



House of Commons
Defence Committee

MoD Winter Supplementary Estimate 2009–10

Second Report of Session 2009–10

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

*Ordered by the House of Commons
to be 8 December 2009*

The Defence Committee

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

Current membership

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Powers

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

Publications

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

Committee staff

The current staff of the Committee are Mike Hennessy (Clerk), Richard Ward (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).

Contacts

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Contents

Report	<i>Page</i>
Introduction	2
Context	2
Timetable for scrutiny	3
Cost of military operations	4
Urgent Operational Requirements	8
Other issues	9
Science Innovation Technology	11
Conclusion	11
Conclusions and recommendations	13
Formal minutes	14
List of written evidence	15
List of Reports from the Committee during the current Parliament	16

Introduction

1. The Winter Supplementary Estimate (WSE) for the Ministry of Defence (MoD) for Financial Year 2009–10 was laid before the House, alongside those for other government departments, on 24 November 2009.¹ The MoD is seeking in this Estimate a net increase in Capital and Resource expenditure of £954.501 million—in cash terms a net increase of £38.501 million. Table 1 provides a breakdown of the overall requested increase in expenditure.

Table 1: Changes in Resource and Capital Expenditure in the Winter Supplementary Estimate

Resource Expenditure	£ M
Provision of Defence Capability (RfR1)	1,025.500
Operations and Peace Keeping (RfR2)	000.001
Total Net Request for Resources	1,025.501
Capital Expenditure	£ M
Net Provision of Defence Capability (RfR1)	-71.000
Operations and Peace Keeping (RfR2)	000.000
Total Net Request for Capital	-71.000
Total Change in Capital and Resource	954.501

Source: Ministry of Defence²

Context

2. In some respects, the MoD Winter Supplementary Estimate this year is unusual. For the first time since UK operations began in Afghanistan and Iraq, funds for these operations in this Financial Year were formally sought at the time of the Main Estimates.³ In previous years, forecasts of operational costs were delivered at the time of the Winter Supplementary Estimate or, more recently, at the time of the Main Estimate, while the formal request for funds from Parliament occurred at the time of the Spring Supplementary Estimate or more recently, at the time of the Winter Supplementary Estimate.

3. We have for long argued that the MoD ought to provide more detailed information on the cost of operations earlier in each Financial Year, and seek formal Parliamentary approval for those funds towards the beginning rather than towards the end of the Financial Year. Our dialogue with the MoD on this matter during this Parliament has been

1 HM Treasury, *Central Government Supply Estimates 2009–10 Winter Supplementary Estimates*, HC 24, November 2009

2 Ev 1, Table 1

3 Defence Committee, Ninth Report of Session 2008–09, *Ministry of Defence Main Estimates 2009–10*, HC 773, para 10

very fruitful. At the beginning of Financial Year 2008–09, the MoD provided a forecast for operational costs earlier than it had done before. It also signalled its intention to seek formal approval for funds for operations in the Main Estimates at the beginning of this Financial Year.⁴ This was the culmination of the MoD responding positively to many of the recommendations and conclusions of our various Reports on the Estimates. **We are grateful to the MoD for developing with us a new timetable for forecasts and formal approval of monies for operations over the course of this Parliament.**

4. The MoD had frequently commented in response to our Reports that because of the volatile nature of operations it was not possible to provide an accurate forecast of costs early each Financial Year, and without such a forecast it would be rash to seek formal Parliamentary approval for operational costs.⁵ However, the capacity for the MoD to provide robust forecasts of costs has clearly grown. This is apparent from this Financial Year's Winter Supplementary Estimate. Last Financial Year, the MoD sought approval for funds amounting to over £3.5 billion at the time of the Winter Supplementary Estimate, the vast majority of which was for operations.⁶ This Financial Year, the MoD formally requested nearly £4.5 billion for operations within its Main Estimate.⁷ The fact that only a token request for £1,000 is included within the Winter Supplementary Estimate (required for technical reasons)⁸ makes clear that, broadly speaking, the MoD's assessment of likely costs for 2009–10 was robust and well-founded.

Timetable for scrutiny

5. The House will be asked to approve this Estimate, along with those from other government departments, on Thursday 10 December, just sixteen calendar days after they were laid. As we have maintained throughout this Parliament in our Supplementary Estimates Reports,⁹ there is too little time properly to consider the Estimates and their accompanying financial documents between their laying and their being formally approved in the House. This is as much an issue for the House as it is for the Government. **We hope that the House's scrutiny of the Supplementary Estimates will be taken up in the new Parliament: increasing the capacity of select committees to conduct more detailed financial scrutiny in a more reasonable time table must be a key component of reviving the role of Parliament.**

6. We would like to record our thanks to the Committee Office Scrutiny Unit for helping us report successfully on the Supplementary Estimates during this Parliament in an absurdly compressed timescale. We would also like to thank the MoD for the speed with which it responds to our queries while these Reports are being prepared.

4 HC (2008–09) 773, Ev 11–14

5 See for example Defence Committee, Tenth Report of Session 2006–07, *Cost of military operations: Spring Supplementary Estimate 2006–07*, HC 379, para 4

6 Defence Committee, First Report of Session 2008–09, *Winter Supplementary Estimates 2008–09*, HC 52, para 8

7 HC (2008–09) 773, para 13

8 Ev 4, para 5.1.1

9 See for example, HC (2008–09) 52, para 4

Cost of military operations

7. The cost of operations in Iraq and Afghanistan is covered by Request for Resources 2 (RfR2) within the Estimate. The amount requested for these operations at the time of the Main Estimate in June 2009, in terms of direct and indirect resource and capital costs was £4.372 billion.¹⁰ The forecast cost of these operations included in the memorandum with the Winter Supplementary Estimate is £4.142 billion, a reduction of 5.3%.¹¹ Consequently, unlike in most years since operations began, there is no call upon Parliament to approve further funds for operations within this Supplementary Estimate. However, there is a token £1,000 request required by HM Treasury rules to allow Parliament to transfer some monies to the Department for International Development (DFID) and to re-allocate funds to the Stabilisation Aid Fund provision to the Global Pool.¹²

8. The principal cause for this 5.3% reduction is a re-assessment of forecasts for operational costs in Iraq for the current Financial Year. The MoD memorandum accompanying the Estimate notes that this is principally “due to the accelerated drawdown process” in that country.¹³ Forecast Iraq costs within the Main Estimate were £877 million. Current forecast costs are £388 million. Table 2 below, which shows a breakdown for the estimated cost of operations in Iraq and Afghanistan at the time of the Main and Winter Supplementary Estimates, makes clear that the most significant elements in this reduction relate to stock/other consumption and equipment support costs.

