



House of Commons

Committee of Public Accounts

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# Ministry of Defence: Managing Change in the Defence Workforce

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Eighty–eighth Report of Session  
2010–12

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

*Ordered by the House of Commons  
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## Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

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Justine Greening (*Conservative, Putney*)  
Joseph Johnson (*Conservative, Orpington*)  
Eric Joyce (*Labour, Falkirk*)  
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### 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/pac](http://www.parliament.uk/pac). A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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## Summary

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The Ministry of Defence (the Department) announced in the summer of 2010 that it had a funding gap of £38 billion over the next ten years. As part of the Government's efforts to reduce the deficit, the Department also needs to reduce its annual spending by 7.5% in real terms by 2015. It intends to achieve a significant proportion of its required savings by reducing its civilian personnel by 29,000 and its military personnel by 25,000, which it estimates will save £4.1 billion between 2011 and 2015. In October 2010 the Government published the Strategic Defence and Security Review which set out its future priorities and plans in the context of the need to balance its budget. The Department is currently enacting a transformation programme to change its way of working in order to deliver on these priorities with fewer staff.

The Department has acted decisively to put plans in place to implement reductions in its workforce. However, it has done this before it has finalised its new operating model. The operating model will set out the detail of how the Department will meet its objectives in the future, but its reductions in workforce will be well advanced before the model is agreed. We are concerned that the Department's plans to reduce the workforce have been determined more by the need to cut costs than by considering how to deliver its strategic objectives in the future.

A lack of clarity about the Department's future workforce requirements and the skills it therefore needs to retain means there is a risk of further skills gaps developing. This could make the Department increasingly reliant on external expertise. The Department's consultancy expenditure through the Framework Agreement for Technical Support has grown from £6 million in 2006-07 to £270 million in 2010-11 indicating a greater reliance on external expertise. We are not convinced that the Department has considered how its consultancy budget will be affected by reductions in staff with key skills.

We welcome the Department's candour about staff morale. Given the scale of change in the Department it is not surprising morale is low and we are encouraged that the Department is taking active steps to improve internal communications on its transformation programme.

On the basis of a Report by Comptroller and Auditor General,<sup>1</sup> we took evidence from the Ministry of Defence on its plans for reducing its workforce.

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1 C&AG's Report, *Managing Change in the Defence Workforce*, Session 2010-12, HC 1791



## Conclusions and recommendations

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- 1. The Department has a difficult financial situation ahead, needing to reduce its annual spending by 7.5% in real terms by 2015.** It intends to achieve a significant proportion of these savings by reducing civilian and military personnel by 29,000 and 25,000 respectively. The Department has acted decisively to implement workforce reductions. Nevertheless, it faces a significant challenge in balancing operational needs with financial restrictions. Within months of settling the Comprehensive Spending Review, the Department has already increased the number of staff it needs to lose by 12,000 to 54,000. Such changes make rational headcount planning very difficult. The recommendations below are intended to address the risks we see in the Department's plans.
- 2. The reduction in the Department's workforce will be well advanced before its new operating model is finalised.** The Department plans to agree a full operating model by April 2013, by which time staff departures through the military redundancy and civilian early release scheme will be well underway. The Department has good information on the skills of its military staff but recognises it needs to do more to improve its information on civilian skills. There is a danger that if staff reductions are not based on a clear new set of objectives the Department will lose the skills it will need to meet its objectives.
- 3. The Department's expenditure on external support has increased significantly in the past five years.** The Department's consultancy expenditure through the Framework Agreement for Technical Support has increased from £6 million in 2006-07 to £270 million in 2010-11. This indicates an increasing reliance on external expertise. If the Department loses key skills it may have to replace those skills at potentially greater cost. We are not convinced that the Department has considered how its consultancy budget will be affected by losing staff with key skills or how it will ensure value for money. Over the period of the transformation programme, the Department should review and monitor the extent to which staff who have left are being replaced by consultants.
- 4. Morale in both the military and civilian workforce is low.** This is not surprising given the scale of change in the defence workforce and we welcome the Department's candour about this matter. One impact of low morale is that more staff might choose to leave of their own accord creating further skills shortages which may be costly in the long term. The Department recognised this important issue and has committed to engage in a "major programme of communications" as part of its transformation programme. We expect to see a measurable improvement in the Department's morale indicators.





# 1 The rationale for reducing personnel

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1. The Ministry of Defence (the Department) faces significant financial problems in balancing its budget. In 2010 it had a funding gap of £38 billion over the next ten years. It also needs to reduce its annual spending by 7.5% in real terms by 2015 as part of the Government's efforts to reduce the deficit.<sup>2</sup> The Department intends to achieve a significant proportion of these savings through reducing its civilian personnel by 29,000 and its military personnel by 25,000 by 2015.<sup>3</sup> The Department estimates it will save £4.1 billion from reducing personnel between 2011 and 2015.<sup>4</sup>

2. The Department has put in place a redundancy programme and early release scheme and is making progress in planning for the future.<sup>5</sup> However, the Department's plans have been determined more by the need to cut costs than by considering its strategic objectives for the future and the skills it will require to deliver these successfully.<sup>6</sup>

3. The Department told us that the Strategic Defence and Security Review had been designed to be deliverable within its budget.<sup>7</sup> The Department calculated the extent to which it should reduce the number of military personnel; factors affecting this calculation included changes made to the military structure in order to meet the objectives of the Strategic Defence and Security Review, and the need to operate within the available budget. The planned reductions in the civilian workforce have been caused both by the need to live within the Department's budget and by existing plans for the reorganisation of some areas including estates, infrastructure and corporate services.<sup>8</sup>

4. In order to achieve its cost reduction targets, the Department has increased the target for personnel reduction to 25,000 military and 29,000 civilian personnel from the original 17,000 military and 25,000 civilian personnel target outlined in the Strategic Defence and Security Review. The additional reductions were identified through a three-month exercise to identify further possible workforce cuts.<sup>9</sup>

5. The Department said that the smaller deployable military force, resulting from budget reductions, would not affect the Department's ability to undertake an operation similar to that in Libya in Spring 2011.<sup>10</sup> The Department did not commit to whether or not it would be able to undertake a larger operation, but stated that its planning assumptions did not necessarily dictate its actions. For example, the planning assumptions in the 1990's did not

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2 C&AG's Report, para 1

3 C&AG's Report, para 3

4 C&AG's Report, para 1.7

5 Q 1; C&AG's Report, para 22

6 Q 3

7 Q 3

8 Qq 1,3

9 C&AG's Report, para 1.4

10 Qq 5,6

assume the level of commitment that was required in Afghanistan but the Department undertook this operation.<sup>11</sup>

6. To deliver its objectives with fewer personnel, the Department is designing a new business model for how it will operate. The Department aims to have completed the final version of its new operating model by April 2013.<sup>12</sup> However, this timetable fails to align with the timings of the military redundancies and civilian Early Release Scheme, which will be well underway by 2013, with the Royal Air Force and Royal Navy redundancy schemes largely complete.<sup>13</sup>

7. The Department told us that to reduce costs it needed to reduce its workforce numbers rapidly.<sup>14</sup> The Department acknowledged that it had to strike a balance between having enough information and taking prompt action, but it considered it knew enough to begin reducing the workforce numbers in some areas. For example, 95% of the civilians who applied for an early release in the infrastructure area were accepted, whereas only half were accepted in other areas such as equipment and support, where the Department was less clear about its future priorities.<sup>15</sup>

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11 Q 7

12 Q 35

13 C&AG's Report, para 3.23

14 Q 40; C&AG's Report, para 22

15 Qq 34, 41

## 2 The Department's workforce skills and morale

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8. The Department acknowledged that the quality of data on civilian skills is not good enough. The Department recognised that to manage the scale of transformation required it will need to do more work to improve its knowledge of the civilian skills base. To cope with this gap each of the senior budget holders has submitted workforce and skills plans by the end of March 2012, setting out how many people they employed and the skills they possessed.<sup>16</sup> The Department told us that the civil service struggled to collect skills information in the past, in part because it has relied on approaches where staff self-declared their skills.<sup>17</sup>

9. The Department has been good at managing its military personnel in the services and is clear about the skills of its military staff both in terms of trades and rank.<sup>18</sup> However, the human resources function for the military is more expensive than the equivalent function for civilian staff.<sup>19</sup>

10. The Department managed the risk of losing people with key skills in the first tranche of its Early Release scheme by using a methodology which considered applicants' skills and the costs of employing them. Some 72% of the overall assessment as to whether to accept or reject an individual's application related to their skills. The Department received 13,000 applications for early release of which it rejected more than 5,000 using this methodology.<sup>20</sup>

11. The Department spent £270 million on procuring consultancy support through the Framework Agreement for Technical Support in 2010-11, a considerable increase from the £6 million spent in 2006-07.<sup>21</sup> The Department noted that some of the increase has occurred as a result of rebadging expenditure which had previously come out of other budgets.<sup>22</sup> The Framework Agreement is often used for specific jobs which are deliberately meant to be short-term in nature.<sup>23</sup> The decision on whether to use internal or external expertise is undertaken by local managers deciding how best to deliver results.<sup>24</sup>

12. It is important for the Department to have a clear understanding of how many of its previous staff have been re-employed as consultants who end up working for the Ministry of Defence again and the extra cost involved as this could represent "dreadful value for the

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16 Q 31

17 Q 80

18 Q 82, C&AG's Report, para 2.13

19 Q 83

20 Qq 29-30

21 Qq 72-73

22 Qq 75-76

23 Q 162

24 Q 56

taxpayer”.<sup>25</sup> The Department was not sure whether it collected this information and noted that, for the analysis to be useful, it would be important to distinguish between those individuals that had been paid to leave the Department and those that had chosen to leave as they have considerably less control over the latter.<sup>26</sup>

13. The Department recognised that there was a problem with morale in the civil service and the military.<sup>27</sup> In the 2011 survey of the Armed Forces only 46% of respondents agreed that their morale was high. In the equivalent civilian survey the staff engagement level, which is an indicator of morale, was at 53%.<sup>28</sup> The Department agreed that morale was “not in a good place”. It knew that staff were concerned about how and what the Department was going to be able to deliver. The Department believed that being clear about what it was going to do with the resources it had would help staff focus on the Department’s objectives.<sup>29</sup>

14. Staff also have concerns around the Department’s ability to deliver change. Only 22% of military respondents and 12% of civilian respondents to staff surveys agreed that the Department handles change well.<sup>30</sup> The Department told us it had taken the comments on managing change to heart. As a result it has appointed a Director General of Transformation as the Senior Responsible Officer for the transformation programme with an overview of the entire portfolio of change.<sup>31</sup>

15. The Department recognised it needs to convince staff that senior officials know what they are doing in terms of managing change.<sup>32</sup> The Department is engaging in a large-scale communications effort from April 2012. The Department intends that by the Autumn of 2012 staff will know and understand the new models of working, and will have a clear understanding of the programme of changes the Department is undertaking. The Department hopes that this will help improve staff morale and the staff view of how they manage change.<sup>33</sup>

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25 Qq 133,138

26 Qq 130-133

27 Q 167

28 C&AG’s Report, para 2.10

29 Q 168

30 C&AG’s Report, para 3.10

31 Q 169

32 Q 169

33 Q 173

# Formal Minutes

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**Wednesday 25 April 2012**

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon	Mr Austin Mitchell
Jackie Doyle-Price	Nick Smith
Matthew Hancock	Ian Swales
Mr Stewart Jackson	James Wharton
Fiona Mactaggart	

Draft Report (*Ministry of Defence: managing Change in the Defence Workforce*) proposed by the Chair, brought up and read.

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

Paragraphs 1 to 15 read and agreed to.

Conclusions 1 to 4 agreed to.

Summary agreed to.

*Resolved*, That the Report be the Eighty-eighth Report of the Committee to the House.

