



National Audit Office

**BRIEFING FOR THE  
HOUSE OF COMMONS  
DEFENCE COMMITTEE  
OCTOBER 2009**

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# Performance of the Ministry of Defence 2008-09

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This briefing has been prepared for the Defence Committee of the House of Commons to provide an overview of the work and performance of the Ministry of Defence (the Department) in the financial year 2008-09 and subsequent months.

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# Introduction

## Aim and scope of this briefing

**1** This briefing has been prepared for the Defence Committee of the House of Commons to provide an overview of the work and performance of the Ministry of Defence (the Department) in the financial year 2008-09 and subsequent months. Its aim is to help the Committee understand and consider:

- the Department's performance in fulfilling its key operational objectives (Part 1);
- the Department's work to improve for the future (Part 2); and
- a financial review (Part 3).

**2** In such a short briefing, the intention is not to be exhaustive. Rather, each section begins with a brief overview of the Department's performance, followed by the examination of a small number of significant examples by way of illustration and as possible subjects for further examination by the Committee.

**3** The contents of this briefing have been shared with the Department to ensure that the evidence presented is factually accurate. It is based entirely on publicly available documentation, including the Department's Annual Report and Accounts 2008-09 and a number of published National Audit Office reports. A full bibliography can be found at the end of the briefing.

## Summary of Key Findings

**4** The Department's aim is:

*'to deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism; and to act as a force for good by strengthening international peace and stability'*

**5** It is responsible for the formulation and conduct of defence policy, and providing the Armed Forces, who are the means by which this policy is delivered.

**6** In 2008-09, the Department's activities were managed through eight Top Level Budget (TLB) holders, six Agencies and four Trading Funds. The eight TLBs were:

- Navy Command
- Land Forces (On 1 April 2008 the Land and Adjutant General's Commands merged to form a single Army TLB – Land Forces)
- Air Command
- Chief of Joint Operations
- Defence Equipment and Support
- Central
- Defence Estates
- SIT (Science, Innovation, Technology)

**7 Public Service Agreements.** Under the Comprehensive Spending Review (CSR) 2007 reporting framework, the Department no longer has a lead role in the delivery of any Public Service Agreement (PSA) targets, but contributes to both the Foreign and Commonwealth Office-led PSA 30 on Conflict Prevention, and the Home Office-led PSA 26 on Counter-Terrorism (**Figure 1** on pages 6 and 7).

**8 Departmental Strategic Objectives.** 2008-09 was the first year that the Department reported on progress against its three Departmental Strategic Objectives (DSO), set as part of CSR 2007. As shown in Figure 1, of the six performance indicators supporting the DSOs, the Department did not assess progress for one indicator in 2008-09, and reported that it has made some progress against three and no progress against two. The Department assessed that it was broadly on track towards its target for annual efficiency savings, which was increased in the April 2009 budget to £3.15 billion by 2010-11. A full analysis of performance against each indicator has been incorporated in the relevant section of this briefing.

**9 Operations.** The main focus of the Department's activity in 2008-09 has been operations in Iraq and Afghanistan. The Department has also supported UN, NATO and EU operations around the world. Sustaining this level of commitment has meant that the Armed Forces have continued to operate above Defence Planning Assumptions, as has been the case in every year since 2001. Following the end of combat operations in Iraq in April 2009, the Department is managing the drawdown process, and only a small number of UK personnel remain in theatre. The UK commitment to Afghanistan currently stands at 9,000 personnel, and it remains an extremely demanding operational environment. As at March 2009, the Department had approved £4.2 billion on Urgent Operational Requirements for both theatres since 2002.

## Figure 1

### Ministry of Defence contribution to government PSA targets, Departmental Strategic Objectives and Efficiency targets: performance in 2008-09

| Departmental Strategic Objectives and Efficiency Targets   | Department assessment of performance in 2008-09  |
|--|--|
| <b>Cross-Departmental Public Service Agreement Targets</b>   |  |
| <p><b>PSA 26:</b> To reduce the risk to the UK and its interests overseas from international terrorism.</p> <p>The Home Office leads on this target, with a number of other government Departments contributing. The target reflects the four pillars of the Government's counter-terrorism strategy – prevent, pursue, protect and prepare.</p> <p>The Department's Performance Indicator 1.1 (Success on operations) contributes to performance against this PSA target.</p> | <p>The Department's Annual Report does not give any information on performance against this target.</p> <p>The Home Office Annual Report states that the assessment of progress against this target is classified.</p> <p>(Paragraph 1.24)</p> |
| <p><b>PSA 30:</b> Global and regional reduction in conflict and its impact and more effective international institutions.</p> <p>The Foreign and Commonwealth Office (FCO) leads on this target, supported by the Ministry of Defence and Department for International Development (DFID).</p> <p>The Department's Performance Indicators 1.1 (Success on operations) and 2.1 (UK Contingent Capability) contribute to performance against this PSA target.</p>                | <p>The Department's Annual Report states that PSA 30 performance is reported by the FCO on behalf of the Ministry of Defence and DFID, and shows 'some progress' across the year.</p> <p>(Paragraphs 1.19 – 1.23)</p>                          |
| <b>Departmental Strategic Objectives</b>   |  |
| <b>DSO 1: Achieve success in the military tasks we undertake at home and abroad</b>  |  |
| <p><b>PI 1.1 Success on operations:</b> Assessed against the military strategic objectives for each operation or military task we are conducting, including counter-terrorism.</p>   | <p><b>Some Progress</b></p> <p>(Paragraphs 1.2 – 1.12)</p>   |
| <b>DSO 2: Be ready to respond to the tasks that might arise</b>  |  |
| <p><b>PI 2.1 UK Contingent Capability and delivery of force elements at readiness:</b> Our ability to maintain forces at the readiness we deem necessary to respond to possible threats, assessed against the requirements set out in Defence Strategic Guidance and the Defence Plan.</p>   | <p><b>No Progress</b></p> <p>(Paragraphs 1.13 – 1.18)</p>  |
| <p><b>PI 2.2 Manning Balance:</b> Our ability to attract, recruit and retain the military personnel we need to deliver the capability to succeed on current operations and support our future readiness, assessed against what we deem to be the appropriate size and structure of the Armed Forces.</p>   | <p><b>Some Progress</b></p> <p>(Paragraphs 2.4 – 2.13)</p>   |



**Figure 1**

Ministry of Defence contribution to government PSA targets, Departmental Strategic Objectives and Efficiency targets: performance in 2008-09  
*continued*

| Departmental Strategic Objectives and Efficiency Targets  | Department assessment of performance in 2008-09  |
|---|--|
| <b>DSO 3: Build for the Future</b>  |  |
| <b>PI 3.1 Procuring and Supporting military equipment capability, through life</b> , assessed against achievement of targets for key user requirements; full operational capability date; and in-year variation of forecast costs for design, manufacture and support.  | <b>No progress</b><br>(Paragraphs 2.23 – 2.26)   |
| <b>PI 3.2 Procuring and supporting non-military equipment capability, through life</b> , assessed against achievement of targets for key user requirements, full operations capability date, and in-year variation of forecast costs.   | <b>Did not assess performance</b><br>(Paragraph 2.27)  |
| <b>PI 3.3 Sustainable Development</b> , assessed against achievement of objectives for sustainable consumption and production, climate change and energy, natural resource protection and environmental enhancement, and sustainable communities.   | <b>Some Progress</b><br>(Paragraph 2.41)   |
| <b>2007 Spending Review Efficiency Target:</b> Value for Money reforms generating annual net cash-releasing savings of £2.7 billion by 2010-11, building on savings of £3.045 billion during the 2004 Spending Review period. In the April 2009 Budget the target was increased by £450 million to £3.15 billion. | <b>Broadly on track</b> , having achieved over £650 million of cash-releasing, sustained and net of costs savings in-year.<br><br>(Paragraph 2.40) |

Source: Ministry of Defence Annual Report and Accounts, 2008-2009

**10 Readiness.** The high level of commitment of the Armed Forces continues to impact on the readiness levels of all three Services to respond to the full range of operations they may be asked to undertake in the future, and on their ability to conduct the full range of training for contingent operations. In 2008-09, an average of 57 per cent of Force Elements reported serious or critical weaknesses against their funded readiness targets. The Department was unable to generate the full contingent capability for the Joint Rapid Reaction Force, and the ability of Front Line Commands to support additional short notice contingent tasks was limited. The Department expects readiness levels will start to improve following the drawdown of personnel from Iraq and the Balkans.

**11 Manning.** The Department has not yet achieved its aim of all three Services being within 98 and 101 per cent of their manning requirement, but as at March 2009 improvements in recruitment in 2008-09 meant that the Department expected all three Services to return to manning balance in 2010. Despite the improvements in overall manning, there remain shortfalls in specialist trades, which impact on operational effectiveness, and the number of these operational pinch points increased in 2008-09. Retention is also improving in some areas, but the picture is incomplete as no voluntary outflow data has been available for the Army since 2006 due to the ongoing problems

the Department is experiencing validating data from the Joint Personnel Administration system. A number of personnel in all three Services continue to break the Departments guidelines on time away from home. The Department's survey of Service personnel showed that 64 per cent of Officers and 49 per cent of Other Ranks were satisfied with Service life. In recognition of the demands placed on Service personnel and their families, the Department published the Service Personnel Command Paper in June 2008, which aims to end any disadvantages they may experience as a result of service in the military.

**12 Service Families Accommodation.** The Department published a Ten Year Accommodation Management Strategy in August 2009, which sets out its aspiration for all families to be living in the highest standard of accommodation by 2020. This is a challenging target given that the Department's recently completed condition survey of its housing stock for families has revealed that there are fewer houses at the top standard than previously thought (32 per cent at Standard 1 and 57 per cent at Standard 2, broadly reversing the previous position).

**13 Equipment.** The Department failed to meet its targets for delivering its Equipment Plan to time and to budget in 2008-09. The forecast costs of the Department's Category A to C projects (those worth over £20 million) increased by £1.24 billion in 2008-09, mainly due to a £1.07 billion cost overrun on the Future Aircraft Carrier project. The Department reported 242 months of delays, including further delays to the A400M transport aircraft which have created a potential capability gap in strategic and tactical airlift. The Department carried out a short examination of its Equipment Plan in 2008-09 to address the continued pressures on affordability and rebalance the programme to focus on current operations. Decisions taken included delaying the introduction into service of the Carriers for one to two years. Relevant issues arising from Bernard Gray's review of the Department's acquisition performance will now feed into the Department's Green Paper to inform a Strategic Defence Review in the next Parliament. The Green Paper is due to be published next year.

**14 Capability of the Armed Forces.** 2008-09 has seen improvements to the capability of all three Services, including the delivery of new equipment and temporary changes to the structure of the Army to meet the demands of current operations. The Department published its Strategic Review of Reserves, which confirmed that the Reserve Forces play a key role in delivering Defence capability, and made a number of recommendations for improvement which the Department is taking forward.

**15 Capability of the Department.** The follow-up to the 2007 Capability Review recognised the Department's progress in addressing the earlier recommendations, but identified further areas for improvement, including the need to increase the pace of implementation. The Department was rated as less than 'well placed' in six of the ten assessed elements of capability. The Department continues to implement an extensive programme of change projects in order to improve its capability and to meet its efficiency savings target, which was increased in the April 2009 budget to £3.15 billion by 2010-11.

**16 Financial Review.** In 2008-09, the Department again stayed within its resource and cash estimates. Net Resource Outturn was £36.96 billion against an Estimate of £39.1 billion. The underspend of £2.14 billion was caused by factors such as an increased movement on derivatives from foreign exchange contracts and lower than expected write-down charges from the drawdown in Iraq. The Net Cash Requirement for 2008-09 was £36.4 billion against an estimate of £36.5 billion, an underspend of £0.1 billion.

**17 Audit Qualification of the Department's 2008-09 Resource Accounts.**

The Comptroller and Auditor General qualified his regularity audit opinion and limited the scope of his 'true and fair' audit opinion on the Department's 2008-09 Resource Accounts. The issues leading to the qualification of the accounts were:

- Material errors in the amounts of military specialist pay, allowances and expenses paid through the Department's Joint Personnel Administration System (JPA). The NAO estimated that £268 million out of £1.083 billion was paid to individuals who were not entitled to them or whose entitlement could not be demonstrated by supporting evidence.
- Insufficient audit evidence to determine whether the income recognised by recovering the costs of certain accommodation and food charges from the pay of Service personnel (approximately £83 million) was materially complete.
- Insufficient audit evidence to support the value of certain fixed assets and stock balances (valued at around £6.6 billion) or to confirm the existence of BOWMAN assets. At the year end the Department could not account for the existence of £155 million of BOWMAN assets.
- Insufficient audit evidence to confirm the accuracy of Service personnel numbers in relation to the Reserves for the Royal Navy and Army.

This was the second consecutive year in which the C&AG's audit opinion on the Department's Resource Account was qualified because of insufficient evidence to support payments made via JPA to Service personnel.

**18 Operations and Peace Keeping.** The Department is voted additional resources (Request for Resources 2) to cover the costs of operations and peacekeeping. In 2008-09 total capital and resource expenditure was £4.1 billion, including £2.6 billion for operations in Afghanistan (compared to £1.5 billion in 2007-08). The cost of operations in Afghanistan is forecast to increase further to £3.5 billion in 2009-10. The cost of operations in Iraq fell slightly in 2008-09 to £1.38 billion (£1.46 billion in 2007-08), and was forecast to be £877 million in 2009-10.

# Part One

## Operations, Readiness and International Cooperation

**1.1** During 2008-09, the Department continued to sustain two medium scale operations in Iraq and Afghanistan. Combat operations in Iraq ended at the end of April 2009 and the focus since then has been on the withdrawal of troops and equipment from theatre. Afghanistan remains an extremely challenging operational environment and 2008-09 has seen an increase in the UK force size and enhancements to capability, including to counter the growing threat from Improvised Explosive Devices (IEDs). The Department has also supported UN, NATO and EU operations around the world, including counter-piracy operations in the Gulf of Aden. The continued high tempo of operations means that the Armed Forces have been operating above the level which they are routinely resourced and structured to sustain for the eighth successive year. The Department has met all its commitments, but this has meant that the readiness of the Armed Forces for the full range of contingent operations has continued to suffer. Through its activities on current operations the Department has also contributed to wider government PSA targets on conflict prevention and counter-terrorism.

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### DSO 1 Achieve success in the military tasks we undertake at home and abroad

**PI 1.1 Success on operations:** assessed against the military strategic objectives for each operation or military task we are conducting, including counter-terrorism.

The Department assessed that it had made **some progress** against this objective.

- In its Annual Report, the Department states that “in 2008-09, the Armed Forces again successfully sustained a high tempo of operations in Iraq and Afghanistan. They have also successfully undertaken the other military tasks required of them in the year”.
  - The Annual Report provides more detailed information on individual operations and activities the Department has undertaken. Success in Iraq and Afghanistan is described as the Department’s highest priority. UK forces have also been involved in crisis response operations and have provided support and personnel for UN operations and peacekeeping missions. The UK’s decade-long military contribution in Kosovo was expected to draw down to only a handful of posts by September 2009.
  - The Department monitors the proportion of forces deployed on operations and other military tasks. This figure decreased from 19 per cent in the last quarter of 2007-08 to 17 per cent in the last quarter of 2008-09, of which nine per cent were deployed on contingent operations and eight per cent on military tasks. The Department notes that for each person deployed on contingent operations, there will usually be at least two other people committed (either preparing to deploy or recovering from deployment).
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## Iraq

**1.2** During 2008-09, around 6,500 UK Service personnel were deployed in the Gulf region. 4,100 of these personnel were deployed in southern Iraq, with the majority based at the Contingency Operating Base at Basra Airport. The UN mandate under which UK personnel were deployed expired at the end of 2008 and at the same time Iraq's sovereignty was restored. From 1 January 2009 a new legal basis for the UK deployment was agreed with the Government of Iraq, who now lead in maintaining security throughout the country. The net additional cost of operations was £1.4 billion in 2008-09, compared to £1.5 billion in 2007-08 (**Figure 2**), and is forecast to be £877 million in 2009-10.