Table 2: Main and Winter Supplementary Estimates 2009-10 forecasts for operations in Iraq and Afghanistan

Cost Type	Iraq ME £M	Iraq WSE Forecast £M	Afghanistan ME £M	Afghanistan WSE Forecast £M
Direct Resource DEL				
Civilian Personnel	9	6	16	24
Military Personnel	37	39	148	171
Stock/Other Consumption	189	28	480	492
Infrastructure Costs	69	68	216	276
Equipment Support Costs	231	89	485	535
Other Costs and Services	93	52	423	445
Income Foregone/Generated (-)	1	-26	-12	-29

10 HC (2008–09) 773, para 13

11 Ev 4, Table 7

12 *ibid.*, para 5.1

13 Ev 5, para 5.3.1

Total Direct Resource DEL	629	256	1,756	1,914
Indirect Resource DEL	165	76	258	295
Total Resource DEL	794	332	2,014	2,209
Capital DEL				
Capital Additions	83	56	1,481	1,545
Total Capital DEL	83	56	1,481	1,545
TOTAL ESTIMATED COSTS	877	388	3,495	3,754

Source: Ministry of Defence¹⁴

9. Set against this significant reduction for operational costs relating to Iraq, there is a slight increase in forecast costs for operations in Afghanistan. The MoD memorandum accompanying the Estimate notes that this increase is principally on account of the Main Estimate being predicated on a force level of 8,300 while the Winter Supplementary Estimate is predicated on current force levels of 9,000.¹⁵ Forecast Afghanistan costs within the Main Estimate were £3.495 billion. Current forecast costs are £3.754 billion. While military personnel costs within these sums have risen from £148 to £171 million, associated infrastructure costs have also risen from £216 to £276 million. In addition, equipment support costs have risen from £485 to £535 million. The MoD notes that in addition to the cost implications of the increase in force levels “to support national elections, and enable the deployment of the counter improvised explosive device task force” there have been increases in other costs, namely “personnel costs, additional sustainment costs, the corresponding additional equipment, essential Urgent Operational Requirements and associated costs of providing counter improvised explosive device capability and expertise.”¹⁶

10. As the costs for both theatres are now forecast to be lower than anticipated at the time of the Main Estimates, there is no need to request further sums to fund operations. There is also some room within the funds obtained at Main Estimates to cover further increases in current forecast costs should they occur. While we were considering the Winter Supplementary Estimate, the Prime Minister made a statement to the House confirming that, his three pre-conditions having been met, 500 extra British troops are to be sent to Afghanistan.¹⁷ The MoD memorandum, written before this statement, refers to the possibility of this further deployment and makes clear that the forecast in the memorandum does not include expenditure relating to this increase in military personnel. However, in response to a further query, the MoD notified us on the day of the statement that deploying an extra 500 troops would cost “in the region of £45 million for additional

14 Ev 5, Table 8

15 Ev 4, para 5.2.1

16 Ev 4-5, para 5.2.1

17 HC Deb, 30 November 2009, col 835

personnel and sustainment” in this Financial Year.¹⁸ It also added that because “the exact role of the 500 has yet to be determined, [it]... cannot assess what, if any, additional equipment requirements there will be above the standard protection equipment that all personnel deploy with”, adding that costs associated with this additional equipment would however be unlikely to fall in this Financial Year.¹⁹

11. The MoD has always stressed that forecasts for operational costs are subject to many variations and changes:

The costs of Operations are driven significantly by the tempo of operations, which particularly effect equipment support costs, attrition, fuel and ammunition consumption. Exchange rates, fuel prices and costs incurred with contractors can also vary.²⁰

New strategies or military tasks can arise that require significant increases in spending or which might result in a major drop in expenditure. Consequently, even setting aside the issue of the extra 500 troops, the MoD memorandum points out that the Department “may have to increase ... [its] request for resources at Spring Supplementary Estimates.”²¹ The Spring Supplementary Estimates are expected to be placed before the House in February: the figures that will inform that Estimate will be agreed with HM Treasury in January. The MoD has said that it will let us have sight of the figures which will inform that Estimate once they have been agreed.²² We are grateful for the MoD’s co-operation in this matter.

12. Tables 3 and 4 below show for both Iraq and Afghanistan the recent trajectory of operational costs, from the outturn for 2006–07, through the outturns for 2007–08 and 2008–09, to the latest assessment for the costs for 2009–10 (not including the around £45million base cost for the deployment of an extra 500 UK troops to Afghanistan). The residual cost for maintaining the very small UK presence in Iraq will not become clear until around the time of the 2010–11 Main Estimates. Similarly, the proportion of costs in this Financial Year that can be ascribed to drawdown is uncertain. The massive drop in costs makes apparent the extent of the scaling down that has taken place in that theatre recently. While the current forecast for both theatres is less than expected at the time of the Main Estimates, this is the case solely on account of Iraq costs being much less than expected. Operational costs for Afghanistan are still rising and with the deployment of extra troops, plus the equipment that is currently or in the near future being re/deployed to theatre there—Merlin helicopters, Mastiff and Ridgeback armoured vehicles—costs will only continue to rise during this Financial Year should the current strategy and burden sharing arrangements endure.

18 Ev 9, response to question 3

19 *ibid.*

20 Ev 5, para 5.2.2

21 *ibid.*

22 Ev 9, response to question 2

Table 3: Iraq: cost of operations, 2006-07 to 2009-10 (£million)

Cost type	Iraq outturn 2006-07	Iraq outturn 2007-08	Iraq outturn 2008-09	Iraq forecast 2009-10 (Winter)
Resource (Direct)				
Military personnel	100	98	115	39
Civil personnel	15	14	21	6
Stock/other consumption	218	237	207	28
Infrastructure costs	83	130	133	68
Equipment support costs	206	278	306	89
Other costs/services	137	162	153	52
Income foregone/(generated)	5	4	—	(26)
Indirect Resource	23	131	189	76
Total (Resource)	787	1054	1124	332
Capital Additions	169	403	257	56
TOTAL	956	1457	1381	388

Source: previous Defence Committee Reports and Ev 5, Table 8

Table 4: Afghanistan: cost of operations, 2006–09 to 2009–10 (£million)

Cost type	Afghanistan outturn 2006–07	Afghanistan outturn 2007–08	Afghanistan outturn 2008–09	Afghanistan forecast 2009–10 (Winter)
Resource (Direct)				
Military personnel	50	85	73	171
Civil personnel	4	9	15	24
Stock/other consumption	164	301	527	492
Infrastructure costs	101	149	162	276
Equipment support costs	112	200	384	535
Other costs/services	89	160	312	445
Income foregone/(generated)	(2)	(11)	(24)	(29)
Indirect Resource	42	156	205	295
Total (Resource)	560	1049	1655	2209
Capital Additions	178	433	968	1545
TOTAL	738	1482	2623	3754

Source: previous Defence Committee Reports and Ev 5, Table 8

Urgent Operational Requirements

13. In our Report on the 2009–10 Main Estimates, we expressed some anxiety about the proposed division and burden of costs of Urgent Operational Requirements (UORs) between the MoD and HM Treasury. We also expressed some concern about how stable the forecast costs of the very welcome Protected Mobility Package (PMP) might be.²³ In its response to our Report, the MoD reiterated the change made in burden of UOR costs between the dates of the statements to the House of November 2007 and December 2008: UOR costs in excess of the figure agreed by the MoD and HM Treasury will fall in full on the MoD, rather than in part as before—a 50:50 split, MoD/HM Treasury—two Financial Years later.²⁴ **Although we understand that HM Treasury cannot write a blank cheque for the MoD even in the current circumstances that obtain in Afghanistan, we would like further information from the MoD as to the circumstances in which this change of practice might impact on the MoD’s core budget in future.**

14. No additional information on UORs was provided in the MoD memorandum accompanying the Winter Supplementary Estimate. We therefore sought a supplementary

23 HC (2008–09) 773, para 26

24 Defence Committee, Fifth Special Report of Session 2008–09, *Ministry of Defence Main Estimates 2009–10: Government response to the Committee’s Ninth Report of Session 2008–09*, HC 986, response to Recommendation 9

memorandum setting out what changes there might have been to forecast UOR costs and related arrangements since the receipt of the Government response to our Report on the Main Estimates. This explained that the current figure of £736 million for UORs for 2009–10—beyond which sum the expenditure will fall on the MoD core budget in 2 years time—was an estimate and not a limit: “military operations drive the estimate, not vice versa”. It also said that the MoD is still “assessing ... likely actual expenditure [on UORs] against the existing forecast.”²⁵