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

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

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

[Adjourned till Thursday 26 April at 9.30 am

## Witnesses

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**Monday 19 March 2012**

*Page*

**Ursula Brennan**, Permanent Under-Secretary, **Jon Day**, Second Permanent Under-Secretary, and **Jonathan Slater**, Director General of Transformation, Ministry of Defence

Ev 1

## List of printed written evidence

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1 Ministry of Defence

Ev 20

# List of Reports from the Committee during the current Parliament

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

## Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty –third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397



Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398
Fifty-third Report	Managing high value capital equipment	HC 1469
Fifty-fourth Report	Protecting Consumers – The system for enforcing consumer law	HC 1468
Fifty-fifth Report	Formula funding of local public services	HC 1502
Fifty-sixth Report	Providing the UK's Carrier Strike Capability	HC 1427
Fifty-seventh Report	Oversight of user choice and provider competition in care markets	HC 1530
Fifty-eighth Report	HM Revenue and Customs: PAYE, tax credit debt and cost reduction	HC 1565
Fifty-ninth Report	The cost-effective delivery of an armoured vehicle capability	HC 1444
Sixtieth Report	Achievement of foundation trust status by NHS hospital trusts	HC 1566
Sixty-first Report	HM Revenue and Customs 2010-11 Accounts: tax disputes	HC 1531
Sixty-second Report	Means Testing	HC 1627
Sixty-third Report	Preparations for the roll-out of smart meters	HC 1617
Sixty-fourth Report	Flood Risk Management	HC 1659
Sixty-fifth Report	DfID: Transferring cash and assets to the poor	HC 1695
Sixty-sixth Report	Excess Votes 2010-11	HC 1796
Sixty-seventh Report	Whole of Government Accounts 2009-10	HC 1696
Sixty-eighth Report	Ministry of Defence: The Major Projects Report 2011	HC 1678
Sixty-ninth Report	Rural payments Agency – follow up of previous PAC recommendations	HC 1616
Seventieth Report	Oversight of special education for young people aged 16-25	HC 1636
Seventy-first Report	Reducing costs in the Department for Transport	HC 1760
Seventy-second Report	Services for people with neurological conditions	HC 1759
Seventy-third Report	The BBC's efficiency programme	HC 1658
Seventy-fourth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 1716
Seventy-fifth Report	Ministry of Justice Financial Management	HC 1778
Seventy-sixth Report	Department for Business, Innovation and Skills: reducing bureaucracy in further education in England	HC 1803
Seventy-seventh	Reorganising Central Government Bodies	HC 1802
Seventy-eighth Report	The Care Quality Commission: Regulating the quality and safety of health and adult social care	HC 1779

Seventy-ninth Report	Accountability for public money – progress report	HC 1503
Eightieth Report	Cost reduction in central government: summary of progress	HC 1845
Eighty-first Report	Equity investment in privately financed projects	HC 1846
Eighty-second Report	Department for Education: accountability and oversight of education and children’s services	HC 1957
Eighty-third Report	Child Maintenance and Enforcement Commission: Cost Reductions	HC 1874
Eighty-fourth Report	Adult Apprenticeships	HC 1875
Eighty-fifth Report	Department for Work and Pensions: the introduction of the Work Programme	HC 1814
Eighty-sixth Report	The free entitlement to education for 3 and four year olds	HC 1893
Eight-seventh Report	HM Revenue and Customs: Compliance and Enforcement Programme	HC 1892

# Oral evidence

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## Taken before the Public Accounts Committee

on Monday 19 March 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon  
Stephen Barclay  
Jackie Doyle-Price  
Matthew Hancock  
Chris Heaton-Harris  
Meg Hillier

Mr Stewart Jackson  
Austin Mitchell  
Nick Smith  
Ian Swales  
James Wharton

**Amyas Morse**, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General, **Martin Sinclair**, Assistant Auditor General, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### Managing Change in the Defence Workforce (HC 1791)

##### Examination of Witnesses

*Witnesses:* **Ursula Brennan**, Permanent Under-Secretary, Ministry of Defence, **Jon Day**, Second Permanent Under-Secretary, Ministry of Defence, and **Jonathan Slater**, Director General of Transformation, Ministry of Defence, gave evidence.

**Q1 Chair:** Welcome. Again, this is a Report that looks as if you are moving in the right direction, so we welcome it—thank you. Can I just ask you—I am trying to stand back a little bit—what was the rationale for taking the decisions on numbers of cuts in the CSR? What was the strategy, or was it just money?

**Ursula Brennan:** In terms of personnel? How did we arrive at the numbers for military and civilian personnel? It was a combination of, in the case of the military, changes that we made to the force structure, which related to the SDSR objectives and the need to live within our budget, and on the civilian side, again, a combination of the need to live within our budget and plans that we already were making to do certain things differently around things like the way we organise our estates and infrastructure and our corporate services.

**Q2 Chair:** Okay, so it was both. What I find difficult in all the reports we have had from you is to get the strategy. Just tell me, to deal first with the military—and this is just looking at the CSR figure; I haven't come to the three-month review or, indeed, to the 2020 figure, yet—but in the CSR you decided to cut 17,000 out of your military. What was the strategy behind that, rather than the money?

**Ursula Brennan:** As I say, the strategy was a combination of the decision to look at how to live within a smaller budget, how much to take on equipment, how much to take on personnel—

**Q3 Chair:** I understand that. What is different? What has changed in the way you organise the military? Just

give me some example, because I don't get it. What I am trying to do is understand it. What is different, in the way that you organise yourselves? I accept what you just said to me—that it was both money and changes, so some of it was money—but it was also a strategic change that you made. What changed in the way that you organised your military that allowed you at the CSR to take out 17,000 people? I mean strategically, not money.

**Ursula Brennan:** Strategically? It is difficult to say strategically, not money, because our strategy is designed to be deliverable within our budget. The way the SDSR worked was to say—

**Q4 Chair:** So, it is money?

**Ursula Brennan:** It is a combination of making sure that your strategy is affordable within your money—

**Q5 Chair:** Sorry to interrupt. I want to try and get this. This is the second or third time that we have dealt with reports on living within your budget with you. When I asked you last time about what you have stopped doing, you weren't able to answer. Perhaps in this context you will. What are you doing differently? How are you doing it differently? What has changed? Or are we just saying that at the time of the CSR you decided that you would have 17,000 fewer because you got less money, but you were going to do exactly the same?

**Ursula Brennan:** Okay. Jon, do you want to give some examples?

**Jon Day:** Shall I give you four examples? First, a smaller deployable force. The planning assumption on which we are operating involves a smaller force—not

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19 March 2012 Ministry of Defence

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dramatically smaller, but smaller. Secondly, to advance the rate of withdrawing the Army from Germany. Thirdly, removing the Harrier and one of the carriers. Fourthly, deleting the Nimrod force. Those are examples of force capability changes that were reflected in the size of the Armed Forces.

**Q6 Chair:** What does that mean? If there was another Libya tomorrow, does that change that? You have taken out capabilities. I understand that clearly.

**Jon Day:** As far as Libya is concerned, no.

**Q7 Chair:** No, of course, but if there were a Syria or Iran tomorrow, what would happen then?

**Jon Day:** As far as the size of the deployable forces is concerned, the planning assumptions have always been no more than planning assumptions. They have not said what we would do in a particular set of circumstances, but what we plan to do. For example, the planning assumptions that were set in the late '90s did not assume a level of commitment the size of Afghanistan on an enduring basis, but we have been able to do that. In the future, we do not plan to do an operation the size of Afghanistan, so if we were asked to do one, it would have specific consequences—for example, in relation to harmony. With those capabilities, I cannot give you an operation at the moment that we are conducting that would be affected in this way.

**Q8 Chair:** So then what happened to up that to the military 25,000 after your mid-year review?

**Ursula Brennan:** The change that happened at that point was that at the SDSR we announced that we were going to conduct a review of the Reserves. In the light of the Reserves review, and in the light of further work being done on the scale of the draw-down from Afghanistan and so on, we decided that we could take a further reduction in the size of the Army.

**Q9 Chair:** So, was that driven by money?

**Ursula Brennan:** Well, it was, I suppose, a case of, given the resources you've got, what is the best way of organising yourselves to get the best result out of it? That was what the Reserves review was about. It was saying, "You need to look at the Regular Force, the Reserve Force, and indeed in other work we have done, contractors and civilians, and looking at that across the piece and saying, What is the best way of distributing our resource across all of those to get the result that we want to achieve?" The Reserves review provided an opportunity to look at that again and say, "we do believe we can make those reductions, which will help us to deliver our financial baselines."

**Q10 Chair:** Then by 2020 in the military, you are going to take another 12,000? It says that somewhere in the Report. It's Force 2020. You will take another 12,000 by 2020.

**Ursula Brennan:** I just want to make sure that we are not counting the same 12,000 twice.

**Q11 Chair:** No, you're not, I think. I looked at it quite carefully. Jonathan, can you answer?

**Jonathan Slater:** The increase between the SDSR announcement of 17,000, as you say, and the final figure, as in the Report, is, as the permanent under-secretary says, a consequence of the decision to rebalance Reserves and Regulars. It was a 70:30 split—120,000 in total. That was the further reduction in the size of the Army by about 12,000. That is why the numbers changed between the SDSR announcement and the July announcement.

**Q12 Chair:** Let me get this clear. It is 17,000 at the time of the CSR. It is 25,000, I think, when you decide that you do not have enough money in the budget three months later—correct me if I am wrong. Then it is another 12,000 by 2020. Altogether, it is whatever that adds up to. According to my arithmetic, it is 37,000.

**Ursula Brennan:** I think we are moving between the Army and all the armed forces together in that calculation.

**Q13 Chair:** Yes, we are. We are looking at the whole lot together.

**Ursula Brennan:** If you are looking at the whole lot together—

**Q14 Chair:** If we look just at the military, not the civilian numbers, it is 17,000 in the CSR; it is 25,000 when you do the mid-term review; and it is another 12,000, which brings us—

**Ursula Brennan:** No, that is not quite correct.

**Chair:** It is; it is in the Report—well, unless the Report is wrong. It is in the Report.

**Amyas Morse:** The most useful thing to do is look at figure 1 in the Report. I think that would be quite helpful. It sets it all out quite clearly.

**Chair:** Which page is that?

**Mr Bacon:** Page 13.

**Chair:** Ah, I knew I had got this from somewhere. Thank you.

**Amyas Morse:** Let us take the Army line in the middle. They go from a baseline of 101,000 to 89,000 in 2015 and then to 82,000.

**Chair:** Thank you, Amyas. That is where I added it up.

**Jonathan Slater:** At the SDSR, we announced that we would be seeking to reduce the military numbers by 20,000 to 2020, and it has gone up as a result of the—

**Q15 Chair:** No, you didn't. It was 17,000 at the CSR—military numbers by 17,000 at the CSR.

**Ursula Brennan:** By 2020. There were two different dates. By how much would we have reduced the armed forces and the civilians by 2015—CSR period? By how much would we have reduced them by 2020? There are different figures at those two points; and post the three-month exercise, those numbers changed, but again at two distinct dates.

**Jonathan Slater:** We announced in the SDSR an objective, by the end of the decade, of reducing military numbers by 20,000. That has gone up as a result of the Reserve study to 33,000 by the end of the decade, as a consequence of a further reduction—of 12,000 or so—in the size of the Regular Army as

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a consequence of increasing the number of Reserves. So we are keeping the total number of people in the Army the same, but rebalancing between Regulars and Reserves—12,000 fewer regulars. That further reduction of 12,000 predominantly happens in the second half of the decade. You are absolutely right to say that the numbers of Army reductions do go up during the CSR period as well, but only by about 3,000.

**Q16 Chair:** Okay. But it is fair to say that it is primarily money-driven.

**Ursula Brennan:** The SDSR set out a new force structure and a set of planning assumptions about the new force structure, and a budget to go with it. Those two things went together.

**Q17 Stephen Barclay:** On that, you talked about the Reserve structure in the 2020 strategy. What saving are you expecting to make on property, as covered by the Reserve force and Cadets Association? Do you have a figure for that?

**Ursula Brennan:** I can't tell you offhand the—

**Q18 Stephen Barclay:** My understanding of the 2020 strategy was that it was not just a shift of resource from Regulars to Reserves; it was changing Reserves to become more specialised.

**Ursula Brennan:** It was.

**Q19 Stephen Barclay:** Therefore, what I am driving at is that much of the property estate may not be as fit for purpose, because if what you are saying is that you want your Reserves to be specialists—specialist medics and specialist cyber-warfare officers—you will probably, I would have thought, shift a lot of your training into specialist facilities, so you will do it in-house in companies or in the NHS. You will not be able to grow that sort of equipment in what are fairly basic military training facilities, which are stuck in the towns up and down the country. So I would have thought that as part of that strategy, you would be looking for much more aggressive property savings and reallocating those into salaries, because you are paying people for higher, specialist skills. I just wondered whether that is set out.

**Ursula Brennan:** It is certainly true that we have an aggressive estates strategy, which is about reducing our footprint, getting out of the estate that we do not need to be in and investing in the estate that we need to be in. It is why all this portfolio of change is an interlinked portfolio. A part of our strategy is to address our estates requirements, and that includes the Reserve estate.

**Q20 Stephen Barclay:** Sure, and one of the political issues that may upset members of the Committee is that a lot of those facilities are also used by Cadet Forces, which are very popular locally and do very good work. So where does one see this aggressive strategy in order that we can start to assess it from a value for money perspective and assess the potential community concerns that may flow?

**Ursula Brennan:** If you would like material on our estates strategy, we would be very happy to provide

that. Because this is really about work force, we have not come equipped with the detail about the estates.

**Q21 Stephen Barclay:** Sure, but what I am saying is that there is a direct correlation in terms of what you are trying to do with the work force—moving towards more specialist skills, which I support—which is going to be very difficult to deliver in your existing property portfolio. As you go to specialist skills, there will be a higher cost. One way of meeting that is through property, but there are risks associated with that. I am just unclear at present, but I would be very happy to have a note on it as to where we get some sort of forward assessment of that, so that we can assess it in the future.

**Ursula Brennan:** It would be sensible for us to let you have information about our estates strategy.

**Q22 Chair:** If we accept that the fact that you have had this money has driven you to rethink your strategy, which is what I think you are saying to us, and if it is cheaper to get rid of people on a voluntary basis, as it is—somewhere in the Report it tells you that if people take voluntary redundancy, they have six months' pay, and if you are made compulsorily redundant, you have a year's pay—are you prioritising voluntary redundancy?

**Ursula Brennan:** We did indeed. Across the whole of the civil service—we are talking about civilians now—there is a strategy to prioritise exits on a voluntary basis. There is a cross-Government agreement on doing that. That is indeed the strategy that we have followed.

**Q23 Chair:** But if you do that, you lose your skills.

**Ursula Brennan:** I think the NAO Report points out that we had a weighting system—page 19 describes that—for how we decided. The fact that someone applies for an exit does not mean that we will grant it.

**Chair:** But I think there is a thing somewhere that showed that hardly anyone—

**Stephen Barclay:** They don't know, because we are relying on the applicants.

**Q24 Chair:** Figure 5 shows that you only had 65 people between April 2010 and September 2011 leaving on compulsory early retirement or severance. So it looks to me there that you prioritised—I am not attacking this, but I just want to get clarity—voluntary redundancy, and there may therefore have been a skills implication.

**Amyas Morse:** Indeed, but I think it is worth pointing out that that is before the main programme.

**Chair:** Except it goes to September 2011.

**Ursula Brennan:** Indeed, but the exits would mostly not have been then. Most of the people who exit on the first tranche of our voluntary exit scheme would not have exited by September 2011.

