



House of Commons
Defence Committee

Ministry of Defence Annual Report and Accounts 2006–07

Fifth Report of Session 2007–08

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

*Ordered by The House of Commons
to be printed 15 January 2008*

HC 61
Published on 28 January 2008
by authority of the House of Commons
London: The Stationery Office Limited
£15.50

The Defence Committee

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Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
2 Annual Performance Report	7
Overall performance against PSA Targets	7
Readiness	10
Peacetime readiness	10
Peacetime to immediate readiness	11
Recruitment and retention	11
Manning Balance	12
Manning Pinchpoints	13
Retention and Voluntary Outflow	15
Harmony Guidelines	16
Diversity	18
Defence Procurement	21
Cost increases	22
In Service Date slippage	24
Defence Equipment and Support organisation	25
Value for Money	26
2004 Spending Review Efficiency Target	26
Financial savings	27
Defence Agencies and Trading Funds	28
Agency status	28
Agency performance	29
Trading Funds	30
3 Consolidated Departmental Resource Accounts	32
Qualified Audit Opinion	32
Losses	33
Joint Personnel Administration system	34
4 Comprehensive Spending Review	37
Comprehensive Spending Review settlement for defence	37
July announcement	37
October announcement	38
Replacement of strategic nuclear deterrent	39
Planning round	39
Defence inflation	40
Value for money reforms	42
Value for money savings target	42
‘Streamlining’ exercise	43
Defence Industrial Strategy	46
Cost of operations	48

Conclusions and recommendations	51
Annex: List of Abbreviations	58
Formal minutes	60
Witnesses	61
List of written evidence	61
List of unprinted evidence	61
List of Reports from the Committee during the current Parliament	62

Summary

This report analyses the Annual Report and Accounts 2006–07 of the Ministry of Defence (MoD) which comprise the Annual Performance Report and the Consolidated Departmental Resource Accounts. It also draws on the MoD Public Service Agreement Performance Report: Quarter 1 2007–2008 received just before the Committee’s evidence session with the MoD’s Permanent Under Secretary of State, and the MoD Public Service Agreement Autumn Performance Report 2007–2008 published shortly after our evidence session.

The MoD’s assessment of its expected achievements against its six Public Service Agreement (PSA) targets, which run until the end of March 2008, has deteriorated since the previous year’s Annual Report and Accounts. At the end of 2007, the MoD did not expect to meet the target relating to generating forces and expects “only partly” to meet targets relating to recruitment and retention, and defence equipment procurement. The failure to meet the target for generating forces is a consequence of the continuing high levels of deployment of the Armed Forces. We are deeply concerned that the Armed Forces have been operating at or above the level of concurrent operations they are resourced and structured to deliver for seven of the last eight years, and for every year since 2002.

Achieving manning balance in all three Service continues to be a challenge and neither the Royal Navy nor the Army is expected to achieve manning balance by April 2008. Shortages remain within many specialist trades in all three Armed Services and, in particular, within the Army Medical Service.

We are very disappointed with the failure to meet harmony guidelines in the Army and the Royal Air Force. This is another clear indicator of the pressure on our Armed Forces from the continuing high level of operations. We find the continuing failure to meet harmony guidelines unacceptable and we expect the MoD, in its response to this report, to set out what impact the failure to meet harmony guidelines is having, particularly the impact on the retention of Service personnel.

We continue to be extremely disappointed and concerned to learn that all three Services missed their targets for UK ethnic minority recruitment.

The MoD continues to experience substantial forecast cost increases on equipment programmes. The Astute submarine and Type 45 destroyer programmes have experienced forecast cost increases totalling some £500 million since the Major Projects Report 2006, which are attributed to work to bring the programmes under control. Further cost growth is affecting the Nimrod MRA4 aircraft programme and the MoD needs to deal with this as a matter of urgency. Such cost increases put further pressure on the future defence budget which is already heavily committed.

Delivering equipment programmes to the planned in-service dates continues to be a challenge for the MoD. Further delays have been experienced on the Type 45 programme, and there is likely to be further delay on the A400M transport aircraft programme which our Armed Forces so desperately need. The MoD needs to work closely with the contractors on these programmes to identify ways to reduce the risk of any further

slippage.

The Comprehensive Spending Review 2007 settlement for defence announced in July 2007 provides “an additional £7.7 billion for defence by 2011, and a 1.5 per cent average annual real terms increase”. The increase is to be welcomed, but cuts in the defence programme, including the equipment programme, are likely to be announced in the coming months. We look to the MoD to be realistic about the number of equipment programmes, the number of platforms within equipment programmes, and the phasing of equipment programmes, that can be funded. We plan to monitor this issue closely.

As part of the Comprehensive Spending Review 2007, the MoD has to deliver substantial savings of £2.7 billion. The MoD has announced that it is to streamline its Head Office in London with the loss of around 1,000 civilian jobs. There are signs that civilian staff morale has deteriorated. It is vital that the MoD manages the ‘streamlining’ exercise very carefully in order to avoid the risk of losing its best staff and to ensure that the MoD Head Office continues to operate effectively during the period of change.

1 Introduction

1. The Ministry of Defence's Annual Report and Accounts 2006–07, published on 23 July 2007, comprise the Annual Performance Report and the Consolidated Departmental Resource Accounts for the year ended 31 March 2007.¹ This is the fifth year in which the Ministry of Defence (MoD) has combined its Annual Performance Report and Consolidated Departmental Resource Accounts into one document and the second year in which, in line with most other Government departments, the MoD has published its Accounts before the Summer parliamentary recess.

2. Our inquiry examined the Annual Performance Report and the Consolidated Departmental Resource Accounts. We took evidence from Mr Bill Jeffrey,² the MoD's Permanent Under Secretary of State (PUS), and Mr Trevor Woolley, the MoD's Finance Director, on 13 and 28 November 2007. We also examined issues about the Comprehensive Spending Review settlement for defence which was announced on 25 July 2007.³ We received written evidence from the MoD⁴ and from the Public and Commercial Services Union (PCS)⁵. The oral evidence and the written evidence are printed with this report. We are grateful to the National Audit Office (NAO) for providing written briefing on the performance of the MoD. The NAO briefing is available on the Committee's website.⁶

3. We must record one difficulty that occurred when assembling evidence for this report. In preparation for our evidence session on 13 November 2007, Committee staff wrote to the MoD on 9 October 2007 requesting written responses to a range of questions by 31 October 2007. The deadline was extended to 5 November 2007. The written evidence, with a copy of the MoD Public Service Agreement Performance Report: Quarter 1 2007–2008, was finally received on 12 November, the day before the scheduled evidence session. At that session, we asked Mr Jeffrey why the written evidence had been received so late. He accepted that the written evidence should have come to the Committee earlier and apologised for this.⁷ We considered the information provided to be so central to the issues we wanted to examine that we decided to rearrange the evidence session for a future date.⁸ We asked for a full account of the delay in sending us the written evidence we had sought.⁹ He wrote to us on 15 November 2007 setting out the reasons for the delay and assuring us that lessons had been learned for the future.¹⁰

1 Ministry of Defence, *Annual Report and Accounts 2006–07*, HC 697 (Hereafter referred to as MoD, HC 697)

2 In the 2008 New Years Honours, Mr Jeffrey was appointed Knight Commander of the Order of the Bath (KCB)

3 HC Deb, 25 July 2007, Cols 865–867

4 Ev 16–26, 31–35

5 Ev 27–30

6 National Audit Office, *Performance of the Ministry of Defence 2006–07*, Briefing for the Defence Committee, November 2007. <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmdfence/memo/ara/ucmara02.pdf>

7 Q 3

8 Q 10

9 Ibid

10 Ev 27

4. It was unhelpful of the MoD to provide the written evidence we had requested only a day before the evidence session we had scheduled. We expect better cooperation from the Department in future, and accept the Permanent Secretary’s assurance that lessons have been learned and that such failings will not happen again. This is essential if Parliament is to undertake its role of scrutinising the work of the MoD effectively.

5. For the second year running, the MoD Annual Report and Accounts have won the PriceWaterhouseCoopers and National Audit Office Building Public Trust Award ‘For Telling It How It Is’. This is the first time that any organisation has won this award more than once.¹¹ We welcome the improvements made to the Annual Report and Accounts 2006–07, such as the greater use of cross-referencing and note that the MoD won the ‘Building Public Trust Award’ for its Annual Report and Accounts for the second year running.

¹¹ Ministry of Defence website, *Defence News*, 16 October 2007, MoD wins corporate reporting award for second year

2 Annual Performance Report

Overall performance against PSA Targets

6. The Annual Performance Report provides a summary of performance against the 2004 Spending Review Public Service Agreement (PSA) Objectives and Targets.¹² There are three overarching objectives: Achieving success in the Military Tasks we undertake at home and abroad; Be ready to respond to the tasks that might arise; and Build for the future. The three objectives are supported by six targets, set by the 2004 Spending Review, which run until March 2008. For these targets the MoD provides an interim assessment of its expected performance. There is also a 2004 Spending Review Efficiency Target which also runs until March 2008.¹³ We examine the performance against this target later in this part of the report (paragraphs 70–74).

7. The MoD’s assessment of its expected achievements against the six PSA targets, as set out in the Annual Report and Accounts 2005–06 (subsequently referred to as ‘the previous year’s Annual Report and Accounts’),¹⁴ the Annual Report and Accounts 2006–07 (subsequently referred to as ‘the latest Annual Report and Accounts’)¹⁵ and the MoD Public Service Agreement Performance Report: Quarter 1 2007–2008 (subsequently referred to as the ‘Quarter 1 2007–08 Report’),¹⁶ is provided in Table 1.

8. In the previous year’s Annual Report and Accounts, the MoD reported that it was ‘on course’ to achieve all six PSA targets. However, as Table 1 shows, in the latest Annual Report and Accounts, the MoD reported that: two PSA targets (Targets 4 and 6) were ‘on course’; two PSA targets (Targets 1 and 5) were “on course with some risk”; one PSA target (Target 2) was “broadly on course with minor slippage”; and one PSA target (Target 3) was assessed as “some risk”. In its Quarter 1 2007–08 Report, the MoD reported a deterioration in its assessment of its expected performance against three of the six PSA targets: PSA Target 3 was assessed as “unlikely to be met”; PSA Target 5 was assessed as “slippage”; and PSA Target 6 was assessed as “some slippage”.¹⁷

12 MoD, HC 697, pp 13–22

13 Ibid, p 23

14 Ministry of Defence, *Annual Report and Accounts 2005–06*, HC 1394, pp 12–21 (Hereafter referred to as MoD, HC 1394)

15 MoD, HC 697, pp 13–22

16 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

17 Ibid

Table 1: MoD's assessment of its expected achievements against the 2004 Spending Review Public Service Agreement (PSA) Targets

PSA Target	Annual Report 2005–06 July 2006	Annual Report 2006–07 July 2007	MoD PSA Performance Report: Quarter 1 2007–2008 November 2007
Objective I: Achieve success in the Military Tasks we undertake at home and abroad			
1. Achieve the objectives established by Ministers for Operations and Military Tasks in which the United Kingdom's Armed Forces are involved, including those providing support to our civil communities.	On course	On course with some risk	On course with some risk
2. By 2008, deliver improved effectiveness of UK and international support for conflict prevention by addressing long-term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular Africa, Asia, Balkans and the Middle East. <i>(Joint target with the Foreign and Commonwealth Office and the Department for International Development).</i>	On course	Broadly on course with minor slippage	Broadly on course with minor slippage
Objective II: Be ready to respond to the tasks that might arise			
3. Generate forces which can be deployed, sustained and received at the scales of effort required to meet the Government's strategic objectives.	On course	Some risk	Unlikely to be met
4. Play a timely role in the development of the European Security Agenda, and enhance capabilities to undertake timely and effective security operations, by successfully encouraging a more efficient and effective NATO, a more coherent and effective European Security and Defence Policy (ESDP) operating in strategic partnership with NATO, and enhanced European defence capabilities. <i>(Joint target with the Foreign and Commonwealth Office).</i>	On course	On course	On course
5. Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives.	On course	On course with some risk	Slippage
Objective III: Build for the future			
6. Deliver the equipment programme to cost and time.	On course	On course	Some slippage

Source: Ministry of Defence

9. Mr Jeffrey told us that on the PSA targets the MoD was “in a worse position than we were earlier this year”. He said that:

The two areas that are problematic are the question of readiness, which is target three, and it is very much a consequence of existing high levels of deployment. The measures that we apply to assess the readiness of our forces for future conflict have been declining and we now think it is unlikely that we can hit the target by next April. Also for manning [PSA Target 5] where, for different reasons, two of the three services are now thought unlikely to come in within manning balance. It is a less good position than it was earlier in the year, but if you look at all six targets there are some that are on course as well.¹⁸

10. We asked how many of the PSA targets would be achieved by March 2008. Mr Jeffrey told us that “the assumption is that the position by next March will not change greatly from the position as reported in our PSA related material¹⁹ that we sent the Committee for this hearing”.²⁰ For the PSA targets which were assessed as not likely to be met, MoD was “taking action all the time”.²¹ However, Mr Jeffrey emphasised that “one has to make a realistic assessment of what is achievable in this sort of business over these sorts of timescales”.²²

11. Some two weeks following our evidence session, the MoD published its Autumn Performance Report 2007–2008 (subsequently referred to as the Autumn Performance Report).²³ This covers the period July–September 2007 and provides an updated assessment of the MoD’s expected achievements against the six PSA targets. The MoD’s assessment of its expected achievements against PSA targets 1–4 had not changed since the Quarter 1 2007–08 Report. However, the MoD’s assessment of its expected achievements against PSA Targets 5 and 6 had deteriorated further. PSA Targets 5 and 6 are now assessed as “likely only to be partly met”.²⁴

12. We are very concerned to learn that the MoD’s assessment of its expected achievements against its six 2004 Spending Review Public Service Agreement (PSA) targets, which run until March 2008, has started to travel in the wrong direction. In its previous Annual Report and Accounts published in July 2006, the MoD reported that it was on course to achieve all six PSA targets. However, at the end of 2007, the MoD did not expect to achieve the PSA target relating to force readiness, and expected “only partly” to meet the PSA targets relating to recruitment and retention, and defence equipment procurement. We note that the MoD considers that not achieving the force readiness target is a consequence of the “high levels of deployment”. We recommend that, in its response to our report, the MoD identifies the key factors which have led to

18 Q 83

19 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

20 Q 84

21 Q 86

22 Ibid

23 Ministry of Defence, *Autumn Performance Report 2007–08*

24 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

the deterioration in its expected achievements against its PSA targets and sets out what action it is taking as a result.

13. In our examination of the MoD's expected achievements against the individual PSA Targets, we have focussed on PSA Targets 3, 5 and 6. These are the targets where the MoD's assessment of its expected achievements has deteriorated most sharply in 2007.

Readiness

14. PSA Target 3 is to "Generate forces, which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives". In the latest Annual Report and Accounts, the MoD's assessment was that there was "some risk" in achieving the target. It explains that: "It has not been possible to maintain the high level of readiness achieved in 2005–06, and it is uncertain whether readiness will recover to the target level by April 2008. This does not mean that the Armed Forces cannot support their current operational commitments, but their ability to take on additional operations that are more than Small Scale Focused Intervention is now limited".²⁵

15. In the Quarter 1 2007–08 Report, the MoD assessed PSA Target 3 as "unlikely to be met" and states that "The continuing high level of operational commitment means that we do not now expect to reach the target level by April 2008".²⁶ The Autumn Performance Report confirms that PSA Target 3 is "unlikely to be met" and states that:

The Armed Forces... have been operating at or above the level of concurrent operations they are resourced and structured to deliver for seven of the last eight years, and for every year since 2002. In doing so they have consistently and reliably provided substantial forces at immediate readiness for those operations.... In such circumstances it is not possible for the Armed Forces simultaneously to be ready for the full range of potential contingent operations provided for in planning assumptions.²⁷

Peacetime readiness

16. The MoD uses two performance indicators to assess Target 3. The first indicator is "By 2008, ensure more than 73% of force elements show no serious or critical weakness against their required peacetime readiness levels". The Quarter 1 2007–08 Report states that on average from July 2006 to June 2007, 65% of force elements reported no critical or serious weaknesses against their required peacetime readiness levels. The proportion of force elements reporting no critical or serious weaknesses declined from 69% in April-June 2006 to 63% in April-June 2007.²⁸

17. The Autumn Performance Report shows that the first performance indicator used to assess PSA Target 3 has deteriorated further since the position set out in the Quarter 1

25 MoD, HC 697, p 16

26 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

27 Ministry of Defence, *Autumn Performance Report 2007–08*.

28 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

2007–08 Report. On average, from August 2006 to September 2007, 61% of force elements reported no critical or serious weaknesses against their required peacetime readiness levels. The proportion of force elements reporting no critical or serious weaknesses declined from 68% in July–September 2006 to 54% in July–September 2007.²⁹

Peacetime to immediate readiness

18. The second performance indicator is “By 2008, ensure that more than 71% of force elements report no serious or critical weaknesses against the ability to generate from peacetime readiness to immediate readiness for deployment on operations”.³⁰ On average, from June 2006 to July 2007, 58% of force elements reported no critical or serious weaknesses for deployment on operations. The Quarter 1 2007–08 Report states that:

As explained in the Annual Report and Accounts 2006–07, this reflects the pressure on the Armed Forces resulting from operating above Defence Planning Assumptions, and the constraints on conducting collective training over and above that required for current operations until commitments return to the levels within Defence Planning Assumptions.³¹

19. The Autumn Performance Report shows that the second performance indicator used to assess PSA Target 3 has deteriorated further since the position set out in the Quarter 1 2007–08 Report. On average, from August 2006 to September 2007, 55.5% of force elements reported no critical or serious weaknesses against their ability to generate from peacetime readiness to immediate readiness for deployment on operations.³²

20. The MoD does not expect to meet the PSA Target relating to generating forces by the end of March 2008. The performance on both of the performance indicators underpinning PSA Target 3 has continued to deteriorate. We note that the MoD considers that this reflects the pressure on the Armed Forces which have been operating above the level of concurrent operations they are resourced and structured to deliver. This causes us deep concern. We fully acknowledge the pressures on our Armed Forces and the commitment they have demonstrated. We recommend that, in its response to our report, the MoD and the three Service chiefs set out how they plan to reduce the pressures on our Armed Forces and when they expect to see improvements relating to generating forces.

Recruitment and retention

21. PSA Target 5 is to “Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government’s strategic objectives”. In the latest Annual Report and Accounts, the MoD’s assessment was that the target was “on course with some risk”. The latest Annual Report and Accounts states that “At the end of the year [2006] all three Services were outside Manning Balance, and there is some risk that

29 Ministry of Defence, *Autumn Performance Report 2007–08*

30 MoD HC 697, p 16

31 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

32 Ministry of Defence, *Autumn Performance Report 2007–08*

they may not return to within Manning Balance by 1 April 2008. Pinch points remained in all three Services. Recruiting increased in a challenging environment, and Voluntary Outflow rates remained broadly stable”.³³

22. The Quarter 1 2007–08 Report assessed PSA Target 5 as “slippage” and states that “Operational commitments and the changes in Service personnel numbers announced in the July 2004 White Paper mean that meeting manning balance targets has slipped. In particular, slower than expected progress in reducing Royal Navy manning requirements and a continuing difficult environment for Army recruitment and retention means that they are unlikely to meet the target by April 2008. The complexities of managing the reduction in the size of the Royal Air Force set out in the 2004 *Future Capabilities* White Paper pending completion of that programme in 2008 have also produced unavoidable interim shortfalls. The high continuing level of operations continued to prevent achievement of personal and unit harmony guidelines, particularly in the Army and parts of the Royal Air Force”.³⁴

Manning Balance

23. The first supporting performance indicator for PSA Target 5 is to achieve “manning balance”, defined as “between -2% and +1% of the requirement”.³⁵ The MoD’s performance since 2004 is shown in Table 2 below.

Table 2: Percentage of overall requirement for each of the three Services

	Percentage of overall requirement			
	1 April 2004	1 April 2005	1 April 2006	1 April 2007
Royal Navy / Royal Marines	96.8%	95.1%	96.3%	94.9%
Army	97%	98.3%	98.8%	97.5%
RAF	98.5%	101%	99.2%	96.8%

Source: Ministry of Defence

24. As at 1 April 2007, there was a 5.1% shortfall against requirement in the Royal Navy / Royal Marines (-3.1% below manning balance target); a 2.5% shortfall against requirement in the Army (-0.5% below the manning balance target); and a 3.2% shortfall against requirement in the RAF (-1.2% below the manning balance).³⁶ The Quarter 1 2007–08 Report showed that, as at the end of June 2007, the shortfall against the requirement in the Royal Navy / Royal Marines and the Army had deteriorated. There was a 5.4% shortfall against requirement in the Royal Navy and Royal Marines (-3.4% below the manning

33 MoD, HC 697, p 19

34 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

35 MoD, HC 697, p 19

36 Ibid

balance target) and a 3.2% shortfall against requirement in the Army (-1.2% below the manning balance target). The position in the RAF had not changed since April 2007.³⁷

25. Mr Jeffrey told us that the issue of the manning balance target was complicated because “it reflects not only the actual state of manpower but the requirement itself, and it varies as between the three Services”. The MoD’s earlier assessment was that it would get into manning balance by the end of March 2008. However, it had become clear that for different reasons, two of the Services were unlikely to meet the target. For the Royal Navy / Royal Marines the reason was that “the requirement is not falling as rapidly as had been assumed”. For the Army, the reason was “a mixture of equipment and retention issues”. Mr Jeffrey said that for the RAF, the MoD thought that it would meet the manning balance target, but it was by no means certain. The uncertainty reflected “to a large extent the fact that the RAF requirement is falling and the next significant fall is at the beginning of the next financial year”.³⁸

26. The Autumn Performance Report showed that, as at 1 October 2007, there had been a slight improvement in the Royal Navy / Royal Marines (-2.6% below the manning balance target) and a slight deterioration in the Army (-1.6% below the manning balance target). The position in the RAF had not changed since April 2007. The Autumn Performance Report states that “we do not expect the Royal Navy or Army to achieve manning balance by April 2008” and explains that “the challenge of implementing the changes in Service personnel numbers announced in the July 2004 White Paper while sustaining the high operational tempo means that meeting manning balance targets has slipped”.³⁹

27. We note that the MoD does not expect, for different reasons, to achieve manning balance in the Royal Navy / Royal Marines and the Army by the end of March 2008. We recommend that, in response to our report, the MoD sets out how it plans to achieve manning balance in the future for the Royal Navy / Royal Marines and the Army.

Manning Pinchpoints

28. The latest Annual Report and Accounts states that there are continuing shortages within some specialist groups in all three Armed Services.⁴⁰ This is an issue we examined in our report *Ministry of Defence Annual Report and Accounts 2005–06* and we noted that the number of trades experiencing shortages of personnel had increased since 2004–05. We were concerned that “the growing number of manning pinchpoints risk impacting on long-term effectiveness”.⁴¹

29. The latest Annual Report and Accounts states that in 2006–07 there was a continuing shortage of “Intelligence Analysts and Linguists across defence”. The Annual Report and Accounts provides details of the manning pinchpoints which include:

37 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

38 Q 7

39 Ministry of Defence, *Autumn Performance Report 2007–08*.

40 MoD, HC 697, p 19

41 HC (2005–06) 57, para 51

- “In the Royal Navy the shortages previously identified in Royal Marines Other Ranks, Mine Warfare Petty Officers, Warfare Leading Hands, and Air Engineering Technicians continued to be of concern during 2006–07, as did shortages of Divers, MERLIN personnel including Aircrew, and Fast Jet Pilots which have arisen during the year....
- The Army had 18 Manning Pinch Point trades in 2006–07 (24 in 2005–06). This included the Infantry, which is of particular concern, as well as Intelligence Operators and Unmanned Air Vehicle operators. Mitigation plans to manage the impact of these shortfalls are in place and the Army continued to work to reduce the total number of Pinch Points to nine by the end of 2008–09....
- The Royal Air Force continued to manage a period of deficit manning as the drawdown programme proceeded....There were 22 critically manned Airmen trades, including.... Fire-Fighters, Gunners, and Weapon System Operators.”⁴²
- Within the Defence Medical Service there “were continuing critical shortages in some specialist disciplines including Anaesthetics, Psychiatry, and Emergency Medicine and Intensive Therapy Care Nurses.”⁴³

30. In its memorandum to the inquiry, the MoD provided a list of pinchpoint trades in each of the three Services. There were: 11 pinchpoint trades in the Royal Navy; 27 pinchpoint trades in the Army; and 14 pinchpoint trades in the RAF. Most worrying was the shortfall in the Army Medical Service which included: an 80% shortfall in Radiologists; a 62% shortfall in Orthopaedic Surgeons; and a 46% shortfall in Anaesthetists. In its memorandum the MoD states that it:

has put in place a range of short and long term measures to ameliorate this situation. This includes training and recruitment initiatives, financial retention and re-engagement incentives..... and regular reviews of force levels required for each operation. Reducing force levels in Iraq should also help relieve some pressure.⁴⁴

31. The MoD continues to experience shortages within some specialist groups in all three Armed Services, including substantial shortages within the Army Medical Service and elsewhere. The MoD have put in place measures to try and reduce the number of manning pinchpoints. We note that the MoD also expects that force level reductions in Iraq will reduce some of the pressure in these specialist groups. We recommend that, in its response to our report, the MoD provides us with an update on the position relating to manning pinchpoints and its assessment of the success of the measures introduced to reduce their number.

42 MoD, HC 697, para 299

43 Ibid, para 300

44 Ev 18–19

Retention and Voluntary Outflow

32. The MoD describes Voluntary Outflow as “the number of Service personnel voluntarily leaving the Forces before the end of their agreed term”.⁴⁵ The latest Annual Report and Accounts states that the target is to “achieve stable Voluntary Outflow rates for each Service”. It states that: “Voluntary Outflow rates [are] stable; the RN continued to exceed the stable long term goal rate”.⁴⁶ The voluntary exit rates for each Service are shown in Table 3 below.

Table 3: Voluntary Outflow Rates

	Target	As at 31.3.07	As at 31.3.06	As at 31.3.05
Naval Service Officers	2.0%	3.0%	3.0%	2.5%
Naval Service Other Ranks	5.0%	6.0%	6.0%	6.4%
Army Officers	4.1%	4.3%	4.3%	3.9%
Army Other Ranks	6.2%	5.8%	5.5%	5.7%
RAF Officers	2.5%	3.0%	2.5%	2.4%
RAF Other Ranks	4.0%	4.9%	4.8%	3.8%

Source: Ministry of Defence

33. The latest Annual Report and Accounts state that “Overall Voluntary Outflow rates have varied little over the last few years, with only a small increase from 2005–06 to 2006–07, and a reasonable level of retention is being maintained across the Armed Forces”. However, it also notes that there are some specific areas “where the outflow rate would be too high if sustained over time. These are monitored closely to assess whether further action is necessary”.⁴⁷

34. The MoD published updated Armed Forces manning figures on 22 November 2007 which showed that the number of people leaving the trained strength of the Armed Forces in the year to 30 September 2007 increased by 1%, compared with the year to 30 September 2006.⁴⁸ We asked Mr Jeffrey if he was concerned by the increase in the number of people leaving. He said that the position on voluntary departure “is that it has been pretty steady for all three Services at around four and a half to five per cent with some variation between the services and between officers and other ranks for some years”. He added that:

The suggestion that we are losing people in very much larger numbers than before is certainly not true. There have, however, been some signs of an increase in voluntary departure in the Army; the voluntary departure of other ranks in the Army has been

45 HC (2005–06) 57, para 42

46 MoD, HC 697, p 160

47 Ibid, para 303

48 Ministry of Defence website, *Defence News*, 22 November 2007, “Armed Forces manning figures released”

running in the recent months at around 5.8% per cent which is a bit more than the five per cent we would normally assume. These are small but significant factors; we certainly keep a close watch on them.⁴⁹

35. We sought further details about Voluntary Outflow in the Army. Mr Jeffrey said that “if you look across the other services and at the officer ranks the early departure.... is remarkably steady”. However, in the Army there were signs that “early departure for other ranks is creeping up a little”. He added that in the RAF, there were “some signs that people are not extending for a further engagement to quite the extent that they were in the past”. He did not want to exaggerate this issue, although he acknowledged that “there are certainly aspects in which we are feeling some concern”.⁵⁰

36. We are concerned that there are signs that voluntary departure in the Armed Forces, in particular the Army, is increasing and that in the RAF personnel are not extending for a further engagement to the extent that had happened in the past. This may well reflect the pressure that our Armed Forces continue to experience. We look to the MoD to monitor this issue closely.

Harmony Guidelines

37. A further supporting performance indicator for PSA Target 5 relates to performance against Harmony Guidelines. The latest Annual Report and Accounts sets out the performance against the Individual Separated Service and Unit Tour Interval Harmony Guidelines.⁵¹ The performance is set out in Table 4 below.

Table 4: Performance against Harmony Guidelines

	Guidelines	Performance
Levels of Individual Separated Service		
Royal Navy / Royal Marines	In any 36 month period, no one to exceed 660 days separated service	At 31 March 2007 fewer than 1% of the Royal Navy had exceeded the guidelines
Army	In any 30 month period, no one to exceed 415 days separated service	At 31 March 2007, 13.4% of the Army personnel on current trained strength had exceeded guidelines
RAF	Not greater than 2.5% of personnel exceeding more than 140 days of detached duty in 12 months	At 31 March 2007, 6.2% of the RAF had exceeded the guidelines
Unit Tour Intervals		
Royal Navy	Fleet Units to spend maximum of 60% deployed in a 3 year cycle	The Royal Navy continues broadly to meet its Unit Tour Interval Harmony Guidelines

49 Q 90

50 Q 91

51 MoD, HC 697, p 21

Army	24 month average interval between unit tours	Infantry average tour interval of 21.0 months; Royal Artillery 20.7 months; Royal Engineers 21.2 months; Royal Signals 18.4 months; Royal Logistics Corps 23.3 months
RAF	Unit tour intervals to be no less than 16 months	Unit Tour Intervals are not easily measured for the RAF. However, RAF Regiment Field Squadrons average tour intervals around 10.5 months; Air Combat and Service Support units also breaching guidelines; Nimrod, Air Transport and Air-to-Air Refuelling squadrons heavily tasked

Source: Ministry of Defence

38. The latest Annual Report and Accounts states that “the continuing high operational tempo meant that the Army and the RAF did not meet individual or unit harmony guidelines in 2006–07”.⁵²

39. The Quarter 1 2007–08 Report provided updated information relating to performance against Individual Separated Service and Unit Tour Interval Harmony Guidelines. For the Individual Separated Service Harmony Guidelines: the performance of the Royal Navy / Royal Marines remained the same (fewer than 1% of personnel exceeding the guidelines); the performance of the Army had slightly improved (10.3% of personnel exceeded the guidelines); and the performance of the RAF had slightly deteriorated (6.7% of personnel exceeding the guidelines). For the Unit Tour Interval Harmony Guidelines: the performance of the Royal Navy remained the same (continuing to broadly meet the guidelines); the performance of the Army had deteriorated for the Infantry, Royal Artillery and Royal Engineers (Infantry average tour interval of 15.8 months, Royal Artillery 19.2 months, Royal Engineers 18.3 months); and the performance of the RAF appears to have deteriorated. The Quarter 1 2007–08 Report states that “the high continuing level of operations continued to prevent achievement of personnel and unit harmony guidelines, particularly in the Army and parts of the RAF”.⁵³

40. We asked Mr Jeffrey how long the MoD could expect Service personnel to continue working at the current operational tempo and not meeting the harmony guidelines. He told us that the harmony guidelines were important and that it was an issue which was of concern to “ministers, the service chiefs” and himself. He added that it was an “inevitable consequence of operational deployment at the current level”. For the Army, where he acknowledged that the problem was most significant, he said that:

the percentage of individuals exceeding the harmony guidelines has reduced from just over 18 per cent in the fourth quarter of 2003–04 to just over ten per cent in the final quarter of last year. That is not satisfactory and it bears unduly hard on some particular units which are more deployed than others.⁵⁴

52 MoD, HC 697, p 21

53 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

54 Q 92

41. We pressed Mr Jeffrey further and asked how the MoD planned to improve its performance and meet the harmony guidelines, as the current performance was not acceptable. He said that the “best prospect” for improving the position was “some reduction in the pressure that we face” and that “as one looks forward there are signs of the scale of the current operational commitment reducing”. He added that:

The Prime Minister has made it clear that he expects us to go down to about 2,500 in Iraq by the Spring.... The ending of the major operation in Northern Ireland has helped the army in particular. We are scaling down and have scaled down in the Balkans. There are some signs that the operational pressure will ease over the next year or so. We certainly hope so.⁵⁵

42. The Autumn Performance Report shows that the overall performance against the Individual Separated Service and Unit Tour Interval Harmony Guidelines was broadly the same as that reported in the Quarter 1 2007–08 Report. However, for the Individual Separated Service Harmony Guidelines, 9.2% of RAF personnel exceeded the harmony guidelines (compared to 6.7% in the Quarter 1 2007–08 Report).