15. With regard to the Protected Mobility Package (PMP), the supplementary memorandum stated that the “current MoD assessment of the PMP overall cost is that it remains between £600–£700 million ... The final outturn will depend on exchange rate variations and essential changes to vehicles to reflect operational requirements in Afghanistan. Of this we continue to estimate that the bulk will fall in 2009–10.”²⁶ In October 2008 when the then Secretary of State for Defence, the Rt Hon John Hutton MP, issued his statement on protected mobility, the cost for the PMP was said to be over £600 million: in addition there was a £96 million cost for Talisman, a route proving and clearing capability, which uses specialist vehicles such as the Buffalo mine-protected vehicle.²⁷ In the Government response to our Defence Equipment 2009 Report, the cost of this package was said to be £680 million.²⁸ By the time of the Main Estimates eight months later this had become a cost of more than £650 million.²⁹

16. Unlike the UOR figure of £736 million, all of which will be paid by HM Treasury out of Reserve, the cost of the PMP, which is essentially a discrete area of urgent operational requirement, are falling in part on the MoD now. **In its response to this Report, the MoD should confirm that this is because the assets obtained or improved under this process are more likely than other UORs to have a potential use in theatres other than Afghanistan.** In our Report on the Main Estimates we stated that approximately £180 million of the then £680 million estimated cost would over the whole programme fall to be paid by the MoD. We likewise stated that the then agreed £500 million contribution by HM Treasury to the PMP did not appear to be subject to change.³⁰ **In its response to this Report the MoD should set out to what extent and under what conditions the HM Treasury contribution to the Protected Mobility Package might change should its cost rise significantly, leaving the MoD otherwise to bear a greater proportion of the costs than previously anticipated.**

Other issues

17. The most significant increases within the Winter Supplementary Estimate relate principally, for the first time since operations began in earnest Afghanistan, to technical accounting changes within Request for Resources 1 (Provision of Defence Capability—

25 Ev 9, response to question 4

26 *ibid.*, response to question 5

27 HC Deb, 29 October 2008, col 28–30WS

28 Defence Committee, First Special Report of Session 2008–09, *Defence Equipment 2009: Government response to the Committee's Third Report of Session 2008–09*, HC 491, response to Recommendation 7

29 HC (2008–09) 773, para 26

30 *ibid.*

RfR1). This covers the UK's general defence capability. Here the House is asked to grant an additional £1.0255 billion for resource expenditure set against a reduction in £71 million for capital expenditure,³¹ creating a total change within the Estimate from the sum agreed by the House in early July 2009 of £954.501 million (which includes the token £1,000 under RFR2 mentioned above).

18. However, there are a few substantive expenditure changes within this sum. The bulk of the changes in fact relate to revaluations and restatements of spending under new accounting standards. These include

- £650 million resulting from estimated impairments (reductions in the estimated value on the balance sheet) of derivatives (a particular form of asset) relating to forward purchase contracts. The way these are valued has already altered with the implementation of International Financial Reporting Standards (IFRS) and these latest changes reflect further revaluations under the new standards. The valuations are affected by exchange rate fluctuation. Such impairments are difficult to control or forecast and are therefore treated as Annual Managed Expenditure, meaning that the changes are funded by the Treasury rather than having to be managed within the MoD's Departmental Expenditure Limit. Further such changes can be expected in the future.³²
- £259 million relating to the next stage of implementation of IFRS, requiring several further changes in the way items are recorded, notably finance leases and liabilities to staff such as untaken leave. In the case of the MoD, the most significant of these is a finance lease relating to Annington Homes. While the restatement of accounting items against the new standard requires Parliamentary approval it does not in itself indicate higher expenditure, simply the restatement of existing spending in a new way.³³

19. There are, however, some noteworthy if significantly smaller sums within the increase in RfR1 in the Winter Supplementary Estimate. These include an increase in Grant in Aid of £1.1 million to the Royal Hospital Chelsea, an increase in Grant in Aid of £31.7 million for the Council of Reserve Forces and Cadets Association, and an increase in Grant in Aid of £180,000 for the National Army Museum.³⁴ In addition, the MoD has, with Treasury approval, been able to draw down £20 million from its Resource End Year Flexibility (EYF) to reflect the Government's decision to reverse the impact of the planned MoD training costs budget reduction for the Territorial Army.³⁵ (The Main Estimate, prepared between February 2009 and the April 2009 Budget, made provision for this reduction—now revised.)

20. Included in the Winter Supplementary Estimate is £15 million fiscal relief to compensate for lower Northern Ireland receipts than expected.³⁶ In a Written Answer in

31 See Table 1 above

32 Ev 3, para 4.5

33 Ev 1, para 2.1(c)

34 Ev 4, para 4.8

35 Ev 3, para 4.2

36 *ibid.*, para 4.3

the House on 1 December 2009, the Secretary of State for Defence, the Rt Hon Bob Ainsworth MP, explained that this relief is accounted for by the fact that the MoD has decided to gift to the Northern Ireland Executive, subject to Parliamentary approval, a number of sites in Northern Ireland which are no longer required for defence purposes.³⁷

Science Innovation Technology

21. Within the actual Estimate, as opposed to the MoD's accompanying memorandum, a reduction of £55.647 million in the Net Provision for Science Innovation Technology is recorded: the provision of £517.844 million at the time of the Main Estimates is being reduced to £462.197 million. In the *last* Financial Year, we queried a change in the Departmental Expenditure Limit for this sub-head within RfR1. The MoD told us the adjustment was to take account of the final outcome of the planning round and that no cuts to any research programme had been made as a consequence of this adjustment.³⁸ However, in response to questions posed to the MoD as part of our current Defence Equipment 2010 inquiry, the MoD has acknowledged cuts in *this* Financial Year in some areas of research which has led to certain specific activities being reduced or stopped as a result of strategic reprioritisation (in the areas of Maritime, Land and Air domains, Weapons, C4ISTAR³⁹, ballistic missile defence and climate research). However, it is not clear from the memorandum whether or not the overall budget has been cut.⁴⁰ In a Written Answer to the House on 11 November, the MoD also announced that the expected figure for 2010-11 is approximately £439 million.⁴¹ In evidence to us on 8 December, during our inquiry into Defence Equipment, Mr Ian Godden of the Defence Industries Council told us that the MoD's Research and Development budget had been cut by 24% between 2007 and 2010.⁴²

22. While there will always be need for reprioritisation and redistribution of funds between programmes, it seems unwise to cut the research budget, especially in such an area as C4ISTAR which is so very crucial not only to the MoD's future capability but also to the success of current operations. We call on the MoD to provide enough information for us to understand the reasons for the strategic reprioritisation of research, the exact state of funding for its research programmes, and the extent of any cuts to those programmes.

Conclusion

23. We recommend that the House of Commons approve the request for resources set out in the MoD's Winter Supplementary Estimates. The sums requested serve to

37 HC Deb, 1 December 2009, col 611W

38 Defence Committee, Fourth Report of Session 2008-09, *Spring Supplementary Estimate 2008-09*, Ev 12, para 5

39 C4ISTAR refers to command, control, communications, computers, intelligence, surveillance, target acquisition and reconnaissance.

40 The MoD memorandum to the Committee on Defence Equipment 2010 is available on the Committee's website: it will be published early in the New Year with the Committee's Report on Defence Equipment 2010.

41 HC Deb, 11 November 2009, col 404W

42 The oral evidence will be available on the Committee's website: www.parliament.uk/parliamentary_committees/defence_committee.cfm

maintain the capability of the MoD to sustain operations in theatre and to meet other future challenges.