But yes, it is true that we have prioritised voluntary exits as the first way of doing that. If you close a base in a very remote location, or if there is some specific group of staff whose skills you frankly do not need any longer and there is no other way of re-employing them, you will have some compulsory exits. Our strategy has been to start voluntarily.

**Q25 Chair:** Two more questions from me, and then I will throw it open. If we looked at this figure today, would that compulsory early retirement or severance cohort be much higher?

**Ursula Brennan:** No, because we are targeting voluntary exits.

**Q26 Chair:** I think there must be a correlation between that and losing skills.

**Ursula Brennan:** As I say, the Report explains what we have been seeking to do to ensure that when people apply for a voluntary exit, we do not necessarily let them go just because they have voluntarily applied.

**Jackie Doyle-Price:** Paragraph 3.21 of the Report says that there are 80 trades that are suffering—

**Ursula Brennan:** Sorry? On which page?

**Chris Heaton-Harris:** Page 32.

**Q27 Jackie Doyle-Price:** Paragraph 3.21 says that the military has identified 80 trades where there is a shortage in necessary skills.

**Ursula Brennan:** What we have just been discussing is civilian exits.

**Q28 Jackie Doyle-Price:** It also goes on to say that there are six key business areas involving civilians.

**Ursula Brennan:** Indeed. If you look at the prioritisation on page 19, to which I referred earlier, it talks about weighting the skills. Paragraph 3.16 on page 31 lists the skills areas that we were targeting. We have said that civilians applying for a voluntary exit are less likely to have their request granted if they have one of those sets of skills, because we want to protect those skills areas.

**Q29 Jackie Doyle-Price:** But paragraph 3.17 goes on to say that you have very poor information with which to monitor whether you are going to retain those skills. What are you doing to address that?

**Jonathan Slater:** On the numbers, we received more than 13,000 applications from civilians for the first tranche of early exits. We considered the skills of those 13,000 people, as well as the cost of employing them, using the methodology described by the NAO, and we rejected thousands of them.

**Q30 Jackie Doyle-Price:** How many did you reject?

**Jonathan Slater:** We made 8,000 offers against the 13,000 applications. We rejected more than 5,000 precisely on the basis of the skills and costs using the methodology set out by the NAO. Some 72% of the overall assessment of whether to say yes or no to somebody who volunteered was on the basis of the skills of that individual.

**Q31 Jackie Doyle-Price:** That is encouraging, but what are you doing to address your information deficiency on retaining skills?

**Jonathan Slater:** We completely acknowledge the NAO's point that the quality of our data on skills is not as good as we need. We applied what we needed to know on skills for early exits, but we are now right in the middle of addressing that gap. So, for example, we have asked each of the senior budget holders to

provide work force and skills plans by the end of this month, setting out how many people they currently employ and what skills each of them has.

**Q32 Chair:** But you have offered more than 8,000 redundancies. You are not going to withdraw those offers?

**Jonathan Slater:** No, sorry, we offered early exit opportunities to those people who do not have the skills we need for the future.

**Q33 Chair:** But how do you know? That is the whole point.

**Jonathan Slater:** On the basis of the data we collected on those people who volunteered. I sat down with a number of applications from people who worked for me, and I turned down applications on the basis of the calculations set out in the Report where they had skills we need to keep.

**Q34 James Wharton:** You are in the process of developing a new operating model overall, but you do not yet know exactly what it will look like. You do not have a final, clear view of that. How do you know that you are not going to need some of those skills, given that you do not know the detail of what your operating model is going to be?

**Jonathan Slater:** This is a piece of work in progress. The reductions in the work force are to be achieved by 2020. There is a balance to be achieved between trying to pin everything down before you do anything and making sure that you have enough information to start. We saw plenty of opportunities for coping with fewer people on the basis of the information that we have on new ways of working. To take one simple example, we see the opportunity to use IT to do things online that were previously done manually. The Report itself talks about the opportunity to reduce 2,000 staff in the infrastructure organisation through a number of means such as that. We are going to reduce by more than three quarters the people—

**Q35 James Wharton:** One of the concerns I would have is that, if you compartmentalise the process of looking at your operating model—you will eventually finalise that, and it would be good to get an idea of when you think you will have a clear view of what that operating model is going to be—how are you going to guard against the danger that you will ensure that that fits the skill set you have, rather than being the most appropriate operating model? It would be all too easy to say, "Well, this is what we have, let's make our operating model fit that," rather than saying, "This is what we should have," and going for the right thing.

**Jonathan Slater:** It is a two-phase process. Our objective, as the Report sets out, is to have a full operating model for the Department by April 2013. We issued the blueprint for that in December 2011. That piece of work is in progress, and it should be completed for April 2013.

**Q36 James Wharton:** Just to be absolutely clear, you should have a clear view of your final operating model by April 2013? You believe that that will be the case.

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**Jonathan Slater:** I cannot say that nothing will happen to change anything between 2013 and 2020, because it clearly will, but we have set out our objective, and, indeed, we issued the first draft of that blueprint in December 2011. What I am suggesting is that, while we put more and more detail into place, there are plenty of opportunities to reduce work force numbers where we have sufficient information to get on with it. To take another example, Jon referred to the force structure changes, and, as a consequence of them, the Navy could reduce its staffing levels straightaway. More than half the total number of reductions in work force that the Navy has to achieve are as a direct consequence of the decisions announced in the SDSR. They do not need any more information to make more than half of the reductions that they are making. They will need more information to make the remainder, and that is work in progress at the moment.

**Chair:** We are going to have to stop because there is a vote in the House. I am really sorry. Democracy intervenes.

*Sitting suspended for a Division in the House.*

*On resuming—*

**Chair:** We have another vote straight away, but we are quorate. We will be interrupted a lot, but after the next one, hopefully we can settle down.

**Q37 Stephen Barclay:** This flows from James Wharton's question. To clarify, have you modelled future priorities in the areas where you are running the early departures?

**Jonathan Slater:** We invited applications on the civilian scheme across the Department. What each of the TLB—top level budget—holders have been asked to do is design their future structures and then consider those structures in light of the applications they have had. So, we have not restricted applications to particular areas; what we are doing is considering those applications against the demands of the organisation, which is precisely why so many thousands of applications have been rejected.

**Q38 Stephen Barclay:** That was not quite what I was asking. I will come on to present obligations, but it was about a different Report, brought out by the NAO last week, called "Managing early departures in central government". Paragraph 3.7 says that "many departments are running early departure schemes before comprehensively planning and modelling future priorities". Can we clarify which Departments? Was the MOD one of the many?

**Gabrielle Cohen:** I don't know.

**Q39 Stephen Barclay:** This was the NAO Report that came out on 15 March.

**Gabrielle Cohen:** Sorry, I don't have that—it is a different team.

**Stephen Barclay:** Perhaps we can have a note.

**Chair:** Amyas is nodding.

**Amyas Morse:** Yes, I think it was.

**Q40 Stephen Barclay:** It was one. So, perhaps we can have the question again: why is the MOD one of the Departments referred to in the NAO's Report that

is running early departure schemes before comprehensive modelling?

**Jonathan Slater:** The Department needs to reduce its workforce numbers straight away, as the NAO accepts. We identified sufficient opportunities to do things in new ways, or to reduce priorities, or change our priorities such that we could facilitate reductions in the size of the workforce, before we could come up with the operating model for the Department as a whole. We saw some opportunities for reducing the workforce. As the Chair of the Committee identified, we use voluntary means first, so we assess voluntary applications against the opportunities for doing things differently, and accept applications where those two things match and reject them where they don't. As to the future, we are designing that comprehensive operating model that I spoke about a moment before and we will use that as we consider future applications.

**Q41 Stephen Barclay:** Sure, but there's a point you are missing. We had an exchange with Ms Brennan at our last hearing, and I would like to come later to framework agreements for technical support and the consultants brought in to provide technical expertise. Potentially, because you haven't done this modelling, you may be accepting people for early release in areas where it is foreseeable that in the future you will have acute demand. You are then likely to respond to that acute demand by bringing in FATS consultants.

**Ursula Brennan:** May I respond to that? When we did the first round of the voluntary exits, we hadn't got the blueprint out to people, that is true—the blueprint went round in draft at the back end of last year. One thing we did know was that there were areas where we were going to be able to make reductions. As a result, it was worth starting the process and making a movement down that path. For example, we knew that infrastructure and estates was an area we were going to be restructuring. As a result of that, 95% of the people who applied for an exit in the infrastructure area were accepted, whereas only half were accepted in other areas such as equipment and support, where we were less clear about where we were going.

However, when it comes to civilian staff, we divide them into broad groupings of skills sets. The key skills, where we do know we are going to need staff, are around commercial skills, financial skills, and project and programme management skills. It was quite possible to say when people put in their bid for an early exit, "Do you fall into one of those areas? If so, are we willing to let you go?" We were comfortable that, with the scale of the reductions we were planning and the speed we were planning them at, that was a sensible way to proceed.

**Q42 Stephen Barclay:** So you did it in the low-risk areas—is that what you are saying?

**Ursula Brennan:** We targeted keeping people in the high-risk areas. We advertised the scheme across the piece, and then we said that in areas that are high-risk for skills loss, we will not let people go. Or we might say, "You can't go yet; you are doing a piece of work and we need you for another 12 months."

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**Q43 Stephen Barclay:** Would you say that urgent operational requirements is a high-risk area?

**Ursula Brennan:** That would hugely depend on what someone was doing in relation to urgent operational requirements, in that people work on urgent operational requirements in the science arena, in the projects arena, in the finance arena. We wouldn't target reductions at an output in that way.

**Q44 Stephen Barclay:** Okay, let me be more precise. Take something like an airworthiness delegation—that is a delegation from the Secretary of State, isn't it? That would be somebody with an airworthiness delegation in an area of urgent operational requirement. Would that be the sort of person you would see as high risk and, before doing any modelling, you would say, "We need to retain that. This is an urgent operational requirement." Or would they be eligible for early release?

**Ursula Brennan:** Everybody is eligible for early release.

**Q45 Stephen Barclay:** Sure. It is a question of which ones you approve and disapprove.

**Ursula Brennan:** It would depend what the subject was. Airworthiness on urgent operational requirements sounds like it would be likely to be a priority, but it might depend on what particular aircraft they were working on.

**Q46 Stephen Barclay:** I actually wanted to ask about aerial delivery systems. There was an urgent operational requirement set in December 2009 for precision aerial delivery systems that was due to come in in January 2011—so, 13 months later. As I understand it, that has still not come in a further 13 months later, so it has taken twice as long as it should have and is still not in operation. As a result, our troops in Afghanistan are having to go on resupply convoys at great risk of injury because this technology has not been introduced on time. What I would like to ask you today is whether people working around that area have been subject to early release or not.

**Ursula Brennan:** I am afraid I don't know what the precision aerial delivery system—

**Q47 Chair:** Maybe Jonathan would know the detail.

**Jonathan Slater:** No, sorry, I do not have that level of—*[Interruption.]*

**Stephen Barclay:** It's okay; I can explain it when we come back after the Division.

**Q48 Mr Bacon:** Why don't you make a phone call while we are away voting, and then you can have the answers ready for us? *[Laughter.]* I am serious.

**Stephen Barclay:** Troops' lives are at risk on resupplied convoys, so this is not just about pounds, shillings and pence; this is about whether technology has been brought in and whether key staff have been allowed to go, or encouraged to go, in an area that is to do with the resupply of key bases in Afghanistan.

**Chair:** Okay. We will be about five minutes.

4 pm

*Sitting suspended for a Division in the House.*

4. 8 pm

*On resuming—*

**Q49 Chair:** Did you find out?

**Ursula Brennan:** An investigation is being undertaken, but I don't know that we'll be able to get you the answer very speedily. More generally, if you look at the approach that we took in terms of scoring, it is possible that an area would be high profile to the Department, but the individual working in it might not have particularly high skills. It won't necessarily follow that, because an area is high profile and important, an individual in that area might not be released.

**Q50 Stephen Barclay:** Sure, which is why my earlier question, Ms Brennan, was about those with airworthiness delegations. You said that those with airworthiness delegations are experts in their field.

**Ursula Brennan:** Individuals with airworthiness delegations?

**Stephen Barclay:** Yes.

**Ursula Brennan:** A person who has an airworthiness delegation—yes, because they are quite senior people.

**Q51 Stephen Barclay:** My question was about an area that is high risk. I think you accept that an area that is an urgent operational requirement is high risk; otherwise, why would you need to go outside the Department's normal processes to fast-track it? This area is not only high risk, but off track, because it was due to come into force in January 2011. As I understand it, it is still not in force today. I am therefore asking for clarification as to whether, in such an area, as a process, you would have ring-fenced those and taken extra precautions to ensure that senior civilian staff were protected in those areas. You are not able to give that reassurance today. I accept you will give us a note now in terms of people with airworthiness delegation. Could I come on to a further question—

**Ursula Brennan:** Can I just clarify? I do not think I was quite saying that. I think I was saying that there are parts of the Department that are very high profile and may be high risk, but I do not want to get into the business of particular individuals and why a particular individual who makes an application might be allowed to go. It is not necessarily the case that a person in a high-profile area doing a high-profile job will be a person whom we wish to retain. It is possible to conceive of circumstances in which a person is in a high-profile area and for all sorts of reasons you might still say that it is acceptable to allow that person to go. The judgment was made by the individuals who were the line managers in the areas, who looked at, "What's the job that I have to do? What's the skill set that I have got? Who are the people who are best placed to do that?" All I am saying is that it was not a mechanistic approach that said, "Here's a list of areas in the Department. No one with particular skills should be allowed to leave from those areas." It was, "Have these individuals got skills that are important to the Department in general, or skills in that particular business area?" It might be that a person is doing a job, but does not actually have the skills that are



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needed for the future, and you might have let that person go. That is all I was trying to say.

