



House of Commons
Defence Committee

**Ministry of Defence
Annual Report and
Accounts 2008–09:
Government response to
the Committee's Fifth
Report of Session 2009–10**

Third Special Report of Session 2010–11

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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 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), Ian Thomson (Inquiry Manager), Richard Dawson (Senior Committee Assistant), Christine McGrane (Committee Assistant) and Miguel Boo Fraga (Committee Support Assistant).

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Third Special Report

The Defence Committee published its Fifth Report of Session 2009–10 on *Ministry of Defence Annual Report and Accounts 2008–09* on 24 February 2010, as House of Commons Paper HC 52. The Government's response to this Report was received on 8 July 2010. This is appended.

Government response

The HCDC report and its conclusions and recommendations address the performance of the Ministry of Defence under the previous Government. This Response is made by the new coalition Government.

1. (Recommendation 1) It is a cause of concern to us that the NAO found the need to qualify the MoD's Resource Accounts for the third consecutive year, particularly given the assurances made to the Committee by both the Secretary of State and the Permanent Under Secretary last year. It cannot be acceptable that the MoD continues to fail to provide accurate and sufficient audit evidence to support their accounts, both in relation to personnel administration and stocks and assets. (Paragraph 7)

The Ministry of Defence is working hard to address the issues raised by the NAO in their report. For the Joint Personnel Administration (JPA) system, the work is being driven forward by the Assurance and Compliance Working Group, a team of senior finance and compliance staff drawn from each of the Top Level Budget areas under the leadership of a 1* officer. Considerable progress has already been made but some measures are complex and may take time to fully implement. Therefore, despite the effort being devoted to resolving relevant issues there is a risk that some measures may not have bedded down and become fully efficient before the next audit.

Regarding audit evidence, much of the problem relates to claim receipts retained by individuals. Particular difficulty was experienced obtaining receipts from personnel serving on operations or who had left the Service. Closer liaison with the NAO prior to the current audit has enabled the Department to improve its performance in this area. Work is also ongoing to improve the provision of evidence to support pay, food and accommodation charges and progress is expected before the next audit.

For Bowman, an Asset Management Improvement Project (BAMIP) has been initiated to address the asset tracking and financial accounting concerns raised by the NAO. The Department recognises the importance of accurate stock recording and monitoring, and is working hard to address all the points raised by the NAO. A detailed action plan to improve stock accuracy has been implemented.

2. (Recommendation 2) We agree with the Secretary of State's assessment that capability in theatre must be the Department's first concern. However, failing to maintain accurate and full information on personnel and to keep track of assets such as Bowman has the potential to threaten the long-term capability of the Department, including operational capability. The MoD therefore needs to take urgent action to rectify the outstanding problems; progress made on implementing the recommendations of the NAO is welcome, but must continue in earnest, but needs to be increased. (Paragraph 8)

For JPA, the Assurance and Compliance Working Group is fully seized of the need to implement the NAO recommendations as a matter of urgency, and is pursuing them with vigour. The importance of maintaining accurate and full personnel information is fully recognized, and a number of initiatives are being taken forward to improve data quality

and management information. This includes work identifying common input errors, improving training, and introducing controls to minimise errors and detect them when they do occur to enable early correction.

MoD first took action in 2007 to improve the management of Bowman assets. Against the background of reduced radio fits and better management of resources, the MoD introduced “Whole Fleet Management” for Bowman radios to enable us to meet the high tempo of operations with the existing radio fleet. It has brought a high ‘churn rate’ of Bowman radios. This revealed that asset management procedures and Information Systems were not up to the job of tracking Bowman radios and other assets.

This first phase of work was driven by the need to ensure the Department could track and manage Bowman radios and other assets to support operational planning. This work was completed to the satisfaction of HQ Land Forces. An engineering asset management system (BACMS) has been developed to keep track of Bowman asset condition and was provided to all Front Line Command (FLC) Units by April 2010. All FLC units have been trained in the use of BACMS.

