



House of Commons  
Defence Committee

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# Ministry of Defence Main Estimates 2008–09

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**Eleventh Report of Session 2007–08**

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

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## The Defence Committee

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Ministry of Defence and its associated public bodies.

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## Summary

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This Report presents the evidence we have obtained from the Ministry of Defence (MoD) during our scrutiny of the Main Supply Estimates. It also includes the Government response to our recent Report on the Spring Supplementary Estimate.

We have identified no issues which require to be debated by the House of Commons before it is asked to agree to the Main Estimates, but we point out that the MoD's request for resources of £34.5 billion in the Main Estimates does not include the expected costs of military operations in Iraq and Afghanistan and so greatly underestimates the total expected cost of the MoD's activities in 2008–09. The MoD has, however, provided a forecast for these operations in 2008–09 of some £2 billion. We argue that the MoD should provide more detail within this forecast in future.

We commend the MoD for including provision for Balkan operations in the Main Estimates for the first time.

No proper relation seems to exist between operational decisions, political announcements, and financial scrutiny. This simply cannot be satisfactory. It is essential that the House has available to it accurate and up-to-date forecasts before it is asked to vote on the defence Estimates.

We consider that the MoD should update the Committee between Estimates with more up-to-date forecasts of cost than might formally be presented in the Supplementary Estimates.

# 1 Report

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## Our scrutiny of the Main Estimates

1. The Main Supply Estimates 2008–09—by which the Government requests resources from Parliament to meet its expenditure plans for the financial year ahead—were laid before the House on 21 April 2008.<sup>1</sup> The House of Commons will be asked to agree them on 7 July.

2. The Treasury’s Main Supply Estimates contain an Estimate for each department and, separately, for each public service pension scheme. Like last year, our focus is on the Ministry of Defence (MoD) departmental Main Estimate. Through our Reports on the Main Estimates, and then on the Winter and Spring Supplementary Estimates which follow them each year, we have pressed for the more timely presentation of fuller financial information from the MoD, if not in the body of the Estimates themselves then in the memoranda which the MoD sends to us at the same time as the Estimates.

3. The two memoranda supplied by the MoD when it laid its 2008–09 Main Estimates, for the Department and for the Armed Forces Pension Scheme, are attached to this Report.<sup>2</sup> We have also attached to this Report the Government’s response to our Report on the 2007–08 Spring Supplementary Estimate.<sup>3</sup> We asked MoD a number of questions concerning the Main Estimates memoranda and the Government response: the MoD’s replies are likewise attached to this Report.

**4. We intend to continue this regular series of Reports on the Estimates throughout the rest of this Parliament, in the context of what the Liaison Committee has described as inadequate financial scrutiny by the House.<sup>4</sup> We aim to improve the clarity, detail and timeousness of the financial information provided by the MoD to the House and to the country at large. We understand that sometimes this information will be most appropriately presented in memoranda rather than in the body of the Estimates themselves, and we commend the MoD for the way in which it has constructively engaged with us in discussions about the content of these memoranda.** Our continuing financial scrutiny of the MoD is not undertaken on account of the MoD’s performance in this area: rather we continue to undertake this scrutiny because the funds sought by the MoD through this mechanism of the Estimates are for activities and operations of very considerable importance for the security of this country and for those people who are engaged in military operations abroad.

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1 HM Treasury, *Central Government Supply Estimates 2008–09, Main Supply Estimates*, 21 April 2008, HC 479

2 Ev 1–9

3 Ev 10–15

4 Liaison Committee, *Second Report of Session 2007–08, Parliament and Government Finance: Recreating Financial Scrutiny*, HC 426, para 89

## Ministry of Defence Requests for Resources

5. The MoD's Main Estimate requests resources of £34.5 billion, with a net cash requirement of £32.5 billion. The MoD's Estimate is split between three Requests for Resources (RfR):

- RfR1: Provision of defence capability
- RfR2: Operations and peace-keeping
- RfR3: War Pensions and Allowances, etc

The headline figures are set out in the table below.

**Table: The Ministry of Defence's Request for Resources**

<i>£million</i>				
	2008–09	2007–08		2006–07
	Provision	Final Provision	Forecast Outturn	Outturn
RfR1: Provision of defence capability	33,421.295	33,901.860	34,383.890	31,386.645
RfR2: Operations and peace-keeping	89.566	2,381.803	2,380.779	1,448.420
RfR3: War Pension and Allowances, etc.	1,015.090	1,030.007	1,028.779	1,038.073
Net resource requirement	34,525.951	37,313.670	37,793.448	33,873.138
Net cash requirement	32,536.048	34,147.714	34,023.202	31,616.135

Source: HM Treasury: Main Supply Estimates 2008–09, p16

## Provision of defence capability

6. RfR1 covers by far the largest proportion of requested resources: it includes personnel, equipment and support costs for the Armed Forces (including, for example, the nuclear warhead programme). The Main Estimate breaks this down by Top Level Budget Holder (TLB).<sup>5</sup> There have been a number of changes to the TLBs over recent years, which sometimes makes comparisons over the period difficult. Changes this year include:

- the amalgamation in 2008–09 of the two RAF TLBs—Commander in Chief Strike and Personnel and Training Command—into a single TLB, Air Command;
- the amalgamation in 2008–09 of two Army TLBs—Adjutant General and Commander in Chief Land—into a single TLB, Land Command; and
- other smaller adjustments reflecting changes in the machinery of government: these include a transfer of responsibility and funding for the Defence Export Services Organisation (DESO) to the Department for Business, Enterprise and

5 HC (2007–08) 479, pp 309–11

Regulatory Reform (DBERR), UK Trade and Investment (UKTI) and the Foreign and Commonwealth Office (FCO).<sup>6</sup>

RfR1 also shows that spending by the Land Command TLB is expected to increase significantly in 2008–09 compared with last year, while the Defence Equipment and Support (DS&S) TLB's expenditure is expected to reduce significantly.<sup>7</sup> **We call on the MoD to explain the reasons for these changes.**

## Operations and peace-keeping

7. According to the Estimate, the ambit of RfR2 covers “conflict prevention, early warning, crisis management, conflict resolution/peacemaking, peacekeeping and peacebuilding activity and ... associated strengthening of international and regional systems and capacity ...”.<sup>8</sup> It is under RfR2 that the net additional costs of undertaking military operations in Iraq and Afghanistan fall, although provision for this is not made in the Main Estimates (an issue to which we will turn later on in this Report). In previous Reports on the Spring Supplementary Estimates 2006–07 and the Main Estimates 2007–08,<sup>9</sup> we expressed our concern that use of the term “conflict prevention”, which had been used previously for this Request for Resources, was misleading, as it appeared to cover military operations of all kinds, from war-fighting to peacekeeping operations. The Government's response at first stated that “conflict prevention” was a generic term used to describe RfR2, but it noted our comments and was reviewing the layout of the Estimate with a view to providing greater clarity in future Estimates: this latter element, that the Estimates' layout was under review, was repeated in the second response.<sup>10</sup>

8. In its November 2007 Winter Supplementary Estimate for 2007–08, the MoD renamed RfR2 more accurately as “Operations and peace-keeping”, which we welcomed in our Report on the Supplementary Estimate. Clearly this is an improvement: puzzlingly, the MoD memorandum on the Main Estimate<sup>11</sup> still refers to RfR2 as “Conflict prevention” and the Vote on Account 2008–09 RfR2 was entitled “Conflict Prevention and Net Additional Cost of Military Operations”.<sup>12</sup> Moreover, the list of the activities covered by RfR2 in Part I of the Main Estimate is identical to that used before the title of the RfR was changed, and makes no reference to military operations in Iraq and Afghanistan. This is unhelpful. The nearest the ambit comes to recognising the reality of current operations is “peacemaking”. **The MoD ought to ensure consistency in the headings used, and should**

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6 Ev 2, para 3.2

7 HC (2007–08) 479, pp 309–10

8 *Ibid*, p 307

9 Defence Committee, Tenth Report of Session 2006–07, *Cost of military operations: Spring Supplementary Estimate 2006–07*, HC 379, para 3; and Twelfth Report of Session 2006–07, *Ministry of Defence Main Estimates 2007–08*, HC 835, para 10

10 Defence Committee, Twelfth Special Report of Session 2006–07, *Cost of military operations: Spring Supplementary Estimates 2006–07: Government response to the Committee's Tenth Report of Session 2006–07*, HC 558, Appendix, response to recommendation one; and Fifteenth Special Report of Session 2006–07, *Ministry of Defence Main Estimates 2007–08: Government response to the Committee's Twelfth Report of Session 2006–07*, HC 1026, Appendix, response to recommendation two

11 Defence Committee, Second Report of Session 2007–08, *Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08*, HC 138, para 2

12 HC (2007–08) 479, p 307, footnote; also Ev 1, Table 1

amend the ambit of RfR2 to make clear reference to military operations being undertaken, if not specifically citing Iraq and Afghanistan operations then at least recognising the true nature of some operations. Our suggestion would be to add “warfighting and other military operations” to the list.

