



House of Commons
Defence Committee

Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08

Eighth Report of Session 2007–08

*Report, together with formal minutes and
written evidence*

*Ordered by The House of Commons
to be printed on 4 March 2008*

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

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Mr David S Borrow MP (*Labour, South Ribble*)
Mr David Crausby MP (*Labour, Bolton North East*)
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Mr David Hamilton MP (*Labour, Midlothian*)
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The following Members were also Members of the Committee during the Parliament.

Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
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Mr Mark Lancaster MP (*Conservative, North East Milton Keynes*)
Willie Rennie MP (*Liberal Democrat, Dunfermline and West Fife*)
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.

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.

Committee staff

The current staff of the Committee are Mike Hennessy (Clerk), Eliot Wilson (Second Clerk), Ian Rogers (Audit Adviser), Stephen Jones (Committee Specialist), Lis McCracken (Inquiry Manager), Richard Dawson (Committee Assistant), Christine McGrane (Secretary) and Stewart McIlvenna (Senior Office Clerk).

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Summary

The Spring Supplementary Estimate presented by the Ministry of Defence (MoD) requests additional provision of £2,192 million, of which £1,410.5 million is to meet the estimated additional costs of operations in Iraq and Afghanistan in Financial Year 2007–08.

The cost of operations in Iraq has risen significantly despite the drawdown of forces there: in particular the estimate of the cost of capital additions there has almost doubled against its forecast just three months ago. The indirect resource costs attributable to operations in both Iraq and Afghanistan have also risen five-fold against last year's outturn, far beyond the scale of other costs. The MoD needs to make clearer the reasons for these considerable increases.

The MoD usually gives its first forecast for the cost of operations in any given Financial Year at the time of the Winter Supplementary Estimates: this is then updated at the time of the Spring Supplementary Estimates when any more additional funding is requested from Parliament. We are pleased that in future the MoD will present a forecast of a large component of the cost of operations in advance in the form of a forecast of the cost of Urgent Operational Requirements (UORs) in its Main Estimate.

The MoD usually presents its first forecast of the cost of its Balkan operations in the Spring Supplementary Estimate each year, just shortly before the end of the Financial Year to which they apply. We are grateful to the MoD for agreeing to include a forecast of the cost of Balkan operations in its Main Estimate from the next Financial Year onwards.

We still feel some concern that the MoD's forecasts are insufficiently robust. While we accept the difficulty of predicting costs when operations are ongoing, the difference between the forecasts delivered at the time of the Winter and Spring Supplementary Estimates appears unreasonably large. Where in future Supplementary Estimates bring significant increases in the cost of operations, the Estimates memorandum should make clear to what extent the increase is the result of previous under-estimation and where it is a genuine cost increase.

We recommend that the House of Commons approves the Spring Supplementary Estimate, given the importance of ensuring that our Forces in Iraq and Afghanistan are properly resourced.

1 Report

Background

1. One of the important but often over-looked roles of the House is to approve the Estimates providing money for government three times each Financial Year. Financial oversight and the detailed scrutiny that ought to accompany it must be of enormous importance to any Parliament that claims to be doing its job properly. Yet Committees of the House have in the past often expressed unhappiness with how this oversight is carried out and scrutiny undertaken.¹ Since it was set up for the very first time almost thirty years ago, the Defence Committee has frequently turned its attention to the Estimates. Our predecessor Committees have agreed regular Reports covering one or more aspects of the financial provision of the Ministry of Defence (MoD) in most Sessions of Parliament.

2. We have ourselves examined each Estimate from the MoD since we were appointed following the last General Election.² We are very conscious of our duty to provide the House with a Report setting out our analysis of the figures and forecasts provided by the department we scrutinise. However, we are also conscious of how little time we have each Financial Year properly to consider the Winter and Spring Supplementary Estimates and to prepare a Report for the House, given the proximity of these Estimates being laid to their being before the House for approval. This absurdly compressed time-frame—in this instance some fifteen working days between the laying of the Estimates and the date on which the vote on the Estimates will take place in the Chamber—is not the fault of the MoD. We are grateful to the MoD for the speed with which it has responded to the questions sent to it (which answers form part of the evidence to this Report³) and for the co-operative spirit which informs its dealings with us with regard to the scrutiny of its Estimates. We are also grateful to the Committee Office Scrutiny Unit which has to assist all those departmental committees asking for its assistance in analysing their respective Estimates over this very short period of time.

3. Notwithstanding recent welcome extensions in time, **the time permitted for any departmental select committee to examine its appropriate Supplementary Estimate, from the date of laying until the date of decision, even taking into account the support and co-operation from which it might benefit, is still unreasonably short. This is clearly unsatisfactory for those committees keen properly to examine their departments' Estimates which can provide less thorough scrutiny than would otherwise be the case; and still less satisfactory for the House which enjoys less detailed consideration of that scrutiny than would seem appropriate for the voting of very significant sums of public money for use by the government of the day. This has to change if Parliament is to be able to do its job effectively.**

1 See, for example, the Sixth Report from the Select Committee on Procedure, *Procedure for debate on the Government's Expenditure Plans*, HC 295 of Session 1998-99; and the First Report from the Liaison Committee, *Shifting the Balance*, HC 300 of Session 1999-2000

2 These Reports can be found amongst those listed on pages 18 and 19 of this Report.

3 Ev 9

4. Once again the memorandum supplied by the MoD for its Spring Supplementary Estimate is commendably clear and thorough.⁴ Although we have raised a few points with the MoD prior to, and within, this Report where we feel more information might have been provided or some explanation for elements of the Estimate given, **the MoD should be commended for continuing to provide a clear and informative Estimates memorandum.**

Spring Supplementary Estimate: an overview

5. The Spring Supplementary Estimates (SSE) for Financial Year 2007–08 were laid before the House of Commons on 19 February 2008.⁵ **The Ministry of Defence is seeking a net increase in resources and capital of £2,192 million—in cash terms a net increase of £894 million.⁶ This is the additional sum of money required by the MoD to fund its activity over and above the sums already voted in the Main and Winter Supplementary Estimates.** Table 1 provides a breakdown of this requested increase in expenditure.

Table 1: Change in Resource and Capital Expenditure sought in the Spring Supplementary Estimate

Resource Expenditure	
Provision of Defence Capability (RfR1)	1,447.124
Operations and Peace Keeping (RfR2)	1,022.500
War Pensions and Allowances (RfR3)	3.00
Total Net Request for Resources	2,472.624
Capital Expenditure	
Net Provision of Defence Capability (RfR1)	(669.000)
Operations and Peace Keeping (RfR2)	388.000
Total Net Request for Capital	(281.000)
TOTAL CHANGE IN CAPITAL AND RESOURCE	2,191.624

6. The requested resource increase of £1,447 million in Request for Resources (RfR) 1 (Provision of Defence Capability) is explained in the Department's Estimate memorandum.⁷ The increase is primarily due to 'non-cash' resource requirements forecasted by Top Level Budget-holders (TLBs) for depreciation, provisions for staff early release schemes and fixed asset value impairments. The net reduction of £669 million in the estimated capital figure comprises the £709 million balance of the £959 million receipt from the sale of Chelsea Barracks not already provided for in the Main Estimate, offset by a £40 million increase in the capital budget funded by the last tranche of Qinetiq sale