The NAO concerns surrounding asset tracking and financial accounting for Bowman radios led to the establishment of BAMIP, which is designed specifically to address each of the concerns raised by the NAO; and additional resources have also been assigned to expedite delivery.

Of the 27 BAMIP recommendations identified, some 16 have been fully implemented to date with work proceeding on the remaining 11 where there is a full programme to rectify and address these issues.

3. (Recommendation 3) We are concerned that the resolution of the problems in relation to the JPA that led to the qualification of the MoD’s Resource Accounts last year has shed light on further problems. It is of great importance that the remaining problems with the JPA system are resolved as quickly as possible. The MoD cannot possibly hope to manage personnel effectively with incomplete or inaccurate information and must ensure that any further problems that arise are dealt with immediately. (Paragraph 15)

The JPA Assurance and Compliance Working Group is addressing all JPA-related issues arising out of the NAO report, including those items recently identified, and good progress is being made. Control accounts are now reconciled each month, Service Personnel and Veterans Agency and Top Level Budget staff liaison has been improved, and data cleansing work is being carried out by the single Services. In addition, a project is underway to improve the quality of management information provided by JPA. From March 2011, this will deliver immediate improvements in terms of reporting functionality and system performance with the opportunity for further enhancements to be captured in future work. Processes systems and practices are kept under review and regular upgrades are made to rectify identified issues.

4. (Recommendation 4) That the MoD could not, at a given time, account for the whereabouts of radios worth £155 million is unacceptable. While we acknowledge the difficulties associated with tracking assets in theatre, particularly given the deliberately flexible nature of Bowman, the MoD cannot afford to be complacent in this matter.

The security implications associated with losing equipment such as this are significant; having an effective audit trail is the only way to ensure that all radios are accounted for. We hope that the development and roll out of the Bowman And Communication Management System (BACMS) and Joint Asset Management and Engineering Solutions (JAMES) systems can be achieved quickly and effectively. (Paragraph 22)

The MoD accepts that there is a need to improve the process of Bowman radio tracking. The BAMIP project is a 27 point programme to address the issues raised by the NAO in their Management Letter. The development of a Financial User Requirements Document for the JAMES and Management of the Joint Deployed Inventory (MJDI) planned systems has been completed as a key step in ensuring our new systems developments meet our requirements. These encompass serial tracking of the Bowman radio fleet. Both JAMES and MJDI are fully funded. The current plan is:

- MJDI (deployed inventory system):
 - Initial Operating Capability—early 2011
 - In Service Date Rollout Land Deployed—late 2013
 - Full operating capability—late 2014
- JAMES Land (engineering management system):
 - Go Live functionality—late 2010
 - Start Roll Out—early 2011
 - Roll out complete—late 2014

A clear distinction needs to be made between the lack of central visibility of Bowman radios and other Bowman assets on an authorised MoD accounting system, and the security of these radios and other assets. MoD's security procedures require all security controlled items to be separately recorded. MoD has performed a separate exercise to determine whether the lack of accounting visibility is an indicator that these security procedures are not being followed leading to an increased security risk. Through this process, MoD has satisfied itself that this is not the case and that the current security risk is as low as reasonably practical.

5. (Recommendation 5) While the sample taken by the NAO for its analysis is not large, it is statistically valid. It is possible that the NAO's sample had a higher incidence of errors than is the case overall, but it is equally possible that the opposite could be the case. We hope that the NAO will continue to monitor closely the MoD's management of stock, perhaps giving consideration to undertaking a broader analysis of this problem at some future date. (Paragraph 24)

MoD recognises the importance of accurate stock recording and monitoring, and is working hard to address all the points raised by the NAO. New stock checking processes have been introduced for 2009-10 and around double the amount of stock is being counted compared with the previous year. A detailed action plan to improve stock accuracy has been implemented including the specific training of staff through the logistics optimisation

programme and collaborative working to identify obsolete stock. Some improvements have also been made to Information Systems. A modernisation and rationalisation of stock inventory and warehouse systems is planned.