Conclusions and recommendations

1. We are grateful to the MoD for developing with us a new timetable for forecasts and formal approval of monies for operations over the course of this Parliament. (Paragraph 3)
2. We hope that the House's scrutiny of the Supplementary Estimates will be taken up in the new Parliament: increasing the capacity of select committees to conduct more detailed financial scrutiny in a more reasonable time table must be a key component of reviving the role of Parliament. (Paragraph 5)
3. Although we understand that HM Treasury cannot write a blank cheque for the MoD even in the current circumstances that obtain in Afghanistan, we would like further information from the MoD as to the circumstances in which the change of practice relating to the costs of Urgent Operational Requirements might impact on the MoD's core budget in future. (Paragraph 13)
4. In its response to this Report, the MoD should confirm that the MoD is contributing to the Protected Mobility Package now because the assets obtained or improved under this process are more likely than other UORs to have a potential use in theatres other than Afghanistan. (Paragraph 16)
5. In its response to this Report the MoD should set out to what extent and under what conditions the HM Treasury contribution to the Protected Mobility Package might change should its cost rise significantly, leaving the MoD otherwise to bear a greater proportion of the costs than previously anticipated. (Paragraph 16)
6. While there will always be need for reprioritisation and redistribution of funds between programmes, it seems unwise to cut the research budget, especially in such an area as C4ISTAR which is so very crucial not only to the MoD's future capability but also to the success of current operations. We call on the MoD to provide enough information for us to understand the reasons for the strategic reprioritisation of research, the exact state of funding for its research programmes, and the extent of any cuts to those programmes. (Paragraph 22)
7. We recommend that the House of Commons approve the request for resources set out in the MoD's Winter Supplementary Estimates. The sums requested serve to maintain the capability of the MoD to sustain operations in theatre and to meet other future challenges. (Paragraph 23)

Formal minutes

Tuesday 8 December 2009

AFTERNOON SITTING

Members present:

Mr James Arbuthnot, in the Chair

Mr David S. Borrow

Mr Dai Havard

Mr David Crausby

Mr Brian Jenkins

Linda Gilroy

Mr Robert Key

Mr Mike Hancock

Draft Report (*MoD Winter Supplementary Estimate 2009-10*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 23 read and agreed to.

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

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

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

[Adjourned till 15 December at 10:00 a.m.]

List of written evidence

1 Ministry of Defence

Ev 1, Ev 9, Ev 10

List of Reports from the Committee during the current Parliament

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

Session 2009–10

First Report	The work of the Committee 2008-09	HC 119
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Session 2008–09

First Report	Winter Supplementary Estimates 2008–09	HC 52 ^A
Second Report	The work of the Committee 2007–08	HC 106
Third Report	Defence Equipment 2009	HC 107 (HC 491)
Fourth Report	Spring Supplementary Estimate 2008–09	HC 301 ^B
Fifth Report	Ministry of Defence Annual Report and Accounts 2007–08	HC 214 (HC 534)
Sixth Report	The UK's Defence contribution to the UK's national security and resilience	HC 121
Seventh Report	Defence Support Group	HC 120 (HC 984)
Eighth Report	Service Complaints Commissioner for the Armed Forces: the first year	HC 277 (HC 985)
Ninth Report	Ministry of Defence Main Estimates	HC 773 (HC 986)
Tenth Report	Russia: a new confrontation?	HC 276 (HC 987)
Eleventh Report	Helicopter capability	HC 434
Twelfth Report	Scrutiny of Arms Export Controls (2009): UK Strategic Export Controls Annual Report 2007, Quarterly Reports for 2008, licensing policy and review of export control legislation	HC 178 (Cm 7698)

^A Government response published as a Memorandum in the Committee's Fourth Report (HC 301)

^B Government response published as a Memorandum in the Committee's Ninth Report (HC 773)

Session 2007–08

First Report	UK land operations in Iraq 2007	HC 110 (HC 352)
Second Report	Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08	HC 138 ^A
Third Report	UK/US Defence Trade Cooperation Treaty	HC 107 (HC 375)
Fourth Report	The Iran hostages incident: the lessons learned	HC 181 (HC 399)
Fifth Report	Ministry of Defence Annual Report and Accounts 2006–07	HC 61 (HC 468)
Sixth Report	The work of the Committee in 2007	HC 274
Seventh Report	Medical care for the Armed Forces	HC 327 (HC 500)
Eighth Report	Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08	HC 400 ^B
Ninth Report	The future of NATO and European defence	HC 111 (HC 660)
Tenth Report	Defence Equipment 2008	HC 295 (HC 555)
Eleventh Report	Ministry of Defence Main Estimates 2008–09	HC 885 (HC 1072)

Twelfth Report	Scrutiny of Arms Export controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
Thirteen Report	The contribution of Unmanned Aerial Vehicles to ISTAR capability	HC 535 (HC 1087)
Fourteenth Report	Recruiting and retaining Armed Forces personnel	HC 424 (HC 1074)
Fifteenth Report	UK operations in Iraq and the Gulf	HC 982 (HC 1073)

^A Government response published as Memorandum in the Committee's Eighth Report (HC 400)

^B Government response published as Memorandum in the Committee's Eleventh Report (HC 885)

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

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 (<i>HC 1602</i>)
Eleventh Report	Educating Service Children	HC 1054 (<i>HC 58</i>)
Twelfth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 (<i>Cm 6954</i>)
Thirteenth Report	UK Operations in Iraq	HC 1241 (<i>HC 1603</i>)
Fourteenth Report	Armed Forces Bill: proposal for a Service Complaints Commissioner	HC 1711 (<i>HC 180</i>)

Written evidence

Memorandum from the Ministry of Defence

WINTER SUPPLEMENTARY ESTIMATES 2009–10

1. INTRODUCTION

1.1 This Memorandum covers the Winter Supplementary Estimate for the Ministry of Defence (MoD) and should be read in conjunction with the Department's Winter Supplementary Estimate (2009–10). The Introduction to the Estimate lists the changes being made since the 2009–10 Main Estimate. This is shown by Request for Resources (RfR), and the section number shown in brackets after the detail for each change is a reference to the line(s) that are affected by the change in Part II of the Estimate.

1.2 There is a separate Estimates Memorandum for the Armed Forces Retired Pay and Pensions Vote.

2. SUMMARY OF RESOURCES SOUGHT IN THE ESTIMATE

2.1 The Introduction to the Estimate shows a net increase in Voted DEL (Resource and Capital) of £143.792 million from £39,237.543 million at Main Estimates to £39,381.335 million for Winter Supplementary Estimates. The main elements to this are:

- (a) The Treasury fiscal CDEL fine abatement of £17 million; and the Fiscal CDEL relief for lower Northern Ireland receipts of £15 million.
- (b) An additional £20 million Resource DEL (funded from our 2008–09 End Year Flexibility stock) to reflect the Government decision to negate the impact of the planned MoD training costs 2009–10 budget reduction for the Territorial Army (RfR1).
- (c) To reflect the estimated net resource (near cash and indirect cost) impact of the third trigger point of the International Financial Reporting Standards (IFRS) for leases (IAS 17) relating to Annington Homes of £222 million; for provisions (IAS 37) of £5 million; for employee benefits (IAS19) of £35 million; and for the estimated net capital resource impact (near cash) for leases relating to Annington Homes (IAS 17) being a reduction of £3 million.
- (d) To reflect the latest additional estimated Annually Managed Expenditure forecast of the impact of FRS26 (Financial Instruments) on the forward Purchase Contract for foreign exchange Derivative impairments of £650 million.
- (e) To transfer £100 million Capital Resource to Direct Resource within RfR1 relating to Single Use Military Equipment (SUME) flexibility with no overall impact on DEL;