**Q52 Stephen Barclay:** Sure, you're giving the Committee reassurance that you took more care with high-risk areas; I am asking about a high-risk area. Would it not be odd if senior staff in a high-risk area already off track were allowed to go early and then replaced by FATS consultants?

**Ursula Brennan:** It might be the case that we concluded that we did not have the skills in-house and that, therefore, allowing someone to go and buying in a different level of expertise would be the right thing to do.

**Q53 Stephen Barclay:** Sorry, I'm talking about where you had the skills and you let them out the door on an early release, because we already know that your information on civilian skills is poor; it is largely reactive to who comes forward. What I am saying is the assessment you are then making on FATS consultants coming into areas that are urgent operational requirements—I would have thought you would be taking more care over whom you let go.

**Ursula Brennan:** Sorry, what I was trying to say was that it might well have been the judgment of the person who was managing that area that a particular level of skill was better obtained through the FATS consultancy than through an in-house member of staff.

**Q54 Chair:** I am a bit unclear about where we are going, but what you are suggesting is that it could have been a competence judgment.

**Ursula Brennan:** Yes.

**Q55 Mr Bacon:** Which begs the question what they were doing there in the first place. It was striking when you said earlier, "Just because something is a high priority does not mean that we have the right people on it."

**Ursula Brennan:** It doesn't always, no. One of the things that managers do is move people. Things that were not previously a high priority become a high priority. People who were working very well do not always carry on working at the same level of competence. Sometimes you do need to move people around.

**Q56 Stephen Barclay:** What is not clear to me is how you are assessing the costs and benefits, particularly with the delay that is caused in theatre, soldiers having to go on convoys unnecessarily, the cost of aircraft cover for those convoys, and the delays in this being delivered. So that is a cost. There is a cost in lives, a cost in theatre and a cost in letting staff in these areas go, and a cost in terms of consultants then being brought in. How are you, as the accounting officer—not in all areas, but on urgent operational requirements—getting visibility of that?

**Ursula Brennan:** We are talking about a particular type of area—an urgent operational requirement, where there is an urgent need to deliver something for theatre. We have a special reporting regime from, predominantly, Defence Equipment and Support, where the bulk of this work is done. That keeps

visibility on what is happening on those areas, and the local managers, with their senior managers, work out the best way of delivering the results. It may be that the best way is not by employing our own people, but buying in consultancy. The priority in relation to urgent operational requirements is getting those into theatre as swiftly as possible. If the answer to that is, "We're better off buying in some expertise than using our own people," that is a judgment that will be made.

**Q57 Stephen Barclay:** Can we clarify that the note will cover all areas of urgent operational requirements? How many staff working on urgent operational requirements have gone under early release schemes, and how many FATS consultants have been brought in in each of the last three years to work on urgent operational requirements?

**Ursula Brennan:** We will see what we can get you on that score. Staff do not always work exclusively on one subject; therefore, it may not be possible to get you precisely the information you require. We don't categorise our manpower in that way.

**Q58 Stephen Barclay:** You don't know how many staff you have got working on urgent operational requirements? The data are so poor that you don't even know if people are being allowed to go?

**Ursula Brennan:** I am not saying that; I am saying that people work on urgent operational requirements and they sometimes work on other things as well. I am just trying to explain that we will get you the data that get closest to answering the question you have asked me—they may not be in exactly the form you have specified in the question.

**Q59 Chair:** Can I ask a general question before I go to Chris? Are the three of you who have responsibility for this area confident, arising from this sort of exchange, that you are not letting people go whom we urgently need, particularly for current engagements? Are you confident about that?

**Ursula Brennan:** I am confident that we put in place a process by which managers were able to assess locally.

**Chair:** It's a yes or no.

**Ursula Brennan:** Because that is the place—

**Chair:** You have got to take ultimate responsibility. It is all new to us—

**Stephen Barclay:** Lord O'Donnell won't let us hold anyone else accountable.

**Q60 Chair:** Jonathan Slater is the responsible officer for this programme. Are you confident that in letting people go, you haven't let go people who are absolutely essential to our immediate needs in Afghanistan?

**Jonathan Slater:** We have put in place arrangements so that people are required to achieve—

**Chair:** Please answer yes or no. Please, between you, someone answer yes or no. All I am asking is: are you confident?

**Q61 Mr Bacon:** There are three possible answers: yes, you are confident; no, you are not confident; or you don't know whether you are confident or not—it

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could be okay, it might not be okay, but you don't know. Any of those three would be perfectly—

**Ursula Brennan:** What we are trying to explain is that we put in place—

**Q62 Mr Bacon:** I am just trying to explain to Mr Slater the nature of the acceptable answers, if you will let me. Any of those three would be acceptable, because we can understand them. When you start answering questions about putting—

**Ursula Brennan:** You can never guarantee that a mistake will not have been made somewhere in relation to this prioritisation.

**Mr Bacon:** Please can I finish? When you start answering questions that plainly admit of a yes or no answer, to the point where they almost do not admit of anything else, and you do so in a way that says, "We have put in place procedures which," it makes it sound very much like you are trying to pass the blame to someone else.

**Jonathan Slater:** I apologise if that's the impression I've given.

**Q63 Mr Bacon:** That is the impression. It may not be the impression that you are trying to create. All we want to know is whether you are confident or not—whether people have been let go who shouldn't have been. That's all.

**Jonathan Slater:** I suppose what I was trying to say is, I've seen no evidence, in any of the deep dives that we regularly carry out to review progress, that has given me any cause for concern—

**Mr Bacon:** That's reassuring.

**Jonathan Slater:**—that the UORs have been put at risk through the application of the VER scheme, but, as the permanent secretary said, I can't stand in front of you and say that it's impossible to imagine such a scenario having happened. I would be interested if such evidence were brought to my attention, but I've seen nothing of that sort.

**Q64 Mr Bacon:** Ms Brennan—sorry, I interrupted you.

**Ursula Brennan:** All I was saying was that the regime we put in place was designed to say, "If you have a critical skill, we will not let you go." We have panels that were designed to stop that happening. All I am saying is that I cannot guarantee that somewhere, something didn't slip through the net. We have no evidence that it did, but we put in place a process—

**Chair:** I think what Mr Barclay was saying, just to make it absolutely clear, was that it is not one person; it is more than one. You let them go and you substituted with skills from—

**Q65 Stephen Barclay:** From FATS. FATS comes from a different budget, doesn't it? FATS consultants do not come from the admin budget; they come from the equipment budget. As I understand it, by losing someone who has technical ability from the civilian staff and replacing them with a FATS consultant, you take them from a different budget.

**Ursula Brennan:** Yes, that's correct.

**Q66 Stephen Barclay:** So the cost is coming from a different area.

**Ursula Brennan:** Yes, they are different budgets.

**Q67 Stephen Barclay:** So it may be not purely down to technical skills. It may be that the FATS consultant comes in with the same skills, or that some of those who work there at the moment feel they come in with more general skills. It may be that quite a lot of those who are being recruited as FATS consultants are former MOD staff in the first place, so there is a further issue, which is the number of staff coming back into the MOD who are FATS consultants, but are being paid for from a different budget. That is what I am trying to establish through the note.

**Mr Bacon:** How much of that is going on?

**Ursula Brennan:** How much of what?

**Mr Bacon:** Did you hear Mr Barclay's question? How much of it is going on—people who work for the MOD, leave and come back with a new hat on called the FATS consultant? How much of that is going on?

**Ursula Brennan:** I don't know—

**Q68 Mr Bacon:** It's not unknown for the Government of the day to let go of people they can ill afford to lose, and then hire them back either in another guise or sometimes in the same guise in a hurry. It is exactly what happened in the Rural Payments Agency. The programme that Mr Barclay is talking about is running very late.

**Jonathan Slater:** Just to be clear, the first tranche of the voluntary early exit scheme is only just being implemented. People left in December 2011 and the second group are leaving in March 2012. So on the basis of where we have got to so far, you can see why we would not have expected a switch from civil servants into FATS contractors. Again, that is not to say it is impossible to imagine a scenario like that happening, but that is not where we are.

**Q69 Chair:** But would you have asked the question? When you, as lead official on this programme, sign off a whole series of voluntary redundancies, would you ask the question: will this lead to a consultancy expenditure?

**Jonathan Slater:** There are all sorts of controls in place when people take money by way of early retirement—

**Q70 Chair:** No. On the individual. That is a different thing. When you let go of "Mr Jones" would you ask the question: will this lead to a consultancy expenditure?

**Jonathan Slater:** Oh, I see. I apologise. I misunderstood the question. The primary control on the managers concerned is a financial control. So we don't set them headcount reductions separate from—

**Q71 Chair:** It is a different budget.

**Ursula Brennan:** I don't think the question would be asked in quite that way. But the question would be asked: has this person got skills that are critical to the Department? By definition, if letting them go meant you would have to buy them in elsewhere, then you would be saying, "Yes, this person has critical skills."

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And if the skills were critical we would not be planning to let them go.

**Q72 Mr Bacon:** What is the total expenditure on FATS consultants at the moment?

**Jonathan Slater:** In 2010–11 it was about £270 million.

**Q73 Mr Bacon:** £270 million in 2010–11? I have a figure in front of me that says in 2006–07 it was £6 million and in 2009–10 it was £297 million. You are now telling me that for the whole of the financial year 2010–11, it was £270 million?

**Ursula Brennan:** Yes.

**Q74 Mr Bacon:** And how much has been spent since the financial year 2012–13 started?

**Ursula Brennan:** For 2011–12, it is just under £200 million.

**Q75 Mr Bacon:** Mr Slater said £270 million. I thought you said that was for 2011–12.

**Ursula Brennan:** That is for 2010–11. It is important to note, though, that if you try to look at historic figures for this budget, it did not exist earlier. It was lots of separate pots of money, and over a period in the middle years of the 2000s, it was assembled out of pockets of spending. So it started off looking rather small because at that time, there was very little corralled together under the FATS heading.

**Q76 Mr Bacon:** You are saying it is mostly rebadging?

**Ursula Brennan:** In the early years it was rebadged to try to get it under a clearer central control.

**Chair:** Okay. We look forward to the note, hopefully in a week or so, for our usual purposes.

**Q77 Chris Heaton-Harris:** My line of questioning is very similar. It used to be very common in the Ministry of Defence that people who came to the end of their service and had acquired skills and been well trained over a long period were immediately brought back into service after retirement as consultants. Indeed, I have met such people. I hope that in the note you are going to write to the Committee you can confirm that none of the small number you have let out of the gate so far have come back in a consultancy role. That's the bit that's very frustrating for us. If these are not skills you require, then realistically that number should be practically zero. If there is a vast number, that implies that what this Report suggests is that you don't really know what the skills of your civilian force are. That is slightly more worrying for us.

**Ursula Brennan:** Could I just make the point again, though, that most of these people have not left us yet?

**Q78 Chris Heaton-Harris:** Which is why it is a very small number, which is why I hope it will not require too much work.

**Q79 Chair:** But you have accepted over 8,000. It is a bit difficult to pull back on that now.

**Ursula Brennan:** We have accepted them, but what I meant is that they have not yet left the Department.

**Chair:** But you have taken the decision, so we can look at the decisions.

**Q80 Chris Heaton-Harris:** I just wonder how we got to this point. On page 19, you cite protecting key skills, at the bottom, but the top bit, paragraphs 2.13 and 2.14, talks about your lack of awareness of the information about these skills. While we have commented quite a lot on how that affects your decisions going forward, what lessons have you learnt from the past that got us to that particular point?

**Ursula Brennan:** I might make an introductory comment on that. In recent years, we have concentrated on a number of areas where we were concerned about skills, and we invested time, money and effort in targeting recruitment, special training, retention and so on around people with commercial, financial skills, and project and programme management skills. We have seen a growth in the number of people and the quality and experience of those people, in a number of those professional skills areas. We were concentrating our efforts on the civilian side on specific areas where we knew that we had a problem. We did not have broader information about skills as a whole.

The civil service has struggled, frankly, to collect skills information across the piece. It has run schemes in which you self-declared what skills you had, and it turned out in the end that some of that stuff—what language skills people had—was quite easy and useful to collect, but other information about, for instance, people's project management skills turned out not to be tremendously helpful. We ended up in a position where we concentrated on the key areas where we thought we needed skills information.

We recognise that, for the scale of transformation that we are engaged in at the moment, we needed to do more work to improve our skills base. As a result of that, we have been setting work in train, which Jon might want to mention briefly.

**Jon Day:** You are right that, over time or in the past, we neglected this. Decisions on our HR processes were taken during the late '90s and the first part of the last decade, which essentially stripped out the robust HR skills-planning and people-planning process that we had. It was a conscious decision as part of changes in the way that we managed civilian personnel. The old-style Defence Board indentified in 2010 that there was a shortfall in this respect and that we needed to look again at how we did this sort of business. The work was set in hand in 2010. Frankly, it was overtaken by the SDSR and VERS, and was not taken forward at the necessary speed. Late last year, as Second PUS, I directed that each of the top-level budget holders should put in hand, as a matter of priority, work on skills planning and manpower planning to come back to the Department by the end of March. I am confident that that will actually produce a far better process and one that we made a mistake in getting rid of.

**Q81 Chris Heaton-Harris:** A briefing that we received from the NAO in February said that you were

implementing a new approach to managing civilian career and skills development, particularly professional skills, and it sounds like you are starting from ground zero a bit on this.

**Jon Day:** It is not ground zero. When I was a Command Secretary with the Navy, it was extraordinarily difficult to undertake skills planning because the process had been stripped out. It was undertaken on a very, very limited basis. We are now putting back in place a far more comprehensive system across the TLBs, and therefore across the Department.

**Q82 Chris Heaton-Harris:** I struggle with this a bit, because you have always been very good at managing your service.

**Jon Day:** Correct.

**Q83 Chris Heaton-Harris:** And yet, there seems to be complete gaze on one side of the Department and no sight on the other.