6. (Recommendation 6) It is of course vital that the MoD identifies and ensures that all staff are aware of and working towards its key objectives and strategic direction. We recognise that the Strategy for Defence is designed to respond to current and short to medium term organisational needs but are concerned that its five year declared time table should not pre-empt or restrict the introduction of changes that will be identified in the Strategic Defence Review. We would expect any organisational and other management and budgetary measures identified as part of that Strategic Defence Review to be implemented as soon as possible and before 2014 as required. (Paragraph 30)

The initial release of the Strategy for Defence (SfD) was intended to provide interim direction to the Department pending the outcome of a Defence Review—now the Strategic Defence and Security Review (SDSR). This 2014 horizon was necessary to assist prioritisation of Departmental spending in Planning Rounds PR10 and PR11. Subsequent planning rounds will take direction from the outcome of the SDSR. It is our intention to supersede the current SfD with a new edition that will be the primary mechanism for implementation of all outcomes from the SDSR, which is re-examining the overall business model in Defence, and determining how it will be improved.

7. (Recommendation 7) While we welcome the Department's review of its performance management system, we hope that the outcome of this work will feed into the SDR and we once again emphasise that new programmes must not pre-empt the findings of the SDR. (Paragraph 31)

MoD's revised performance management system is in three parts. A Strategic Performance Report and Risk Report will be produced annually to enable the Defence Board to evaluate and adjust strategy between major Reviews, principally through the adjustments to Defence Strategic Direction and timed to inform the Planning Round. A Performance and Risk Report will be produced quarterly showing progress in implementing the most significant objectives that flow from the SfD and Defence Strategic Direction. In addition, Sub-Strategy owners and Top Level Budget Holders will report on, and be held to account for, delivery of their Sub-Strategies and annual performance of their TLB. The revised system will better implement the SfD now and the strategy that emerges from the SDR.

8. (Recommendation 8) While improvements have been achieved, work to implement the Department's Capability Review Implementation plan quickly and effectively must continue, and areas of previously good performance cannot be allowed to slip. It is vital that staff reductions and Value For Money savings are achieved without impacting directly or indirectly upon frontline capability and contingent readiness. (Paragraph 37)

MoD welcomes the Committee's acknowledgement that progress has been made in implementing the response to our previous Capability Reviews, which has been focussed on engaging better with the rest of Whitehall, in clarifying roles and responsibilities, in

simplifying some of our systems and processes, and in embedding throughout Defence a strong sense of the highest priority—support to operations in Afghanistan.

Over the last 12 months positive, practical steps have been taken across a wide spectrum of areas to pursue the commitments made in response to the Re-Review, in particular, the need to develop a more robust overarching strategy for the Department and to inject more pace into the implementation of Capability Review findings. Specific actions include:

- As one of the main priorities, the visibility and corporate nature of senior leadership teams has been improved.
- The SfD (2009-2014) was published in October 2009. That was followed in February this year by the Defence Green Paper.
- Work has been driven forward on building capability in MoD civil servants. The MoD Civilian Workforce Strategy has been updated with a focus on Afghanistan, leadership and performance management.
- The MoD achieved a 25% reduction in Head Office posts (approximately 1,000 people), whilst ensuring performance did not suffer as a result.
- The MoD continued to reach out to partners and stakeholders—working closely on Afghanistan with FCO and DFID, and making partnership (on both a local and national level) one of the two themes of the Defence Green Paper.

The Cabinet Office undertook an assurance check in March of this year, and the new Government will conduct major reform of the MoD as part of the SDSR.

In the current fiscal climate and to alleviate pressures on the Defence budget, it is important that the maximum benefit is obtained from resources. The Value for Money savings under CSR 07 are recycled and reinvested in Defence, and each initiative is assessed to ensure it does not affect overall Defence Objectives. The funding released is reallocated according to Defence priorities allowing a higher number of priority activities to be funded.