4 Ev 1-8

5 HM Treasury, *Central Government Supply Estimates 2007-08 Spring Supplementary Estimates*, HC273, February 2008

6 Ev 2, para 2.5

7 Ev 1, para 2.1

proceeds.⁸ This in turn offsets the resource increase so that overall RfR1 request is £778.124 million, as opposed to £243.074 million at this stage in the last Financial Year.⁹

7. The requested resource increase in RfR2 (Operations and Peace Keeping) of £1,022 million is largely to fund the additional costs of conducting operations in Iraq, Afghanistan, the Balkans and elsewhere. There is an additional capital request of £288 million, which means that the overall RfR2 request is £1,410.5 million,¹⁰ as opposed to £429 million at this stage in the last Financial Year.¹¹ RfR2 is the area where our Reports on the Supplementary Estimates have focused in the past, and this is, to some extent, where we will focus in this Report. No forecast for these costs is given in the Main Estimate at the beginning of each Financial Year, and it is only by scrutinising the Winter and then the Spring Supplementary Estimates that the year-on-year trajectory of additional costs for operations can be gauged. In this Report we also comment on the response which we have just received from the MoD to our last Estimates Report, *Cost of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08*.¹²

8. We have in the past taken issue with the MoD for failing to supply with the Main Estimate any indication of what magnitude of operational cost the Ministry expects the country to have to shoulder during the Financial Year, and which it will ask the House to vote at each of the Supplementary Estimates within that Year. Clearly it is difficult for the MoD to give an exact or near-exact estimate for operational costs up to 12 months in advance. Nonetheless, some indication of the working assumptions within the Ministry would be useful for the House to have at an early stage during the Financial Year. **We are therefore pleased to note that the MoD in its response to our Report on the Winter Supplementary Estimate has said that it will, at the next Main Estimate, include a forecast for Urgent Operational Requirement (UOR) costs within RfR2.** While this does not go as far as we might like in providing a full estimate earlier in the Financial Year, since UOR costs form a significant proportion of RfR2 costs as a whole (some 80% in 2006–07)¹³, this will be useful data and we are pleased that the MoD has decided to give the House more information in this way.¹⁴

9. Likewise, the House is usually during any Financial Year only given the opportunity to see what the costs for operations in the Balkans are expected to be towards the end of that Year, in the Spring Supplementary Estimates. In part, this is on account of these costs being presented in first instance in the Estimates of another department, namely the Foreign and Commonwealth Office (FCO). **In past Reports we have asked the MoD to provide information about likely Balkan costs within its own Estimate earlier in the Financial Year. We are again pleased that the MoD has decided in its next Main Estimate to set**

8 Ev 4, paras 4.3 and 4.6

9 Defence Committee, Tenth Report of Session 2006–07, *Cost of military operations: Spring Supplementary Estimate 2006–07*, HC 379, p5, Table 1

10 Ev 5, table 5

11 HC (2006–07) 379, para 3

12 Defence Committee, Second Report of Session 2007–08, *Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate, 2007–08*, HC 138: the Government response can be found in this Report at Ev 10–11

13 Ev 10, response to recommendation 6

14 Ev 9–10, response to recommendation 2

down its own assumption for what these operational costs are likely to be in Financial Year 2008–09. The MoD points out that this figure will necessarily be subject to amendment within the process of formulating the subsequent Winter and Spring Supplementary Estimates, something we accept the inevitability of.¹⁵ Nonetheless, we again commend the MoD for increasing the amount of information which this will make available to the House at an early stage in the Financial Year.

Operations and Peace Keeping: Iraq and Afghanistan

10. The most notable element of the Estimate is the significant increase signalled in the expected additional costs of operations in Iraq and Afghanistan in the current Financial Year, as set out in RfR2. In the Winter Supplementary Estimates, the MoD estimated the additional costs of operations in Iraq and Afghanistan for 2007–08 as £955 million and £964 million respectively (excluding indirect costs). The MoD now estimates that these costs will be £1,449 million for Iraq and £1,424 million for Afghanistan.¹⁶ A breakdown is given below in Table 2, showing the change in estimated costs since this Financial Year's Winter Supplementary Estimate.

11. This is an increase in estimated additional costs for this current year of around 50% for both theatres. While some increase in cost was expected, and indeed flagged up by MoD in its memorandum for the Winter Supplementary Estimates,¹⁷ the proportion of increase is higher than anticipated. (The comparable increase between the Winter and Spring Supplementary Estimates for 2006–07 is also set out in Table 4.) It is worth noting that with the inclusion of indirect resource costs given in last month's Spring Supplementary Estimate (not available in the Winter Supplementary Estimate) the total expected additional costs of operations in 2007–08 are increased still further: to £1,648 million for Iraq and to £1,649 for Afghanistan (Table 2). These increases in costs since the last Supplementary Estimates are mainly attributed to increased operational tempo (in Afghanistan) and to UORs.¹⁸

12. These are clearly very significant increases, not least with regard to operations in Iraq. While we are aware that the drawdown of forces in Iraq will not immediately lead to a comparable decline in costs, nonetheless, the magnitude of the increase in the costs estimate there is surprising. The capital cost estimate for Iraq, for example, has almost doubled, while the estimates for stock/other consumption, equipment support costs and other costs and services have all increased by over 50%.¹⁹ It is worthwhile stressing that these increases in estimated costs for this Financial Year have occurred not since the MoD's Main Estimate was laid on 30 April 2007 but since the Ministry's Winter Supplementary Estimate was laid on 15 November. In other words, with the exception of the indirect costs of these operations, the higher cost estimate was presumably unforeseen only three months ago. Where in future Supplementary Estimates bring

15 Ev 10, response to recommendation 4

16 Ev 5, table 6 (these costs do not include Indirect Resource DEL costs which are not included in forecasts given at the time of the Winter Supplementary Estimates)

17 HC (2007-8) 138, Ev 4, para 5.1

18 Ev 5, para 5.1

19 See Table 2

significant increases in the cost of operations, the Estimates memorandum should make clear to what extent the increase is the result of previous under-estimation and where it is a genuine cost increase.