43. We note that the Army and the RAF are failing to meet both individual and unit harmony guidelines, and that the percentage of RAF personnel exceeding the individual harmony guidelines has risen sharply during 2007. We find the reported performance against Unit Tour Interval harmony guidelines for the RAF much less precise than for the other two Services, with some RAF squadrons just reported as “heavily tasked”. We look to the MoD to identify how the setting and measuring of Unit Tour Interval harmony guidelines for the RAF can be improved.

44. We are very disappointed with the failure to meet harmony guidelines in the Army and RAF. This is another clear indicator of the pressure on our Armed Forces from the continuing high level of operations. The MoD expects the position to improve with a reduction in the current operational pressure. We certainly hope so, as we find the continuing failure to meet harmony guidelines unacceptable. In its response to our report, we expect the MoD to set out what impact the failure to meet harmony guidelines is having, such as the impact on the retention of Service personnel.

Diversity

45. In our report on the MoD’s Annual Report and Accounts 2005–06, we highlighted the MoD’s failure to meet most of its targets relating to women, people from ethnic minorities and disabled people both in MoD itself and in the Armed Forces:

We are very disappointed by the MoD’s poor performance against its diversity targets. The UK Armed Services should reflect the people it serves and despite years of good intentions, the MoD has failed to achieve this. In addition the MoD seems to have little grasp of the reasons behind its failure to recruit black and ethnic minorities in sufficient numbers. We look to the MoD to give the issue of black and ethnic minority recruitment greater priority and recommend that it conduct research into why the Royal Navy and RAF in particular are failing to recruit

sufficient numbers of ethnic minorities. We also recommend that the MoD learns from the experience of other organisations such as the Police who have increased their intake of ethnic minority personnel over recent years.⁵⁶

46. Mr Jeffrey insisted in evidence in October 2006 that he was personally committed to achieving increased black and ethnic minority representation in the Services; and the Government Response responded in some detail setting out how the MoD was tackling the issue.⁵⁷ The latest Annual Report and Accounts sets out the performance against the ethnic minority targets:

Overall Service ethnic minority strength (including Commonwealth recruits) increased to 5.8% at 1 April 2007 (5.5% at 1 April 2006) against target of 8% by 2013. UK ethnic minority intake:

RN 2.1% (target 3.5%, 2005–06 intake 2.0%)

Army 3.8% (target 4.1%, 2005–06 intake 3.6%)

RAF 1.6% (target 3.6%, 2005–06 intake 1.5%)⁵⁸

As at 1 October 2007, 5.9% of Service personnel were from ethnic minorities, of which some 60% were from the Commonwealth.⁵⁹

47. All three Services missed their targets for ethnic minority recruitment in 2006–07. We asked the MoD what action was being taken to improve performance and why the RAF appeared to have a particular problem. In its memorandum to our inquiry the MoD provided further information on its diversity targets. The MoD has an annual Action Plan with specific diversity targets to increase UK ethnic minority recruits by 0.5% above the previous year's achievement, or rolling forward the previous year's target where this would provide a greater challenge.⁶⁰

48. The Armed Forces have a programme to improve recruiting among the UK's ethnic minority communities. Each Service has a dedicated team raising awareness of Armed Forces careers amongst the UK's minority ethnic and faith communities. Activities include:

- presentations in schools, colleges and to Community and Faith leaders;
- providing role models to young members of ethnic minorities and faith communities;
- organising and operating Personal Development Courses;
- attending careers fairs, and cultural and religious festivals and events;

56 HC (2005–06) 57, para 74

57 Defence Committee, Seventh Special Report of Session 2006–07, *Ministry of Defence Annual Report and Accounts 2005–06: Government Response to the Committee's Second Report of Session 2006–07*, HC 376, pp 10–12

58 MoD, HC 697, p 160

59 Ev 33

60 Ev 20

- Community Liaison Officers working within regional networks to engage potential recruits and their gatekeepers;
- arranging visits for ethnic minorities to military bases.⁶¹

49. The MoD acknowledged that there are a number of factors which can affect ethnic minority recruitment. These include “commonly held aspirations of young members of ethnic minorities; prevalent views on current operations amongst ethnic minority communities; and concerns about ethnic imbalances and racism in the Armed Forces in general”. The RAF’s recruitment patterns have been most affected in recent years by the personnel reductions set out in the July 2004 *Future Capabilities* White Paper. The MoD told us that recruitment opportunities in the RAF have been “particularly limited, reducing the overall number of new RAF recruits and the number of new ethnic minority recruits and thus constraining the scope for change in the proportion of personnel from ethnic minorities across the RAF as a whole”. Also, members of ethnic minority communities with “high aspirations and the necessary educational qualifications for RAF entry have not generally considered the Armed Forces as a career of first choice, and awareness and knowledge of RAF careers in ethnic minority communities has traditionally been poor compared with the Army and Royal Navy”. The RAF marketing campaign and the work of the RAF Motivational Outreach Team are seeking to address these recruitment challenges.⁶²

50. Following the evidence session, the MoD provided further details of how it is seeking to increase black and ethnic minority representation, and in particular to address the problem of black and ethnic minority recruitment in the RAF. In its written evidence the MoD states that:

Over the last year (1 October 2006 to 1 October 2007), the proportion of members of the Armed Forces from ethnic minority backgrounds has increased from 5.7% to 5.9% of total strength. Although recruitment outcomes are still short of requirements, this is not for want of effort and the quality of the Armed Forces’ programmes is reflected by the consistently very high ranking that are awarded by external assessors.⁶³

The RAF is introducing Area Outreach Managers into the seven recruitment areas to “enhance coordination of outreach programmes, improve planning and to measure success”.⁶⁴

51. We continue to be extremely disappointed and concerned to learn that all three Services missed their targets for UK ethnic minority recruitment and that the RAF performed particularly poorly against its target. Our concern is strengthened by the fact that we considered this in our report on the Annual Report and Accounts 2005–06 and the figures appear to have worsened. The fact that some 60% of ethnic minority Service personnel come from outside the UK, serves to heighten our concern. We

61 Ev 20

62 Ibid

63 Ev 32

64 Ev 33

acknowledge that the three Services have put in place arrangements to improve recruitment. We look to the MoD to ensure that the planned recruitment activities of the three Services are adequately funded so that the expected improvements in UK ethnic minority recruitment are delivered. We expect the MoD to address this matter both in response to our report and in its command papers to be delivered in the spring.

52. In our report on the MoD's Annual Report and Accounts 2005–06 we acknowledged the recent increases in the number of women entering the Services and that it would take time for this to impact on the number of women in senior ranks.⁶⁵ As of 1 April 2007, women comprised 9.3% of UK Regular Forces (9.1% on 1 April 2006) and 11.2% of 2006–07 intake (9.6% in 2005–06).⁶⁶ The latest Annual Report includes a table setting out the statistics for women in the Armed Forces by Service and by rank. Women now represent 11.6% of officers and 8.8% of other ranks. However, the percentage of women at the higher ranks remains low.⁶⁷

53. The MoD has targets for the proportion of women, ethnic minority and disabled civilian staff in three civil service bands: Senior Civil Servants (SCS); Band B; and Band D. The latest Annual Report and Accounts states that:

Proportion of women grew at SCS and Band B level, but fell at Band D level. Proportion of ethnic minorities fell at SCS level, grew at Band B level and stable at Band D level. Proportion of disabled fell at SCS and Band B level and grew at Band D level. Department only meeting diversity targets for disabled at SCS level and women at Band B level.⁶⁸

54. We are disappointed that the MoD only met two of its nine diversity targets in relation to civilian personnel. We recommend that in response to our report, the MoD sets out how it plans to improve its performance in this area, particularly given that the MoD has announced that there are to be substantial civilian job losses.

Defence Procurement

55. PSA Target 6 is to “Deliver the Equipment Programme to cost and time”. In the latest Annual Report and Accounts the MoD's assessment was that it was “on course” to meet the target. The latest Annual Report and Accounts state that “for the second year running the Department met or exceeded its Public Service Agreement targets for equipment procurement, despite them being more demanding than those for 2005–06”.⁶⁹ They also state that “The Defence Procurement Agency (DPA) met all of its Key Targets in 2006–07 for the second consecutive year”.⁷⁰ The DPA ceased to exist on 31 March 2007 when it merged with the Defence Logistics Organisation (DLO) to form Defence Equipment & Support (DE&S).

65 HC (2005–06) 57, para 77

66 MoD, HC 697, p 160

67 *Ibid*, p 167

68 *Ibid*, p 160

69 *Ibid*, p 22

70 *Ibid*, para 161

56. The Quarter 1 2007–2008 Report assessed PSA Target 6 as “some slippage”. For the three performance indicators underpinning the target:

- “Category A-C post-Main Gate pre-ISD projects are currently forecasting to achieve 100% [target of 97%] of the customer’s key requirements”.
- “Category A-C post-Main Gate pre-ISD projects are currently reporting an average in-year variation of forecast cost increase of 0.2% [target of less than 0.2% in 2007–08]. This mainly reflects cost growth within the Nimrod MRA4 project”.
- “Category A-C post-Main Gate pre-ISD projects are currently reporting an average in-year variation of forecast ISD of 0.8 months [target of no more than 0.4 months in 2007–08]”.⁷¹

57. The MoD Autumn Performance Report 2007, assessed PSA Target 6 as “likely only to be partly met”. It states that “in 2007–08 we expect to meet the targets for delivery of Key User Requirements and in-year variation of forecast costs. We do not expect to meet the 2007–08 target for in-year variation of In Service Dates, in part reflecting a deliberate decision to delay deployment of the Beyond Visual Range Air-to-Air Missile on Typhoon”. The Autumn Performance Report also states that the “major programme showing cost growth at present continues to be Nimrod”.⁷²

Cost increases

58. For our current Defence Equipment inquiry the MoD provided us with a memorandum in late October 2007 which included details of the progress of a selection of major equipment projects.⁷³ Some of the major equipment projects have experienced substantial changes since the Major Projects Report 2006.⁷⁴ Details of the forecast cost increases on the Astute submarine and Type 45 destroyer programmes are provided in Table 5.

71 Ministry of Defence, *Public Service Agreement Report: Quarter 1 2007–2008*

72 Ministry of Defence, *Autumn Performance Report 2007–08*

73 Memorandum from the Ministry of Defence (DEQ 03), published on the Defence Committee's website: <http://www.publications.parliament.uk/pa/cm/cmdfence.htm#memo>

74 National Audit Office, *Ministry of Defence Major Projects Report 2006 Project Summary Sheets*, HC 23–11 Session 2006–07, 24 November 2006

Table 5: Cost variation on the Astute submarine and Type 45 destroyer programmes since the Major Projects Report 2006

Programme	Approved cost at Main Gate	Current Forecast cost	Variation	Variation since MPR 2006
Astute submarine	£2,578m	£3,798m (MPR 2006: £3,656m)	+£1,220m (MPR 2006: +£1,078m)	+£142m
Type 45 destroyer	£5,475m	£6,464m (MPR 2006: £6,110)	+£989m (MPR 2006: +£635m)	+£354m

Source: Ministry of Defence

59. We asked why we were once again seeing large cost increases, some £500 million forecast cost variation since the Major Projects Report 2006 on the Astute submarine and Type 45 destroyer programmes. Mr Jeffrey said that both these programmes were what the former Chief of Defence Procurement referred to as “toxic legacy” programmes and that “much of the cost in the papers we sent you relates to these earlier years”. However, he said that was not to say “that there had been no cost growth recently”. He acknowledged that both had been “problematic programmes all the way through”. The forecast cost increases during the course of the last year were mainly:

a result of some further efforts by the teams concerned with BAE Systems in particular to understand the cost base of Astute and to identify with them ways of resourcing the Type 45 programme more efficiently. What we have now done is to re-negotiate the contracts on both of these on a more fixed price basis and there is good reason I believe to say that the costs on both programmes are now more under control.⁷⁵

He added that “the big figures that come out of that memorandum we sent you are principally the result of the cost growth in the early part of the programme”.⁷⁶ While it is true that a substantial proportion of the forecast increases on these programmes arose in earlier years, the forecast costs on these two programme have risen by some £500 million since the end of March 2006.

60. On the cost increase on the Nimrod MRA4 aircraft programme, Mr Jeffrey said that it was “certainly giving rise to in-year pressure this year”. He told us that it was the “one significant area that we are having to attend to now”.⁷⁷ We asked whether, given the problems on the Nimrod MRA4 programmes, consideration should be given to an alternative solution. Mr Jeffrey considered that “the current programme is seen as a more forward looking one than the question would imply”.⁷⁸

75 Q 96

76 Ibid

77 Q 97

78 Q 98

61. We note that the latest Annual Report and Accounts state that for the second year running the MoD “met or exceeded its Public Service Agreement targets for equipment procurement, despite them being more demanding than those for 2005–06”, and that the Defence Procurement Agency met all its Key Targets in 2006–07 for the second consecutive year. The Defence Procurement Agency and the Defence Logistics Organisation merged on 1 April 2007 to form Defence Equipment and Support. We hope that the new organisation will maintain this momentum.

62. We are concerned to learn that the Astute submarine and the Type 45 destroyer programmes have experienced further forecast cost increases, totalling some £500 million, since the Major Projects Report 2006. While we note that the Permanent Under Secretary says that much of the cost in the papers we received relates to the “toxic legacy” of earlier years, we note his admission that costs have risen by some £500 million since the end of March 2006. He attributes this to work to understand the cost base of the Astute and to resource the Type 45 programme more efficiently with subsequent renegotiation of fixed price contracts which he says there is good reason to believe will now control the costs of both programmes. It is, nevertheless, disappointing that the MoD has failed to limit further cost growth on these programmes which had already experienced forecast cost increases totalling some £1.7 billion.

63. Yet again there have been problems with the Nimrod MRA4 programme which is experiencing further cost growth. We note that the MoD recognises it has to “attend” to these problems now and we look to the MoD to do this as a matter of some urgency given the current pressures on the defence budget. We look to the MoD to undertake a review of the Nimrod MRA4 programme in order to ensure that best value for money is achieved in maintaining this important capability, both in quality and quantity of platforms.

In Service Date slippage

64. The memorandum provided by the MoD for our current Defence Equipment inquiry, showed that the current forecast in-service date for the Type 45 destroyer programme had slipped 11 months since the Major Projects Report 2006. The current forecast in-service date is three years later than the in-service date approved at Main Gate.⁷⁹ The A400M transport aircraft, which we examined in our Strategic Lift inquiry, has also experienced in-service date slippage. The Government Response to our report states that “since the release of the Defence Committee report on Strategic Lift, there has been slippage to the start of aircraft [A400M] final assembly in Seville, which has now commenced (August 2007, five months later than the contract schedule), and Airbus Military have announced delay to the aircraft’s first flight, which is now planned for Summer 2008.”⁸⁰

65. We asked Mr Jeffrey about the slippage on the Type 45 and A400M programmes. He acknowledged that there “had been some slippage in the A400M programme which is the

79 Memorandum from the Ministry of Defence (DEQ 03), published on the Defence Committee's website: <http://www.publications.parliament.uk/pa/cm/cmdfence.htm#memo>

80 Defence Committee, Fourteenth Special Report of Session 2006–07, *Strategic Lift: Government Response to the Committee's Eleventh Report of Session 2006–07*, HC 1025, para 14

subject of discussion with the contractors”.⁸¹ Following the evidence session the MoD provided us with an update on the Type 45 and A400M programmes.

66. On the Type 45 programme, the MoD was disappointed with the further delay on this programme. In order to place the programme on “a more stable footing”, the MoD has worked with the contractor on a “significant re-orientation programme focused on risk quantification and incentivising delivery”. On the A400M programme, the MoD acknowledges that the announcement by Airbus, the contractor for the programme, that initial aircraft deliveries are likely to be delayed by between 6 to 12 months “has placed the UK’s In-Service Date of March 2011... at significant risk”. The MoD is working with Airbus to “understand better any potential scope for schedule recovery and identify whether there are any actions we can take to help the company deliver in accordance with the agreed terms of the contract”.⁸²

67. It is disappointing that there has been further in-service date slippage relating to the Type 45 destroyer programme and that further delays are likely on the A400M transport aircraft programme. We are particularly concerned about the delays on the A400M programme as new transport aircraft are desperately needed by our Armed Forces who are already having to use ageing transport aircraft. We look to the MoD to continue to work closely with the contractors on these programmes to reduce the risk of any further delays and, where possible, to identify ways to recover some of the forecast delays. We look to the MoD to undertake a review of the A400M programme given the problems experienced to date.

Defence Equipment and Support organisation

68. When we took evidence from Mr Jeffrey two years ago for our inquiry into the MoD Annual Report and Accounts 2004–05, he told us that one of his priorities was “the whole question of how we procure and acquire equipment for defence”.⁸³ We asked what progress had been made in this area. Mr Jeffrey considered that the MoD had made progress in the last few years and he thought that the merger of the DPA and the DLO to form DE&S had “produced an organisation which is becoming more capable and is beginning to give effect to the through life capability management principles that Lord Drayson (the former Minister for Defence Equipment and Support) did much to advance”. He was optimistic that the MoD could carry on improving in this area. However he said that:

It turns a great deal on the issue... of skills. We have some very highly skilled staff involved in this but we need to make sure that they are all at that level. It is certainly something we are giving attention to.⁸⁴

69. We note that the MoD’s Permanent Under Secretary considers that progress has been made over the last few years to improve the way the MoD procures and acquires

81 Q 99

82 Ev 34

83 Defence Committee, Sixth Report of Session 2005–06, *Ministry of Defence Annual Report and Accounts 2004–05*, HC 822 Q 1

84 Q 100

defence equipment and that the Defence Equipment and Support (DE&S) organisation, formed in April 2007, is becoming more capable. We welcome the recognition by the Permanent Under Secretary that much depends on making sure that the necessary skills exist at all levels. We are examining the progress made by DE&S in our current Defence Equipment inquiry.

Value for Money

2004 Spending Review Efficiency Target

70. As part of the Spending Review 2004, the MoD agreed that it would realise total annual efficiency gains of at least £2.8 billion by 2007–08, of which “three quarters will be cash releasing”. As part of this programme the MoD was, by 31 March 2008, to:

- Reduce its civilian staff by at least 10,000;
- Reduce the number of military posts in administrative and support functions by at least 5,000; and
- Be on course to have relocated 3,900 posts out of London and the South East by 2010.⁸⁵

71. In its latest Annual Report and Accounts the MoD assessed its performance against the 2004 Spending Review Efficiency target as “on course”. The MoD “remained on course to deliver the efficiency gains and the personnel reductions and relocations agreed in the 2004 Spending Review. By 31 March 2007 over £2Bn efficiencies had been delivered, civilian staff numbers had fallen by over 11,000, military posts by some 10,000 and 1,885 posts had been relocated out of London and the South East”.⁸⁶

72. We asked which elements were contributing to the forecast £2.8 billion efficiency gains. Mr Woolley said that the largest single contribution was “in procurement and logistics where we are predicting about £1.7 billion”. The other areas contributing to the total efficiency gains included: corporate services (forecast savings of £250 million); manpower savings (forecast savings of £550 million); and “force structure changes that were introduced in 2004” (forecast savings of £400 million).⁸⁷ Following the evidence session, the MoD provided us with details of the main areas and elements which had contributed to the £2.8 billion efficiency savings.⁸⁸ The Autumn Performance Report states that by September 2007, “£2,506M of efficiencies had been achieved.... We remain on track to deliver our £2.8Bn target by end 2007–08”.⁸⁹

73. We asked about the progress in reducing the number of civilian staff. Mr Jeffrey said that by September 2007 the number of civilian staff had been reduced by 13,843 against the

85 MoD, HC 697, p 23

86 Ibid

87 Q 69

88 Ev 31

89 Ministry of Defence, *Autumn Performance Report 2007–08*

target of 10,000.⁹⁰ On the target of reducing the number of military posts in administrative and support functions, the Autumn Performance Report states that the number of military personnel will reduce by over 10,000 by April 2008, “enabling over 5,000 military administrative and support posts to be abolished. 3,891 were disestablished by 30 September 2007”.⁹¹ The MoD remains on track “to deliver a net reduction of 3,900 posts in London and the South East by 2010”. By 30 September 2007, 2,812 posts had been relocated.⁹²

74. We congratulate the MoD on the progress it has made against the 2004 Spending Review Efficiency Target. We note that the MoD expects to meet all four targets which underpin the overall Efficiency Target by 31 March 2008, and to exceed three of these four targets.

Financial savings

75. In June 2007 the MoD announced that a Defence Equipment and Support (DE&S) project team had combined the MoD’s office supplies requirement with those of eight other Government departments “in the biggest ever public sector reverse auction”. This had generated combined savings of £100 million over the next four years and a saving of £50 million for the MoD over the life of the contract.⁹³

76. We asked the MoD whether it was working with other Government departments to identify other areas where a similar approach might deliver financial savings. The MoD told us that its “Category Management approach extends beyond office supplies to a range of commodity categories and services that apply not only pan-defence but also pan-Government”. The MoD is an “active member” of the Office of Government Commerce’s pan-Government Commodity procurement stakeholder groups and “is planning further collaboration” with a number of Government departments across a range of categories. Existing arrangements include:

- MoD’s Information Communications Systems catalogue has been used by other Departments for several years with savings “in the region of 20%”.
- MoD’s Print Contract is open to use for any other Department.
- MoD is collaborating with the Office of Government Commerce Buying Solutions (OGC b.s.) on furniture, where the MoD’s “spending power adds weight to OGC b.s.’ overall ability to leverage the market”.⁹⁴

77. We welcome the news that the MoD is expected to save some £50 million by combining its office supplies requirement with those of other Government departments. We note that the MoD is planning further collaboration with other

90 Q 68

91 Ministry of Defence, *Autumn Performance Report 2007–08*

92 Ibid

93 Ministry of Defence website, *Defence News*, 27 June 2007, “MoD team helps £100 million Government saving”

94 Ev 23

Government departments across a range of categories and look to the MoD to make quick progress in this area so that potential savings can be delivered as soon as possible.

Defence Agencies and Trading Funds

Agency status

78. The MoD Annual Report and Accounts 2004–05 provided details of 26 ‘on-vote’ Defence Agencies and their performance against their key targets⁹⁵, and the MoD Annual Report and Accounts 2005–06 provided details of 20 ‘on-vote’ Defence Agencies and their performance against their key targets.⁹⁶ During 2006–07 there were 17 ‘on-vote’ Defence Agencies.⁹⁷ The MoD has continued with its policy to rationalise the number of ‘on-vote’ Defence Agencies and, from 1 April 2007, Agency status was removed from: British Forces Post Office; Defence Bills Agency; Defence Communication Services Agency; Defence Estates; Defence Procurement Agency; Defence Transport and Movements Agency; Disposal Services Agency; and the Duke of York’s Royal Military School.⁹⁸ On 1 April 2007, the Armed Forces Personnel Administration Agency merged with the Veterans Agency to form the Service Personnel and Veterans Agency. A list of the eight ‘on-vote’ Defence Agencies operating in 2007–08 is provided in Table 6.

Table 6: Defence Agencies operating in 2007–08

Defence Agencies
Defence Analytical Services Agency
Defence Medical Education and Training Agency
Defence Storage and Distribution Agency
Defence Vetting Agency
MoD Police and Guarding Agency
People, Pay and Pensions Agency
Service Children’s Education
Service Personnel and Veterans Agency

Source: Ministry of Defence

79. In its response to our concerns about the reduction in Defence Agencies and the potential loss of information and accountability set out in our report *Ministry of Defence Annual Report and Accounts 2005–06*⁹⁹, the MoD stated that the “number of agencies in the Department continues to fall as the benefits derived from agency status have become embedded in the Department’s overall business processes”.¹⁰⁰ The MoD assured us that it was not its intention to reduce Parliamentary scrutiny of defence business by reducing the number of agencies. In response to our recommendation that former Agencies should continue to publish an account of their annual activities, the MoD stated that:

95 Ministry of Defence, *Annual Report and Accounts 2004–05*, HC 464, pp 210–211

96 MoD, HC 1394, p 259

97 MoD, HC 697, p 308

98 Ibid

99 HC (2005–06) 57, paras 92–97

100 HC 2006–07) 376, para 26

In the context of producing the Department's and Agencies Annual Reports over the coming months we will therefore consider how best we can respond to the Committee's reasonable wish that the amount and quality of our public reporting should not be materially reduced as a result of any removals of Agency status and make further proposals.¹⁰¹

80. Of particular interest to us is Defence Equipment and Support (DE&S) which was formed on 1 April 2007 following the merger of the Defence Procurement Agency (which was a Defence Agency) and the Defence Logistics Organisation (which was not a Defence Agency). DE&S does not have Defence Agency status. In April 2007, DE&S had around 29,000 staff and an annual spend of £16 billion, representing some 43 per cent of the defence budget.¹⁰²

81. In our *Defence Procurement 2006* report we expressed our concern that DE&S would not have Agency Status, and recommended that DE&S “publish an annual report so as to allow proper public accountability, and parliamentary scrutiny in particular”.¹⁰³ In its response to our report, the MoD stated that:

The activities and performance of DE&S will be fully reported on as part of the MoD Annual Report and Accounts. In addition, the annual Major Projects Report to Parliament will continue to cover major aspects of DE&S business.¹⁰⁴

82. We have no objection to the budgets of former agencies being included in the MoD's main vote, because in our view that is a straightforward way of dealing with public money. We continue however to be concerned to ensure that Defence Equipment and Support (DE&S), which is responsible for procuring equipment and managing it through-life, should not reduce the scope for proper accountability and parliamentary scrutiny. We note that the MoD intends to report on the activities and performance of DE&S in its Annual Report and Accounts 2007–08, but it remains to be seen whether this course of action, rather than the publication of a separate annual report from DE&S, will best meet our objectives. We will consider this matter closely when we examine the next MoD Annual Report and Accounts.

Agency performance

83. The performance of the 17 Defence Agencies operating in 2006–07 against their key targets is set out in a table in the Annual Report and Accounts. Of the 17 Defence Agencies:

- Seven achieved 100% of their targets; and
- Nine achieved between 66% and 89% of their targets.¹⁰⁵

101 HC (2006–07) 376, para 27

102 Ministry of Defence, *DE&S in brief*, April 2007

103 Defence Committee, First Report of Session 2006–07, *Defence Procurement 2006*, HC 56, para 38

104 Defence Committee, Fifth Special Report of Session 2006–07, *Defence Procurement 2006: Government Response to the Committee's First Report of Session 2006–07*, HC 318, para 14

105 MoD, HC 697, p 308

84. The MoD Police and Guarding Agency met 40% (4 of 10) of its targets in 2006–07. The Agency met 38% (3 of 8) of its targets in 2005–06 and 44% (4 of 9) of its targets in 2004–05.

¹⁰⁶ The MoD Annual Report and Accounts states that:

This has been a challenging year for the Agency to continue to deliver an effective policing and guarding service to the MoD estate in a climate of increased budget restrictions and where a major gap in Agency finances had been identified. Work is on going to close this with assistance from customers and stakeholders.

The crime detection rate increased substantially from 39% to 72%, whilst customer satisfaction also increased markedly, although falling short of the target.¹⁰⁷

85. The Foreword by the Chief Constable and Chief Executive in the MoD Police and Guarding Agency Annual Report and Accounts 2006–07, provides some more detail on the funding problems facing the agency:

We have been trying to resolve a significant shortfall in the budget allocation. The programme of work to close this funding gap should bear fruit by the end of the Financial Year 2009–10. In essence we need to find sensible efficiencies and explore smarter ways of working rather than expect a funding deal to restore the imbalance.¹⁰⁸

86. We note that in 2006–07 Defence Agencies have generally performed well against their targets with over 40% of the agencies meeting all their targets. However, the one exception is the MoD Police and Guarding Agency which met only 40% of its targets, a similar level of performance to that achieved in 2005–06 and 2004–05.

87. We are concerned to learn that “a major gap” in the funding of the MoD Police and Guarding Agency has been identified and that it is unlikely that the funding gap will be closed until the end of 2009–10. In its response to our report, we expect the MoD to provide us with a full account of why this funding gap has arisen and what effect it is expected to have on the services expected by the Agency’s customers. We also look to the MoD to set out the reasons why the Agency has continued to perform so poorly against its targets and the action being taken to improve performance and plug any security deficiencies that may have arisen as a consequence of the funding gap.