**1.3** The main focus for the UK forces in 2008-09 was on the training and mentoring of the 14th Division of the Iraqi Army, with the aim that it will be able to lead and carry out operations without Coalition assistance, although UK forces were available to support Iraqi-led operations if necessary. The Department reports that Iraqi security forces demonstrated their ability to ensure security with minimal coalition assistance including over the period of the provincial elections in January 2009. Other activities that UK forces have been involved in include:

- Assisting with the development of Basra International Airport. Responsibility for the airport was transferred to the Iraqis on 1 January 2009.
- Training and mentoring the Iraqi Navy at Umm Qasr Naval Base.
- Maintaining the sovereignty of Iraqi territorial waters.
- Working with the Iraqi security forces and coalition partners on operations to deter and disrupt militia activities in Basra.
- Capacity building in national institutions such as the Iraqi Ministry of Defence.

### Figure 2

The net additional cost of operations in Afghanistan and Iraq 2005-2010

| Year                 | Afghanistan (£m) | Iraq (£m)    | Total for both operations (£m) |
|----------------------|------------------|--------------|--------------------------------|
| 2005-06              | 199              | 958          | 1,157                          |
| 2006-07              | 738              | 956          | 1,694                          |
| 2007-08              | 1,504            | 1,457        | 2,961                          |
| 2008-09              | 2,600            | 1,380        | 3,980                          |
| <b>Total to date</b> | <b>5,041</b>     | <b>4,751</b> | <b>9,792</b>                   |
| 2009-2010 estimate   | 3,495            | 877          | 4,372                          |
| <b>Total</b>         | <b>8,536</b>     | <b>5,628</b> | <b>14,164</b>                  |

Source: National Audit Office analysis of Departmental data

**1.4** The Department reports that the security situation in Iraq continued to improve during 2008-09, and there were fewer attacks on Coalition forces (47 in the first quarter of 2009 compared to 928 for the second quarter of 2007). Three UK Service personnel died in Iraq during 2008-09, although none were as a result of hostile action, bringing the total number of UK deaths in Iraq since Operation TELIC began to 179 (111 of whom were classed as killed in action).

**1.5** The UK's remaining military tasks in Basra were concluded on 30 April 2009, representing the end of combat operations, and from that date the focus was on the withdrawal of combat troops and equipment from Iraq, a process that was completed by the end of August 2009 under the name of Operation BROCKDALE. The UK expects to retain a small team of around 100 personnel based at Umm Qasr in southern Iraq who will focus on training the Iraqi Navy and Marines and on the Royal Navy's continued protection of Iraqi oil platforms in the Northern Gulf. This remains subject to agreement from the Iraqi Government following expiry of the existing mandate at the end of July, and the Forces are currently based in Kuwait.

**1.6** The drawdown of equipment from Iraq is the responsibility of the UK forces, Joint Force Logistics Component. Under Operation BROCKDALE, materiel and vehicles were transported from southern Iraq to Kuwait, where they were prepared for return to the UK and Germany. Recorded assets were assessed to determine whether they should be recovered, gifted, sold or treated as a constructive loss or write-off. This process was due to be completed by 31 October 2009. Further detail on gifted assets and on losses and write-offs in 2008-09 is at paragraphs 3.19 to 3.23.

## Afghanistan

**1.7** The UK continues to support the NATO-led International Security Assistance Force (ISAF) in Afghanistan, which had 58,000 troops as at March 2009, up from 47,000 in 2008. The UK provides capabilities able to operate across the area of the Regional Command (South), and most UK forces operate in Helmand Province. The net additional cost to the Department of the operation in Afghanistan rose to £2.6 billion in 2008-09, compared to £1.5 billion in the previous year (Figure 2), due to the increased size of the UK forces and significant enhancements to capability. UK force levels rose from 7,800 to 8,300 during the year, and were planned to temporarily increase further to 9,000 for the period of the Afghan elections. The Department estimates that the net additional cost of operations in Afghanistan will be £3.5 billion in 2009-10.

**1.8** In its Annual Report, the Department describes Afghanistan as an 'extremely challenging operational environment'. The Department describes the main focus of UK forces' efforts as targeting the Taliban command and control structures to disrupt the insurgency and provide a more secure environment for the spread of governance, and on developing the capabilities of the Afghan security forces. During 2008-09 UK forces took part in several major operations including a joint operation with US Marines aimed at disrupting Taliban activity in the Garmsir area of Helmand Province, a 360 km round trip to deliver a hydro-electric turbine by road from Kandahar airfield to the Kajaki Dam in September 2008 and Operation SOND CHARA, in December 2008, to

provide better security to Lashkar Gah for voter registration in advance of the Afghan elections in August 2009. Sixty one Service personnel were killed during 2008-09, with a further 62 suffering very serious or serious injuries. Since the period covered by the Annual Report, UK Forces have taken part in Operation Panther's Claw, a five-week campaign involving 3,000 troops to clear insurgents from the area between Lashkar Gah and Gereshk in Helmand province. A further 66 personnel have been killed since 1 April 2009, bringing the total UK deaths since the start of operations in Afghanistan to 218 (as at 25 September 2009), and a further 87 personnel have suffered injuries (as at 15 September 2009).

**1.9** The use of Improvised Explosive Devices (IEDs), including roadside bombs, remains one of the biggest threats to UK personnel. During 2008-09, the Department deployed enhanced capabilities to counter this threat. In addition, on 29 October 2008 the Department announced that it would purchase nearly 700 new armoured vehicles and refurbish another 200 in order to provide better protection for personnel. This Protected Mobility Package included: 400 new armoured support trucks to be used to accompany patrols and carry essential supplies (£350 million), 100 new Warthog cross-country vehicles to replace the Vikings in Afghanistan, 100 additional Jackal vehicles (£75 million) and a specialist route clearance system known as Talisman to provide a new way of dealing with the IED threat and which includes Buffalo mine-protected vehicles and Engineer Excavators. The Department has also replaced the Snatch Landrover in many roles and is spending £30 million to upgrade those vehicles which remain on operations to the more heavily protected Snatch Vixen, with the first tranche of Snatch Vixens fielded to theatre in April 2008.

## Support to High Intensity Operations

**1.10** Both Iraq and Afghanistan present considerable support challenges for the Department due to their remote locations and harsh conditions. The National Audit Office (NAO) published a report looking at the Department's arrangements for supporting high intensity operations in May 2009, focusing on four key areas – equipment, logistics, pre-deployment training and support to personnel. The key findings included:

- The Department has approved a total of £4.2 billion (as at March 2009) to upgrade or buy new equipment to meet urgent requirements in the two theatres since 2002, including better protected vehicles. Availability of these vehicles has generally met or exceeded the Department's targets, except for the Vector vehicle, whose suspension and wheel hub reliability has been poor.
- There have been shortages of spares for some fleets, particularly when the vehicle is used for a different purpose than intended, such as the Mastiff in Afghanistan.
- The Department has successfully delivered around 300,000 personnel and 90,000 tonnes of freight to the two theatres since 2007. However, it has not consistently met targets for delivering supplies in a timely fashion.

- Pre-deployment training is responsive to lessons identified in theatre and commanders are confident of its quality. Constraints on training include the difficulty of fitting all required elements into six months, the challenge of replicating operational environments and the large number of individuals who are not deploying with their units and complete short reinforcement packages rather than more extensive pre-deployment training.
- The Department has prioritised the delivery of Urgent Operational Requirements to theatre. However, this has led to shortages of equipment of the equivalent standard to that in theatre on which to conduct pre-deployment training.
- The Department has achieved significant success in the provision of medical support, particularly in delivering life-saving treatment at the front line, including through the introduction of Medical Emergency Response Teams to quickly take life-saving support to casualties and evacuate them speedily to hospital. This success is underlined by the number of 'unexpected survivors' following the most severe injuries.
- Accommodation for personnel at most bases meets most needs and personnel are generally satisfied with it, although conditions at forward operating bases are more austere. The Department's Deployable Welfare Package, which includes access to communications, leisure and laundry facilities and mid and post tour leave, is being delivered successfully, although there are some problems with access to facilities during peak demand and with welfare provision at forward bases.

**1.11** The key recommendations from the NAO report are detailed in **Figure 3**.

## **Piracy**

**1.12** UK forces have been involved in efforts to tackle the increased threat to shipping from pirates in the Gulf of Aden (a major shipping route off the coast of Somalia). During 2008-09 there were 60 successful attacks, including on a number of high value merchant vessels, and 111 reported unsuccessful attacks. The UK is providing the Operation Commander and the Operation Headquarters for an EU counter-piracy operation, ATALANTA, which was deployed from 8 December 2008 with a one-year mandate, subsequently extended for a second year. UK forces were also involved in a NATO task group between October and December 2008 for World Food Programme protection duties and the US-led Combined Maritime Forces task force, which was established in January 2009 to complement existing maritime security operations in the region. A total of four Royal Navy vessels were deployed on the three missions during 2008-09.



**Figure 3****Key Recommendations from NAO Report on Support to High Intensity Operations**

| Issue  | Recommendations  |
|--|--|
| Shortage of spares in theatre and insufficient equipments on which to conduct pre-deployment training  | <p>Maintain a full capability once Urgent Operational Requirement equipment is in theatre through:</p> <ul style="list-style-type: none"> <li>● Conducting analysis which takes into account possible scenarios under which new equipment might be used, as operational circumstances change, in order to provide sufficient spares to keep them available until actual usage patterns have become clear.</li> <li>● Allocating a sufficient proportion of equipment for pre-deployment training so that personnel are up to date and familiar with equipment before arriving in theatre.</li> <li>● Cataloguing spares in a timely way, wherever possible before equipment is fielded.</li> </ul> <p>Increase the priority given to spares purchases and the training fleet, relative to the delivery of vehicles to the operational theatre. For future fleets, it may be appropriate to increase the priority given to spares purchases and the training fleet from the outset.</p> |
| Shortages of pre-deployment training equipment at the equivalent standard to those used in theatre     | Provide training equipment that resembles that used in theatre, either through including all modifications, so that equipments are at 'theatre entry standard' or by modifying them so that they adequately represent that standard.   |
| Variable performance against supply chain targets  | <p>Alleviate the pressure on the supply chain by smoothing the trend in demand from theatre, where possible, and enabling greater use of lower priority deliveries.</p> <p>Further improve and integrate logistics information systems, including consignment and asset tracking, so users on operations have visibility over the stock already available at different locations in theatre, can track the progress of deliveries throughout the supply pipeline, and see stock availability back in the United Kingdom.</p>   |
| Differences in the provision of welfare packages at main operating, forward operating and patrol bases | The Department should roll out more welfare provision to personnel in forward positions in line with its existing planning ratios and, where this is impracticable, introduce more flexibility about the balance of provision between different items; for example, providing a greater number of satellite phones in lieu of internet access.   |

Source: National Audit Office: Support to High Intensity Operations, HC 508, Session 2008-2009, 14 May 2009

## Contingent Readiness

**1.13** The Armed Forces have now been operating above the level of concurrent operations, for which Defence is resourced and structured to routinely sustain, since 2001 (**Figure 4**). The Department has met all its commitments, but sustaining this level of activity, and focusing its resources on operations in Iraq and Afghanistan, means that its capacity to be ready for the full range of contingent tasks detailed in its planning assumptions has suffered. For this reason the Department reported that it has made no progress against its Performance Indicator 2.1. In 2008-09, an average of 57 per cent of Force Elements reported serious or critical weaknesses against their funded readiness targets. In its response to the Committee's report on the Annual Report and Accounts 2007-08<sup>1</sup>, the Department stated that it expects readiness to conduct future contingent operations will improve as the level of operational commitments and pressures on the Armed Forces reduces with the drawdown of forces from the Balkans and from Iraq. Further work to recuperate the Armed Forces is under way.

**1.14** The high level of operational commitment during 2008-09 also meant that the Department was unable to generate the full contingent capability for the Joint Rapid Reaction Force (a pool of trained forces available to deploy in support of the UK's foreign and security policy), and the ability of Front-Line Commands to support additional short notice contingent tasks was extremely limited, particularly for naval and land forces. Critical standby capabilities, such as the ability to conduct non-combatant evacuation operations, were maintained. The Department considers that 'the ability to generate a credible and capable contingent force is essential, and work is underway to ensure a return to small scale capability'<sup>2</sup>.

**1.15** Readiness levels in all three Services were affected by the high level of commitments:

- Twenty three per cent of Royal Navy personnel were deployed on operations and undertaking military tasks as at March 2009. Alongside standing military tasks such as the provision of the nuclear deterrent, the Naval Service provided 29 per cent of UK personnel committed to operations in Afghanistan during 2008-09, including the deployment of 3 Commando Brigade to command Task Force Helmand for the latter half of the year. Royal Naval assets were also deployed to tackle the growing piracy threat off Somalia (paragraph 1.12).
- In carrying out two medium scale operations in Afghanistan and Iraq, the Army remained committed in excess of Defence Planning Assumptions. The high operational demand meant that specialist brigades and most contingency forces have been rostered for operations in Afghanistan. The Army successfully rostered a small-scale battle group at high readiness to deploy on contingent operations towards the end of 2008-09, but the tasks it can conduct are constrained by equipment availability.

<sup>1</sup> *Ministry of Defence Annual Report and Accounts 2007-08: Government response to the Committee's Fifth Report of Session 2008-09 – Second Special Report of Session 2008-09, HC 534 17 June 2009,*

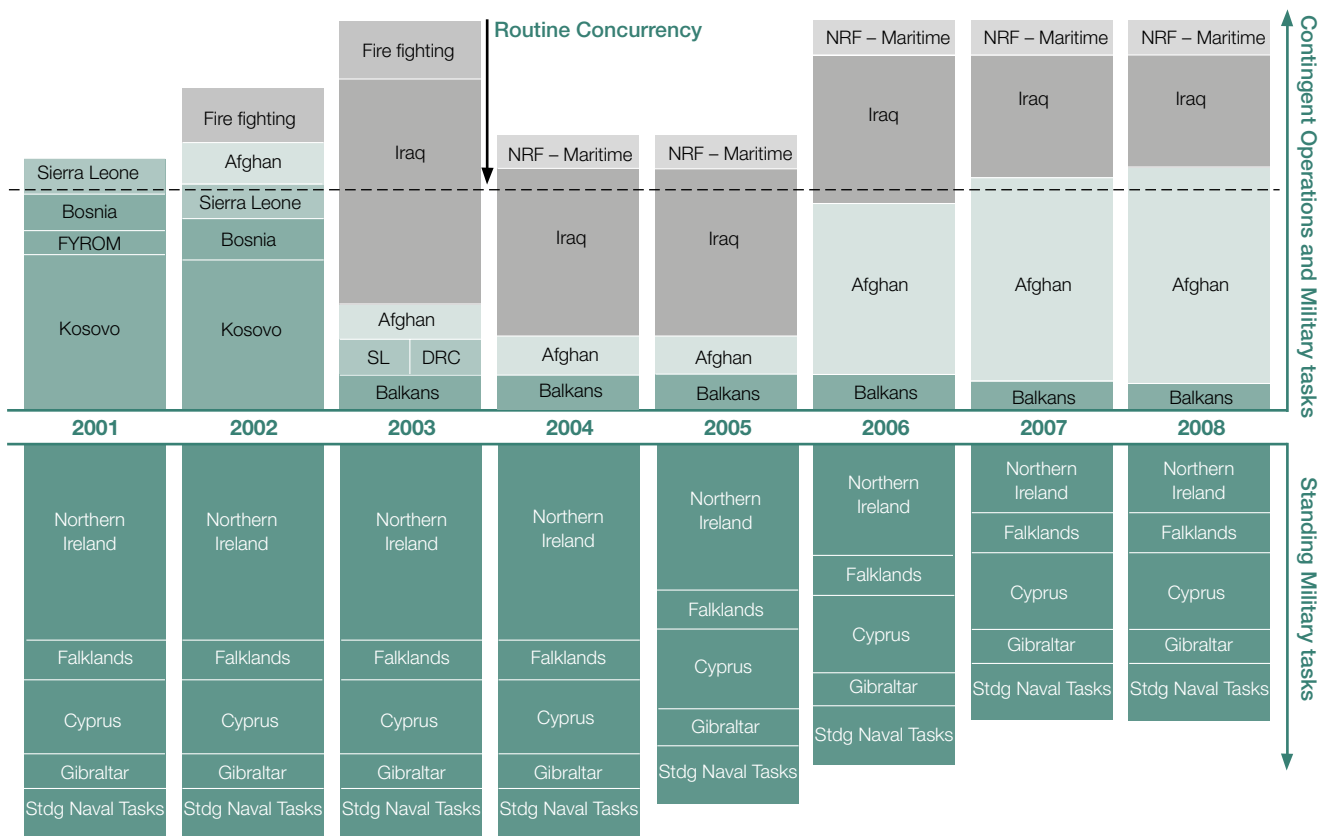
<sup>2</sup> *Ministry of Defence Annual Report and Accounts 2008-09, p42.*

- The majority of force elements in the Royal Air Force reported weaknesses in their ability to meet planned readiness targets due to pressures on personnel and equipment caused by the high operational tempo, reduced training opportunities, and shortages of personnel. The Royal Air Force's ability to meet readiness targets was also affected by pressures on the availability of aircraft caused by planned modification and maintenance programmes.

