-Budget:

Items of expenditure which are included in the Estimate, but are outside of DEL and AME. This is a Parliamentary control but not a Treasury control.

6. Total Net Resource:

This is the net of items 1 to 5.

7. Capital Departmental Expenditure Limit (CDEL):

This is for new investment, including Capital additions, disposals, and the capital repayment of loans.

8. Capital Annually Managed Expenditure:

Includes the capital element of the loan repayments for self-financing public corporations, such as QinetiQ.

9. Capital Non-Budget

Items of expenditure which are included in the Estimate, but are outside of DEL and AME. This is a Parliamentary control but not a Treasury control.

10. Total Net Capital:

This is the sum of the above capital items.

11. Total Near Cash:

This is the total accrued expenditure spend and is the sum of Direct RDEL and Capital DEL.

12. Request for Resources 1:

Provision of Defence Capability provides for expenditure primarily to meet the Ministry of Defence’s operational support and logistics services costs and the costs of providing the equipment capability required by defence policy.

13. Request for Resources 2:

Conflict Prevention provides primarily for the additional costs of operations. These are the net additional costs incurred: the costs that the Department would have incurred regardless of the operation taking place, such as wages and salaries, are recorded against RfR1.

14. Request for Resources 3:

War Pensions and Allowances, etc. provides primarily for the payments of pensions and allowances for disablement or death arising out of war or service in the Armed Forces after 2 September 1939, and associated non-cash items.

15. Cm 6822:

Government’s Expenditure Plan 2006–07 to 2007–08: Ministry of Defence, July 2006.

16. Total DEL:

This is the sum of Resource DEL and Capital DEL less the costs of depreciation. This is used as depreciation is included as part of Resource DEL and, since Capital DEL includes capital spending, the inclusion of depreciation would lead to double counting.

## LIST OF ABBREVIATIONS USED IN THE ESTIMATE

|       |   |
|-------|---|
| AME   | Annually Managed Expenditure                |
| DCSA  | Defence Communications Services Agency      |
| DE    | Defence Estates                             |
| DE&S  | Defence Equipment and Support               |
| DEL   | Departmental Expenditure Limits             |
| DLO   | Defence Logistics Organisation              |
| DPA   | Defence Procurement Agency                  |
| DUP   | Departmental Unallocated Provision          |
| EYF   | End Year Flexibility                        |
| FCO   | Foreign and Commonwealth Office             |
| GEP   | Government's Expenditure Plans              |
| GOCNI | General Officer Commanding Northern Ireland |
| HMT   | Her Majesty's Treasury                      |
| MoD   | Ministry of Defence                         |
| MOG   | Machinery of Government                     |
| NAO   | National Audit Office                       |
| NLF   | National Loans Fund                         |
| OCS   | Operating Cost Statement                    |
| ONS   | Office of National Statistics               |
| RfR   | Request for Resources                       |
| R DEL | Resource Departmental Expenditure Limit     |
| RHC   | Royal Hospital Chelsea                      |
| SBSO  | Single Balance Sheet Owner                  |
| TLB   | Top Level Budget holder                     |
| UK    | United Kingdom                              |

**Memorandum from the Ministry of Defence on the Armed Forces Retired Pay  
and Pensions Main Estimate 2007–08**

## INTRODUCTION

1. This Memorandum covers the Estimate for the Armed Forces Retired Pay and Pensions for 2007–08. The Scheme's spending plans for this financial year are based on the expected take up of pensions of retired Service personnel. The Estimate covers only the payment of pensions. The costs of administering the Scheme fall to the MOD Main Estimate.

2. The employer's charge to the pension scheme is met by payment of a Superannuation Contribution Adjusted for Past Experience (SCAPE), calculated as a percentage of military pay based on rank. The SCAPE contribution made by the MoD partially funds the payments made by the AFPS in year. Funding from the Consolidated Fund is required to meet the difference between the payments to pensioners and the amounts received from MoD. In addition, funding is required to finance movements in working capital including increases or decreases in bank balances.