Table2: Operations in Iraq and Afghanistan—changes in anticipated additional costs since Winter Supplementary Estimates (from RfR2)

Cost Type	Iraq Forecast £m 2007–08—as at Winter Supp Est	Iraq Forecast £m 2007–08—now	% change	Afghanistan Forecast £m 2007–08—as at Winter Supp Est	Afghanistan Forecast £m 2007–08—now	% change
Resource—Direct						
Military personnel	95	93	-2.1%	62	79	+27.4%
Civilian personnel	12	15	+25%	6	8	+33.3%
Stock/other consumption	169	263	+55.6%	138	237	+71.7%
Infrastructure costs	106	109	+2.8%	95	163	+71.6%
Equipment support costs	234	357	+52.6%	185	220	+18.9%
Other costs and services	108	162	+50%	103	162	+57.3%
Income generated/ (foregone)	5	5	0%	(3)	8	–
Total	729	1004	+37.7%	586	877	+49.7%
Capital	226	445	+96.9%	378	547	+44.7%
Capital Additions	226	445	+96.9%	378	547	+44.7%
Total	955	1449	+51.7%	964	1424	+47.7%
<i>Indirect Resource costs</i>	<i>N/A</i>	199	–	<i>N/A</i>	225	–
Total	<i>N/A</i>	1648	–	<i>N/A</i>	1649	–

13. Also of particular note are infrastructure cost estimates for Afghanistan, which have risen by almost 75%, and stock/other consumption costs for Afghanistan which have risen by a similar magnitude. Capital costs estimates for Afghanistan have also increased by almost 50%.²⁰ In its response to our Report on the Winter Supplementary Estimate, the MoD said that at that point “80% of capital spending [in] Afghanistan this year [was] the result of Urgent Operational Requirements reflecting the level of operational activity in Helmand Province. Recent high value equipment requirements include protects patrol vehicles, electronic Counter Measures and communications upgrades”.²¹ A comparison

²⁰ *ibid*

²¹ Ev 10, response to recommendation 6

between the estimated costs of operations for this Financial Year and the outturn of actual costs for the last Financial Year is set out in Table 3. This reveals that the only expected cost reduction for Iraq this Year will be for military personnel. Every other cost is static or has increased. Capital costs for Iraq and Afghanistan have risen by 163% and 207% respectively since 2006–07; and overall costs, once indirect resource costs are added in, have risen by 72% and 122% respectively.

14. One area where the increase in operational costs seems particularly large is with regard to indirect resource costs for both theatres—these are now expected to be more than eight times greater for Iraq in 2007–08 than they were in the previous Financial Year, and just less than five times greater this Year for Afghanistan than they were in the Year before. The memorandum from the MoD is not as informative on this point as it might be, stating simply that the total of £424 million in indirect resources cost for FY07–08 (as opposed to £69 million for FY06–07) is to cover “the cost of capital, depreciations and impairment charges associated with fixed assets purchased under UOR arrangements”.²² **We expect the MoD to provide us with a full explanation for the very significant increase in the indirect resource cost of operations in response to this Report. In addition, we suggest that the MoD states clearly its expectations with regard to the size of the indirect resource costs of operations in Iraq and Afghanistan in the next Financial Year, should operations continue at their current tempo.**

15. We have already acknowledged the difficulty that the MoD faces in attempting to gauge what costs might spring from operations over the course of any Financial Year. However, **we are concerned that the very difficulty of attempting to provide robust forecasts for the cost of operations might discourage the Ministry from trying its best to provide a thoroughly considered forecast for the Supplementary Estimates, Winter and Spring, during the Financial Year.** Table 4 sets out the differences in forecast from the last Financial Year with regard to operations in Iraq and Afghanistan between the Winter and Spring Supplementary Estimates.

16. This Table appears to show that the magnitude of change between those two points then was substantially less for Iraq in particular than it has been in this current Financial Year. This seems to suggest either that the nature of operations in the last few months has significantly thrown off course otherwise robust forecasts provided with the Winter Supplementary Estimate, or that the forecast provided in November last year was particularly weak.

22 Ev 4, para 4.4

Table 3: Iraq and Afghanistan—SSE forecast for 2007–08 compared to outturn 2006–07

Cost type	Iraq outturn £m 2006–07	Iraq Forecast £m 2007–08 (SSE)	% change	Afghanistan Outturn £m 2006–07	Afghanistan Forecast £m 2007–08 (SSE)	% change
Resource Direct						
Military Personnel	100	93	-7%	50	79	+58%
Civilian Personnel	15	15	–	4	8	+100%
Stock/other consumption	218	263	+20%	164	237	+44%
Infrastructure costs	83	109	+31%	101	163	+61%
Equipment support costs	206	357	+73%	112	220	+96%
Other costs and services	137	162	+18%	89	162	+82%
Income generated/ (foregone)	5	5	–	(2)	8	–
Sub-total	764	1004	+31%	518	877	+69%
Indirect resource	23	199	+765%	46	225	+389%
Total	787	1203	+52%	564	1102	+95%
Capital	169	445	+163%	178	547	+207%
TOTAL	956	1648	+72%	742	1649	+122%

Table 4: Comparison between changes in anticipated costs, WSE to SEE 2006/07 and WSE to SSE 2007–08

Cost type	Iraq Forecast £m WSE 2006–07	Iraq Forecast £m SSE 2006–07	% change	Afghanistan Forecast £m WSE 2006–07	Afghanistan Forecast £m SSE 2006–07	%change
Resource Direct						
Personnel	77	126	+63.6%	32	54	+68.8%
Stock/other consumption	191	212	+11%	103	140	+35.9%
Infrastructure costs	106	89	-16%	73	99	+35.6%
Equipment support costs	189	214	+13.2%	81	122	+38.3%
Other costs and services	112	139	+24.1%	67	77	+14.9%
Income generated	5	5	–	4	4	–
Total Direct Resource	680	785	+15.4%	360	496	+37.8%
Capital						
Capital Additions	180	195	+8.3%	180	254	+41.1%
OVERALL TOTAL	860	1,002	+16.5%	540	770	+42.6%

Operations and Peace Keeping: the Balkans

17. The additional costs for operations in the Balkans are comparatively slight. In the past, and for the last time this Financial Year, the additional cost to the MoD of these operations, which are signalled earlier in the Foreign and Commonwealth (FCO) Main Estimate, only become visible in the MoD's Estimate by the time of the Spring Supplementaries. Thus it is only towards the end of the Financial Year that the MoD provides directly to the House its forecast for the cost of operations in the Balkans.

18. In our Report on the Winter Supplementary Estimate 2007–08, we asked the MoD to consider placing in its next Main Estimate a forecast for its operational costs in the Balkans for that Financial Year. We are pleased that the MoD has agreed to include such a forecast, and accept that the MoD may have to amend this forecast over the course of the Financial Year in its Winter and Spring Supplementary Estimates.²³ We remind the MoD that the opportunity for such amendment does not, however, free the department from its responsibility in the first instance to provide as robust a forecast as

23 Ev 10, response to recommendation 4

possible. The House can only benefit from early sight of the MoD's firm assumptions as to the cost of such operations.

19. In a supplementary memorandum to our Report on the Winter Supplementary Estimate 2007–08, the MoD stated that its then unpublished assumption for the cost of Balkan operations, conceived at the time of its Main Estimate, had been in the region of £20 million.²⁴ It now stands, according to the figures in the Spring Supplementary Estimate, at some £31 million.²⁵ This 55% increase is significant, albeit the sums involved are much smaller than for Iraq and Afghanistan. Current developments in the Balkan region, in the aftermath of the declaration of independence by Kosovo, may lead to further increases in this figure. In this context of uncertainty, the agreement by the MoD to provide an early forecast figure for this cost in the next Financial Year is important and particularly welcome.

Conclusion

20. We again stress the unsatisfactorily tight deadline to which all departmental select committees are expected to work in their study of the Supplementary Estimates. There is surely a direct link between the capacity of committees to dedicate time to analyse the Estimates and the likelihood of departments improving the clarity and thoroughness of the information they provide to the House, and to its committees, alongside their Estimates. It is vital that the current situation improves. **As things currently stand, it is simply not possible to scrutinise these important figures as fully as they deserve.**

21. Nonetheless, we recommend that the House of Commons approve the request for resources set out in the MoD's Spring Supplementary Estimate. The £2,192 million, in large part requested to meet the forecast additional cost of operations in Iraq and Afghanistan during this Financial Year, represents a significant sum of public money, but we believe that the task our Armed Forces are carrying out is one that requires significant resource—especially in terms of new equipment and force protection, both so essential to their missions abroad.