## Balkan operations

9. RfR2 covers the cost of operations in the Balkans. In the past, no provision was made in the MoD Main Estimate for the cost of these operations: rather it was presented as part of a global peace-keeping sum within the FCO Main Estimate before being transferred to the MoD late in the year and appearing within the MoD's Spring Supplementary Estimate. We urged the MoD to include provision for Balkan operations in its Main Estimate, seeing no good reason why it should not, and were pleased when the Government announced in its response to our Report on last November's Winter Supplementary Estimate that it would indeed do so.<sup>13</sup> **The MoD has provided a figure of £16.875 million for the cost of Balkan operations in 2008–09 in this year's Main Estimates.**<sup>14</sup> Unlike Iraq and Afghanistan operations, where the costs included in Supplementary Estimates are funded by calls on the Treasury's Reserve, provision for the costs of Balkan operations come from a budget held initially by the FCO. With this 2008–09 Main Estimate, the Balkans budget is still held initially by the FCO but £16.875m has been transferred at the start of the year. The MoD memorandum makes clear, however, that **this figure represents 75% of forecast costs** and that this sum may have to be supplemented later in the financial year at either or both Supplementary Estimates.<sup>15</sup>

10. In the last financial year, while we were considering the Winter Supplementary Estimate, we requested a forecast for Balkan costs in advance of the Spring Supplementary Estimate. That forecast cost—£20m—was significantly exceeded by the eventual sum of £31 million requested in the Spring Supplementary Estimate.<sup>16</sup> Clearly, in this current financial year, **the MoD expects costs for Balkan operations to amount to some £22.5 million** (75% of which being £16.875m). **Even if this turns out not to be an underestimate, the MoD will have to return to the House to seek further funds at the time of one or both Supplementary Estimates. It seems a little odd for the MoD therefore to claim only that it *may* have to do so. Unless the Balkans forecast cost is highly conjectural or overstated (neither of which it ought to be) then the MoD should state more openly that it *expects* to come back to the House later in the financial year for supplementary funds.**

11. While we seek to aid transparency and accountability by publishing the MoD's estimates memoranda, other readers of the Estimates would be assisted if the Main Estimates separately identified Balkans costs (and Iraq and Afghanistan costs) and explicitly stated that the costs were 75% of the forecast full-year figure.

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13 HC (2007–08) 138, para 9; and Defence Committee, Eighth Report of Session 2007–08, *Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08*, HC 400, Ev 10, response to recommendation four

14 HC (2007–08) 479, p306, para 11

15 Ev 3, para 4.2

16 HC (2007–08) 138, Ev 8; and HC (2007–08) 400, Ev 5, Table 5

## Cost of military operations

12. The cost of current military operations remains the principal focus of our attention in the various Estimates we consider over the course of the financial year. As in previous years, the RfR2 allocation in the Main Estimate does not cover the costs of operations in Iraq and Afghanistan. Indeed, the figure currently set down in RfR2, some £89.6 million, is very small beside the forecast outturn for the last financial year (£2.38 billion) and the actual outturn for the previous financial year (£1.45 billion), and does not include any Iraq or Afghanistan expenditure.<sup>17</sup> We have commented in the past about how unhelpful it is for the House to be presented with such a limited request for funds at the beginning of the financial year. The Department knows already that it expects a considerably greater sum to be spent during the financial year which will have to be requested by means of the Supplementary Estimates procedure.

13. The MoD consistently argues that it is inappropriate to request at the outset of the financial year sums the magnitude of which it is still uncertain about. Initially, the MoD presented the costs for military operations in Iraq and Afghanistan in the Spring Supplementary Estimates, laid usually some ten months into the financial year, arguing that it was not possible to come before the House with robust enough assessments of costs to be incurred before the end of the financial year, at any earlier point. Funds for military operations came from the Treasury Reserve until the House approved the request from the MoD for funds at the Spring Supplementary Estimate. In response to our own concerns that this was an unsatisfactory position, as the MoD ought to have sufficiently robust estimates for these costs to be presented earlier to the House, the MoD began in financial year 2006–07 to make a request for funds to cover the cost of these operations earlier, in its Winter Supplementary Estimate, laid some seven months into the financial year. The MoD now comes back to the House to seek any additional funds required for military operations at the time of the Spring Supplementary Estimate.<sup>18</sup>

14. Clearly, this is a more satisfactory position than that which obtained before. **In response to our most recent Report on the Spring Supplementary Estimates, those for 2007–08, the Government in addition offered to include a forecast for the cost of operations in Iraq and Afghanistan in the memorandum accompanying this financial year's Main Estimate.**<sup>19</sup> **The MoD's "initial estimate of operations is that there will be a net additional cost of at least £2Bn...[to be] split between Afghanistan and Iraq". Furthermore, the MoD has also given in this memorandum its current estimate for Urgent Operational Requirements (UOR) expenditure within that figure of £2Bn, amounting to some £1.065Bn.**<sup>20</sup> **We call on the MoD to explain the implications of such UOR expenditure on its future capital and resource budgets.** This follows our request that the MoD present a forecast for these costs earlier in each Financial Year. These UOR costs have been presented in the past in some detail after the end of each financial year in the MoD's Annual Report and Accounts. The Accounts for 2007–08 have yet to be produced, but the MoD gave an indication of the proportion of costs allocated for UORs in

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17 HC (2007–08) 479, p 311

18 HC (2007–08) 400, paras 5–8

19 Ev 11

20 Ev 3, para 4.4

the 2007–08 Spring Supplementary Estimate. **These are both very welcome developments for which the MoD must be commended.**

15. However, it would be helpful to have these figures in more detail. We do not imagine that the £2Bn figure is undifferentiated: there must exist a simple breakdown of this figure between theatres and for various costs in each theatre which the House could and should see. **Provisional forecasts for each theatre in the same table form as provided to us in the memoranda accompanying the Winter and Spring Supplementary Estimate could be made available each year in the memorandum accompanying the Main Estimate. The forecast overall figure for UORs could also be provisionally broken down in the same way as it is in the MoD’s Annual Report and Accounts. In our Report on the Spring Supplementary Estimate we expressed a desire to see the “working assumptions” underlying the forecast figures for Iraq and Afghanistan as early as possible in each financial year.<sup>21</sup> The information provided by the MoD this year with the Main Estimates, however welcome, fails to achieve this.**

16. It is also worth bringing the attention of the House to the explanation given to us by the MoD for the very significant increase in indirect resource cost (expenses that do not involve cash outlays) of operations in the last financial year. In our Report on the Spring Supplementary Estimate we drew attention to the fact that indirect resource costs for Afghanistan in 2007–08 were five times greater than they were in the previous year, and for Iraq eight times greater.<sup>22</sup> Overall, indirect resource costs rose from a £69 million outturn for 2006–07 to a projected cost of £424 million for 2007–08. The MoD in its response to that Report admitted that this was down to a failure to report fully the indirect costs of operations in 2006–07: the increase for 2007–08 represented a more thorough and robust forecast, based upon a methodology discussed with the National Audit Office. Much of the indirect cost represents the firing of Hellfire missiles and the damage or destruction of equipment used in operations, both of which vary according to operational tempo.<sup>23</sup> **We acknowledge the difficulties the MoD faces in assessing and forecasting indirect resource costs, and commend the Ministry for working with the National Audit Office to ensure that future indirect resource cost forecasts will be more accurate. We do however find it hard to believe that a failure properly to cost the use of Hellfire missiles and the damage to, and loss of, equipment in theatre could lead to such a considerable underestimate of cost as occurred in 2006–07.**

### Timetable for forecasts and Estimates

17. **For the first time in the MoD Main Estimates, and in the memoranda accompanying them, we have forecasts for operational costs in Iraq and Afghanistan, an estimate of UOR costs, and a formal request for a stated proportion of expected Balkan operational costs. It remains to be seen how robust these figures will prove when it comes to the Supplementary Estimates and the final outturn for the financial year.**

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21 HC (2007–08) 400, paras 10–16

22 *Ibid.* para 14

23 Ev 13–14

18. The position of the MoD with regard to these figures is that all forecasts and estimates of costs in this area of military operations in Iraq and Afghanistan (and, to a lesser extent, the Balkans) are inevitably subject to potentially considerable change. The sooner any forecast is requested, the more likely it is to suffer possibly significant variation by the end of the financial year. Earlier forecasts will always mean less accurate forecasts. The size of UK Armed Forces deployed may change, operational tempo may increase, with a consequent increase in ammunition use and the depreciation of equipment. Even the best assessed forecast may need to be supplemented in Spring and Winter by means of the Supplementary Estimates. Equally, a decision to scale back operations in a theatre might reduce full-year costs, and the MoD would not want to be caught out with an approved Estimate which then over-states the cost. We have some sympathy for this position: it is, after all, obviously the case that the MoD cannot know at the time of the Main Estimates everything that might happen to affect costs over the course of the financial year.

**19. However, we are concerned about the robustness of forecasts and estimates we are offered during the financial yearly cycle. We continue to call for these forecasts and estimates because we believe the MoD can and ought to provide as early a sight as possible of what it believes operations are likely to cost in the financial year. Nonetheless, it has to be asked whether the MoD is doing enough to provide robust cost forecasts to the House, robust not just in terms of stating as accurately as possible expected costs, but is doing so in a timely fashion, using information that is up-to-date.**

20. Clearly, as far as military operations are concerned, budgets should not drive operational tempo, and it is right that the MoD is not expected to cover such costs within its Spending Review defence budgets. Costs for operations will inevitably be difficult to control, and therefore to estimate, with precision. Nevertheless, in our last Report on the 2007–08 Spring Supplementary Estimate,<sup>24</sup> we made clear our uncertainty about the level of robustness that the MoD was bringing to its forecasts and estimates of costs.