Trading Funds

88. During 2006–07, there were five Defence Trading Funds, which are set out in Table 7.¹⁰⁹

106 Ibid

107 MoD, HC 697, p 311

108 Ministry of Defence Police and Guarding Agency, *Annual Report and Accounts 2006–07*, HC 624, p 6

109 MoD, HC 697, p 312

Table 7: Defence Trading Funds operating in 2006–07

Defence Trading Funds
ABRO Defence Aviation Repair Agency (DARA) Defence Science and Technology Laboratory (DSTL) Met Office UK Hydrographic Office (UKHO)

Source: Ministry of Defence

89. On 22 May 2007, the MoD announced that a new defence support group would be created by merging “ABRO, retained DARA business units and certain other defence support facilities”. The new support group, operating as a Trading Fund, is to begin operating by April 2008.¹¹⁰

90. On 6 December 2007, the MoD announced that, following a review, the United Kingdom Hydrographic Office (UKHO) should retain its Trading Fund status. The MoD had previously announced that UKHO would remain in Taunton. The review had indicated that “a total net headcount reduction in the UKHO of between 250 and 300 permanent posts over the next five years may be required in order to focus resources on the core business”. The MoD hoped that the net reduction could be achieved through “natural wastage and the full use of wider MoD restructuring arrangements”.¹¹¹

¹¹⁰ HC Deb, 22 May 2007, Cols 67WS–68WS

¹¹¹ HC Deb, 6 December 2007, Cols 82WS–83WS

3 Consolidated Departmental Resource Accounts

Qualified Audit Opinion

91. In our report a year ago on the *Ministry of Defence Annual Report and Accounts 2005–06*, we reported that the Departmental Resource Accounts for 2005–06 were given an unqualified audit opinion by the Comptroller and Auditor General (C&AG). This was the third year running that the MoD’s resource accounts had received an unqualified audit opinion.¹¹²

92. In 2006–07, the MoD expended more resources than Parliament had authorised on Request for Resources 2. This comprises the additional incremental costs of current operations being undertaken in Iraq and Afghanistan and other parts of the world such as the Balkans. The MoD breached Parliament’s control of expenditure and incurred what is termed an “excess” for which further parliamentary authority is required. The C&AG therefore qualified his opinion on the MoD’s 2006–07 resource accounts as the MoD incurred expenditure that was unauthorised by Parliament and thus not ‘regular’.¹¹³

93. The limit for Request for Resources 2 was set at net expenditure of £1,427,526,000 together with a limit on Appropriations in Aid of £15,557,000. The accounts show net expenditure for Request for Resources 2 of £1,448,420,000 which is £20,894,000 (1.44%) in excess of the amount authorised. The MoD also earned excess Appropriations in Aid of £5,047,000.¹¹⁴ The report of the C&AG to the House of Commons about the excess vote is published in the MoD Annual Report and Accounts 2006–07.¹¹⁵ This sets out the causes of the excess and the actions taken, or proposed to be taken, by the MoD to help prevent a recurrence. The excess on Request for Resources 2 is described as being:

primarily the result of operational activity in both Afghanistan and Iraq being substantially higher than originally forecast. The unpredictability in activity levels is a significant cause of the underlying difficulties in forecasting Request for Resources 2 and in particular gave rise to additional depreciation and cost of capital charges. The main items were the firing (and consequent accelerated depreciation) of more Hellfire missiles than expected, particularly in Afghanistan, and the incomplete capture of depreciation costs associated with the operational use of capital spares.¹¹⁶

94. The C&AG reported that the MoD was undertaking a detailed review of the treatment of asset depreciation and stock consumption in operations, focusing particularly on Urgent Operational Requirements, in order to understand the origin of the issues which gave rise to the excess. The C&AG considered that the policy and guidance is “sound, but the

112 HC (2005–06) 57, para 101

113 National Audit Office, *Performance of the Ministry of Defence 2006–07*, Briefing for the Defence Committee, November 2007, para 5.1.

114 Ibid, paras 5.3–5.4

115 MoD, HC 697, pp 219–222

116 Ibid, p 221

Department should take steps to improve the application of the process in operational situations.”¹¹⁷ The MoD has identified improvements in both the forecasting and the accounting for Request for Resources 2 including:

- Reissuing guidance to its “major departmental groupings and budget holders” and stressing the importance of accounting properly for urgent requirements;
- An increased focus on accurate forecasting at the mid-year point, in time for Spring Supplementary Votes; and
- At the mid-year point, undertaking a robust review of stock and spares consumption charged to Request for Resources 2, and the depreciation of equipment damaged or destroyed in conflict, and of weapons fired, to ensure that the accounting is accurate and provides a firm base for forecasts.¹¹⁸

95. The MoD told us that following our criticism of the size of the contingency included in the previous year estimate, in 2006–07 the MoD provided a taut and realistic forecast without a contingency element. This “meant that even a relatively minor change in the tempo of operations had the potential to cause an excess vote.” The MoD is discussing with the Treasury the reintroduction of a small contingency element to “anticipate any unforeseen increase in cost”.¹¹⁹

96. We note that the C&AG qualified his audit opinion on the MoD’s 2006–07 resource accounts because of an excess vote on Request for Resources 2 (net additional cost of Operations) and that the MoD has identified improvements in both the forecasting and accounting for Request for Resources 2. We look to the MoD to ensure that the improvements identified are implemented. We acknowledge that it can be difficult to predict exactly how much ammunition is to be fired during operations and we accept that a reasonable contingency is needed in the MoD’s estimate of its forecast expenditure.

Losses

97. Last year, we noted that the losses reported in the MoD’s 2005–06 Resource Accounts had reduced compared with the previous year and we looked to the MoD to continue to take action to minimise losses in the future.¹²⁰ The Resource Accounts for 2006–07 provide details of losses and special payments as follows:

- the total value of new and potential losses and special payments arising in year (both closed cases and advance notifications) was £417 million in 2006–07. Of this, “£68 million was ex-gratia redundancy payments to members of the Royal Irish Regiment and £17 million for civilian redundancy payments following normalisation in Northern Ireland, and £112 million from the decision to withdraw M26 bomblets for the Multiple Launch Rocket System (MLRS) as not

117 MoD, HC 697, p 221

118 Ibid, p 222

119 HC (2005–06) 57, para 106

120 Ibid, para 105

meeting the Government’s stricter criteria for use of cluster munitions”. Without these, new and potential losses and special payments arising in year would have fallen to £237 million.

- Excluding gifts and payments made by the Veterans Agency, the value of closed cases during the year amounted to £384 million; 73% was from final closure of cases previously notified, including “£195 million from the 1995 decision not to proceed with the long range anti-tank guided weapons system (LR TRIGAT)”.
- The losses statement also identifies potential losses that have not yet been brought to completion and have therefore been identified for formal incorporation in a future year’s accounts (known as advance notifications). “The costs identified are estimates, so the final loss declared may therefore be either larger or smaller”. The estimated value of the MoD’s advance notifications of losses and special payments continued to fall, reducing from about £607 million in 2005–06 to about £486 million in 2006–07. Of this, £205 million (42%) “is for writing-down of the value of Chinook Mark 3 helicopters” and £167 million (34%) from the “Northern Ireland normalisation and MLRS decisions”.¹²¹

98. In its briefing to the Committee, the NAO states that the total losses and special payments are a “small proportion of the total annual expenditure” of the MoD, just over 1% of total expenditure for 2006–07.¹²² The NAO’s analysis of losses and special payments between 2004–2007 showed that the number of closed cases had remained steady over the last three years. The NAO considered that the “slight increase in 2006–07 is compensated by the equivalent decrease in the advance notifications, as a result of the Department’s efforts to close these cases during the year”.¹²³

99. We note that the total value of losses and special payments in 2006–07 are just over 1% of the MoD’s total expenditure and that the advance notifications of losses and special payments have continued to fall. We welcome the continued reduction in advance notifications of losses and special payments and look to the MoD to build on the action it has taken to date to minimise losses in the future.

Joint Personnel Administration system

100. The aim of the new Joint Personnel Administration (JPA) system is to provide a single on-line management system, through which Service personnel can electronically access their own records and apply for leave, expenses and allowances, and undertake other basic personnel tasks, whether they are land or ship-based in the UK or deployed overseas.¹²⁴ The latest Annual Report and Accounts states that “JPA has now been successfully implemented for all three services.... to the Royal Air Force in April 2006, the Royal Navy in October 2006 and the Army from March 2007.... and all reports indicate that it is

121 MoD, HC 697, paras 292–293

122 National Audit Office, *Performance of the Ministry of Defence 2006–07*, Briefing for the Defence Committee, November 2007, para 6.14

123 *Ibid*, para 6.13

124 Ministry of Defence website, *Defence News*, 20 March 2006, “JPA goes ‘live’ for RAF personnel”

working well”.¹²⁵ In addition to providing improvements for individual Service personnel, JPA is expected to provide the following benefits for the MoD:

JPA would produce a comprehensive up-to-date picture of the size and shape of the Armed Forces for the first time.... Over time the data within JPA will build up to provide the Department with a rich supply of management information to support operational decisions and the development of evidence based policy.¹²⁶

101. There have been problems with the roll-out of the JPA system. The Annual Report and Accounts 2006–07 refers to “significant temporary accounting problems during the year”.¹²⁷ In the Statement on Internal Control in the Departmental Resource Accounts, JPA is highlighted as a ‘Significant Internal Control Issue’ as:

Initial teething problems with RAF specialist pay and expenses were overcome and the first RN payroll in November 2006 was successful.... However, following RAF go-live a number of concerns about JPA support to Departmental financial and manpower accounting processes, and some weaknesses in AFPAA [Armed Forces Personnel Administration Agency] internal controls were identified. These have had a temporary impact on the Department’s ability to exercise full financial control and increased the risk to the timeliness and quality of the Departmental Resource Accounts. Following identification of these issues mitigation plans were put into effect and action taken to resolve them such that full financial control had been re-established before year-end. AFPAA (now the Service Personnel Veterans Agency) continues to work with the MoD finance community to resolve the outstanding issues.¹²⁸

102. Problems with the JPA system have impacted on the work of the Defence Analytical Services Agency (DASA) and there were some difficulties in the provision of Service manpower data. As a result, some DASA outputs had to be suspended. The latest Annual Report and Accounts state that DASA is working towards resolving the JPA manpower data problems.¹²⁹

103. A press article in early December 2007 reported that Armed Forces personnel had been underpaid because of problems with the JPA system.¹³⁰ Details of the number of overpayments and underpayments to Armed Forces personnel between January and October 2007 were provided in a Parliamentary Written Answer of 18 December 2007. There were 13,908 overpayments in April 2007. The Written Answer states that “Following migration of Army data onto the JPA system, a decision was taken not to recover some elements until the migration process has been validated”. The overpayments were recovered in May 2007. In August 2007, there were 46,305 underpayments, which included “35,553 incorrect deductions of £3.00 in respect of contributions to the discontinued Royal

125 MoD, HC 697, p 108

126 Ibid

127 MoD, HC 697, p 11

128 Ibid, p 216

129 Ibid, p 309

130 *Sunday Times*, 9 December 2007, “Soldiers are cheated in pay blunder”

Navy and Royal Marines Dependants' Fund". The deductions were re-credited in October. In September 2007, "4,249 additional cases occurred where the incorrect rank on the Joint Personnel Administration system would have generated an incorrect payment. Corrective action was taken in time for the October pay run". The Written Answer also states that:

Error rates are expected to decrease as the professional users (unit admin, manpower specialists) gain familiarity with the system and undergo follow on training, consolidating their knowledge with lessons identified from the JPA project and formal user groups both single and tri-service.¹³¹

During our visits to Afghanistan in April 2007 and Iraq in July 2007, we also heard concerns from Service Personnel about payment problems caused by the JPA system and about access to the system while on operations.

104. We are concerned to learn that the Joint Personnel Administration (JPA) system, which was rolled-out to all three Services during 2006–07, has experienced problems and that a substantial number of Armed Forces personnel have had incorrect deductions from their salaries. We have written to the MoD separately about the problems experienced and the progress in resolving them. We look to the MoD to ensure that the remaining problems are resolved as quickly as possible and that the training for the users of the system is improved. This is a matter which we plan to monitor closely.

4 Comprehensive Spending Review

Comprehensive Spending Review settlement for defence

July announcement

105. The Secretary of State for Defence announced the overall outcome of the Comprehensive Spending Review (CSR) settlement for defence in a Statement to the House on 25 July 2007. The Secretary of State for Defence told the House that:

The total departmental expenditure limit [DEL] for defence over the CSR period will be £34 billion in 2008–09, £35.3 billion in 2009–10 and £36.9 billion in 2010–11. That is an additional £7.7 billion for defence by 2011, and a 1.5 per cent average annual real terms increase against our CSR baseline, excluding the costs of operations that are met from the reserves and the time-limited defence modernisation fund.¹³²

106. The MoD placed a paper giving some more details on the CSR settlement for defence in the House of Commons Library. The details are set out in Table 8 below.

Table 8: Details of the CSR settlement for defence

£m	Baseline	New Plans			CSR07 annual average real growth
	2007–08	2008–09	2009–10	2010–11	
Resource DEL	32,618	33,579	35,142	36,679	1.3%
<i>o/w depreciation and impairments</i>	7,443	7,416	7,987	8,660	
Capital DEL	7,404	7,871	8,187	8,871	3.4%
Total DEL	32,579	34,034	35,342	36,890	1.5%
Note:					
The 1.5% average annual real terms increase is against our CSR baseline, excluding the costs of operations met from the Reserve and the time-limited Defence Modernisation Fund.					
Total DEL comprises near cash Resource and Capital DEL, plus the cost of capital, which is a non-cash charge. This is consistent with Government Accounting.					

Source: Ministry of Defence

107. The Secretary of State told the House that the MoD would be placing orders for two 65,000 tonne aircraft carriers which were expected to enter service in 2014 and 2016.

According to this statement, the carrier programme “will sustain and create 10,000 jobs across the UK”.¹³³ **We welcome the announcement by the Secretary of State in July 2007 that the MoD will be placing orders for two aircraft carriers, a key programme which the Defence Committee has closely monitored.**

108. In his Statement the Secretary of State also informed the House that:

- “today we are also announcing a £1 billion partnering arrangement with Rolls-Royce for the in-service support of the nuclear steam raising plant that powers the Royal Navy’s submarines over the next decade.”
- “we will make savings against the Department’s overheads, including a 5 per cent year-on-year saving in our administrative overhead over the next three years and a 25 per cent reduction in our head office. These are additional to the £2.8 billion efficiencies delivered over the spending review 2004 period.”
- “a priority through the CSR period will be the continued investment in improving accommodation for our people and their families. We expect to spend some £550 million on this over the three-year period, including plans to upgrade over 18,000 barrack-type bed spaces.”¹³⁴

October announcement

109. The *2007 Pre-Budget Report and Comprehensive Spending Review* published in October 2007 provided further details on the CSR settlement for defence. The “increase in funding, together with value for money reforms generating annual net cash-releasing savings of £2.7 billion by 2010–11, enables the MoD to:

- enhance conventional capability across the Armed Forces including two new aircraft carriers for the Royal Navy, protected vehicles for the Army, and further Air Transport capability for the RAF;
- fund the renewal of Britain’s nuclear deterrent while ensuring that this does not come at the expense of the conventional capability our Armed Forces need; and
- invest £550 million in new and refurbished accommodation for servicemen and women and their families, drawing on anticipated receipts from the sale of Chelsea barracks.”¹³⁵

110. **The Comprehensive Spending Review 2007 settlement for defence announced in July 2007 provides “an additional £7.7 billion for defence by 2011, and a 1.5 per cent average annual real terms increase”. We welcome the increase in the MoD’s budget for the next Spending Review period. However, the defence budget will be under substantial pressure in the period covered by the 2007 Spending Review, given that several funding commitments, such as the future carrier programme, a pay increase for**

133 HC Deb, 25 July 2007, Col 865–866

134 Ibid, Col 866

135 HM Treasury, *Meeting the aspirations of the British people, 2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, p 231

the Armed Forces, and further investment in accommodation for Service personnel, have been announced. These will need to be met from the average annual 1.5% real terms increase and the cumulative efficiency savings which are referred to in paragraphs 108-109 above. In order to fully appreciate how significant these pressures are, we would like to see a clearer description of what resources from these ‘savings/efficiencies’ are available to meet these pressures and urge the MoD to seek ways of spelling this out more clearly in future reports.

Replacement of strategic nuclear deterrent

111. We asked how much would be spent on the replacement of the strategic nuclear deterrent in the CSR 2007 period. Mr Jeffrey said that the figures in the “existing baseline” are of “the order of £200 million, £300 million, £400 million in the three years of the spending review period”. Mr Woolley added that “it is about a billion over the course of the CSR period”. Mr Jeffrey told us that the funding of the replacement of the strategic nuclear deterrent “as the White Paper said... is provided separately within the defence budget”.¹³⁶ We asked whether these costs would come out of the 1.5% overall increase. Mr Jeffrey said that they did.¹³⁷ We sought further clarification on how the cost of replacing the current strategic nuclear deterrent would affect the other elements in the defence budget. Mr Jeffrey told us that:

What I said was that the undertaking in the White Paper about the cost being provided additionally and not impacting on conventional capability has been met, but obviously once the money has been provided it takes place within the defence budget.¹³⁸

112. We note that the costs of replacing the current nuclear deterrent will amount to some £1 billion over the three years of the Comprehensive Spending Review 2007 period. The MoD told us that the undertaking in the White Paper, that these costs are “provided additionally” and will not impact upon conventional capability, has been met.

Planning round

113. We asked Mr Jeffrey what was to happen next given that the Comprehensive Spending Review settlement for defence had been announced. He said that:

what we will be doing is taking the spending review outcome as the starting point, looking at where the pressures are in the programme—and there undoubtedly are some—and trying to put together the sort of advice that our ministers will need in order to set priorities and ultimately to set budgets for the next three years.¹³⁹

136 Q 37

137 Q 38

138 Q 42

139 Q 13

He expected that there would need to be reductions in some areas.¹⁴⁰

114. The planning round was expected to take “some months”¹⁴¹ and the process would go into 2008.¹⁴² Mr Jeffrey said that “as we get into the early part of next year [2008], we will need to be much clearer about the budget for the three years that begin on 1 April 2008”.¹⁴³ He emphasised that the whole defence budget was being examined, not just the defence equipment aspects of it, but he acknowledged that the equipment programme was important. He said that:

What we are doing is looking at the whole programme. We are identifying both areas where either it will be inevitable that we spend more or would like to spend more.... we are identifying, if there were to be cuts.... what might the options be for doing so. We will be putting these to ministers as early as we can.¹⁴⁴

115. On the specific issue of the equipment programme, Mr Jeffrey told us that:

our ministers would very much like a programme which is, if anything, more focused on the kinds of equipment requirements that come out of current operations like protected vehicles, helicopters et cetera. It would be extremely surprising if the process we are going through did not lead to a consideration of that.¹⁴⁵

116. We asked whether the advice to ministers would specify which equipment programmes should be cut. Mr Jeffrey confirmed that they would “certainly be looking at the equipment programme” and said that “my guess is that we will have to make some quite difficult decisions”.¹⁴⁶

117. We note that the MoD is currently preparing advice to ministers about the defence budget for the three years 2008–09 to 2010–11. The MoD acknowledges that there are pressures in the defence programme and that there are likely to be cuts in some areas, including cuts to the equipment programme. We look to the MoD to be realistic about the number of equipment programmes, the number of platforms within equipment programmes, and the phasing of equipment programmes, that can be funded. We plan to monitor the progress and the outcome of the current planning round closely.

Defence inflation

118. Some commentators consider that defence inflation runs higher than the standard measure of inflation, particularly inflation relating to defence equipment. We asked the MoD what progress had been made in developing a price index for defence products and whether the MoD had estimates for defence inflation in each of the years of the CSR 2007. The MoD told us that earlier approaches to build a price index for defence products using

140 Q 14

141 Q 13

142 Q 14

143 Q 15

144 Q 23

145 Q 27

146 Q 28

information supplied to the Office of National Statistics' existing sample survey of producer prices had "failed to deliver a sufficiently robust measure". The MoD did not have estimates for defence inflation for the years of the CSR 2007. The MoD used the Gross Domestic Product Deflator, currently 2.7%, as the measure of overall inflation, "in line with all Government Departments".¹⁴⁷

119. We asked Mr Jeffrey about the issue of defence inflation. He said that it was "certainly the case that some of what we buy increases in price by more than general inflation". He added that:

The most recent example of that was fuel; we are spending a great deal more than we were even just a couple of years ago simply because the cost of fuel has increased. Also a lot of our staff costs, to the extent that pay settlements exceed general inflation, and we have to find that.¹⁴⁸

120. On the specific issue of inflation relating to defence equipment, Mr Jeffrey considered this "more complex". He said that if the MoD were buying the same equipment year after year, then it would be possible to make "a reasonably, straightforward judgment about whether it was inflating more than general inflation". He said that the MoD was buying more and more complex equipment and that did "increase substantially in price but it is hard to just home in and say that the inflation rate for defence equipment is X compared with general inflation of Y". He added that it was certainly the case that "in some areas—some electronic components, for example, office equipment and that sort of thing" the costs had been going up probably less than general inflation. In other areas, there was "no doubt that some of the most advanced equipment is more expensive than its predecessors".¹⁴⁹

121. Mr Woolley said that the MoD was working to see if it could come up with a robust index, but it was difficult on the equipment side because the MoD had "a mix of different types of contract".¹⁵⁰

122. We asked whether the increase was a 1.5% real terms increase when commitments relating to defence estates and pensions, for example, were taken into account. Mr Jeffrey considered it "difficult to make these comparisons" but acknowledged that there were "undoubtedly pressures within the budget". He added that:

It is certainly the case that the headline figures that emerged from the Spending Review incorporate and give real terms growth on the baseline that ministers announced at the time. On the other hand... as one goes forward there are definitely pressures there [that] will have to be accommodated somehow.¹⁵¹

123. The Comprehensive Spending Review 2007 settlement for defence is reported as being a 1.5 per cent average annual real terms increase against the MoD

147 Ev 25–26

148 Q 29

149 Q 32

150 Q 33

151 Q 36

Comprehensive Spending Review baseline. But this is based on the general rate of inflation and takes no account of the reportedly higher rate of inflation which applies to defence products, in particular advanced equipment projects. We look to the MoD to press ahead with its plans to develop a robust price index for defence products which will assist the MoD in both its financial planning and in its negotiations with the Treasury in future spending reviews. We consider that a robust price index for defence products is vital for allowing real comparisons to be made and to enable the Committee to undertake more effective scrutiny in this area.

Value for money reforms

124. The *2007 Pre-Budget Report and Comprehensive Spending Review* states that the resources set out in the CSR will be accompanied by value for money reforms generating “annual net cash-releasing savings of £2.7 billion by 2010–11, building on savings of £2.8 billion during the 2004 Spending Review period”.¹⁵² The initiatives in the CSR 2007 period to deliver the value for money savings include:

- “a 5 per cent year-on-year reduction in the MoD’s administrative overhead, including a 25 per cent saving in MoD’s Head Office. This will contribute towards generating annual new cash-releasing savings in Corporate Enabling Services of £369 million by 2010–11.
- the continued simplification of single Service budgetary and headquarters structures, including the merger of Land Command and the Adjutant General’s Command.
- the merger of the Defence Logistics Organisation and the Defence Procurement Agency to form Defence Equipment and Support. This will contribute towards generating annual net cash-releasing savings of £253 million by 2010–11.”¹⁵³

Value for money savings target

125. The MoD has been set a target to deliver annual net cash-releasing savings of £2.7 billion by 2010–11.¹⁵⁴ We asked how the MoD planned to deliver these savings given that it was asked to deliver efficiency savings of £2.8 billion by 2007–08 as part of the 2004 Spending Review (paragraphs 70–74). Mr Woolley explained that the £2.7 billion savings are value for money savings rather than efficiency savings. He said that the planned savings are to come from “corporate enabling services”, that is, administrative overheads.¹⁵⁵ The MoD was looking at areas such as finance, HR and IT. The MoD was “targeting those across the Ministry of Defence, not just in head office.... but also significantly in the defence equipment and support organisations”.¹⁵⁶

152 HM Treasury, *Meeting the aspirations of the British people, 2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, para D8.5

153 Ibid

154 Ibid

155 Q 71

156 Q 72

126. The MoD was also looking at ways to get better value for money out of the “logistics procurement process”.¹⁵⁷ In the helicopter support area the “turnaround time for repair and maintenance for Apache helicopters” had reduced from 50 to 43 days. The MoD was looking to arrangements where it was “buying capability and availability rather than kit”.¹⁵⁸

127. We asked whether the new leaner processes and arrangements would make it more difficult for front line commanders to get the equipment they needed in the timescale required. Mr Woolley said that:

we will look at the risks that those changes might bring and if we judge that the risks include that equipment might be slower to get to the front line then that would not be a change that we would implement.¹⁵⁹

128. We note that the MoD has to achieve savings of £2.7 billion by 2010–11 and that it plans to achieve these savings by introducing leaner processes and new arrangements which deliver better value for money. Leaner processes and value for money improvements should generate savings which can be used elsewhere. However, the MoD must ensure that, in achieving these savings, the speed and quality of the support provided to the front line is not diminished.

‘Streamlining’ exercise

129. On 23 October 2007, the MoD announced details of the programme to streamline its Head Office in London, the aim of which is to “simplify the MoD’s organisation and work, ensuring the Ministry is focused on strategic tasks and better able to respond to priorities”. The outcome of the exercise is expected to make the MoD “more agile and better able to respond to the needs of those on operations”.¹⁶⁰ The ‘streamlining’ exercise is expected to deliver:

At least £50m of ongoing savings which can be reinvested in operations will be released per year by reducing the Head Office staff by 25 per cent. This means the loss of around 1,000 civilian jobs and 300 military posts. The number of military posts being reduced will not require redundancy.¹⁶¹

130. The Secretary of State wrote to the Chairman of the Defence Committee on 23 October 2007 and enclosed a copy of the *Streamlining a Department for the Future* consultation document. He informed the Chairman that 23 October was the start of the six-week “formal consultation period with the Trades Unions and staff at all levels within the Ministry”.¹⁶²

131. We sought clarification on the savings expected from the ‘streamlining’ exercise. Mr Jeffrey said that the MoD’s estimate was that in “two or three years hence”, there would be

157 Q 73

158 Q 76

159 Ibid

160 Ministry of Defence website, *Defence News*, 23 October 2007, “Streamlining the MoD’s Head Office”

161 Ibid

162 Letter from the Secretary of State for Defence to the Chairman of the Defence Committee, 23 October 2007

savings of “more than £50 million a year”. But there would be some earlier expenditure relating to early departures of some civil servants.¹⁶³

132. The MoD is voted additional resources to cover the net additional cost of operations.¹⁶⁴ We asked why the MoD was planning to reinvest the annual savings delivered from the ‘streamlining’ exercise in operations. Mr Jeffrey said that the more the MoD succeeded in reducing administrative costs the more would be “available for the front line”.¹⁶⁵ By front line, he was referring to “the department’s ordinary budgeted costs which are close to the front line within the services”.¹⁶⁶ He added that:

The costs of operations will continue, subject to the point that the Committee is aware of, to be funded in the usual fashion. What I am not saying is that we are saving £50 million of head office costs and it is disappearing into the Treasury coffers. We are saving it within the context of a settlement that is now fixed; but we will have that much more money to spend on other things.¹⁶⁷

133. **We note the assurance given by the MoD that the £50 million annual savings that are expected to be delivered from the implementation of the ‘streamlining’ exercise of the MoD Head Office will not be returned to the Treasury and used to fund the costs of operations.** We return to the issue of the costs of operations later in this part of the report (paragraphs 147-155).

134. The MoD expects to be more agile and better able to respond to the needs of those on operations as a result of the ‘streamlining’ exercise. We asked how reducing head office staff by 25% would deliver these benefits. Mr Jeffrey said that the MoD was looking at what the MoD Head Office currently did and what needed “to be done at the centre of the department and what might not”. Reviews were being undertaken to identify how processes could be simplified. He acknowledged that it was “not straightforward” and required “above all the involvement of staff themselves because they are the people who know best what they are engaged on”.¹⁶⁸

135. In its memorandum to our inquiry, the Public and Commercial Services Union (PCS) raised concerns about the ‘streamlining’ exercise:

- “To date MoD has failed to tell staff and unions how these cuts are to be achieved, apart from a vague commitment to “reducing unnecessary process, cutting committees and over-briefing, removing duplication, and building a more strategic, focused Head Office””.
- “MoD imposed the 30% target before making any attempt to assess the viability of such cuts, before examining the work undertaken by the business units involved,

163 Q 43

164 MoD, HC 697, para 282

165 Q 44

166 Q 45

167 Q 47

168 Q 48

and before assessing the impact of the work done in London to support the frontline”.

In its memorandum, PCS states that “the recently published MoD Civilian Attitude Survey indicates the collapse in trust and morale across MoD that should be of concern to those at the top of the department”.¹⁶⁹

136. We asked when staff and Trades Unions would be given more detailed information about the ‘streamlining’ exercise. Mr Jeffrey said that discussions were “taking place with the unions” and that the MoD was aiming to publish some “more detail on this before Christmas [2007]”.¹⁷⁰ He had completed 14–15 sessions of groups of 20–30 Head Office staff to discuss the proposals. However he acknowledged that:

The area where there is still a degree of uncertainty—and I am conscious of it—is around exactly how we will manage the process over the next few years for early departure and what the terms of that will be and how we will fill posts in the meantime.¹⁷¹

137. We asked how the MoD would minimise the risk of its best staff leaving as a result of the ‘streamlining’ exercise. Mr Jeffrey said that it was his objective to “avoid losing the people we most need”. He added that the ‘streamlining’ exercise:

Needs to be managed very carefully and our objective is to manage it in such a way that we retain the people who want to stay in the department and who we need and the skills we need, and we lose those who are happy to go and we are happy to see go.¹⁷²

138. On the issue of staff morale, Mr Jeffrey did not think that it was “changing greatly at the moment”, but did not have the figures to hand.¹⁷³ He assured us that he took the morale issue very seriously and recognised that the MoD needed to keep staff informed and could not take morale for granted.¹⁷⁴ Following the evidence session, the MoD provided us with details on staff morale. The MoD’s civilian staff survey showed that dissatisfaction with the MoD as an employer had increased by about 5% over the last year. The number of staff giving a “clear positive response” had declined by a similar amount. The MoD recognised that the decline “may reflect the degree of turbulence in the organisation and concerns over pay”.¹⁷⁵

139. Evidence recently given to the Committee by Prospect suggests that reductions at MoD Head Office and elsewhere may “reduce the MoD’s ability to cost and manage equipment programmes”. It further expresses the anxiety that the way in which MoD administration costs are dealt with—which it attributes to a change brought in by the

169 Ev 27–30

170 Q 50

171 Q 49

172 Q 59

173 Q 50

174 Q 63

175 Ev 31

Treasury with the 2004 CSR—could affect the inter-changeability of civilian and military personnel and lead to the issues of the militarisation of civilian posts and rebadging.¹⁷⁶ **We call on the MoD to address the concerns about the militarisation of civilian posts and the related issues that have been raised with us by Prospect in full in its response to this Report.**

140. In terms of staff skills, the MoD had a substantial staff training programme and was “investing in more training than ever before to build skills”. Mr Jeffrey said that what needed to emerge from the ‘streamlining’ exercise was an “organisation that is a bit smaller, that is generally more highly skilled and is just as committed as the people we have now”.¹⁷⁷ **We share the Permanent Under Secretary’s concern that the MoD needs to be more highly skilled and look to the MoD to set out in its response to our report what steps it intends to take to achieve this.**

141. **We note that the MoD is to streamline its Head Office in London with the loss of around 1,000 civilian jobs. The aim of the ‘streamlining’ is to deliver savings of £50 million a year and also, we are told, to make the MoD more agile and better able to respond to the needs of those on operations. We remain to be convinced that improved agility and responsiveness will follow from the reduction in staff. We look to the MoD to keep staff fully informed as the ‘streamlining’ exercise is implemented and to provide adequate support for those civilian staff who are to lose their jobs.**

142. **We consider there to be a real risk that some of the MoD’s best staff will leave and look to the MoD to identify ways to prevent this from happening. We are concerned to learn that civilian staff dissatisfaction with the MoD as an employer has increased over the last year. The MoD must monitor closely staff morale during the implementation of the ‘streamlining’ exercise and ensure that the Head Office continues to deliver the services which Government, Parliament, the Armed Forces and the public expect.**

Defence Industrial Strategy

143. The Government’s Defence Industrial Strategy (DIS) was published on 15 December 2005.¹⁷⁸ We have undertaken two inquiries into the DIS: our report *The Defence Industrial Strategy*¹⁷⁹ was published on 10 May 2006 and our report *The Defence Industrial Strategy: update*¹⁸⁰ was published on 30 January 2007. In our first report we congratulated Lord Drayson, Minister for Defence Procurement¹⁸¹ and his team for producing the DIS to a tight timetable. In our second report we concluded that good progress had been made in implementing the DIS during 2006.