24 HC (2007-8) 138, Ev 8

25 Ev 5, table 6

Conclusions and recommendations

1. The time permitted for any departmental select committee to examine its appropriate Supplementary Estimate, from the date of laying until the date of decision, even taking into account the support and co-operation from which it might benefit, is still unreasonably short. This is clearly unsatisfactory for those committees keen properly to examine their departments' Estimates which can provide less thorough scrutiny than would otherwise be the case; and still less satisfactory for the House which enjoys less detailed consideration of that scrutiny than would seem appropriate for the voting of very significant sums of public money for use by the government of the day. This has to change if Parliament is to be able to do its job effectively. (Paragraph 3)
2. The MoD should be commended for continuing to provide a clear and informative Estimates memorandum (Paragraph 4)
3. The Ministry of Defence is seeking a net increase in resources and capital of £2,192 million—in cash terms a net increase of £894 million[FN]. This is the additional sum of money required by the MoD to fund its activity over and above the sums already voted in the Main and Winter Supplementary Estimates. (Paragraph 5)
4. We are therefore pleased to note that the MoD in its response to our Report on the Winter Supplementary Estimate has said that it will, at the next Main Estimate, include a forecast for Urgent Operational Requirement (UOR) costs within RfR2 (Paragraph 8)
5. In past Reports we have asked the MoD to provide information about likely Balkan costs within its own Estimate earlier in the Financial Year. We are again pleased that the MoD has decided in its next Main Estimate to set down its own assumption for what these operational costs are likely to be in Financial Year 2008–09 (Paragraph 9)
6. We again commend the MoD for increasing the amount of information which this will make available to the House at an early stage in the Financial Year. (Paragraph 9)
7. The most notable element of the Estimate is the significant increase signalled in the expected additional costs of operations in Iraq and Afghanistan in the current Financial Year. (Paragraph 10)
8. In the Winter Supplementary Estimates, the MoD estimated the additional costs of operations in Iraq and Afghanistan for 2007–08 as £955 million and £964 million respectively (excluding indirect costs). The MoD now estimates that these costs will be £1,449 million for Iraq and £1,424 million for Afghanistan. (Paragraph 10)
9. This is an increase in estimated additional costs for this current year of around 50% for both theatres. (Paragraph 11)
10. While we are aware that the drawdown of forces in Iraq will not immediately lead to a comparable decline in costs, nonetheless, the magnitude of the increase in the costs estimate there is surprising. (Paragraph 12)

11. It is worthwhile stressing that these increases in estimated costs for this Financial Year have occurred not since the MoD's Main Estimate was laid on 30 April 2007 but since the Ministry's Winter Supplementary Estimate was laid on 15 November. In other words, with the exception of the indirect costs of these operations, the higher cost estimate was presumably unforeseen only three months ago. Where in future Supplementary Estimates bring significant increases in the cost of operations, the Estimates memorandum should make clear to what extent the increase is the result of previous under-estimation and where it is a genuine cost increase. (Paragraph 12)
12. We expect the MoD to provide us with a full explanation for the very significant increase in the indirect resource cost of operations in response to this Report. In addition, we suggest that the MoD states clearly its expectations with regard to the size of the indirect resource costs of operations in Iraq and Afghanistan in the next Financial Year, should operations continue at their current tempo. (Paragraph 14)
13. We are concerned that the very difficulty of attempting to provide robust forecasts for the cost of operations might discourage the Ministry from trying its best to provide a thoroughly considered forecast for the Supplementary Estimates, Winter and Spring, during the Financial Year. (Paragraph 15)
14. In our Report on the Winter Supplementary Estimate 2007–08, we asked the MoD to consider placing in its next Main Estimate a forecast for its operational costs in the Balkans for that Financial Year. We are pleased that the MoD has agreed to include such a forecast, and accept that the MoD may have to amend this forecast over the course of the Financial Year in its Winter and Spring Supplementary Estimates. We remind the MoD that the opportunity for such amendment does not, however, free the department from its responsibility in the first instance to provide as robust a forecast as possible. The House can only benefit from early sight of the MoD's firm assumptions as to the cost of such operations. (Paragraph 18)
15. We again stress the unsatisfactorily tight deadline to which all departmental select committees are expected to work in their study of the Supplementary Estimates (Paragraph 20)
16. As things currently stand, it is simply not possible to scrutinise these important figures as fully as they deserve (Paragraph 20)
17. We recommend that the House of Commons approve the request for resources set out in the MoD's Spring Supplementary Estimate. The £2,192 million, in large part requested to meet the forecast additional cost of operations in Iraq and Afghanistan during this Financial Year, represents a significant sum of public money, but we believe that the task our Armed Forces are carrying out is one that requires significant resource—especially in terms of new equipment and force protection, both so essential to their missions abroad. (Paragraph 21)

Formal minutes

Tuesday 4 March 2008

Mr James Arbuthnot, in the Chair

Mr David S Borrow
Mr David Crausby
Linda Gilroy
Mr Mike Hancock
Mr Adam Holloway

Mr Bernard Jenkin
Mr Brian Jenkins
Mr Kevan Jones
Robert Key
John Smith

Draft Report (*Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 21 read and agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

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

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 11 March at 10.00 am.]

List of written evidence

1	Memorandum from the Ministry of Defence	Ev 1
2	Further memorandum from the Ministry of Defence	Ev 8
3	Further memorandum from the Ministry of Defence	Ev 9
4	Further memorandum from the Ministry of Defence: Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08: Government Response to the Committee's Second Report of Session 2007–08 (HC 138)	Ev 9

List of Reports from the Committee during the current Parliament

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 (HC 1021)
Second Report	Future Carrier and Joint Combat Aircraft Programmes	HC 554 (HC 926)
Third Report	Delivering Front Line Capability to the RAF	HC 557 (HC 1000)
Fourth Report	Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06	HC 980 (HC 1136)
Fifth Report	The UK deployment to Afghanistan	HC 558 (HC 1211)
Sixth Report	Ministry of Defence Annual Report and Accounts 2004–05	HC 822 (HC 1293)
Seventh Report	The Defence Industrial Strategy	HC 824 (HC 1488)
Eighth Report	The Future of the UK's Strategic Nuclear Deterrent: the Strategic Context	HC 986 (HC 1558)
Ninth Report	Ministry of Defence Main Estimates 2006–07	HC 1366 (HC 1601)
Tenth Report	The work of the Met Office	HC 823 (HC 1602)
Eleventh Report	Educating Service Children	HC 1054 (HC 58)
Twelfth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 (Cm 6954)
Thirteenth Report	UK Operations in Iraq	HC 1241 (HC 1603)
Fourteenth Report	Armed Forces Bill: proposal for a Service Complaints Commissioner	HC 1711 (HC 180)