2.2 The Voted Resource and Capital changes are summarised in the following tables:

Table 1

CHANGES IN NET RESOURCE AND CAPITAL EXPENDITURE

<i>Resource Expenditure</i>	<i>£ millions</i>
Provision of Defence Capability (RfR1)	1,025.500
Operations and Peace Keeping (RfR2)	000.001
Total Net Request for Resources	1,025.501
<hr/>	
<i>Capital Expenditure</i>	<i>£ millions</i>
Net Provision of Defence Capability (RfR1)	– 71.000
Operations and Peace Keeping (RfR2)	000.000
Total Net Request for Capital	– 71.000
<hr/>	
Total Change in Capital and Resource	954.501

2.3 The total change in the Estimate is £954.501 million, which generates an additional net cash requirement of £38.501 million. The cash requirement is analysed in the following table, and the reconciliation between the changes in the Estimate and the net cash requirement is shown in Part II of the Estimate, *Resource to Cash Reconciliation*.

Table 2
CHANGE IN VOTED CASH REQUIREMENT

	<i>£ millions</i>
Near Cash (Voted) in Resource DEL	41.521
Near Cash (Voted) AME	35.000
Near Cash Non Budget	32.980
Near Cash in Capital DEL	– 71.000
Net Cash Requirement	38.501

2.4 In addition to the changes outlined in paragraphs 2.1 above, the changes to the Winter Supplementary Estimate comprise:

- (a) Net PES transfers out to other Government Departments of £13.229 million, including transfers out to the Foreign and Commonwealth Office (FCO) of £6.500 million under RfR1 and £6.729 million to the Department for International Development (DfID) under RfR2. Further details are provided at paragraphs 4 and 5.
- (b) To increase Non Budget Grants in Aid (Non Voted) for the Council of Reserve Forces and Cadets Association of £31.7 million; £0.180 million for the National Army Museum; and £1.1 million for the Royal Hospital, Chelsea; by reducing Resource DEL current costs and increasing Non Budget Grants in Aid with no overall impact on resource.
- (c) Re-alignment of Resource and Capital Sub Head provisions to reflect changes in budgetary responsibility, with no overall impact on DEL.

3. DETAILED EXPLANATION OF CHANGES

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

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

3.3 The table overleaf shows how the Winter Supplementary Estimate is compiled, identifying changes since the 2009–10 Main Estimates.

Table 3
SHOWING CHANGES TO VOTED RESOURCES AND CAPITAL AT 2009–10 WINTER SUPPLEMENTARY ESTIMATES

	<i>Direct RDEL</i>	<i>Indirect RDEL</i>	<i>Total RDEL</i>	<i>Resource AME</i>	<i>Non Budget near cash</i>	<i>Total Net Resources</i>	<i>Net Capital DEL</i>	<i>Capital AME</i>	<i>Capital Non Budget</i>	<i>Total Net Capital</i>
<i>£m (rounded)</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
RfR1 Provision at Main Estimates	23,887.1	11,632.5	35,519.6	173.3	139.9	35,832.9	7,555.1	56.8	2.1	7,614.0
Switch from CDEL to RDEL	100.0	0	100.0	0	0	100.0	– 100.0	0	0	– 100.0
Additional CDEL provision for Northern Ireland loss of receipts	0	0	0	0	0	0	15.0	0	0	15.0
EYF drawdown for TA budget relief	20.0	0	20.0	0	0	20.0				
CDEL Fine Abatement	0	0	0	0	0	0	17.0	0	0	17.0
IFRS accounting changes	– 39.0	261.0	222.0	690.0	0	912.0	– 3.0	0	0	– 3.0
Transfers In	0.5	0	0.5	0	0	0.5	0	0	0	0
Transfers Out	– 7.0	0	– 7.0	0	0	– 7.0	0	0	0	0
Reallocation of NDPBs	– 23.2	0	– 23.2	0	23.2	0	0	0	0	0
Additional Grants to NDPBs	– 9.8	0	– 9.8	0	9.8	0	0	0	0	0
RfR1 at Winter Supplementary Estimates	23,928.6	11,893.5	35,822.1	863.3	172.9	36,858.4	14	0	0	14.0
RfR2 Provision at Main Estimates	2,449.3	422.7	2,872.0	1726.6	345.8	2,872.0	1,564.6	0	0	1,564.6
Transfers Out	– 6.7	0	– 6.7	0	0	– 6.7	0	0	0	0
Adjustment to ensure RfR is not reduced	6.7	0	6.7	0	0	6.7	0	0	0	0

	<i>Direct RDEL</i>	<i>Indirect RDEL</i>	<i>Total RDEL</i>	<i>Resource AME</i>	<i>Non Budget near cash</i>	<i>Total Net Resources</i>	<i>Net Capital DEL</i>	<i>Capital AME</i>	<i>Capital Non Budget</i>	<i>Total Net Capital</i>
<i>£m (rounded)</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
RfR2 at Winter Supplementary Estimates	2,449.3	422.7	2,872.0	1,726.6	345.8	2,872.0	1,564.6	0	0	1,564.6
RfR3 Provision at Main Estimates	0	0	0	1,023.7	0	1,023.7				
RfR3 at Winter Supplementary Estimates	0	0	0	1,023.7	0	1,023.7				
Winter Supplementary Estimates Total*	26,377.9	12,316.2	38,694.1	1,887.0	172.9	40,754.1	9,048.7	56.8	2.1	9,107.6

4. RFR1 PROVISION OF DEFENCE CAPABILITY—EXPLANATION OF CHANGES

Transfers In/Out:

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

Table 4
SHOWING TRANSFERS BETWEEN MoD AND OTHER GOVERNMENT DEPARTMENTS

<i>Transfers Out</i>	<i>RfR</i>	<i>£m</i>	<i>Purpose</i>
Department for International Development	1	(0.500)	Contribution to the Stabilisation Unit.
Foreign and Commonwealth Office	1	(6.500)	Afghanistan Delivery Group.
Department for International Development	2	(6.729)	Contribution to the Conflict Pool.
<i>Transfers In</i>			
Department for Transport	1	0.500	Contribution to the Royal Flight funding arrangements.
Total Net Transfers Out		(13.229)	

End Year Flexibility (EYF):

4.2 With Treasury approval the Department has been able to draw down £20 million of its near cash Resource EYF at WSE. This EYF access was allowed so that the MoD could reverse its planned reduction for the Reserve Force training budget in the current financial year. The Department's current EYF position is set out in the table below.

Table 5
END YEAR FLEXIBILITY STOCK

<i>End Year Flexibility</i>	<i>Direct Resource DEL £m</i>	<i>Indirect Resource DEL £m</i>	<i>Capital DEL £m</i>
EYF Stock B/Forward from 2008–09	60	0	0
EYF Stock Drawn Down at 2009–10 WSE	(20)	0	0
Balance	40	0	0

Fiscal CDEL 2009–10 Fine abatement:

4.2 £17 million of fiscal CDEL has been reinstated to the MoD 2009–10 capital budget because the final 2008–09 audited outturn overspend was lower than the original forecasted over spend, on which the fine of £81 million imposed at Main Estimates was based.

Fiscal CDEL Relief: Northern Ireland Receipts

4.3 The Winter Supplementary Estimate also includes Fiscal CDEL relief to compensate for a lower forecast of Northern Ireland capital receipts than originally planned, of £15 million.