## Figure 4

### Armed Forces Level of Operational Commitments against Defence Planning Assumptions since 2001

#### Routine Concurrency 2001-2008



DRC: Democratic Republic of Congo  
 FYROM: Former Yugoslav Republic of Macedonia  
 NRF: NATO Reaction Force  
 SL: Sierra Leone

Source: Ministry of Defence Annual Report and Accounts, 2008-2009

## DSO 2 Be ready to respond to the tasks that might arise

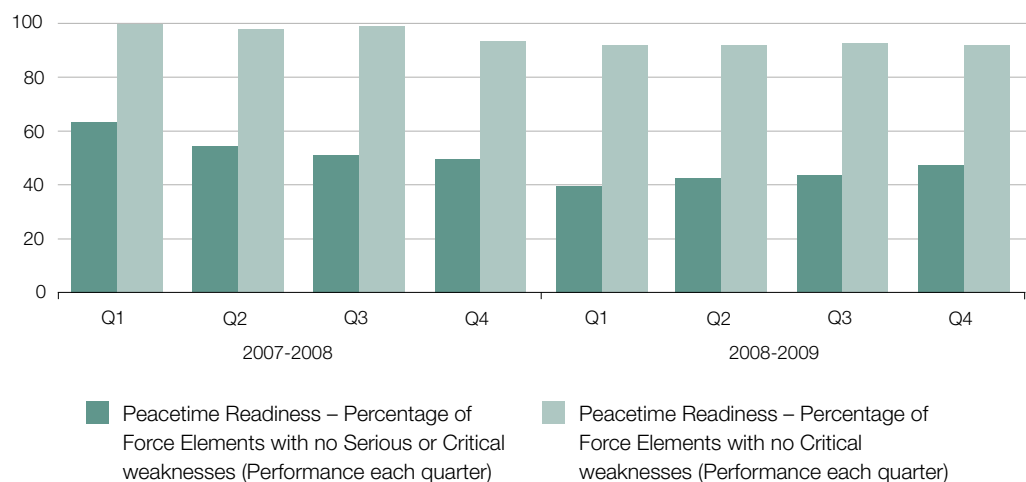
**PI 2.1 UK Contingent Capability and delivery of force elements at readiness:** Our ability to maintain forces at the readiness we deem necessary to respond to possible threat, assessed against the requirements set out in the Defence Strategic Guidance and the Defence Plan.

The Department assessed that it had made **no progress** against this objective.

- Contingent readiness levels have continued to suffer because the Armed Forces are operating above the overall level of concurrent operations which they are resourced to structure and routinely sustain over time, according to the Defence Planning Assumptions. The Department successfully generated the forces it requires for current and enduring military operations and standing tasks. It was not possible, however, for the Armed Forces to be ready at the same time for the full range of potential contingency operations detailed in planning assumptions.
- The Department measures performance against this objective as the proportion of Force Elements reporting no serious or critical weakness in achieving funded readiness. In its Annual Report the Department does not specify a target figure, but in evidence to the Committee on the 2007-08 Annual Report and Accounts it stated that it aims for this figure to be 73 per cent. As at March 2009 47 per cent of force elements reported no serious or critical weakness, compared to 39 per cent at the start of the year (see **Figure 5**). The Department attributes this slow recovery over the year to improvements in existing key platforms and new capabilities coming on stream.
- Although the levels of forces reporting no serious or critical weakness improved slightly during 2008-09, they remain below those reported in previous years. In 2008-09, an average of 43 per cent reported no serious or critical weakness, compared to 55 per cent in 2007-08, and 67 per cent in 2006-07.
- The Department also reports that all Services, especially the Army, have struggled to maintain the training necessary for contingency operations while conducting current operations in Iraq and Afghanistan.

**Figure 5**  
Percentage of Forces showing serious or critical weaknesses

### Contingent Readiness



Source: Ministry of Defence Annual Report and Accounts, 2008-2009

## Collective Training

**1.16** The continuing high operational tempo also affects the ability of the Armed Forces to conduct the full range of training for contingent operations, which in turn impacts on levels of contingent readiness. The Department's highest priority remains operations in Iraq and Afghanistan and, as in 2007-08, it has had to take decisions to prioritise its collective training activities (where units train together in a realistic battle environment) within the limited resources available towards exercises that test skills for current operations, rather than skills that might be needed on future operations. The Department reports that it has, however, continued to train and exercise closely with other Government Departments both at home and overseas. The NAO Report on Support to High Intensity Operations found brigades were experiencing difficulties in programming activity to achieve the continuum of training culminating in the more demanding collective training standards which should be completed prior to pre-deployment training.

**1.17** In 2008-09, the Department conducted a wholesale review of Defence collective training activity, including rationalisation of the exercise programme by Front-Line Commands. There were 542 scheduled training events in 2008-09, 25 per cent fewer than in 2007-08. Of these, around 15 per cent had to be cancelled, compared to 10 per cent in 2007-08, which the Department attributes to the rationalised exercise programme.

## Strategic Defence Review

**1.18** The Armed Forces have now been operating in excess of Defence Planning Assumptions for eight years. The planning assumptions were first set following the last Strategic Defence Review in 1998, and adjusted in the New Chapter and the 2003 Defence White Paper 'Delivering Security in a Changing World'. On 7 July 2009, the Secretary of State announced that the Department was starting work on a Green Paper, which will help inform a Strategic Defence Review to take place in the next Parliament. The Green Paper will set out the results of a review looking at a range of issues, including: the strategic context for defence including lessons learned from recent operations and the changing character of conflict; the contribution defence can make to exerting influence to prevent conflict; technological changes in defence; and the requirements on and aspirations of the Armed Forces.

## PSA 30 Conflict Prevention

**1.19** The Department's Performance Indicators 1.1 (Success on operations) and 2.1 (UK Contingent Capability and delivery of Force Elements at readiness) support the contribution to the government-wide PSA target on Conflict Prevention, PSA 30, led by the Foreign and Commonwealth Office. In addition to current operations, the Department undertook a number of other activities in 2008-09 in support of this target.

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**PSA 30 – Global and regional reduction in conflict and its impact and more effective international institutions.** The Foreign and Commonwealth Office (FCO) leads on this PSA, with the Ministry of Defence and the Department for International Development (DfID) contributing. The Ministry of Defence's contribution is supported by its Departmental Strategic Objectives 1 (Success in military tasks) and 2 (Be ready to respond to tasks that may arise).

Performance against this target is reported by the FCO on behalf of all three contributing Departments.

In 2008-09, FCO reported **some progress** across the year, as both work to produce more effective international institutions, and work to produce a more effective UK capability to prevent, manage and resolve conflict and build peace, are assessed as being largely on track.

- The Department's Annual Report contains some detail about the activities it has carried out in support of this PSA target. These include working with DFID and FCO on conflict prevention and capacity building in the regions of Sub-Saharan Africa, the Americas, the Balkans, the Middle East and North Africa, Russia and Caucasus and South Asia, provision of troops and military capabilities for UN-mandated peace support operations (notably troops in Afghanistan and Cyprus), and for NATO-led operations, taking a leading role in the development of European Security and Defence policy and work on disarmament and arms control.
  - The Department's Annual Report provides a narrative description of progress in various conflict zones, but it no longer reports against specific targets for each area as it is not the lead Department for this PSA.
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**1.20** Throughout 2008-09, the Department worked closely with FCO and DFID on conflict prevention and capacity building as part of its commitment to support work to deliver a downward trend in the number of conflicts globally. The Conflict Prevention Pool, created at the beginning of 2008-09, focuses on a small number of longer term activities where it is judged the UK can have most impact. A total of £112 million was invested by the pool in a number of regions of the world (listed in box **PSA 30**), including on small arms control thematic programmes and the provision of defence education and training to some 65 countries. The Conflict Prevention Pool's Africa programme allocated £32 million to MOD-led projects, providing training to the Armed Forces of 18 countries to improve their ability to take part in peacekeeping missions and contribute units to a future African standby force.

**1.21** Capacity building and stabilisation activity in conflict zones, including Iraq and Afghanistan, is funded through the Stabilisation Aid Fund (SAF), which was established in April 2008. The Fund has invested £71 million in programmes including counter narcotics in Afghanistan, strengthening the rule of law, training the Afghan National Army and supporting the Afghan elections in Summer 2009.

## **NATO and European Union**

**1.22** The UK made a significant contribution to NATO missions during 2008-09, including to the peacekeeping mission in Kosovo, and a maritime counter-terrorism operation, ACTIVE ENDEAVOUR, in the Mediterranean. The UK has also taken on a leading role in NATO's ongoing transformation, hosting an informal meeting of Defence Ministers on 18-19 September 2008 to give further impetus to making NATO more efficient. In October 2008, Allied Forces agreed to raise the target for the level of deployability of their land forces from 40 to 50 per cent.

**1.23** The UK also continued to take a leading role in developing European Security and Defence Policy (ESDP). The first ESDP maritime operation, ATALANTA, was launched in December 2008 and the UK has made a significant contribution as described in paragraph 2.12. The UK also contributes a small number of Staff Officers to the EU-led operation ARTHEA in Bosnia and contributed four Staff Officers to the 2008 operation in Chad and the Central African Republic.

## **PSA 26 Counter-Terrorism**

**1.24** The Department's Performance Indicators 1.1 and 2.1 also support the Ministry of Defence contribution to the government wide PSA target on Counter-terrorism, led by the Home Office with contributions from a further 11 government departments, including the Ministry of Defence. The target is structured to reflect the four pillars of the Government's Counter-Terrorism strategy (part of the Government's overall National Security Strategy), and the Department supports all four pillars as follows:

- *PURSUE – to stop terrorist attacks:* through operations overseas to combat insurgencies, detain terrorists and collect intelligence, and through military capacity building.
- *PREVENT – to stop people becoming terrorists or supporting violent extremism:* through a wide programme of military capacity building in a range of countries and through peace support and conflict prevention activities worldwide.
- *PROTECT – to strengthen our protection against a terrorist attack:* helping to protect parts of the UK's critical infrastructure in co-operation with the civil authorities, and operations to ensure the air and maritime integrity of the UK. The Department is also involved in supporting security planning for the 2012 Olympic Games.
- *PREPARE – where an attack cannot be stopped, to mitigate its impact:* supporting the civil authorities in their response to any attack, including with specialist expertise.

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### **PSA 26 – To reduce the risk to the UK and its interests overseas from international terrorism**

The Home Office leads on this PSA, with 11 other Departments contributing – the Cabinet Office, Ministry of Defence, FCO, DFID, the Department for Communities and Local Government, the Security Industry Authority, HMRC, the Northern Ireland Office, the Ministry of Justice, the Department for Transport and the Department for Children, Families and Schools.

The Home Office Annual Report states that the overall assessment of progress against this PSA target is classified.

The Ministry of Defence contributes to this target through its Departmental Strategic Objectives 1 (Success in military tasks at home and abroad) and 2 (Be ready to respond to tasks that might arise). The Annual Report provides some information about the Ministry of Defence's activities in support of the four pillars of the counter-terrorism strategy, although many of the details of specific security operations remain confidential. The report does not give any assessment of overall performance against the target.

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## Part Two

### An effective future

**2.1** Improvements in recruitment in 2008-09 mean that the Department has moved closer to achieving its manning balance target of the trained strength of the Armed Forces being within 98 to 101 per cent of the manning requirement. There continue to be significant shortages of personnel in pinch point trades, some of which impact on operational effectiveness. Retention has also improved, but levels of voluntary outflow remain above the stable long term goal and no figures were available for the Army due to the ongoing problems with the Joint Personnel Administration system. Due to the high tempo of operations, a number of personnel continue to break the Department's guidelines on time away from home. In recognition of the continuing demands placed on Armed Forces personnel and their families, the Department published a cross-government strategy in June 2008, setting out commitments aimed at ending any disadvantages experienced as a result of military service and on the provision of better support for those wounded in service.

**2.2** The Department's performance in delivering its Equipment Plan to cost and time has declined in 2008-09, with over £1 billion of cost overruns and delays of 242 months reported across the Department's larger procurement projects. Pressures on affordability and a need to rebalance the programme towards supporting current operations led the Department to carry out a short examination of its equipment plan in 2008-09. The Department has commissioned a review of progress in implementing its procurement reforms, the results of which will now feed into a wider work on a Strategic Defence Review to take place next year.

**2.3** 2008-09 has seen further work to improve the capability of all three Services, including further temporary changes to the structure of the Army to reconfigure forces for current operations. The Department published its Strategic Review of Reserves, which confirmed their importance in delivering Defence capability. The Department continues to implement an extensive change programme, in order to meet its efficiency savings targets. The follow-up to the 2007 Capability Review recognised the Department's progress in implementing its action plan, and identified some further areas for improvement.



## Manning Balance, Recruitment and Retention

**2.4** The Department requires sufficient, capable and motivated trained Service personnel in order to deliver its key Defence objectives of meeting operational commitments and being ready to respond to tasks that might arise. Its target is for the Armed Forces to be in 'manning balance', meaning the trained strength of all three Services is within 98 to 101 per cent of the manning requirement. As at April 2009, the trained strength of the Armed Forces was 173,920 personnel, 97.2 per cent of the 178,860 requirement, a shortfall of 4,900 personnel<sup>3</sup> (**Figure 6** overleaf). All three Services were outside manning balance, but the manning situation is improving, in part due to the impact of the current economic climate, meaning the Department reported some progress against Performance Indicator 2.2. The trained strength increased slightly during the early part of 2009, and as at July 2009 stood at 174,010, 97.5 per cent of the 178,470 requirement.

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### DSO 2 Be ready to respond to the tasks that might arise

**PI 2.2 Manning Balance:** the ability to attract, recruit and retain the military personnel needed to deliver the capability to succeed on operations and support future readiness, assessed against what the Department deems to be the appropriate size and structure of the Armed Forces.

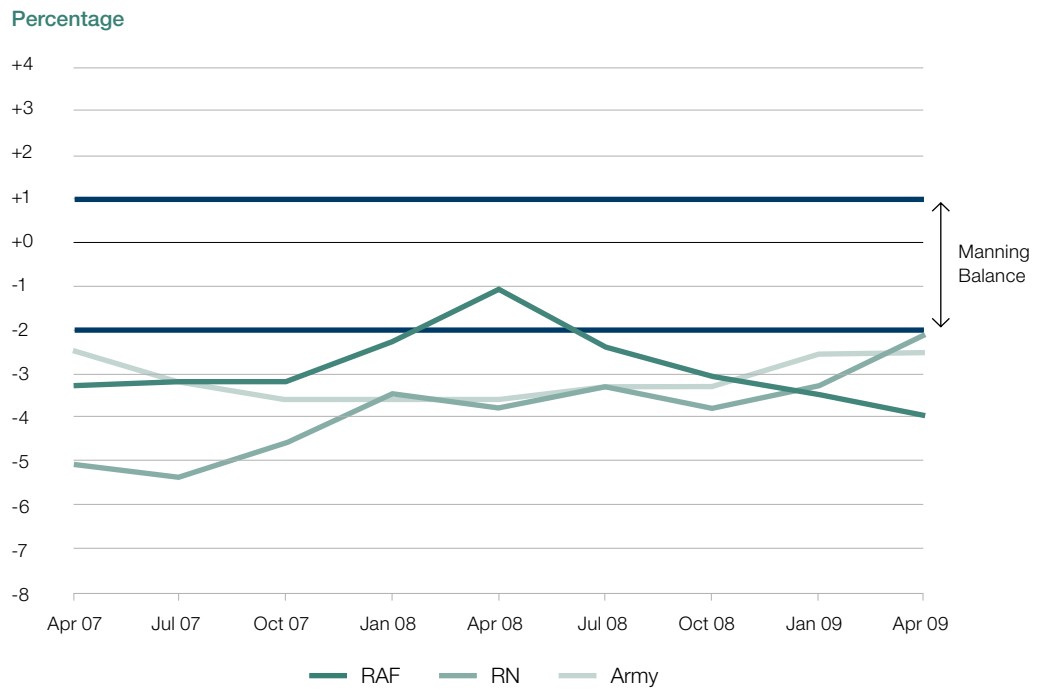
The Department assessed that it had made **some progress** against this objective.