Session 2006–07

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

Eleventh Report	Strategic Lift	HC 462 (<i>HC1025</i>)
Twelfth Report	Ministry of Defence Main Estimates 2007–08	HC 835 (<i>HC 1026</i>)
Thirteenth Report	UK operations in Afghanistan	HC 408 (<i>HC 1024</i>)
Fourteenth Report	Strategic Export Controls: 2007 Review	HC 117 (<i>Cm 7260</i>)
Fifteenth Report	The work of Defence Estates	HC 535 (<i>HC 109</i>)

Session 2007–08

First Report	UK land operations in Iraq 2007	HC 110
Second Report	Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08	HC 138
Third Report	UK/US Defence Trade Cooperation Treaty	HC 107 (<i>HC 375</i>)
Fourth Report	The Iran hostages incident: the lessons learned	HC 181
Fifth Report	Ministry of Defence Annual Report and Accounts 2006–07	HC 61
Sixth Report	The work of the Committee in 2007	HC 274
Seventh Report	Medical care for the Armed Forces	HC 372

Written evidence

Memorandum from the Ministry of Defence

1. INTRODUCTION

1.1 This memorandum covers the Spring Supplementary 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. This Estimates Memorandum should be read in conjunction with the Winter Supplementary Estimate and the Department's Main Estimate (2007–08).

1.2 The Introduction to the Estimate lists the changes being made since the Winter Supplementary Estimate. This is shown by Request for Resources (RfR)¹ and the section number shown in brackets after the detail for each change is a reference to the line(s) that are affected by the change in Part II of the Estimate.

1.3 There is a separate Estimates Memorandum for the Armed Forces Retired Pay, Pensions vote.

2. SUMMARY OF RESOURCES SOUGHT IN THE ESTIMATE

2.1 The Introduction to the Estimate shows a net increase in Voted DEL resources of £2,473 million from £35,569 million at Winter Supplementary Estimates to £38,042 million. There is an increase in RfR1 (Provision of Defence Capability) resources of £1,447 million, which is primarily due to non-cash resource requirements forecasted by TLBs for depreciation, provisions, and impairments. This is funded from the Department's accumulated End Year Flexibility (EYF) and the draw down of the Department's Unallocated Provision (DUP). The MoD RfR1 Capital (CDEL) net credit of £669 million comprises the £709 million balance of the receipt from the sale of Chelsea Barracks (credited to AME) offset by £40 million of End Year Flexibility (added to CDEL).

2.2 The RfR2 (Operations and Peace Keeping)² resources net request of £1,023 million is additional funding for military operations in Iraq, Afghanistan and the Balkans and comprises direct resource costs of £599 million and indirect resources of £424 million. The RfR2 capital request of £388 million is mainly for Urgent Operational Requirements (UORs) in Iraq and Afghanistan. Further details are provided at Paragraphs 4 and 5.

2.3 There is a small additional (outside DEL) request for £3 million resource AME for War Pensions, which reflects the current forecast of outturn.

2.4 The changes are summarised in the following tables:

Table 1

CHANGES IN RESOURCE AND CAPITAL EXPENDITURE

<i>Resource Expenditure</i>	<i>£ million</i>
Provision of Defence Capability (RfR1)	1,447.124
Operations and Peace Keeping (RfR2)	1,022.500
War Pensions and Allowances (RfR3)	3.000
Total Net Request for Resources	2,472.624

<i>Capital Expenditure</i>	<i>£ million</i>
Net Provision of Defence Capability (RfR1)	(669.000)
Operations and Peace Keeping (RfR2)	388.000
Total Net Request for Capital	(281.000)

	<i>£ million</i>
Total Change in Capital and Resource	2,191.624

¹ For detail on the different Requests for Resources, see Annex 1.

² Now re-named from Conflict Prevention to Operations and Peace Keeping.

2.5 The total change in the Estimate is £2,191.624 million, which generates an additional net cash requirement of £894.351 million. The cash requirement is analysed in the following table, and a reconciliation between the changes in the Estimate and the net cash requirement is shown in Part II of the Estimate, “Resource to Cash Reconciliation”.

Table 2**CHANGE IN VOTED CASH REQUIREMENT**

	<i>£ million</i>
Near Cash (Voted) in Resource DEL	597.750
Near Cash in Capital DEL	428.000
AME (Net receipt)	(706.000)
Accruals to cash adjustments	574.601
Net Cash Requirement	894.351

2.6 The most significant changes to the Defence Expenditure Limits (DEL) at Spring Supplementary Estimates are:

- the take up of the Department’s End Year Indirect Resource Flexibility totalling £1,622 million to reflect the Department’s latest forecast of outturn of Indirect Resource expenditure;
- an increase in RfR2 of £566 million Direct Resource DEL and £381 million Capital DEL to reflect the forecast costs of peace keeping operations in Iraq, Afghanistan and Balkans;
- the transfer of £424 million Indirect Resource DEL from RfR1 to RfR2 to cover depreciation, cost of capital and impairment forecasts in relation to assets deployed on operations;
- net transfers in of £39.1 million from other Government Departments under RfR1 and RfR2 (Table 4). The largest are from the FCO for the Balkans operations and the Afghanistan helicopter flight (both RfR2);
- the take up of Capital End Year Flexibility (EYF) of £40 million resulting from the sale of QinetiQ in 2005–06, as agreed with the Treasury;
- draw down of £200 million from the Department’s (Unvoted) Unallocated Resource Provision to reflect the increased (Voted) Indirect Resource DEL forecast of outturn for RfR1;
- an increase in AME of £53 million to cover MoD estates revaluation (RfR1) and the latest forecast of outturn for War Pensions (RfR3); and
- an increase in Capital AME Non Operating Appropriations-in-Aid of £709 million to recognise the balance of the sales proceeds of Chelsea Barracks which was not provided for in the 2007–08 Main Estimates.

3. DETAILED EXPLANATION OF CHANGES

3.1 Part I of the Estimate summarises the changes described above and provides detail about the costs included in each RfR.

3.2 Part II of the Estimate shows the changes proposed in the Estimate, by Top Level Budget Holder (TLB). This shows the present net position (the position at Winter Supplementary Estimates), the changes in the position, and the new net provision (Spring Supplementary Estimates). Again this is set out by Request for Resources. The transfers and other changes outlined in the Introduction to the Estimate are analysed in this section of the Memorandum.

3.3 The table below shows how the Spring Supplementary Estimate is compiled, identifying changes since 2007–08 Winter Supplementary Estimates.