21. We agree with the MoD that forecasts may change significantly over the twelve months of the financial year; however, as we pointed out in our recent Spring Supplementary Estimate Report, these forecasts even vary from Supplementary Estimate to Supplementary Estimate, over the course of three months. **In the last financial year, the estimate for the full-year cost of operations in both Iraq and Afghanistan increased between the Winter (November 2007) and Spring (February 2008) Supplementary Estimates by approximately 50%.<sup>25</sup> The cost of Balkan operations likewise shifted from a £20 million forecast in November to an expected cost of £31 million by February, again an increase of c50%. We cannot however agree with the MoD that the scale of this increase between two fixed points only a few months apart within a financial year is solely down to the inevitable volatility of military operations.**

22. In its response to our Report on the 2007–08 Spring Supplementary Estimates the MoD helpfully set out in two tables the variation in costs between the 2006–07 outturn and the 2007–08 Spring Supplementary Estimates request for various Direct Resource cost categories and for overall Capital Additions within RfR2. It also adds a brief explanation

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24 HC (2007–08) 400, para 15

25 *Ibid.*, paras 12 and 19, and Table 2

for the change or variation in each instance.<sup>26</sup> The MoD, following its setting out of these tables, does give some attention to our concerns about how forecasts changed so much between November 2007 and February 2008: it highlights the importance both of the timetable of forecasts and the availability of up-to-date information for the accuracy of the Estimates.

23. We therefore probed this issue of timetable in some follow-up questions to the Government response: the answers are printed in an appendix to this Report.<sup>27</sup> It appears that the Winter Supplementary Estimate (laid in November 2007) was based upon figures and forecasts which predated the additional manpower deployment to Afghanistan required to increase operational tempo there towards the end of July 2007. In other words, **the Winter Supplementary Estimate forecast of costs, for both Iraq and Afghanistan, was effectively four months out-of-date when the House saw it; and five months out-of-date when it voted to approve the funds in question. The Spring Supplementary Estimate, laid in February, approved by the House in March, was based upon a marginally more timely forecast produced in the MoD at the end of November, some two-and-a-half months before laying, and three-and-a-half before the House voted to approve the funds in question.**

24. Given how out-of-date both forecasts were when the House first saw them, the statement by the MoD in response to our supplementary questions appears questionable: “the forecast in the W[inter] S[upplementary] E[stimate] represented the best estimate of the likely costs of Iraq and Afghanistan when the Estimate was submitted”.<sup>28</sup> This suggests that there was no available forecast between July and October that could better inform the figures to be laid before the House in November, or that the procedures involved are so cumbersome that any forecast in this period would have been too late to inform the Winter Supplementary Estimate. Either way, this is unsatisfactory. It is one thing to say that estimates vary because of the volatility of operations, and another to say that a late July decision to increase manpower in one theatre came too late to inform figures placed before the House in November, some three-and-a-half months later.

25. We are also puzzled as to why the Winter Supplementary Estimate process took almost four months, and the Spring Supplementary Estimate process just over two months. Compounding our bafflement is a degree of uncertainty about the timing of decisions relating to the drawdown of UK Armed Forces in Iraq and the consequent decision to abandon this planned drawdown. **According to the Government response to our Report on the 2007–08 Spring Supplementary Estimate and the answers to the questions we asked the MoD concerning that response, the drawdown of UK forces in Iraq was decided before the end of July 2007, although it was only announced to the House in October 2007. Thus the Winter Supplementary Estimate forecast of costs was based upon knowledge of the drawdown. We are further told that the higher Spring Supplementary Estimate figures (made public in February 2008) were based upon end of November 2007 forecasts, produced fewer than ten weeks after this announcement**

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26 Ev 13

27 Ev 15

28 *Ibid*

to the House. This increase in costs thus predates the assessments of the military situation in Iraq made in the first quarter of 2008 that led to the decision to postpone the drawdown.<sup>29</sup>

26. What is unsettling about these timetables, setting aside the still puzzling difference in lead times for the Winter and Spring Supplementary Estimates, is the out-of-date nature of the information on which the Estimates are based, and the lack of relation between decisions, announcements of decisions and forecasts of costs. Forecasts were made months before the Estimates upon which they were based were placed before the House; and announcements were made months after decisions were made which affected forecasts. **No proper relation seems to exist between operational decisions, political announcements, and financial scrutiny. This simply cannot be satisfactory. It is essential that the House has available to it accurate and up to date forecasts before it is asked to vote on the defence Estimates.**

27. In replying to the Government response to our Report on the 2007–08 Spring Supplementary Estimate, we asked whether the MoD had give any thought to providing interim data between Estimates, to Parliament or to ourselves, setting out an outline of likely changes in forecast costs. The MoD said that a further forecast could be provided to us between the Supplementary Estimates. **It is essential that the MoD should provide late each calendar year the forecasts generated at that time which were subsequently used to inform the Spring Supplementary Estimate. This would allow any increase in funds likely to be sought formally from the House the following March to be flagged up well in advance. We also consider that the House should see at as early a stage as possible the forecasts generated in the summer upon which the Winter Supplementary Estimate is founded.**

## Conclusion

28. **We recommend that the House of Commons approve the MoD's Main Estimate and have identified no issues which require a debate before it does so. But the House should continue to be aware that, because of the omission of the costs of military operations in Iraq and Afghanistan, the Main Estimates greatly underestimate the total expected cost of the MoD's activities in 2008–09.**

## Conclusions and recommendations

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1. We intend to continue this regular series of Reports on the Estimates throughout the rest of this Parliament, in the context of what the Liaison Committee has described as inadequate financial scrutiny by the House. We aim to improve the clarity, detail and timeousness of the financial information provided by the MoD to the House and to the country at large. We understand that sometimes this information will be most appropriately presented in memoranda rather than in the body of the Estimates themselves, and we commend the MoD for the way in which it has constructively engaged with us in discussions about the content of these memoranda. (Paragraph 4)
2. We call on the MoD to explain the reasons for these changes. (Paragraph 6)
3. The MoD ought to ensure consistency in the headings used, and should amend the ambit of RfR2 to make clear reference to military operations being undertaken, if not specifically citing Iraq and Afghanistan operations then at least recognising the true nature of some operations. Our suggestion would be to add “warfighting and other military operations” to the list. (Paragraph 8)
4. The MoD has provided a figure of £16.875 million for the cost of Balkan operations in 2008–09 in this year's Main Estimates. This figure represents 75% of forecast costs (Paragraph 9)
5. The MoD expects costs for Balkan operations to amount to some £22.5 million. Even if this turns out not to be an underestimate, the MoD will have to return to the House to seek further funds at the time of one or both Supplementary Estimates. It seems a little odd for the MoD therefore to claim only that it may have to do so. Unless the Balkans forecast cost is highly conjectural or overstated (neither of which it ought to be) then the MoD should state more openly that it expects to come back to the House later in the financial year for supplementary funds. (Paragraph 10)
6. readers of the Estimates would be assisted if the Main Estimates separately identified Balkans costs (and Iraq and Afghanistan costs) and explicitly stated that the costs were 75% of the forecast full-year figure. (Paragraph 11)
7. In response to our most recent Report on the Spring Supplementary Estimates, those for 2007–08, the Government in addition offered to include a forecast for the cost of operations in Iraq and Afghanistan in the memorandum accompanying this financial year's Main Estimate. The MoD's “initial estimate of operations is that there will be a net additional cost of at least £2Bn...[to be] split between Afghanistan and Iraq”. Furthermore, the MoD has also given in this memorandum its current estimate for Urgent Operational Requirements (UOR) expenditure within that figure of £2Bn, amounting to some £1.065Bn. We call on the MoD to explain the implications of such UOR expenditure on its future capital and resource budgets. These are both very welcome developments for which the MoD must be commended. (Paragraph 14)
8. Provisional forecasts for each theatre in the same table form as provided to us in the memoranda accompanying the Winter and Spring Supplementary Estimate could be

made available each year in the memorandum accompanying the Main Estimate. The forecast overall figure for UORs could also be provisionally broken down in the same way as it is in the MoD's Annual Report and Accounts. In our Report on the Spring Supplementary Estimate we expressed a desire to see the "working assumptions" underlying the forecast figures for Iraq and Afghanistan as early as possible in each financial year. The information provided by the MoD this year with the Main Estimates, however welcome, fails to achieve this. (Paragraph 15)

9. We acknowledge the difficulties the MoD faces in assessing and forecasting indirect resource costs, and commend the Ministry for working with the National Audit Office to ensure that future indirect resource cost forecasts will be more accurate. We do however find it hard to believe that a failure properly to cost the use of Hellfire missiles and the damage to, and loss of, equipment in theatre could lead to such a considerable underestimate of cost as occurred in 2006–07. (Paragraph 16)
10. For the first time in the MoD Main Estimates, and in the memoranda accompanying them, we have forecasts for operational costs in Iraq and Afghanistan, an estimate of UOR costs, and a formal request for a stated proportion of expected Balkan operational costs. It remains to be seen how robust these figures will prove when it comes to the Supplementary Estimates and the final outturn for the financial year. (Paragraph 17)
11. We are concerned about the robustness of forecasts and estimates we are offered during the financial yearly cycle. We continue to call for these forecasts and estimates because we believe the MoD can and ought to provide as early a sight as possible of what it believes operations are likely to cost in the financial year. Nonetheless, it has to be asked whether the MoD is doing enough to provide robust cost forecasts to the House, robust not just in terms of stating as accurately as possible expected costs, but is doing so in a timely fashion, using information that is up-to-date. (Paragraph 19)
12. In the last financial year, the estimate for the full-year cost of operations in both Iraq and Afghanistan increased between the Winter (November 2007) and Spring (February 2008) Supplementary Estimates by approximately 50%. The cost of Balkan operations likewise shifted from a £20 million forecast in November to an expected cost of £31 million by February, again an increase of c50%. We cannot however agree with the MoD that the scale of this increase between two fixed points only a few months apart within a financial year is solely down to the inevitable volatility of military operations. (Paragraph 21)
13. The Winter Supplementary Estimate forecast of costs, for both Iraq and Afghanistan, was effectively four months out-of-date when the House saw it; and five months out-of-date when it voted to approve the funds in question. The Spring Supplementary Estimate, laid in February, approved by the House in March, was based upon a marginally more timely forecast produced in the MoD at the end of November, some two-and-a-half months before laying, and three-and-a-half before the House voted to approve the funds in question. (Paragraph 23)

