



House of Commons
Defence Committee

**Ministry of Defence Main
Estimates 2009–10:
Government response to
the Committee's Ninth
Report of Session 2008–09**

Fifth Special Report of Session 2008–09

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

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at: www.parliament.uk/defcom

Committee staff

The current staff of the Committee are Mike Hennessy (Clerk), Georgina Holmes-Skelton (Second Clerk), Karen Jackson (Audit Adviser), Judy Goodall (Inquiry Manager), Richard Dawson (Senior Committee Assistant), Christine McGrane (Committee Assistant) and Miguel Boo Fraga (Committee Support Assistant).

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Fifth Special Report

The Defence Committee published its Ninth Report of Session 2008–09 on *Ministry of Defence Main Estimates 2009–10* on 2 July 2009, as House of Commons Paper HC 773. The Government's response to this Report was received on 2 September 2009. This is appended.

Government response

The Government welcomes the Committee's report on the Ministry of Defence Main Estimates 2009-10, published on 2 July 2009, as HC 773. The Government's response to the conclusions and recommendations, which were contained in the Committee's Report, is set out below.

1. (Recommendation 1) We have commented before on the very tight schedule which committees such as ours have to adopt if they are to report on Supplementary Estimates before they are taken in the House. It is highly regrettable that this year such a very tight schedule should apply also to the Main Estimates. We expect the Government in its response to this Report to set out the reason for the delays and the actions it intends to take in future years to ensure such delays do not happen again. (Paragraph 4)

The Government regrets that—unusually—there was a delay in the publication of the *Central Government Supply Estimates, Main Estimates 2009-10*, HC 514. The main reason for the delay was due to the late Budget.

As the Committee knows, the undertaking that the Treasury has given to the House is that the Main Estimates would normally be laid before the House within 25 working days of the Budget, subject to the House sitting. In a normal year where the Budget is in March this means that the Main Estimates are laid in April or occasionally May. This allows for over three months before the Estimates Day debate in July for the consideration of the Supply Estimates.

However, this was not a normal year in terms of timing (the 2009-10 Main Estimates were published 2 July 2009; the 2008-09 Main Estimates were published 21 April 2008). The economic situation led to a later than normal Budget, which squeezed the amount of time for Select Committees to consider the departmental Supply Estimates. In addition, the Treasury experienced a change of its Ministers at a key point in the process. This inevitably meant bringing them up to speed on their roles and responsibilities, including the Supply Estimate process. Treasury Ministers rightly want to ensure that this key process delivers correct information.

The Government would have found it almost impossible to have altered the date on which the House was asked to agree the Estimates. Any attempt to push back the Estimate Day could have compromised the obtaining of Royal Assent by recess, which is critical to ensuring that departments have access to properly authorised funds. With this year's timing Royal Assent was only granted on the last possible day.

As stated above, Treasury Ministers recognise the importance of the Supply Estimates process. Accordingly, we would expect the Main Estimates 2010-11 to be laid within the 25-day target, subject to the House sitting and the timing of any general election.

2. (Recommendation 2) We request the MoD in response to this Report explain the reasons for the significant increase in resources allocated to the Chief of Joint Operations TLB. (Paragraph 7)

The 2008-9 Main Estimate had a provision of £437 million allocated to the Chief of Joint Operations TLB. This reduced to £377 million in the Winter Supplementary Estimate, and was later slightly increased to £396 million in the Spring Supplementary Estimate. This reflected allocation changes between TLBs to match required defence outputs.

The principal change was £55 million for facilities management moved to Defence Estates (who have ownership of estate and associated facilities management); plus movements of £4 million for medical stocks; £3 million for Joint Service Signals Organisation (JSSO); £2 million for Joint Counter Terrorism Training and Advisory Team (JCTTAT); £1 million for schools; and other small adjustments. The increase of 6% from the 2008-9 Main Estimate of £437 million to the 2009-10 Main Estimate of £464 million is due to a change in fuel costs.

3. (Recommendation 3) We welcome the MoD's willingness to share increasing amounts of information on operational costs with the House at this early stage in the Financial Year, and likewise for seeking formal approval from the House for these funds earlier than before. These are not insignificant steps in allowing our Committee and the House improved financial scrutiny. (Paragraph 10)

The MoD will continue to provide the House with as much information as it can, at the earliest opportunity.