Table 3

**SHOWING CHANGES TO VOTED RESOURCES AND CAPITAL AT SPRING
SUPPLEMENTARY ESTIMATES**

<i>£ million</i>	<i>Direct R DEL</i>	<i>Indirect R DEL</i>	<i>Total R DEL</i>	<i>AME</i>	<i>Non- budget Near cash</i>	<i>Total Net Resources</i>	<i>Net Capital DEL</i>	<i>Capital Non-budget/ AME</i>	<i>Total Net Capital</i>
[1]	1	2	3	4	5	6	7	8	9
RfR1 Provision at Winter Supplementary Estimates	22,460.7	10,617.7	33,078.4	91.2	13.1	33,182.7	7,087.6	1.9	7,089.5
Transfers Out	-0.7		-0.7			-0.7			
Departmental unallocated Provision	0.0	200.0	200.0			200.0	0.0		0.0
End Year Flexibility	0.0	1,621.8	1,621.8			1,621.8	40.0		40.0
Annually Managed Expenditure				50.0	0	50.0		-709.0	-709.0
Switch of IRDEL from RfR1 to RfR2		-424.0	-424.0			-424.0	0.0		0.0
RfR1 at Spring Supplementary Estimates	22,460.0	12,015.5	34,475.5	141.2	13.1	34,629.8	7,127.6	-707.1	6,420.5
RfR2 Provision at Winter Supplementary Estimates	1,359.3	0.0	1,359.3			1,359.3	604.0		604.0
Additional Provision at Spring Supplementary Estimates	566.0		566.0			566.0	380.6		380.6
Transfers in	32.5		32.5			32.5	7.4		7.4
Switch of IRDEL from RfR1 to RfR2		424.0	424.0			424.0			
RfR2 at Spring Supplementary Estimates	1,957.8	424.0	2,381.8			2,381.8	992.0		992.0
RfR3 Provision at Winter Estimates				1,027.0		1,027.0			
Additional Provision				3.0		3.0			
RfR3 at Spring Estimates				1,030.0		1,030.0			
Spring Supplementary Estimates Total*	24,417.8	12,439.5	36,857.3	1,171.2	13.1	38,041.6	8,119.6	-707.1	7,412.5

[1] Definitions of the column headings are shown at Annex 1.

[2] Minimal differences may occur due to roundings.

4. RfR1 PROVISION OF DEFENCE CAPABILITY—EXPLANATION OF CHANGES

Transfers In/Out

4.1 The Estimate includes two transfers in from Other Government Departments and one transfer out, which are detailed in Table 4.

Table 4

SHOWING TRANSFERS BETWEEN MOD AND OTHER GOVERNMENT DEPARTMENTS

<i>Transfers Out</i>	<i>RfR</i>	<i>£m</i>	<i>Purpose</i>
Department for Business, Enterprise and Regulatory Reform	1	(0.750)	MoD share of the management costs of transferred nuclear liabilities.
<i>Transfers In</i>			
Foreign and Commonwealth Office	2	1.500	Contribution to the Global Rest of the World Conflict Prevention pool costs.
Foreign and Commonwealth Office	2	31.000	Contribution to the Balkans Conflict Prevention pool costs.
Foreign and Commonwealth Office	2	7.350	Capital contribution to the Afghanistan Command and Communications helicopter flight
Total Net Transfers In		39.100	

End Year Flexibility: £1,622 million IRDEL; £40 million CDEL

4.2 The latest forecasts of Indirect Resource spend indicates that the Department needs to utilise its Indirect Resource End Year Flexibility. The increased requirement relates to a range of depreciation provisions and impairment costs.

4.3 The Department has drawn down the £40 million CDEL available following the sale of its interests in QinetiQ in 2005–06. The staged draw down of the QinetiQ receipt was agreed with Treasury in the 2004 Spending Review.

Transfer of Indirect Resource from RfR1 to RfR2—£424 million

4.4 The Department requests the transfer of £424 million Indirect Resource DEL from RfR1 to RfR2 to cover cost of capital, depreciation and impairment charges associated with fixed assets purchased under Urgent Operational Requirement arrangements. These are continuing non-cash charges associated with holding these assets and are charged to RfR2 for as long as they are deployed on operations.

Draw Down of the Department Unallocated provision—£200 million

4.5 The latest Department's forecast of its IRDEL requirement, and taking into account the transfer to RfR2 at para 4.4, indicates a need to draw down £200 million, from its unallocated provision.

*Other Changes**Chelsea Receipt*

4.6 £250 million of the £959 million receipt from the sale of Chelsea was included in Main Estimates. The balance of £709 million will be credited to AME as a non-operational Appropriation-in-Aid. £550 million has been included in the Department's CDEL allocation from 2008–09 to 2010–11 in Spending Review 2007 to be spent on service accommodation. The remaining amount will be made available to the MoD in the next Spending Review.

Non Budget Items

4.7 There are no changes to the Non Budget at the Spring Supplementary Estimate.

AME Items

4.8 The RfR1 Resource AME increase of £50 million reflects the Department's forecast of the final impact of the 2006–07 Quinquennial Review on fixed asset write offs.

Neutral Transfers

4.9 The changes under these sub-headings reflect alterations to TLB allocations of Resource and Capital funding to bring the allocations into line with responsibility transfers between TLBs, and other funding adjustments to align TLB provision with forecast outturn without changes to defence outputs.

4.10 The Operating and Non-Operating Appropriations in Aid changes to the Spring Supplementary Estimate reflect the latest estimate of outturn for each TLB.

4.11 There are two Grants in Aid recognised in the Spring Supplementary Estimates. The grant in aid of £53.5 million to the Council of Reserve Forces and Cadets Associations is to fund the 13 Regional Reserve Forces and Cadets Associations. The grant in aid has been allocated within the existing provision of Land TLB. The grant in aid of £8.3 million to the Marine Society and Cadets Association aims to educate young people as to the need and role of the Armed Forces and make them aware of the career opportunities that the Services can offer. The grant in aid has been allocated within the existing provision of Fleet TLB.

5. REQUEST FOR RESOURCES 2: OPERATIONS AND PEACE KEEPING

5.1 The Spring Supplementary Estimate requests an additional £693 million for peace keeping operations in Iraq and £685 million for peace keeping operations in Afghanistan. This is summarised in Table 5 below, with a more detailed analysis is shown in Table 6. The increase reflects the demands of operations concerned, in particular the need for Urgent Operational Requirements.

Table 5

SUMMARY COST OF OPERATIONS AND PEACE KEEPING CLAIM AT 2007–08 SSE

<i>Operation</i>	<i>Direct Resource DEL £m</i>	<i>Indirect Resource DEL £m</i>	<i>Capital DEL £m</i>	<i>Total SSE request 2007–08 £m</i>
Iraq	275	199	219	693
Afghanistan	291	225	169	685
Balkans	31			31
Global Pool (rounded)	2			2
Total	599	424	388	1,411

5.2 The current estimate for operations in Iraq, Afghanistan and the Balkans for the 2007–08 Spring Supplementary Estimates is shown in Table 6.

Table 6

The ESTIMATED COST OF OPERATIONS IN AFGHANISTAN, IRAQ AND THE BALKANS AT SSE 2007–08

<i>Cost Type</i>	<i>Iraq £m</i>	<i>Afghanistan £m</i>	<i>Balkans £m</i>
Direct Resource DEL			
Civilian Personnel	15	8	2
Military Personnel	93	79	3
Stock/Other Consumption	263	237	6
Infrastructure Costs	109	163	8
Equipment Support Costs	357	220	3
Other Costs and Services	162	162	10
Income Foregone/Generated (–)	5	8	–1
Total Direct Resource DEL	1,004	877	31
Indirect Resource DEL	199	225	
Total Resource DEL	1,203	1,102	31
Capital DEL			
Capital Additions	445	547	
Total Capital DEL	445	547	
Total Estimate	1,648	1,649	31

5.3 The total conflict prevention request for 2007–08 Spring Supplementary Estimates is set out in Table 7.

Table 7

TOTAL CONFLICT PREVENTION REQUEST FOR 2007–08 SSE

<i>Operation</i>	<i>Direct Resource DEL £m</i>	<i>Indirect Resource DEL £m</i>	<i>Capital DEL £m</i>	<i>Total Estimate 2007–08 £m</i>	<i>Total Outturn 2006–07 £m</i>
Iraq	1,004	199	445	1,648	956
Afghanistan	877	225	547	1,649	742
Balkans	31			31	56
Global Pool	46			46	43
Total	1,958	424	992	3,374	1,797

6. RFR3 WAR PENSION BENEFIT (WPB)

6.1 Additional funding of £3 million is required to cover outstanding Ghurkha claims for Far Eastern Prisoner of War payments. This will increase the total WPB funding to £1,030 million.