3. The Armed Forces Pension Scheme is a demand-led service and is therefore Annually Managed Expenditure (AME); as a result there is no Spending Review settlement to base the Estimate on. However, plans data is published in the Government's Expenditure Plan 2006–07 to 2007–08 (Cm 6822), and is then adjusted to take account of any changes since July 2006. This is shown in Table 1.

4. This Estimates Memorandum should be read in conjunction with the Main Estimate.

*Summary of Resources Sought in the Estimate*

5. The Armed Forces Pension Scheme Main Estimate requests provision of:

- |   |                |
|---|----------------|
| a. Net resources within Request for Resources 1 | £5,096 million |
| b. Net Cash Requirement                         | £1,670 million |

**Table 1**

Detail of Changes to the Estimate since Publication of Cm 6822

|  | <i>Total AME £m</i> |
|--|---------------------|
| <b>GEP figures Cm 6822</b>               | 4,756.830           |
| Increase in Current Service Cost         | + 372.487           |
| Decrease in Interest of Scheme Liability | -53.336             |
| Other changes                            | + 19.657            |
| <b>Total Estimate</b>                    | <b>5,095.638</b>    |

*Detailed explanation of the changes*

6. The discount rate for pension liabilities has changed from 2.8% real to 1.8% real effective from 31 March 2007. The adjustment to the discount rate means an increase in pension liabilities and results in a lower charge for the interest on scheme liabilities and a higher current service cost (payments from the scheme). These are technical accounting changes which are detailed in Chapter 13 of the Treasury's Consolidated Budgeting Guidance 2007–08.

7. An increase of £372 million in current service cost is due to the discount rate change and change to the factor agreed by the Government Actuary's Department.

8. The change in the discount rate has also resulted in a decrease of £53 million for interest on scheme liability from that originally anticipated. This is a non-cash charge, similar to the cost of capital charge in the Department's Main Estimate.

9. An increase of £19 million is due to a number of changes including higher movements on provisions, lower SCAPE receipts than previously anticipated and transfers in from other pension schemes being higher than forecast.

## APPENDIX 2

### Further Memorandum from the Ministry of Defence

Answers to the Committee's questions relating to the Ministry of Defence Main Estimates 2007-2008

1. *Why have contingent liabilities for nuclear decommissioning increased from £24 million to £10 billion this year (HC 438, p 331)? It would be helpful if your response could also clarify the difference between nuclear provisions and contingent liabilities, and how each figure is arrived at.*

The provision for nuclear decommissioning has decreased from £24 billion to £10 billion this year due to the transfer of significant liabilities to the Nuclear Decommissioning Agency. The figure of £24 million quoted is erroneous.

The Ministry of Defence follows Financial Reporting Standard 12 (FRS 12), which provides the definition for the recognition of liabilities as provisions, or as contingent liabilities. A provision is a liability that is of uncertain timing or amount, to be settled by the transfer of economic benefits. A contingent liability is either:

- a. a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Department's control; or
- b. a present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

2. *What progress has there been in the Combined Cadet Force expansion programme (p 313, note 8), what is the projected cost of the three year pilot, and how is this figure arrived at?*

The announcement of 5 of the 6 schools constituting the Pilot Scheme was made by the Under-Secretary of State on 9 January 2007. The schools are

- Haberdashers' Aske's Federation of Hatcham College and Knights Academy (London District)
- Archers Court School, Dover (HQ 2 Bde)
- Budmouth Technology College, Weymouth (HQ 43 Bde)
- Deacon's School, Peterborough (HQ 49 Bde)
- Treorchy School, Glamorgan, Wales (HQ 160 Bde)

Discussions to identify the sixth school in the trial continue. Creating a Combined Cadet Force contingent within a school requires considerable commitment from the school, both in terms of support and drive from the head teacher and also from teachers who volunteer their free time to lead the activity. It often takes schools considerable time to determine whether they are able to commit to, and can sustain, a CCF contingent. In addition, to reduce pressure on training resources it is important we maintain a geographical spread in the new contingents. We hope to be able to make an announcement in the near future.

