



Quarter 4 Report to HM Treasury

Progress Against Spending Review 2002
Public Service Agreement Targets (April 03-March 06)
as at 31 March 04

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Objective I

To achieve success in the military tasks that we undertake at home and abroad.

Target 1

Achieve the objectives established by Ministers for Operations and Military Tasks in which the United Kingdom's Armed Forces are involved, including those providing support to our civil communities.

(From 1 April 2003, this subsumes SR2000 Target 3, 'Achieve the objectives established by Ministers for military Operations in which the UK's Armed Forces are involved').

Assessment

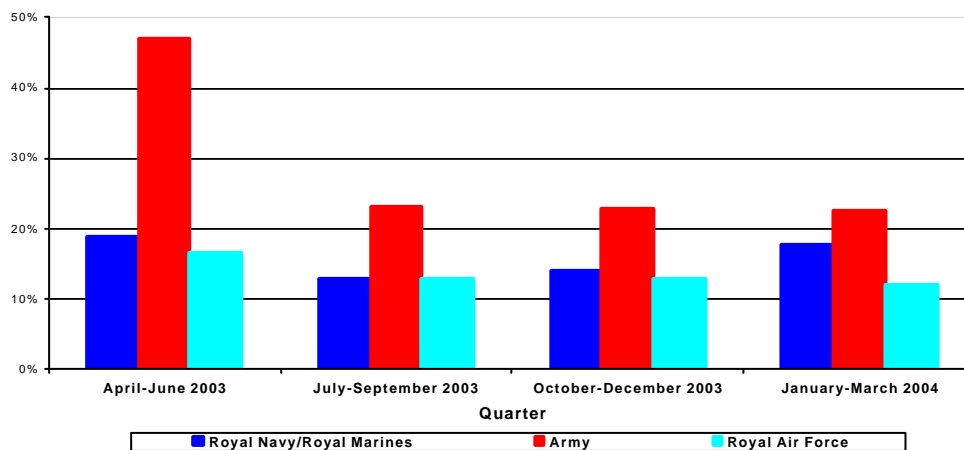
Met.

Since 1 January 2004, UK Armed Forces have:

- Conducted stabilisation operations in Iraq (involving some 6,900 regular personnel plus Reserve Forces).
- Continued to deploy forces in Bosnia and Kosovo (some 1,200 regular personnel), to help ensure peace in the Balkans.
- Continued to deploy forces in Afghanistan (some 450 regular personnel) to help maintain security and assist the process of reconstruction.
- Continued to meet ongoing commitments, with forces based in Cyprus (some 3,400 regular personnel), Falkland Islands and South Atlantic (some 1,300 regular personnel), Northern Ireland (some 10,600 regular personnel) and Gibraltar (some 100 regular personnel).
- Provided troops for UN operations in Sierra Leone, Ethiopia and Eritrea, Democratic Republic of Congo, Cyprus, Georgia, the Persian Gulf and Liberia.
- Contributed to a permanent NATO standing naval presence in the Atlantic and Mediterranean.
- Maintained the UK's independent nuclear deterrent.
- Provided Homeland Defence (protection of UK airspace and waters).
- Continued to provide routine support to the civil authorities on search and rescue, fishery protection, bomb-disposal and counter-drugs activities.

During this period, some 20% of all regular forces (measured as man-day equivalents for each service) were deployed on operations or other military tasks (excluding those either preparing for, or recovering from, deployments). This is up from 19% in the previous quarter.

Percentage of Trained Strength Deployed on Operations and Other Military Tasks



Target 2

Improve effectiveness of the UK contribution to conflict prevention and management as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and a reduction in potential sources of future conflict, where the UK can make a significant contribution. (Joint target with DfID and FCO).

Assessment

Not yet assessed: international data on the number of people affected by violent conflict since 1 October 2003 is not yet available.

The MoD works to support conflict prevention initiatives across Africa, the Middle East, Europe, Central America and Asia, as well as undertaking wider-ranging conflict-prevention work, under the Defence Diplomacy programme. This includes the work of various Defence Advisory Teams (providing security sector and Defence reform advice and assistance to, for example, Sierra Leone, Sri Lanka and Jamaica) and UK military training teams (which have, for instance, enhanced the ability of African nations to conduct peace support operations). The MoD also undertakes activities to promote good governance and democratic accountability of Armed Forces, including Defence Diplomacy Scholarship Courses at the Defence Academy such as 'Managing Defence in a Democracy' for military and civilian personnel from the security sectors of countries around the world.