7. THE DEPARTMENTAL EXPENDITURE LIMIT (DEL)

7.1 Table 8 shows the DEL from 2005–06 to 2007–08 for all RfRs. The Total DEL is calculated by adding Resource DEL, Capital DEL and deducting depreciation, which forms part of Resource DEL. Depreciation is excluded from Total DEL; including this as well as Capital DEL would be double counting. The figures are for voted and Non-voted DEL; the Non voted DEL figure for 2007–08 is £83.832 million net of depreciation, and this is shown in more detail in the Notes to the Spring Supplementary Estimate.

Table 8

CHANGES TO MOD DEPARTMENTAL EXPENDITURE LIMITS

	<i>2005–06 SSE £m</i>	<i>2006–07 SSE £m</i>	<i>2007–08 ME £m</i>	<i>2007–08 WSE £m</i>	<i>2007–08 SSE</i>
Resource DEL	33,727	34,104	32,831	34,721	36,940
Capital DEL	6,798	7,448	7,548	7,692	8,120
Depreciation	– 8,168	– 7,401	– 6,818	– 6,818	– 8,218
Total DEL	32,357	34,151	33,561	35,595	36,842

8. ADMINISTRATION COSTS LIMIT

8.1 The Department is not currently subject to an Administration Costs Limit. The MoD will implement an Administration costs regime in 2008–09.

9. PROVISIONS AND CONTINGENT LIABILITIES

9.1 Non nuclear provisions have been increased at Spring Supplementary Estimates to reflect planned redundancies in the Central TLB and DE&S resulting from the Department's streamlining strategy.

10. MACHINERY OF GOVERNMENT CHANGES

10.1 There are no further Machinery of Government Changes.

11. IMPACT ON PSA TARGETS

11.1 The changes in provision sought are not linked to the overall achievement of the Department's PSA targets but rather to enable delivery across the range of outputs in accordance with our plans. A failure to grant the additional RfR2 allocation would undermine the prosecution of operations in Iraq and Afghanistan (PSA 1).

12. NET ADDITIONAL CASH REQUIREMENT

12.1 The Net Cash impact for the Spring Supplementary Estimate is an increased requirement of £894.351 million. This is broken down in Table 2.

13. VOTES A

13.1 The Department will be laying the 2008–09 Votes A Annual Estimate alongside this 2007–08 Spring Supplementary Estimate. This will be published as HC 264.

A. DEFINITION OF TERMS

1. *Direct Resource Departmental Expenditure Limits (RDEL)*

This is a control aggregate within the resource budget. It excludes the 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 DEL (IRDEL)*

This 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 eg Grants in Aid, Royal Hospital Chelsea. This is a Parliamentary control but not a Treasury control.

6. *Total Net Resources*

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 AME*

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

9. *Total Net Capital*

This is the sum of the above capital items.

10. *Total Near Cash*

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

11. *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.

12. *Request for Resources 2*

Request for Resources 2 provides primarily for the additional costs of peace keeping and 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.

13. *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.

B: List of Abbreviations used in the Estimate

AME	Annually Managed Expenditure
DE&S	Defence Equipment and Support
DUP	Departmental Unallocated Provision
EYF	End Year Flexibility
FCO	Foreign and Commonwealth Office
MoD	Ministry of Defence
NAO	National Audit Office
RfR	Request for Resources
SSE	Spring Supplementary Estimates
UK	United Kingdom
WSE	Winter Supplementary Estimates

Further memorandum from the Ministry of Defence

REQUEST FOR RESOURCES 1—ARMED FORCES RETIRED PAY, PENSIONS, ETC

1. *Summary of Changes sought in the Spring Supplementary Estimate*

The main reasons for the Armed Forces Retired Pay and Pensions Spring Supplementary Estimate is to request an additional resource of £500 million, and to request an increased net cash requirement of £150 million.

2. *Detailed Explanation of the Change and Allocation*

The increase in the resource requirement is mainly because of a higher interest charge on the Armed Forces Pensions Scheme (AFPS) pension liability resulting from a larger than expected increase in the liability, as calculated at year end by the Government Actuarial Department (GAD); and a large increase in the calculated Armed Forces Compensation Scheme (AFCS) provision. The AFCS is a new scheme, which is proving extremely difficult to forecast in the early years because of the lack of historical data on which to base a provision.

The increase in the net cash requirement of £150 million arises from additional lump sum payments and Early Departure Payments than envisaged. Additionally, the latest Superannuation Contribution Adjusted for Past Experience (SCAPE) income forecast is lower than budgeted.

3. *Changes to Cash Requirement Allocation*

There is an increase in the net cash requirement of £150 million as a result of these changes.

Further memorandum from the Ministry of Defence

Set out below are the Department's responses to the Select Committee questions arising from the Spring Supplementary Estimate and the Department's Estimates Memorandum.

1. *The disposal receipt for Chelsea Barracks is some £959 million. What sums of additional accommodation capital expenditure will this support in each of the years of the CSR period?*

Our plans for future defence expenditure were agreed in the CSR. Under these plans the entire Chelsea Barracks receipt will be recycled into new and improved accommodation for Service personnel. £250 million was appropriated in aid to the Defence Budget in 2007–8. A minimum of £150/200/200 million will be invested in accommodation over the period 2008–09 to 2010–11 (to which we have since announced a commitment to a further £80 million over the same period). A balance of £159 million will be made available to the Defence Budget in the next Spending Review period.

2. *The Estimate includes additional provision of £1.622 billion for non-cash costs. £424 million of this is for Urgent Operational Requirements in RfR-2, and £1.198 billion is for RfR-1. Why is there a need for such a large increase in RfR-1 provision?*

The Estimate reflects the latest Top Level Budget forecasts available of Indirect Resource DEL, which include revised assessments of depreciation and provisions for personnel early release schemes. In addition, the Department has also included a contingency in the light of the National Audit Office comments on Indirect RDEL after their AP06 2007–08 Departmental Resource Accounts (DRAc) hard close review and continuing uncertainties over the forecasts of depreciation.

3. *Capital DEL provision is increased by £40 million, drawn down as EYF, representing a further tranche of funding from the sale proceeds from the QinetiQ flotation. What further such QinetiQ-related additional funding is due from the Treasury in future periods?*

There are no further tranches of funding due for the QinetiQ flotation.