176 Memorandum from Prospect is available on the Defence Committee website: http://www.parliament.uk/parliamentary_committees/defence_committee.cfm

177 Q 64

178 Ministry of Defence, *Defence Industrial Strategy*, Cm 6697

179 Defence Committee, Seventh Report of Session 2005–06, *The Defence Industrial Strategy*, HC 824

180 Defence Committee, Sixth Report of Session 2006–07, *The Defence Industrial Strategy: update*, HC 177

181 Subsequently renamed Minister for Defence Equipment and Support

144. The *2007 Pre-Budget Report and Comprehensive Spending Review*, published in October 2007, states that the DIS is “to be updated shortly”.¹⁸² On 7 November 2007, the MoD announced that Lord Drayson was to be replaced by Rt Hon Baroness Taylor of Bolton as the Minister for Defence Equipment and Support.¹⁸³ At our evidence session on 21 November 2007 for our inquiry into the UK/US Defence Trade Cooperation Treaty, we asked Baroness Taylor about the publication date for the updated version of the DIS. She told us that she had written to our Chairman “to say that as I have come into this position I want to review the whole situation, so we will not be publishing anything on 13th [December].”¹⁸⁴ In her letter to the Chairman of 20 November 2007, Baroness Taylor wrote:

I am determined that DIS v2.0 should offer the clarity on our future strategy that Industry is looking for and that it reflects a realistic view of our assumptions and plans. Although the original intention was for DIS v2.0 to be published in December I am convinced that it would be more appropriate for the strategy to be aligned to the ongoing planning round and am therefore in the process of reviewing the publication date to reflect this. Industry has indicated support for this approach.

This course of action meets the commitment made by my predecessor to the Defence Committee to review the DIS in every spending round period. Once the DIS v2.0 has been published and presented to Parliament, I would welcome the opportunity to update the Committee on the direction and progress of our Defence Industrial Strategy and would expect the Committee to take evidence around that time. To facilitate this I will ensure that I keep you informed of the publication timetable so that a suitable session can be scheduled in line with the launch of DIS v2.0.¹⁸⁵

145. Mr Jeffrey said that the timing of the publication of DIS 2.0 had been discussed regularly with industry, and both the MoD and industry felt that “it would be much better to publish a second version of this strategy when we have really gone through the programme in the way I described and are clear about its implications for equipment”.¹⁸⁶ In terms of the timing, he said that publication would be “as early in the New Year as we are able to given that it ought to come after we have settled the programme and the budget”.¹⁸⁷ We pressed further about the timing of the publication. Mr Jeffrey considered that “it will take us into the new year—I would guess not very far”.¹⁸⁸ He acknowledged that it was important for the MoD and the new minister to take forward the work done to date on the DIS and “to keep this momentum up and to keep improving things because it is too important not to”.¹⁸⁹

182 HM Treasury, *Meeting the aspirations of the British people, 2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227, para D8.6

183 Ministry of Defence website, *Defence News*, 7 November 2007, “Lord Drayson to be replaced by Baroness Ann Taylor”

184 Defence Committee, Third Report of Session 2007–08, *UK/US Defence Trade Cooperation Treaty*, HC 107, Q 141

185 Ev 31

186 Q 19

187 Q 20

188 Q 22

189 Q 101

146. We find it disappointing that the original timetable for the publication of a revised version of the Defence Industrial Strategy has slipped and is now not expected until early in 2008. We hope that this does not indicate that the impetus given by Lord Drayson, the former Minister for Defence Equipment and Support, is starting to wane. It is crucial that the MoD come to speedy decisions on the current planning round and the implications for the equipment programme so that the revised version of the Defence Industrial Strategy can be published and industry given the clarity it requires about future work. In its response to our report, we expect the MoD to inform us of the date when the revised version of the Defence Industrial Strategy is to be published

Cost of operations

147. The additional cost of operations, including the cost of Urgent Operational Requirements (UORs), has been met from the reserve. On 22 November 2007, Baroness Taylor informed Parliament that the Treasury had provided some £6.6 billion from the reserve to support the additional cost of operations, including some £2.3 billion for UORs.¹⁹⁰ Details of the cost of UORs in each of the last five financial years is provided in Table 9.

Table 9: Spend on UORs in the last five financial years

Financial year	Approval cost £ million
2002–03	500
2003–04	180
2004–05	130
2005–06	260
2006–07	790
Total	1,860

Source: Ministry of Defence¹⁹¹

148. We have examined the UOR process in a number of our inquiries. In our report *UK land operations in Iraq 2007*, published on 3 December 2007, we welcomed the MoD's assessment that the UOR process was delivering much needed equipment to our Armed Forces in theatre. However, we were concerned that “equipment returning from operational theatres—whether it was procured through the routine acquisition process or as UORs—will require substantial expenditure to repair, refurbish, support and store, and it appears that no provision has been made for this in the MoD's budget.”¹⁹²

149. On 22 November 2007, Baroness Taylor announced a change in the funding of UORs. She acknowledged that when UK Armed Forces were deployed on operations, they faced challenges that “could not have been anticipated in the initial planning” and in those

190 HL Deb, 22 November 2007, Col 996

191 HL Deb, 14 December 2007, Col WA85

192 Defence Committee, First Report of Session 2007–08, *UK land operations in Iraq 2007*, HC 110, para 72

situations it was necessary to procure equipment quickly, utilising the UOR process, to counter those challenges.¹⁹³ However, she said that:

much of the new equipment that we have developed because of problems in the theatre will be incorporated into mainstream planning. That is normal and right.... The new approach with the Treasury means that, in the three years of the Comprehensive Spending Review, the reserve will continue to pay all additional costs of operations up front and will pay outright for UORs up to a mutually agreed total. Beyond that, the MoD and the Treasury will split the cost 50:50, with the MoD having to repay its share two years later, by which time there could have been adjustments in the programme. The Treasury will give an extra £200 million in 2010–11 to ensure that the new arrangements are cost-neutral to defence.¹⁹⁴

The Minister emphasised that the suggestion that the Treasury was “clawing back” more than the £2 billion already spent on UORs was not correct as the “only difference is the new arrangements for the future”.¹⁹⁵

150. We asked Mr Jeffrey about the new arrangement relating to the funding of UORs. He acknowledged that it was a different approach from the one that was taken before¹⁹⁶ and that the new arrangement “is a little complicated”.¹⁹⁷ He said that:

It involves principally an agreement between the two departments about what is a best estimate and what we would spend on UORs. There is, without equivocation, an expectation that that will be met from the reserve, as will any other additional costs on top of that within the year of spend. What is new is that there is an understanding that anything in excess of what we expected would be funded longer term fifty-fifty because there will be an opportunity over the succeeding few years for us to adjust the equipment programme. What one needs to bear in mind is that we are frequently deploying as UORs equipments that we might well have been planning to purchase later.¹⁹⁸

151. We were concerned that the MoD might have to pay back some of the costs of UORs to the Treasury given that there had been an understanding that the Treasury would fund these. Mr Jeffrey told us that within the Comprehensive Spending Review 2007 settlement there “is provision in 2010–11 of £200 million which the Treasury has provided to fund us to meet anything of that sort and thereby to ensure that over the whole CSR period these new arrangements are cost neutral”.¹⁹⁹

152. We asked whether, when an existing equipment programme is accelerated as a UOR, the Treasury sought reimbursement from the defence budget for the costs advanced from

193 HL Deb, 22 November 2007, Col 996

194 Ibid, Col 997

195 Ibid

196 Q 113

197 Q 116

198 Q 114

199 Q 115

the reserve. Mr Woolley said this had been the case for several years²⁰⁰ and that there had been a number of UORs that “have been advanced from later in the equipment programme where we have agreed that we will repay the Treasury that cost in the year in which it was originally planned to procure them”.²⁰¹

153. Following our evidence session, the MoD provided us with further details of the new arrangements relating to the funding of UORs. The criteria for what qualifies as a UOR remain unchanged. The new funding arrangements are as follows:

- “The MoD and the Treasury will agree a forecast of UOR expenditure for the following year (e.g. for 2008–09, decided in 2007–08).
- The Reserve will continue to pay for all UORs when the procurement costs are incurred.
- The Treasury will pay 100% of an agreed proportion of these costs; the MoD and the Treasury will share the costs of the remaining amount 50/50 and the MoD will repay the Reserve its 50% share two years later. For example, any costs incurred in 2008–09 will be repaid in 2010–11.
- HM Treasury has added £200 million to the Defence Budget in 2010–11 to mitigate the effect of the repayments.”²⁰²

154. The MoD acknowledges that the total estimate of expenditure is the “key determining variable and we have consequently gone to great lengths to analyse previous UOR spending data and likely future trends to ensure that it is robust”. The MoD memorandum adds that:

The Treasury has agreed that, if UOR spend falls below this estimate, the uncommitted portion of the £200M can be used for other defence priorities as MoD Ministers decide. On the other hand, if MoD’s share of the UOR spend rises above £200M, then there will be a charge to the defence budget. Variations will be reflected in re-setting the Estimate for the following year.²⁰³

155. We note that the 2007 Comprehensive Spending Review has set down a new funding arrangement for Urgent Operational Requirements (UORs). The arrangements appear far from straightforward and we will be interested to see how they work out in practice when they are implemented. We look to the MoD to ensure that the new arrangements do not, in any way, undermine the success of the UOR process seen to date.

200 Q 120

201 Q 121

202 Ev 35

203 Ibid

Conclusions and recommendations

1. It was unhelpful of the MoD to provide the written evidence we had requested only a day before the evidence session we had scheduled. We expect better cooperation from the Department in future, and accept the Permanent Secretary's assurance that lessons have been learned and that such failings will not happen again. This is essential if Parliament is to undertake its role of scrutinising the work of the MoD effectively. (Paragraph 4)
2. We are very concerned to learn that the MoD's assessment of its expected achievements against its six 2004 Spending Review Public Service Agreement (PSA) targets, which run until March 2008, has started to travel in the wrong direction. In its previous Annual Report and Accounts published in July 2006, the MoD reported that it was on course to achieve all six PSA targets. However, at the end of 2007, the MoD did not expect to achieve the PSA target relating to force readiness, and expected "only partly" to meet the PSA targets relating to recruitment and retention, and defence equipment procurement. We note that the MoD considers that not achieving the force readiness target is a consequence of the "high levels of deployment". We recommend that, in its response to our report, the MoD identifies the key factors which have led to the deterioration in its expected achievements against its PSA targets and sets out what action it is taking as a result. (Paragraph 12)
3. The MoD does not expect to meet the PSA Target relating to generating forces by the end of March 2008. The performance on both of the performance indicators underpinning PSA Target 3 has continued to deteriorate. We note that the MoD considers that this reflects the pressure on the Armed Forces which have been operating above the level of concurrent operations they are resourced and structured to deliver. This causes us deep concern. We fully acknowledge the pressures on our Armed Forces and the commitment they have demonstrated. We recommend that, in its response to our report, the MoD and the three Service chiefs set out how they plan to reduce the pressures on our Armed Forces and when they expect to see improvements relating to generating forces. (Paragraph 20)
4. We note that the MoD does not expect, for different reasons, to achieve manning balance in the Royal Navy / Royal Marines and the Army by the end of March 2008. We recommend that, in response to our report, the MoD sets out how it plans to achieve manning balance in the future for the Royal Navy / Royal Marines and the Army. (Paragraph 27)
5. The MoD continues to experience shortages within some specialist groups in all three Armed Services, including substantial shortages within the Army Medical Service and elsewhere. The MoD have put in place measures to try and reduce the number of manning pinchpoints. We note that the MoD also expects that force level reductions in Iraq will reduce some of the pressure in these specialist groups. We recommend that, in its response to our report, the MoD provides us with an update on the position relating to manning pinchpoints and its assessment of the success of the measures introduced to reduce their number. (Paragraph 31)

6. We are concerned that there are signs that voluntary departure in the Armed Forces, in particular the Army, is increasing and that in the RAF personnel are not extending for a further engagement to the extent that had happened in the past. This may well reflect the pressure that our Armed Forces continue to experience. We look to the MoD to monitor this issue closely. (Paragraph 36)
7. We note that the Army and the RAF are failing to meet both individual and unit harmony guidelines, and that the percentage of RAF personnel exceeding the individual harmony guidelines has risen sharply during 2007. We find the reported performance against Unit Tour Interval harmony guidelines for the RAF much less precise than for the other two Services, with some RAF squadrons just reported as “heavily tasked”. We look to the MoD to identify how the setting and measuring of Unit Tour Interval harmony guidelines for the RAF can be improved. (Paragraph 43)
8. We are very disappointed with the failure to meet harmony guidelines in the Army and RAF. This is another clear indicator of the pressure on our Armed Forces from the continuing high level of operations. The MoD expects the position to improve with a reduction in the current operational pressure. We certainly hope so, as we find the continuing failure to meet harmony guidelines unacceptable. In its response to our report, we expect the MoD to set out what impact the failure to meet harmony guidelines is having, such as the impact on the retention of Service personnel. (Paragraph 44)
9. We continue to be extremely disappointed and concerned to learn that all three Services missed their targets for UK ethnic minority recruitment and that the RAF performed particularly poorly against its target. Our concern is strengthened by the fact that we considered this in our report on the Annual Report and Accounts 2005–06 and the figures appear to have worsened. The fact that some 60% of ethnic minority Service personnel come from outside the UK, serves to heighten our concern. We acknowledge that the three Services have put in place arrangements to improve recruitment. We look to the MoD to ensure that the planned recruitment activities of the three Services are adequately funded so that the expected improvements in UK ethnic minority recruitment are delivered. We expect the MoD to address this matter both in response to our report and in its command papers to be delivered in the spring. (Paragraph 51)
10. We are disappointed that the MoD only met two of its nine diversity targets in relation to civilian personnel. We recommend that in response to our report, the MoD sets out how it plans to improve its performance in this area, particularly given that the MoD has announced that there are to be substantial civilian job losses. (Paragraph 54)
11. We note that the latest Annual Report and Accounts state that for the second year running the MoD “met or exceeded its Public Service Agreement targets for equipment procurement, despite them being more demanding than those for 2005–06”, and that the Defence Procurement Agency met all its Key Targets in 2006–07 for the second consecutive year. The Defence Procurement Agency and the Defence Logistics Organisation merged on 1 April 2007 to form Defence Equipment and

Support. We hope that the new organisation will maintain this momentum. (Paragraph 61)

12. We are concerned to learn that the Astute submarine and the Type 45 destroyer programmes have experienced further forecast cost increases, totalling some £500 million, since the Major Projects Report 2006. While we note that the Permanent Under Secretary says that much of the cost in the papers we received relates to the “toxic legacy” of earlier years, we note his admission that costs have risen by some £500 million since the end of March 2006. He attributes this to work to understand the cost base of the Astute and to resource the Type 45 programme more efficiently with subsequent renegotiation of fixed price contracts which he says there is good reason to believe will now control the costs of both programmes. It is, nevertheless, disappointing that the MoD has failed to limit further cost growth on these programmes which had already experienced forecast cost increases totalling some £1.7 billion. (Paragraph 62)
13. Yet again there have been problems with the Nimrod MRA4 programme which is experiencing further cost growth. We note that the MoD recognises it has to “attend” to these problems now and we look to the MoD to do this as a matter of some urgency given the current pressures on the defence budget. We look to the MoD to undertake a review of the Nimrod MRA4 programme in order to ensure that best value for money is achieved in maintaining this important capability, both in quality and quantity of platforms. (Paragraph 63)
14. It is disappointing that there has been further in-service date slippage relating to the Type 45 destroyer programme and that further delays are likely on the A400M transport aircraft programme. We are particularly concerned about the delays on the A400M programme as new transport aircraft are desperately needed by our Armed Forces who are already having to use ageing transport aircraft. We look to the MoD to continue to work closely with the contractors on these programmes to reduce the risk of any further delays and, where possible, to identify ways to recover some of the forecast delays. We look to the MoD to undertake a review of the A400M programme given the problems experienced to date. (Paragraph 67)
15. We note that the MoD’s Permanent Under Secretary considers that progress has been made over the last few years to improve the way the MoD procures and acquires defence equipment and that the Defence Equipment and Support (DE&S) organisation, formed in April 2007, is becoming more capable. We welcome the recognition by the Permanent Under Secretary that much depends on making sure that the necessary skills exist at all levels. We are examining the progress made by DE&S in our current Defence Equipment inquiry. (Paragraph 69)
16. We congratulate the MoD on the progress it has made against the 2004 Spending Review Efficiency Target. We note that the MoD expects to meet all four targets which underpin the overall Efficiency Target by 31 March 2008, and to exceed three of these four targets. (Paragraph 74)
17. We welcome the news that the MoD is expected to save some £50 million by combining its office supplies requirement with those of other Government

departments. We note that the MoD is planning further collaboration with other Government departments across a range of categories and look to the MoD to make quick progress in this area so that potential savings can be delivered as soon as possible. (Paragraph 77)

18. We have no objection to the budgets of former agencies being included in the MoD's main vote, because in our view that is a straightforward way of dealing with public money. We continue however to be concerned to ensure that Defence Equipment and Support (DE&S), which is responsible for procuring equipment and managing it through-life, should not reduce the scope for proper accountability and parliamentary scrutiny. We note that the MoD intends to report on the activities and performance of DE&S in its Annual Report and Accounts 2007–08, but it remains to be seen whether this course of action, rather than the publication of a separate annual report from DE&S, will best meet our objectives. We will consider this matter closely when we examine the next MoD Annual Report and Accounts. (Paragraph 82)
19. We note that in 2006–07 Defence Agencies have generally performed well against their targets with over 40% of the agencies meeting all their targets. However, the one exception is the MoD Police and Guarding Agency which met only 40% of its targets, a similar level of performance to that achieved in 2005–06 and 2004–05. (Paragraph 86)
20. We are concerned to learn that “a major gap” in the funding of the MoD Police and Guarding Agency has been identified and that it is unlikely that the funding gap will be closed until the end of 2009–10. In its response to our report, we expect the MoD to provide us with a full account of why this funding gap has arisen and what effect it is expected to have on the services expected by the Agency's customers. We also look to the MoD to set out the reasons why the Agency has continued to perform so poorly against its targets and the action being taken to improve performance and plug any security deficiencies that may have arisen as a consequence of the funding gap. (Paragraph 87)
21. We note that the C&AG qualified his audit opinion on the MoD's 2006–07 resource accounts because of an excess vote on Request for Resources 2 (net additional cost of Operations) and that the MoD has identified improvements in both the forecasting and accounting for Request for Resources 2. We look to the MoD to ensure that the improvements identified are implemented. We acknowledge that it can be difficult to predict exactly how much ammunition is to be fired during operations and we accept that a reasonable contingency is needed in the MoD's estimate of its forecast expenditure. (Paragraph 96)
22. We note that the total value of losses and special payments in 2006–07 are just over 1% of the MoD's total expenditure and that the advance notifications of losses and special payments have continued to fall. We welcome the continued reduction in advance notifications of losses and special payments and look to the MoD to build on the action it has taken to date to minimise losses in the future. (Paragraph 99)

23. We are concerned to learn that the Joint Personnel Administration (JPA) system, which was rolled-out to all three Services during 2006–07, has experienced problems and that a substantial number of Armed Forces personnel have had incorrect deductions from their salaries. We have written to the MoD separately about the problems experienced and the progress in resolving them. We look to the MoD to ensure that the remaining problems are resolved as quickly as possible and that the training for the users of the system is improved. This is a matter which we plan to monitor closely. (Paragraph 104)
24. We welcome the announcement by the Secretary of State in July 2007 that the MoD will be placing orders for two aircraft carriers, a key programme which the Defence Committee has closely monitored. (Paragraph 107)
25. The Comprehensive Spending Review 2007 settlement for defence announced in July 2007 provides “an additional £7.7 billion for defence by 2011, and a 1.5 per cent average annual real terms increase”. We welcome the increase in the MoD’s budget for the next Spending Review period. However, the defence budget will be under substantial pressure in the period covered by the 2007 Spending Review, given that several funding commitments, such as the future carrier programme, a pay increase for the Armed Forces, and further investment in accommodation for Service personnel have been announced. These will need to be met from the average annual 1.5% real terms increase and the cumulative efficiency savings which are referred to in paragraphs 108-109 above. In order to fully appreciate how significant these pressures are, we would like to see a clearer description of what resources from these ‘savings/efficiencies’ are available to meet these pressures and urge the MoD to seek ways of spelling this out more clearly in future reports. (Paragraph 110)
26. We note that the costs of replacing the current nuclear deterrent will amount to some £1 billion over the three years of the Comprehensive Spending Review 2007 period. The MoD told us that the undertaking in the White Paper, that these costs are “provided additionally” and will not impact upon conventional capability, has been met. (Paragraph 112)
27. We note that the MoD is currently preparing advice to ministers about the defence budget for the three years 2008–09 to 2010–11. The MoD acknowledges that there are pressures in the defence programme and that there are likely to be cuts in some areas, including cuts to the equipment programme. We look to the MoD to be realistic about the number of equipment programmes, the number of platforms within equipment programmes, and the phasing of equipment programmes, that can be funded. We plan to monitor the progress and the outcome of the current planning round closely. (Paragraph 117)
28. The Comprehensive Spending Review 2007 settlement for defence is reported as being a 1.5 per cent average annual real terms increase against the MoD Comprehensive Spending Review baseline. But this is based on the general rate of inflation and takes no account of the reportedly higher rate of inflation which applies to defence products, in particular advanced equipment projects. We look to the MoD to press ahead with its plans to develop a robust price index for defence products which will assist the MoD in both its financial planning and in its negotiations with

the Treasury in future spending reviews. We consider that a robust price index for defence products is vital for allowing real comparisons to be made and to enable the Committee to undertake more effective scrutiny in this area. (Paragraph 123)

29. We note that the MoD has to achieve savings of £2.7 billion by 2010–11 and that it plans to achieve these savings by introducing leaner processes and new arrangements which deliver better value for money. Leaner processes and value for money improvements should generate savings which can be used elsewhere. However, the MoD must ensure that, in achieving these savings, the speed and quality of the support provided to the front line is not diminished. (Paragraph 128)
30. We note the assurance given by the MoD that the £50 million annual savings that are expected to be delivered from the implementation of the ‘streamlining’ exercise of the MoD Head Office will not be returned to the Treasury and used to fund the costs of operations (Paragraph 133)
31. We call on the MoD to address the concerns about the militarisation of civilian posts and the related issues that have been raised with us by Prospect in full in its response to this Report. (Paragraph 139)
32. We share the Permanent Under Secretary’s concern that the MoD needs to be more highly skilled and look to the MoD to set out in its response to our report what steps it intends to take to achieve this. (Paragraph 140)
33. We note that the MoD is to streamline its Head Office in London with the loss of around 1,000 civilian jobs. The aim of the ‘streamlining’ is to deliver savings of £50 million a year and also, we are told, to make the MoD more agile and better able to respond to the needs of those on operations. We remain to be convinced that improved agility and responsiveness will follow from the reduction in staff. We look to the MoD to keep staff fully informed as the ‘streamlining’ exercise is implemented and to provide adequate support for those civilian staff who are to lose their jobs. (Paragraph 141)
34. We consider there to be a real risk that some of the MoD’s best staff will leave and look to the MoD to identify ways to prevent this from happening. We are concerned to learn that civilian staff dissatisfaction with the MoD as an employer has increased over the last year. The MoD must monitor closely staff morale during the implementation of the ‘streamlining’ exercise and ensure that the Head Office continues to deliver the services which Government, Parliament, the Armed Forces and the public expect. (Paragraph 142)
35. We find it disappointing that the original timetable for the publication of a revised version of the Defence Industrial Strategy has slipped and is now not expected until early in 2008. We hope that this does not indicate that the impetus given by Lord Drayson, the former Minister for Defence Equipment and Support, is starting to wane. It is crucial that the MoD come to speedy decisions on the current planning round and the implications for the equipment programme so that the revised version of the Defence Industrial Strategy can be published and industry given the clarity it requires about future work. In its response to our report, we expect the MoD to

inform us of the date when the revised version of the Defence Industrial Strategy is to be published (Paragraph 146)

36. We note that the 2007 Comprehensive Spending Review has set down a new funding arrangement for Urgent Operational Requirements (UORs). The arrangements appear far from straightforward and we will be interested to see how they work out in practice when they are implemented. We look to the MoD to ensure that the new arrangements do not, in any way, undermine the success of the UOR process seen to date. (Paragraph 155)

Annex: List of Abbreviations

AFPAA	Armed Forces Personnel Administration Agency
C&AG	Comptroller and Auditor General
CSR	Comprehensive Spending Review
DASA	Defence Analytical Services Agency
DARA	Defence Aviation Repair Agency
DEL	Departmental Expenditure Limit
DE&S	Defence Equipment and Support
DIS	Defence Industrial Strategy
DLO	Defence Logistics Organisation
DPA	Defence Procurement Agency
DSTL	Defence Science and Technology Laboratory
ESDP	European Security and Defence Policy
ISD	In-Service Date
JPA	Joint Personnel Administration system
MLRS	Multiple Launch Rocket System
MoD	Ministry of Defence
MPR	Major Projects Report
NAO	National Audit Office

NATO	North Atlantic Treaty Organisation
OGC	Office of Government Commerce
PCS	Public and Commercial Services Union
PSA	Public Service Agreement
PUS	Permanent Under Secretary of State
RAF	Royal Air Force
UKHO	United Kingdom Hydrographic Office
UOR	Urgent Operational Requirement
US	United States of America

Formal minutes

Tuesday 15 January 2008

Members present:

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 Kevan Jones

Robert Key

John Smith

Draft Report (Ministry of Defence Annual Report and Accounts), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 155 read and agreed to.

Annex and Summary agreed to.

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

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report, for publication on the Internet, and placing in the Library and Parliamentary Archives.

[Adjourned till Tuesday 22 January at 10.00 am

Witnesses

Tuesday 13 November 2007

Mr Bill Jeffrey CB, Permanent Under Secretary of State, and
Mr Trevor Woolley CB, Finance Director, Ministry of Defence Ev 1

Wednesday 28 November 2007

Mr Bill Jeffrey CB, Permanent Under Secretary of State, and
Mr Trevor Woolley CB, Finance Director, Ministry of Defence Ev 4

List of written evidence

1	Ministry of Defence	Ev 16, 27, 30, 31
2	Public and Commercial Services Union	Ev 27

List of unprinted evidence

The following memorandum has been reported to the House, but to save printing costs it has not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

National Audit Office

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
Fourth Report	The Iran hostages incident: the lessons learned	HC 181

Oral evidence

Taken before the Defence Committee

on Tuesday 13 November 2007

Members present

Mr James Arbuthnot, in the Chair

Mr David S Borrow
Mr David Crausby
Linda Gilroy
Mr Mike Hancock
Mr Dai Havard

Mr Adam Holloway
Mr Bernard Jenkin
Mr Brian Jenkins
Robert Key

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

Q1 Chairman: Good morning, Permanent Under Secretary and Mr Woolley. You are welcome before the Committee. I have to say that we have a preliminary issue, which is that while we are taking evidence now on an annual basis on the Annual Reports and Accounts of the Ministry of Defence, we are grateful to you for sending answers to the inquiries that we asked about your report, but those answers only came in yesterday and they contain serious changes. For example, on the readiness target, in July I think you said that there was some risk. Yesterday we were told that you do not now expect to reach the target level by April 2008, and that is a crucial target level, a target level of generating forces which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives. We received this information yesterday. It then had to be disseminated to the Committee. The Committee staff had to consider it and to comment on it, and this was information which we had asked you to send us by 31 October to give time for the Committee staff to consider it and to advise the Committee on it. This, I have to tell you, has made the Committee distinctly angry. I wonder if you could, please, explain why it has taken so long to produce these answers. When you have explained that, the Committee will go into private session to consider whether the explanation is good enough and to consider whether we should postpone this evidence session to a time when we have had time to assimilate what it is that you have told us.

Mr Jeffrey: Chairman, can I start with an apology because I realised last week that we were pushing the boundaries and that we were certainly going to exceed the timescale that you had set for us on this. I had not realised that it was as late as yesterday that this material reached you. The explanation lies to some extent in the fact—and you have picked a very cogent example which is the one about readiness—that the picture is changing quite steadily. We wanted in particular to give the Committee the most recent PSA performance report at the same time as responding to the detailed list of questions, but I do not think that is an excuse. I can only apologise to the Committee. I am very sorry that it has disrupted your business to the extent that it has.

Q2 Linda Gilroy: I can understand that answer but would it not have been courteous and sensible to have informed the clerks to the Committee that that was what you were doing and to have given us the opportunity to consider in advance of this meeting whether we would wish to delay it somewhat?

Mr Jeffrey: It would and I very much regret the fact that we did not.

Q3 Mr Hancock: You say you did not know that we did not get this material until late yesterday. When were you given the material that we received?

Mr Jeffrey: I saw it in draft at the end of last week.¹ I know it had to be cleared with our Minister before it was sent to you. So I then, speaking for myself, was not sure exactly at what point it was going to be dispatched, but it clearly should have come to you earlier and I do apologise.

Q4 Mr Hancock: There are at least four of us here who did not get it until this morning, minutes literally before we came into the meeting.

Mr Jeffrey: That is not satisfactory. I acknowledge that completely.

Q5 Mr Jenkin: Our Committee had this material I think yesterday afternoon, was it not? You talk about the assessment of performance and you wanted to get us the most up-to-date assessments. Do these changes themselves get signed off by Ministers? Is that what has held it up?

Mr Jeffrey: They do indeed. Ministers need to clear these before they come to you, but I am not presenting that as the explanation. It was late anyway and it should have been submitted earlier.

Q6 Chairman: When was it plain to you that the readiness targets would have to change?

¹ Note by witness: Bill Jeffrey subsequently corrected this answer. The Department first submitted draft answers to the Committee's questions on 31 October; these were then revised in the light of other comments received and resubmitted on 2 November.

13 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Mr Jeffrey: The first time I knew that our collective assessment was that they were now, in the language that is used here, unlikely to be met was when this material was submitted to me towards the end of last week.² I think it is fair to say though, and the Committee itself will not be surprised at this, that it has been a process over time of examining our analysis of the force elements at readiness and the extent to which they reveal serious or particular weaknesses. At what point, we have had to ask ourselves, does one conclude that we are not going to get to these percentages by the end of the relevant period? We are getting closer to April 2008 all the time, obviously. Until I saw this most recent assessment, although I guess, like the Committee, I had at the back of my mind a sense that we were getting off course on this, I did not know that we were formally assessing it to be unlikely to be met.