14. Given how out-of-date both forecasts were when the House first saw them, the statement by the MoD in response to our supplementary questions appears questionable: “the forecast in the W[inter] S[upplementary] E[stimate] represented the best estimate of the likely costs of Iraq and Afghanistan when the Estimate was submitted”. This suggests that there was no available forecast between July and October that could better inform the figures to be laid before the House in November, or that the procedures involved are so cumbersome that any forecast in this period would have been too late to inform the Winter Supplementary Estimate. Either way, this is unsatisfactory. It is one thing to say that estimates vary because of the volatility of operations, and another to say that a late July decision to increase manpower in one theatre came too late to inform figures placed before the House in November, some three-and-a half months later. (Paragraph 24)
15. According to the Government response to our Report on the 2007–08 Spring Supplementary Estimate and the answers to the questions we asked the MoD concerning that response, the drawdown of UK forces in Iraq was decided before the end of July 2007, although it was only announced to the House in October 2007. Thus the Winter Supplementary Estimate forecast of costs was based upon knowledge of the drawdown. We are further told that the higher Spring Supplementary Estimate figures (made public in February 2008) were based upon end of November 2007 forecasts, produced fewer than ten weeks after this announcement to the House. This increase in costs thus predates the assessments of the military situation in Iraq made in the first quarter of 2008 that led to the decision to postpone the drawdown. (Paragraph 25)
16. No proper relation seems to exist between operational decisions, political announcements, and financial scrutiny. This simply cannot be satisfactory. It is essential that the House has available to it accurate and up to date forecasts before it is asked to vote on the defence Estimates. (Paragraph 26)
17. It is essential that the MoD should provide late each calendar year the forecasts generated at that time which were subsequently used to inform the Spring Supplementary Estimate. This would allow any increase in funds likely to be sought formally from the House the following March to be flagged up well in advance. We also consider that the House should see at as early a stage as possible the forecasts generated in the summer upon which the Winter Supplementary Estimate is founded. (Paragraph 27)
18. We recommend that the House of Commons approve the MoD's Main Estimate and have identified no issues which require a debate before it does so. But the House should continue to be aware that, because of the omission of the costs of military operations in Iraq and Afghanistan, the Main Estimates greatly underestimate the total expected cost of the MoD's activities in 2008–09. (Paragraph 28)

## List of Abbreviations

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DBERR	Department for Business, Enterprise and Regulatory Reform
DE&S	Defence Equipment and Support
DESO	Defence Export Services Organisation
FCO	Foreign and Commonwealth Office
MoD	Ministry of Defence
RfR	Request for Resources
TLB	Top Level Budget
UK	United Kingdom
UKTI	UK Trade and Investment
UOR	Urgent Operational Requirement

## Formal Minutes

Tuesday 1 July 2008

Members present:

Mr James Arbuthnot, in the Chair

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

Mr Adam Holloway MP  
Mr Bernard Jenkin MP  
Mr Brian Jenkins MP  
Mr Kevan Jones MP  
Robert Key MP  
John Smith MP

Draft Report (*Ministry of Defence Main Estimates 2008–09*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 28 read and agreed to.

Annex (List of Abbreviations) and Summary agreed to.

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

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

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

[Adjourned till Tuesday 15 July at 10.00 am

## List of written evidence

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- |   |   |       |
|---|---|-------|
| 1 | Memorandum from the Ministry of Defence on the Ministry of Defence Main Estimates 2008–09   | Ev 1  |
| 2 | Memorandum from the Ministry of Defence for the Armed Forces Retired Pay and Pensions   | Ev 8  |
| 3 | Further memorandum from the Ministry of Defence   | Ev 9  |
| 4 | Further memorandum from the Ministry of Defence - Government response to the Committee's Eighth Report of Session 2008: Report on Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08 (HC 400) | Ev 10 |
| 5 | Supplementary memorandum from the Ministry of Defence   | Ev 15 |

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

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

### Session 2005–06

First Report	Armed Forces Bill	HC 747 (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>HC 1025</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 ( <i>HC 352</i> )
Second Report	Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08	HC 138
Third Report	UK/US Defence Trade Cooperation Treaty	HC 107 ( <i>HC 375</i> )
Fourth Report	The Iran hostages incident: the lessons learned	HC 181 ( <i>HC 399</i> )
Fifth Report	Ministry of Defence Annual Report and Accounts 2006–07	HC 61 ( <i>HC 468</i> )
Sixth Report	The work of the Committee in 2007	HC 274
Seventh Report	Medical care for the Armed Forces	HC 327 ( <i>HC 500</i> )
Eighth Report	Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08	HC 400
Ninth Report	The future of NATO and European defence	HC 111 ( <i>HC 660</i> )
Tenth Report	Defence Equipment 2008	HC 295 ( <i>HC 555</i> )



# Written evidence

## Memorandum from the Ministry of Defence on the Ministry of Defence Main Estimates 2008–09

### 1. INTRODUCTION

1.1 This Memorandum covers the Main Estimate for the Ministry of Defence (MoD). The Department's spending plans for 2008–09 derive from the outcome of the Government's 2007 Pre-Budget Report and Comprehensive Spending Review (CSR 2007, CM 7227), published in October 2007. As announced by the Secretary of State, the key features of the settlement for Defence were:

- An increase in the Defence Budget (RfR 1) to £34.1 billion in 2008–09, £35.4 billion in 2009–10 and £36.9 billion in 2010–11 in total DEL.
- A commitment to make savings against the Department's overheads, including a 5% year-on-year saving in its administrative overhead, which is now separately identified in the budget for the first time. This includes a 25% reduction in Head Office staff numbers.
- Continued investment in improving accommodation for people and families, including plans to deliver some 30,000 new or improved Single Living Accommodation bed-spaces by 2013 and upgrading some 600 Service Family Accommodation properties to the highest standard this financial year and a minimum of 800 in each year thereafter. The Department has a ring-fenced of £550 million to invest in accommodation over the next three years. The Department has also announced a further £80 million to be spent on improving accommodation, bringing the total investment to at least £630 million over the next three years, as part of over £3 billion planned to be spent on upgrading and improving accommodation over the next decade.
- The establishment of a Stabilisation Aid Fund (SAF) amounting to £73 million this year, designed to support cross-Governmental reconstruction work in conflict zones.
- The net additional costs of military operations will continue to be met on top of the core defence budget from the Treasury reserve.

1.2 This Estimates Memorandum should be read in conjunction with the Department's Main Estimate. The Introduction to the Estimate explains some of the changes that have taken place since the 2007–08 Estimates, together with the total for each of the Requests for Resources (RfR).<sup>1</sup> There are no contingencies funded in this Estimate. Contingent liabilities are reported as a separate table in the Estimate.

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

### 2. RESOURCES SOUGHT IN THE ESTIMATE

2.1 Part I of the Estimate sets out the new resource and cash requirements for the Department for the year ending 31 March 2009. The resources requested are set out in Tables 1–3 below.

**Table 1**

#### SUMMARY OF RESOURCE EXPENDITURE

<i>Resource Expenditure</i>	<i>£ (million)</i>
Provision of Defence Capability (RfR1)	33,421.295
Conflict Prevention (RfR2)	89.566
War Pensions and Allowances (RfR3)	1,015.090
<b>Total Net Request for Resources</b>	<b>34,525.951</b>

**Table 2**

#### SUMMARY OF CAPITAL EXPENDITURE

<i>Capital Expenditure</i>	<i>£ (million)</i>
Provision of Defence Capability (RfR1)	7,872.064

<sup>1</sup> For detail on the different Requests for Resources, See Definition of Terms

Table 3

## SUMMARY OF NET CASH REQUIREMENT

<i>Net Cash Requirement</i>	<i>£ (million)</i>
Near Cash in Resource DEL	22,626.830
Near Cash in Capital DEL	7,870.045
Near Cash in AME	1,015.152
Accruals to cash adjustments	993.650
Non Budget (Resource + Capital)	30.371
<b>Net Cash Requirement</b>	<b>32,536.048</b>

2.2 The difference between the net request for resources and the net cash requirement arises from a range of technical accounting adjustments, set out in detail in Part II of the Estimate (“Resource to Cash Reconciliation”).

## 3. COMPOSITION OF THE MAIN ESTIMATES

3.1 A number of transfers, and other changes, have taken place since the 2007 CSR, and are set out in detail in the Introduction to the Estimate.

3.2 The principal organisational changes include:

- The amalgamation in 2008–09 of the two Royal Air Force Top Level Budget Holders (TLBs)—Commander-in-Chief Strike and Personnel and Training Command—into a single TLB: Air Command. The 2006–07 outturn is shown against the two previous TLB lines.
- The amalgamation in 2008–09 of the Adjutant General and Commander-in-Chief Land Command TLBs, into a new single TLB: Land Command. The 2006–07 outturn is shown against the two previous TLB lines.
- Machinery of Government Changes relating to a Contribution in Lieu of Rates (CILOR) for MoD Estate in Gibraltar formerly undertaken by HM Revenue and Customs implemented in the Department’s 2007–08 Winter Supplementary Estimates; and a transfer of budgetary responsibility for the Defence Export Services Organisation (DESO) to the estimates for the Department for Business Enterprise and Regulatory Reform (DBERR), UK Trade and Investment (UKTI), and Foreign and Commonwealth Office (FCO) effective from 1 April 2008.