4. (Recommendation 4) Current forecasts suggest that the cost of operations in Iraq this Financial Year will be £877 million, and in Afghanistan £3,495 million, a total of some £4,372 million. These sums represent a decrease of 55.2% and an increase of 36.6% respectively against expected costs for Financial Year 2008-09. The overall reduction, adding together both theatres, is 3.2%. This is the first reduction in overall costs of operations in Iraq and Afghanistan since those operations began to be carried out in both theatres, although Supplementary Estimates this Year might negate that reduction. (Paragraph 13)

Current forecasts suggest that the costs in Iraq may be lower than envisaged when the 2009-10 Main Estimates were published due to the accelerated drawdown process. These initial forecasts are still subject to further scrutiny. Operations in Afghanistan are continually changing and this may impact on costs there. If there are significant changes in operational costs in either Iraq or Afghanistan we will inform the Committee.

5. (Recommendation 5) We expect the MoD, in its response to this Report, to set out more clearly why the cost of operations in Iraq in Financial Year 2009-10 is still so relatively significant when for most of that Year only approximately 400 UK personnel will remain in theatre. (Paragraph 19)

When the Main Estimates data was drawn up in January this year, it was based on assumptions of a gradual drawdown of personnel in Iraq over the first six months of 2009/10. Although only 400 were expected to remain in Iraq, we also expected a continued presence of UK forces and assets to be stationed in the region providing naval and air support. The Main Estimates figures therefore reflect these assumptions.

As a consequence of withdrawing more quickly from Iraq than had been expected, some additional costs arising from the withdrawal of UK forces (such as increased freight and

impairment charges) were incurred in 2008/09 rather than 2009/10. In some cases, assets have transferred from Iraq to Afghanistan.

We are still working through the detailed consequences for our in-year forecasts, but now expect outturn costs for the OP TELIC theatre to be lower than our Main Estimate suggested. We continue to scrutinise our forecasts and will advise the Committee of any significant changes.

6. (Recommendation 6) We expect the MoD in its response to this Report, or within its Annual Report and Accounts to set out clearly, comprehensively and in appropriate detail the specific drawdown costs in Iraq for Financial Year 2008–09. If these costs significantly exceed or fall under the £455 million allocated for the purpose, we also expect the MoD to explain why this is so. (Paragraph 20)

As we made clear in our response to the Committee’s comments on our Spring Supplementary Estimate, we sought a large contingency to cover a range of possible impairment charges arising from our withdrawal from Iraq:

“The very tight Spring Supplementary Estimate publication timetable meant that although we could reflect the planned draw down in Iraq, we were obliged to include a substantial contingency for indirect costs. In large part this reflected the need to recognise any asset impairment costs as soon as possible i.e. in 2008-09 because of accounting conventions.

This contingency covers the potential non-cash costs of depreciation, write-offs and gifting of equipment and other capital assets such as buildings. Firm decisions as to which items of equipment it is cost-effective to bring back to the UK and what should be left behind are still being made. However, on current plans, no military hardware will be left in Iraq, but certain infrastructure, in particular at the Basra air station, will remain in place.”¹

The main asset impairment is a charge of some £63 million for accommodation/infrastructure (Tier Three); and there was also a constructive loss of £48.921 million for the transfer of four incomplete permanent structures following the Iraq drawdown. These were reflected in our 2008-09 annual report and accounts (HC850), along with some other equipment impairment costs. Our total outturn in non-cash proved considerably lower than the provision sought in the SSE, reflecting the considerable uncertainty in the potential impairments at the time the Estimates were drawn up.

We are continuing to assess whether any further costs associated with the withdrawal from Iraq, including any additional equipment impairment costs will accrue in 2009/10. We will advise the Committee of any significant impairment costs identified before requesting resources in the 2009-10 Supplementary Estimates.

7. (Recommendation 7) We expect the MoD to set out for us when the costs of the loss represented by the gifting of infrastructure to US forces in Iraq will be accounted for, and when the House will formally be asked to vote monies as a consequence. We also request an explanation of why this drawdown cost does not feature in the broken down

1 Defence Committee, Ninth Report of Session 2008–09, Ministry of Defence Main Estimates 2009–10, HC 773, Ev 11

costs set out in the Government response to our last Report on the Spring Supplementary Estimates. (Paragraph 22)

The costs of the gifting of infrastructure to US forces in Iraq (as set out in the Departmental minute dated 8 May 2009)) were accounted for in the 2008-09 accounts, but this was too late to reflect the detail of this arrangement in the SSE as the negotiations were still ongoing. The minute was laid before Parliament on 8 May and no objections were raised in the following 14 days.