- The Royal Navy and Army began the year outside the manning balance range, but both have moved closer towards it during 2008-09 and as at 1 April 2009 the Royal Navy was only 0.1 per cent and the Army 0.5 per cent outside the manning balance range, at 97.9 per cent and 97.5 per cent of the overall requirement (see Figure 6).
  - The Royal Air Force was within manning balance at the start of the year, but by the end of the year it was two per cent outside the manning balance range, at 96 per cent of the overall requirement.
  - The Department expects the position to improve still further as increased recruitment levels begin to feed through to the trained strength from next year.
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<sup>3</sup> Ongoing validation of data from the Joint Personnel Administration system means that these figures remain provisional.

**2.5** The Department expects that all three Services will return to manning balance in 2010 (**Figure 7**).

**Figure 6**  
Manning Balance



Source: Ministry of Defence Annual Report and Accounts, 2008-2009

**NOTE**

Manning Balance is defined as trained strength between 98 per cent and 101 per cent of the requirement.

**Figure 7**  
Manning in the three Services

|                 | <b>Trained strength at 1 April 2009</b> | <b>Deficit at 1 April 2009 (%)</b> | <b>Deficit as at 1 April 2008 (%)</b> | <b>Department expectations for achieving Manning Balance</b>   |
|-----------------|---|------------------------------------|---------------------------------------|--|
| Royal Navy      | 35,020                                  | 2.1                                | 3.3                                   | Planned requirement changes combined with initiatives to improve recruitment and retention should reduce the deficit further, and Manning Balance should be achieved by April 2010.  |
| Army            | 99,250                                  | 2.5                                | 3.5                                   | The trained strength of the Army increased by around 1,000 personnel during 2008-09. The Army should return to Manning Balance in early 2010 and to Full Strength in 2011.   |
| Royal Air Force | 39,660                                  | 4                                  | 2.4                                   | The trained strength of the Royal Air Force fell by around 1,000 personnel during 2008-09. The Royal Air Force should return to Manning Balance in 2010 and to Full Strength in 2012, as reductions in voluntary outflow and increases in the numbers completing training begin to have an impact. |

### Strength and Requirement of Full Time UK Regular Forces, Full Time Reserve Service and Gurkhas

|                         | <b>Naval Service</b> |                     |                     | <b>Army</b>         |                     |                     | <b>Royal Air Force</b> |                     |                     |
|-------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------------|---------------------|---------------------|
|                         | <b>1 April 2009</b>  | <b>1 April 2008</b> | <b>1 April 2007</b> | <b>1 April 2009</b> | <b>1 April 2008</b> | <b>1 April 2007</b> | <b>1 April 2009</b>    | <b>1 April 2008</b> | <b>1 April 2007</b> |
| Trained Requirement     | 35,760               | 36,260              | 36,800              | 101,790             | 101,800             | 101,800             | 41,310                 | 41,210              | 45,020              |
| Trained Strength        | 35,020               | 35,070              | 34,920              | 99,250              | 98,270              | 99,350              | 39,660                 | 40,620              | 43,550              |
| Variation               | -740                 | -1,190              | -1,880              | -2,540              | -3,530              | -2,450              | -1,660                 | -590                | -1,460              |
| Untrained Strength      | 3,940                | 4,040               | 4,520               | 12,160              | 11,540              | 11,180              | 4,310                  | 3,140               | 2,160               |
| Total UK Regular Forces | 38,960               | 39,110              | 39,440              | 111,410             | 109,810             | 110,530             | 43,970                 | 43,750              | 45,710              |

Source: Ministry of Defence Annual Report and Accounts 2008-2009

#### NOTES

- 1 The Trained Strength, Untrained Strength and the Trained Requirement comprise UK Regular Forces, Gurkhas, FTRS personnel and Nursing services. They do not include the Home Service battalions of the Royal Irish Regiment or mobilised reservists.
- 2 Due to ongoing validation of data from the Joint Personnel Administration System, Army statistics from 1 April 2007, and Naval Service and RAF statistics from 1 May 2007 are provisional and subject to review.
- 3 Figures are rounded to ten and may not sum precisely to the totals shown.
- 4 Due to the introduction of JPA original Army figures published in MOD Annual Report and Accounts 2006-2007 were as at 1 March 2007.

**2.6** Although overall manning levels are improving, there remain significant shortages of personnel in some key skills areas or trades, known as pinch points, some of which have a direct impact on operational effectiveness (operational pinch points). Pinch points arise because of a shortage against the requirement, a temporary increase in the requirement as a result of current operations, or a combination of the two. There are currently 83 pinch point trades, compared to 73 at the end of 2007-08. The Department's main concerns are as follows:

- **Royal Navy:** the number of operational pinch points increased from 20 to 27, and there remain shortages in some submariner and Fleet Air Arm trades and in the General Service Warfare Branch. New trades on the register in 2008-09 include Lieutenant submariners who are Warfare Course qualified and Mine Clearance Divers.
- **Army:** the number of operational pinch point trades increased from eight to 11. These include bomb disposal experts, specialist nurses, Military Intelligence Operators and Recovery Mechanics. The Army's most critical concern is the Ammunition Technician trade, with a shortfall of 38 per cent, followed by Infantry Privates to Lance Corporals, where the deficit has increased from 8.5 per cent in 2007-08 to 10.6 per cent in 2008-09 (1,590 personnel).
- **Royal Air Force:** the number of operational pinch points fell from 15 to 13 during 2008-09. These include medical personnel, Weapons Systems Operators and personnel in the Operations Support Branch.

**2.7** Recruitment to all three Services improved in 2008-09. This reflects both the Department's considerable efforts in this area, including increased targeted recruitment campaigns at both national and local levels, and the impact of the current economic climate, with the Department reporting a significant increase in the numbers enquiring about a career in the Armed Forces over the last year. Overall, the number of personnel recruited into the untrained strength increased by 1,710 personnel compared to 2007-08.

**2.8** The improvement in the numbers joining the Armed Forces will not have an immediate impact on the overall manning levels, as personnel do not count against the Manning Balance requirements until they have completed their Phase 1 initial and Phase 2 specialist training (as long as a year for some trades), and join the trained strength. In 2008-09, there were 15,330 Gains to Trained Strength, compared to 13,360 in the previous year.

**2.9** To achieve Manning Balance, the Department must also retain sufficient numbers of personnel. It costs significantly more to recruit and train new personnel than to retain existing ones, particularly those in highly skilled trades, whose experience cannot easily be replaced. The Department does not have a target for the level of early exits it can sustain each year (voluntary outflow), but monitors performance against guideline figures derived from long term trends. Levels of voluntary outflow decreased during 2008-09 in the Royal Navy and for Royal Air Force Officers, and increased slightly for Royal Air Force Other Ranks. In all cases, however, voluntary outflow remained above the stable long term goal (**Figure 8**). The Department believes that voluntary outflow

will improve further as it has anecdotal evidence of a reduction in applications to leave. The Department has been unable to provide updated figures for voluntary outflow for the Army since the introduction of the Joint Personnel Administration system in 2006 due to ongoing validation of data.

**2.10** The Department's range of measures to improve retention includes career breaks, extensions to engagements, commitment bonuses (paid to personnel on completion of minimum length of service) and financial retention incentives (a targeted payment for specialist personnel who commit to a defined period of service). A new commitment bonus of £15,000 was introduced from 1 April 2009 and the value of the existing scheme will be increased to £8,000 under the transitional arrangements. Financial retention incentives are particularly effective in the short term to address critical manning gaps in pinch point trades and the Department has a number in place. It has strengthened the process for conducting cost benefit analyses of these incentives in response to recommendations from the NAO. The Department recognises that it will need to refine its measures and target them at the most vulnerable trades if it is to avoid a surge in early exits once the economy begins to recover.

**Figure 8**  
Voluntary Outflow Rates

|                           | Stable<br>long term<br>Voluntary<br>Outflow Goal<br>(%) | Year ending<br>31 March<br>2009<br>(%) | Year ending<br>31 March<br>2008<br>(%) | 1 April 2000<br>to 31 March<br>2009<br>(%) |
|---------------------------|---|--|--|--|
| Naval Service Officers    | 2.0   | 4.0                                    | 4.3                                    | 3.1  |
| Naval Service Other Ranks | 5.0   | 6.0                                    | 6.3                                    | 5.8  |
| Army Officers             | 4.1   | *                                      | *                                      | 4.0  |
| Army Other Ranks          | 6.2   | *                                      | *                                      | 5.7  |
| RAF Officers              | 2.5   | 2.9                                    | 3.0                                    | 2.6  |
| RAF Other Ranks           | 4.0   | 5.5                                    | 5.1                                    | 4.4  |
| Tri-Service Officers      | *   | *                                      | *                                      | 3.2  |
| Tri-Service Other Ranks   | *   | *                                      | *                                      | 5.3  |

Source: Ministry of Defence Annual Report and Accounts, 2008-2009

#### NOTES

- 1 Voluntary outflow information has not been published for the Army since the introduction of JPA because of ongoing validation of data.
- 2 Long term voluntary outflow goals are sourced from the MOD Department Plan 2005-2009. Voluntary outflow information has not been published for the Army since the introduction of JPA because of ongoing validation of data.
- 3 Due to ongoing validation of data from the Joint Personnel Administration system, all Naval Service flow statistics from the period ending 31 October 2006, all Army flow statistics for the period ending 31 March 2007 and all RAF flow statistics from period ending 30 April 2007 are provisional (p) and subject to review.
- 4 Annual rates are calculated by taking the number of exits as a percentage of the average strength of all trained Officers or Other Ranks.
- 5 r denotes revised.
- 6 \* denotes not available.

## Capable – medical care and fitness

**2.11** The Department needs its Service personnel to be fit and able to carry out the tasks required of them. The Department provides comprehensive medical services, ranging from routine healthcare for Service personnel to vital medical care to personnel deployed on operations and rehabilitation care for complex injuries. In March 2009, the Healthcare Commission published a review of the Defence Medical Services' clinical governance process, the first ever independent assessment of healthcare provided to Service personnel. The review provided a positive assessment of the care provided to casualties of war, highlighting examples of exemplary healthcare provision in the areas of trauma care and rehabilitation. The report also identified some areas for improvement including the need to have universal standards in place across all services, and addressing maintenance and cleanliness at some medical units providing services away from the front line. The Department has already taken action to respond to the report's recommendations.

**2.12** The Department aims to have at least 90 per cent of Armed Forces personnel 'fit for task' by 1 April 2012 (fully fit for employment in an operational capacity, with no medical restrictions)<sup>4</sup>. During 2008-09 the proportion reported as 'fit for task' fell slightly from 85.4 per cent on 1 April 2008 to 84.8 per cent on 1 April 2009. Nearly all of those reported as not fit for task, although not able to deploy, were still able to contribute to operational effectiveness as they were able to carry out duties in their units. Only 0.75 per cent of personnel were unfit for any task. The figures reflect the higher standards of fitness required for personnel deploying on combat operations. The Department reports that improvements to its medical management systems should help increase the number of Service personnel medically fit for task.

## Harmony guidelines

**2.13** The Department aims to keep Service personnel motivated so that they feel they have worthwhile and satisfying careers, and are able to deliver operational effect. One factor impacting on motivation is the time between operational tours, which can affect retention. Each Service has its own 'harmony guidelines' for the maximum time Service personnel should spend away from their families (individual separated service) and the minimum time individuals should have between operational deployments (tour intervals). These are based on the routine level of concurrency that the Armed Forces are resourced to sustain, which has been exceeded in every year since 2001. As a result, many personnel are breaking the harmony guidelines and all three Services breached their separated service levels to some degree in 2008-09. The proportion exceeding the guidelines is likely to be higher in the pinch point trades who often deploy as individuals or part of a specialist support group rather than as part of a unit.

4 Defence Plan 2008-2012.

- Less than one per cent of Royal Navy personnel breached the guidelines of no more than 660 days separated service over a three year rolling period. However, both the Department's Autumn and Quarter 3 performance reports highlight that increasing numbers of units and personnel are approaching the limits.
- The latest available data for the Army shows that 10.3 per cent of personnel were exceeding the guidelines of no more than 413 days separated service in any 30 month period. This figure is the same as that reported last year. The Department does not know what the figure is for 2008-09 due to ongoing issues with generating data on individual separated service from the Joint Personnel Administration system. According to its Autumn performance report, the data will be updated in January 2010. During the year, some units were reported as exceeding the unit tour intervals including the Infantry, Royal Artillery, Royal Signals and Royal Logistics Corps.
- 5.9 per cent of Royal Air Force personnel exceeded the guidelines of 280 days separated service over a 24 month rolling period. The reporting period has changed during 2008-09 (previously 140 days in 12 months) to allow commanders greater flexibility. During the year, the Royal Air Force reported that some branches were exceeding the unit tour intervals, including Ops Support and the Royal Air Force regiment.

## Satisfaction and Dissatisfaction

**2.14** The Department monitors the satisfaction of Service personnel by means of a tri-Service Continuous Attitude survey. The 2008 survey, completed during August and October 2008, showed that overall 64 per cent of Officers and 49 per cent of Other Ranks said they were satisfied with Service life. The results of the survey highlighted the impact of high operational tempo on personnel, with 46 per cent of Officers and 34 per cent of Other Ranks rating their current workload as too high.

**2.15** The Annual Report does not, as in previous years, provide a breakdown of the top sources of satisfaction and dissatisfaction among respondents to the Continuous Attitude Survey. The full survey results on the Department's website contain an analysis of the top ten positive and negative retention factors, which were similar in all three Services. For Officers, the top factors rated as influences to stay in the Service were pension, excitement of the job, healthcare provision and current job satisfaction, and the top factors rated as influences to leave included the impact of Service life on family and personal life, the effect of operational commitments and overstretch, opportunities outside the Services and impact on spouse's career. For Army Officers, Service accommodation also featured in the top three influences to leave. For Other Ranks, the top factors rated as influences to stay in the Service were very similar – pensions, healthcare provision, excitement of the job and opportunities for personal development and the top factors rated as influences to leave included the impact of Service life on family and personal life, the effect of operational commitments and overstretch, the frequency of operational tours and deployments and the amount of pay.

## Service Complaints Commissioner

**2.16** March 2009 saw the publication of the first Annual Report by the Service Complaints Commissioner on the fairness, effectiveness and efficiency of the Service complaints process. The Report was positive about the commitment in the three Services to tackling unacceptable behaviour and ensuring that Service men and women are treated well. The Commissioner found that the new complaints system introduced in January 2008 was well designed and was working, but identified some areas where there was scope for improvement, including the accessibility of the system, the timeliness with which complaints were handled and communication of progress to personnel. The Department reports that it is working with the Commissioner to address these. The Committee, in its report on the first year of the Service Complaints Commissioner, considered that the Commissioner had made an impressive start, and noted that it expected the Department to consider carefully each recommendation in its response to the Commissioner's report.

## Service Personnel Command Paper

**2.17** In recognition of the unique demands that service in the Armed Forces places on individuals and their families, the Government published the Service Personnel Command Paper in July 2008<sup>5</sup>. This cross-government strategy contains a number of commitments aimed at ending any disadvantages that personnel and their families may experience as a result of armed service, such as those that result from the requirement to move around the country. These commitments include steps to ensure Armed Forces and their families are able to access the same healthcare, education and welfare services as their civilian counterparts. In some cases, this may require special treatment. The paper also sets out commitments on the provision of better support and recognition for those who have been wounded in service.

**2.18** The Department's Annual Report provides details of some achievements since the Command Paper was published. These include:

- a doubling of the maximum lump sum payment under the Armed Forces Compensation Scheme to £570,000;
- injured personnel are now able to access grants up to £30,000 to adapt their homes, without having their compensation scheme or war pension payments taken into account, and seriously injured personnel are entitled to privileged access to affordable housing schemes in England;
- 'priority status' for Service leavers for up to 12 months after leaving the Armed Forces in England and Scotland, enabling access to key worker living and other affordable housing schemes; and
- Service dependants can retain their place on an NHS waiting list when they move to a new Primary Care Trust area.