Objective II

To be ready to respond to the tasks that might arise.

Target 3

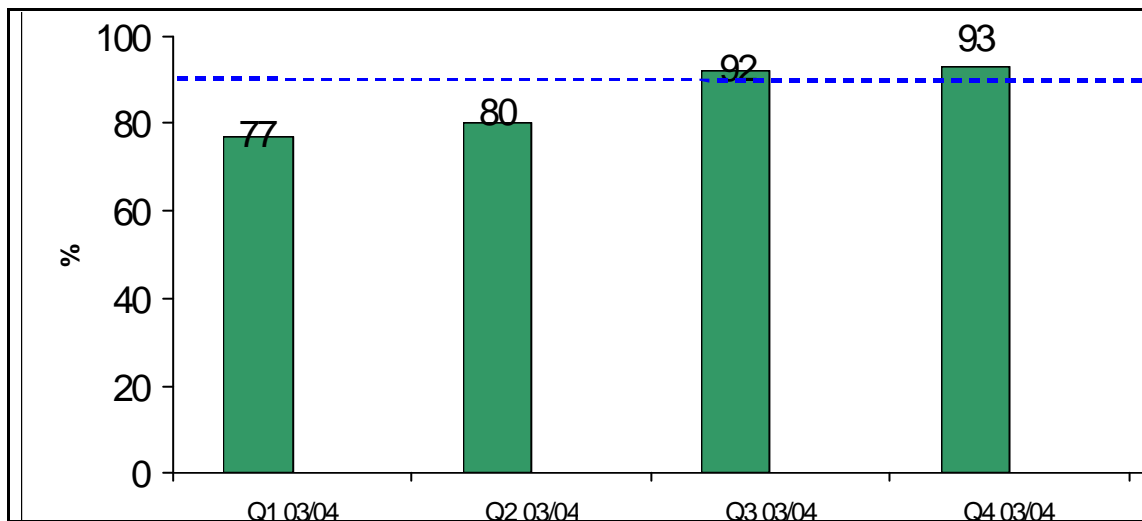
By 2006 ensure that a minimum of 90% of high readiness forces are at their required states of readiness with no critical weakness.

(From 1 April 2003, this subsumes SR2000 Target 1, 'By 2005 ensure that a minimum of 90% of rapidly available military units are at required states of readiness'. In line with the intention set out in the MOD's Annual Report and Accounts for 2002/03, reporting against this target has been extended to cover all forces as of 1 April 2003, rather than just those at high readiness. This is a more demanding target, but gives a better picture of the ability of our Armed Forces to cope with the high levels of operational activity currently being taken.)

Assessment

On course.

The graph below shows a steady increase over the year to date in the proportion of units with no critical weaknesses reported by military commanders. At Q4, 93% of forces were at their required readiness levels without any critical weaknesses reported, exceeding the target.



Target 4

Recruit, train, motivate and retain the personnel needed to meet the manning requirement of the Armed Forces, so that by the end of 2004 the Royal Navy and RAF achieve, and thereafter maintain, manning balance, and that by the end of 2005 the Army achieves, and thereafter maintains, manning balance. (Manning balance is defined as between -2% and +1% of the requirement, and is measured against the target prevailing at the time. Since the total manning requirement of whole Service manning is a dynamic, this target will itself tend to fluctuate over the PSA period.)

(From 1 April 2003, this subsumes SR2000 Target 2, 'Recruit, retain and motivate the personnel needed to meet the manning requirements of the Armed Forces, so that by 31 March 2004, the RN and RAF achieve full manning, and the Army meets 97% of its manning requirement'.)

Overall Assessment

On course.

Sub-target Assessment

*Manpower deficit of the **Royal Navy** (including the Royal Marines)*

Within 0.3% of manning balance.

There are shortages of Artificers (engineers) and certain submariner specialisations.