**Jon Day:** And it was exactly that point that led the Defence Board to look again at this back in 2010.

**Ursula Brennan:** It is also just worth noting that we invest—the cost of the HR service for the military is much more expensive than the cost of the HR service for civilians.

**Q84 Chris Heaton-Harris:** But equally, you could argue that the value obviously works.

**Ursula Brennan:** Indeed.

**Jon Day:** We have almost made the comparison that the Armed Forces operate a planned economy and we operate a market economy.

**Q85 Ian Swales:** I would like to tease out some of the detail behind figure 3 on page 16. We see from figure 5 a few pages on that there was a large change between April 2010 and July 2011 regarding privatisation that affected more than 1,000 people. Figure 3 shows that between 2011 and 2015—I don't know whether there is any crossover in those figures—more than 1,700 people will transfer to the private sector. On what criteria are you engaging with the private sector? What are you deciding to move to the private sector, and what does that say about value for money?

**Jonathan Slater:** In figure 5, the switch of 800 or so people to the private sector concerns primarily, if not completely, RAF catering, retail and leisure staff, and the RAF made a value-for-money decision about the best way to achieve that objective. The 820 are, as you guessed, half of the 1,700 in the earlier table, as we envisage that a similar number of staff will transfer to the private sector.

**Q86 Chair:** Can I just ask a question? On the 820, how much was saved on the budget? How much was it expected to save? What is the financial saving?

**Jonathan Slater:** I'm afraid I don't have that number to hand.

**Ursula Brennan:** I don't know the particular example of that case, but it would have been a value-for-money judgment. The Investment Approvals Committee in

the Department will have looked at a cheaper way of doing it.

**Q87 Chair:** My suspicion is that you have a headcount target, and you go for that through a privatisation. That is fine, but we are interested in whether that saves the taxpayer money.

**Ursula Brennan:** This was in train before the SDSR.

**Q88 Chair:** It doesn't matter. Does it save the taxpayer money?

**Ursula Brennan:** Sorry, I meant that it was not a headcount-driven proposal. For some years the RAF has been considering the way that it delivers catering, retail and leisure. The three services have been tackling that issue in slightly different ways over a period of about five to 10 years, and they have been looking at doing it differently. This proposal predates the SDSR, I think.

**Q89 Ian Swales:** So are you saying that you do not know whether it was a value-for-money decision, or what the value for money was?

**Jonathan Slater:** No. Of the 28,000 civilians who we are losing between 2010 and 2015, about 22,000 are baked into financial savings that the managers have to achieve. A further 6,000 are not, precisely because some of them will switch across to the private sector. Although there has to be a value-for-money case for doing that—although that has to be more cost-effective than retaining them—it is clearly not a one-for-one saving, and there are about 4,500 civilians who will not be working in trading funds anymore. Again, that is not a financial saving. We identify which civilian reductions have to be associated with savings, and hold the management to account for that.

**Q90 Ian Swales:** Hold on while I add together a couple of these numbers. So you are saying that only another 800 or so jobs will go to the private sector in the next four years. Is that what you are saying?

**Jonathan Slater:** I'm saying that there are specific plans in place—I've already referred to the 800—in respect of Land Forces for a further 700 or so in the training area. The Secretary of State produced a written ministerial statement on 1 March about potentially exploring a number of partnerships with the private sector, but that is not the same as privatisation, which is specifically what these figures are about.

**Q91 Ian Swales:** Okay. What about catering, retail and leisure? If it was a value-for-money decision for the RAF, why would the Navy and the Army not be doing something similar?

**Ursula Brennan:** All three services are looking at this, and they have moved at different speeds regarding whether to keep that work in-house, and how to have it done. I suspect that a long time ago it started being done by the military, and moved to being done by civilians. In a number of areas, it has now moved to being done by contractors.

**Q92 Ian Swales:** You mentioned training. One of our main media sources has been speculating that military

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training is to be put out to the private sector for a massive amount of money. I don't have the figure in my mind, but it ran to an eye-watering amount of money, and obviously premises and property are also associated with that. Can you say something about how we are going to ensure value for money on moving the training sector from where it is now?

**Jonathan Slater:** In respect of headcount, all the reduced headcount, other than the specific areas we have already touched on, has to be accompanied by the same level of financial saving, so it would not be possible for a service to reduce its headcount and not save the money.

**Q93 Ian Swales:** So it is not true that the military is thinking of doing a great big PFI deal to buy training with a huge lump sum, going forward, then? That is what the media are speculating.

**Ursula Brennan:** Decisions about how to deliver a service are not driven by the headcount proposition, because, as Jonathan says, the headcount is simply a reflection of the need for us to deliver our services within a budget. Across the whole of the Department we are looking at what is the best way of delivering the output, the support to the forces, or whatever, and if there were a choice to say this particular service can be best done in the private sector, it would be evaluated as a value-for-money judgment.

**Q94 Ian Swales:** Purely as a value-for-money judgment?

**Ursula Brennan:** Yes.

**Q95 Chair:** Can you show that to us? I am really interested in this. Just going back to Ian, I think you ought to do us a note: did the 820 that went over, accepting that it was done in a previous thing, save us money? If it did, why on earth aren't we doing it in the other two, as Ian said. On this training stuff, can you do us a note on that, to show how that is saving money?

**Ian Swales:** Well, that's a future decision, isn't it?

**Q96 Chair:** Yes, presumably, but how it proposes to save money.

**Jonathan Slater:** It is important to understand that one of the Committees of the Board is the Investment Approvals Committee, which would have to consider a proposition for outsourcing—

**Q97 Chair:** So you can do us a note?

**Jonathan Slater:** At the point at which a proposal did come in the future for training, we can explain the process on what we have done to date.

**Q98 Ian Swales:** And you wouldn't be under any political pressure, or other pressure, to move that training? It would purely be a value-for-money and operational decision.

**Ursula Brennan:** There is no pressure to say things must be done in one place or another place. What there is is a relentless search to say, "What's the output that we're trying to achieve? What's the best way of achieving it?"

**Q99 Ian Swales:** Last question: can you just tell me what trading funds are? I don't understand that. What does that mean—that you are going to lose 4,400 people through trading funds?

**Jonathan Slater:** So a trading fund is part of the Department, which receives income in return for the services it provides. So an example of a trading fund is the Defence Science and Technology Laboratory. Another, more pertinent to this particular subject, is the Met Office, employing 1,800 people—no longer under the ownership of the Ministry of Defence. So we employ now 1,800 fewer civilians than we did before, because we no longer run the Met Office. That was an example of the 5,000 or 6,000 civilian reductions which are not associated with savings; they are just transfers.

**Q100 Ian Swales:** So where has the Met Office gone, then?

**Jonathan Slater:** To the Department for Business, Innovation and Skills.

**Amyas Morse:** We pursued all this, and we deliberately did not look at these things, for these reasons.

**Q101 Ian Swales:** So we understand. So those are not real savings, then?

**Ursula Brennan:** They are neutral. They were never described as savings.

**Q102 Ian Swales:** Finally, there are some figures called "three-month exercise", one of which is 5,000, on military savings. As I understand it, those are required savings, not yet specified. When are you going to specify those, and, indeed, if they are required but not specified, how do we know that they will be value-for-money when you do specify them, if you are working from a headcount figure rather than a financial figure?

**Jonathan Slater:** This takes us back to the Army 2020 announcement in July '11, where, as a consequence of the decision to rebalance Regulars and Reserves, the Government announced a 12,000 further reduction in the size of the Army, 5,000 of which is to be achieved by 2015, and the other 7,000 to be achieved in the second half of the decade. The Army is working on its plans for that at the moment, and it will be announced in due course.

**Q103 Chair:** But they are based on money again, not strategy. You quoted a figure of another 5,000.

**Ursula Brennan:** Perhaps Jon could say a word about the Army saving, from the whole-force concept.

**Jon Day:** You talked earlier about the Reserves being driven by savings rather than strategy. In fact, the whole-force concept, which emerged from the SDSR, is very much a strategy. What it is doing is saying that we need to look at the way in which we deliver capabilities across defence, using a cost-effective mix of Regular servicemen and women, Reserves, civil servants and contractors. That is the strategy. What has happened with the Reserves is that the Reserves study has put flesh on those bones, and said that if we are to go down that route, how are we going to do it? That is driven very much by policy rather than

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savings. It is a conscious decision that we are going to operate on a whole-force basis and change the way in which we use our Reserves in future.

**Q104 Ian Swales:** You raise the question of balance, and we have talked once or twice in the Committee about the surprising number of people involved in things such as procuring certain equipment—helicopters spring to mind. I saw some figures recently when President Obama announced his reductions—for the UK and other countries—which seemed to show that on a macro-level other countries seemed to have more front-line troops and hardware than we do for the proportionate amount of money. How are you ensuring that you have the right balance between MOD staff and all those procurement people and so on, and the real front line and the operational capability? Do you do any benchmarking with other countries to see whether we are in line?

**Jon Day:** We do a lot of benchmarking, and NATO does a lot of benchmarking, and generally we come out with a very strong showing. It is worth making it clear that when you talk about the front line, it involves not simply people in tanks, aeroplanes or ships. For the front line to be effective, you need logistic and other support. You need to be expeditionary. A lot of countries appear to have a very strong front line, but they can't go anywhere. In our terms, they are effective on Salisbury Plain. What we have is a combination of those capabilities: front-line support and then the areas across defence that support those areas, as in DE&S. We are doing everything possible to keep that to the lowest possible proportion, but in general we do well.

**Q105 Chair:** In this new model that you were describing, between Regular and Reserve, does that mean that the Regulars will have a shorter time out of theatre?

**Jon Day:** No.

**Q106 Chair:** It won't impact on that at all.

**Jon Day:** No. You are talking about harmony.

**Q107 Chair:** It does not affect that? Okay.

**Q108 Austin Mitchell:** My question sort of follows on from that. Going back to basics, the ratio of staff—back office, you might say—to front-line forces seems very high. There is one office job for every two Armed Services jobs. Why is it so high? You said that you have done benchmarking, so what is the ratio in, say, the United States or France, or for that matter Australia, or civilised countries?

**Ursula Brennan:** One feature that Jon Day alluded to is that you must work out what you think you mean by "front-line". If you class all the military as front-line the calculation becomes rather confusing. The United Kingdom has gone further than most countries in looking at what jobs do not need to be done by someone in uniform, and getting them done either by an MOD civilian or by a contractor. We do indeed have a high proportion of jobs that are not done by people in uniform, because that is cheaper and more

effective if you don't need someone in uniform to do it.

**Q109 Austin Mitchell:** Yes, but that is saying that we cannot prove anything either way. We don't know. If the health service had that ratio of desk jobs to bed-pan carriers, doctors, nurses or whatever, it would be massacred, as it is being because it has too many administrators. If it had that kind of ratio, it would be closed down.

**Jon Day:** If you look at the military balance produced by the International Institute for Strategic Studies, you will see, for example, that Germany and France each have approximately 30 battle groups—the building block capability for an army. If you look at the UK equivalent, it is between 40 and 50, so we generate significantly more combat power than they do from, in their case, larger armed forces, so—

**Q110 Austin Mitchell:** Larger desk staffs as well?

**Jon Day:** I have not looked at the equivalent, and the IISS does not produce that figure. It is also quite difficult to get other countries to expose their tail, if you like.

**Q111 Austin Mitchell:** To follow up the discussion we have just had on figure 3, which shows that 1,700 jobs will be transferred to the private sector, which is presumably some kind of outsourcing. They are still paid for by the MOD, so it is a numbers saving, not a financial saving. They are still providing services that you pay for.

**Ursula Brennan:** Indeed, which is why they do not count in the headcount against which we are claiming savings. That is exactly it. We have said that if a service is outsourced, because that is thought to be a better value-for-money way of delivering the service, our headcount numbers will go down, but we have not claimed that as a saving in our headcount savings tables.

**Q112 Austin Mitchell:** It is like when I did service with the Navy as part of a parliamentary scheme, and there were some chaps in privatised service to bomb the fleet. They got up at breakfast time, dropped a few bombs on the fleet and went home and had lunch in a good restaurant. This is not any real saving; it is just paying them from another source. Is this like outsourcing in local government and, indeed, the health service, where the outsourcing counts as a job lost to the MOD and a job created in the private sector? Do these now count as new jobs in the private sector?

**Ursula Brennan:** I am afraid that I do not know how the economic labour market statistics are counted, but the important—

**Q113 Austin Mitchell:** It would be interesting to tell us, because it would cast an odd light—

**Ursula Brennan:** It would, but the critical thing is that we do not score it as a saving on our savings count.

Chairman, might I respond to Mr Barclay? We have managed to get some information about the Urgent Operational Requirement that he was concerned

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about. The information I have is that no personnel have actually been lost from this team, and certainly not through redundancy. We did have a contractor. A dedicated contractor has been working to support this team, but the reason why there has been a delay with the programme has not been because of manpower, but because the route for trying to obtain this capability was initially going to be by buying the capability commercially. It was concluded in the end that we would not be able to get it into service quickly enough through the process of trials, and so a different route has been gone down, obtaining it by a different methodology. That is what has delayed it, not manpower.

**Q114 Stephen Barclay:** Just to clarify, my understand on that is that you opted for a British-sourced American one, rather than the ready-made Canadian option. When you say redundancy, can you clarify that no one has left that project team in each of the last three years?

**Ursula Brennan:** I cannot tell you whether—

**Q115 Stephen Barclay:** Again, terminology matters, as you know from the various exchanges that we have had, where one term is used when something very similar applies. It is also an issue that has been raised with me by your own staff in terms of the TriStar and another particular plane—I have it in my notes. The TriStar programme is business-critical in terms of resupply. The point that they were raising is that both of those programmes have FATS consultants working on them, which include ex-MOD staff, and that staff have left those programmes in preceding years. You used the term “redundancy”. Are you saying that staff have not left those programmes in other ways?