The intent is to conduct a three year pilot expansion in each of the 6 schools. The contingents will operate under the existing MOD management arrangements for the CCF. The pilots will initially develop on the standard army framework, making assessment and administration easier. Budmouth Technology College will also have a RN contingent. Regional Brigades are now beginning the process of training of the teachers and staff from the schools who have volunteered to become Cadet Force Adult Volunteers. Training will continue through to the summer and the first pupils are expected to enrol as cadets in the new contingents, as planned, at the start of the academic year 2007-08.

Estimates of the first year start up costs were calculated in October 2005 at £800,000. Year 2 and 3 costs are estimated at £217,000 for each year. These estimates were based on previous experience and refined following initial dialogue with the pilot schools.

3. What is the rationale for the transfer of £1 million from the MoD to the Cabinet Office for Security and Intelligence Agency funding (p 313, note 7)?

This transfer reflects an interim agreement between the MoD and Cabinet Office for the expansion of the capability of the Security and Intelligence Agencies.

4. The Estimate includes £29 million for conflict prevention programme expenditure in Sub-Saharan Africa and £15 million for the rest of the world (p 319, and memo para 10). Why are conflict prevention programme costs divided in this way (between Sub-Saharan Africa and rest of the world)? How are these programme costs apportioned amongst MoD, FCO and DfID? Please provide a breakdown by country and examples of MoD involvement.

The programme figures represent the MOD's contribution to the African Conflict Prevention Pool (ACPP) and the Global Conflict Prevention Pool (GCPP), respectively. Coherent programmes of conflict prevention activity for each Pool are determined by officials in MOD, FCO and DFID and costs are apportioned to whichever department is best placed to oversee project delivery from a financial perspective. This means that some defence projects are funded through the FCO, because they are better placed to deliver the required financial management of activities through UK Embassies and their staff.

#### *Geographic Scope of the Pools*

The GCPP addresses conflict issues outside sub-Saharan Africa. In 2006/07, the GCPP supported geographic strategies active in Iraq, Afghanistan, the Balkans, the Caribbean, Latin America, Sri Lanka, India and Pakistan, Indonesia, East Timor, the Middle East and North Africa, Nepal, and Russia and the Commonwealth of Independent States. The ACPP is maintained as a separate fund, devoted to conflict prevention in sub-Saharan Africa, in order to reflect the high priority HMG places on African development and security issues.

#### *MOD Contribution to the Pools*

Specific examples of UK military activity funded by the two Pools include:

- Pre-deployment training for African troops joining AU or UN peacekeeping missions in Sudan, DRC and Burundi: Over 2006/07, British military training teams trained (or directly contributed to the training of) around 7,000 African peacekeepers from Nigeria, Rwanda, South Africa, Ghana and Gambia.
- The ACPP funded International Mine Action Training Centre provides training for humanitarian de-mining tasks and is supported by British military instructors. Since the IMATC opened in 2005, it has provided de-mining and/or mine awareness training to some 3800 African and international personnel.
- In Sierra Leone, the UK-led International Military Advisory and Training Team is conducting a comprehensive training programme for the Republic of Sierra Leone Armed Forces designed to ensure professional standards and democratic accountability as part of a wider Security Sector Reform programme led by the Department for International Development.
- With UK funding and instructor support, the Kofi Annan International Peacekeeping Training Centre in Ghana trains African military and police officers for command and staff roles in peace support operations.

#### *Breakdown of GCPP by country in 2007-08*

Conflict Prevention Programme funding is sought at Main Estimates. A breakdown by country and activity is as follows:

#### ACPP Strategy for 2007-08

| <i>Country/Region</i>                              | <i>Activity</i>  | <i>Allocation (£)</i> |
|--|--|-----------------------|
| Economic Community of West African States (ECOWAS) | Support to the development of the ECOWAS Standby Force (sub-element of the ASF)            | 957,000               |
| West Africa  | British Military Advisory and Training Team West Africa—support to regional PSO capability | 2,096,260             |
| West Africa  | Support to Kofi Annan International Peacekeeping Training Centre                           | 1,180,000             |
| Ghana  | PSO capacity building  | 696,000               |
| Senegal  | PSO capacity building and SSR  | 298,000               |
| Gambia   | PSO capacity building and SSR  | 284,000               |
| Nigeria  | PSO capacity building and SSR  | 1,642,000             |

| <i>Country/Region</i> | <i>Activity</i>  | <i>Allocation (£)</i> |
|-----------------------|--|-----------------------|
| Sierra Leone          | SSR programme for the Republic of Sierra Leone Armed Forces and Defence Ministry conducted by UK-led International Military Advisory and Training Team (IMATT) | 13,484,195            |
| Liberia               | Support to SSR activity  | 175,000               |
| South Africa          | British Peace Support Team South Africa—support to PSO and SSR work  | 1,346,000             |
| Angola                | PSO capacity building  | 197,500               |
| Mozambique            | PSO capacity building and SSR  | 206,200               |
| Botswana              | PSO capacity building and SSR  | 106,000               |
| Malawi                | PSO capacity building  | 346,000               |
| Zambia                | PSO capacity building and SSR  | 109,000               |
| East Africa           | British Peace Support Training Team East Africa—support to regional PSO capability   | 2,412,000             |
| Kenya                 | Support to International Mine Action Training Centre   | 987,000               |
| Kenya                 | PSO capacity building and SSR  | 359,000               |
| Tanzania              | PSO capacity building and SSR  | 322,000               |
| Sudan                 | Support to Comprehensive Peace Agreement security implementation and Joint Integrated Forces   | 371,600               |
| Ethiopia              | <i>Programme subject to confirmation</i>   | 350,145               |
| Uganda                | PSO capacity building and SSR  | 437,000               |
| DRC                   | PSO capacity building and SSR  | 163,100               |
| Rwanda                | PSO capacity building and SSR  | 538,000               |
| <b>Total</b>          |  | <b>29,063,000</b>     |

## GCPP Strategy for 2007–08

| <i>Strategy</i>                                   | <i>Allocation</i> |
|---|-------------------|
| Afghanistan/Iraq                                  | 1,667,000         |
| Balkans   | 1,283,000         |
| Caribbean   | 155,000           |
| India-Pakistan                                    | 71,000            |
| Indonesia/East Timor                              | 289,000           |
| Latin America (including Belize/Guatemala)        | 30,000            |
| Middle East & North Africa                        | 231,000           |
| Nepal   | 322,000           |
| Russia and the Commonwealth of Independent States | 3,347,000         |
| Security Sector Reform                            | 3,287,000         |
| Small Arms/Light Weapons                          | 500,000           |
| Sri Lanka   | 490,000           |
| UN  | 3,568,000         |
| <b>Total</b>                                      | <b>15,240,000</b> |

5. *The FCO's Estimate includes provision both for "programme" and "peacekeeping" activity: £100 million for peacekeeping in Sub-Saharan peacekeeping and £101 million for "global" peacekeeping. To what extent are these costs expected to be passed to the MoD at the Supplementary Estimates? Are the costs of Balkans operations included in the FCO's global peacekeeping figure?*

The FCO peacekeeping estimate includes provision for UK contributions to the cost of peacekeeping missions around the world, principally mandatory contributions to the cost of UN missions, which are paid directly to the UN. The cost of Balkans operations (currently estimated at £22.5M) is also contained in the FCO Global Peacekeeping provision, and is transferred to MoD, normally at Spring Supplementary Estimates, when forecasts are more robust. In addition the MoD separately invoices the FCO, on a repayment basis, for UN Observer Mission and Peacekeeping work (e.g. manning the "Green Line" in Cyprus) performed by UK troops on behalf of the UN.

6. *What are the implications for the MoD of the introduction of an Administration Costs limit from 2008–09 (memo, para 18)?*

The Administration Cost total will become an additional budgetary control, with the remainder of the defence budget defined as programme expenditure.