Q7 Chairman: In the summer you were saying that there was some risk that the Department might not return to manning balance before 1 April 2008. Was that not obviously rubbish in the summer?

Mr Jeffrey: No, I do not think so. The manning balance target is a different one from the one we have been discussing. It is a complicated issue because it reflects not only the actual state of manpower but the requirement itself, and it varies as between the three Services. Our assessment earlier was that we might still get into manning balance on this timescale. It is becoming clear that for two of the Services, for completely different reasons—the Navy because the requirement is not falling as rapidly as had been assumed and the Army because of a mixture of equipment and retention issues—it is unlikely to be met. For the Air Force we think it will be but it is not by any means certain yet, and that in effect reflects to a large extent the fact that the RAF requirement is falling and the next significant fall is at the beginning of the next financial year.

Q8 Robert Key: Could I ask the Permanent Under Secretary on what date he received this latest information which is now in our possession?

Mr Jeffrey: In order to be sure that I give the Committee an accurate answer, I had better check that. My recollection is that I saw this material, and unless Mr Woolley has a clearer recollection than I have or one of my colleagues can advise me immediately, I do not want to give the Committee the wrong information on this. My personal recollection is that it was towards the end of last week.³

Chairman: You are just about to have an opportunity.

Q9 Robert Key: My second point is: and on what date were the papers which the Permanent Under Secretary received dated? In other words, when were those papers actually prepared for the Permanent Under Secretary? What was the date of those papers?

Mr Jeffrey: We had better establish that clearly. I do not have that information in my head.

Robert Key: You see, Chairman, I am most concerned here that we are in danger of drifting into the main body of the session, whereas I am extremely concerned that this Committee is being treated with enormous disrespect. It is the sort of problem that we hear our constituents and servicemen complaining about the whole time, about the sheer laziness of the Ministry of Defence in performing its duty. If the Ministry of Defence cannot inform the Defence Committee at the requested time of something as serious as this, there is something seriously wrong. I think we should not talk any more now but we should go into private session and decide how we are going to handle this situation.

Chairman: There are still one or two more questions.

Mr Jenkins: I totally agree with what Mr Key said. He voiced what my feeling is exactly. I would want to know when they disregarded the date they were given to supply us with this report; who decided to disregard that date; who decided not to take into account the time this would spend on the Minister's desk, etc. Do they think they are unaccountable? Do they think they do not have to bother with Parliament or with this Committee, or is this just indicative of the MoD's overall approach? I find it very, very frustrating, to say the least.

Mr Borrow: I would be interested to know whether someone in the department is given the job of progress chasing the reports with the view that it had to be with the officials of this Committee by 31 October and who would have the job of informing the officers of this Committee if it was going to be a couple of days late. What I cannot understand is how it can be nearly a fortnight late and no intimation of that was given to the Committee prior to that.

Chairman: As I understand it, we were told it was going to be late. We were kept well informed that it was going to be late.

Mr Borrow: On 31st?

Chairman: The Committee officers kept pressing for this and were told that it was going to be late, and so I think it comes down to the processes in the Ministry of Defence having completely ignored the timetable that was set by this Committee, which seems to us to have been a perfectly reasonable timetable. I think it would be right now to go into private session and to consider what we do about it. We will go into private session. While we are in private session, do you think you could find out the answers to the questions that Robert Key and Brian Jenkins asked?

The witnesses and public were asked to withdraw and after a short time were again called in.

Q10 Chairman: While we have been in private session we have decided that this extra information is so central to the things that we need to ask about

² Note by witness: Bill Jeffrey also corrected this answer; he first saw a draft of the PSA Performance Report for Quarter 1 in mid-September which included the assessment that the readiness target was unlikely to be met, although the judgements in it were not settled until formally approved by the Secretary of State on 12 November.

³ See footnote 1.

13 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

and to the work that the Ministry of Defence does and the changes are so significant that we shall not continue with this session this morning but we will try to find an extra day, if at all possible, within the next few weeks to meet to resume this session. It is unlikely to be on a Tuesday morning as our normal meeting time is; it is likely to be at some other time, maybe in the evening, I do not know. We are extremely unhappy about this delay. While you were out, did you manage to find any answers to the questions that we were asking, Mr Jeffrey?

Mr Jeffrey: I have some answers, Chairman. I want to write to you to apologise for this anyway, but it would be wise for me to write to you with answers to the questions that were raised. What I might say and would want to say in response to one of your questions is that I completely inadvertently gave the wrong answer in the session just before you broke, in particular when you were asking when I first received this material myself. I had a recollection of receiving it at the end of a week and clearing it over the weekend. In fact, it was a week earlier. It came to me on 1st or 2nd November; we are checking which. I looked at it over the weekend. The timescale had been extended I believe by the Clerk to 5th. I had a number of questions on it myself and I submitted it to the Secretary of State on 5 November.⁴ I do think we ought to give you a full account of this, but I did want immediately to correct one error that I slipped into when you were asking questions earlier.

Chairman: I think you should give us a full account of it. One thing that I must make plain is that we have in the room the liaison officer who is the liaison link between the Ministry of Defence and the Defence Committee. We should make it absolutely

⁴ Note by witness: Bill Jeffrey cleared the draft answers on 5 November and submitted them to the Defence Secretary's office on 6 November.

plain that this was way above her pay grade and there is nothing whatever to blame her for, but it seems to me that if you submitted to the Secretary of State something on the day of the extended deadline, which itself was the final cut-off date, then that was unacceptable.

Q11 Mr Jenkin: You may prefer to give an answer in your letter than now. I am holding the Performance Report for Quarter 1 2007–08, which refers to the quarter ended 31 June presumably. Am I to understand that this performance report was only signed off a few days ago?

Mr Jeffrey: It was only finally signed off. There was a process between the end of June and when the information was gathered and we had a first discussion of it in September. I think it was becoming clear then that we were off-course on one or two of these targets, but the final submission and clearance of that PSA report took place very recently, around the timescales I have given. However, I would welcome the Committee's indulgence to send a letter to you. I want to be absolutely clear about this so that we do not mislead you at all.

Chairman: We would like such a letter.

Mr Hancock: But preferably before we meet next.

Q12 Mr Jenkin: Would you observe that performance targets are really only relevant if they are treated with urgency and the department does not seem to be treating the performance targets and assessment of targets with sufficient urgency.

Mr Jeffrey: The material that contributes to them is complex and it takes time to analyse but I take the general point that Mr Jenkin makes.

Chairman: In rearranging this meeting, we shall expect considerable flexibility from your department as to when its coming about can be. Thank you. I declare the meeting closed.

Wednesday 28 November 2007

Members present

Mr James Arbuthnot, in the Chair

Mr David Crausby
Linda Gilroy
Mr David Hamilton
Mr Mike Hancock
Mr Bernard Jenkin

Mr Brian Jenkins
Mr Kevan Jones
Robert Key
Willie Rennie

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

Q13 Chairman: Good morning and welcome back to this hearing on the report and accounts of the Ministry of Defence. We have had a bit more time now to look at the figures. I am afraid in the kaffuffle of a couple of weeks ago I failed to congratulate you on winning the Corporate Reporting Award of the Year for the second time round; I am delighted that you did so. We have a lot to get through this morning because this morning clashes with Prime Minister's Questions later on in the day and we would like to get through as much as we can so I would be grateful from the Committee for short and concise questions and from both of you short and concise answers please, even though these are complicated issues. Can we begin by looking at the comprehensive spending review settlement? What happens next? What will you do in relation to making subsidiary budget allocations, for example equipment, programmes, things like that?

Mr Jeffrey: We would in any event be doing a planning round at this time of year in which we build from bottom up the estimated costs of the programme and consider it against the financial envelope that the spending review left us with. That process is going on now; I imagine it will take some months yet. Essentially what we will be doing is taking the spending review outcome as the starting point, looking at where the pressures are in the programme—and there undoubtedly are some—and trying to put together the sort of advice that our ministers will need in order to set priorities and ultimately to set budgets for the next three years.

Q14 Chairman: When do you expect that planning round to finish?

Mr Jeffrey: It is difficult to be precise about that; it is certainly going on now. We have had some discussions with the Secretary of State and his colleagues recently. I think at the moment it is likely to take into the new year and it normally would. There is an extent which it involves early discussions with ministers about where their priorities lie, but it is also quite a detailed process that goes on within the department which the finance director leads to test the propositions that are coming from different parts of the department and to see where, if we need to make reductions—as I imagine we will in some areas—these reductions can most sensibly be found.

Q15 Chairman: You have promised us a White Paper—maybe two White Papers—in the spring to deal with, for example, planning assumptions. When in the spring are those expected?

Mr Jeffrey: There is an expectation normally that there will be a White Paper at some point during the course of a parliament. I do not think our ministers have yet taken a view on exactly when the next defence White Paper should be so I cannot give any detail on timing for that. It is certainly the case that as we get into the early part of next year, we will need to be much clearer about the budget for the three years that begin on 1 April 2008.

Q16 Chairman: So it would be helpful to have that White Paper before then.

Mr Jeffrey: It might well make sense to do so but I need to be careful because our ministers have not taken any decisions yet on whether and when to have a White Paper in the short term.

Q17 Mr Jenkin: If I understand correctly, Mr Jeffrey, you are balancing or going to try to balance commitments and expenditure and planned expenditure against your income.

Mr Jeffrey: Yes.

Q18 Mr Jenkin: Those are the decisions you are making and therefore by the end of it you will arrive at a programme of procurement of all the equipment you need now and what you are putting money into now and what you get in the future. So you have a rolling plan of procurement needs for the next five or six years.

Mr Jeffrey: Except for the fact that, Mr Jenkins, what we are examining now is the whole defence budget; it is not just the equipment aspects of it. Clearly the equipment programme is important.

Mr Jenkin: If you got this equipment programme do you intend to go back in the equipment programme and be rigid and very rigorous with regard to what money is being spent on? This year you wrote of £195 million on a rocket system that was not finally developed.

Q19 Chairman: We will be coming to that precise question later on. Still on the overall timetable, the question of the Defence Industrial Strategy arose last week when we were told it was delayed. Do you know when until?

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Mr Jeffrey: The position the Defence Industrial Strategy—DIS 2.0—is as Baroness Taylor set out when she addressed your Committee last week. We had always thought that it would be good to publish a second version of the strategy around the time of the second anniversary of the first. Our previous minister I know was keen that we should do that and I was keen as well. It is pretty clear now that the process that I described a moment ago will extend into next year. We discuss this with industry quite regularly and both we and the industry feel that it would be much better to publish a second version of this strategy when we have really gone through the programme in the way I described and are clear about its implications for equipment.

Q20 Chairman: That is what the minister told us last week. When? That was my question.

Mr Jeffrey: I would say as early in the New Year as we are able to, given that it ought to come after we have settled the programme and the budget.

Q21 Mr Hancock: You said there is a need to get on with this because this kicks in in April 2008. Are you not a bit surprised that you are still at the stage when you are thinking about when you are going to get all this together. Some of those decisions must have already been made, surely. Some of those key spending decisions you must have examined and thought through otherwise you are leaving it mighty late, are you not?

Mr Jeffrey: Spending decisions are being taken all the time. Much of our budget is already committed; it includes, for example, the very large staff costs of the armed forces.

Q22 Mr Hancock: You made the point Mr Jeffrey that inevitably there will have to be cuts made somewhere. That is what you said when you opened up today. Here we are, four months away from when you have to publish and have this in operation. Surely some of those decisions must already have been made at least in principle of the ones you are going to cut. Is that right?

Mr Jeffrey: No, it is not right. It is not the case that there are decisions made now about planned reductions. The process that we are engaged in is one that will involve ministers taking decisions about the budget for the next three years at some point in the next few months. My assessment is that it will take us into the new year—I would guess not very far—and at that point, to answer the Chairman's question, while we are clear about the budget and its implications for the equivalent programme to the extent that it does have such implications it would be right—and the industry would expect us—then to publish a revised version of the Defence Industrial Strategy.

Q23 Mr Hancock: Are you seriously telling the Committee that you have not flagged up potential savings to the ministers yet? Presumably then, if this programme is already in the process of being worked through, money is being spent and will continue to be spent. You cannot really expect us to believe that

you have not flagged up those programmes because you are going to have to make some substantial savings, are you not? We are not talking about one or two million; we are talking about fairly big sums of money. If we go on spending that simply because ministers do not want to publicise that, we are entitled to know whether you are continuing to work on programmes which you and your colleagues within the Ministry of Defence are going to suggest to ministers that they should be pulled, surely the idea is that they are pulled sooner rather than later.

Mr Jeffrey: The point you are making, Mr Hancock, illustrates the argument for doing this as quickly as we can. What we are doing is looking at the whole programme. We are identifying both areas where either it will be inevitable that we spend more or we would like to spend more, for example, on service accommodation where, if we could at all manage it, we would very much like to spend more than is currently in our base line. It is not the case that there are decisions already taken about reductions that are unannounced; it is more that we are looking at the whole thing, we are identifying, if there were to be cuts necessary, what might the options be for doing so. We will be putting these to ministers as early as we can.

Q24 Mr Jenkin: Can we be absolutely clear on this. Some programmes will be increased, others may be reduced, but overall the programme that the spending settlement has inherited is considerably above what you now can afford under the settlement. There is going to have to be an overall reduction in what you were planning to spend.

Mr Jeffrey: The outcome of the spending review includes a measure of real terms growth.

Q25 Mr Jenkin: I understand that. If you add up all the programmes there at the moment it does not quite match that.

Mr Jeffrey: I suspect, Mr Jenkins, that that is always the case and it is always the case that when a bottom up assessment is made within the department of what the costs of the programme are, they exceed the available provision.

Q26 Chairman: So the answer is yes, even if the answer is always yes.

Mr Jeffrey: The answer is that every government department at this stage in the cycle, having been told what a spending review outcome is, needs to look at its programme in the light of that financial envelope. We are costing it; we will need to look at areas where reductions can take place and we will be looking, if possible, for improvements where we can find them.

Chairman: I would like you, please, to try to address the specific questions that are asked of you. While your answer is absolutely true and no doubt every government goes through this process, when you are asked a question—Are you putting in for more than you can actually afford to spend?—it would be helpful if you could address that question.

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Q27 Mr Jones: I think that every department that spends money looks at good housekeeping. There is a difference between good housekeeping in terms of trying to make sure the budget fits and actually taking strategic decisions. As part of this process that you are going through, is it going to be a situation whereby, for example, major equipment and choices are going to be taken that we do not procure something but procure extra of something else? Is it that type of exercise rather than just counting the teaspoons in the MoD?

Mr Jeffrey: We will certainly need to look at the equipment programme. As I know this Committee has been made aware of before and probably endorses this, our ministers would very much like a programme which is, if anything, more focussed on the kinds of equipment requirements that come out of current operations, like protected armoured vehicles, helicopters et cetera. It would be extremely surprising if the process we are going through did not lead to a consideration of that.

Q28 Mr Jones: That is a very good *Yes, Minister* answer, Mr Jeffrey, but could you answer the question straight? You are advising ministers; is it going to be, like I say, just a tidying up exercise or are you going to be recommending to ministers—which I would actually support personally—major decisions on equipment in terms of what you are saying, that you concentrate on this and drop certain other programmes? In terms of making sure that in the long term not only is the budget sustainable on procurement but actually we could have long term confidence for industry and also the long term confidence that we are actually buying equipment people need and get away from some of the legacy projects which we have.

Mr Jeffrey: I apologise if I have been *Yes, Minister*-ish but to be even more so, the Committee would not expect me to talk about the advice that we have not yet put to ministers. What I can say is that through this process we will certainly be looking at the equipment programme. My guess is that we will have to make some quite difficult decisions.

Q29 Chairman: The basis on which you are making these decisions revolves around the issue that has been discussed in defence circles for some years now, namely defence inflation. Do you believe that defence inflation exists?

Mr Jeffrey: It is certainly the case that some of what we buy increases in price by more than general inflation. The most recent example of that was fuel; we are spending a great deal more than we were even just a couple of years ago simply because the cost of fuel has increased. Also a lot of our staff costs, to the extent that pay settlements exceed general inflation, and we have to find that. I suspect you are talking more, Chairman, about equipment.

Q30 Chairman: Not particularly because the pay settlement was 3% for the armed forces; some of the junior ranks got something like 9% and that was

very good. Does that have to come out of this overall increase that you have described as a 1.5% increase?

Mr Jeffrey: It does, yes.

Q31 Chairman: So if you increase the pay of the armed forces to that extent, the rest of the defence budget has to find the wherewithal to do so. Is that right?

Mr Jeffrey: That tension between pay and everything else exists in every budget in the public service.

Q32 Chairman: Of course, at the same time as defence equipment is going up in price.

Mr Jeffrey: To come onto the equipment point, I think it is a more complex point because if we were simply buying the same thing year after year one could make a reasonably straightforward judgment about whether it was inflating more than general inflation. I gave fuel as an example a few moments ago. The trouble with the defence area is that we are buying more and more complex equipment and they do increase substantially in price but it is hard to just home in and say that the inflation rate for defence equipment is X compared with general inflation of Y. It is certainly the case in some areas—some electronic components, for example, office equipment and that sort of thing—where costs have been going up probably less than general inflation. In others there is no doubt that some of the most advanced equipment is more expensive than its predecessors, but then again it is more capable. It is a difficult judgment.

Q33 Chairman: You have reached a conclusion, I think, that defence inflation is so complicated that you cannot measure it.

Mr Jeffrey: I think we have reached a conclusion that there is not a single measure that would make much sense against the context that I have just described, but we do pay attention to it.

Mr Woolley: We are working to see whether we can come up with a robust index. It is difficult on the equipment side because we have a mix of different types of contract. Where we have a contract that has variation of price clauses in it, that is to say a contract will be agreed saying that this is the price of the contract over a number of years and there will be an increase that is linked to some external index of inflation, perhaps an industrial sector index, in those cases you can say that the rate of inflation on that contract is the rate of increase in the industrial sector index to which the variation of price is linked. There are other types of contracts we have which are firm price contracts, that is to say we agree a firm price with a contractor over a number of years and in those cases it is very difficult conceptually to say what element of that represents actual forecast inflation. It is difficult but it is something we are working to see whether we can get something robust on.

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Q34 Linda Gilroy: Mr Jeffrey, can you remind the Committee what the split is between equipment and non-equipment costs? Do you expect to see that change over the next CSR round?

Mr Jeffrey: My recollection is that, broadly speaking, it is a budget of around £34 or £35 billion; the equipment programme is about £10 billion. I need to check that.⁵

Q35 Linda Gilroy: Could you let us have that?

Mr Woolley: In terms of the spend of the defence equipment and support budget that is around £13.5 billion a year. That is on both new procurement and on equipment support. It also includes an element for the overhead cost of that organisation. If you are talking about defence equipment spend in the round it is of the order of £12 to £13 billion.

Q36 Mr Jenkin: Paul Beaver, one of our advisers, has said publicly that after defence estates, pensions and other data the real available increase in real terms is only about 0.9% on average. Would you recognise that as a reasonable estimate? After you have taken out what we promised to put into defence estates and after you have taken out what has to go into the pensions and there are one or two other items like that, what is available for general expenditure on defence is really a much small increase of about 0.9%. Would that be unreasonable?

Mr Jeffrey: It is difficult to make these comparisons. There are undoubtedly pressures within the budget and that is what we were alluding to earlier. On the other hand we have a continuing efficiency programme which the Committee is aware of which points the other way. It is certainly the case that the headline figures that emerged from the spending review incorporate and give real terms growth on the baseline that ministers announced at the time. On the other hand, as we have been saying earlier, as one goes forward there are definitely pressures there will have to be accommodated somehow.

Chairman: We will come to the consequences of some of this later on in our questions. I would like to move onto the nuclear deterrent now.

Q37 Mr Jenkin: Are you able to specify a budget line for Trident replacement over the next three years and can you tell us how much is going to be spent?

Mr Jeffrey: As the White Paper said it is provided separately within the defence budget. The figures in the existing baseline, as I recall, are of the order of £200 million, £300 million, £400 million in the three years of the spending review period.

Mr Woolley: It is about a billion over the course of the CSR period.

Q38 Mr Jenkin: Does that actually come of the 1.5% overall increase?

Mr Jeffrey: It does, yes.

Q39 Mr Jenkin: So there is another item that we should really deduct from the overall increase because the Government pledged that this was going to be funded separately or was additional money that was going to be funded for this. We cannot double-count the additional money, can we?

Mr Jeffrey: You certainly cannot but on the other hand what the Government said was that it would not be at the expense of conventional military capability.

Q40 Mr Jenkin: I appreciate that, but is less than 1.5% then, is it not?

Mr Jeffrey: Yes.

Q41 Chairman: Can I ask about the nuclear deterrent? With many programmes there is the possibility in the back of the supplier's mind that that programme might be the victim of a budget removal at some stage because it just becomes not affordable. That is not the case with the nuclear deterrents, is it? It is going to be, because of its high profile, pretty much guaranteed and protected for its programme life, is it not?

Mr Jeffrey: It was necessary to make the decision that was made last year and announced in the White Paper and one of the other purposes of making such a statement was to give the industry the confidence that this was our intention. That does place on us a burden of negotiating very carefully.

Chairman: Yes, but all the other programmes are subject to a bit of concern; this one is not.

Q42 Mr Hamilton: The minister said, when the nuclear deterrent was agreed upon in the House of Commons, that it would not affect the defence budget in any way. You have just said that it will affect the defence budget; did I understand that correctly?

Mr Jeffrey: What I said was that the undertaking in the White Paper about the cost being provided additionally and not impacting on conventional capability has been met, but obviously once the money has been provided it takes its place within the defence budget. I do not think I am saying anything different from what was said in the White Paper or from what the minister said.

Chairman: Can we move onto head office, the main building and staff issues?

Q43 Linda Gilroy: The Government has announced a 25% cut in the Ministry of Defence head office staff. What savings are expected to be made from that streamlining exercise?

Mr Jeffrey: Our estimate is that by the end of the period, two or three years hence, we will be saving more than £50 million a year but there will be some additional expenditure earlier associated with that to fund the departure earlier than otherwise would be the case of some of our Civil Service staff.

Q44 Linda Gilroy: That £50 million that you have identified is to be reinvested in operations, is it?

⁵ See Ev 31

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Mr Jeffrey: The thinking is that across the whole budget—and this has happened elsewhere in defence, in the service headquarters, in the defence equipment and support area as well—that we ought constantly to be looking for ways of reducing administrative costs. The more we succeed in that, the more there will be available for the front line. It is also the case that in the spending review for every government department there is an in-built assumption that administrative costs would reduce by 5% a year cumulatively, so we are not exceeding that by very much. I would also say, if I may, that I see this exercise as the opportunity not just to meet expenditure targets but to create a head office that is actually slicker and brisker at what it does. We definitely have ambitions to emerge from this not with a smaller number of people working even harder but working more effectively.

Q45 Linda Gilroy: I want to ask you about that in a moment, but before moving onto it, does that mean that the savings, if they are to be deployed to the front line, will be given back to the Treasury? I think I am right in saying that operational costs currently are met by the Treasury.

Mr Jeffrey: We may be misunderstanding each other here. By front line costs I mean those of the department's ordinary budgeted costs which are closer to the front line within the services.

Q46 Linda Gilroy: What do you mean by closer to the front line?

Mr Jeffrey: The cost of the armed forces; the cost of service accommodation, for example.

Q47 Linda Gilroy: Not front line in terms of deployments in Iraq and Afghanistan.

Mr Jeffrey: The costs of operations will continue, subject to the point that the Committee is aware of, to be funded in the usual fashion. What I am not saying is that we are saving £50 million of head office costs and it is disappearing into the Treasury coffers. We are saving it within the context of a settlement that is now fixed; but we will have that much more money to spend on other things.

Q48 Linda Gilroy: So the aim of the streamlining exercise, as you have just said, is to make head office—I think this has been said previously—more agile and better able to respond to the needs of those on operations. If you see that as an opportunity, how will reducing head office staff by 25% achieve that and what were staff doing before that will not need to be done in the future?

Mr Jeffrey: What we are doing is looking first of all at what the head office does and what needs to be done at the centre of the department and what might not. In each of the main areas we are asking those in charge of them to conduct an exercise of a very similar kind to what has been done in the service headquarters, fleet and air commands and in the army, to look at the tasks, to apply lean principles of thinking about the processes, to simplify processes where they can be simplified. It is certainly the case that right across government it has been found that

if you look very carefully at that sort of issue it is possible to streamline and to manage to do the business of the department with fewer people. It is not straightforward and it requires a very careful exercise. It requires above all the involvement of staff themselves because they are the people who know best what they are engaged on.

Q49 Linda Gilroy: Yes, and they have said to us in a briefing that so far you have said very little more than you have just put before the Committee. I think it would be helpful if you could tell us when they are able to know more. I think they see it as a very rough and ready process in which a decision has been taken without examining whether what you are suggesting in terms of agility can actually be achieved.

Mr Jeffrey: The proof of the pudding will be in the eating. Yesterday I completed my own 14th or 15th session with groups of head office staff, 20 or 30 each time, explaining this to them and hearing what they have to say. The area where there is still a degree of uncertainty—and I am conscious of it—is around exactly how we will manage the process over the next few years for early departure and what the terms of that will be and how we will fill posts in the meantime.

Q50 Linda Gilroy: When do you expect to be able to put more details in front of the unions? I think you have twice yearly reviews of what staff are thinking about which would give us an indication of staff morale; what are those currently saying?

Mr Jeffrey: They are not changing greatly at the moment. Since I do not have figures immediately to hand I think I should offer to write to the Committee about these figures.⁶ The answer to the first question is that we are aiming to publish some more detail on this before Christmas but probably not in that detail yet. Discussions are taking place with the unions about the whole of this.

Q51 Mr Jones: Can I ask how you define head office?

Mr Jeffrey: That has been one of the issues we have been addressing. Historically the Ministry of Defence is an agglomeration of different parts of the organisation. We are very keen to get to the point where the head office comprises the essential decision making and policy making support for ministers' functions that one would expect to see in a headquarters in any organisation.

Q52 Mr Jones: Does it include the defence procurement agency and the defence equipment agencies?

Mr Jeffrey: No, it does not.

Q53 Mr Jones: So that is separate. The £253 million you are saving there—projected—will that be separate to this £50 million?

Mr Jeffrey: As I mentioned earlier, the in-built assumption in the spending review for every government department is that administrative costs

⁶ See Ev

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

will reduce by five per cent a year each year. That applies to administrative costs outside the head office. The head office in our terms is simply the four or five thousand people in central London.

Q54 Mr Jones: I accept that, but it is in our briefing that there was a specific issue around the defence logistic organisations and defence procurement agency merging, that by 2010–11 there would be a £253 million saving; is that in addition to the £50 million you are going to save?

Mr Jeffrey: Yes, it is.

Q55 Mr Jones: Are we on target for that saving?

Mr Jeffrey: I believe so, yes.

Mr Jones: You are losing 1000 civil servants and 300 military plus perhaps 800 more relocated from London. How is that going?

Chairman: Can you concentrate in that question on the relocation from London?

Q56 Mr Jones: And the south east. How many have gone north?

Mr Jeffrey: There are a number of posts in London which essentially have provided corporate services for the department rather than being part of the head office in the way we have just been defining it. There may be a case for locating these outside London; there is a general government policy in doing so and we are looking at the scope for doing so.

Q57 Mr Jones: It has not happened yet then.

Mr Jeffrey: Not yet.

Q58 Mr Hamilton: If you got to a point through this programme and the discussion you are having with the staff where everybody says, “No, we cannot cut in this area”, would you, as the head, turn round and tell the Government you are not going to cut, remembering what the consequences of that could be? I recognise the fact that you cannot get the cuts in every area you want and there will be areas where you want to cut and you cannot cut because the staff will not go. The point I make is: are you strong enough to turn round and say that you are not cutting down to that level because of the interests of the organisation?

Mr Jeffrey: What we have done in each of the main head office areas is to identify what might be a sensible target but we have kept to ourselves as a management board the responsibility of when all that work is done—about the middle of next year—to consider it and to see what the impacts would be, to see whether there would be areas where it just would not make sense to make reductions and if necessary we will make adjustments accordingly. The overall objective is to make the savings that I have described and we are very keen to stick to that if we can.

Q59 Robert Key: The whole defence sector of the economy has been shrinking and in the last spending round we lost some 11,000 jobs in the Ministry of Defence. Now you are proposing another thousand

civilian jobs in addition to the 300 military posts. Obviously there is a risk that the best staff are going leave. What management measures or structures have you put in place to assess the risk of your best staff leaving?

Mr Jeffrey: In a sense this comes back to the questions that Linda Gilroy was asking me. The reason I wanted to pause over exactly what our scheme will be for early departures of the civil servants in the head office is because it needs to be managed very carefully and our objective is to manage it in such a way that we retain the people who want to stay in the department and who we need and the skills we need, and we lose those who are happy to go and we are happy to see go. It is always difficult to do that against general Civil Service conditions. That is the balance we will need to try and strike. My objective is to avoid losing the people we most need.

Q60 Robert Key: That was my question: how are you going to do it?

Mr Jeffrey: Through the operation of the early release scheme and through the encouragement of those who want to stay to do so.

Q61 Robert Key: I am not entirely convinced that that is management speak. Will there be a 25% reduction in higher grades? Will the cuts come right across all grades of the Civil Service?

Mr Jeffrey: They are likely to impact on all. I would be surprised if it was exactly proportionate all the way through, but the detail needs to be covered in the detailed work that is now being initiated.

Q62 Robert Key: The answer to that question is that you do not know yet.

Mr Jeffrey: We do not know precisely but this is something that will affect all levels of the organisation.

Q63 Robert Key: It is going to affect morale, that is the problem. Morale is a difficult problem. In my own constituency I have literally thousands of uniformed and thousands of non-uniformed Ministry of Defence civil servants and my problem is—and I know just how they respond, that is loyally in every difficult situation—how do you reconcile all these civilian staff reductions with building future capacity and skills, which is supposed to be a key objective within the Ministry of Defence?

Mr Jeffrey: First of all, I take the morale point very seriously. I think we need, as we do this, to keep doing as we did towards the end of October when the main announcements were made, to keep telling staff what is going on and to do so in person as well as on paper and on the intranet. We need to work on morale because we cannot take it for granted. I believe the people in this department are very dedicated and believe as I do that what we do is extraordinarily important and they are committed to it, but we do need to keep working on that.

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Q64 Robert Key: How are you going to build future capacity and skills, which is a key objective within the Ministry of Defence?

Mr Jeffrey: We have a substantial training effort on skills, particularly in the areas where we are short of skills. We are investing in more training than ever before to build skills. I certainly agree with the underlying thrust of your question, Mr Key, which is that we need to emerge from this process with an organisation that is a bit smaller, that is generally more highly skilled and is just as committed as the people we have now.

Q65 Robert Key: Will these cuts come right across the board including, for example, the scientific Civil Service in DSTL?

Mr Jeffrey: I think it is unlikely that DSTL will be greatly affected but certainly the central science and technology area is one that will be included, but I personally feel that our science and technology work is among the most important that the department does at the centre.

Mr Woolley: DSTL is not within the base line to which the 25% applies.

Q66 Robert Key: So DSTL is excluded from the job cuts.

Mr Woolley: It is excluded from the base line to which the head office 25% reduction applies. I do not know whether, for other reasons, DSTL might be reduced in numbers, but it is not as a consequence of this exercise.