**Ursula Brennan:** Staff leave the Department all the time.

**Q116 Stephen Barclay:** I am talking about the early-release scheme.

**Ursula Brennan:** They could not have done on the early-release scheme, because that scheme has only been introduced in the current financial year, which is just finishing. Most of the exits leave on 31 March, so, by definition, if we are talking about things that have happened in recent years, it could not have been through our voluntary exit scheme, because that scheme did not exist.

People do leave the Department for all sorts of reasons. I cannot guarantee that people will not have chosen to leave the team, but they could not, I think, have left, and we certainly have no evidence that they have left—they would have had to have left very early under the voluntary exit scheme. As I say, most of those people have not yet left the Department.

**Stephen Barclay:** Okay. Thank you.

**Q117 Austin Mitchell:** Paragraph 5 on page 6 states: “The Department has not yet determined in detail how it will reduce the Army headcount further by the 5,000 required”. There was alarm that people were going to be brought back from Afghanistan and dumped on the labour market. That was denied, and I think you

undertook that they would not be fired for six months after they got back. Is that correct?

**Ursula Brennan:** There is a commitment about the military redundancies in terms of the amount of time after people return from operational tours, and that stands.

**Q118 Austin Mitchell:** If you have got to find 5,000 more redundancies, is that undertaking likely to be undermined?

**Ursula Brennan:** There are no plans to change that undertaking. The Army are working at the moment on their plans for those further 5,000 reductions, bearing in mind that we are heading towards a period in which our numbers in Afghanistan will start to reduce, in any event.

**Q119 Austin Mitchell:** So you are not going to bring people back from Afghanistan and dump them on the labour market.

**Ursula Brennan:** We have no plans to change the commitment we have made.

**Q120 Austin Mitchell:** Okay. Paragraph 3.21 on page 32 states: “The military currently has 80 pinch-point trades...such as helicopter pilots, and pharmacists.” You have got a redundancy programme on; if people volunteer for redundancy it is likely to be in trades where there is strong demand in the private sector, so how do you know those pinch-point situations will not be made worse by the voluntary redundancy programme?

**Ursula Brennan:** The military do not have a voluntary redundancy programme. In the case of the military, it is part of the terms and conditions of the armed forces that reductions are made by identifying specific places where people will go. In a particular service—let us take the Navy—they say, “A certain rank of person doing a certain type of job—we need this number of people to go.” Some people in that job are invited to volunteer if they wish to go, but if there are not sufficient volunteers, they are made compulsorily redundant. Obviously, we do not target reductions in the pinch-point trade areas.

**Q121 Austin Mitchell:** You don’t target them, but will you allow them?

**Ursula Brennan:** No.

**Austin Mitchell:** Okay, thank you.

**Q122 Mr Bacon:** May I just return to the question of FATS consultants? I hope you will supply this in your note, but just for the avoidance of doubt, can you please make sure when you send the note that you send us: first, a complete list of the expenditure for FATS in each year and how it has grown in each year; secondly, the number of people in each year; and thirdly—you look puzzled.

**Ursula Brennan:** I was not puzzled; I was just wondering—

**Mr Bacon:** I know it is pretty funky wallpaper; I sometimes get puzzled by it too.

**Ursula Brennan:** It is only that because of the way it is done as a consultancy, I am not sure whether we

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sometimes buy a service rather than necessarily individual manpower.

**Q123 Mr Bacon:** That would certainly be a good way of hiding the figures.

**Ursula Brennan:** No; I am just genuinely saying that I am not sure whether in some cases it is always a named number of bodies that we buy.

**Q124 Mr Bacon:** But it would be a named number of pounds, shillings and pence.

**Ursula Brennan:** There will certainly be a named number of pounds, shillings and pence, and we will get you such information as we have.

**Q125 Mr Bacon:** That brings me on to my next question. There presumably will be cases where it has been a named body with a named price tag attached. Are those people paid on a day rate, or what?

**Jonathan Slater:** Can we distinguish between FATS technical support, where the purpose of the framework is to specify pre-agreed rates that will be used for any of those contractors—not to employ an individual person, as the permanent under-secretary says, but to deliver a service, and absolutely we can provide the financial data you seek on that—and consultancy, on the other hand, where one is employing an individual person to do a specific task? Again, we could provide you with data, if we have not done so already, on the extent to which that has fallen over the past three years.

**Q126 Mr Bacon:** And what would the rates be? What would they vary from-to?

**Ursula Brennan:** The day rates on FATS?

**Mr Bacon:** Yes.

**Ursula Brennan:** I imagine that they vary according to the nature of the specialist skill.

**Q127 Mr Bacon:** I would imagine that they do. I am just asking you what they are.

**Ursula Brennan:** I do not know that off hand.

**Q128 Mr Bacon:** Do you, Mr Slater?

**Jonathan Slater:** I don't, no.

**Q129 Mr Bacon:** Do you have any idea? Are we talking about £50 a day as opposed to £60 a day? Are we talking about £500 a day as opposed to £600 a day? Or are we talking about £5,000 as opposed to £6,000, so you have saved £1,000? What are we talking about here?

**Jonathan Slater:** The technical support that we are talking about—engineering support and independent assessments of safety—are going to be expensive day rates. They are not going to be £50 a day. Apologies if I should have had that. I do not have with me today the day rates of the engineering and air-worthiness contracts, but, of course, we will provide them to you.

**Q130 Mr Bacon:** The other thing I wanted to get in the note is how many of these people we are talking about have been MOD staff beforehand. How many have disappeared from the MOD and then reappeared

as FATS consultants at any point? Can you find out that information?

**Ursula Brennan:** We may or may not have that information.

**Q131 Mr Bacon:** You may not have it? It may not be available?

**Ursula Brennan:** I don't know whether that information is collected.

**Q132 Mr Bacon:** You wouldn't know?

**Ursula Brennan:** I'm just saying that I don't know whether we do collect that information.

**Q133 Mr Bacon:** Wouldn't it be quite interesting to know, for you, for management purposes? If it turns out you are getting rid of people and then hiring them back at greater cost on what Mr Slater describes as "high day rates", it is information you ought to have at your fingertips.

**Jonathan Slater:** It would be important to distinguish here, wouldn't it, between people we have paid to leave, who won't be FATS technical support contractors, because they have only just gone, and people who choose voluntarily to leave the Department and subsequently take another job, over which clearly we have less control. Nevertheless, the business appointment rules specify the controls that have to be applied if people take jobs after having left.

**Q134 Mr Bacon:** I don't care how it is badged. I would basically like to know how many people have left the public service, paid for by the taxpayer, and then come back employed by somebody else but doing work for the MOD.

I have a final question before I hand over to Mr Barclay. If I have been to RAF Marham—as I have—and seen technicians working on Tornado aircraft, preparing them for flight, and they are employed as far as I can see by BAE Systems or Thales, do they count as part of this framework? They are obviously not employed by the Ministry Of Defence.

**Ursula Brennan:** That's not the FATS contract.

**Q135 Mr Bacon:** That's completely separate.

**Ursula Brennan:** There is a contract for support to the Tornado, which is a support contract paid for quite separately.

**Q136 Stephen Barclay:** Mr Slater, you keep referring back to those who have gone very recently on the scheme in December. What I was trying to drive at earlier was those who have gone over recent years. It is unclear to me: if we take the Hercules and TriStar project team, do you keep a record for each of the past five years, for example, of how many people from that team have left and how many are now working back? First, how many people have left; secondly, how many FATS consultants are now working for the Hercules and transport project team who previously worked for the MOD in some capacity? Do you keep a record of that?

**Ursula Brennan:** I doubt if we have that information.

**Jonathan Slater:** As to the future, is it the careers of people who voluntarily left the Department?



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**Q137 Stephen Barclay:** No, those who have left under some sort of early release scheme, early retirement scheme.

**Ursula Brennan:** We haven't had an early release scheme until now.

**Q138 Chair:** It is interesting hearing this conversation, which for some of us is as new as it is to you, Ms Brennan. Both Chris Heaton-Harris and Stephen Barclay appear to have information to suggest that this is more than an occasional practice. Wouldn't it be important for the Department to try to undertake some sort of study to look at this? It is clearly dreadful value for the taxpayer. That is really where we are coming from on this. We ought to know, at the very least, whether it is occurring.

**Ursula Brennan:** Where we were trying to get to is that in the last financial year, we started down a track of having a voluntary early release scheme, in which people were able to apply and then we assessed them. Prior to that, people left the Department because they retired or they chose to leave, and we did not capture information about what they did next. When we came to doing the voluntary early release scheme, we had much more control about people's departure, so we were able to say, "Have you got skills that we still need in the Department?" That was the route by which we controlled it, by saying, "If you have skills that we still need, sadly we cannot let you go under this voluntary early release scheme." The voluntary scheme has enabled us to get more information about people's skills and whether they were needed in the Department than we would have had in the past from people who happened to have pushed on.

**Chair:** But you don't know where they have gone. The assertion is that a number of people, I assume, have left, gone over. They earn more, we pay more, but it is the same skills.

**Chris Heaton-Harris:** But you might be able to argue that in certain cases you get better value for money from them, because they come with management and other skills behind them. To me it seems an important piece of information that seems to be lacking. It comes through from the report and the answers you have been giving that we don't know. I know you are doing this piece of work to make sure you know for the future, but it is a great shame that we did not have this in the past.

**Chair:** But they don't know for the future. They know who is leaving; they do not know where they are going.

**Mr Bacon:** I am quite surprised you do not have it, because I would have thought it would be deeply interesting for the MOD. The suggestion is that you are now spending several hundred millions each year on getting work done by people from outside, the majority of which was previously done by the MOD. We do not know, and you cannot tell us, how many of those people were previously doing the same or similar jobs from within the MOD. We are expected to believe that this is producing better value for money without evidence. That does not compute.

**Q139 Chair:** It is quite a quick exercise: just ask your FATS contractors how many ex-MOD people they have.

**Ursula Brennan:** Just to clarify, our approach to buying in that technical support has always existed. It was not called FATS in the past; it was called different names in different places. There were different schemes. We have always had an approach that says that there are certain sorts of very high—

**Q140 Mr Bacon:** In 2006, it was £6 million, and now it is £200 million or £300 million.

**Ursula Brennan:** In 2006, it was £6 million for the scheme that was starting to be called FATS. There was also expenditure under other headings that were not corralled centrally. We have always, across the whole MOD, had highly specialised areas where we have bought in highly specialised expertise. A conclusion was made some time in the mid-2000s that, rather than allow that to happen in all sorts of places across the Department, it would be better gradually to bring all that information together and call it FATS. Over a period of years, those different budgets were all brought together under a single heading called FATS.

**Q141 Chair:** We all understand that. What would be interesting to know—do you accept this, and will you go away and try to find it out?—is how many people in your FATS contractors, who come in and do work, are ex-MOD.

**Ursula Brennan:** To the extent that we are able to find that out, we will seek to do so.

**Q142 Mr Bacon:** Surely you could find out by asking the contractors. They must know. They must have the CVs of the people they employ. The fact that you find that difficult suggests already that you may not be able to get us that information, which is not very good news.

**Ursula Brennan:** I am simply saying that FATS contractors do not stay with us for decades. At a point in time we can tell you by asking whether any of the people we currently employ under FATS contracts are ex-MOD, but you are asking a rather larger question. I cannot guarantee that I am able to give you an answer.

**Q143 Mr Bacon:** I am not talking about the last few decades. I am talking about the last five or six years since 2006.

**Ursula Brennan:** I am just saying that, going further back, we may not be able to obtain that information.

**Mr Bacon:** They probably have it. They want more work from you, so they would probably co-operate if you asked them.

**Q144 Nick Smith:** I want to pick up on something that Mr Day touched on, which is the role of Territorials in the Army. The SDSR set ambitious plans for future Territorial engagement in the Army. That was a while ago. Having picked up some of the lessons on the workforce covered in the paper today, particularly on the pinch points for some staff, how confident are you that your very ambitious plans for greater Territorial engagement in the Army will work?

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**Jon Day:** The Army is embedding the TA's role in its future structure. Given the progress of that, I am pretty confident that the aspiration is compatible with the resources available. The critical issue, frankly, will be recruiting and whether we can recruit the right people in sufficient numbers to fill the tasks.

**Q145 Nick Smith:** What are you doing to ensure good, successful recruitment?

**Jon Day:** We are investing a significant amount of extra money in TA recruitment, but a lot will come from word of mouth, if you like, and networking.

**Q146 Nick Smith:** So you think that people who retire or leave the Army will come back as members of the TA, as has typically happened in the past?

**Jon Day:** Part of the process is to make better use of people who leave the services.

**Q147 Nick Smith:** What are you doing to ensure that their new employers will release them for TA work?

**Jon Day:** There is a move to re-energise the relationship with employers to ensure that that happens.

**Ursula Brennan:** The vice-chief of the defence staff is leading work with a body of major employers on precisely that point.

**Q148 Nick Smith:** Given the paper talks about pinch points in some roles, do you think you will have the same difficulties with those roles in the Army as in the civilian side?

**Jon Day:** Not necessarily. With medical staff, for example—

**Q149 Nick Smith:** We have a shortage of consultants for A and E, for instance, in Gwent. It would not surprise me if you had the same difficulty in the Army.

**Jon Day:** That's true, except that the Army can look over a much wider area than Gwent, and there is a particular type of person who is encouraged—enthusied—by the TA.

**Q150 Nick Smith:** So you are confident that you can fill this gap in the time scale ahead.

**Jon Day:** The Army is confident, so I am confident.

**Q151 Meg Hillier:** On the point about Reservists, can I check for what length of time someone now remains a Reservist when they leave the forces?