9. (Recommendation 9) The MoD has a poor record of compliance with data protection legislation. Whilst we are encouraged by the progress that has made in implementing the recommendations of Sir Edmund Burton, there continue to be too many incidents of data loss. The heightened number of incidents reported in the last year highlights the severity of the problem and the need for the MoD to continue to be aware of and to manage the risks more robustly. Unless it becomes evident by the time of the next annual report that progress has been made, we recommend that a champion to drive this important area of policy is appointed at ministerial level. (Paragraph 41)

The 2008–09 Annual Report covered the period immediately following the loss of the laptop containing recruitment data that led to Sir Edmund's Burton Review of the handling of personal data in MoD. The report's publication and the Department's targeted communications resulted in greater awareness of the issue across MoD. This translated into a greater number of incidents of data loss being reported. This was also a consequence of implementing the recommendation to conduct an audit of holdings of removable media. This work uncovered a number of instances where media could not be accounted

for and was therefore reported as missing. In a number of these cases it is likely that the media had not been properly accounted for over a period of some years rather than being lost or stolen.

Building on the good progress made implementing the recommendations from the Burton Report and Data Handling Review; an Information Assurance Programme has been established to take forward work in this area, with the goal, set by the Defence Board, of ensuring that MoD achieves Level 3 compliance with the Information Assurance Maturity Model by April 2012. This work is focussing on changing behaviours across the Department; a starting point for this work has been the rolling out of a Protecting Information Training Course, which as of October 2009 had been completed by more than 90% of staff.

At the current rate, the number of incidents reported to the Information Commissioner that will be published in the 2009-10 Annual Report will show a reduction on the figures from 2008-09, and should provide the Committee with the reassurance that progress continues to be made.

10. (Recommendation 10) While we accept that the MoD is following Treasury guidance regarding the use of terms such as “some progress”, we are concerned that these phrases are unhelpful when used in isolation, without giving any indication within the Annual Report as to their meaning in real terms. We recommend that the MoD ensure that an explanation of these assessments are included in next year’s report. Furthermore, the Department needs to make the basis for these assessments clear. A full outline of targets and sub-indicators will not be appropriate in every case—where there is operational sensitivity, for example. However, we expect the Department to provide as much information regarding the assessment of performance as is practically possible. (Paragraph 47)

MoD recognises the Committee’s concern. Parameters for reporting performance against Spending Round targets are set centrally by HM Treasury and all Departments are expected to work with these when providing assessments. In addition, MoD has to take into account security issues and that some performance indicators are not susceptible to quantitative treatment. In recognition of these factors, in the 2007-08 report MoD sought to provide a thorough narrative on qualitative performance indicators. 2008-09 performance indicators were set before the start of that year but the Department has noted the Committee’s desire to see the assessment of performance given more prominence in the Annual Report and Accounts for 2009-10.

11. (Recommendation 11) Given that the recently published Strategy for Defence identifies operations in Afghanistan as the Department’s “main effort”, it is important that both we and the public are able to make a reasonable assessment of the Department’s performance in this area. The war in Afghanistan and the casualties incurred are inevitably emotive subjects. We recognise that the Department cannot make public all of its activity, but we recommend that the MoD needs to put more work into accurately conveying its performance on operations to the public. There are some welcome signs that this is beginning to improve. (Paragraph 52)

MoD agrees with the Committee that it is important that both Parliament and the public are able to make an informed assessment of the Department's performance in ongoing operations in Afghanistan.

In the course of the last year, MoD has taken steps to improve its performance in conveying progress on operations, and the Committee's recognition that this has improved is welcome. The UK's involvement in Afghanistan is a cross-Government effort and this extends to the communication strategy. MoD contributes to the work of the cross-Government Afghanistan Communications Team and website on Afghanistan that provides information on political, military and development progress. The Department has recognised the increasing interest in and correspondence on operations from Members of Parliament and the public and has allocated new resources and personnel to ensure that questions posed are answered in a timely fashion. In addition, the Chief of the Defence Staff appointed Major General Gordon Messenger as the Department's spokesperson on Afghanistan. He is providing regular briefings, alongside colleagues from Other Government Departments, to explain better the nature of the campaign and of the UK's contribution to it in Helmand and elsewhere.