Q67 Mr Hancock: Did you achieve the £2.8 billion that you are required to do from the 2004 spending review?

Mr Jeffrey: Yes we did.⁷

Q68 Mr Hancock: Have you managed to succeed in getting rid of the 10,000 staff you had to get rid of and the 5,000 military staff was also achieved, was it?

Mr Jeffrey: That is essentially where we are. We have in fact reduced the number of civilians by September of this year by more than the 10,000 that were originally projected; 13,843 is the figure.

Q69 Mr Hancock: What was the biggest element that made up that £2.8 billion saving?

Mr Jeffrey: I think the savings came from a mixture of places. They came from the administrative side of logistic support; they came from headquarters and amalgamations within the services. One tends to forget there are very large numbers of civilians working there as well. Perhaps I could write to you and add a little more detail to that.⁸

Mr Woolley: The largest single contribution towards the £2.8 billion was in procurement and logistics where we are predicting about £1.7 billion. The other areas include corporate services where the forecasted savings of the order of £250 million;

manpower savings in particular in the RAF but also the civilian manpower savings to which Mr Jeffrey referred come to about £550 million; the force structure changes that were introduced in 2004 are another £400 million.

Q70 Mr Hancock: How did the department cope with that? Was it a successful exercise or did you feel that it was fairly painless, not for the individuals obviously but the department? Are you now leaner and fitter?

Mr Jeffrey: I believe so. If you take the logistics transformation work which did secure efficiencies I think this Committee or its predecessor was very much exercised by shortcomings in logistic support a few years ago. We are not perfect but we are much better placed than we were and we are doing so with a somewhat slimmer organisation.

Q71 Mr Hancock: I do not envy you the task but you now have to find another £2.5 billion. How easy it is going to be to find that £2.5 billion when you have already gone through this exercise and presumably if there was fat there to be cut you would have it away by now, would you not? What is the plan?

Mr Woolley: The £2.5 billion is characterised as value for money savings rather than efficiency savings. Some of it will come through efficiency and we have plans for significant savings in what we call our corporate enabling services across the piece, that is to say our administrative overheads.

Q72 Mr Hancock: You will have to explain to me what that actually means.

Mr Woolley: Corporate enabling services are the administrative services like the finance service, the HR service, the IT services, these sorts of overhead services all organisations must have. We are targeting those across the Ministry of Defence, not just in head office as we have been discussing—although that is one component of it—but also significantly in the defence equipment and support organisations (we referred to that earlier as well). That is going to be a large element of the efficiency. We are planning enduring and increasing efficiencies in logistic acquisition programmes.

Q73 Mr Hancock: Slowing it down, you mean? Being more choosy?

Mr Woolley: We are seeking to continue to employ a wide range of techniques to get better value for money out of the logistics procurement process.

Q74 Mr Hancock: Will it be more difficult to get equipment if you are a front line commander than it has been up to now, and that has been difficult in some areas?

Mr Woolley: If it were to be more difficult then it would not be an efficiency.

Q75 Mr Hancock: You will not know that until the crisis emerges, will you? How can you be sure that cutting that sort of thing is actually going to deliver a leaner, fitter fighting force? You might be pretty lean

⁷ The MOD remains on course to meet the 2004 Spending Review £2.8Bn efficiency target by the target date of 31 March 2008. Performance will be reported in the Annual Report and Accounts 2007-08.

⁸ See Ev 31

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

and mean in the centre but the people on the front line might find it even more difficult to get the equipment they want when they need it.

Mr Woolley: A key objective will be to ensure that that does not happen.

Q76 Mr Hancock: How will you do that?

Mr Woolley: We will seek to ensure that the processes we put in place get better value for money, we will look at the risks that those changes might bring and if we judge that the risks include that equipment might be slower to get to the front line then that would not be a change that we would implement.

Mr Jeffrey: A good example of the kind of thing we are trying to do is in the aircraft support and helicopter support area where we reduced the turnaround time for repair and maintenance for Apache helicopters from 50 to 43 days. We have new arrangements for the support of fast jets, Tornados in particular which were the subject of a very favourable NAO report quite recently. The fact is that if we can get smarter at negotiating with our suppliers and supporters, deals that effectively mean that we are buying capability and availability rather than kit, then we can keep the front line better supported and we can do it with fewer of our own staff.

Q77 Mr Hancock: How much of the efficiency savings that you have achieved, the £2.8 billion, is now being spent on other defence equipment, personnel et cetera? What happened to the £2.8 billion that you saved?

Mr Jeffrey: As we were saying earlier, within what is in essence a fixed financial envelope provided by a spending review, if we make savings of that sort it means that we have that much more to spend on other things. It is in that sense re-deployed to be spent elsewhere in the defence budget.

Q78 Mr Hancock: None of it went back anywhere else outside the MoD, it was retained in-house?

Mr Jeffrey: The spending review settlements assume that we are capable of making efficiencies of that sort and improving value for money. It is not then taken away a second time.

Q79 Mr Hancock: That is a very dangerous assumption, is it not? You have been leading this department now and over the last three years you have been asked to make £2.8 billion and you have to make another £2.5 billion of efficiency savings over the next three. Did you really believe that you were that inefficient that you could take so much out of that department over such a short period of time?

Mr Jeffrey: Part of the answer lies in what I have just been saying, that efficiency can be improved by changing the way we provide services, changing the way we acquire them and looking at processes. Certainly elsewhere in government that has been proved to be successful. Can we carry on doing this indefinitely? I am not sure. All my experience is that

if you look hard and imaginatively at the way these processes work, it is possible to do them more efficiently.

Chairman: The answer is really yes.

Q80 Mr Hancock: Have you had to put back anything you have taken out because it was proved that it did not give you the efficiencies and actually brought down the level of capability within the department over that three year period?

Mr Jeffrey: I cannot think of an example where consequence immediately followed cause, but it is certainly the case that where there are shortcomings in capability—we may come to this later in the hearing—we do our very best to fill them.

Q81 Mr Jenkin: From 2004 to 2008 you were given certain targets of reducing civilian staff by at least 10,000 and reductions in military posts by 5,000. You actually succeeded by reducing the civilian posts by 11,000—so over your target—and the military posts by 10,000, that is double what was anticipated two years ago. This flags up to me two concerns, first of all that means we have 5,000 military people now back in the military rather than in the MoD, it reduces the pool of reserve by 5,000 people as well, but more importantly I want a guarantee that it does not reduce the number of military personnel in the MoD and thereby change the ethos on which the MoD has been run for a substantial amount of time. There is a vital link between our front line troops and the administration back here in the block. How are you coping with that?

Mr Jeffrey: Can I say I agree very much with your last point, Mr Jenkins. I came into this department two years ago and one of the things that most impressed me about it was at our best military and civilian worked well together; they reinforce each other. Civilians like working with military people and, as you say, something of a military ethos rubs off and I think that is a very considerable strength. I go back to the discussion we were having earlier about the head office review and I would guess that at the end of that the proportion of the military and civilian will be much as they are now. On the military contribution to the efficiency savings I do not recognise the 10,000 figure that you gave; the target, as you said, is 5,000 by the end of 2007–08 and the figure I have in front of me is that we have reached almost 3,900 by September of this year so we are pretty well on course. These are essentially military posts in support and administrative functions which, if we can redeploy them, will be used for more military purposes.

Chairman: Let us get onto the targets now.

Q82 Mr Crausby: The 2005–06 Annual Report stated that you were on course to achieve all six PSA targets by March 2008, yet the latest PSA performance report shows that you are on course for only one of those targets. What has gone wrong?

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Mr Jeffrey: In relation to the targets we are in a worse position than we were earlier this year. If you take them in turn I think we are on course and from your other inquiries into Iraq and Afghanistan you will know there is some risk involved.

Q83 Chairman: You have just told us you are not on course.

Mr Jeffrey: On operations, which is target one. Target two, which is contribution to conflict prevention, we are broadly on course with a little slippage. On target four, which is the EU and NATO one, we are also on course. The two areas that are problematic are the question of readiness, which is target three, and it is very much a consequence of existing high levels of deployment. The measures that we apply to assess the readiness of our forces for future conflict have been declining and we now think it is unlikely that we can hit the target by next April. Also for manning where, for different reasons, two of the three services are now thought unlikely to come in within manning balance. It is a less good position than it was earlier in the year, but if you look at all six targets there are some that are on course as well. If the chief of defence staff were here he would say that the operational target tops all the others. There, in ways the Committee will be familiar with from its other work, it is difficult but we do feel we are making progress.

Q84 Mr Crausby: How many do you expect to hit by next March? How many targets will you achieve?

Mr Jeffrey: The assumption is that the position by next March will not change greatly from the position as reported in our PSA related material that we sent the Committee for this hearing.

Q85 Mr Crausby: Which target is most at risk?

Mr Jeffrey: We are already saying that we are unlikely to meet target three. As I said earlier we will be unlikely to meet the manning target in terms of so-called manning balance which is between minus two per cent and plus one per cent of the requirement. For the RAF we expect to meet it but we are, at the moment, looking unlikely to meet it for either the Navy or the Army for different reasons.

Q86 Mr Crausby: Do you intend to take any action to change this or is it accepted?

Mr Jeffrey: In a sense we are taking action all the time but one has to make a realistic assessment of what is achievable in this sort of business over these sorts of timescales. The thing I would say about the most significant of these which is readiness is that it is very much a consequence of the scale of operations at the moment.

Q87 Willie Rennie: Is it not the case that the only targets that you are actually anywhere nearing meeting are the ones that are subjective, the ones where you have made your own mind up, that you agreed that you are meeting, and the ones where you have actually got hard figures that you can check and other people can assess as well are the ones where you are trailing? I would argue, for instance,

on number four, as to whether you were actually meeting that, especially when you have not agreed to a three budget of the European Defence Agency and you have failed to persuade other NATO members to commit more troops to Afghanistan. I would say that that one is disputable, but you have regarded that as on course.

Mr Jeffrey: These are, as you say, matters of opinion. I think we would feel on target four that the objective is for us to make our own full contribution in these areas and we are doing so.

Chairman: I do not think Mr Rennie was asking about whether these were matters of opinion; he was drawing a distinction between the ones which could be subjectively judged and the ones which could not.

Q88 Willie Rennie: Is it not slightly suspicious that the only ones that you are passing are the ones that you have made your own mind up on?

Mr Jeffrey: I take the point, on the other hand all we can do—and we do it honestly—is to assess where we are on each of these targets. The first of them, the operational one, is, as the Committee knows, underpinned by some quite detailed factual material as well so it is not as if military commanders were simply putting a finger in the air and saying that they feel we are on course. The big engagements in Iraq and Afghanistan are immensely complicated and the judgment at the moment is that there are very difficult circumstances where we are achieving our operational objectives.

Q89 Chairman: Is this the underpinning factual material that we asked for last year and were refused?

Mr Jeffrey: We have given some of the information of that sort to the Committee but not as much, I suspect, as the Committee was seeking.

Q90 Robert Key: Your latest armed forces manning figures were issued on 22 November. I wonder if you are as concerned as I am that the number of people leaving the trained strength of the Armed Forces has increased by one per cent in the year to 30 September. It seems to be accelerating, this departure of trained service personnel.

Mr Jeffrey: The position on voluntary departure, which is early departure, is that it has been pretty steady for all three services at around four and a half to five per cent with some variation between the services and between officers and other ranks for some years. The rest of the ten per cent or so of the armed forces who leave every year and always have done leave as planned at the end of an engagement. The suggestion that we are losing people in very much larger numbers than before is certainly not true. There have, however, been some signs of an increase in voluntary departure in the Army; the voluntary departure of other ranks in the Army has been running in the recent months at around 5.8% which is a bit more than the five per cent we would normally assume. These are small but significant factors; we certainly keep a very close watch on them.

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Q91 Robert Key: Looking at those joining and those leaving, can you confirm that although there is an increase in the number of those raw recruits joining there is also an increase in the number of corporals and sergeants leaving?

Mr Jeffrey: Only to the extent that I have indicated to you in my response to your earlier question, Mr Key. If you look across the other services and at the officer ranks the early departure—that is people leaving before their engagement comes to an end in the normal way—is remarkably steady. However, in the Army there are signs that early departure for other ranks is creeping up a little. The other thing I would say, particularly in the Air Force, is that there are some signs that people are not extending for a further engagement to quite the degree that they were in the past. I do not want to exaggerate this and I think some of the media coverage implies that this is a much bigger phenomenon than it actually is, but there are certainly respects in which we are feeling some concern.

Q92 Robert Key: With the increasing pressure on all three of our armed services, the harmony guidelines are increasingly important. Only the Royal Navy is meeting the harmony guidelines; the Army and RAF are not. How long can you expect our service personnel to go on working with this tempo if the harmony guidelines are not kept?

Mr Jeffrey: The harmony guidelines are important. It is certainly something I know ministers, the service chiefs and I are concerned with. We are not meeting them at the moment. On the other hand, as we said in answers to earlier questions, some of this is an inevitable consequence of operational deployments at the current level. What I would say is that in the Army, where the problem is most significant, the percentage of individuals exceeding the harmony guidelines has reduced from just over 18% in the fourth quarter of 2003–04 to just over ten per cent in the final quarter of last year. That is not satisfactory and it bears unduly hard on some particular units which are more deployed than others. It is something we need to watch but it simply reflects the fact that we are deployed to the extent that we are at the moment.

Q93 Mr Jenkin: There is one answer to a question that concerns me, Mr Jeffrey, insofar as this is there because it is there. We want to know how you are going to get rid of it. How are you going to get us back into harmony? It is not acceptable. It may be acceptable for a short time but to say that this is acceptable for year upon year upon year—if we had this tempo for year upon year upon year—it is just not acceptable. What plans do you have for bringing it back within the harmony guidelines?

Mr Jeffrey: Principally I think the best prospect, given that these things inevitably have time lags built into them, is some reduction in the pressure that we face. Certainly as one looks forward there are signs of the scale of the current operational commitment reducing. The prime minister has made it clear that he expects us to go down to about 2500 in Iraq by the spring. Also—although I would not want to place

too much weight on this because it has been making quite significant demands for quite a while—the ending of the major operation in Northern Ireland has helped the army in particular. We are scaling down and have scaled down in the Balkans. There are some signs that the operational pressure will ease over the next year or so. We certainly hope so.

Chairman: As you know every year we raise the issue of diversity and the recruitment of black and minority ethnic representation in the Armed Forces. In the interests of time we will write to you about these issues because the annual report shows a disappointing performance. We will write to you and we will need quite early replies, please.⁹ I want to move on now to equipment issues now.

Q94 Willie Rennie: Is it not the case that there is no real desire within the MoD to get up to the full establishment in all the three Armed Forces because if you were you would go over your budget; there is no way that you could afford it, especially when you are trying to make these efficiency savings.

Mr Jeffrey: I must just say that that is not the case; it does not feel like that. I do meet the recruitment people from all three services occasionally and we are doing our best to translate what are actually quite good recruitment figures at the moment into trained strength. The figures that were published last week suggest that we are in fact achieving significant improvements in the additions to trained strength.

Q95 Willie Rennie: If you did get up to establishment all of a sudden and there was this mass influx of people wanting to be soldiers, how would you cope with it?

Mr Jeffrey: First of all I am not sure it would be massive; we are talking about few percentage points short of what the requirement is and we would just have to cope.

Q96 Mr Jones: Your memorandum to us on defence equipment showed that the forecast costs for the Astute and the Type 45 programmes have increased by some £500 million, this is the Major Projects Report of 2006. You also state in the MoD PSA performance report that there is likely to be growth on the Nimrod programme. Why is it that once again we have large increases in major projects and where will these increased costs be met in the CSR settlement?

Mr Jeffrey: The particular increases that are referred to in the memorandum that we sent you a few weeks ago are increases on the original main gate decision. Both the Astute programme and the Type 45 programme are part of what Sir Peter Spencer, the previous Chief of Defence Procurement used to refer to as the toxic legacy. Much of the cost growth in the papers we sent you relates to these earlier years. That is not to say that there has been no cost growth recently, there has. It was principally incurred during the course of last year as a result of some further efforts by the teams concerned with BAE Systems in particular to understand the cost base of

⁹ See Ev 31

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Astute and to identify with them ways of resourcing the Type 45 programme more efficiently. What we have now done is to re-negotiate the contracts on both of these on a more fixed price basis and there is good reason I believe to say that the costs of both programmes are now more under control. They have been problematic programmes all the way through. All I would say is that the big figures that come out of that memorandum we sent you are principally the result of the cost growth in the early part of the programme.

Q97 Mr Jones: What about the Nimrod?

Mr Jeffrey: Nimrod is certainly giving rise to in-year pressures this year. It is the one significant area that we are having to attend to now.

Q98 Mr Jones: In the case of Nimrod, for example, is it not about time we took the decision to either scrap it or actually stop throwing money at it and look at an alternative solution to this? Is it not time that some of these projects, Nimrod being one, need a good, hard look at?

Mr Jeffrey: The current programme is seen as a more forward looking one than that question would imply.

Q99 Mr Jones: You talk about Sir Peter Spencer and the toxic legacies, but what about the slippage in the Type 45 and also the A400M? Will we ever see this thing fly? There is clearly slippage in these programmes.

Mr Jeffrey: There has been some slippage in the A400M programme which is the subject of discussion with the contractors. I think if the Committee would like more detail on where that stands it might be safer for me to offer a note than to rely on my own memory on this programme.¹⁰

Chairman: It would be helpful to have more detail on it.

Q100 Mr Jones: When you came before us in 2006 you said that one of your priorities was to try to get to grips with the whole question of how procurement and acquiring equipment works. Obviously we have made great strides with Lord Drayson but my fear is now that he has gone you lot are going to get back in charge of it and get back into bad habits. What have you actually learned in terms of making sure that in-service dates are met and also that the taxpayer is not going to be landed with these huge sums of money?

Mr Jeffrey: First of all I think we have made progress in the last few years. I think there are always examples of project management that are less good than I would certainly wish. I think the merger of the DPA and the DLO has produced an organisation which is becoming more capable and is beginning to give effect to the through life capability of management principles that Lord Drayson did much to advance when he was our minister. I am optimistic that we can carry on improving in this

area. It turns a great deal on the issue that we were discussing earlier, the issue of skills. We have some very highly skilled staff involved in this but we need to make sure that they are all at that level. It is certainly something we are giving attention to.

Q101 Mr Jones: One thing that Lord Drayson brought into the equation was the fact that he was prepared to crack the whip and actually make sure that things were delivered on time and deadlines were met. It did not bode very well when we were told last week by the new minister that the next phase of the Defence Industrial Strategy would be delayed until the new year. Who is going to be cracking that whip in terms of making sure that these deadlines and things are actually met?

Mr Jeffrey: Lord Drayson was a very effective minister and I took public opportunities on my rare occasions of venturing into the public to say, perhaps quite unusually, that that was my view. I felt that it was up to us as a department to ensure that it was not just him and that we were actively promoting the agenda that he was, that it was a collective effort. We have a new minister who is extremely capable and experienced and what we have to do with her is to keep this momentum up and to keep improving things because it is too important not to.

Q102 Mr Jones: We are watching you very closely.

Mr Jeffrey: I am sure you are.

Q103 Mr Jones: Could I come onto the issue that was raised by Mr Jenkins earlier about the Guided Launch Rocket System. To achieve the saving you actually reduced the number of equipments you actually bought. Has this technique been used in other places to actually make sure it is coming in budget by ordering less?

Mr Woolley: It is the case that we looked to balance cost, time and capability and in order to ensure that we stay within budget it is right that we should look at areas where we can compromise on the overall level of capability to stay within the budget.

Q104 Mr Jones: When you say “compromise capability” what do you mean by that?

Mr Woolley: In the cases you raised the compromise we are talking about is that we buy fewer than we had previously planned, which was the case in regards to the GMLRS.

Q105 Mr Jones: Why did you buy less?

Mr Woolley: We bought less because we were faced with the decision as to whether to stay within the financial envelope—the budget that we had for that project—in which case we had to find savings in capability from within that project, or to exceed the budget in which case we would have to have made savings elsewhere.

Q106 Mr Jones: That is very clear but does that not then leave you a capability gap in terms of the Armed Forces?

¹⁰ See Ev 31

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Mr Woolley: We are always having to make judgments about risks and capability. We could never possibly, under any conceivable defence budget, be able to eliminate all the risks to capability that there are. We are constantly having to make that judgment about where to bear the risk, what are the greater risks, what are the lesser risks?

Q107 Mr Jones: Are the generals saying to you that therefore they do not have the capability when required? The new stage we have now is that it is yourselves and the politicians—big, bad MoD—versus these wonderful generals who are the actors in the play but do not really seem to have any role in it. What are they actually saying to you?

Mr Jeffrey: I would dispute that account, if I may.

Q108 Mr Jones: I am not saying that I agree with it but that is the public perception which is being put forward.

Mr Jeffrey: Within the department there is a very close working relationship. I think the point that Trevor Woolley is making is that it is inherent in our business that there is not a single answer to every capability requirement and you have to judge the extent to which you insure against risk by spending more. Inevitably we have to make judgments about just how much within a particular financial envelope we can afford.

Q109 Mr Jones: Therefore the original number you were going to buy was wrong, was it?

Mr Woolley: The original number we were going to buy was not wrong but it is just that when we were in a position where we had to make a judgment as to where we were going to take more risk, this seemed to be the area where it was most appropriate to have more risk.

Q110 Mr Jones: What is the capability gap in military terms by not buying these rocket systems?

Mr Woolley: There is a potential risk that in certain circumstances we would not have as many available as we would need potentially, but the judgment we make is that that is a very unlikely circumstance to arise.

Q111 Mr Jones: That judgment is obviously a ministerial judgment, a Civil Service judgment and a military judgment as well.

Mr Jeffrey: Yes.

Mr Woolley: The lead area of the department for making these judgments is what we call the Equipment Capability Customer which is an organisation led by a three star military officer.

Q112 Robert Key: The current tempo of operations is shortening the planned lives of equipment; I do not think there can be any doubt about that. How much is it going to cost to put that right? Will that cost fall on the Treasury or on the defence budget?

Mr Jeffrey: I agree with the basic premise of the question. I cannot give a figure for how much it would cost to put right; that is something we will need to build into our future equipment programme

planning. In terms of what the Treasury will cover, Trevor Woolley might want to remind me of the detail but essentially if things are destroyed in theatre then the reserve funds replacements in theatre. If things wear out and need to be replaced later then one is essentially talking about using the defence budget.

Q113 Robert Key: I used to think that the policy was that the Treasury would fully fund the cost of Urgent Operational Requirements but last week in another place Baroness Taylor said this: “The new approach with the Treasury means that in the three years of the comprehensive spending review the reserve will continue to pay all additional costs of operations up front and will pay outright for UORs up to a mutually agreed total. Beyond that the MoD and the Treasury will split the cost fifty-fifty, with the MoD having to repay its share two years later by which time there could have been adjustments in the programme.” This sounds to me like a change of policy. Am I right?

Mr Jeffrey: It is a different approach from the one that was being taken before.

Q114 Chairman: So that is a yes.

Mr Jeffrey: It involves principally an agreement between the two departments about what is a best estimate and what we would spend on UORs. There is, without equivocation, an expectation that that will be met from the reserve, as will any other additional costs on top of that within the year of spend. What is new is that there is an understanding that anything in excess of what we expected would be funded longer term fifty-fifty because there will be an opportunity over the succeeding few years for us to adjust the equipment programme. What one needs to bear in mind is that we are frequently deploying as UORs equipments that we might well have been planning to purchase later.¹¹

Q115 Robert Key: The other bit of this new policy is, as the minister said in the other place, “The Ministry of Defence will have to repay its share” (that is the fifty-fifty arrangement) “two years later”. In fact this has completely destroyed the old understanding of the Treasury picking up the cost of UORs; now the Ministry of Defence is having to pay the Treasury back. Is that right?

Mr Jeffrey: Within the spending review period that we are about to enter that is the subject of the last settlement, there is provision in 2010–11 of £200 million which the Treasury has provided to fund us to meet anything of that sort and thereby to ensure that over the whole CSR period these new arrangements are cost neutral.

Robert Key: Which is exactly what the minister said, I have it written down here. However, I do think that this new policy needs some thought.

¹¹ See Ev 31

28 November 2007 Mr Bill Jeffrey CB and Mr Trevor Woolley CB

Q116 Willie Rennie: Is it my understanding that not only does the MoD have to cover the through life costs of the UORs—the extra equipment—but they are now having to pay the actual upfront costs as well?

Mr Jeffrey: Only under the conditions that I described, in other words what we expect to spend by way of UORs will be funded from the reserve. If that is exceeded then on a basis agreed with the Treasury and a couple of years later—and funded a couple of years later for that purpose—there will be a fifty-fifty split. It is a little complicated, I acknowledge, but it is not that suddenly we have stopped having access to the reserve for those operational requirements, far from it.

Q117 Willie Rennie: There is no recognition from the Treasury; through life costs are part and parcel of purchasing.

Mr Jeffrey: As I said earlier, the position is that the reserve meets the costs of replacing or repairing equipment damaged or destroyed in theatre and for use in theatre. That does cover a lot of our expenditure because, as Mr Key remarked, we are losing things. In that sense we access the reserve unhesitatingly. It is if you look longer term that there is an extent to which our stock of some equipment will be deteriorating as a consequence of these operations.

Mr Woolley: The running costs of UORs on operations are provided from the reserve.

Q118 Mr Jones: How much to date has the MoD refunded to the Treasury for operations in Iraq and Afghanistan?

Mr Jeffrey: I am not aware of anything.

Q119 Mr Jones: For equipment in Iraq and Afghanistan. If you just had the system that Mr Key has talked about you must have refunded the Treasury for monies spent on equipment that has been purchased.

Mr Jeffrey: The announcement that Mr Key referred to that Baroness Taylor made—indeed the Secretary of State referred to it in the House on 12

November—was entirely forward looking in sense in which it is now for us to repay money to the reserve.

Q120 Mr Jones: The report on UORs said that in certain circumstances such as where an existing funded programme is accelerated, the Treasury may seek reimbursement from the defence budget on monies advanced from the reserve.

Mr Woolley: It has been the case for several years now that—

Q121 Mr Jones: I do not want to know that, I want to know how much.

Mr Woolley: There are a number of UORs that have been advanced from later in the equipment programme where we have agreed that we will repay the Treasury that cost in the year in which it was originally planned to procure them. As of now I do not believe we have incurred or repaid, as you say, to the Treasury any such cost but there will in the future be a number of costs. I do not have the precise sum or the precise years at my finger tips.

Q122 Mr Jones: Could you write to us with figures and also what the programmes are as well.

Mr Jeffrey: Yes.¹²

Q123 Chairman: It is now ten to twelve. I am grateful to both of our witnesses and to the Committee for being clipped and brief in your questions and your answers and thank you very much indeed for what I found an interesting and valuable evidence session in which I think, if I may say so, you genuinely tried insofar as you were able to answer the questions that we put to you. I am grateful; it was worth waiting for.

Mr Jeffrey: Could I say, Chairman, I appreciate the tone in which you make that remark, all the more so given that I am conscious of our own shortcomings over material we failed to send you earlier. I hope that that incident has not affected what I regard as a very important relationship.

Chairman: It has not.

¹² See Ev 31

Memorandum from the Ministry of Defence

(1) PSA TARGETS

Why does the Annual Report not use the standard terminology for reporting performance against PSA targets, as set out in Treasury guidance (PES 2006 18, Annex A)?

In reviewing top level performance against each target in the department's quarterly PSA Reports, including the Annual Report and Accounts, the Defence Management Board considers how to express that performance in a way that is clear for the reader and best reflects the nature of the assessment it is making, particularly with regard to the level of risk being managed. The Board has judged that where this is best served by variation from the standard Treasury terminology (which is not drawn up with military targets in mind), doing so best meets the spirit and purpose of our reporting obligations. These assessments are visible to Treasury officials.

(2) PSA TARGET 1

[Achieve the objectives established by Ministers for Operations and Military Tasks in which the United Kingdom's Armed Forces are involved . . .]

(a) *Over the year April 2006–March 2007, the proportion of regular forces deployed on operations and other military tasks increased from just under 20%–21.4% (page 14). What is the percentage, overall and for each service, for the first quarter of 2007–08 (April–June 2007)?*

There have always been some minor differences in the way the three Services have individually measured their level of commitment to operations, reflecting their different operating procedures and environments. We have been working to regularise this for some time, and from 1 April 2007 they have now been brought onto a fully consistent basis to measure the proportion of the Armed Forces deployed on Operations and undertaking Military Tasks. We have also changed the baseline for this figure from total strength to trained strength. This means that these figures are not directly comparable with those from previous years. Given the discontinuity, we have provided a rough indication of the previous quarter's activity levels compiled on the new basis. This provides a degree of comparability with our previous reporting (which stretches back to April 2001).

Between 1 April and 30 June 2007, 19% of the Royal Navy, 25% of the Army and 17% of the Royal Air Force were deployed on Operations and undertaking Military Tasks. In total, some 22% of all regular forces were deployed on Operations and undertaking Military Tasks. This was a decrease of 3–4% from the previous quarter, reflecting the withdrawal of UK combat forces from the Balkans at the end of March, continuing normalisation in Northern Ireland, and continuing progress in building Iraq's political institutions and its security capacity, counterbalanced to some degree by the deployment of additional forces to Afghanistan. The reduction in Royal Navy activity levels reflects the replacement of 3 Commando Brigade by 12 Mechanised Brigade in Afghanistan in April.

(b) *What impact is the ending of Operation BANNER in Northern Ireland on 31 July 2007 expected to have on the proportion of each Service's trained strength undertaking operations?*

We have not yet formally assessed the impact of the end of Operation BANNER on Activity levels; these are routinely calculated in arrears every quarter and the full effect will not be visible until figures for the third quarter of 2007–08 (September–December 2007) are published in the spring of 2008. We expect the end of Operation BANNER in itself to reduce the proportion of the Army deployed on Operations and undertaking Military Tasks by about 4% and of the RAF by about 2%. Overall published quarterly activity levels will of course also reflect parallel reductions or increases in the forces deployed on other operations and Military tasks, so the net figures are unlikely precisely to match these numbers.

(3) PSA TARGET 3

[Generate forces, which can be deployed, sustained and recovered at the scales of effort required . . .]

(a) *For each of the three indicators for PSA Target 3, what are the percentages for the first quarter of 2007–08?*

Owing to the continuing high level of operational commitment, we do not now expect to reach the target level by April 2008. On average from July 2006 to June 2007:

- 65% of force elements reported no critical or serious weaknesses against their required peacetime readiness levels, against a target of 73% by April 2008;
- 58% of force elements reported no critical or serious weaknesses against the ability to generate from peacetime readiness to immediate readiness for deployment on operations, against a target of 71% by April 2008; and
- 79.5% of force elements reported no critical or serious weaknesses against the ability physically to deploy on operations at what is likely to be the most demanding level for many enabling functions (two medium scales and a small scale concurrently), sustain in theatre and thereafter recover to their home bases, against a target of 82.5% by April 2008.

(b) *For each of the three indicators for PSA Target 3, what are the percentages for each of the Services for 2006–07?*

This information is not available. Readiness requirements are set for and reported against the individual Force Elements that provide the building blocks of military capability, and not by Service.