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

- *Accounting changes* for cash release of non nuclear provisions which now score against Direct Resource DEL, which brings the Department into line with other Government Departments (and in line with the existing treatment of the cash release of nuclear provisions). Non-Departmental Public Bodies (NDPBs) are now reported on a net basis, which means that grants have been moved from DEL to Non Budget (See Annex 1).
- Transfers to and from Other Government Departments are shown in Tables 4 and 5 respectively; these include some transfers where funding has been agreed for more than one year, and are a continuation of transfers made in last year’s Supplementary Estimates.
- The Department is required to repay the capital element of a 1997–98 loan from the National Loans Fund for the refurbishment of MOD housing stock.

Table 4

## TRANSFERS TO MoD FROM OTHER GOVERNMENT DEPARTMENTS IN RfR1/RfR2

<i>Exporting Department</i>	<i>RfR</i>	<i>£ (million)</i>	<i>Purpose</i>
Security & Intelligence Agencies	1	42.500	Contribution for MoD support services provided to GCHQ.
Cabinet Office	1	0.275	To move to an invoice charging basis for the provision of land registry services to MOD.
Foreign & Commonwealth Office	2	16.875	Funding for Balkans Peace Keeping and Operations.
Department for International Development	2	27.691	Contribution to the Global Pools Programmed Expenditure.
<b>Total</b>		<b>87.341</b>	

Table 5

## TRANSFERS FROM MoD TO OTHER GOVERNMENT DEPARTMENTS IN RfR1/2

<i>Importing Department</i>	<i>RfR</i>	<i>£ (million)</i>	<i>Purpose</i>
Department for Business Enterprise and Regulatory Reform	1	– 0.950	MoD share of the management costs of transferred nuclear liabilities.
Department for Culture, Media & Sports	1	– 0.152	Contribution to Pattern Room (Leeds Armoury) running costs.
Cabinet Office	1	– 2.000	For the expansion and capability of the Security and Intelligence Agencies.
FCO	2	– 28.000	Stabilisation Aid Fund activities undertaken by FCO.
<b>Total</b>		<b>– 31.102</b>	

3.4 Changes under RFR1 include “non-voted” items. These are items that form part of the Department’s budget but are not voted by Parliament. These are set out in Table 6 below:

#### 4. REQUEST FOR RESOURCES 2 (RFR2)

##### 4.1 *Joint Pools:*

The Department holds joint funding pools with the Department for International Development (DfID) and the FCO. These are designed to deliver improved UK and international support in conflict prevention by addressing long term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction. The funds were formerly split between Sub-Saharan Africa and the Rest of the World Programme Pools, but have now been combined to form a single Programme Pool, funded at Main Estimates by a transfer from DfID of £27.691 million. Many former programme elements for Iraq and Afghanistan are now incorporated in the Stabilisation Aid Fund (SAF—see below).

##### 4.2 *Balkans Funding:*

For the first time, the Department is requesting funding for operations in the Balkans at Main Estimates as we advised the HCDC in last year’s Spring Supplementary Estimates Memorandum. This has been funded by a transfer from FCO, following agreement with them earlier this year, based on 75% of forecast costs. Further funds may be requested in the Supplementary round, depending on any changes to forecasts later in 2008–09.

##### 4.3 *Stabilisation Aid Funding (SAF):*

This is a newly established ring-fenced fund to resource stabilisation and reconstruction effort in “hot” conflict zones for activities eligible as Official Development Assistance (ODA). 3% of the Fund is intended to be to support the continuation of contractually committed programmes in Iraq and Afghanistan, previously funded from the Global Conflict Programme Pool; and to begin to support new projects. The fund is profiled £73/£73/£123 million over the three years of the CSR. We have transferred £28 million of this fund to FCO at Main Estimates. Further transfers, if required, will be agreed at Winter and Spring Supplementary Estimates. In areas where the MoD is delivering effect, such as Quick Impact projects in Iraq and Afghanistan aimed at improving local infrastructure, for example school, roads and power supplies, funding will be channelled directly by the Department into theatre.

##### 4.4 *Operations in Iraq and Afghanistan:*

It is not possible to provide a final estimate of the net additional cost of operations (which are funded from the Treasury Reserve) at the start of the financial year. Nevertheless, we recognised the Committee’s continuing concern, as expressed in its 2007–08 Report on Operational costs in Afghanistan and Iraq Spring Supplementary Estimate (HC400), to have early visibility of prospective expenditure. Our initial estimate of operations is that there will be a net additional cost of at least £2 billion, as announced by the Chancellor of the Exchequer, in his Budget speech. This will be split between Afghanistan and Iraq. This may increase, and if necessary we will seek additional provision in Supplementary Estimates as usual. Our current estimate for Urgent Operational Requirements (UOR) expenditure within this figure is £1,065 million.

4.5 Detailed Requests for Resources to cover costs arising from operations in Afghanistan and Iraq will be made in Supplementary Estimates, as this offers the first opportunity to present robust estimates against a backdrop of fast moving operations.

#### 4.6 New Urgent Operational Requirement (UOR) Funding arrangements

The 2007 Comprehensive Spending Review established a new funding arrangement for UORs. This will be based on a forecast of UOR expenditure agreed with the Treasury—for 2007–08 £1,065 million. The Reserve will continue to pay for all UORs when the procurement costs are incurred, but 50% of any excess above the agreed figure will be deducted from the Defence Budget two years on.

The criteria for what qualifies as a UOR remain unchanged. Support to current operations remains the MoD's highest priority, and the revised funding arrangement will not affect the speed and agility of the UOR process. The MOD remains committed to ensuring that the UOR process continues to deliver theatre-specific, battle-winning capabilities to the Armed Forces at the front line.

### 5. REQUEST FOR RESOURCES 3 (RfR3)

5.1 The Department is seeking £1,015 million for War Pensions & Benefits, all of which is Annually Managed Expenditure (AME). This has decreased by £15 million since last year's Spring Supplementary Estimate, and will continue to decline, because the scheme was closed to new claimants from 5 April 2005 with the introduction of the Armed Forces Compensation Scheme. Costs for the new scheme are accounted for under the separate vote for the Armed Forces Pension Scheme Estimate.

### 6. SUMMARY ESTIMATES COMPOSITION

6.1 Table 7 summarises the composition of the Estimate, including changes since the CSR07 Settlement, but excluding AME and Non-Budget expenditure.

**Table 6**

#### DETAIL OF CHANGES TO THE ESTIMATE SINCE PUBLICATION OF Cm (7227)

<i>All £m</i> [1]	<i>Direct</i> <i>R DEL</i> 1	<i>Indirect</i> <i>R DEL</i> 2	<i>Total</i> <i>R DEL</i> 3	<i>Resource</i> <i>AME</i> 4	<i>Non-</i> <i>Budget</i> 5	<i>Total Net</i> <i>Resource</i> 7	<i>Capital</i> <i>DEL</i> 8	<i>Capital</i> <i>Non-</i> <i>Budget</i> 9	<i>Total</i> <i>Net</i> <i>Capital</i> 10
<b>CSR figures</b> <b>Cm 7277</b> <b>(DEL ONLY)</b>	<b>22,892.0</b>	<b>10,710.0</b>	<b>33,602.0</b>	<b>-130.2</b>	<b>13.0</b>	<b>33,484.8</b>	<b>7,871.0</b>	<b>2.0</b>	<b>7,873.0</b>
Transfers in	42.8		42.8			42.8			0.0
Transfers out	-3.1		-3.1			-3.1	0.0		0.0
Stabilisation Fund re-allocation to RfR2	-73.0		-73.0			-73.0			0.0
MOG Changes	-19.6		-19.6			-19.6			0.0
Museums Accounting Changes	-15.4		-15.4		15.4	0.0			
<b>Total</b>	<b>22,823.7</b>	<b>10,710.0</b>	<b>33,533.7</b>	<b>-130.2</b>	<b>28.4</b>	<b>33,431.9</b>	<b>7,871.0</b>	<b>2.0</b>	<b>7,873.0</b>
<b>Less Non-voted items</b>									
Non Nuclear Cash Release	240.0	-240.0	0.0			0.0			0.0
Nuclear Cash Release	46.5		46.5	-45.4		1.1			0.0
NDPB Costs		9.5	9.5			9.5	0.9		0.9
<b>RfR1 Total</b>	<b>22,537.2</b>	<b>10,940.5</b>	<b>33,477.7</b>	<b>-84.8</b>	<b>28.4</b>	<b>33,421.3</b>	<b>7,870.1</b>	<b>2.0</b>	<b>7,872.1</b>
Stabilisation Fund	73.0		73.0			73.0			
Transfers In	44.6		44.6			44.6			
Transfers Out	-28.0		-28.0			-28.0			
<b>RfR2 Provision</b>	<b>89.6</b>		<b>89.6</b>			<b>89.6</b>			<b>0.0</b>
<b>RfR3 Provision</b>			<b>0.0</b>	<b>1,015.1</b>		<b>1,015.1</b>			<b>0.0</b>
<b>Total RfRs</b>	<b>22,626.8</b>	<b>10,940.5</b>	<b>33,567.3</b>	<b>930.3</b>	<b>28.4</b>	<b>34,526.0</b>	<b>7,870.1</b>	<b>2.0</b>	<b>7,872.1</b>

## 7. SUPPLEMENTARY ESTIMATES

7.1 We expect that funding will be sought in Supplementary Estimates for:

- End of Year following publication of HM Treasury's Public Expenditure Outturn White Paper (PEOWP).
- operations in Afghanistan and Iraq, and further funding for the Balkans (under RfR2).