**Jon Day:** I think it is three years, but I will have to come back to you.

**Q152 Meg Hillier:** We are going to have a lot of Reservists three years from now, but then there will be a challenge. Is that your time scale?

**Jon Day:** There are a number of ways in which you can join the Reserves. One of them is—

**Q153 Meg Hillier:** Isn't it automatic?

**Jon Day:** It is automatic when you leave the Regular forces. You go on to what I think they call the Regular Reserve. But then there are people who join from civilian life, and there are some people who have left the military and then come back into it.

**Q154 Meg Hillier:** What I am saying is that with the level of redundancies in train, there will be quite a lot of people with the Reservists for that three-year period, which gives you a window—

**Jon Day:** But there is a throughput of people anyway, because of the nature of the services. There is a continual outflow of people who would come under the Regular Reserve category, but we will write to you to confirm the length of time.

**Q155 Meg Hillier:** In terms of your attempt to get more employers on board, to get more Reservists recruited, does this give you a window of opportunity?

**Jon Day:** It does.

**Q156 Meg Hillier:** So your time scale is planned around—

**Jon Day:** It won't work just within a three-year period. This is the work of a decade.

**Q157 Meg Hillier:** My other points were about the FATS. Do you have these people identified separately when they are working in the Department? Do they have different name badges? Do they have different e-mail addresses? Some of them will be embedded, no doubt, in the Ministry. If I walked in and spoke to, say, Jonathan Slater, would I know whether he was an employee of the MOD or a FATS contractor?

**Ursula Brennan:** I'm not sure, in relation to his badge. It is possible that some of the badges are different in that respect, but you would not—

**Q158 Meg Hillier:** It sounds a silly point, but it reminds people whom they are talking to and whom they are paying for something.

**Jonathan Slater:** Different people in the Ministry of Defence have—I'm sorry; I'm not wearing mine—different badges, depending on their role and depending on which building they work in, so it will depend on the circumstances in a particular division.

**Q159 Meg Hillier:** So you don't think the answer is no.

**Ursula Brennan:** They do have different-coloured passes. That includes identifying people who are contractors and identifying whether or not they have security clearance.

**Q160 Meg Hillier:** So you, as permanent secretary, would know, if someone came in to talk to you, to brief you on something, that they were a contractor, just by looking at their badge.

**Ursula Brennan:** Yes. Those badges I would recognise, I think, yes.

**Q161 Mr Bacon:** And whether they were security cleared.

**Ursula Brennan:** Indeed.

**Q162 Meg Hillier:** We hope that that minimum would happen. I just think that it's a way of identifying people. The paymaster for that individual will know whom they are dealing with if they become regular—more regular than they should, perhaps.

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The other key issue in relation to using consultants across Government is knowledge transfer. You deliberately use FATS contractors because they have specialist knowledge, but there must be times when that specialist knowledge needs to cascade through the team with whom they are working. How do you ensure that you capture that knowledge and are not just writing a very big cheque, in an ongoing way, to some of these organisations that are providing you with the technical skills?

**Ursula Brennan:** In relation to consultancy—this is true across Government as a whole—when you get approval to hire someone on a consultancy contract, part of the approval says what the basis for the knowledge transfer will be at the end. In the case of FATS, quite often it is deliberately meant to be short scale—“For a period of time, we need you to do this specific job.” If the requirement is for something ongoing, where there will need to be knowledge transfer, the team who do the FATS approvals go back to the team and say, “Are you sure that FATS is the right solution?” That is the position if it is an ongoing requirement that they have.

**Q163 Meg Hillier:** In terms of the accountability of these people, some of them come in for a short time. Clearly, you have some contractual arrangement with them, but contracts involving Government and the MOD have not always run smoothly. What accountability is there if something goes wrong as a result of that short bit of work? These people are in and then they are out. Where does the buck stop? I suppose it stops with you ultimately, but where does the buck stop in the meantime?

**Ursula Brennan:** We have standard terms and conditions that we write into contracts for people who are doing business with the Ministry of Defence, which include clauses related to failure on delivery. We have standard arrangements. It depends on what sort of thing has gone wrong.

**Q164 Meg Hillier:** They have a liability clause if something happens. Have you ever had to invoke that? I don't know whether you have an example that you can give off the top of your head, or perhaps you could write to us.

**Ursula Brennan:** There are instances where the Department has, in its contracts with suppliers, some issues. The Department goes back to the supplier and says, “This hasn't been done correctly and we require you under the terms of the contract to do it again.” I am not aware of any particular instances of an individual under a FATS contract whose work was not of the right quality. But the person who has commissioned the work and is accepting the work would be expected to say, “This is not what we needed. This is not of the right quality.”

**Q165 Meg Hillier:** Generally overall, we have you before the Public Accounts Committee quite a lot. We recognise that there are quite a lot challenges in the MOD. Over the years, there has been quite a lot of struggle to change the way in which the MOD works. You are going through a huge change now. Are you confident that this time, it will be different and

permanent and that it will change the way the MOD works in many respects, particularly on procurement?

**Ursula Brennan:** There are good reasons for believing that we are making a serious change in the Department at the moment. I would attribute that to the fact that the people at the top of the Department are committed to changing the way that we are working. People have criticised us in the past for there not being that collective, agreed approach to the way we want to work differently. We have talked a fair bit today about the Army and the reductions in its size. There were times in the past when that might have been done by someone sitting in the centre, saying, “This is how you, the Army, must see this reduction.” The change that we are getting now is that we have agreed on how we are going to deliver the strategy that we must deliver and it is the Army that is working out how it is going to make that change happen. That is evidence of a turnaround, and senior people who are running the large blocks of the Ministry of Defence recognise that we have all worked out where we are going to go, and they own helping us get there. They are not waiting for someone in head office to say, “You tell us how to make that change.”

**Q166 Meg Hillier:** Are you confident, Ms Brennan, that in five years' time you will be sitting here telling us how well it has gone and that there will not be some of the troubles that we have considered in recent years?

**Ursula Brennan:** I am sure that whoever is sitting here in five years' time, if it is still me, will be talking about all sorts of things.

**Chair:** We may call you back, Ms Brennan.

**Ursula Brennan:** Indeed. I am sure that over a period of five years, lots of things will look very different. If we look back five years, all sorts of things have happened. Libya happened for us last year, which people were not expecting when they made their plans. I do think that when we come to see what the Department looks like in five years' time, it will be very different indeed. The path that we are set on in relation to the MOD will have it looking very different in five years' time.

**Q167 Austin Mitchell:** It will be interesting to know how it will feel in five years' time. What is the effect of all of this on morale? I have never heard so much grumbling from top brass about how we could not do this or that any more, or we could not invade that country or whatever. From what one sees on blogs and on other such things, morale looks to be at a very low ebb. It must be devastating facing cuts on this scale in a service that has done so well up to now.

**Ursula Brennan:** The grumbling from top brass outside the Department makes it very difficult for the top brass inside the Department to get their people focused on what we are seeking to do. One of the things that we are trying to do is to get people to talk about the things that we are doing rather than endlessly talk about the things that we might have been doing or that we used to do some years ago that we are now doing differently. I do recognise that there is a problem of morale in the civil service and the military. People feel battered and bruised and they feel

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under a lot of pressure to deliver. But if you look around the country at the moment, there are a lot of people who feel under pressure. The economy is putting all of us under pressure. We have a particular set of pressures in the MOD. There are pressures on people in the National Health Service and elsewhere as well.

**Q168 Austin Mitchell:** Yes, but is morale in the ranks at a low ebb?

**Ursula Brennan:** Morale is not in a good place. We recognise that. We know that our staff are concerned about how we are going to be able to deliver and what we are going to be able to deliver and that is why we have been working to try and get them the framework for how we are going to operate in future, and the business plans that say, "This is what we're going to do", because we believe that, by being really clear about the resource and what we are going to do with it, that is the way that we will get people to start concentrating on the stuff we are doing, rather than listening to the siren voices of the people who used to be here some years ago, saying, "It wasn't like that in my day."

**Q169 Chair:** I have to say to you, morale was one of the issues that I was going to pick up on. I hear you are accepting of it, but the stats are pretty depressing. Prospect, the union, says 9% of staff said change in MOD was for the better, 7% said they feel more optimistic. If you then look at the report, page 29, para 3.10, 78% of the military did not think you handle change well and 88% of civilian staff did not think you handled change well, and you did have 13,500 applications for redundancy at a time when the economy is in a terrible state and people will find it much more difficult to find a job elsewhere. All that gives a gloomy picture about morale.

I hear what you say about ex-generals making statements in the press, but I do not think, really, you can put the blame at their door.

**Ursula Brennan:** No, indeed. The comments about managing change we have taken to heart, and is the reason why Jonathan Slater is the SRO for the transformation programme, with an overview of the entire portfolio of change and why we have been engaging with all the people who are engaged in change in the Department, to try and give them a clear picture of what we are trying to do. We are really conscious that we need to be able to say to people, "This is what we're doing. This is how we're doing it. This is how you and your people are engaged in it." So we recognise that we have to convince staff that we do know what we are doing in terms of managing change.

**Q170 Chair:** So when is your next staff survey?

**Ursula Brennan:** The next staff survey for civilians will be conducted in the autumn, I think, again. They happen in autumn each year. The armed forces have a continuous attitude survey, which runs on a different set of time lines. But we know that we have to get staff—

**Q171 Chair:** Is the armed forces one showing any change in direction?

**Ursula Brennan:** I think you were quoting the figures from the—

**Q172 Chair:** I think I was quoting Prospect in one and the other one, page 29, para 3.10. I do not know where that comes from, but that was the 78% of military did not think you handled change well. I do not know when that was—

**Ursula Brennan:** For both military and civilians, the view about handling change is a source of concern and we know that. We have to change that around and it is our plan to change that around by the work that we are doing about communicating to staff about the change programme that we are engaged in at present.

**Q173 Chair:** And when would you hope to see an improvement?

**Ursula Brennan:** I hope that we will see an improvement, certainly in terms of the civilian one, by the survey that is done in the autumn this year, because by the time we come round to that survey in the autumn, people will have a clear blueprint of how they are organised and will have a clear programme of the changes that we are undertaking. We will have engaged in a large-scale communication effort that we are going to be doing in relation to this change programme. We have already started doing some work; Jonathan and Jon Day have been engaged in a certain amount of communication. But we are ramping this up from next month into a much more major programme of communication, and I hope that that will help us to get a better result.

**Q174 Chair:** One final question on this and then one question on a related issue.

On figure 2 on page 13, given that this whole cuts in personnel is driven by cuts in finance—on the whole strategy arising out of it—obviously, every time you get rid of somebody it costs. So your net savings are much less. So from the 4.1 that you want from gross, you are down to 3.2 net, according to figure 2. Does that mean you are getting rid of more people to get the cash saving you need?

**Ursula Brennan:** That is simply a factor of—when you reduce your head count by exit schemes and you pay people to leave, you have a cost in the—

**Q175 Chair:** I understand that, but if you are being driven by trying to find financial savings to stay within budget—to get to those financial savings, given that you have to pay redundancy and additional pension contributions or whatever—is that putting up the number by which you are reducing?

**Ursula Brennan:** We calculated it on that net basis.

**Q176 Chair:** But is it higher than it would otherwise have been if you had not faced those additional costs of redundancy and additional years of pension?

**Jonathan Slater:** At the point at which we were assessing how to live within our means, in light of the strategic objectives set, we identified that we would need to reduce the number of civilians by 28,000, as

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set out here, some of whom would leave without financial payment—natural wastage.

**Q177 Chair:** I understand all that. I just want to know whether this pushed the figure up.

**Jonathan Slater:** If everybody had agreed to leave for nothing, we would have needed to have fewer people going. We had to factor in the cost of voluntary early exits in achieving these numbers.

**Ursula Brennan:** Obviously, if everyone went for free, you would not need—

**Q178 Chair:** So would you have got rid of fewer people?

**Ursula Brennan:** When you have a redundancy or an exit scheme, you make a judgment that says, “It is worth paying a certain amount in order to reduce your costs in the year and going forward.” We did the calculation on that basis.

**Q179 Chair:** But you were driven by a need to find financial savings. I have not got a clear answer. The figure here is £4.1 billion over the spending review period. To find that £4.1 billion—

**Jonathan Slater:** We had to spend £0.9 billion. That is exactly right, Chair. Some of the people going, we paid them to go. Others leave of their own volition.

**Q180 Chair:** So because you have had to pay for some, that makes it more difficult for you to come in within budget for the CSR purpose.

**Jonathan Slater:** We were able to estimate what the cost of the voluntary early exit scheme would be in putting together the CSR settlement, so the £0.9 billion did not come as a surprise after the event. But certainly, Chair, it was a number we took into account as we put the CSR settlement together with the Treasury.

**Q181 Chair:** So I am taking that to mean that you have actually had to reduce your total cohort by more than otherwise, because of the costs of redundancy.

**Ursula Brennan:** I do not think that that is correct. The counterfactual is: would that number of people have left of their own accord? No, so we would not have got there without a voluntary exit scheme.

**Q182 Chair:** But instead of getting rid of 54, you might have got rid of 50.

**Ursula Brennan:** We took a judgment that said, “How many people will go of their own accord, because they have reached a certain age or whatever?” Then we said, “How many more, therefore, do we need to leave via the exit scheme, and what will it cost us to do that?” That was how we made the calculation.

**Q183 Chair:** I do not think I am being obtuse. All I want to know is, if this is driven by money—which, in a large part, it is—to get to your money saving, you have to get rid of more people. For every £100 you pay out, it costs you £30 or £10 or whatever the ratio is. Every person you get rid of also costs you. Has that meant that you are making your total force smaller than it would otherwise have been?