8. (Recommendation 8) We would be grateful for confirmation of Urgent Operational Requirement (UOR) costs for 2008-09, accompanied by a note explaining the changes to the composition of these costs over the period concerned. (Paragraph 24)

The total spend on UORs during 2008-09 for both Iraq and Afghanistan was £1,060 million, which is within the £1,130 million estimate agreed with HM Treasury).

The forecast total spend on UORs is dependent on a number of factors, including expected throughput (i.e. expected delivery) by manufacturers, new operational requirements, force levels, and exchange rate variances.

UOR costs cross many different categories of expenditure (both Capital and Resource DEL). As the UOR process is used to address the theatre-specific needs associated with our current deployments in Iraq and Afghanistan, much information on specific UORs remains operationally sensitive and we do not comment in detail on individual items of equipment. However, a very considerable proportion of the equipment procured using the UOR process is for Force Protection.

9. (Recommendation 9) We would be grateful for an explanation of why UOR costs beyond the limit agreed between the Treasury and the MoD are now to fall in full upon the MoD two Financial Years later: this seems to go against the agreement announced to the House by the then Secretary of State, the Rt Hon Des Browne MP, in November 2007, which stated that such costs would be split 50:50 between the Treasury and the MoD. (Paragraph 25)

In June 2009, the original £635 million UOR cost forecast was increased by £101 million to £736 million to reflect the Counter-IED (Improvised Explosive Devices) task force which is being deployed in Afghanistan.

As the then Secretary of State set out in the Written Ministerial Statement on 11 December 2008, any excess UOR spend over the estimate of £736 million will be repaid in full from the Defence budget in two years time (i.e. in FY 2011-12).

It is right that we should work with HM Treasury to plan the Government's spending commitments by estimating our requirements as accurately as possible.

10. (Recommendation 10) We request the MoD, in its response to this Report, to break down the projected 2009-10 £635 million UOR costs in the same way as it did for 2008-09, by theatre and by capital or resource type. We are concerned that this limit on UOR costs may be an indication that the key ingredients of UORs, namely that they are required, urgently, for operational reasons, may be seen taking second place to cost

considerations. We also request the MoD to give an explanation of why UOR costs are expected to be so much less than for the previous Financial Year. (Paragraph 25)

The UOR estimate is just that, and is not a limit. The original £635M and subsequent £101M uplift agreed with HM Treasury is not formally split by operation or resource type to provide flexibility to meet operational demands. However, based on our in-year data for 2009-10 so far, approximately 90% of UOR expenditure is for Op HERRICK in Afghanistan. The split of Capital or Resource DEL depends on the type of equipment being procured and what stage the project is at. At present we anticipate around 80% of spending should be Capital. UORs are of course, subject to change reflecting changing operational requirements. We will be able to provide a detailed breakdown of UOR spend by operation and resource type in the 2009-10 Departmental Resource Accounts if required.

The total estimate of £736 million for FY 2009-10 does not include the considerable spend on the Protected Mobility package. Of the total £500 million funded from the Treasury £424 million will be contributed this year. When this is combined with the anticipated in-year spend on the UORs the total anticipated spend is over £1.2 billion in 2009-10 (i.e. broadly the same as for the previous financial year). The estimate is based on our forecast for UOR spend in the current operational climate.

11. (Recommendation 11) We are concerned that there might still be significant increases in the cost of the Protected Mobility Package, all of which will fall to be paid in full by the MoD. We request the MoD in its response to this Report set out its latest assessment of the cost to it of this Package, when this cost is likely to fall, and when the House will formally be notified of this cost. (Paragraph 26)

The current MOD assessment of the Protected Mobility Package (PMP) is that the total cost will be in excess of £650 million, which is consistent with the statement made by the then Secretary of State for Defence, the Rt Hon John Hutton MP, on 29 October 2008. We will keep the House informed of any significant changes.

The final outturn will depend on foreign exchange rate variations and operationally essential changes to vehicles (e.g. better armour and equipment needed for Warthog) driven by changes in threat in Afghanistan.

12. (Recommendation 12) We recommend that the House of Commons approve the MoD's Main Estimates, and have identified no issues which require a debate before it does so. The House should note that for the first time these Estimates contain a formal request for resources for operations in Iraq and Afghanistan which means that, while they cannot directly be compared to previous Main Estimates, they do represent a more realistic assessment of operational costs and of monies for which the MoD is responsible for the whole Financial Year. (Paragraph 27)

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