## 8. THE DEPARTMENT'S PUBLIC SERVICE AGREEMENTS & STRATEGIC OBJECTIVES

8.1 As set out in the 2007 Pre-Budget Report and Comprehensive Spending Review (Cm 7227), the Ministry of Defence will contribute over the CSR07 period to the delivery of the cross-Governmental Public Service Agreements to reduce the impact of conflict and to reduce the risk to the UK and its interests overseas from international terrorism. These are underpinned by the three Departmental Strategic Objectives to achieve 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 Department formally reports performance against its targets to Parliament in the Autumn and Spring Performance Reports, and in the Annual Report and Accounts, and these reports are also published on the Department's website (www.mod.uk).

## 9. DEPARTMENTAL EXPENDITURE LIMIT (DEL)

9.1 Table 8 shows the DEL from 2005–06 to 2008–09 for all RfRs. The figures are for Voted DEL. Further detail of this is shown in the Notes to the Estimate.

**Table 7**

### THE VOTED DEPARTMENTAL EXPENDITURE LIMIT FOR 2005–06 to 2008–09

<i>DEL</i>	<i>Restated<sup>2</sup></i>	<i>2006–07</i>	<i>2007–08</i>	<i>2007–08</i>	<i>2008–09</i>
	<i>2005–06</i>		<i>Main</i>	<i>Supplementary</i>	<i>Main</i>
	<i>Outturn £m</i>	<i>Outturn £m</i>	<i>Estimate £m</i>	<i>Estimate £m*</i>	<i>Estimate £m</i>
Resource DEL	33,428.555	33,453.021	32,548.165	36,857.168	33,567.283
Capital DEL	6,410.232	7,184.245	7,547.626	8,119.626	7,870.045
Depreciation	–6,932.505	–5,828.509	–6,618.451	–8,218.325	–7,408.960
<b>Total DEL</b>	<b>32,906.282</b>	<b>34,808.757</b>	<b>33,477.340</b>	<b>36,758.469</b>	<b>34,028.368</b>

\* Includes RfR2 provision for operations in Iraq & Afghanistan.

## 10. DEL END YEAR FLEXIBILITY

10.1 The requirement for End of Year Flexibility (EYF) will be assessed following the publication of the Treasury's Provisional Expenditure Outturn White Paper (PEOWP) later this year.

## 11. ADMINISTRATION COSTS LIMIT

11.1 An Administration Cost Limit Budget has been introduced this year, and is identified as a separate sub head in the Estimate. Since CSR07, the Department's baseline has increased from £2,261 million to £2,294 million, with no overall impact on the settlement.

## 12. PROVISIONS AND CONTINGENT LIABILITIES

12.1 Provisions for liabilities and charges are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations. Provisions are generally charged to the Operating Cost Statement (OCS). We have included £175 million for provisions in DEL and £31 million in AME for nuclear provisions and some pension payments for personnel employed overseas (who are not part of either the UK Civil Service or the Armed Forces).

12.2 MoD's provisions cover legal claims, civilian early departure costs, environmental costs, restructuring and nuclear decommissioning and restoration costs. Details of the Department's Contingent Liabilities are set out in a separate table in the published Main Estimate.

<sup>2</sup> These figures have been restated to reflect the change in accounting boundaries.

### 13. MACHINERY OF GOVERNMENT CHANGES

13.1 A Machinery of Government (MOG) change is made when the responsibility for a service transfers from one Government Department to another. The most recent MOG was the transfer of responsibility for the Defence Export Services Organisation (DESO) ) to the estimates for the Department for Business Enterprise and Regulatory Reform (DBERR), UK Trade and Investment (UKTI), and Foreign and Commonwealth Office (FCO) effective from 1 April 2008.

22 April 2008

#### A: DEFINITION OF TERMS

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

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

##### 2. *Indirect Resource Departmental Expenditure Limit (IRDEL)*

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

##### 3. *Administration Costs Limit*

Administration cost controls, which form separate control limits on an income basis within DEL, cover departments’ current expenditure on staff, accommodation and other services used in the administration of central government and the direct delivery of services. The primary aim of administration costs control is to promote economical and efficient administration and service delivery in central government. This is largely achieved by containing gross administrative costs.

##### 4. *Total Resource DEL*

This is the sum of Direct and Indirect Resource DEL.

##### 5. *Annually Managed Expenditure (AME)*

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

##### 6. *Non-Budget*

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

##### 7. *Total Net Resource*

This is the net of items 1 to 6.

##### 8. *Capital Departmental Expenditure Limit (CDEL)*

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

##### 9. *Capital Annually Managed Expenditure*

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

##### 10. *Capital Non-Budget*

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

##### 11. *Total Net Capital*

This is the sum of the above capital items.

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12. *Total Near Cash*

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

13. *Request for Resources 1*

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

14. *Request for Resources 2*

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

15. *Request for Resources 3*

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

16. *CSR 2007*

Comprehensive Spending Review 2007 (Cm 7227).

17. *Total DEL*

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

**B: LIST OF ABBREVIATIONS USED IN THE ESTIMATE**

AME	Annually Managed Expenditure
CSR	Comprehensive Spending Review
DCSA	Defence Communications Services Agency
DE	Defence Estates
DE&S	Defence Equipment and Support
DEL	Departmental Expenditure Limits
DUP	Departmental Unallocated Provision
EYF	End Year Flexibility
FCO	Foreign and Commonwealth Office
GEP	Government's Expenditure Plans
HMT	Her Majesty's Treasury
MoD	Ministry of Defence
MOG	Machinery of Government
NAO	National Audit Office
NLF	National Loans Fund
OCS	Operating Cost Statement
ONS	Office of National Statistics
PEOWP	Provisional Expenditure Outturn White Paper
RfR	Request for Resources
RDEL	Resource Departmental Expenditure Limit
RHC	Royal Hospital Chelsea
SAF	Stabilisation Aid Fund
SE	Supplementary Estimates
TLB	Top Level Budget holder
UK	United Kingdom
UOR	Urgent Operational Requirement

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**Memorandum from the Ministry of Defence for the Armed Forces Retired Pay and Pensions  
Main Estimate 2008–09**

INTRODUCTION

1. This Memorandum covers the Estimate for the Armed Forces Retired Pay and Pensions Scheme (AFPS) for 2008–09. The Scheme's spending plans for this financial year are based on the expected take up of pensions of retired Service personnel. The Estimate covers only the resource provision for pensions. The costs of administering the Scheme fall to the MoD Main Estimate.

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

3. The Armed Forces Pension Scheme is a demand-led service and is therefore classified as Annually Managed Expenditure (AME); as a result there is no Spending Review settlement to base the Estimate upon. However, plans data for the 2007–08 financial year was published in the Government's Expenditure Plan 2007–08 (Cm 7098). This has been updated to take account of changes since July 2007. This is shown in Table 1.

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

SUMMARY OF RESOURCES SOUGHT IN THE ESTIMATE

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

- (a) Net resources within Request for Resources £5,869 million.
- (b) Net Cash Requirement £1,813 million.

**Table 1**

DETAIL OF CHANGES TO THE ESTIMATE SINCE PUBLICATION OF CM 7098

<i>Movement in Provision</i>	<i>Total AME £m</i>
GEP figures Cm 7098	5,095.638
Decrease in current service cost	(255.902)
Increase in interest on scheme liability	731.977
Increase in provision for AFCS scheme	275.977
Other changes	21.675
<b>Total Estimate</b>	<b>5,869.365</b>

DETAILED EXPLANATION OF THE CHANGES

6. The calculation of current service cost and interest on scheme liability is affected by:

- (a) The discount rate—this has changed from 1.8% real to 2.5% real, effective from 31 March 2008.
- (b) Interest rate of scheme liabilities has risen from 4.6% to 5.32%.
- (c) The increased life expectancy has resulted in an increase of £4billion to the pension liability.

The overall effect of these adjustments results in an increase in the pension scheme interest charge and a lower current service cost.

7. A decrease of £256 million in current service cost is due to the discount rate change and the associated change to the factor agreed by the Government Actuary's Department.

8. The change in the interest rate has also resulted in an increase of £732 million for interest on scheme liability from that originally expected. This is a non-cash charge, similar to the cost of capital charge in the Department's Main Estimate.

9. The Armed Forces Compensation Scheme (AFCS) provision has been increased by £276 million. The AFCS was only introduced in 2005. The provision has been increased to reflect increased understanding of the take up from the scheme.

10. Other changes have increased the resource requirement by £22 million. This is mainly due to the increased interest charge resulting from the change to the AFCS provision.

## PRIOR YEAR COMPARATIVES

Table 2

## COMPARATIVES WITH PREVIOUS YEARS

	2007-08 £m	2006-07 £m	2005-06 £m
Main Estimate (inc SSE)	5,595.637 4	,588.662	4,458.545
Outturn	4,398.961	4,341.400	
Difference	189.701	117.145	

Table 3

## AVERAGE NUMBER OF PENSIONERS IN SCHEME

Year	Number of pensioners in payment as at 1 April
2006	383,021
2006	350,421
2005	345,006

22 April 2008

## Further memorandum from the Ministry of Defence

ANSWERS TO THE HOUSE OF COMMONS SELECT COMMITTEE'S QUESTIONS RELATING TO THE MINISTRY OF DEFENCE MAIN ESTIMATES AND ESTIMATES MEMORANDA 2008-09

## 1. What is the level of the MoD's End Year Flexibility (EYF) at the start of the CSR period?

The CDEL carry forward available from 2006-07 is £195 million. We have yet to finalise our 2007-08 outturn, and reach agreement with Treasury on the level of any EYF entitlement (Resource DEL and Capital DEL) for the CSR period.