<sup>5</sup> *The Nation's Commitment: Cross Government Support to our Armed Forces, their Families and Veterans* (Cm 7424).



## Service Families Accommodation

**2.19** The Department provides living accommodation for nearly 200,000 military personnel, and it recognises good quality accommodation is an important factor in the retention of Service personnel. In March 2009, the NAO published a report into the Department's provision of Service Families Accommodation to some 42,000 Armed Forces personnel and their families in the UK<sup>6</sup>. The main findings were:

- The Department has sufficient accommodation overall to meet current demand, but many properties are in the wrong locations and in general there are not sufficient properties to meet current family sizes.
- Ninety per cent of Service Families Accommodation is at the top two of the Department's four condition standards. Around half of Service families surveyed by the NAO felt their accommodation was in good condition, but around a third felt it was in poor condition. The Department has a programme to upgrade all accommodation to the highest standard, but this will take some 20 years at current rates of upgrade.
- The Department needs to maintain a certain level of empty properties to facilitate a high number of family moves (20,000 each year). As at September 2008, 9,170 properties (18 per cent) were empty, costing the Department around £38 million a year. Every percentage point reduction towards the Department's target of ten per cent empty properties could release £2 million, which could be reinvested in improving the existing stock.
- On the whole, occupants were satisfied with the move-out process, but were less satisfied with the move-in process. Around 43 per cent were unhappy with the state of the carpets, 38 per cent with the state of repair, and 35 per cent with the state of cleanliness.
- A new single housing prime contract for England and Wales was introduced in 2006. Many of the initial problems have been solved, and there has been an upward trend in the contractor's performance against Key Performance Indicators, but many were still dissatisfied with the repairs service, in particular with whether the helpdesk understood the problem they were reporting, and there are still difficulties with contract coverage and management.
- The Department could do more to consult with occupants as to how best to prioritise available funding for upgrade works. Communication with occupants could be improved, and the Department should adopt a greater customer focus.

<sup>6</sup> *Ministry of Defence: Service Families Accommodation*, HC 13 Session 2008-09 18 March 2009.

**2.20** The NAO's report highlighted that figures on the condition of properties were likely to change as a result of a comprehensive condition survey that the Department has carried out. This survey is now substantially complete according to the Department's Annual Report and has revealed that, although 90 per cent of properties are still at the highest two of four condition standards, there are fewer houses at the top standard (1) than previously thought (32 per cent of properties at Standard 1 and 57 per cent at Standard 2, broadly reversing the previous position).

**2.21** The Department is investing in improvements to both Service Families and Single Living Accommodation, and announced in March 2009 that it was bringing forward £50 million spend from future years. The majority of this will be spent on Single Living Accommodation. The Department published a Ten Year Accommodation Management Strategy in August 2009, which sets out its aspiration for all UK Service families to be living in the highest standard of accommodation by 2020. This is a challenging timescale given the NAO's Report identified that this would take some 20 years at the current rate of upgrade based on the previous condition data, and the condition survey has revealed fewer top standard properties than previously thought. The Department will target its upgrade work on those properties in the worst conditions first, so that by March 2013 very little, if any, of the estate should be below Standard 2. For Single Living Accommodation, the aim is for 70 per cent to be at the highest grade by 2020, with the remainder in Grade 2.

## **Reputation of Defence**

**2.22** The Department carries out regular surveys of public opinion towards the Armed Forces and towards the Ministry of Defence. The latest results of the external opinion survey, from March 2009, showed that public opinion remained favourable towards the Armed Forces, with 84 per cent giving a favourable opinion rating, compared to 77 per cent as at March 2008 and 76 per cent in March 2007. Public opinion towards the Department also improved over the last two years, with 55 per cent of those polled giving a favourable opinion rating for the Department in March 2009, compared to 50 per cent in March 2008 and 44 per cent in March 2007.

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## DSO 3 Build for the future

**PI 3.1 Procuring and supporting military equipment capability, through life**, assessed against achievement of targets for key user requirements, full operational capability date, and in-year variation of forecast costs for design, manufacture and support.

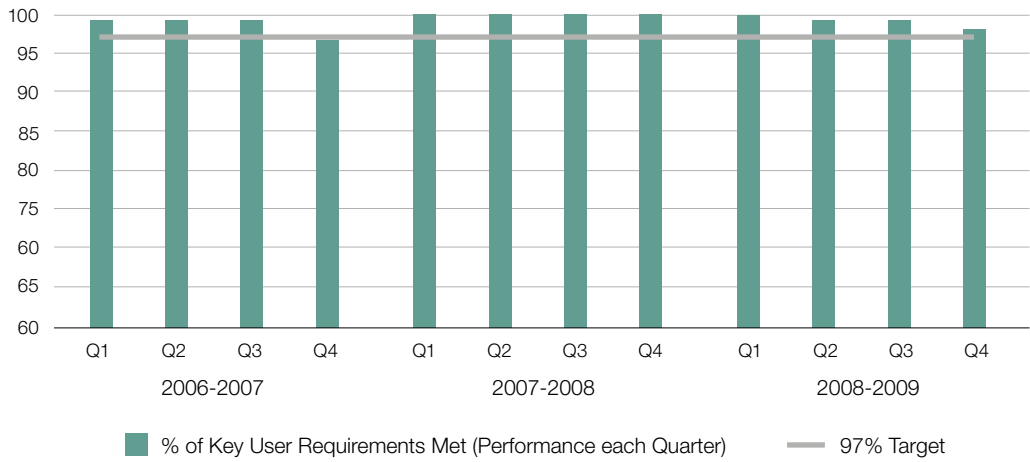
The Department assessed that it had made **no progress** against this objective. Although it met its targets for Key User Requirements, the targets for variation in forecast cost and time were not met (see **Figure 9** overleaf). The targets cover all of the Department's Category A to C projects (projects over £20 million) that have passed Main Gate approval, and are a continuation of those set under the 2004 Comprehensive Spending Review.

- Ninety eight per cent of Key User Requirements for Cat A to C projects are forecast to be met, against a target of 97 per cent.
  - The average in-year variation of forecast costs for the design and manufacture phase was 2.8 per cent, against a target of less than 0.2 per cent. The total net cost variation for 2008-09 was £1.24 billion, of which £1.07 billion related to cost increases on the Queen Elizabeth Aircraft Carriers. Cost increases on this project and on the A400M were offset by savings to Wildcat (Future Lynx), and to the Future Strategic Tanker Aircraft project.
  - The average in-year variation of forecast In-Service dates was 5.9 months (a total of 242 months across all projects), against a target of less than 0.4 months. The total time variation was 242 months, of which 141 was attributable to five projects – the A400M heavy transport aircraft, the Application Migration Project (part of the DII programme), Soothsayer Electronic Warfare System, Naval Extremely High Frequency/Super High Frequency Satellite Communications Terminals, and a project to supply communications to Special Forces.
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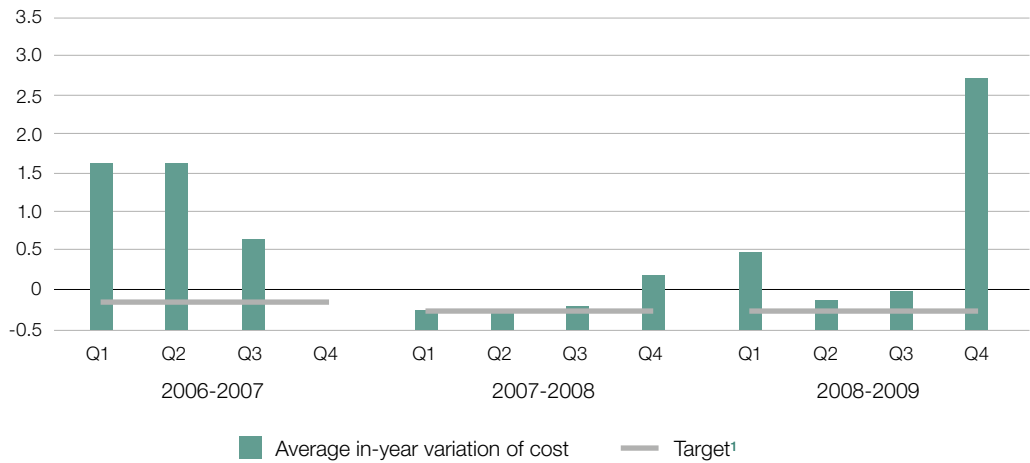
## Equipment programme

**2.23** The Department spent some £5.6 billion on its core equipment procurement programme in 2008-09. Equipment valued at £3.1 billion was delivered in 2008-09, with seven Category A to C projects (those worth over £20 million) formally accepted into Service. **Figure 10** on page 35 shows some of the key contracts which were let during 2008-09 and some of the key pieces of equipment delivered to the Armed Forces.

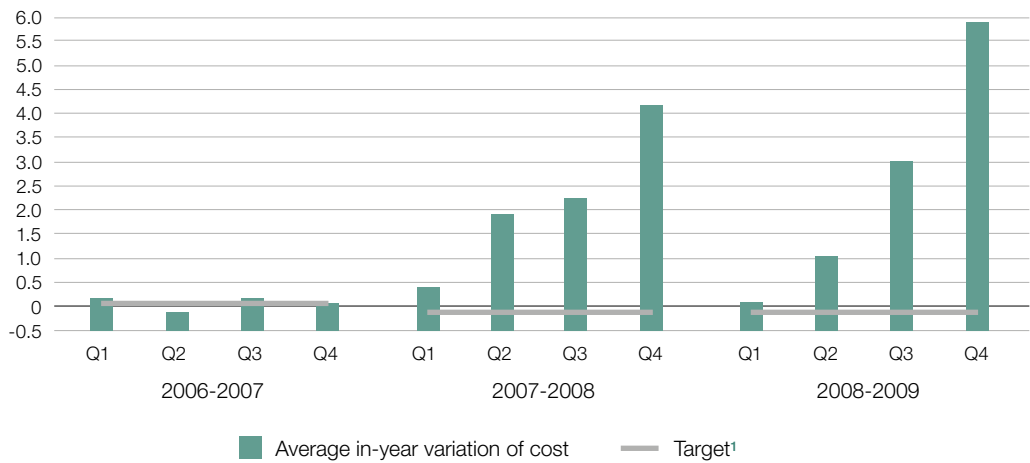
**Figure 9**  
Performance against targets for cost, time and performance



**Forecast Cost Increases (Percentage)**



**Forecast ISD slippage (Months)**



Source: Ministry of Defence Annual Report and Accounts, 2008-2009

**NOTE**

1 For 2008-2009 PSA's have been replaced by DSO's.

**Figure 10****Key New Contracts Let and Equipment Delivered in 2008-09**

|                        | <b>Key Equipment Delivered</b>  | <b>Key New Contracts Let</b>  |
|------------------------|---|---|
| <b>Royal Navy</b>      | <p>Launch of the fourth Type 45 Destroyer, Dragon, commencement of sea trials for the second Destroyer, Dauntless, and Acceptance of Contract of the first of class, HMS Daring.</p> <p>A new variant of offshore raiding craft delivered to the Royal Marines</p>  | <p>Signature of contract for two new aircraft carriers, HMS Queen Elizabeth and HMS Prince of Wales</p> <p>Contracts worth £318 million for in service support of the Sea Wolf radar and missile system</p> <p>Contracts worth £293 million on the Astute submarine programme Boats 4 and 5</p>   |
| <b>Army</b>            | <p>Maiden flight of the Watchkeeper Unmanned Aerial Vehicle, which will provide real time intelligence to commanders on the battlefield when it comes into service in 2010.</p> <p>Delivery of Tranche 1 and 2 Jackal protected patrol vehicles, a total of 202 vehicles by February 2009</p> <p>Delivery of 18 Panther Command and Control vehicles to theatre by March 2009</p> | <p>Contracts worth a total of £413 million to provide additional protected patrol vehicles for Afghanistan, including 262 Husky, 115 Warthog, 97 more Jackal, and communications and additional armour protection for 151 additional Ridgeback.</p> <p>Contracts worth a total of £33 million to meet the TALISMAN Urgent Operational Requirement –24 Mastiff, 12 Buffalo vehicles, six Micro Air Vehicles.</p> <p>A contract worth £300 million for a new fleet of tracked, earth moving engineer vehicles</p> |
| <b>Royal Air Force</b> | <p>Commencement of Typhoon Tranche 2 deliveries.</p> <p>Combat ready declaration of an initial precision air-to-surface capability for the Typhoon aircraft</p> <p>Delivery of fourth and fifth Airborne Stand-Off Radar aircraft</p> <p>Delivery of fifth and sixth C-17 Globemaster aircraft</p>  | <p>A £199 million nine year incentivised partnering arrangement for Harrier Pegasus Engine Availability, and a £668 million contract for the support of the Harrier Airframe until its out of service date in 2018</p> <p>A £450 million contract for support and maintenance of the Typhoon aircraft</p>   |
| <b>Tri-Service</b>     | <p>The launch of Skynet 5C communications satellite</p> <p>Launch of the Training System Partner contract in May 2008 with the ASCENT Consortium, a £635 million 25 year PFI deal to provide flying training for all three Services</p>   | <p>£200 million contract for the 'highly classified requirement' for the Defence Information Infrastructure Increment 2C.</p>   |

Source: National Audit Office analysis of Departmental data

**2.24** The Department is struggling to deliver its equipment programme to time and on budget, and failed to meet its targets on in-year cost and time variation for its Category A to C projects (those worth over £20 million). The forecast costs of the projects increased by £1.24 billion, of which £1.07 billion was attributable to the Queen Elizabeth Future Aircraft Carriers, and there was a total of 242 months delay to In-Service Dates. Most of this delay (141 months) was due to five projects, which include the A400M heavy transport aircraft. As the NAO's 2008 Report<sup>7</sup> highlighted, the A400M was originally due to come into service before the Hercules 130-K goes out of service in 2012 and any further delays to the introduction of the A400M could prevent the Department sustaining current levels of tactical airlift. Airbus Military have now informed the Department that the original in-service date will not be met, which leaves the Royal Air Force with a potential capability gap in the area of strategic and tactical airlift. The Department reports that it is concerned by the delays to the programme, and is in discussion with partner nations and the company on the way forward. The Department is also examining a number of options as a contingency to mitigate the capability gap.

**2.25** The Equipment Plan is becoming increasingly unaffordable, a challenge which is recognised by the Department. As noted in the Committee's report 'Defence Equipment 2009' (published February 2009), the Department conducted a short examination of its equipment programme following the completion of its Planning Round in 2008. The short examination was aimed at addressing the rising cost of high end equipment, bringing the programme more closely into balance with the resources available, and 'rebalancing' the programme to increase its focus on support for current operations. The Department announced the results of the examination on 11 December 2008 and the key decisions taken were:

- The introduction into Service of the Aircraft Carriers was delayed by one to two years.
- The Department reaffirmed its commitment to the Future Lynx/Wildcat programme, but the number of platforms was reduced from 70 (plus an option to purchase a further 10) to 62.
- The fleet tanker element of the Military Afloat Reach and Sustainability programme was deferred. As a result the competition for the procurement element has been cancelled, and a review of the requirements and procurement strategy is being carried out.
- The Department's highest priority for current operations was identified as the Warrior Capability Sustainment Programme and the Future Rapid Effect System (FRES) Scout vehicle. As a result, the Department decided to restructure the FRES programme, giving priority to the Scout over the Utility Vehicle. Separate to this, the Department withdrew General Dynamics' provisional preferred bidder status for the FRES UV design competition because 'agreement could not be reached on the commercial conditions required to make further progress', and is now looking at how to take this forward.

<sup>7</sup> *Ministry of Defence: Hercules C-130 Tactical Fixed Wing Airlift Capability*, HC 627, Session 2007-08, 27 June 2008.

**2.26** In the last ten years, there have been two major initiatives introduced to improve the Department's acquisition performance – Smart Procurement in 1999 and Smart Acquisition in 2004. The Department also set up the Defence Acquisition Change Programme (DACP) in 2006 to deliver the required changes to process, organisation, culture and behaviours within the DE&S organisation. This programme has now been consolidated into routine business and was removed from the wider portfolio of Change Programme projects with effect from 31 March 2009. In recognition that it still has more to do in improving its procurement performance, the Secretary of State asked Bernard Gray to examine the Department's progress with implementing the DACP reforms and to consider what more might be done to secure better value for money in the delivery of major acquisition programmes. The report was to have been published before the Summer recess but its publication has been delayed to feed into the wider Green Paper on Defence later in the year. Excerpts of the draft report have, however, appeared in the press, which suggest that the report will be highly critical of the Department's procurement performance.