OTHER CHANGES

Financial Instruments (FRS 26)

4.5 The first stage of the IFRS implementation related to discounting of long-term debtors/liabilities and the movement on financial derivatives on forward purchase contracts under FRS 26 was implemented in our Estimates last year. The latest forecast indicates a non cash impairment impact of £650 million, which we have requested in our Winter Supplementary bid. Most of this relates to the change in the value of the pound sterling against the US dollar. The volatility of exchange rates may further impact on our 2009–10 final outturn.

Implementation of Stage 3 of the International Financial Reporting Standards

4.6 The Department has implemented the third trigger point of the IFRS requirements at Winter Supplementary Estimates. These are technical accounting changes relating to the disclosure of finance leases and balance sheet liabilities. The impact on resource is set out in table 6 below.

Table 6
SUMMARY OF IFRS CHANGES AT 2009–10 WSE

<i>Budgetary Area</i>	<i>Net Resource Impact £m</i>	<i>Financial Instrument</i>	<i>Explanation</i>
Resource DEL	222	IAS 17	Annington Homes to be recognised as a finance lease.
AME	5	IAS 37	Depreciation and cost of capital charges for capitalised nuclear decommissioning costs provisions of MoD assets.
AME	35	IAS 19	Employee benefits resulting from the movement on the liability in respect of untaken leave, earned bonuses, and unpaid overtime.
CDEL	(3)	IAS 17	Deferred income on the forecasted disposal of surplus Annington Homes.
Total	259		

Neutral Sub Head Budget Transfers:

4.7 The changes under these sub-headings reflect alterations to TLB allocations of Resource and Capital funding to bring the allocations into line with responsibility transfers between TLBs, and other funding adjustments to align TLB provision with current forecasts. The capital transfers between sub heads are principally for further transfers of budgetary provision from “customer” budgets to Defence Estates, which is responsible for most estate expenditure. There are related IRDEL cost re-allocations associated with the Capital budget re-allocations.

Grants in Aid

4.8 There are three Grants in Aid increases recognised in the Winter Supplementary Estimates. The Grant in Aid of £1.100 million to the Royal Hospital Chelsea (to cover higher Utilities, superannuation costs and maintenance of the infirmary and care of the pensioners in the Margaret Thatcher infirmary); £31.700 million for the Council of Reserve Forces and Cadet Association (a transfer of £23.222 million from Defence Estates to pay for grants which was too late to be made in Main Estimates, £4.815 million for increased works programme costs, and £3.034 million increase to cover staff costs, utilities, IT and other costs; and £0.629 million for vehicles) ; and £0.180 million for the National Army Museum (£0.095 million for replacement boilers, £0.030 million for removal of asbestos, and £0.055 million for staff costs). The Grants in Aid have been allocated within the existing provision of the TLBs’ current DEL.

5. REQUEST FOR RESOURCES 2: OPERATIONS AND PEACE KEEPING

5.1 The latest forecast for operations in Iraq and Afghanistan is summarised in Table 7 below, with a more detailed analysis shown in Table 8. Although we are not requesting any additional funds at WSE the overall forecast of costs in Iraq and Afghanistan has changed. These are set out in table 8.

5.1.1 The transfer to DfID and the re-allocation of the Stabilisation Aid Fund require Parliament to make a token vote of £1,000 in resource.

Table 7
SUMMARY COST OF OPERATIONS AND PEACE KEEPING FORECAST AT 2009–10 WSE

<i>Operation</i>	<i>Direct Resource DEL £m</i>	<i>Indirect Resource DEL £m</i>	<i>Capital DEL £m</i>	<i>Total WSE forecast 2009–10 £m</i>	<i>Total ME request 2009–10</i>
Iraq	256	76	56	388	877
Afghanistan	1,914	295	1,545	3,754	3,495
Total	2,170	371	1,601	4,142	4,372

5.2 *Afghanistan (Operation Herrick)*

5.2.1 When the Main Estimate was drawn up in January of this year, the forecast was based on the best information available at the time. Forecasts supported a force level across the entire 2009–10 financial year of 8,300. In the light of announcements by the Prime Minister in April that force levels would increase to 9,000 to support national elections, and enable the deployment of the counter improvised explosive device

task force, there have been increases in elements of personnel costs, additional sustainment costs, the corresponding additional equipment, essential Urgent Operational Requirements and associated costs of providing counter improvised explosive device capability and expertise.

5.2.2 The costs of Operations are driven significantly by the tempo of operations, which particularly affect equipment support costs, attrition, fuel and ammunition consumption. Exchange rates, fuel prices and costs incurred with contractors can all also vary during the financial year. We have, however, involved HM Treasury in formulating the estimates to reassure them of the rigour applied, and to inform forecasts of wider government spending. We do expect some corresponding cost changes throughout the year, as burden sharing and partnering requirements are clarified. Therefore, we may have to increase our request for resources at Spring Supplementary Estimates. We will inform the Committee of any significant changes.

5.2.3 As announced by the Prime Minister on 14 October 2009, an additional 500 troops will be made available to support the Operation in Afghanistan—but they will only be deployed when certain conditions are met. The figure detailed above does not include the forecast expenditure to meet this requirement—we will supply further details to the Committee as appropriate.

5.3 *Iraq (Operation Telic)*

5.3.1 Operational costs in Iraq reflect the planned withdrawal of UK forces over the first few months of this financial year, including drawdown costs. As advised in the Government response to the HCDC report on 2009–10 Main Estimates, forecasts of expenditure are lower than envisaged when the Main Estimates were published, due to the accelerated drawdown process. Since then, we have now completed the orderly withdrawal of UK troops from the Contingency Operating Base (COB), Basra in line with the UK security agreement deadline of 31 July 2009. We have successfully extracted and re-mediated all personnel and equipment; and all UK occupied or managed facilities have been passed over to US forces, or handed back to Iraqi or Kuwaiti authorities.

5.3.2 In line with the recent ratification by the Presidential Council, we expect a continued presence of UK forces and assets to be stationed in the region, primarily providing naval and air support—for which, at the moment, we forecast there to be continuing costs. We will supply further details to the Committee if this estimate changes significantly prior to the Spring Supplementary Estimates.

5.4 The current detailed cost estimate for operations in Iraq and Afghanistan for the 2009–10 Winter Supplementary Estimates is shown in Table 8.

Table 8

THE ESTIMATED COST OF OPERATIONS IN AFGHANISTAN AND IRAQ AT WSE 2009–10

<i>Cost Type</i>	<i>Iraq ME £m</i>	<i>Iraq WSE Forecast £m</i>	<i>Afghanistan ME £m</i>	<i>Afghanistan WSE Forecast £m</i>
Direct Resource DEL				
Civilian Personnel	9	6	16	24
Military Personnel	37	39	148	171
Stock/Other Consumption	189	28	480	492
Infrastructure Costs	69	68	216	276
Equipment Support Costs	231	89	485	535
Other Costs and Services	93	52	423	445
Income Foregone/Generated (–)	1	– 26	– 12	– 29
Total Direct Resource DEL	629	256	1,756	1,914
Indirect Resource DEL	165	76	258	295
Total Resource DEL	794	332	2,014	2,209
Capital DEL				
Capital Additions	83	56	1,481	1,545
Total Capital DEL	83	56	1,481	1,545
Total Estimated Costs	877	388	3,495	3,754

5.5 *Balkans (Operation Oculus)*

Earlier this year, the Supreme Allied Commander Europe decided that the specific capability provided by the UK to NATO force in Kosovo, was no longer required. The UK force, has therefore drawdown to a small number of remaining personnel. As such, costs associated with the drawdown, and all MoD-led discretionary tasks in the Balkans, have now been subsumed into, and will be charged against the Wider Europe Programme of the Conflict Pool. As a result, the ability of Operation Oculus to draw on the Reserve ceases.