## 2. The Committee would be grateful if the MoD could set out where it expects to find the £2.7 billion of efficiency savings required under the CSR settlement by 2010-11 (setting aside the energy efficiency and administration savings cited in the Estimates memorandum), and indicate the expected scale of savings in each area.

The CSR settlement requires MoD to deliver value for money savings totalling £2.7 billion by 2010-11. We identified savings worth £2.4 billion, as shown in the following table. We expect to identify further savings in due course, sufficient to meet the target.

Category	VfM Savings £m					
	Near Cash Resource			Capital		
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2008-09	FY 2009-10	FY 2010-11
Corporate Enabling Services(1)	-172	-275	-369			
Equipment Support (1)	-116	-186	-253			
Science Innovation Technology (2)	-25	-25	-25			
Overseas Operating Bases(3)	-2	-3	-3			
Northern Ireland Normalisation (4)	-114	-117	-120			
Shared Services (5)	-23	-37	-59			
Commodity Procurement and Travel (6)	-24	-33	-34			
Additional Efficiency (7)	-132	-198	-285	-22	-30	-39
Absorbed Pressures (8)	-77	-77	-80	-10	-7	-7
Other savings, including to equipment plans (9)	-222	-255	-305	-429	-508	-807
<b>TOTAL</b>	<b>-907</b>	<b>-1,206</b>	<b>-1,533</b>	<b>-461</b>	<b>-545</b>	<b>-853</b>

- (1) Corporate Enabling Services (CES) and Equipment Support VfM savings are the Department's Priority Projects and incorporate a number of Departmental initiatives such as Head Office Streamlining, and the Defence Equipment & Support transformation project to minimise overheads—Performance, Agility, Confidence and Efficiency (PACE).
- (2) A Departmental review of the Research Programme to better align it to MOD strategic needs and eliminate low priority activity has enabled SIT to achieve savings of £25 million per annum across the CSR 2007 period.
- (3) The savings identified in Overseas Operating Bases are the estimated benefits of Project Montgomery: the rationalisation of British Forces Cyprus Command and Control, and Project Wavell: the contractorisation of British Forces Cyprus support activities.
- (4) Estate closures and disbandment of the three Royal Irish (Home Service) battalions as a result of the cessation of Op BANNER and Northern Ireland Normalisation have generated VfM savings.
- (5) These savings are derived from the delivery of Shared Service activities and functions within Civilian and Military Human Resources.
- (6) These savings are derived from the procurement reform of primarily travel, but also energy, professional services, and technical support.
- (7) These savings are a series of specific measures identified by individual TLB holders including travel and subsistence savings, manpower and estate reductions and organisational changes.
- (8) These savings come from central planning and programme actions to eliminate costs from TLB programmes. They cover a wide spectrum—examples include inflationary pressures within Science contracts, pay and allowances for locally employed civilians on overseas operating bases, the cost of running on project teams due to disband, and building maintenance work.
- (9) These savings measures are derived from decisions taken in the MOD planning process to reprioritise the Department's resources.

3. *What are the grounds for the MoD claiming £0.27 billion of efficiency savings from 2007–08 as contributing to the CSR savings target (VFM Delivery Agreement, p 3)?*

In SR04, the Department had a target of £2.8 billion of efficiencies. The MoD has overachieved against this target, including by bringing forward some planned efficiencies into the SR04 period, notably in the Defence Logistics Transformation Programme. We have agreed with HMT that we can score up to £270 million of savings against the CSR 07 target. To have disqualified such savings would have been perversely to incentivise the Department to forgo benefits in a particular Spending Review period once the target for that Spending Review had been met.

5 June 2008

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### Further memorandum from the Ministry of Defence

GOVERNMENT RESPONSE TO THE HOUSE OF COMMONS DEFENCE COMMITTEE REPORT ON OPERATIONAL COSTS IN IRAQ AND AFGHANISTAN: SPRING SUPPLEMENTARY ESTIMATES 2007–08 (HC 400)

The Government welcomes the Committee's report on the Ministry of Defence Cost of operations in Iraq and Afghanistan: Spring Supplementary Estimates 2007–08, published on 10 March 2008, as HC140. The Estimate sought Parliamentary approval for further funding for operations in Afghanistan and Iraq; draw down of the Department's End Year Indirect Resource and Capital Flexibility entitlements (carry over of under spends from earlier years); draw down of the Department's Unallocated Resource provision; inter Department Government budgetary transfers; and recognition of proceeds from the sale of Chelsea Barracks. The Government's response to the conclusions and recommendations, which were contained in the Committee's report is set out below. This should be read in conjunction with our recently submitted 2008–09 Main Estimates memorandum.

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

The Government's position is that a minimum of 14 days should elapse between the laying of Supplementary Estimates and the related parliamentary debates and votes. This was increased from "eight clear days" in 2004 as part of a package of changes to the Estimates process. Production of the Supplementary Estimates is already subject to an extremely tight timetable throughout and a greater gap than this would not be practical. The Main Estimates are not of course subject to such constraints and are usually presented two months or more before the parliamentary consideration, which for this year is planned for 7 July. The Treasury-led Alignment Project, which is looking at the various public spending controls (primarily budgets, Estimates and accounts), aims to simplify the process by greatly reducing the differences between the various controls. This will itself help committees in the scrutiny of departmental spending plans.

2. *The MoD should be commended for continuing to provide a clear and informative Estimates memorandum. (Paragraph 4).*

The Department is fully committed to improving the content and quality of its Estimates memorandum.

3. *The Ministry of Defence is seeking a net increase in resources and capital of £2,192 million—in cash terms a net increase of £894 million. This is the additional sum of money required by the MoD to fund its activity over and above the sums already voted in the Main and Winter Supplementary Estimates. (Paragraph 5).*

Noted. The detailed composition was set out in our memorandum. We will report our outturn against our total annual request for resources in the Department's 2007–08 Annual Report and Accounts.

4. *We are therefore pleased to note that the MoD in its response to our Report on the Winter Supplementary Estimate has said that it will, at the next Main Estimate, include a forecast for Urgent Operational Requirement (UOR) costs within RfR2. (Paragraph 8).*

As the Department stated in its government response to the 2007–08 Winter Supplementary Estimates (response to paragraph 2—further memorandum from the MoD) our 2008–09 Main Estimates Memorandum includes a central estimate of Urgent Operational Requirements.

5. *In past Reports we have asked the MoD to provide information about likely Balkan costs within its own Estimate earlier in the Financial Year. We are again pleased that the MoD has decided in its next Main Estimate to set down its own assumption for what these operational costs are likely to be in Financial Year 2008–09. (Paragraph 9).*

For the first time, the Department has requested funding for operations in the Balkans in its 2008–09 Main Estimates. This is based on 75% of forecast costs. Further funds are likely to be requested in the Supplementary round.

6. *We again commend the MoD for increasing the amount of information which this will make available to the House at an early stage in the Financial Year. (Paragraph 9).*

The Department is fully committed to providing as much information as it can to the House, at the earliest opportunity.

7. *The most notable element of the Estimate is the significant increase signalled in the expected additional costs of operations in Iraq and Afghanistan in the current Financial Year. (Paragraph 10).*

8. *In the Winter Supplementary Estimates, the MoD estimated the additional costs of operations in Iraq and Afghanistan for 2007–08 as £955 million and £964 million respectively (excluding indirect costs). The MoD now estimates that these costs will be £1,449 million for Iraq and £1,424 million for Afghanistan. (Paragraph 10).*

9. *This is an increase in estimated additional costs for this current year of around 50% for both theatres. (Paragraph 11).*

Set out below in tables 1 and 2 is the explanation for the changes between the 2007–08 Spring Supplementary Estimates and the 2006–07 outturn for Iraq and Afghanistan.

**Table 1**

**EXPLANATION FOR 2007–08 SPRING SUPPLEMENTARY ESTIMATE RESOURCE REQUEST AND 2006–07 OUTTURN IN IRAQ**

<i>Cost Type</i>	<i>2006–07 Outturn</i>	<i>2007–08 SSE Request</i>	<i>Explanation</i>
<b>Direct Resource</b>			
Military personnel	100	93	Manpower reductions.
Civilian personnel	15	15	No Change.
Stock/Other consumption	218	263	Increases in fuel prices.
Infrastructure costs	83	109	Enhancement to security perimeter walling. Adaptation of Central Operating Base for winter weather, which was not originally envisaged.
Equipment support costs	206	357	Purchase and support of Urgent Operational Requirements (UORs).
Other costs and services	137	162	Increased training and operational welfare package costs. Support costs associated with provision of equipment to the Iraqi security services.
Income generated/foregone	5	5	No Change.
<b>Total Direct Resource</b>	<b>764</b>	<b>1,004</b>	Over 80% of the increase is due to additional UORs the majority of which are for force protection. The remainder is the building of hardened accommodation in the Central Operating Base to protect against mortar attack.
<b>Capital Additions</b>	<b>169</b>	<b>445</b>	Increased UOR expenditure, mainly for force protection.
<b>Total Resources</b>	<b>933</b>	<b>1,449</b>	

**Table 2**

**EXPLANATION FOR 2007–08 SPRING SUPPLEMENTARY ESTIMATE RESOURCE REQUEST AND 2006–07 OUTTURN IN AFGHANISTAN**

<i>Cost Type</i>	<i>2006–07 Outturn</i>	<i>2007–08 SSE Request</i>	<i>Explanation</i>
<b>Direct Resource</b>			
Military personnel	50	79	Increase in Service manpower in excess of 1,500 personnel.
Civilian personnel	4	8	Overtime/and locally employed (contracted) staff costs.
Stock/Other consumption	164	237	Increased operational activity in the Helmand Province resulting in increased use of ammunition, and technical and engineering stores.
Infrastructure costs	101	163	Increase in forward operating bases.
Equipment support costs	112	220	Purchase and support of Urgent Operational Requirements (UORs). Reconstitution of airframes and vehicles.
Other costs and services	89	162	Increase in support contract costs combined with a backlog of invoices. Increases to the operational welfare package.