(4) PSA TARGET 5

[Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives]

(a) *An MoD press notice of 23 August 2007 provides "provisional" manning figures for the Royal Navy and Royal Air Force as at 1 July 2007, and manning figures for the Army as at 1 April 2007. What are the manning figures for each of the Services as at 1 July 2007? When will the manning figures as at 1 October 2007 be available?*

Provisional Army Manning figures for 1 July 2007 and 1 August 2007, and provisional Tri-Service data for 1 September 2007 were published on 19 October on the internet and in the Library of the House by the Defence Analytical Services Agency in Tri-Service Publications 1 and 3, in accordance with National Statistics publication regulations. Provisional Tri-Service data for 1 October 2007 will be published later this month.

(b) *Table 19 on page 161 sets out, for each Service, the Trained Requirement and Trained Strength. What is the MoD's current forecast for the likely Trained Requirement and likely Trained Strength for each Service as at 1 April 2008?*

The personnel requirement for 1 April 2008 set out in the MoD Defence Plan 2007 was:

— Royal Navy:	36,260
— Army:	101,855
— Royal Air Force:	40,790

The Defence Management Board last reviewed the forecast for the likely trained strength when considering likely performance against the Public Service Agreement manning balance target for the 2007–08 First Quarter Performance Report, at which time the predicted Trained Strength for 1 April 2008 was about:

— Royal Navy:	34,800
— Army:	99,300
— Royal Air Force:	40,800.

(c) *A Parliamentary Written Answer of 17 July 2007 provided a list of "pinch point" trades in each of the three services. What is the latest position on "pinch point" trades and the percentage shortfall against each? What progress is being made to address the shortfalls?*

A manning pinch point is defined as "a trade, or area of expertise where there is insufficient trained strength to perform directed tasks. This might be as a result of adherence to single-Service harmony guidelines, under-manning, and/or levels of commitment that exceed the resourced manpower ceiling for the trades or areas of expertise involved." The most recent position is set out below. The Department has put in place a range of short and long term measures to ameliorate this situation. This includes training and recruitment initiatives, financial retention and re-engagement incentives, flexibility in the rank employed in some posts, the mobilisation of Reservists, some contractorisation where appropriate, and regular reviews of force levels required for each operation. Reducing force levels in Iraq should also help relieve some pressure.

<i>ROYAL NAVY</i>	<i>Percentage shortfall</i>
Merlin Pilots	39
Merlin Observers	47
Merlin Aircrew	22
Leading Hand Warfare	29
Able Bodied Diver	15
Royal Marines Other Ranks	9
Leading Hand Air Engineering Technician	36
Petty Officer Mine Warfare	44
Able Bodied Warfare Specialist (Sensors Submariner)	27
Able Bodied Warfare Specialist (Tactical Submariner)	23
Strategic Weapons Systems Junior Ranks Nuclear Watchkeepers	26

<i>ARMY</i>	<i>Percentage Shortfall</i>
Royal Electrical and Mechanical Engineers Vehicle Mechanic	8
Royal Electrical and Mechanical Engineers Recovery Mechanic	14
Royal Electrical and Mechanical Engineers Armourer	13
Royal Engineers Clerk of Works	17
Army Medical Service—General Surgeon	50
Royal Engineers Mechanical Engineer Fitter	22
Royal Logistics Corps Ammunition Technician	23
Royal Logistic Corps—Postal and Courier Operator	10
Infantryman Private and Corporal	10
Army Medical Services—Radiographer	29
Royal Engineers Military Engineer Geographic	26
Intelligence Operational Military Intelligence	10
Royal Engineers Explosive Ordnance Disposal	29
Royal SIGNALS Information Systems Engineer	2
Royal Engineers Command, Control and Communications Systems	23
Army Medical Service—General Medical Practitioner	18
Royal Logistics Corps Chef	8
Army Medical Services—Operation Department Practitioner	45
Royal Logistics Corps Petroleum Operator	4
Adjutant General's Corps—Military Administrator	13
Royal Artillery —Operator Unmanned Aerial Vehicle	48
Army Medical Service—Nurse Officer	36
Army Medical Service—A&E Nurse Officer	45
Army Medical Service—Anaesthetist	46
Army Medical Service—Radiologist	80
Army Medical Service—Orthopaedic Surgeon	62
Army Medical Service—Intensive Therapy Unit Nurse Officer	39
<i>ROYAL AIR FORCE</i>	<i>Percentage Shortfalls</i>
Medical	28
Operational Support (Intelligence)	2
Operational Support (RAF Regiment)	13
Operational Support (Provost/Security)	10
Princess Mary's RAF Nursing Service	19
Weapons Support (Air Load Master)	11
Weapons Support (Linguist)	21
Air Traffic Control/ Flight Operations Manager/	
Flight Operations Assistant—Sergeant	9
Firefighter	10
Gunner	14
Movements Operations/Controller	1
Motor Transport Technician	17
RAF Police	7
Staff Nurse (RGN) A & E	14

(d) *The Written Answer showed substantial shortfalls relating to pilots, observers and aircrew for Merlin Helicopters. What impact are these shortfalls having on current operations and what impact will they have when the six new Merlin helicopters come into service in 2008? Will there be sufficient crew to operate these six helicopters?*

The majority of RN Merlin crew shortages are held against non operational front line appointments which require RN Merlin operational experience. There are also some gaps in the Merlin Force in the training fleet as opposed to the front line, but there is at present no significant impact on current operations. The six new Merlin helicopters are for the RAF, not the RN, and their operation will therefore be unaffected by RN manpower shortages.

(e) *Table 24 on page 166 shows that all three Services did not meet their targets for “UK Ethnic recruitment”. What action is being taken to improve performance in this area? Why does the RAF appear to have a particular problem?*

The Department has an annual Action Plan with specific diversity targets to increase UK ethnic minority recruits by 0.5% above the previous year’s achievement, or rolling forward the previous year’s target where this would provide a greater challenge. Targets for 2007–08 are: Navy 3.5%; Army 4.3%; RAF 3.6%. As set out in the Essay on Improving Service Diversity on page 173 of the Annual Report and Accounts, the Armed Forces have an active programme to improve recruiting among the United Kingdom’s ethnic minority communities. The Army and Royal Air Force received Gold Awards from Opportunity Now in 2006 and the Royal Navy a silver award in 2005. In the Race for Opportunity scheme the Army came top among public sector organisations for the 6th consecutive year, RAF 3rd and Navy 5th. Of the 104 public and private sector employees who participated, the Army was 5th and the RAF 10th, an improvement on previous years’ assessments. Each Service has a dedicated team raising awareness of Armed Forces careers amongst the UK’s minority ethnic and faith communities. Activities include:

- presentations in schools, colleges and to Community and Faith leaders;
- providing role models to young members of ethnic minorities and faith communities;
- organising and operating Personal Development Courses;
- attending careers fairs, and cultural and religious festivals and events;
- Community Liaison Officers working within regional networks to engage potential recruits and their gatekeepers; and
- arranging visits for ethnic minorities to military bases.

There are a number of factors currently challenging ethnic minority recruitment which broadly affect each of the three Services: commonly held aspirations of young members of ethnic minorities; prevalent views on current operations amongst ethnic minority communities; and concerns about ethnic imbalances and racism in the Armed Forces in general. However, of the three Services, the RAF’s recruitment patterns have been most affected in recent years by the personnel reductions set out in the July 2004 Future Capabilities White Paper. As a consequence, recruitment opportunities in the RAF have been particularly limited, reducing the overall number of new RAF recruits and the number of new ethnic minority recruits and thus constraining the scope for change in the proportion of personnel from ethnic minorities across the RAF as a whole. Moreover, members of ethnic minority communities with high aspirations and the necessary educational qualifications for RAF entry have not generally considered the Armed Forces as a career of first choice, and awareness and knowledge of RAF careers in ethnic minority communities has traditionally been poor compared with the Army and Royal Navy. As a result of this legacy and the nature of Service career progression, there are at present fewer role models in the RAF who can reach out to and motivate potential recruits from ethnic minority communities compared to the RN and the Army. The RAF marketing campaign and the work of the RAF Motivational Outreach Team are both intended to counterbalance these challenges.

(f) *What is the latest position regarding Armed Forces ethnic minority representation for each of the three Services and the Armed Forces overall (Table 25 on page 166)?*

Ethnic minority data is published quarterly on the Internet and to the Library of the House by the Defence Analytical Services Agency in Tri Service Publication 3 in accordance with National Statistics publication regulations. The most recent data, for the Royal Navy and RAF for 1 July 2007, were published on 23 August 2007. Tri-Service data for 1 October should be published later this month.

(g) *The Army and the RAF did not meet individual or unit harmony guidelines in 2006–07 (page 21). What are the latest available figures for the performance against individual and unit harmony guidelines for each of the three Services?*

The latest figures are:

Levels of Individual Separated Service against Harmony Guidelines

	<i>Guidelines</i>	<i>Performance</i>
<i>Royal Navy / Royal Marines</i>	In any 36 month period, no one to exceed 660 days separated service.	Fewer than 1% of Royal Navy personnel exceeding 660 days separated service.
<i>Army</i>	In any 30 month rolling period no one to exceed 415 days separated service.	10.3% of Army personnel exceeding 415 days separated service.
<i>Royal Air Force</i>	Not greater than 2.5% of personnel exceeding 140 days of detached duty in 12 months.	6.7% of Royal Air Force personnel exceeding 140 days of detached duty.

Unit Tour Intervals against Harmony Guidelines

	<i>Guidelines</i>	<i>Performance</i>
<i>Royal Navy</i>	Fleet Units to spend maximum of 60% deployed in a three year cycle.	The Royal Navy continues broadly to meet its Unit Tour Interval Harmony guidelines.
<i>Army</i>	24 month average interval between unit tours.	The following front line corps were exceeding unit tour interval guidelines: <ul style="list-style-type: none"> — Infantry (15.8 months); — Royal Artillery (19.2 months); — Royal Engineers (18.3 months). Some specialist units, particularly in the Combat Service Support trades, had shorter tour intervals.
<i>Royal Air Force</i>	Unit tour intervals to be no less than 16 months.	Unit Tour Intervals are not easily measured for the Royal Air Force. However: <ul style="list-style-type: none"> — The Harrier, Nimrod and Air Transport fleets remain heavily committed; — Elements of Joint Helicopter Command, Harrier, Tactical Imagery-Intelligence Wing, Nimrod, Tactical Medical Wing, 90 Signals Support Unit and the RAF Regiment are breaking unit tour interval guidelines

(5) 2004 SPENDING REVIEW EFFICIENCY TARGET

(a) *In written evidence to the Committee following its October 2006 hearing, the MoD provided some further information on the results of the 2002 Spending Review “value for money target”¹, but not the outturn data for each of the components of the target or the final overall position. What is the MoD’s final assessment of performance against the 2002 Spending Review vfm target?*

The Department achieved the 2002 Spending Review value for money target overall. As set out in paragraphs 269–70 and table 16 of the 2005–06 Annual Report and Accounts, the Department at that time judged that, on the basis of the lower end of the range of forecast achievement against the Defence Logistics Organisation’s Strategic Goal in 2005–06 (£350 million), which was at that time still subject to validation, it had met the overall 2002 Spending Review target of 10%. As reported to the Committee, the Defence Logistics Organisation in fact achieved £475 million of efficiencies against the Strategic Goal, substantially exceeding the amount required.

(b) *The NAO report, The Efficiency Programme: A Second Review of Progress (HC 156-I Session 2006–2007), examined three MoD efficiency projects (pages 48–49 of NAO report). The NAO rated the measurement methodologies for each of the programmes as “Amber” (the reported figures represent efficiencies, but carry some measurement issues and uncertainties). How is the MoD addressing the concerns identified by the NAO?*

The projects referred to are:

- The Defence Logistics Transformation Programme. The NAO has observed that the efficiencies claimed include savings in depreciation, and that this is in line with centrally-issued (ie Treasury) guidance. It was concerned that there is a risk that measuring such reductions in depreciation may lead to perverse incentives or simply be an accounting exercise with no real efficiency improvement taking place;
- Army Manpower. The NAO has observed that while all the manpower reductions are defence policy compliant, they include headcount reductions in front line personnel as well as administrative and support posts; and
- Fast Jets. The NAO has observed that the element arising from earlier decommissioning of fighters and missiles (about 20%) only represents a financial saving over the period of the original budgets up to the original decommissioning date of 2008–09. It has noted that this can be scored within OGC guidelines and has allowed redirection of resources to other defence priorities, but in its view they cannot be considered sustainable.

¹ Defence Committee, *Ministry of Defence Annual Report and Accounts*, Second Report of Session 2006–07, HC 57, Ev 35

As the NAO has observed in its comments, the Department is working within the central guidelines laid down by the Treasury and Office of Government Commerce on how efficiencies under the 2004 Spending Review efficiency programme should be measured and scored. As set out in the responses to questions 5(a) and 5(c), the Department has a robust approach to measuring and validating the very substantial efficiencies achieved by the Defence Logistics Transformation Programme and the Defence Logistics Organisation's original Strategic Goal. The Defence Logistics Transformation Programme benefits have been audited by Defence Internal Audit (MoD's independent provider of systems appraisal) since 2004–05. In its July 2007 report on Transforming logistics support for fast jets the NAO concluded that Tornado and Harrier costs have reduced from £771 million in 2001–02 to £328 million in 2006–07, providing a cumulative saving of some £1.4 billion over the six-year period, that the Department continued to achieve broadly the same level of performance in terms of flying hours throughout the transformation, that consequently the Department's transformation of logistics support represents good value for money to date and that although there are risks, the Department is working to manage them. Overall, therefore, the Department judges that it already has appropriate and proportionate processes in place to provide assurance that it is achieving the efficiencies it claims in accordance with central guidelines.

(c) *The Annual Report (paragraph 152, second bullet) states that, for the Defence Logistics Transformation Programme, "work is in hand to validate the efficiencies achieved in 2006–07". Has the validation now been completed and, if so, what was the outcome?*

Defence Internal Audit has now completed its audit of the new benefits being claimed by the Defence Logistics Transformation Programme (DLTP) in 2006–07. As a consequence, £360 million of new input benefits have been validated. These include some non-repeatable efficiencies. The audit also verified achievement of £139 million of output benefits. The DLTP cumulative achievement to the end of year was £1,030 million, against the range of £780–830 million published in the Department's Annual Report and Accounts.

(d) *In his statement to the House on 25 July 2007 on the Comprehensive Spending Review settlement for defence, the Secretary of State said that "we will make savings against the Department's overheads, including a 5% year-on-year saving in our administrative overhead over the next three years and a 25% reduction in our head office. These are additional to the £2.8 billion efficiencies delivered over the spending review 2004 period". How does the MoD plan to make a 25% reduction in head office costs and over what period will the reductions be delivered?*

This will be delivered through the Head Office streamlining programme established in parallel with the MoD's Capability Review (see question 9(b) below). Detailed proposals are set out in the attached consultation document, published on 23 October.

(6) DEPARTMENTAL RESOURCE ACCOUNTS 2006–07

(a) *There was a £150 million under-spend on the Capital-DEL budget (Table 15 on page 154). The Annual Report explains that this was "due to receipts from estates disposal in a PFI project" (paragraph 285). What project was this, and what were the circumstances of the disposal?*

The receipts arose from the first disposal of estate assets within Project MoDEL (MoD Estate in London). Project MoDEL will combine the operations from a number of Defence sites within Greater London, providing improved facilities and quality of life for about 1,800 personnel subsequently based at RAF Northolt and freeing up to 100 hectares of predominantly brownfield land within the M25 for development. Estate disposals will take place through to 2012.

(b) *The Resource Accounts for 2006–07 have been qualified by the C&AG because net expenditure was nearly £21 million (1.4%) more than the Estimate for Request-for-Resources 2, mainly because of higher than expected use of guided weapons and bombs in Afghanistan and depreciation costs associated with capital spares used in-theatre. What are the emerging findings of the MoD's review into the causes of the Excess Vote, and what measures are likely to be needed to avoid a future repetition? What discussions has the MoD had with the Treasury about reintroducing a contingency element for RfR-2 Estimates?*

Following the Defence Committee's criticism of the size of the contingency included in the previous year estimate, in 2006–07 the MoD provided a taut and realistic forecast without a contingency element. This meant that that even a relatively minor change in the tempo of operations had the potential to cause an excess vote. Working with the NAO, the Department has identified areas where our reporting and forecasting systems can be improved and allocated these to the appropriate areas for remedial action. The NAO will undertake a review at the mid-year point of 2007–08 to ensure that our systems are robust. The Department is also implementing processes to improve data capture for reporting writes-off, impairments and other charges relating to RfR2, including use of guided weapons, missile and bombs, to ensure costs are

correctly charged and additional expenditure identified in time to be included in the Spring Supplementary Estimates. We will be discussing with Treasury the reintroduction of a small contingency element to anticipate any unforeseen increases in cost.

(c) *RfR-2 Capital expenditure was lower than expected in both Iraq and Afghanistan, because not all UORs that were approved were delivered within the year (page 239, paragraph 2.5). To what extent does this reflect delays in delivery of UORs, and what UORs were affected?*

The lower than expected expenditure on Urgent Operational Requirements does not reflect a delay in delivery. Rather it reflects an earlier over-estimate of the rate at which approval levels translated into actual spend.

(d) *Paragraph 183 of the Annual Report describes financial control failures resulting from teething problems with the Joint Personnel Administration (JPA) system, some of which were expected to be dealt with "by autumn of 2007". When does the MoD expect to have resolved all the outstanding problems?*

As set out in the Annual Report and Accounts, the Joint Personnel Administration system has now been successfully rolled out across all three Services. It is delivering effective front office personnel and payroll administration and is providing management information that broadly meets the Department's business needs. However, it has not yet delivered its full potential management benefits as work continues to improve back office financial accounting functions and the quality and timeliness of personnel data. Software developments in this area planned for the summer and autumn of 2007 have been delivered as intended, although some will only be used generally for the first time in November following the processing of the October payroll. Investigation of control account balances continues. Some further problems have been identified with the way that in-service and post-discharge debts are managed, and this may lead to further process and systems changes. Progress is kept under review by the Defence Audit Committee on behalf of the Accounting Officer, and is visible to the National Audit Office, but it is unlikely that all the known issues will have been resolved by the end of this financial year.

(7) FINANCIAL SAVINGS

An MoD press notice of 27 June 2007 says that a DE&S project team has combined MoD's office supplies requirement with those of eight other Government departments in the biggest ever public sector reverse auction to generate combined savings over existing spending of £100 million over the next four years—a saving of £50 million for MoD over the life of the contract. Is the MoD working with other Government departments / public bodies to identify other areas where a similar approach could deliver financial savings? If so, in what areas and what sort of savings might be delivered for the MoD?

MoD's Category Management approach extends beyond office supplies to a range of commodity categories and services that apply not only pan-defence but also pan-Government. MoD is an active member of the Office of Government Commerce's (OGC) pan-Government Commodity procurement stakeholder groups and is planning further collaboration with a number of other Government departments across a range of categories. Details are below. Collectively this represents a significant level of collaboration by MoD, with the department leading in some areas. Category Management has already delivered £250 million cash benefit to MoD. Existing arrangements include:

- MoD's Information Communications Systems catalogue has been used by other Departments for several years. Savings have been in the region of 20% in this volatile fast moving market. In addition MoD is to become the lead for Government's basic IT/IS information assurance requirements, which will include the Foreign and Commonwealth Office (FCO) and extend to other departments in time.
- MoD's Print Contract is open to use for any other department. MoD's own Print Manager can also call-off the Department for Transport's recycled paper framework. Savings from April to July, as a result of using the collaborative arrangement were £6.1K.
- MoD is collaborating with the Office of Government Commerce Buying Solutions (OGC b.s.) on furniture, where the department's spending power adds weight to OGC b.s.' overall ability to leverage the market. Predicted MoD savings are £0.5 million per year. Other public sector bodies expected to commit to this arrangement include the Department for Environment, Food and Rural Affairs (DEFRA), the Home Office, the Department for Transport, the Ministry of Justice, and Lancashire County Council.
- The National Health Service Purchasing and Supply Agency (NHS PaSA) is leading the pan-Government tender for Water Coolers and Dispensers. This will have a significant effect on the MoD's sustainability targets. The MoD is also collaborating with the FCO on travel arrangements and the Electronic Booking Interface Service. The Home Office has also expressed an interest.

- The MoD has made significant savings through using the Department of Works and Pensions management consultancy framework, plus its own Gate and Governance process for all management consultancy requirements. The department is also collaborating on a Consultancy work-stream—one of three within the Consultancy Value Programme.
- The MoD is collaborating with OGC, OGC b.s, NHS PaSA, DEFRA, and Local Government (Regional Centres of Excellence) on an energy pilot. Work is underway on a collaborative half-hourly electricity contract requirement, led by PaSA. DEFRA are leading on potential gains from a cross government approach to emissions trading liabilities.

Planned collaboration includes:

- The MoD, OGC b.s. and the Higher Education Institute will begin collaborating on print output from May 2010 and work is underway to collaborate across IT/IS hardware and software. No projected benefits are available yet.
- The MoD is a member of the Office Solutions Collaborative Category Board and will participate in formulating the pan-government strategy for stationery, print, paper, multi-functional devices and post and courier services.

(8) DEFENCE AGENCIES

A Parliamentary Written Answer of 29 June 2007 provided a list of MoD Executive Agencies (8) and Trading Funds (5). Are further changes to the number of Executive Agencies and Trading Funds planned?

The MoD keeps the business models of all its agencies under regular review to ensure that Next Steps status continues to be the best means of supporting wider defence outputs. The number of agencies in the department has decreased substantially over the last few years as the benefits derived from agency status have become embedded within the wider department. We are currently reviewing the status of the Defence Analytical Services Agency and the Defence Medical Education and Training Agency. No decisions have been made or conclusions reached on whether or not to change their status as Executive Agencies as this work has not concluded and Ministers have not yet been consulted.

The Minister of State for the Armed Forces announced the merger of ABRO and DARA Trading Funds to Parliament on 25 July 2007.

(9) CAPABILITY REVIEW

(a) What progress has been made against the MoD Action Plan which set out how the MoD planned to address the issues identified in the Capability Review which was published on 27 March 2007?

The Defence Management Board (DMB) set a number of specific six month objectives. The Department is making good progress across the four Areas for Action.

Area for Action 1 (Strengthen the corporate leadership of the Department)

We committed to:

- the DMB championing a defence wide statement of what we stand for and how we work; and
- an accessible statement of Departmental strategy in a single document incorporating the business strategy necessary to deliver continuous improvement.

We have in place a Board development programme addressing the drivers behind the Review's observations on corporacy. A group led by the Permanent Secretary and Chief of the Defence Staff is considering proposals for a departmental strategy, which is being developed alongside the normal departmental planning process following a spending review.

Area for Action 2 (Clarify and simplify the MoD's operating model)

We committed to:

- agreeing a new structure for the top of the Department which is simpler, and will have reduced the number of committees;
- generating a new departmental business model, setting out the future roles and relationships of the Centre and other TLBs; and
- undertaking a review of Head Office to define its future functions and broad structure.

Details are set out in the Head Office Streamlining consultation document.

Area for Action 3.1 (Punch our weight in Whitehall and work more closely with others)

We committed to:

- developing a strategy to promote the reputation of Defence among key stakeholders inside and outside government; and
- agreeing processes for joining-up cross-Government strategic analysis and planning on security issues.

We have taken forward work on identifying the underlying causes of the Department's perceived insularity and developed possible solutions, and are providing a team to support the Cabinet Office on drafting the first UK National Security Strategy.

Area for Action 3.2 (Defence Industrial Strategy Implementation)

We committed to:

- agreeing, publicising and delivering on demanding Defence Industrial Strategy delivery milestones for 2007–08 and reflecting these in senior staff objectives;
- making the merged DE&S an organisation that contributed to overall improvement in Defence acquisition;
- being judged by industry as having delivered on transparency; and
- establishing a commercial framework with Through-Life Capability Management embedded.

We have achieved these and we are on course to agree a Transparency Policy that allows industry to align their forward investment plans.

Area for Action 4 (Redouble our efforts to build MoD's human capability)

We committed to:

- DMB members re-emphasising line managers' responsibilities, and leading by example in people management;
- changing the civilian appraisal system so that managers are judged on their development of staff;
- delivering an incentivising package for key acquisition posts;
- implementing more structured civilian performance assessments;
- agreeing civilian succession planning with the Cabinet Office, and changing our internal processes (both military and civilian) to ensure that greater account is taken of department's corporate needs when succession planning;
- updating the Department's diversity programmes; and
- agreeing and implementing measures for increasing internal promotions to Senior Civil Service and feeder grades.

We have changed the appraisal system for civilians, developed the incentivising package for acquisition specialists, set in train more rigorous performance assessment programmes, updated the criteria for, and Defence Management Board engagement in, Senior Appointments Committee work for the military, and updated the diversity programme. However, the nature of the streamlining programme will increase the challenges associated with refreshing the Senior Civil Service and feeder grades.

(b) *The MoD response to the Capability Review envisages delivering a zero-based review of the "head-office operating model" "by the autumn". What are the emerging findings of this review?*

These are set out in the attached copy of the Streamlining consultation document.

(10) COMPREHENSIVE SPENDING REVIEW

(a) *What progress has been made in developing a price index for defence products? Does the MoD have estimates for defence inflation in each of the years of the CSR07?*

Earlier approaches to build a price index for defence products using information supplied by defence companies to the Office of National Statistics' (ONS) existing sample survey of producer prices has failed to deliver a sufficiently robust measure. Work is now underway to assemble an index combining details of all the "Variation of Price" clauses applied to MoD "Fixed Price" contracts (which are based on weighted combinations of existing ONS price indices), with appropriate "deflators" for all "Firm Price" contracts (which are invariant to inflation) and allowance for price increases in MoD's "commodity purchases", making use of appropriate information from existing ONS indices.

The MoD does not have estimates for defence inflation for the years of the CSR07. The MoD uses the Gross Domestic Product deflator (currently 2.7%) as the measure of overall inflation, in line with all Government Departments.

(b) *In his statement to the House on 25 July 2007, the Secretary of State announced that the MoD would be placing orders for two aircraft carriers. The aircraft carriers will cost around £3.9 billion. When the Committee examined the future carrier programme, it was told that the cost of the two ships would be just over £3 billion.² How will the increased costs on this programme, just under £1 billion, be funded?*

Industry has committed to manufacture the CVF at an Initial Target cost of £3.9 billion. However, the Aircraft Carrier Alliance is incentivised to drive costs below this before a Final Target Cost is agreed by 2010. As the Department set out to the Committee in previous evidence (HC822, Ministry of Defence Annual Report and Accounts 2004–05: Sixth Report of Session 2005–06, Ev26–27) it is impossible to hypothecate the impact of changes in the estimated cost of individual projects to specific changes in the overall programme. As part of the Department’s routine planning process we review the underlying plans and assumptions which make up the Equipment Programme. This takes into account changes in the strategic background, fresh operational experience, alterations to project plans, assumptions and risks—which may include both increases and decreases in forecast costs—and pressures elsewhere in the Department, with reference to the outcome of Spending Reviews. All these factors have to be weighed and our plans and assumptions about the Equipment Programme adjusted accordingly to ensure that we are still able to deliver the balanced military capability our forces requires within the funds available for Defence. Consequently, whilst it is inevitably the case that if we have to spend more resources on one project, less will be available for other purposes, there is not a simple relationship between increased costs of one project and reduced spending elsewhere; the adjustments the Department makes are the result of the interplay of a wide range of issues across the Defence budget as a whole.

(c) *The CSR report [Cm 7227, p233] sets the MoD’s CSR settlement against a “baseline” for 2007–08. What significant areas of expenditure are in the baseline (£32.579 billion) but are excluded from the MoD expenditure figure (£33.561 billion) in Public Expenditure Statistical Analyses 2007 [Cm 7091, Table 1.12], to account for the approximately £1 billion difference?*

The Comprehensive Spending Review (CSR) settlement baseline is derived from the 2004 Spending Review settlement for 2007–08. The Public Expenditure Statistical Analyses (PESA) figure for 2007–08 is derived from Main Estimates 2007–08. Both figures are for “total DEL”, which is RDEL + {CDEL minus depreciation and impairments.

There a number of (predominantly technical) differences between these figures:

- there has been a budgetary regime change in relation to stock write-offs in 2007–08, reflected in the latest Consolidated Budgeting and Guidance. The 2007–08 figure in Estimates and PESA reflects a lower depreciation charge, where, under the previous regime, stock write-off were not considered part of depreciation in calculating Total DEL. This correspondingly increased our Total DEL figure by £272 million—although our near cash position is unaffected;
- similarly, we made a number of adjustments within our Indirect RDEL budget for Main Estimates, reflecting expected higher cost of capital charge and release of provisions in 2007–08 amounting to some £351 million. This was balanced by a reduced forecast for depreciation of the same amount (£351 million). As above, because the Estimate shows a reduction in depreciation, there is a corresponding increase in the value of the Total DEL figure compared to our CSR baseline, which doesn’t reflect in-year fluctuations in the composition of non-cash;
- baselines for Spending Reviews are set excluding time-limited ring-fenced budgets. For MoD, this meant the discontinuation in CSR07 of the Defence Modernisation Fund, reducing our baseline by £146 million Direct RDEL and £190 million CDEL;
- Main Estimates include £44 million RDEL Direct for programmed conflict prevention activities in RFR2 for 2007–08 funded from the Conflict Prevention Pools. Funding for such activities is not reflected in the Defence baseline as the conflict prevention pool is settled separately; and
- a number of other minor technical adjustments also come into play, such as the discontinuation of a number of PES transfers into and out of the Department that do not reflect Machinery of Government changes.

12 November 2007

² Defence Committee, *Future Carrier and Joint Combat Aircraft Programmes*, Second Report of Session 2005–06, HC 554, paragraph 14.

Letter from Bill Jeffrey CB, Permanent Under Secretary of State, Ministry of Defence

You asked on Tuesday for a detailed explanation of why the Department did not meet the timescales the Committee set for answering its follow-up questions on the Ministry of Defence Annual Report and Accounts. I would like once again to apologise for the fact that we did not do so.

The Committee formally commissioned work from the Department on 9 October (though we had some indication of the likely questions a few days before) with a request for a response by 31 October. This was subsequently extended until 5 November recognising that the material sought by the Committee was substantial and not in all cases straightforward. I was in the United States on business from 29–31 October, returning on 1 November. The Department submitted a draft memorandum on 31 October for my consideration. Given the closeness of this to the Committee's deadline this was copied to the Secretary of State's office in parallel. I received a further version of the draft on 2 November, which reflected comments from officials in the Secretary of State's office, although the Secretary of State himself had not had the opportunity to consider the text as he was in Iraq that week. I reviewed the draft over the weekend of 3/4 November, when I raised a number of detailed questions. In the light of responses to these, I cleared the draft memorandum on 5 November and submitted it to the Secretary of State's office on 6 November. The Secretary of State raised a number of additional points on the draft text, which his office communicated to the Department on 8 November and asked for further advice. This advice was submitted on Friday 9 November and the Secretary of State agreed that a provisional version of the memorandum should be sent to the Committee's staff pending his clearance of the final text. The final version (formally cleared by the Secretary of State), together with the Department's 2007–08 1st Quarter Public Service Agreement Report, was signed off and provided to the Committee on Monday 12 November.