5.6 Conflict Pool

At the time the Main Estimates were prepared, overall responsibility for administration of the Stabilisation Aid Fund (SAF) was being re-negotiated between Government Departments. The final agreement, as outlined by the Foreign Secretary in a Written Ministerial Statement¹ on 25 March 2009, is that the new combined Conflict Pool subsumes all activity under the Conflict Prevention Pool and Stabilisation Aid Fund. Since then, it has been confirmed that the overall responsibility for the Conflict Pool rests with DFID and as such, the funding rests on that baseline. The transfer from MoD to DFID at WSE reflects this change.

6. RfR3 WAR PENSION BENEFIT (WPB)

6.1 There are no changes to the RfR3 War Pension Benefit at Winter Supplementary Estimates.

7. THE DEPARTMENTAL EXPENDITURE LIMIT (DEL)

7.1 Table 9 shows the DEL from 2006–07 to 2009–10 for all RfRs. The Total DEL is calculated by adding Resource DEL, Capital DEL and deducting depreciation, which forms part of Resource DEL. Depreciation is excluded from Total DEL; including this as well as Capital DEL would be double counting. The figures are for Voted and Non-voted DEL; the Non voted DEL figure for WSE 2009–10 is £214.776 million net of depreciation, and this is shown in more detail in the Notes to the Winter Supplementary Estimate.

Table 9

CHANGES TO MOD DEPARTMENTAL EXPENDITURE LIMITS (VOTED AND NON VOTED)

	2006–07 SSE £m	2007–08 SSE £m	2008–09 SSE £m	2009–10 ME £m	2009–10 WSE £m
Resource DEL	34,104	36,940	38,071	38,582	38,911
Capital DEL	7,448	8,120	8,313	9,121	9,050
Depreciation	–7,401	–8,218	–8,247	–8,284	–8,365
Total DEL	34,151	36,842	38,137	39,419	39,596

8. ADMINISTRATION COSTS LIMIT

8.1 There are no changes to the Administration Costs Limit.

9. PROVISIONS AND CONTINGENT LIABILITIES

9.1 No changes have been made at WSE.

10. MACHINERY OF GOVERNMENT CHANGES

10.1 There are no Machinery of Government Changes.

11. THE DEPARTMENT'S PUBLIC SERVICE AGREEMENTS AND STRATEGIC OBJECTIVES

11.1 As set out in the 2007 Pre-Budget Report and Comprehensive Spending Review (Cm 7227), the Ministry of Defence will contribute over the CSR 07 period to the delivery of the cross-Governmental Public Service Agreements to reduce the impact of global and regional 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 (DSO) 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 in its Annual Report.

12. NET ADDITIONAL CASH REQUIREMENT

12.1 The Net Cash impact for the Winter Supplementary Estimate is an increased net cash requirement of £38.501 million. This is broken down in Table 2.

13. VOTES A

13.1 The Ministry of Defence Votes A Winter Supplementary Estimate 2009–10 will be laid before the House on 24 November 2009 as HC7. We will be seeking an increase in the number of Royal Marines Men and Women, Royal Fleet Reserve Naval officers, and ratings and Royal Fleet Reserve officers and marines.

13.2 The current maximum number of officers, men and women to be maintained for Naval Service category was established at 42,100 and within this total the Royal Marines were 8,450 for Financial Year 2009–10. The Reserve Naval and Marine Forces total was 15,092 for Financial Year 2009–10. The ceiling

¹ Hansard 25 March 2009 Column 18WS.

was calculated from historical trend data and best estimates for future plans. However, since the start of the year, the numbers in this category have steadily increased due to higher than expected untrained personnel increases, and subsequent increases in trained strength following completion of training.

13.3 We have therefore requested an increase of 400 for Royal Marine Men and Women bringing the total for Royal Marines to 8,850 and the overall total for the Naval Service to 42,500. This represents an increase of 0.19% compared to the established Regular Tri-Service Votes A maxima of 212,030.

13.4 For 2009–10 the maximum in this category was established at 15,092 for the Reserve Naval and Marines Forces. This was calculated from historical trend data and best estimates. As part of the review of the quality of the data held in JPA it has been determined that some of the records were incorrect. This exercise has led to an increase in Marine Officers and Marines, and naval men and women; and a reduction in the number of naval officers. However, based on calculations of strength increases, a prudent maximum would be 17,652 (for all categories), an increase of 2,560 (3,775 – 1,215) based on the Votes A 2009–10 estimate.

13.5 The changes for the Reserve Naval and Marine Forces are set out in the table below.

Category	Main	Winter	Difference	Main	Winter	Difference
	Estimate	Supplementary		Estimate	Supplementary	
	Officers	Officers		Men and Women	Men and Women	
Royal Fleet Reserve (naval officers and ratings)	5,225	4,000	–1,225	3,990	7,000	3,010
Royal Fleet Reserve (marine officers and marines)	390	400	10	1,235	2,000	765
Total	5,615	4,400	–1,215	5,225	9,000	3,775

26 November 2009

Annex 1

A. DEFINITION OF TERMS

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

This is a control aggregate within the resource budget. It excludes the non-cash items such as depreciation, cost of capital and movement in provisions. Direct Resource DEL is also known as “near cash in the resource budget”.

2. *Indirect Resource DEL (IRDEL)*

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

3. *Total Resource DEL*

This is the sum of Direct and Indirect Resource DEL.

4. *Annually Managed Expenditure (AME)*

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

5. *Non-Budget:*

Items of expenditure which are included in the Estimate, but are outside of DEL and AME eg Grants in Aid, Royal Hospital Chelsea. This is a Parliamentary control but not a Treasury control.

6. *Total Net Resources*

This is the net of items 1 to 5.

7. *Capital Departmental Expenditure Limit (CDEL)*

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

8. *Capital AME*

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

9. *Total Net Capital*

This is the sum of the above capital items.

10. *Total Near Cash*

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

11. *Request for Resources 1*

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

12. *Request for Resources 2*

Request for Resources 2 provides primarily for the additional costs of peace keeping and operations. These are the net additional costs incurred: the costs that the Department would have incurred regardless of the operation taking place, such as wages and salaries are recorded against RfR1.

13. *Request for Resources 3*

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

B. LIST OF ABBREVIATIONS USED IN THE ESTIMATE

AME	Annually Managed Expenditure
CSR	Comprehensive Spending Review
DE and S	Defence Equipment and Support
DSO	Departmental Strategic Objective
EYF	End Year Flexibility
FCO	Foreign and Commonwealth Office
GAR	General Accounting Rate
HCDC	House of Commons Defence Committee
MoD	Ministry of Defence
NAO	National Audit Office
NDPB	Non Departmental Public Body
PSA	Public Service Agreement
RfR	Request for Resources
SSE	Spring Supplementary Estimates
SUME	Single Use Military Equipment
UOR	Urgent Operational Requirement
WSE	Winter Supplementary Estimates

Annex 2

ARMED FORCES RETIRED PAY, PENSIONS, ETC WINTER SUPPLEMENTARY ESTIMATES
2009–10 ESTIMATES MEMORANDUM

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

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

The main reason for the Armed Forces Retired Pay and Pensions Winter Supplementary Estimate is to increase the Appropriations-in-Aid (A-in-A) estimate by £50 million, with a corresponding increase in the current forecast of pension payments.