In addition, as the Chancellor of the Exchequer announced in the 2006 Pre-Budget report, all Government Departments will be required to reduce expenditure on administration costs by 5% per year (in real terms) for each year of the Comprehensive Spending Review period (ie. 2008–09 to 2010–11), based on a 2007–08 baseline. The reductions in Administration Costs arising from this exercise will be reinvested in the delivery of frontline services.

7. *Why has the “cost of capital charges” increased by 23% (£650 million) compared with 2006–07 (p 320)?*

The 2006–07 Main Estimate included a number of items relating to nuclear liabilities, PFI creditors and QinetiQ which had the effect of deflating that year’s Cost of Capital Charges. These issues do not arise in 2007–08 and hence the latter Estimate shows an apparent increase. There have also been a number of individual changes in our asset base which taken together with our periodic re-valuation have led to increased cost of capital charges.

8. *The Estimates make provision for the MoD to contribute £53 million to NATO military budgets and £76 million to NATO infrastructure projects (p 334). The FCO’s Estimate makes provision for a subscription of £17 million to NATO (p 363). How are these figures arrived at? What infrastructure projects are involved, and how are these audited?*

The NATO Infrastructure Projects estimate of £76 million is the amount that MOD UK contributes to the NATO Security Investment Programme (NSIP). The Programme finances the provision of the installations and facilities needed to support the roles of the NATO Strategic Commands recognised as exceeding the national defence requirements of individual member countries. The investments cover such installations and facilities as communications and information systems, radar, military headquarters, airfields, fuel pipelines and storage, harbours, and navigational aids. As is the case for the military budget, the NSIP Programme also covers the eligible requirements for Peace Support Operations in the Former Yugoslavia including Communications, Information Systems, Local Headquarters Facilities, Power Systems, and Repairs to Airfields, Rail, and Roads. The overall budget for NSIP is approved via the Medium Term Financial Plan, which is, in effect, a NATO Planning Round, and projected forward for four years.

The annual estimate is calculated using a process in which each NATO nation hosting infrastructure projects forecasts on a six-monthly basis how much expenditure they are likely to incur on NATO’s behalf during the coming year. NATO then calculates how much each nation needs to contribute/receive in the period in question to ensure that allies are properly funded for NATO activity. Any under/over estimate is taken into account when calculating the following year’s contributions/receipts. The calculations themselves are based on the appropriate exchange rate and the percentage each nation has agreed to contribute to the projects in question. Percentages are based on the GNI of nations and the UK percentage is approximately 12%. This is reviewed every two years and the next review will be in January 2008.

The Military Budget estimate of £53 million, established and executed under the supervision of the NATO Military Budget Committee, is largely financed from the appropriations of Ministries of Defence. It covers the operating and maintenance costs and, with the exception of major construction and system investments financed by the NATO Security Investment Programme, the capital costs of the international military structure. This includes the Military Committee, the International Military Staff and associated Agencies, the two NATO Strategic Commands associated command, control and information systems, research and development agencies, procurement and logistics agencies, and the NATO Airborne Early Warning and Control Force.

The NATO Military Budget is arrived at in a different manner to that of NSIP. The NATO Strategic Commanders and other appropriate budgetary areas are invited each year to submit their budgetary requirements which are then scrutinised by the Nations in the Military Budget Committee. Only when all the Nations are in agreement on the level of funding is the final ceiling agreed. In recent years the UK has been in the forefront of ensuring that the budget is kept in reasonable check and increases have been held to inflation with any additions being funded through efficiencies in the previously agreed programme. The UK cost share of the Military Budget is the same as that for the NSIP.

The FCO’s provision of £17 million is the UK’s contribution to the NATO Civil Budget and covers the cost of running the NATO HQ and the International Staff (NATO full time civilian staff) and associated NATO programmes not of direct military concern.

All projects go through a series of NATO approvals, one of which is the Joint Formal Acceptance Inspection (JFAI); this is the physical inspection of the project to ensure that what has been authorised has been built to that specification. Once the JFAI document has been issued and authorised a paper audit is then carried out by the International Board of Auditors for NATO (IBAN), the audit covers all aspects of the paperwork connected to that project and if required an audit report is produced and nations are required to answer any outstanding observations.