**Ursula Brennan:** No, we are not making our force smaller than it otherwise would have been. We have done a calculation about when the costs will be incurred and we have profiled our resources accordingly. It was clear we would not have made the reductions on this scale if we had not profiled it in that way. We are not simply reducing the head count to save money. The SDSR did set out a different strategy and we responded to that. The strategy has to be affordable, but we have not simply said, “We need to make some money; let’s make cuts in personnel.” We are making cuts in personnel in line with an agreed strategy.

**Q184 Stephen Barclay:** What is the difference in the average cost of exiting for a civilian member compared with a military member?

**Ursula Brennan:** I am not sure. We could probably calculate that, but I am not sure how much it would tell you, because the grades and ranks of the people who are leaving are all very different across the piece.

**Martin Sinclair:** In doing the Department’s calculations, the weighted average used in budgeting was £54,000 for a military departure and £36,000 for a civilian departure.

**Q185 Chair:** We know that. It is the average cost. Oh, £54,000. Oh, I see. It is the same figure as the number going. Can I ask you a final question? I understand that you have taken a decision on the aircraft carriers to drop the cats and traps.

**Ursula Brennan:** The Secretary of State is the person who makes decisions on these matters and he will be announcing any decisions that he makes on that subject.

**Q186 Mr Bacon:** Do you know when? Are we expecting an announcement on this?

**Chair:** It has been in the press. That is why we have picked it up.

**Ursula Brennan:** We have said that we are reviewing our entire budget and our capability in order to settle the planning round.

**Chair:** Ms Brennan, we like to feel vindicated. We told you it would cost more and now, according to the press reports, the modification has spiralled out of control to between £1.9 billion and £2 billion.

**Q187 Ian Swales:** Does that mean we will not be able to use the aircraft carriers for aircraft?

**Nick Smith:** It will be different aircraft.

**Mr Bacon:** Will there be a statement on this Mrs Brennan?

**Amyas Morse:** I think you will find that it means that you need to use aircraft with vertical take-off capability or helicopters.

**Stephen Barclay:** We just sold all those.

**Ursula Brennan:** I am sure the Committee will look at this matter again.

**Q188 Chair:** Can we have a date?

**Ursula Brennan:** I can’t give you a date, I am afraid.

**Q189 Mr Bacon:** It is right that we have just sold the Harriers to the American marines, isn’t it?

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**Ursula Brennan:** We have sold the Harriers, yes.

**Q190 Nick Smith:** How much did you get for them?

**Ursula Brennan:** That I can't tell you offhand.

**Mr Bacon:** It wasn't very much. I just remember an American marine being quoted as saying, "This is marvellous. It is like getting lots of nearly new cars with hardly any mileage on the clock."

**Q191 Ian Swales:** How much have we spent on the cats and traps project to date? Do you know that?

**Ursula Brennan:** I am sure the Committee will have an opportunity to explore this issue at length in the future. But I cannot answer questions on that today.

**Chair:** It sounds to me like it's true.

**Mr Bacon:** I have one more question about the report. It talks about the capability review and how that identified that the Department needed to do more to make leadership a successful component of its behavioural change. One presumes that this is why Mr Slater has been brought on board. It talks about a

number of initiatives which have been launched to improve leadership. You have been in the office of Permanent Secretary for how long now?

**Ursula Brennan:** Just under 18 months.

**Q192 Mr Bacon:** What leadership training have you undertaken?

**Ursula Brennan:** That is a good question. I have participated in the leadership seminars that we have been running with our staff. I am not sure whether it is listed in here in the leadership section. One of the things that we have been doing is running a programme called "Engaging Leaders", which is about developing leadership for our staff. I have been participating in those seminars.

**Q193 Mr Bacon:** How many of them have you attended?

**Ursula Brennan:** More than half a dozen. I go quite regularly.

**Chair:** Thank you very much indeed.

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#### Written evidence from the Ministry of Defence

Thank you for your letter of 20 March containing a copy of the uncorrected transcript of oral evidence from the PAC hearing on "Managing Change in the Defence Workforce", held on 29 March 2012. I apologise for the delay in responding to the Committee, but I wanted to ensure I provided as much supplementary material as possible within the short timeframe.

I enclose a version of the transcript with corrections shown as tracked changes. I would be grateful if you would arrange for the corrected version of the transcript to be posted on the PAC website.

I also enclose a note providing the supplementary material which we undertook to provide at the Hearing.

I am copying this to the Comptroller and Auditor General and the Treasury Officer of Accounts.

#### RESPONSE TO FOLLOW UP QUESTIONS: PAC HEARING 19 MARCH 2012

##### Question 21—*Information on the Defence Estates Strategy*

Following the outcomes of the Strategic Defence and Security Review (SDSR) and the Basing announcement, the MOD is conducting detailed planning work to establish the level of investment required in the MOD estate. A Footprint Strategy is being developed in parallel, which seeks to identify the most cost effective approach to Future Force 2020 basing; to ensure optimum utilisation of the estate and achieve a strategic asset footprint of the right size, quality and location, to support Departmental requirements.

The overriding aim is to deliver an estate which is driven by requirements and is fit for purpose. It must be optimised to deliver the requisite infrastructure component of the Department, in the most cost effective, sustainable, and affordable manner.

The Footprint Strategy will take a wider view and will focus on identifying the costs of the laydown of Future Force 2020, based on SDSR outcomes, modified by subsequent studies, particularly Army 2020 and the integrated Reserve estate requirement. The Footprint Strategy will be underpinned by data-based evidence to show the respective costs and benefits of differing approaches. The options will consider the balance of short-term affordability and innovative funding approaches against the aim of maximising long-term value for money.

The Footprint Strategy will also consider other factors which will have a bearing on laydown, including the potential implications of any major MOD policy initiatives such as the New Employment Model.

The initial outcomes of the Footprint Strategy are not expected before Autumn 2012. The detailed work on how to implement any early recommendations would begin thereafter.

The conclusions of both the Future Reserves 2020 (FR20) and 2009 Strategic Review of Reserves (SRR), was that the Volunteer Estate (VE) is too large and under-utilised. Their recommendations included the suggestion that VE should be strategically managed and rationalised.

The SDSR and FR20 both considered the future requirement for Reserves. However, once we have greater clarity on the requirement for the future TA (the largest occupier of the Reserve estate), which will emerge following completion of the Army 2020 study, the MOD will begin the production of a tri-service, national, prioritised programme of VE optimisation.

The MOD already has a number of Reserve units located specifically to support recruitment and retention of personnel with essential niche skills; for example, Field Hospitals close to major NHS hospitals. We are also keen to take advantage of early estate optimisation opportunities and are therefore pushing forward with a number of projects which can be progressed without unacceptably restricting future options.

For Cadets, we are clear that nothing will be done which unacceptably affects our ability to meet the cadet syllabus and provide the overall experience from which so many young people benefit. That said, the need to maximise value for money exists as this applies as much to Cadets as it does to our Reserves.

It is worth noting that in the last four years estate disposals have produced an average of some £75 million per year in receipts. Recognising the opportunity presented by the SDSR with reducing military and civilian numbers, the receipt target for the Comprehensive Spending Review period is around double that of recent years.

*Question 51—All personnel with an airworthiness delegation that have departed on early release in the past three years*

During the last three years five people holding Letters of Airworthiness Authority have left the Department through the Voluntary Early Release Scheme or through the Armed Forces Redundancy Programme. Letters of Airworthiness Authority exist at different levels, reflecting the degree of responsibility held by the individual. All of the departures took place during 2011.

Of these two were civil servants and three were military. In the case of the military, there is no voluntary early release scheme, but through the Armed Forces Redundancy Programme, Service personnel can volunteer to be considered for release prior to their normal terms of service. In all cases, discussions on release take account of factors which include their level of specialist skills and our ability to replace lost skills.

I have looked at the procedures followed in agreeing to the release of the two civilians under Voluntary Early Release and the three Service personnel under the Armed Forces Redundancy Programme and am content that in these cases the Departmental guidance was followed and there were appropriate reasons for release. I am unable provide any further detail as it would not be appropriate to comment on individual cases for release.

Only Crown Servants are permitted to hold Letters of Airworthiness Authority and therefore no FATS contractors were engaged to cover the vacancies created by these departures.

FATS is used in the provision of Independent Safety Auditors. MOD safety policy requires the engagement of an ISA to provide independent advice on the adequacy of safety management arrangements and audit of safety related material. This ensures that projects are developed in accordance with stringent safety requirements.

#### FRAMEWORK AGREEMENT FOR TECHNICAL SUPPORT

*Question 57—All UOR personnel who had left the department under Early Release schemes and how many FATS “consultants” have been brought in, in each of the last three years to work on UORS*

*Questions 67, 130 and 141—How many personnel had left the department under Early Release schemes and then subsequently come back to work in the department as FATS “consultants”*

*Questions 72–76 and 122—The total expenditure on FATS from 2009–10 until present day*

The “Framework Agreement for Technical Support” (FATS) is a procurement route for specialist defined technical services in support of the Defence Programme. The definition of “Technical Support”, for which FATS was set up, is “*the provision of applied technical knowledge*”. This covers three main areas:

- research based activity including studies (eg into materials or technologies), prototyping and technical demonstrators;
- project lifecycle activities including concept, development, independent safety and in-service support activities; and
- engineering activities including post design services, calibration, analysis, testing and integration.

FATS gives project teams access to nearly 400 suppliers, on standard terms and conditions and pre-agreed rates, across a range of technical capabilities. Exemptions are only given to procure technical support outside of FATS if it cannot provide the capability sought.

The budgets for such technical services spend are approved as part of equipment and other programmes’ overall cost budgets at the outset, by Ministers where the programme value requires it.

FATS is not used to procure general strategic and management consultancy and because it is used only for the provision of technical skills not available in-house, it cannot be used to fill vacancies that have arisen in the MOD civilian workforce.

#### Personnel working on UORs leaving under VERS and FATS employees assigned to UORs

The Committee requested a summary of the numbers of FATS employees working on Urgent Operational Requirements. This information is not readily available. We estimate that it may take between two and three weeks to gather the necessary information to provide a sufficient answer, and it is likely that not all near-400 FATS companies will be able to supply the required information in this timeframe.

Similarly, the PAC asked how many FATS employees have been assigned to UORs in the last three years. The MOD does not keep information centrally on whether technical support taskings under the present FATS framework (since April 2009) are related to UORs. Tasks placed through FATS will often require the supplier to use the organisations own facilities, infrastructure and capabilities not just its human resources to deliver the outputs specified at the agreed price. This further limits the ability to define a definitive figure for FATS employees working on UORs.

For these reasons the Department does not believe it would be value for money to devote resources to obtain this information.

#### VERS departures and FATS employees

The Committee invited the MOD to clarify how many staff departing on VERS subsequently sought and gained employment with a FATS-registered company and returned to work in the Department as a result. The MOD does not currently record the subsequent employment of civilian personnel who have left or are due to leave the Department as part of an early release scheme. Normal business appointments rules would apply to these staff, where appropriate.

Again, it would take several weeks to gather information from FATS contractors, and with no guarantee that the information will be supplied.

#### Expenditure on FATS

The PAC requested a summary of MOD's expenditure on FATS in the last three financial years. Figures are shown below:

2009–10	2010–11	2011–12 (to end January 2012)
£297 million	£267 million	£215 million

The MOD Annual Report and Accounts for 2010–11 reported that the total capital expenditure on acquisition by Defence Equipment and Support was £7.5Bn in that year. Defence Equipment and Support is, as you would expect, the business area that has the greatest FATS usage. As such, the money spent on necessary technical support to the equipment programmes is a very small proportion of the organisation's overall costs.

Questions 85–95—*Clarification on Figure 5 p23 (of the NAO report)—privatisation. The committee asked for information on private sector involvement in catering, retail and leisure, and for a breakdown of the 820 staff shown as leaving the Department following privatisation*

#### Departures due to Privatisation

The Committee requested clarification of Figure 5 on page 23 of the Managing Change in the Defence Workforce document, specifically the significance of the 820 personnel listed as leaving the Department due to privatisation in April-June 2011. This number reflects the 804 MOD civilian personnel that transferred under TUPE regulations to a private company contracted to provide the RAF's Catering, Retail and Leisure provisions.

The staff breakdown by grade is as follows:

Grade	No of employees
Broad Banding C2	1
Broad Banding D	4
Broad Banding E1	21
Broad Banding E2	14
Retained Grades	15
Skillzone 1	612
Skillzone 2	94
Skillzone 3	39
Skillzone 4	4
TOTAL	804



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### The Value for Money Case

Prior to the introduction of integrated Catering Retail and Leisure services, traditional catering services were delivered to the RAF via either an in-house solution (ie through a combination of RAF and MoD civilians) or a contractised solution. RAF personnel found themselves in the position where their salary was debited for meals irrespective of whether they had taken them.

In 2005 the Service Personnel Board directed that the three Services must introduce Pay as You Dine catering and switch off the Daily Food Charge. Additionally, the Defence Food Supply contract was no longer sustainable, the then contract arrangements for the retail shops and Junior Ranks' bars were to expire and the only viable way to re-provide these services was via Catering Retail and Leisure.

In 2008 the RAF undertook an In House Feasibility Study which concluded that Catering Retail and Leisure could not be delivered as an in-house solution. The current workforce did not have the requisite skill set to deliver retail and leisure and it would cost the Service a further £6.7 million over the life of the contract. 804 MoD civilians were transferred to the contractor under TUPE regulations when the Catering Retail and Leisure contract was let on 1 June 11 covering services on 14 RAF Units.

Value for Money was further tested during the competitive bidding process. The final contract was priced at £31.28 million below the Public Service Comparator. In a broader context, the individual Service person will now only pay for what they consume, and dine in more modern facilities due to investment by the commercial partner (£8.7 million).

The RAF was the last of the three Services to overhaul their Catering Retail and Leisure arrangements and the Army and Navy had already contracted their catering services and undertaken any resultant TUPE actions by the time the RAF let their contract.

*3 April 2012*

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