2. *Detailed Explanation of the Change and Allocation*

The increase of £50 million resource is to increase the estimate in relation to the latest forecast of A-in-A.

3. *Changes to Cash Requirement Allocation*

There is an increase in the net cash requirement of £1,000 as a result of these changes.

Supplementary memorandum from the Ministry of Defence

Set out below are the MOD responses to the questions raised in the Select Committee's e-mail dated 25 November regarding:

1. The Government response to the HCDC report on the 2009–10 Main Estimate.
2. The 2009–10 Winter Supplementary Estimates Memoranda.

1. The Committee would be grateful for an explanation of what the £100 million Capital to Direct Resource transfer within RFR1 relating to SUME flexibility refers to (sub para 2.1e)

The Departmental Plan assumed a total transfer of £700 million from SUME Capital to Direct Resource. However, in the 2009–10 Main Estimate we deemed that it would be prudent to only switch £600 million until the Departmental forecast had sufficiently matured in year. Our 2009–10 Main Estimates Memoranda pointed out that a further transfer from Capital (SUME) to Direct Resource might be made in the Supplementary round (para 3.1) The resource transfer has been allocated to the Defence Equipment & Support TLB.

2. When is it expected that the Committee might receive confirmation that there will indeed need to be a request for additional funds in the SSE prior to that Estimate being laid, along with some indication of the size of the funds to be requested (para 5.2.2)?

The 2009–10 Spring Supplementary Estimates are scheduled to be published in February 2010. The Department will need to process any additional request for funds in the Treasury database (COINS) during January 2010. We will provide an update to the Committee should this prove necessary in January.

3. The Committee would welcome sight of the MoD's current assessment of what the cost would be for the extra 500 troops to be deployed during this Financial Year.

Our current assessment of the costs to fall this financial year (ie five months of 2009–10) associated with deploying an extra 500 troops is in the region of £45 million for additional personnel and sustainment. These troops will only deploy when the conditions set out by the Prime Minister have been met. Because the exact role of the 500 has yet to be determined, we cannot assess what, if any, additional equipment requirements there will be above the standard protective equipments that all personnel deploy with. In any case, though, these are unlikely to fall in this financial year. None of these costs of are currently included in the 2009–10 Winter Supplementary Estimate figure.

4. Has there been any change to the £746 million forecast cost for UORs in 2009–10?

As detailed in the Government Report (HC 773) the original £635 million UOR cost forecast was increased by £101 million to £736 million to reflect the Counter-IED task force being deployed to Afghanistan. As the then Secretary of State set out in the WMS on 11 December 08, any excess UOR spend over the estimate of £736 million will be repaid in full from the Defence Budget in two years time (ie 2011–12). The UOR estimate is not a limit—military operations drive the estimate, not vice versa. We are still assessing our likely actual expenditure against the existing forecast.

5. Has there been any change to the £424 million forecast cost for the Protected Mobility Package (PMP) in 2009–10?

6. Has there been any change to the MoD's assessment of the overall cost of the PMP?

The current MOD assessment of the PMP overall cost is that it remains between £600–£700 million, as stated by the then Secretary of State on 29 October 2008. The final outturn will depend on exchange rate variations and essential changes to vehicles to reflect operational requirements in Afghanistan. Of this we continue to estimate that the bulk will fall in 2009–10.

7. The Committee would be grateful for an indication of what proportion of the Iraq costs are for the continuing presence in that country as opposed to those which relate to the drawdown and to the presence of a larger number of troops in that theatre before the drawdown (para 5.3.2)

It is difficult to indicate what proportion of costs map across to those specific activities, as many costs—infrastructure for example—continue throughout the financial year. However, given the majority of UK troops withdrew from the Contingent Operating Base (COB) in Basra by July 2009, our assessment is that the majority of the 2009–10 WSE figure relates to drawdown costs that fell in this financial year, and the estimated cost of our continued presence in Iraq for the rest of this financial year. We will of course be able to notify the Committee of the estimated cost for our continued presence in Iraq for the 2010–11 Main Estimates.

8. *The Committee would be grateful for an explanation of the 50% increase in Civilian Personnel costs; for the c28% increase in the Infrastructure Costs; and for the 10% increase in Equipment Support Costs in Afghanistan between the ME and the WSE*

The increase in “Equipment Support” costs demonstrates the additional costs of supporting essential Urgent Operational Equipment in theatre, an increase in numbers of Protected Mobility vehicles, and Support Helicopters in theatre. “Civilian Personnel” costs includes overtime and austere conditions allowances for UK MOD civilian personnel and MOD Police, the deployee population of which has risen from 53 to 74 over the past year. It also captures the costs of Locally Employed Civilians (LECs) in theatre, which have increased by 25%, primarily as we now have interpreters for troops operating on the front line outside of the main bases. “Infrastructure” captures expenditure relating to building maintenance, property lease charges but also includes IT and Communications, and all utilities (eg heating oil, gas, electricity, water and sewage), so it is not exceptional to see a rise on these costs in parallel with an increased force lay down. This increase in costs also reflects the construction of small patrol and forward operating bases to expand our control in the region, as well as recognition of the increase in the costs of several locally sourced building materials necessary for the construction of this new infrastructure.

30 November 2009

Further supplementary memorandum from the Ministry of Defence

Set out below are the MOD responses to the questions raised in the Select Committee’s letter dated 30 November regarding the 2009–10 Winter Supplementary Estimates Memoranda.

1. *The Public Expenditure 2008–09 Provisional Outturn publication shows that the Ministry of Defence has a stock of Resource EYF of £646.7 million of which £60 million is near-cash. Your Memorandum provides details of the near-cash EYF but there is no mention of the remaining £586.7 million. Could you please provide confirmation of your full stock of EYF and what plans you have for its use in the future?*

MOD plans to draw down £20 million of near cash EYF stock to reverse the impact of the planned MOD training costs 2009–10 budget reduction for the Territorial Army. There are no other plans to draw down remaining EYF stock in the 2009–10 SSE. Our full EYF stock is shown in the table below.

TABLE OF CURRENT END YEAR FLEXIBILITY STOCK

<i>End Year Flexibility</i>	<i>Direct Resource DEL £m</i>	<i>Indirect Resource DEL £m</i>	<i>Capital DEL £m</i>
EYF Stock B/Forward from 2008–09	60	587	0
EYF Stock Drawn Down at 2009–10 WSE	(20)	0	0
Balance	40	587	0

2. *Table 8 in the Estimates Memorandum shows that the latest forecast for Military Personnel in Iraq has increased from £37 million to £39 million. Why has therefore been such a substantial decrease in the forecasts for stock/other consumption (£189 million to £28 million) and Equipment Support Costs (£231 million to £89 million)?*

The revised 2009–10 WSE figures reflect a full year forecast. The small increase in military personnel costs since Main Estimates reflects the processing of operational allowances claims for personnel based in Iraq throughout the year.

As advised in the Government response to the HCDC report on 2009–10 Main Estimates, and again in our 2009–10 WSE Estimates Memorandum (Para 5.3.1), forecasts of expenditure are considerably lower than envisaged when the Main Estimates were published, due to the accelerated drawdown process.

3. *Could you please provide the Committee with further information on the reason for the £15 million of Treasury Fiscal Capital relief for lower than planned capital receipts in Northern Ireland?*

The Government has decided, subject to Parliamentary approval, to gift a number of sites in Northern Ireland, which are no longer required for defence purposes, to the Northern Ireland Executive. The MOD has agreed £15 million capital relief from HM Treasury in respect of the consequent reduction in receipts.

3 December 2009