### **Non-Equipment Investment Plan**

**2.27** In addition to the procurement of military equipment, the Department manages a large number of non-equipment projects. The Department has brought together about 70 projects under a Non-Equipment Investment Plan (NEIP), and balances investment across these projects within the resources it has available. The NEIP covers a wide range of estates programmes, such as the collocation of Defence Equipment and Support staff onto one site at Abbey Wood, and major information systems projects, such as the Defence Information Infrastructure IT system. As part of Departmental Strategic Objective 2, the Department has a performance indicator covering its record in procuring and supporting these projects, including sub targets for time, cost and key user requirements across a representative subset of NEIP projects<sup>8</sup>. Although its Annual Report contains some details of developments on individual projects, the Department was not able to provide a report on progress against the performance indicator, due to problems with bringing together the necessary information, and is currently considering whether this is the most effective approach to reporting progress.

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## DSO 3 Build for the future

**PI 3.2 Procuring and supporting non-military equipment capability, through life**, assessed against achievement of targets for key user requirement, full operations capability date, and in-year variation of forecast costs.

The Department **did not assess** performance against this target.

- The Non-Equipment Investment Plan, first used as a central programming tool in Planning Round 2008, has been used in 2009 to make judgements on investment across the programme of 70 projects.
  - During the year, the Department trialled a statistical approach to measuring the consolidated performance of the NEIP in its quarterly performance reports. The Department considers that the analysis did not deliver a material benefit to its ability to measure progress and the approach will be reviewed in the next year.
  - The Department writes in its Annual Report that “good progress has been made across most of the programmes in the NEIP”, and the report provides some information on the various estates projects, and projects within the Department’s Change Portfolio such as DII. The Annual Report does not contain any quantification of the costs and timescales of these projects compared to budgets or plans.
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## Capability and Force Structures

**2.28** 2008-09 has seen further work to improve the capability of all three Services.

### The capability of the Royal Navy

**2.29** The Royal Navy has now completed its Transformation Programme and is working on a strategy of continuous improvement. In July 2008, the contract for the two new aircraft carriers was signed. The In-Service date for the Carriers was revised in December 2008 as a result of the short examination of the equipment programme, which the Department stated was “in order to better align them with the In-Service Date for the Joint Combat Aircraft”. The forecast cost of the Aircraft Carriers increased by £1 billion in-year, partly as a result of this delay.

### Type 45 Destroyer

**2.30** 2008-09 saw the acceptance onto contract of the first Type 45 Destroyer, HMS Daring. The National Audit Office published a report into the procurement of the Type 45 Destroyer – “*Providing Anti-Air Warfare Capability: the Type 45 Destroyer*” – in March 2009. The report’s main findings included:

- The Type 45 Destroyer will provide a much greater capability compared to the Type 42 it is planned to replace, but has experienced considerable delays of over two years and cost increases of £1.5 billion because of over-optimism about what could be achieved, inappropriate commercial arrangements and poor project management in the early stages. The Department took action to resolve the problems and the contract was renegotiated in 2007. Management of the project is now much improved and there have been no delays or cost increases reported since then.



- When the Type 45 project was approved, the Department planned to buy 12 ships. This was reduced to eight ships in 2004, and has subsequently been reduced to six. The Department's policy requirement to have five ships available for tasking remains unchanged and it will be challenging to meet this requirement with the reduction in the number of destroyers being procured, although the Department judges that the benefits of new technology, improved efficiency, and optimising the way it supports the destroyers to maximise time 'at sea' will mean it will be able to deliver the necessary capabilities with fewer ships.
- The Destroyers will be introduced into service between 2009 and 2013. The first of class, Daring, will enter service with the Principal Anti-Air Missile system performance having been tested but before the missile is first fired from a destroyer. The Department plans to fit a number of equipments incrementally on ships after they have come into service, meaning that the full capability of the ship will not be available until the middle of the next decade.
- The development of the long term support solution is running later than planned, and the Department may have to extend interim support measures, which could have operational and cost implications.

## Nuclear Deterrent

**2.31 Nuclear Deterrent:** In October 2008, the NAO published a report<sup>9</sup> into the Department's programme for implementing the government's decision to maintain the UK's nuclear deterrent capability beyond the life of the current Trident system. The programme is at an early stage, with the Department currently engaged in a two-year concept phase, originally due to finish in September 2009, when the Department is expected to consider the Initial Gate Business Case. The report found that the Department has made good progress in establishing programme management arrangements, coordinating all aspects of the capability and engaging industry and other government departments. The report identifies five key areas of risks to delivery which will need to be managed carefully if value for money is to be achieved:

- **Meeting a challenging timetable** – there is little scope for incorporating time contingency in the overall programme to deal with slippage in other areas. The critical path is the delivery of the submarine platform, to meet an in-service date of 2024.
- **Making decisions about the design on time** – at the time of publication of the NAO report, there were still major decisions to be made on the design specification for the future submarine by the formal end of the concept phase in September 2009.
- **Ensuring effective governance arrangements** – the management and decision-making arrangements developed during the concept phase will need to be strengthened as the programme develops. Challenges to be addressed in the short term include the overall coordination of the programme.

<sup>9</sup> *Ministry of Defence: The United Kingdom's Future Nuclear Deterrent Capability*, HC 1115, Session 2007-2008, 5 November 2008.

- **Developing a robust budget and exerting financial control** – the Department is improving the White Paper costs but they are not yet sufficiently robust to support the future deterrent throughout its planned life. There remain areas of uncertainty in the budget, including provision for contingency, inflation and VAT.
- **Applying effective procurement practice** – currently there is no single document which sets out how the Department intends to assure value for money from suppliers in this highly specialised sector throughout the life of the programme. The Department and Industrial suppliers have identified skills shortages in submarine building expertise within the supply chain and in financial, commercial and programme management and nuclear expertise within the Department, and are considering how to address them.

### The capability of the Army

**2.32** During the year, work continued to implement Army restructuring projects including Project Hyperion, the creation of a single Headquarters for Land Forces in Andover by 2012, and the optimisation of facilities in the Salisbury Plain Training Area. Work also continued on preparing 6 Division Headquarters in York (created to provide a third deployable two-star headquarters until the end of 2011) and the temporary 11 Brigade Headquarters in Aldershot for their deployments in Afghanistan late in 2009. These measures were first introduced last year in response to the high operational tempo to try to mitigate the impact of operations on harmony guidelines. The Army made some further temporary measures to reconfigure its forces for current operations, including:

- Re-rolling of 12 and 47 Regiments Royal Artillery from manning high velocity air defence weapons to crew the new Desert Hawk unmanned aerial vehicle in Afghanistan.
- Re-rolling selected regiments within the Royal Armoured Corps to drive Viking vehicles in Afghanistan.
- Creating 105 Military Working Dog Support Unit to make more dogs available for operations.

### The capability of the Royal Air Force

**2.33** During the year, the decision was taken to replace the Harrier force in Afghanistan with the Tornado GR4 by Summer 2009 to ‘facilitate recuperation and regeneration of core Harrier skills and give the force a rest after four years on continuous operations’, and to begin the drawdown of the Tornado F3 force one year earlier than planned to ease manning shortfalls in other areas. The tasks previously carried out by the Tornado F3 will begin to be progressively handed over to the Typhoon aircraft from 2009-2010.

**2.34** 2008-09 saw progress made on the Future Strategic Tanker Aircraft, which will provide the Royal Air Force with the modern air-to-air refuelling and passenger transport capabilities essential for expeditionary operations. The aircraft is due to enter service in 2011 and the first wings were delivered in February 2009. 2008-09 also saw significant enhancements to the Harrier and Tornado fleets to increase effectiveness in the Close Air Support Roles (including upgrade of Harrier fleet from GR7 to GR9 standard, which is due to be completed in 2009). There were also improvements to weapons capability, including the new Paveway IV precision guided bomb, which entered service with the Harriers in December 2008 and is being fitted to Tornados for service in Afghanistan, and Brimstone, which entered service in December 2008 providing Tornado with increased target accuracy.

**2.35** On 31 July 2009, the Department announced that it would be proceeding with the purchase of Tranche 3 Typhoon multi-role aircraft. The Department plans to order a further 40 aircraft for the Royal Air Force, the first of which is due to enter service from 2013. The 40 aircraft include replacements for 24 aircraft already on order for the Royal Air Force under contracts placed in 2004, which were diverted to satisfy exports to Saudi Arabia, plus an additional 16 aircraft.

## Reserves

**2.36** As at April 2009, there were around 35,000 personnel in the Reserve Forces. The Reserve Forces have played an important role on operations in recent years, with many of its personnel having served in Iraq and Afghanistan. On 29 April 2009, the Department published the results of its Strategic Review of Reserves, launched a year previously. The review considered the Department's strategic intent for the Reserves, and looked at how they can be better organised, trained, equipped and supported. The Review confirmed the Department's vision for the Reserve Forces as an increasingly integral part of Defence capability, and made seven strategic recommendations for improvement. These were underpinned by 89 more detailed recommendations, of which the Department reports 42 will be taken forward for implementation and the remaining 47 are subject to further consideration and resourcing. The main recommendations for improvement include:


- In future the Reserve is likely to be needed for augmentation as much for maximum effort, and be used more effectively to connect with the nation.
- Defence should consider how best to adjust the balance of liability, roles and readiness within and between the Reserve and Regular Force (including looking increasingly towards the Reserve to meet the growing need for specialist skills on operations).
- Improving training to make it more relevant, consistent and correctly resourced. This includes a greater emphasis on preparing to support current operations.
- Creating Clearer Command Structures – command and control, principally in the Territorial Army should be clearer to deliver the necessary purpose, greater flexibility of use and better integration.

- Modernisation and rationalisation of the volunteer estate to improve its strategic management. Some of the estate is underused and it needs rationalisation, more opportunities for integration and joint use.
- Defence should review the Terms and Conditions of Service, removing complexity and administrative barriers between the Reserve and the Regulars. This includes more effective mobilisation as the process has not always gone smoothly.

### Departmental Capability Review

**2.37** In 2007, the Cabinet Office published an independent Capability Review of the Ministry of Defence. This assessed the Department’s performance against ten indicators in three key areas: leadership, strategy and delivery (**Figure 11**). The Review identified a number of areas for improvement, including actions to improve corporate leadership, address perceived ‘insularity’ from the rest of Whitehall, and improve the Department’s human capability. The Department put in place a two-year programme to address the areas of weakness identified, including changes to the Defence Board structure and a Head Office streamlining programme, which aimed for a reduction in the size of Head Office of 25 per cent by April 2010.

**Figure 11**  
Assessment of the Department’s capability for future delivery

|   | March 2007  | March 2009   |
|---|---|--|
| <b>Leadership</b>   |   |  |
| Set direction   |  Urgent development area |  Development area |
| Ignite passion, pace and drive                            |  Well placed             |  Development area |
| Take responsibility for leading delivery and change       |  Well placed             |  Well placed      |
| Build capability  |  Development area        |  Development area |
| <b>Strategy</b>   |   |  |
| Focus on outcomes   |  Strong                  |  Strong           |
| Base choice on evidence                                   |  Well placed             |  Well placed      |
| Build common purpose                                      |  Development area        |  Well placed      |
| <b>Delivery</b>   |   |  |
| Plan, resource and prioritise                             |  Development area        |  Development area |
| Develop clear roles, responsibilities and business models |  Urgent development area |  Development area |
| Manage performance  |  Development area        |  Development area |

**2.38** In March 2009, the Cabinet Office published a follow-up to the 2007 Review. The ratings of six indicators were unchanged since March 2007, three had improved and one (ignite passion, pace and drive) had declined (Figure 11). There were no urgent development areas, compared with two in 2007, but the Department was rated as less than 'well placed' in six of the ten assessed elements of capability.

**2.39** The March 2009 Review recognised the work the Department had done in addressing the 2007 Review's recommendations, including the progress made in clarifying roles and responsibilities and strengthening the leadership team. It also recognised better engagement with Whitehall, such as the Department's role in the National Security Strategy and its work on the cross-government Service Personnel Command Paper. Although the Review found that the Department's capability for future delivery had improved, it identified areas for further improvement, most notably the need for a significant increase in the pace of the implementation of the findings from the 2007 Review and the need for a departmental strategy for the medium and long-term that spans operational and non-operational activities and aligns priorities with resources. In response, the Department has produced an implementation plan, including commitments on:

- building a stronger and more visible corporate leadership;
- developing an overarching strategy for the Department;
- redoubling its efforts to build capacity in its civil servants;
- continuing to streamline departmental head office and improve ways of working; and
- further improving relationships across Whitehall.

## Change Programme

**2.40** The Department has an extensive programme of business change initiatives addressing Departmental infrastructure, people, acquisition and management and organisation processes, which it manages through its Defence Change Portfolio (DCP). Programmes move in and out of the DCP depending on their stage of delivery. The aim of much of the Change Programme is to help the Department deliver its efficiency target, set by the Treasury as part of the 2007 Comprehensive Spending Review. The Department assesses it is currently on track to meet this target, which was revised upwards in the April 2009 budget. The Department's Annual Report contains information on the progress of many of the individual change programmes within the portfolio. These include:

- The Defence Information Infrastructure: a programme to provide an integrated information infrastructure for Defence. This programme is key, as it is also an enabler of many other Defence Change programmes. The National Audit Office reported on the programme in July 2008 and found that the programme had delivered significant benefits, but had suffered considerable problems and was running late. Increment 1 has now been successfully completed and the Department reports good progress on the combined increments 1 and 2a

representing 100,000 terminals, which are on target for December 2009. By the end of 2008-09 just over 70,000 terminals had been delivered to over 630 sites, supporting in excess of 166,000 users. The DII (Top secret) increment contract was signed in January 2009 for the delivery of terminals and software.

- The Defence Training Review: the original timetable for this programme has slipped, primarily due to concerns over affordability. The Department made some progress in 2008-09 in negotiations with the preferred bidder for Package 1, the Metrix consortium, and subject to gaining approvals, expects to formally let the PFI contract during 2010-11. Package 2, which includes individual logistics and personnel training, is still in its early stages and during 2008-09 the focus was on forming a project team and gaining approval to undertake a two year assessment of options.
- The Germany re-basing programme (BORONA): under this project, three major formations will move from Germany to the UK, and the Department aims to take advantage of opportunities arising from its estate rationalisation programmes. The first formation, HQ Allied Rapid Reaction Corps, will move to Innsworth, Gloucestershire in 2010. The site was formerly occupied by the Royal Air Force, who now have a single Headquarters located at High Wycombe. Construction works began at Innsworth in October 2008. The location and timings of the move of the other two formations are still being developed.

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## Value for Money target

Under the 2007 Comprehensive Spending Review, the Ministry of Defence is committed to Value for Money (VFM) **reforms generating annual net cash releasing savings** of £2.7 billion **by 2010-11**, building on savings of £3.045 billion in the 2004 Spending Review. In the April 2009 Budget, the Ministry of Defence's VFM target was increased by £450 million to **£3.15 billion**.

The Department assessed that it was **broadly on track** to meet this target.

In the first year of the CSR settlement, the Department reported that it has achieved over £650 million in cash-releasing, sustained and net of costs savings through a number of initiatives, including improvements in various Corporate Enabling Services, efficiencies allowing reductions in civilian numbers working in Defence Equipment and Support and changes to the way the Armed Forces operate in Northern Ireland.

The Department stated that all the savings are reinvested in Defence.

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## Sustainable Development

**2.41** The Department's final performance indicator under Departmental Strategic Objective 3 (Build for the Future) relates to Sustainable Development. The Department assesses performance against six sub indicators, and is on target for half of these, with two reporting minor weakness, and only one reporting a major weakness. The Department published a Sustainable Development Strategy in December 2008, which sets out how it intends to address the challenges in the four Government priority areas of sustainable development consumption and procurement, climate change and energy, natural resource protection and environmental enhancement, and sustainable communities and a fairer world, and also a Sustainable Development Report and Action Plan 2008 providing details of progress.

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## DSO 3 Build for the future

**PI 3.3 Sustainable development**, assessed against achievement of objectives for sustainable consumption and production, climate change and energy, natural resources protection and environmental enhancement, and sustainable communities.