In preparing draft responses to the Committee for consideration by me and the Secretary of State the Department aims to submit far enough in advance of the Committee's deadlines to allow us each to consider the material and ask for further advice as necessary. In this case the position was complicated by my and the Secretary of State's being overseas at the crucial time. With the benefit of hindsight, I should have insisted on receiving the draft material early enough for both the Secretary of State and me to consider it before our departures, and for any necessary follow-up work to be done while we were away. We will, I assure you, learn from the experience, and do better in future.

I mentioned during the second set of exchanges on Tuesday that I had inadvertently given the Committee the wrong information about when I myself dealt with the relevant papers. The correct position is as I have described it above. On examining the transcript, I find that my memory also failed me when I responded to your question (Q6) about when it was plain to me that the assessment of our performance against readiness targets would have to change. Although the judgements in it were not settled until later, I saw a draft of the PSA Performance Report for Quarter 1 in mid-September which included the assessment that the readiness target was unlikely to be met. I apologise for that, and will ensure that we offer a correction as a footnote to the transcript of evidence.

I would be sorry if this episode, and the Committee's understandable annoyance at our failure to observe its requirements, had damaged the relationship between the Department and the Committee. As I hope the Committee knows, it is a relationship to which I personally (and indeed the Secretary of State) attach great importance. Although we failed to do so on this occasion, our aim is to work closely with the Committee and provide it with all the support it needs to do its job.

15 November 2007

Memorandum from the Public and Commercial Services Union

INTRODUCTION

1. The Public and Commercial Services Union (PCS) represents more than 315,000 workers predominately in the Civil Service but also increasingly in the private sector, particularly where those jobs were once in the public sector. PCS is the biggest trade union in the Ministry of Defence, with almost 20,000 members working at every level of the Department.

2. We welcome the House of Commons Defence Committee inquiry into the MoD's Annual Report and Accounts 2006–07 and can provide further oral evidence if required.

SUMMARY

3. We believe that the continued programme of arbitrary job cuts across the MoD is creating a risk to both service delivery and improved capability.

4. Two key areas of concern arise directly from the CSR 07 round. MoD has decided to press ahead and attempt to cut 30% of all "Head Office" posts before it can properly understand how these jobs support the frontline and who will do the work currently undertaken by these staff. In logistics and procurement the

likely cuts and outsourcing in Defence Equipment and Support (DE&S) under PACE and Future Options will result in an inherent loss of skills and experience at a time of overstretch across the Top Level Budget (TLB).

5. We have serious concerns regarding further reductions in staff providing logistics and procurement support to the frontline in Iraq and Afghanistan.

6. We have serious concerns regarding the roll-out of the £4 billion defence information infrastructure programme (DII) which our members report is significantly behind schedule and causing them many problems in carrying out their day to day work.

7. We recommend that MoD urgently examines the merits of a period of stabilisation and allows a period of pause and reflection in order that the department can operate at a steadily whilst the last period of change is bedded down and the threat to the provision of support arising from the last round of cuts is comprehensively assessed.

8. We urge the Defence Committee to investigate the morale of civilian staff working in MoD and to assess the impact of the previous round of cuts, privatisations and re-organisation, and the resulting erosion in the ability of civilian staff to provide critical support to the military frontline.

STREAMLINING

9. As part of the administrative costs regime (ACR) and in response to the capability review of the MoD, the Defence Management Board has proposed a 30% reduction in the size of the MoD head office.

10. This will involve the loss of some 1,300 posts (1,000 civilian, 300 military) by 2010–11, together with the transfer of a further 800 posts out of London, to achieve cost savings of £50 million per annum. It would also see the closure of Old War Office and the potential closure or rundown of St Georges Court.

11. To date MoD has failed to tell staff and unions how these cuts are to be achieved, apart from a vague commitment to “reducing unnecessary process, cutting committees and over-briefing, removing duplication, and building a more strategic, focussed Head Office”.

12. We have met with the department to discuss streamlining and to seek assurances about a range of issues including protection for staff from compulsory redundancy and/or compulsory relocation.

13. We have also raised a number of concerns with the department about the impact on service delivery and understanding why MoD decided to cut 30% of all posts in London—job cuts which are additional to those previously made to head office during the last CSR, without a proper supporting business case and any real regard to the livelihoods of MoD staff or the services that they provide. We believe that the threats to support to the frontline and to service delivery far outweigh the savings of less than £150 million over three years it is claimed the cuts will achieve.

14. We are also surprised that MoD has so confidently claimed that streamlining will create “a Head Office which has the right number of people of the right quality working only on tasks that must be carried out at the Centre”. MoD imposed the 30% target before making any attempt to assess the viability of such cuts, before examining the work undertaken by the business units involved, and before assessing the impact of the work done in London to support the frontline.

15. We also dispute the claim by MoD that funds will be diverted to the front line. We are not aware of any example where cuts to “back office” functions have led to increased resources on the “frontline”. We would like MoD to explain how much money saved through job cuts has been passed to the frontline, and how much support to the military frontline has been improved by a constant process of cuts and re-organisation.

FUTURE OPTIONS

16. PCS understands that as a result of CSR 07 planning decisions the Defence Equipment and Support (DE&S) TLB will be required to axe up to 8,000 jobs by April 2010. At present there is a total of 27,000 staff in DE&S. Over the three year Gershon period staff working for DE&S have seen 7,000 job cuts, the merger of the Defence Logistics Organisation (DLO) and Defence Procurement Agency (DPA), the introduction of the Defence Industrial Strategy and the Through Life Capability Management (TLCM) approach, the collocation of jobs from around the country to one site and large scale re-organisation.

17. Final plans are still in development however we are aware that managers have been instructed to review all organisational structures. We believe that crude arbitrary cuts and further outsourcing of work is planned to meet these targets.

18. PCS has recently gained an assurance that if the requirement to cut over one in three posts is judged to damage output and support to the military frontline, this would be made clear to the Defence Management Board and Ministers. We believe such concerns have already been made privately by senior figures.

19. We believe that a further cut of 8,000 jobs would have a devastating impact on support to the frontline. Our members in this area directly support the military in both Iraq and Afghanistan and are responsible for supplying the military with everything from bullets and protective clothing to food and toilet rolls. We believe that our concerns are privately shared by senior officials in the MoD but for obvious reasons these individuals are reluctant to speak out.

20. We have serious concerns about further cuts in staff providing essential logistics and procurement support to the frontline in Iraq and Afghanistan. It is already clear that a number of key skill sets have been degraded by the last round of cuts and thousands of years of experience has been allowed to leave the Department. PCS members working in these areas are already reporting huge workload increases and many are working unpaid overtime to ensure that essential work is carried out in support of the troops. We believe that DE&S is already stretched to breaking point and that a further round of cuts and transformational change will push the TLB (and the loyalty of the workforce) to breaking point.

21. We believe that at the very least where functions are reviewed MoD should determine whether that function is required and how many employees and what mix are required to carry it out. Where a function is not required or where it is reduced a penalty statement should be produced.

DEFENCE INFORMATION INFRASTRUCTURE

22. The defence information infrastructure programme (DII) intends to replace all IT systems within the MoD with one system, at a budgeted cost of £4 billion. However, since the contract was let to the ATLAS consortium (EDS, Fujitsu and EADS, with a range of other lower tier providers) significant problems have become apparent. Our members report that the roll-out of new PCs is significantly behind schedule, leaving many to operate with obsolete systems. There are also major problems with software, as the new DII system seems unable to operate many of the applications which our members need in order to carry out their day to day tasks (and which ran perfectly well on their previous, albeit outdated, systems).

23. A recent investigation by Channel Four News and Computer Weekly Magazine (http://www.channel4.com/news/articles/science_technology/mod+system+unmitigated+disaster/1054057) highlighted significant problems with the roll-out, as well as revealing that the cost of the programme had increased to £5 billion (MoD Accounts). They also identified that the MoD's own economic advisor was unable to certify that the bid from ATLAS for increment 2a of DII represented value for money, yet MoD went ahead with the contract despite having no performance data at all on the performance of ATLAS during increment 1.

24. PCS has had concerns since the outset of DII that the programme was too ambitious and placed too much reliance on providers with a significant track record of failure on other IT projects, both within the MoD and wider government. Although the MoD has broken the contract up into increments for delivery purposes, the whole contract has been given to ATLAS without what we believe are sufficient safeguards relating to price or performance.

25. We believe the Defence Committee should investigate whether the delivery and performance difficulties experienced by the ATLAS consortium are affecting support to the front line and whether the current contract offers value for money.

STAFF MORALE

26. The recently published MoD Civilian Attitude Survey indicates the collapse in trust and morale across MoD that should be of concern to those at the top of the department.

27. 71% of staff who responded stated that they have no confidence in senior MoD management. 65% of staff reported that they felt their contribution was not value. Staff also reported significant instances of bullying and harassment. A significant proportion also reported failings in the performance management and appraisal system, with meaningful objectives neither being set nor measured. This contrasts with departmental assurances of developing capability through individuals.

28. Civil servants working in MoD have seen three years of constant transformational change as the department imposed over 11,000 job cuts over the last spending period. Across the department staff report that morale is low, resources are stretched and record numbers of fellow workers are seeking to leave the department owing to dissatisfaction and frustration. MoD civilian staff are noted for their loyalty and commitment to the armed forces (indeed many are related to or are former serving military staff) therefore these are significant being reported.

29. Our members do not feel they have the resources or the opportunity to deliver the support to the frontline that our military deserve. Our members question the rationale behind ongoing cuts, privatisation and re-organisation, particularly when troops are actively deployed in two conflicts. Our members believe that MoD needs a period of stabilisation in which it can operate steadily whilst the last period of change is bedded down. The proposed head office and DE&S cuts should be urgently reviewed.

30. We believe investigations should be conducted into the morale of civilian staff working in MoD, and the impact of the previous round of cuts, privatisations, re-organisation and the resulting degraded ability of civilians to provide critical support to the military frontline.

27 November 2007

Letter from Rt Hon Baroness Ann Taylor PC, Minister for Defence Equipment and Support

I am writing to inform you of details regarding the Government's intent to review and update the Defence Industrial Strategy (DIS). I know that the House of Commons Defence Committee (HCDC) has provided both support and challenge throughout the development and review of the original DIS, a process which I welcome and hope will continue in the future.

As you will be aware, the DIS was first published in December 2005, and represented a large step forward in how government related with the defence industry to meet the needs of our armed forces. The DIS is an important part of Government policy, and I would like to reaffirm our commitment to the DIS, and to ensuring that it remains relevant, challenging and up to date through the publication of an updated DIS (DIS v2.0). I would like to take this opportunity to outline the progress we have made since DIS, to describe how the document is taking shape, and to update you on the proposed publication timetable.

Since 2005 there has been considerable progress in implementing the DIS. MoD has established dedicated teams to drive forward implementation in each sector; has put in place strategic partnering agreements with industry in the Helicopter and Fixed Wing sectors which aim to put more equipment into the front-line, utilise resources more efficiently and drive industry transformation. A review of MoD acquisition systems and processes led to the creation of Defence Equipment and Support which will provide a unified approach to the through life procurement and support of equipment. A Defence Technology Strategy, published in October 2006 is now being implemented, and I recently announced development of the Defence Technology Plan, which will provide clear direction to the research and development (R&D) community, allowing industry and academia to better direct investment in defence science and technology.

DIS v2.0 will build on these successes and will ensure that the DIS remains current, credible and challenging to all parties and that it continues to provide a coherent and long-term perspective on the Department's industrial strategy. My intention is to amend material to reflect changes in policy or circumstances, to reflect the developments in acquisition reform between Government and industry, and to provide greater depth on a number of issues touched on in the original DIS.

DIS Version 2.0 will focus on the development of more agile acquisition systems which can rapidly deliver the needs of our Front Line; it will reinforce the importance of innovation in the delivery of defence solutions including the role of small and medium sized enterprises; and it will be clear on our need for operational sovereignty and the way we will work with Allies to achieve this. It will also set out our latest commercial thinking including the way we will work with industry to achieve value for the taxpayer. I also want to reflect achievements during the first two years of DIS; and offer a series of milestones and targets for the coming two year period which will drive continued transformation both with the government and within industry.

As with the original strategy, DIS Version 2.0 will be a Command Paper, led by MoD and subscribed to by the Treasury and the Department for Business, Enterprise and Regulatory Reform. Throughout the development of DIS Version 2.0, consultation is taking place with Industry, using the National Defence Industries Council (NDIC) and its sub-groups as the preferred mechanism, as well as recognising the role that individual trade associations play in ensuring engagement with Small and Medium Enterprises (SMEs). We are also engaging with key Allies and Trade Unions.

I am determined that DIS v2.0 should offer the clarity on our future strategy that Industry is looking for and that it reflects a realistic view of our assumptions and plans. Although the original intention was for DIS v2.0 to be published in December I am convinced that it would be more appropriate for the strategy to be aligned to the ongoing planning round and am therefore in the process of reviewing the publication date to reflect this. Industry has indicated support for this approach.

This course of action meets the commitment made by my predecessor to the HCDC to review the DIS in every spending round period. Once the DIS v2.0 has been published and presented to parliament, I would welcome the opportunity to update the Committee on the direction and progress of our Defence Industrial Strategy and would expect the Committee to take evidence around that time. To facilitate this I will ensure that I keep you informed of the publication timetable so that a suitable session can be scheduled in line with the launch of DIS v2.0.

DIS provides the foundation from which enduring capabilities can be sustained to support the front line; it remains a Defence priority.

20 November 2007

Supplementary memorandum from the Ministry of Defence

(i) *The split between equipment and non-equipment costs in the MoD budget*

Defence expenditure is structured by Top Level Budget, rather than by equipment and non-equipment spending. Nevertheless, within anticipated core Defence expenditure for 2007–08 of around £29.5 billion (near cash), around £12.5 billion is for equipment and equipment support. This does not include expenditure on Urgent Operational Requirements, which is covered separately by the Treasury Reserve.

(ii) *The data for MoD staff morale for the last two periods in which the data was collected*

Our civilian staff survey shows that dissatisfaction with MoD as an employer has increased by about 5% over the last year (from an average of 14% in 2006–07 to 19% in the summer of 2007). The number of staff giving a clear positive response has declined by a similar amount (from 59%–55% when expressed on a comparable basis)³. This decline may reflect the degree of turbulence in the organisation and concerns over pay. Over the same period the proportion of civilian staff saying they are proud to work for Defence has remained steady at around 70%.

<i>Period of Survey</i>	<i>Percentage positive response</i>	<i>Percentage negative response</i>
Summer 2007	55%	19%
2006–07	65% (59% if weighted on same basis as latest survey)	14%

(iii) *Details of the main areas/elements which contributed to the £2.8 billion efficiency savings achieved during the 2004 Spending Review period*

The MoD remains on course to meet the 2004 Spending Review £2.8 billion efficiency target by the target date of 31 March 2008. The MoD's Efficiency Technical Note describes the Efficiency Programme in detail and explains how we are delivering and measuring the efficiency gains. By 30 September 2007, £2,506 million of efficiencies had been achieved, comprising £254 million through force structure changes, £134 million from corporate services, £1,201 million from Procurement and Logistics, £51 million from productive time, £2 million from organisational changes, £18 million from relocation, £479 million from manpower, and £479 million from assumed re-achievement of 2006–07 in year efficiencies, offset by £112 million to avoid double counting of manpower savings. A detailed breakdown and explanation is contained in the Ministry of Defence Autumn Performance Report 2007, laid before Parliament on 17 December 2007. The Efficiency Technical Note and Autumn Performance Report, together with the previous Spring and Autumn Performance Reports and the Annual Reports and Accounts for 2005–06 and 2006–07 setting out progress against this target since April 2005 are available on the MoD website at www.mod.uk.

(iv) *The further action the MoD is planning to take to increase black and ethnic minority representation in the three Services, and in particular to address the problem of black and ethnic minority recruitment in the RAF*

The Department has set a goal that by 2013, the Armed Forces will have 8% ethnic minority personnel within their ranks, and there is substantial reporting on this contained within the Annual Report and Accounts. Over the last year (1 October 2006 to 1 October 2007), the proportion of members of the Armed Forces from ethnic minority backgrounds has increased from 5.7% to 5.9% of total strength. Although recruitment outcomes are still short of requirements, this is not for want of effort and the quality of the Armed Forces' programmes is reflected by the consistently very high ranking they are awarded by external assessors. In 2006 the Army and RAF received Gold Awards from the Opportunity Now scheme. The Royal Navy did not participate in 2006, but received a Silver award in 2005. In the Race for Opportunity scheme, the Army came top among public sector organisation for the sixth consecutive year, the RAF third, and the Royal Navy fifth. More detail on these programmes is set out below. In addition to the work carried out by the three Services individually, there is also a harmonised tri-Service programme to improve communications and to build up the reputation of the Armed Forces amongst ethnic minority and religious communities. This includes research on how best to inform these communities and engages in top level communications with religious leaders.

³ Weighting compensates for the design of the survey, which over samples small TLBs, and for variations in response rates between the different grades, sexes and TLBs. Grades/sexes/ TLBs under-represented in the dataset are given more weight so that they represent more of the people in their group who were not sampled or did not respond, and groups over-represented in the dataset are given less weight. Where information is missing for a respondent on one of the variables used for weighting (TLB, grade and sex), they have been excluded from the analysis. Up to the Autumn 2006 survey observations were weighted only by Grade and Sex. Since then a factor for TLBs has also been included to reduce bias towards overrepresented TLBs.

ROYAL NAVY

The Royal Navy has four Diversity Awareness Teams based in London, Manchester, Birmingham and Plymouth. They raise awareness of Naval careers, the profile of the RN amongst community leaders/gatekeepers, and recruit from among ethnic minority communities. The wide programme of events (130 separate events for 2007) range from school, college and community visits, to major ethnically centred events, gatekeepers visits and extended campaigns in focused areas such as Leeds, London and Birmingham, which climax in an RN Experience Day for large numbers of students in those areas. A drive to improve the way that the wider RN recruiting field force engages with ethnic minorities is being scoped and will commence early in 2008. The main focus will be to steer recruiting away from a small, dedicated team that can maintain a limited footprint across the UK to helping Naval recruiters develop the relationships with their local communities that the Awareness Teams have created. The Awareness Teams will, therefore, over the next two years, move towards a mentoring role for local recruiting staff and away from organising their own outreach events.

ARMY

The Army's Diversity Action Recruiting Team provides role models at ethnic minority recruiting events throughout the country. Community Liaison Officers develop relationships with "influencers" in communities in their respective regions. The Army has focused its resources to establish "main effort" in London, West Midlands and the East of England to reflect the larger resident ethnic minority populations. They also ensure that all marketing campaigns take account of diversity and inclusivity factors, in order to engage better with UK ethnic minority audiences. Other initiatives include:

- Development of a direct marketing and outbound contact programme to target UK ethnic minority "interested" youngsters.
- Encouragement of ethnic minority communities to contemplate and work towards "enlistment cohorts", to join Phase 1 training to provide mutual support to recruits from different UK ethnic minority groups and faiths and provide "critical mass" for future recruitment.
- Greater use of the Territorial Army to develop community and individual contacts particularly in areas of high UK ethnic minority population as the home based nature of the TA holds more appeal to UK ethnic minority potential recruits.
- In recognising that diversity recruiting is everyone's business, improved training and education of recruiting staffs with a reduced reliance on external consultants.
- Creation and use of mini "We Were There" exhibition boards for Community Liaison Officers to use in community events for engagement with young people from ethnic minority communities and perception changing work.
- Review of the scope to incorporate the Muslim hijab as part of the Army uniform.

In addition, the Army will in future make greater use of trend analysis to help focus efforts on particular communities, provide accredited training for diversity Subject Matter Experts to develop in house diversity support, and develop further partnerships in the regions between Community Liaison Officers and Youth Workers.

ROYAL AIR FORCE

The Royal Air Force's Motivational Outreach Team is responsible for promoting the Service in major ethnic minority communities. Their work is augmented by Community Careers Liaison Officers and a network of Youth Activity Liaison Officers across the UK. The RAF has an holistic approach to marketing RAF careers, much of which is delivered on-line accessing the target audience, through a variety of websites. The RAF Web based club "Altitude" attracts ethnic minority youths directly with 4.5% of the 10,418 members declaring themselves as ethnic minority. In addition to the holistic the marketing approach, the RAF continues to use ethnic minority focused media, including niche ethnic minority advertising aimed at influencers and gatekeepers as well as the target audience of potential recruits. The RAF also maintains ethnic minority outreach teams at an annual cost of some £540,000. Ethnic minority role models are integrating into communities, whose knowledge of the RAF is generally poor, positively selling the extensive provisions to support cultural, faith and dietary requirements within the RAF, motivating youngsters through their outreach activities and proactively advertising the RAF. The RAF also maintains part-time Community Liaison Officers costing a total of about £190,000 a year at RAF Cottesmore, RAF Cosford, RAF Brize Norton, RAF Odiham and RAF Leeming, to host visits by young people, particularly those from an ethnic minority background, to experience RAF life. Marketing investment costing some £860,000 a year in youth basketball and football sponsorship in Scotland and England is specifically aimed at reaching ethnic minority youth and inner cities, reaching about 37,000 young people through football and 13,000 through basketball, together with about the same number of influencers and gatekeepers. The RAF is reviewing ethnic minority candidates' experience to identify any issues to be addressed or lessons learned, and in particular how ethnic minorities perceive the system. A candidate opinion survey was conducted between Sep–Nov 2007.

The RAF is now introducing Area Outreach Managers into the seven key recruitment areas to enhance coordination of outreach programmes, improve planning and to measure success. Two groups of Motivational Outreach teams are to be based in the Birmingham and Manchester areas to concentrate output in what have traditionally been the most productive areas, with satellite ethnic minority personnel in Leeds and London. Historically, Motivational Outreach Teams have concentrated on raising awareness in a wide age bracket. However, as a result of planned increases to “Into Training Targets”, their activities will now focus on a target audience that is eligible or will become eligible within 12–18 months. The role of the Motivational Outreach Team requires specialist skills, not normally found within the average member of the RAF, to deliver activities, predominantly, to a broad cross-section of school children. A bespoke Motivational Outreach Team training package will be delivered early in 2008 which will form part of the official pre-employment training for all Motivational Outreach Team personnel in addition to the standard five week RAF Recruiting course. There will also be regular engagement with RAF Manning staffs to ensure that a tour as a Motivational Outreach member is seen as beneficial, in order to attract quality candidates.

The RAF is also introducing Youth Leadership Camps across the country. These will offer an unsurpassed opportunity for aspirants to “get to know” the RAF and its ethos. So far 20 bids have been received to hold camps next year. Over 40 serving ethnic minority personnel have been identified as role models who can be involved in these camps as well as pre-arranged visits to RAF bases, organised by Community Liaison Officers.

(v) *The current percentage of black and ethnic minority representation in each of the three Services distinguishing between black and ethnic minority Service personnel from the UK and those from the Commonwealth*

The information requested is set out in the table below.

UK Regular Forces as at 1 October 2007 by Ethnicity and Nationality

	Total		UK National		Commonwealth		Other		Unknown	
	Number	%	Number	%	Number	%	Number	%	Number	%
All Services	188,490		177,500		7,400		370		3,210	
White	163,920	94.1%	160,980	97.4%	1,080	15.1%	280	82.7%	1,580	97.6%
Ethnic Minority	10,360	5.9%	4,230	2.6%	6,040	84.9%	60	17.3%	40	2.4%
<i>of whom black</i>	6,070	3.5%	780	0.5%	5,270	74.0%	—	1.2%	20	1.1%
Unknown	14,210		12,290		280		40		1,600	
Naval Service	38,550		37,370		570		60		550	
White	34,550	97.2%	34,080	98.3%	120	23.4%	50	100.0%	300	95.9%
Ethnic Minority	990	2.8%	600	1.7%	380	76.6%	—	0.0%	10	4.1%
<i>of whom black</i>	430	1.2%	110	0.3%	320	64.2%	—	0.0%	—	1.3%
Unknown	3,010		2,690		80		10		230	
Army	105,880		96,600		6,780		280		2,210	
White	90,660	91.4%	88,410	97.0%	950	14.4%	200	77.9%	1,100	98.1%
Ethnic Minority	8,480	8.6%	2,770	3.0%	5,630	85.6%	60	22.1%	20	1.9%
<i>of whom black</i>	5,420	5.5%	480	0.5%	4,930	74.9%	—	1.6%	10	0.9%
Unknown	6,740		5,420		—	200	—	30	—	1,090
RAF	44,060		43,520		50		30		460	
White	38,710	97.8%	38,500	97.8%	10	31.8%	20	96.2%	180	97.3%
Ethnic Minority	890	2.2%	850	2.2%	30	68.2%	—	3.8%	—	2.7%
<i>of whom black</i>	220	0.6%	200	0.5%	20	52.3%	—	0.0%	—	1.6%
Unknown	4,460		4,180		—		—		280	

1. Due to continuing validation of data from the new Personnel Administration System, all statistics are provisional and subject to review.
2. UK Regular Forces includes Nursing services and excludes Full Time Reserve Service personnel, Gurkhas, the Home Service battalions of the Royal Irish Regiment and mobilised reservists. It includes trained and untrained personnel.
3. Ethnic groups are calculated as a percentage of those personnel for whom we hold a record of ethnic origin, ie excluding those of unspecified ethnic origin.
4. Commonwealth includes personnel from Pakistan, the Fiji Islands and Zimbabwe, which were suspended from the Councils of the Commonwealth in November 2006 and December 2006 and December 2003 respectively.
5. Of those classified under “other”, 83% in the Naval Service, 74% in the Army and 96% in the RAF are citizens of the Republic of Ireland, and 17% in the Army are Nepalese.
6. Due to the rounding methods used totals may not always equal the sum of the parts. When rounding to the nearest 10, numbers ending in five have been rounded to the nearest multiple of 20 to prevent systematic bias. Unrounded figures are used in the calculation of percentages.

(vi) *An update on the current forecast in-service date for the A400M and the Type 45 programmes and details of the action being taken to limit/claw back slippage on these programmes*

A400M

Since Contract Award in 2003, contractual milestones have been met on time, with the exception of Start of Final Assembly (Seville), which was achieved five months late in August 2007 after a number of delays to delivery of major sub-assemblies. But in October 2007 Airbus Military published a revised target date of summer 2008 for A400M first flight, and announced that initial aircraft deliveries were likely to be delayed by between six to 12 months. This has placed the UK's In Service Date of March 2011, based on delivery of the 7th aircraft to the RAF and as reported in the Major Projects Report 2007, at significant risk. Industry is implementing a series of schedule recovery plans and we are determined to do all that we can to help ensure that the programme delivers on time. We are seeking further information from the company so that we can build increased confidence in the robustness of their estimates, understand better any potential scope for schedule recovery and identify whether there are any actions we can take to help the company deliver in accordance with the agreed terms of the contract.

Type 45 Destroyer

As reported in the Major Projects Report 2007, the Type 45 In Service Date has been revised from late 2009 to late 2010. The Department is disappointed with this further delay, but this is an extremely complex programme, using much cutting edge technology. To place the programme on a more stable footing, the Department has worked closely with the company on a significant reorientation programme focussed on risk quantification and incentivising delivery. A revised contract was signed on 8 August 2007 which included a Delivery Incentive Plan providing both the MoD and BAE Systems with incentives to achieve the delivery programme. For MoD, this could potentially lead to a reduction in the overall outturn cost of the project. For industry, there is a financial incentive of attached to the delivery of the First of Class on its contractual target date. Both the MoD and BAE Systems will continue to manage schedule adherence and its associated risk mitigation as rigorously as possible.

(vii) *An explanation of the new policy covering the funding of Urgent Operational Requirement and how this differs from the previous policy*

The 2007 Comprehensive Spending Review established a new funding arrangement for Urgent Operational Requirements (UORs). This is intended to recognise the MOD's efforts to make current operational demands a higher priority within its core equipment plan, while acknowledging the limited scope for changes in the short term. To the extent that Urgent Operational Requirements can ever be planned and anticipated, it is also designed to introduce greater predictability into Exchequer spending on UORs.

The criteria for what qualifies as a UOR remain unchanged. The key factors are:

- a. UORs are urgent requirements for equipment that have arisen due to the particular demands in a specific operational theatre; the scheme is not intended to provide general capability.
- b. The scheme pays only for the initial procurement and the support costs incurred on operational deployments; at the conclusion of operation the equipment must be disposed of or taken into the MOD's core programme.

The new arrangements are:

- a. The MOD and the Treasury will agree a forecast of UOR expenditure for the following year (eg for 2008–09, decided in 2007–08).
- b. The Reserve will continue to pay for all UORs when the procurement costs are incurred.
- c. The Treasury will pay 100% of an agreed proportion of these costs; the MOD and the Treasury will share the costs of the remaining amount 50/50 and the MOD will repay the Reserve its 50% share two years later. For example any costs incurred in 2008–09 will be repaid in 2010–11.
- d. HM Treasury has added £200 million to the Defence Budget in 2010–11 to mitigate the effect of the repayments.

In summary this produces the following equation:

$$\text{Total Estimated Expenditure} = \text{HMT element} + \text{HMT/MoD Shared Element (50\%/50\%)}$$

The total estimate is therefore the key determining variable and we have consequently gone to great lengths to analyse previous UOR spending data and likely future trends to ensure that it is robust. The Treasury has agreed that, if UOR spend falls below this estimate, the uncommitted portion of the £200 million can be used for other defence priorities as MoD Ministers decide. On the other hand, if MoD's share of the UOR spend rises above £200 million, then there will be a charge to the defence budget. Variations will be reflected in re-setting the Estimate for the following year.

This arrangement, which is designed to be cost neutral to Defence, should align the department's incentives with its goal of ensuring that the needs of operations are properly prioritised in the equipment programme and ensure that our forces in the field get the equipment they need.

(viii) *Details of the UORs (which relate to equipment which was in the future equipment programme and which have been acquired sooner than planned) where the MoD will repay the Treasury the acquisition costs in the year in which the equipment was originally planned to be acquired*

When a UOR is funded through an Equipment Plan "bring forward", the capability provided is typically similar, but not identical to the EP programmed capability. As UORs tailor equipment rapidly to meet urgent operational needs, the solution may be a simplified or modified version of the original EP planned capability to ensure that it can be fielded as soon as possible. For this reason it is not possible to provide an accurate date when the capability would have been brought into service under EP. The table below outlines those few UORs that have been part funded through EP bring forwards. All to date have been for Operation Herrick.

<i>Working Name of Capability</i>	<i>Description</i>	<i>Total Value (90% Approved Total £M)</i>	<i>Total EP Bring forward to be repaid</i>	<i>Year to be repaid</i>	<i>Planning Assumption of Service Entry</i>
"REAPER"	An ISTAR collection asset currently deployed on operations	£43.2848	£42.044 CDEL £1.2044 RDEL	£10.812M per year 2008–09 to 2011–12	Oct 2007
"ELSA"	ELSA and SISTA will provide improved situational awareness, targeting and surveillance capability to personnel involved in dismounted close combat on operations.	£8.48M	£8.48M	2008–09	May 2008
"SISTA"		£7.69M	£7.69M	2008–09	Nov 2007

There is also a fourth classified project for which a further £14.9 million is being brought forward from the EP. The repayment schedule has yet to be agreed with the Treasury.

7 January 2007