12. (Recommendation 12) The MoD must continue to work to implement the recommendations of the NAO and PAC as quickly and effectively as possible. (Paragraph 56)

MoD agrees with the Committee. In the Treasury Minute (Treasury Minutes on the Fifty-fourth Report from the Committee of Public Accounts, Session 2008-9, Cm 7736)) the Department fully agreed with seven of the PAC's recommendations and largely or partially agreed with the remaining four. It will implement those recommendations with which it agreed in full, and those elements of recommendations with which it largely or partially agreed. This work is well underway.

The Department has a robust process in place internally for tracking the progress of its implementation of PAC and NAO recommendations. Furthermore, it is required formally to report on the progress towards implementation of PAC recommendations as part of its Annual Report. The Department's Annual Report is expected to be published on 13 July 2010, which will include an update on progress towards implementation of the PAC recommendations relating to the 'Support to High Intensity Operations'. A similar exercise takes place internally in the Department for recommendations that are made by the NAO.

13. (Recommendation 13) Addressing the continuing problem of maintaining manning balance, particularly with regard to pinch point trades, needs to be a high priority for the Department. This is a long-term concern that directly affects the operational capability of the Armed Forces. It can only be addressed by ensuring that personnel are not only recruited and trained effectively, but that they are retained. To ensure that the improvements seen in recruitment are reflected in the long term, the Department needs to ensure that budgets are sufficient to meet training needs, and that remaining in the Services is attractive to personnel, both financially and in terms of wider Service life, such as meeting harmony guidelines. (Paragraph 66)

The Armed Forces continue to exploit a significantly higher level of interest in a career in the Armed Forces and the particular benefit of being able to select high quality recruits,

who, it is hoped, will recognise the benefits of military service as a long term career. The need to achieve and maintain manning balance is a primary aim of all three Services, particularly to address structural imbalances, pinch point trades, and to maintain Harmony guidelines. Recruiting fluctuates in response to the economic situation, market forces and demographics. Recruiting measures are adjusted through national, regional and local marketing profiles to adapt to the changing situation. The Service brands are well known and they offer attractive employment opportunities but it is recognised that more can be done: the Service Personnel Strategy is the Defence Board's strategy for delivering and sustaining the people component of Operational Capability now and in the future. The plan recognises the need to deliver on future personnel challenges with mechanisms that are both flexible and affordable.

Considerable efforts are made to reduce all pinch points either through growth or retention. Measures to grow personnel in the pinch point trades are wide ranging and include focussed marketing, increased training capacity, reductions in course wastage, and Golden Hellos. Timely retention measures help to prevent already trained and experienced Service personnel from leaving the Armed Forces. Measures such as Financial Retention Incentives, streamlined promotion, increasing promotion flows, and focussed career management are all part of a wider package of professional and social reforms, which include improvements to family and single personnel housing and welfare.

14. (Recommendation 14) An arbitrary target on readiness which does not reflect the reality of the MoD's operational requirements serves little purpose. The MoD needs to ensure that it communicates the real position of readiness effectively. (Paragraph 70)

MoD agrees, and this is the primary reason for changing the system. Future reporting on readiness will provide a clearer analysis of which Force Elements are committed to operations and undertaking military tasks, and how many are available for contingent tasks.

15. (Recommendation 15) It may be that greater accountability over budgets among senior officials would improve the situation. However, we will be discussing the complex issues of equipment procurement in greater detail in our separate Report on Defence Equipment. We welcome the publication of the MoD's Defence Strategy for Acquisition Reform, which represents an initial step towards addressing these issues. (Paragraph 73)

MoD noted the Committee's report on Defence Equipment (Sixth Report of Session 2009-10 published on 4 March 2010) and has responded separately to its recommendations and conclusions.