The Department reported that it had made **some progress** towards this objective, with three of its six sub indicators on track to meet targets, two with minor weaknesses, and one with a major weakness.

### On Target

- **Energy use in buildings:** The Department's target is to reduce carbon dioxide emissions from the Defence Estate by 15 per cent by 2010-11, and by 30 per cent by 2020, relative to 2004 levels. It has reduced emissions by around 12 per cent and on current predictions expects to achieve the target by 2010-11.
- **Water management:** The Department's target is to reduce water consumption by 25 per cent on the office and non-office estate by 2020, relative to 2004-05 levels. The Department has reduced its water use by 26 per cent, by leakage reduction through the Aquatrine service providers.
- **Biodiversity condition:** The Department's target is for 86 per cent of the Sites of Special Scientific Interest it has responsibility for to be in target condition by 2008-09, and to work towards the Framework for Sustainable Operations on the Government Estate target of 95 per cent of sites in target condition by 2010. The Department reports that the condition of its SSSIs is improving, and in March 2009 91.5 per cent in England, 68 per cent in Scotland (both against a target of 95 per cent by March 2010), 78 per cent in Wales (85 per cent by 2013) and 57 per cent in Northern Ireland (95 per cent by 2013) were in target condition.

### Minor Weakness

- **Fuel use and travel:** The Department's target is to reduce carbon dioxide emissions from the road vehicles it uses for Government administrative operations by 15 per cent by 2010-11, relative to 2005-06 levels. The Department does not have data available for 2008-09, but the 2007-08 data shows that it has made a reduction of five per cent. It expects to be on track to meet the target by 2010-11 as more lower-emission cars enter its fleet.
- **Waste management:** The Department's target is to increase recycling figures to 40 per cent of waste arisings by 2010. The Department reports that it is broadly on track to meet this target, and achieved 34 per cent recycling. It has less confidence in this assessment than previously, as analysis of the available data on waste has confirmed it is poor quality.

### Major Weakness

- **Procurement:** The Department's target is to become a national leader in sustainable procurement by December 2009 (reporting is on a calendar year basis) and to reach level one in all five of the Government's Sustainable Procurement Task Force Flexible Framework themes by 2008-09, and by 2009-10 to reach level 3 in all themes and level 5 in one theme. The Department reports that it has continued to make progress against the framework, but a lack of dedicated funding means that there is a significant and growing risk that it will miss the December 2009 target. An NAO study in 2008-09 concluded that the Ministry of Defence, along with a number of other government departments, was not yet on course to achieve the target. Until funding issues are resolved there is also a risk to achievement to the March 2011 target.
-

## **Data Security**

**2.42** The Department reported good progress in implementing the recommendations from Sir Edward Burton's report in April 2008 into the Loss of Ministry of Defence Personal Data, an independent review of the Department's data handling policies. As at 31 March 2009, the Department had actioned 41 of the 51 recommendations, and reported that significant progress has been made against the remaining ten, which involve a longer term programme of change. The Department has also made good progress in implementing the 42 recommendations from a separate Cabinet Office Data Handling Review. A new Chief Information Officer role and supporting organisation has also been created to reinforce the importance of the role of information across the Department. The Department continues to report information related incidents in its Annual Accounts. In 2008-09 there were eight separate incidents, seven of which involved the loss of personal data. Four of these affected between 90-1200 individuals. Three cases potentially affected several thousand, with the most serious incident, the possible theft of a Portable Hard Disk containing sensitive personal data from secured contractor premises, estimated as potentially affecting up to 1.7 million people.



# Part Three

## Financial Review

### 2008-09 Financial Outturn

**3.1** The Department receives funding through Requests for Resources (RfRs) voted by Parliament in Supply Estimates:

- RfR 1: Provision of Defence Capability (to cover normal running costs).
- RFR 2: Operations and Peace Keeping (to cover net additional costs incurred on operations).
- RFR 3: War Pensions Benefits (to cover the payment of war disablement and war widows' pensions in accordance with relevant legislation).
- In addition, Armed Forces pensions and the Armed Forces Compensation Scheme are administered as a separate Request for Resources and accounted for in a separate resource account.

Each year the Department is required to provide an Analysis of Net Resource Outturn (the total of RfR1, 2 and 3) and Net Cash Requirement against its Supply Estimates. The Net Cash Requirement excludes non-cash items, for example depreciation.

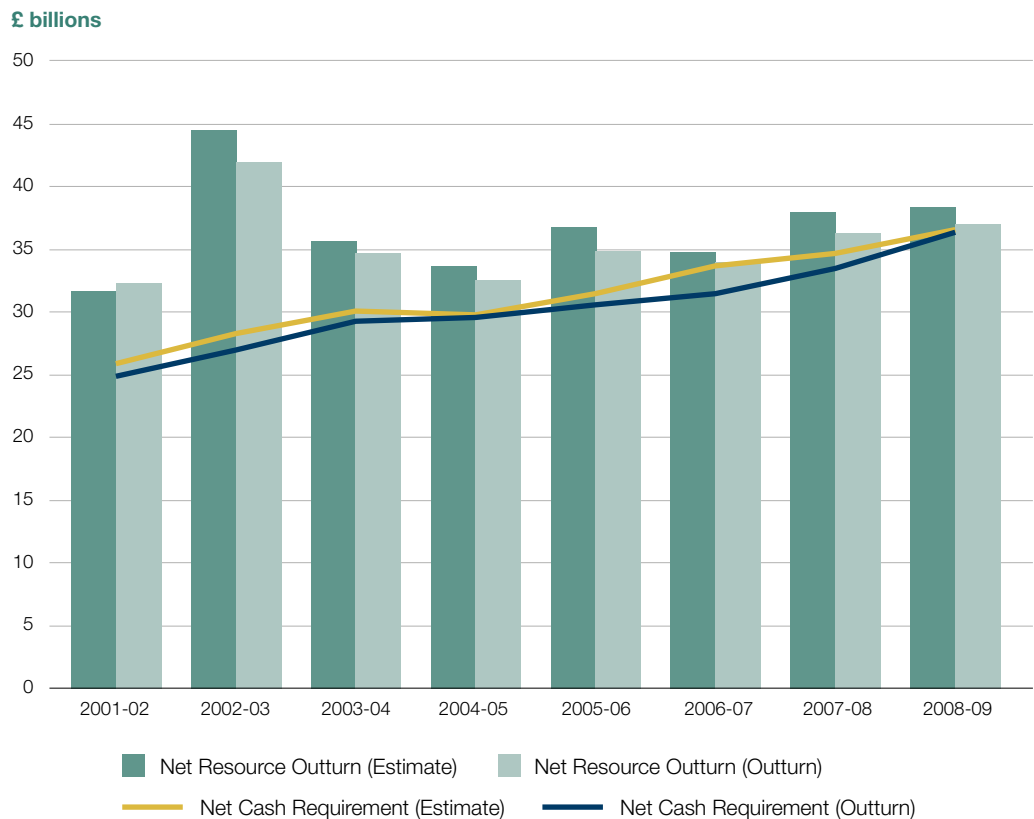
**3.2** A comparison of the Net Resource Outturn and the Net Cash Requirement against Supply Estimates is shown at **Figure 12** overleaf. The trend has been for the Department to underspend against Estimates on resources and cash, with the exception of 2001-02 (when the Department overspent by £602 million on RfR1 which meant it exceeded its total Resource Estimate) and 2006-07 (when the Department overspent by £21 million on RfR2 but stayed within its total Resource Estimate).

**3.3** In 2008-09 the Department stayed within its resource and cash Estimates. The Net Resource Outturn was £36.96 billion against an Estimate of £39.1 billion with the underspend of £2.14 billion caused by factors such as an increased movement on derivatives of £1.2 billion resulting from foreign exchange contracts (RfR1) and lower than expected write-down charges for the drawdown from Iraq (RfR2). The Net Cash Requirement for 2008-09 was £36.4 billion against an Estimate of £36.5 billion, an underspend of £0.1 billion.

### The Defence Inflation Rate

**3.4** Analyses in recent years, including by the Committee, have suggested that the rate of inflation within defence, and in the defence industry in particular, is considerably higher than that in the United Kingdom in general. The Department is undertaking work, scheduled to be completed in April 2010, to produce a measure of defence inflation. In its Report on Defence Equipment<sup>10</sup>, the Committee highlighted “the lack of urgency given to this project” and recommended that the Department should “push forward this work as quickly as possible” including working with the Defence Industries Council. The Department responded that developing a robust new measure of defence inflation is inevitably complex and time-consuming<sup>11</sup>. According to the Department, the resources allocated to this work reflect the competing demands for scarce resource and additional resource is unlikely to accelerate the programme of work significantly due to the complex nature of the work and the considerable learning that would be required. The Department agreed to consider the suggestion to consult the Defence Industries Council.

**Figure 12**  
Net Resource Outturn and Net Cash Requirement against Estimate



Source: Ministry of Defence Annual Report and Accounts, 2005-2006 to 2008-2009

<sup>10</sup> Defence Equipment 2009, Third report of Session 2008-09, HC 107 26 February 2009.

<sup>11</sup> Defence Equipment 2009: Government Response to the Committee's Third Report of Session 2008-09, First Special Report of 2008-09, HC 491 13 May 2009.

**3.5** In a Written Answer on 1 July 2009, the Department said that the programme of work is on course and that in April 2010 it will publish estimates of defence inflation for financial years 2006-07 through to 2008-09. For financial year 2009-10 a provisional estimate of defence inflation will be produced in September 2010.

### **Audit Qualification of the Department's 2008-09 Resource Account**

**3.6** The Comptroller and Auditor General (C&AG) qualified his regularity audit opinion and limited the scope of his "true and fair" audit opinion on the Department's 2008-09 Resource Accounts. The issues that resulted in the qualification of the audit opinion were:

- material errors in the amounts of military specialist pay, allowances and expenses paid through the Department's Joint Personnel Administration (JPA) system;
- insufficient audit evidence to determine whether the income recognised by recovering the costs of certain accommodation and food charges from the pay of Service personnel was materially complete;
- insufficient audit evidence to support the value of certain fixed assets and stock balances or to confirm the existence of BOWMAN assets; and
- insufficient audit evidence to confirm the accuracy of Service personnel numbers in relation to the reserves for the Royal Navy and the Army.

These issues are covered in more detail in paragraphs 3.7 to 3.13.

#### **Joint Personnel Administration (JPA)**

**3.7** The Department's 2008-09 Resource Accounts included payroll costs of £8.9 billion for the Armed Forces. This expenditure was administered via the Joint Personnel Administration (JPA) system which was rolled out in three tranches across the RAF, Royal Navy and Army (from March 2006 to July 2007) in order to modernise the administration of human resources, including all aspects of pay and allowances.

**3.8** This was the second consecutive year in which the C&AG's audit opinion on the Department's Resource Account was qualified because of insufficient evidence to support payments made via JPA to Service personnel. In the Committee's Report on the Department's 2007-08 Annual Report and Accounts (HC 214, 5th Report of Session 2008-09), the Committee said that "It is difficult to exaggerate the magnitude of the failure of the Joint Personnel Administration programme". In its response the Department said that it was "addressing the National Audit Office's concerns with urgency" and acknowledged that "with hindsight, in paying such close attention to project timescale and the costs and benefits to be delivered, focus on the Department's financial reporting requirements was lost."

**3.9** In 2008-09 the NAO found material errors in military specialist pay, allowances and expenses. The NAO estimated that £268 million out of £1.083 billion was paid to individuals who were not entitled to them or whose entitlement could not be demonstrated by supporting evidence. As a result of this material error, the C&AG qualified his regularity opinion and limited the scope of his “true and fair” opinion. A limitation of scope is given where the auditor has not been able to obtain sufficient and appropriate evidence to support material balances in the accounts. An amount is material if its omission or misstatement could affect the understanding or decisions taken by the user of the accounts.

**3.10** Additionally, due to the deficiencies in the audit trail from JPA, the NAO were unable to obtain sufficient audit evidence to determine if the approximately £83 million of income arising from charges made to Service personnel, comprising accommodation and food charges deducted from Service personnel pay, was materially complete. As a result, the C&AG limited the scope of his audit opinion.

### Assets and Stock Balances

**3.11** The Department was also unable to provide adequate evidence to support certain fixed asset and stock balances within the Resource Accounts valued at around £6.6 billion. Areas of concern included the levels of assurance over certain inventory and stock items stored principally by the Defence Storage and Distribution Agency (DSDA), the levels of discrepancies reported in the annual census exercise on MERLIN/MAESTRO assets and the tracking, monitoring and accounting of BOWMAN assets. The Management of Equipment Resources, Liabilities and Information Networks (MERLIN) is a system for tracking vehicles. The Managing Assets for Equipment Support, Transactions, Records and Occurrences (MAESTRO) is a system for tracking deployed Army assets.

**3.12** BOWMAN is a tactical communications system providing secure radio, intercom and internet services in a modular and fully integrated system. The Department’s 2008-09 Resource Accounts recorded a net book value of £1.3 billion which equated to approximately 35,800 radio sets, but the Department could not fully support these figures. By the year end it was only possible to confirm the existence of approximately 89 per cent of the BOWMAN assets which meant that some £155 million of such assets could not be accounted for. As a result of this lack of supporting evidence, the C&AG limited the scope of his “true and fair” opinion.

### Votes A

**3.13** The C&AG reports separately on whether the Department has exceeded the maximum numbers of personnel maintained for service in all active and Reserve categories in the Armed Forces, as authorised by Parliament in Votes A. There was insufficient audit evidence available to confirm whether the approved Estimates (Votes A) had been exceeded in respect of the Reserves for the Royal Navy and the Army. As a result, the C&AG limited the scope of his “true and fair” opinion.

**3.14** The reasons for the qualification and NAO's recommendations were contained in a formal Report dated 15 July 2009 on the Department's 2008-09 Resource Accounts from the C&AG to the House of Commons. The NAO's key recommendations are summarised below in **Figure 13**.

### **Operations and Peacekeeping (RfR2)**

**3.15** The Department has no formal budget set for the costs of Operations and Peacekeeping and, instead, is voted additional resources (Request for Resources 2) to cover these costs. RfR2 costs include direct costs (for example, service and civilian manpower, infrastructure support, equipment support and stock consumption), indirect costs (for example, depreciation and cost of capital) and capital costs (for example, Urgent Operational Requirements). Expenditure such as wages and salaries of permanently employed personnel are not included as these costs would have been incurred in the normal course of business. A breakdown of the expenditure incurred in the main areas of operation is shown in **Figure 14** overleaf while **Figure 15** overleaf compares the expenditure against the Estimate for the last four years.

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## **Figure 13** NAO's Key Recommendations

### **Joint Personnel Administration (JPA)**

The Department should:

- establish a task force to correct pay and personnel records systematically and undertake a formal review of the existing levels of access to the JPA system;
- complete the review of controls begun last year to identify those that are key and to consider if further controls are needed; and
- review the management information available to ensure it meets the requirements of all stakeholders including budget holders on whom the Department is relying for checks on outturn, most notably the TLBs.

### **Assets and Stock Balances**

The Department should:

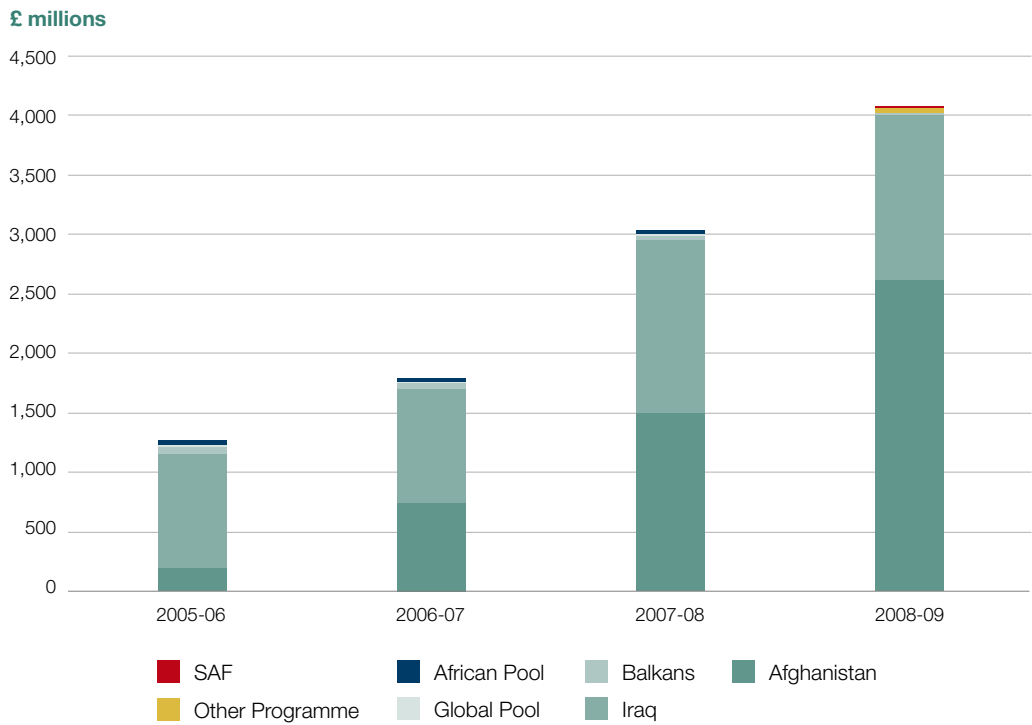
- analyse the reasons for the increasing discrepancies in stock counts and introduce appropriate additional controls to ensure that stock systems are sufficiently robust and efficient to support operational requirements, ensure efficient stock management and provide sufficiently accurate information for financial reporting requirements;
- complete the stock take of BOWMAN equipment to establish as accurate a record as possible and formally write off missing equipment; and
- working with the Army and its contractor, review the procedures for accounting for BOWMAN assets including purchases, issues, assets in the repair loop, losses, write-offs and assets in transit.