4. *The Estimate recognises £258 million of additional expected income on RfR-1 subheads. In what main areas do you expect the bulk of that additional income to arise?*

The Estimate reflects latest forecasts of income from a range of Top Level Budgets and includes both increases and decreases which are not attributable to a particular cause. We could provide further details of the changes involved in slower time, should the Committee require them.

Further memorandum from the Ministry of Defence

GOVERNMENT RESPONSE TO THE HOUSE OF COMMONS DEFENCE COMMITTEE REPORT ON THE COSTS OF OPERATIONS IN IRAQ AND AFGHANISTAN: WINTER SUPPLEMENTARY ESTIMATES 2007–08 (HC 138)

The Government welcomes the Committee's report on the Ministry of Defence *Cost of operations in Iraq and Afghanistan: Winter Supplementary Estimates 2007–08*, published on 5 December 2007, as HC 138. The Estimate sought Parliamentary approval for funding for operations in Afghanistan and Iraq; draw down of the Department's End Year Flexibility entitlements (Carry over of under spends from 2006–07); inter Department Government budgetary transfers; and budgetary flexibility from Capital to Resource to reflect in year pressures in resource (operating costs). The Government's response to the high-lighted conclusions and recommendations, which were contained in the Committee's report is set out below.

1. We commend the MoD for renaming Request for Resources 2 "Operations and Peacekeeping", which more accurately describes what it covers (Paragraph 2)

The Department welcomes the Committee's recognition; we are always trying to improve the clarity of the information we provide on activities in the public domain.

2. We continue to believe that the estimated costs of military operations should be presented in the Main Estimates. We are disappointed that the Government has not been persuaded of this. We reiterate our compromise suggestion 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. Notwithstanding the uncertainty of cost estimates at the beginning of the financial year, the MoD must surely have planning assumptions. We can see no reason why these should not be shared with Parliament. We expect the MoD to respond fully to this recommendation in its response to this Report (Paragraph 7).

It is not possible to provide a realistic estimate of the cost of military operations at the start of the financial year. Nevertheless, we recognise the Committee's continuing concern over this issue, and therefore we will include in the memorandum for the Main Estimates the central estimate of future Urgent Operational Requirements, which forms the single largest element of operational costs.

3. We repeat our earlier recommendation that provision for operations in the Balkans should be set out in the MoD's Main Estimate, and hope that this will be done in the Main Estimates 2008–09 (Paragraph 9); and

4. Unless the MoD can present, in the response to this report, a compelling reason for continuing current practice, we shall expect provision for operations in the Balkans to be made in the MoD's Winter Supplementary Estimate 2008–09—if not already made in the Main Estimates (Paragraph 10).

Following consultation with the FCO, we will include an initial estimate of the cost of operations in the Balkans at Main Estimates, although this is likely to need to be supplemented in the Winter Supplementary Estimates and further refined in the Spring Supplementary Estimates.

5. The Winter Supplementary Estimate estimates the additional costs of operations in Iraq and Afghanistan in 2007–08 as £1,315 million in resources and £604 million in capital. The forecast net additional costs of operations in 2007–08 are £955 million for Iraq and £964 million for Afghanistan (Paragraph 11).

Noted and agreed.

6. The cost of operations in Afghanistan is forecast to increase by 39% in the current year. Given the increase in UK Forces in Afghanistan in the current year, and the continuing high operational tempo, this is perhaps not very surprising. It is striking, however, that three-quarters of the increase is attributable to capital additions. We recommend that, in the response to this report, the MoD provide more detail on the capital programmes involved (Paragraph 13).

Over 80% of capital spending Afghanistan this year is the result of Urgent Operational Requirements reflecting the level of operational activity in Helmand province. Recent high value equipment requirements include Protected Patrol Vehicles, Electronic Counter Measures and communications upgrades. We will provide further details of the capital spend in our 2007–08 Annual Report and Accounts.

7. It may seem surprising that the cost of operations in Iraq is forecast to increase in the current year by 2%, despite the drawdown in UK Forces over the year. The increase is accounted for by large increases in infrastructure costs, equipment support costs and capital additions (Paragraph 14).

As the Committee notes the increased Iraq costs in the current year is accounted for by large increases in infrastructure costs, equipment support costs and capital additions.

The requirement to invest in facilities at Basra Airport, and to improve force protection, appears to explain the increase in the cost of operations in Iraq this year (Paragraph 14).

Agreed. This explains the increased infrastructure costs in Iraq.

8. It is, however, a little surprising that the military personnel costs for Iraq are expected to fall by only 5% this year, despite the considerable drawdown of UK Forces over the year. And it is striking that the forecast military personnel costs for Iraq (£95 million) considerably exceed those for Afghanistan (£62 million) (Paragraph 15).

At the beginning of the year Iraq had appreciably higher manpower levels than Afghanistan, however, by mid year these had reduced to a point where both had similar levels. The result is a higher annual forecast cost for Iraq. As manpower levels and associated costs in Iraq decrease it is expected that they will reduce below Afghanistan levels.

We recommend that, in the response to this report, the MoD explain in more detail why military personnel costs for Iraq are expected to fall by only 5% in the current year (Paragraph 15).

The majority of military personnel costs comprise the operational Welfare package and additional allowances. Reduction in actual manpower levels are not immediately reflected in reduced costs in these areas. This is because operational welfare costs lag behind changes in personnel numbers, and the lump sum operational allowance is paid after personnel return from operations—sometimes in the following financial year.

9. It is likely that the actual additional costs of military operations in 2007–08 will exceed the amounts requested in the Winter Supplementary Estimate, and that the MoD will be required to ask for more money for operations in the Spring Supplementary Estimates (Paragraph 19).

The Department pointed out in its 2007–08 Winter Supplementary Estimate Memorandum at section 8 that, as usual, additional resources would be requested in its Spring Supplementary Estimates.

10. The outturn for 2006–07 operations was less than the sums planned by the Department: the MoD over-estimated the cost of its operations and peacekeeping by £75 million (4%). This comprised an underspend on capital costs of £101 million, offset by a resource overspend of £26 million (Paragraph 22).

We provided a full explanation in our 2006–07 Annual Report and Accounts, as the Committee has noted.

11. We welcome the inclusion in the Annual Report and Accounts of an explanation of the variation between voted provision and outturn for 2006–07. Given the unpredictability of military operations, it is understandable that there should be variation between the Estimates and the outturn. However, we look to the MoD to ensure that its estimates are as robust as possible and, in particular, that the estimates on capital costs should be based on realistic expectations of when Urgent Operational Requirements will be delivered (Paragraph 24)

The Department always strives to provide realistic and robust Estimates provision and welcomes the Committee's recognition that the unpredictability of military operations makes this very difficult. Action is underway to refine our accounting procedures in 2008–09 to provide more accurate predictions of UOR spend.

12. We recommend that the House of Commons approve the request for resources set out in the MoD's Winter Supplementary Estimate. The £1,919 million requested to meet the forecast cost of operations in Iraq and Afghanistan in 2007–08 is a large amount of public money, but it is essential that our Armed Forces are properly resourced to carry out the task which they have been given. The sum requested includes investment in new equipment and force protection, which has been welcomed by all sides of the House (Paragraph 25)

The Department welcomes the Committee's continued support for our Armed Forces.

3 March 2008