<i>Cost Type</i>	<i>2006–07 Outturn</i>	<i>2007–08 SSE Request</i>	<i>Explanation</i>
Income generated/foregone	(2)	8	Loss of part of the Brunei receipt because the Gurkhas are now in Afghanistan. This is partially offset by income generated in theatre from other nations.
<b>Total Direct Resource</b>	<b>518</b>	<b>877</b>	
<b>Capital Additions</b>	<b>178</b>	<b>547</b>	Increased UOR expenditure, mainly for force protection.
<b>Total Resources</b>	<b>696</b>	<b>1,424</b>	

10. *While we are aware that the drawdown of forces in Iraq will not immediately lead to a comparable decline in costs, nonetheless, the magnitude of the increase in the costs estimate there is surprising.* (Paragraph 12).

Much of the cost increase relates to increased capital spending (mainly Urgent Operational Requirements), to ensure that our forces in southern Iraq have the best protection against the continuing threats they face, particularly from rocket and mortar attacks and improvised explosive devices. We are investing in additional protection for infrastructure at the Contingency Operating Base in Basra (accommodation programme) and for our vehicle fleet.

In addition, the Iraq-related costs requested in the Winter Supplementary Estimate were based on earlier assumptions about the draw-down of our forces in southern Iraq as announced to the House of Commons by the Prime Minister on 8 October 2007. As the Defence Secretary explained to Parliament in his statement of 1 April, the military assessment of changes in conditions on the ground in Basra over the first quarter of 2008 was that force level reductions were unlikely to be possible at the rate previously envisaged, on the ground in Basra. Our Spring Supplementary Estimate request for Iraq takes account of adjustments to projected force levels in 2008.

11. *It is worthwhile stressing that these increases in estimated costs for this Financial Year have occurred not since the MoD's Main Estimate was laid on 30 April 2007 but since the Ministry's Winter Supplementary Estimate was laid on 15 November. In other words, with the exception of the indirect costs of these operations, the higher cost estimate was presumably unforeseen only three months ago. Where in future Supplementary Estimates bring significant increases in the cost of operations, the Estimates memorandum should make clear to what extent the increase is the result of previous under-estimation and where it is a genuine cost increase.* (Paragraph 12).

The Department has consistently explained that operational costs are difficult to forecast and sensitive to changes in operational policy and the operational context. There is always likely to be a variation between the forecasts used to inform Winter Supplementary Estimates and those to inform Spring Supplementary Estimates. For example, the increased cost of operations in Afghanistan at Spring Supplementary Estimates reflects a more offensive campaign than envisaged at Winter Supplementary Estimates. Additionally, operations in Afghanistan are now being conducted further afield from the base camps, which has led to increased logistical costs because of the stretched supply line. A further example is that the increased capital spend in Iraq is a direct consequence of higher aggressive enemy action, particularly from mortar attacks and road side bombings. This has necessitated increased buildings protection and vehicle protection (UOR). The Department will, however, endeavour to provide more detailed explanations for the variation between estimates at Winter and Spring Supplementaries in future memoranda.

12. *We expect the MoD to provide us with a full explanation for the very significant increase in the indirect resource cost of operations in response to this Report. In addition, we suggest that the MoD states clearly its expectations with regard to the size of the indirect resource costs of operations in Iraq and Afghanistan in the next Financial Year, should operations continue at their current tempo.* (Paragraph 14).

Last year the Department exceeded the resources voted to cover the costs of operations, and, therefore, received a qualification on its accounts in this respect from the Comptroller and Auditor General. As noted in our 2006–07 Annual Report & Accounts, the excess expenditure was entirely against the provision for non-cash costs (reflecting the use of more Hellfire missiles in Afghanistan than had been forecast at the time the Department submitted Supplementary Estimates and increased depreciation charges for some military equipment damaged or destroyed on operations). The Department undertook to identify any appropriate lessons in time to inform the production of the Winter and Spring Supplementary Estimates for 2007–08.

The work undertaken concluded that the indirect costs of operations had not been fully reported in 2006–07, and the increased request this year reflects a fuller, and more robust, forecast, based on a methodology discussed with the National Audit Office. There is inevitably a high degree of difficulty in forecasting indirect costs—for example, for equipment damaged or destroyed on operations and the number

of missiles fired, which are driven by operational tempo. For this reason our Estimate includes a degree of contingency to protect the Department against a further qualification to its accounts this year. The Committee has previously stated that it would accept some contingency in the Department's estimates.

13. *We are concerned that the very difficulty of attempting to provide robust forecasts for the cost of operations might discourage the Ministry from trying its best to provide a thoroughly considered forecast for the Supplementary Estimates, Winter and Spring, during the Financial Year.* (Paragraph 15).

The Department has always sought to provide realistic and robust estimates provisions and welcomes the Committee's recognition that the unpredictability of military operations makes this very difficult. A large part of our operations costs relates to Urgent Operational Requirements. Enhancements to the existing reporting system to enable more effective monitoring of UOR expenditure are now in place, and a specialist working group has been set up this year, which will enable the Department to track costs more robustly. We will continue to improve our reporting systems.

14. *In our Report on the Winter Supplementary Estimate 2007–08, we asked the MoD to consider placing in its next Main Estimate a forecast for its operational costs in the Balkans for that Financial Year. We are pleased that the MoD has agreed to include such a forecast, and accept that the MoD may have to amend this forecast over the course of the Financial Year in its Winter and Spring Supplementary Estimates. We remind the MoD that the opportunity for such amendment does not, however, free the department from its responsibility in the first instance to provide as robust a forecast as possible. The House can only benefit from early sight of the MoD's firm assumptions as to the cost of such operations.* (Paragraph 18).

As our response to point 5 states, for the first time, the Department has requested funding for operations in the Balkans in its 2008–09 Main Estimates. The Department takes its responsibilities to Parliament very seriously, and is fully committed to providing realistic and robust estimates provisions. The Committee recognises that the unpredictability of military operations makes this very difficult, which is why further funds may be requested in the Supplementary round, depending on any changes to forecasts later in 2008–09.

15. *We again stress the unsatisfactorily tight deadline to which all departmental select committees are expected to work in their study of the Supplementary Estimates.* (Paragraph 20).

16. *As things currently stand, it is simply not possible to scrutinise these important figures as fully as they deserve.* (Paragraph 20).

See comment on first recommendation.

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

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

9 May 2008

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### Supplementary memorandum from the Ministry of Defence

#### ANSWERS TO THE HOUSE OF COMMONS SELECT COMMITTEE'S FOLLOW UP QUESTIONS ON THE GOVERNMENT RESPONSE TO THE MINISTRY OF DEFENCE 2007–08 SPRING SUPPLEMENTARY ESTIMATES

1. *At what point in FY 2007–08 did it become clear that there was going to be a more offensive campaign in Afghanistan in that FY that would require more expenditure than was envisaged at the time of the WSE?*

The additional manpower deployment required to increase operational tempo in Afghanistan was approved by Ministers towards the end of July 2007. This was too late to be included with any certainty in July forecasts, upon which the WSE resource request was based. The increased operational tempo was sustained until December 2007. The forecast costs for operations for the SSE were based on end November estimates which included the costs for the increase in the campaign.

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2. *At what point in FY 2007–08 did it become clear that increased buildings and vehicle protection in Iraq would be required in that FY and which would require more expenditure than was envisaged at the time of the WSE?*

The estimates for the cost of operations in Iraq for WSE were based on end July forecasts; those for the SSE were based on end November forecasts. The costs for the increased buildings protection in the central operating base were established in November. The costs for the increased vehicle protection were identified as part of the Capability Review held in September 2007.

3. *Is the MoD content that the forecasts in the WSE for the Direct Resource and Capital costs of Iraq/Afghanistan operations would have proved robust had not the unexpected requirements outlined in questions 1 and 2 above materialised?*

The forecasts in the WSE represented the best estimate of the likely costs of Iraq and Afghanistan when the Estimate was submitted. As we explained in the Government response to HC140, the Defence Committee's report on the Spring Supplementary Estimates 2007–08, operational costs are difficult to forecast and sensitive to changes in operational policy and the operational context. There is always likely to be a variation between the forecasts used to inform Winter Supplementary Estimates and those to inform Spring Supplementary Estimates.

4. *Given the volatility of operations in Afghanistan and Iraq, is the MoD content that it has the correct procedures in place to assess and quantify changes in forecast costs as quickly as possible?*

The Department is always seeking to improve its processes. As we reported in the Government response to the Committee's report on SSE we have introduced a new methodology for capturing the non-cash costs of operations. In addition we have made enhancements to the existing reporting system to enable more effective monitoring of UOR expenditure and set up a specialist working group, which will enable the Department to track costs more robustly. We will continue to improve our reporting systems.

5. *Has any thought been given by the MoD to providing interim data, between Estimates, to Parliament or to the Defence Committee setting out an outline of likely changes in forecast costs should changes in operational tempo/stance occur?*

In practice, forecasts of the costs of operations are passed to Parliament in Winter Supplementaries in November and Spring Supplementaries in February. A further forecast could be provided to the Committee between Supplementaries if the Committee would find that helpful.

5 June 2008

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