### **Votes A**

The Department should:

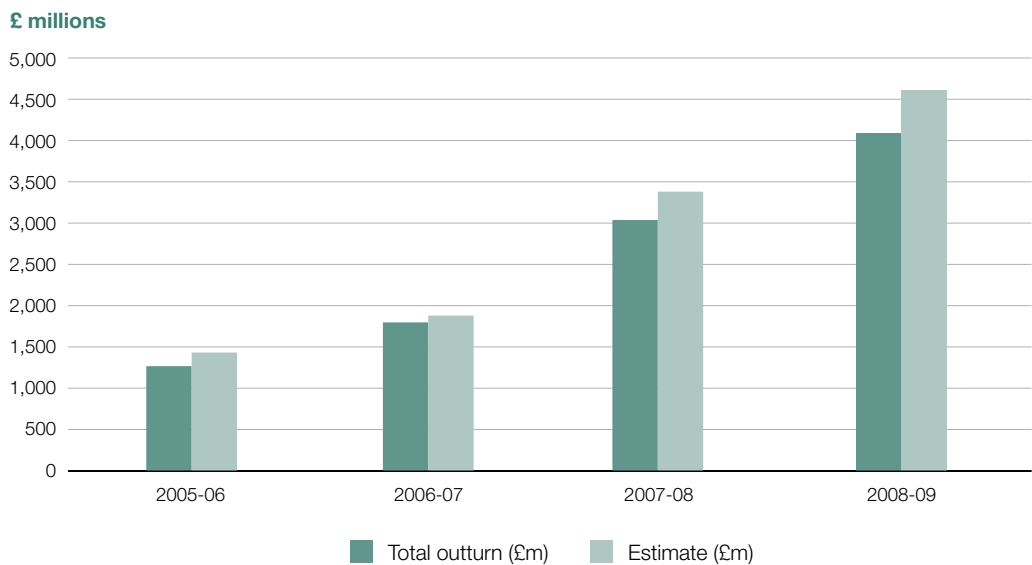
- Ensure it can meet its statutory requirements for reporting to Parliament on Votes A manning levels.
-

**Figure 14**  
Operations and Peacekeeping (RfR2) Expenditure Broken Down by Area of Operation



Source: Ministry of Defence Annual Report and Accounts, 2005-2006 to 2008-2009

**Figure 15**  
Operations and Peacekeeping (RfR2) Expenditure against Estimate



Source: Ministry of Defence Annual Report and Accounts, 2005-2006 to 2008-2009

**3.16** Total resource and capital expenditure in 2008-09 was £4.1 billion (2007-08: £3.0 billion), including £2.6 billion for operations in Afghanistan (2007-08: £1.5 billion) and £1.38 billion for operations in Iraq (2007-08: £1.46 billion).

- **Afghanistan.** Between 2006-07 and 2007-08 costs incurred in Afghanistan doubled (from £0.74 billion to £1.5 billion) and increased by another three quarters between 2007-08 and 2008-09 (from £1.5 billion to £2.6 billion). The increased tempo of operations resulted in additional personnel costs, the increased use of ammunition and increased support costs.
- **Iraq.** Costs in 2008-09 fell slightly from £1.46 billion to £1.38 billion in line with the withdrawal of UK troops and lower than expected write-down charges.
- **Stabilisation Aid Fund (SAF).** This Fund was established in April 2008 to fund stabilisation activity in conflict zones. It is managed jointly by the Department for International Development (DFID), the Foreign and Commonwealth Office (FCO) and the Department. In 2008-09 the Fund invested £71 million. The Department's SAF activity focused on Iraq and Afghanistan. In Afghanistan SAF activity included counter-narcotics operations, strengthening the rule of law, training the Afghan National Army and supporting the Afghan elections.

**3.17** Until 2009-10 the RfR2 allocation in the Main Estimates did not cover the costs of operations in Iraq and Afghanistan because the Department considered that it was inappropriate to request large sums about which it was still uncertain. Instead, the forecast costs of operations for each financial year were first set down in the Spring Supplementary Estimate. In response to the Committee's recommendation that the House should receive earlier notice of operational costs, the Department agreed to bring forward its forecast of operational costs to the Winter Supplementary Estimate.

**3.18** The Committee then pressed for some indication to be given to the House at the time of the Main Estimate of what operational costs were likely to be. The Department agreed to provide a forecast for the cost of operations in Iraq and Afghanistan, including Urgent Operational Requirements (UORs), at the time of the Main Estimate. For the 2009-10 Main Estimate the Department included, for the first time within the body of the Main Estimate, the formal request for operational resources under RfR2 and gave a breakdown of the main cost elements in Iraq and Afghanistan. The Committee considered that the Department had set out figures which were "more realistic and thus more robust" and welcomed this information as "a great advance on what was provided last year"<sup>12</sup>.

### Losses, Special Payments and Gifts

**3.19** When Parliament votes for a Department's Supply Estimates there is no provision made for losses, special payments and gifts. Therefore this expenditure is subject to additional authorisation and disclosure requirements. The rules on losses, special payments and gifts provide additional transparency and accountability for expenditure by a public body.

<sup>12</sup> Ministry of Defence Main Estimates 2009-10, Ninth Report of Session 2008-09, HC 773 2 July 2009.

**3.20** The requirement to disclose losses, special payments and gifts is unique to government accounting and provides additional disclosure over and above commercial accounting practice. The purpose is to ensure that a Department is accountable for spending outside the limits voted by Parliament. It should be noted that this expenditure is not irregular or necessarily indicative of a failure of control – it can simply be expenditure resulting from management decisions taken in response to changing circumstances.

**3.21** Examples of losses which must be disclosed include physical loss of cash or stores, bookkeeping losses and writes-off and abandoned legal claims. Special payments which must be disclosed include extra-contractual payments, such as those where payment is not due under the terms of the contract but is an obligation which the courts might uphold; and compensation payments, such as for unfair dismissal or an accident in the work place.

**3.22** Losses and special payments are recorded when the expenditure ‘hits’ the control totals – that is when the expenditure is recorded in the Resource Accounts. This can often take several years from the point the Department first identifies the loss. Losses, special payments and gifts are disclosed either as ‘closed cases’ (actual losses brought to completion) or ‘advance notifications’ (potential losses identified but not yet brought to completion, so the final loss declared may therefore be different from the estimate shown). The following are some important examples of losses, special payments and gifts from 2008-09:

- A write-off of **£43 million** was recorded following the 2008-09 asset verification exercise due to the physical loss of assets or inability to verify their existence with the information available.
- A write-down estimated at **£205 million** was reported as an Advance Notification on the value of eight Chinook Mark 3 helicopters which did not meet operational requirements. The Department intends to convert them to Mark 2 standard as a way forward and to conduct a further revaluation exercise at the point of delivery. In June 2008, the NAO reported on the procurement of the Chinook Mark 3s, and the steps the Department has taken to make them operational. The report identified that the total cost of designing, building and bringing the eight helicopters into service is likely to be some £420 million.
- A constructive loss estimated at **£56 million** was reported as an Advance Notification relating to the agreement at the Dublin Diplomatic Conference to cease the use, development, production and transfer of Cluster Munitions.



- A Departmental Minute laid before the House on 8 May 2009 covered the gifting to the United States Armed Forces in Iraq of four permanent structures with their fixtures and fittings. UK investment in the four permanent structures was £45 million which was written down to a technical accounting value of £1 as the structures, which sit on Iraqi soil, could not be sold on the open market. The contents were valued at £457,000. The gift therefore totalled **£457,000** made up of the nominal valuation of the four permanent structures and the value of the fixtures and fittings.
- Four other permanent structures were also handed over to the United States Armed Forces. As detailed in the NAO's report on Support to High Intensity Operations, the Department had already committed the money for these structures when it was decided to draw down from Iraq, but it scaled back its plans for their construction and opted to finish the construction of the structures but leave them as four empty shells. Since they had not been completed technically they were treated as constructive losses valued at **£50 million**, not as gifts. Under the UK and US Governments' separate agreements with the Government of Iraq, which were signed in December 2008, all the permanent structures will ultimately pass to the Iraqi Government on the departure of UK or US forces.

**3.23 Figure 16** shows that both the value and number of cases of Losses, Special Payments and Gifts have decreased over the last four years. Total Losses and Special Payments are a relatively small proportion of the total annual expenditure of the Department: less than 1.5 per cent of total expenditure for 2008-09.

**Figure 16**  
Value and Number of Losses, Special Payments and Gifts

|                                   | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|-----------------------------------|---------|---------|---------|---------|
| Closed cases (number)             | 18,112  | 14,932  | 14,832  | 14,330  |
| Closed cases (value £m)           | 445     | 499     | 390     | 219     |
| Advanced notifications (number)   | 22      | 25      | 29      | 13      |
| Advanced notifications (value £m) | 607     | 529     | 351     | 313     |

Source: Ministry of Defence Annual Report and Accounts, 2005-2006 to 2008-2009

**NOTE**

The Department is required to report only cases exceeding £250,000.

## Private Finance Initiative (PFI)

**3.24** Since 1995-96 the Department has made increasing use of Private Finance Initiative (PFI) arrangements to meet its service requirements. In its 2008-09 Resource Accounts the Department disclosed 54 PFI schemes (2007-08: 53), of which 16 (2007-08: 14) were classified as on-balance sheet, meaning that the assets and liabilities relating to the schemes were on the Department's balance sheet. For the remaining contracts where the risks and rewards of ownership were deemed to lie with the private sector contractors, the assets were classified as off-balance sheet and did not feature on the Department's balance sheet.

**3.25** The Department's PFI schemes cover: accommodation (for example, Family Quarters at Bath, Bristol and Portsmouth); training (for example, Attack Helicopter Training Service); equipment (for example, Tri-Service Material Handling Equipment); provision of water and waste facilities (Project Aquatrine) and other support services (for example, Strategic Sealift – Roll-on Roll-off ferries). Projects also vary significantly in terms of size, with capital values ranging from £1 million to £2,688 million.

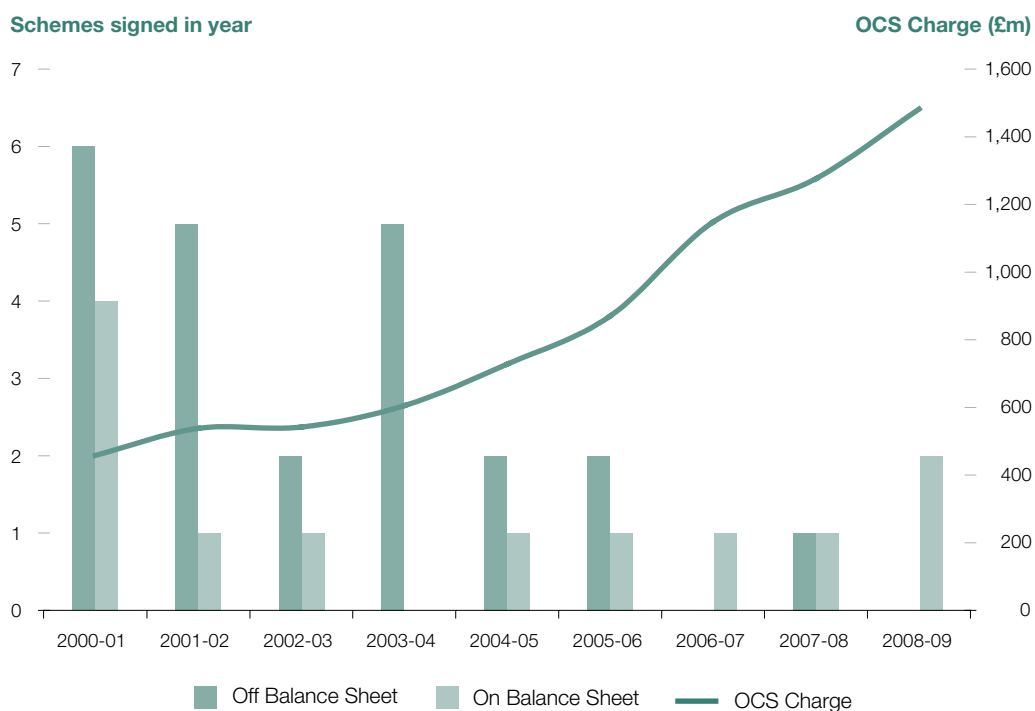
**3.26** The Department has already seen several of its shorter PFI contracts expire, the latest of which was the Commercial Satellite Communication Service (INMARSAT) which ran from March 2001 until March 2008. However, 16 of the contracts expire in 2030 or after, one of which (Project Allenby/Connaught – the rebuild of Service accommodation) financially commits the Department until 2041. The Department's operating expenditure on PFI has shown a steady increase over recent years (see **Figure 17**). Operating cost expenditure is composed of the charges for the use of assets and services (for off-balance sheet PFI schemes) and charges for services (for on-balance sheet PFI schemes). In 2008-09 the Department incurred £1,482 million in PFI charges (2007-08: £1,276 million), representing 6.5 per cent of Other Programme Costs (2007-08: 5.6 per cent). This is a significant increase over 2000-01 when the Department incurred £458 million in PFI charges (2.3 per cent of operating costs).

**3.27** The commitment to new PFI contracts has reduced since 2000-01 when ten new contracts were signed. Two new contracts were signed in 2008-09 and both will run until 2033. These were the Corsham Development Project with a capital value of £111 million and the UK Military Flying Training System with a capital value of £59 million.

**3.28** During 2009-10 the Department will be committed to £1,290 million of annual service charge payments for off-balance sheet and on-balance sheet PFI transactions. These payments will continue for varying lengths of time until the expiry of each PFI contract. **Figure 18** shows the annual total amount to be paid organised by expiry date.

**Figure 17**

Department's PFI Schemes Signed In Each Year and Charges to the Operating Cost Statement (OCS)



Source: Ministry of Defence Annual Report and Accounts, 2005-2006 to 2008-2009

**Figure 18**

Annual Departmental Payments for PFI schemes

|                              | As at<br>31 March 2009<br>(£'000) | As at<br>31 March 2008<br>(£'000) |
|------------------------------|-----------------------------------|-----------------------------------|
| Expiry within 1 year         | 35,148                            | 15,064                            |
| Expiry within 2 to 5 years   | 262,944                           | 286,469                           |
| Expiry within 6 to 10 years  | 70,511                            | 289,078                           |
| Expiry within 11 to 15 years | 410,491                           | 135,850                           |
| Expiry within 16 to 20 years | 96,553                            | 55,162                            |
| Expiry within 21 to 25 years | 169,760                           | 228,259                           |
| Expiry within 26 to 30 years | 75,694                            | 24,540                            |
| Expiry within 31 to 35 years | 169,078                           | 208,726                           |
| <b>Total</b>                 | <b>1,290,179</b>                  | <b>1,243,148</b>                  |

Source: Ministry of Defence Annual Report and Accounts, 2008-2009

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This report has been printed on Consort 155

Design & Production by  
NAO Marketing & Communications Team  
DP Ref: 009105 | Printed by Precision Printing