*Manpower deficit of the **Army***

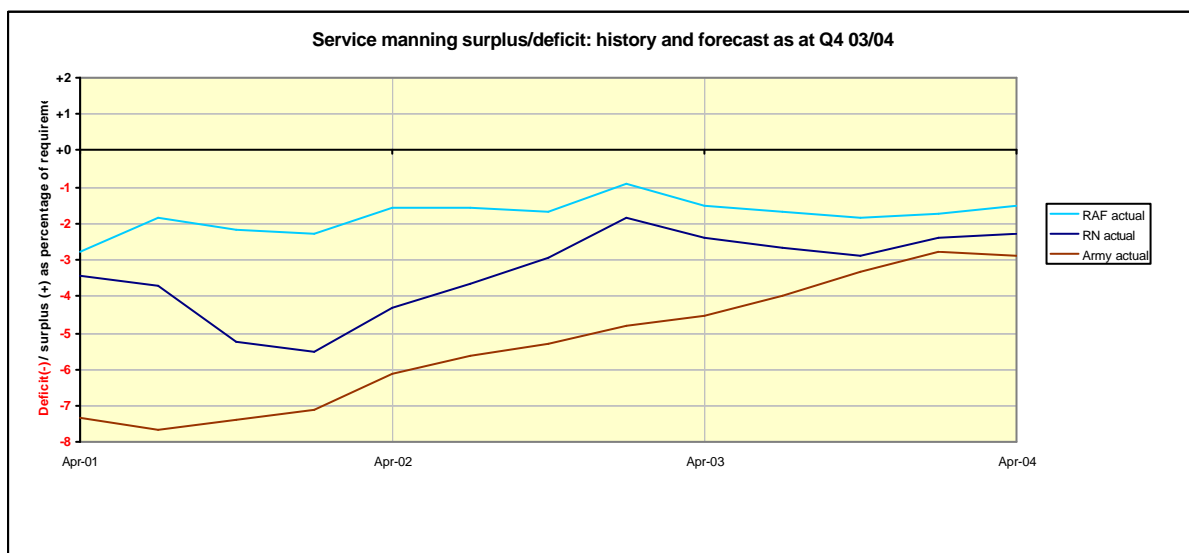
Within 0.8% of manning balance.

Areas of critical shortage include the Army Medical Services, Royal Logistics Corps, Royal Electrical and Mechanical Engineers and Royal Engineers.

*Manpower deficit of the **Royal Air Force***

Within target range.

The RAF continued to meet the PSA Target, although there are shortages of non-commissioned officer aircrew and of medical personnel.



Achieving single Service guidelines for deployed Separated Service

Although operational commitments especially in Iraq have eased significantly, the Army and RAF did not meet harmony levels, particular in critical shortage groups.

Improving the living conditions of Service personnel and their families

150 Project SLAM bedspaces delivered this year. Good progress made with Service family houses, where the Defence Housing Executive (DHE) has upgraded 1,402 homes to Standard 1 for Condition this year against a target of 1,200, and so has now reached almost 22,000 of its 41,500 requirement.

Target 5

Strengthen European security through an enlarged and modernised NATO, an effective EU military crisis management capacity and enhanced European defence capabilities. (Joint target with FCO.)

(From 1 April 2003, this subsumes SR2000 Target 4, 'Working with NATO Allies, implement the decision of the NATO Washington Summit, including the new Strategic Concept and the Defence Capabilities Initiative, and help adapt NATO to the new strategic environment.')

Assessment

On course.

We have made good progress in strengthening both NATO and European Security and Defence Policy. We continue the construction of a coherent institutional architecture that allows for flexible responses to crises – either through a NATO operation, an EU operation with recourse to NATO assets under Berlin Plus arrangements, or an autonomous EU operation.

The accession of seven new members to NATO was achieved successfully on 29 March 2004, bringing the Alliance to 26 members and strengthening security for all in the Euro-Atlantic area. The EU is prepared for expansion to 25 Member States in May 04.

The NATO Response Force is on track to provide a flexible, deployable, technologically advanced and interoperable force with a full capability expected by October 2006. Allies are also committed to improving key areas such as Nuclear, Biological and Chemical capabilities, secure communications, strategic lift and air-to-air refuelling capabilities. Programmes to address these shortfall areas are part of the Prague Capabilities Commitment.

Informal planning has started for an EU follow-on mission in Bosnia, initially to be led by the UK beginning next year, once NATO concludes its successful SFOR operation. Work has been taken forward to implement the planning package agreed in December 2003 (EU-NATO liaison and consultation arrangements, a Civil-Military Cell and the capacity to set up ad hoc Operation Centre), ensuring that this adds constructively to EU planning capabilities and does not duplicate NATO. More broadly, the UK has continued to develop and improve a transparent and mutually reinforcing strategic relationship between the EU and NATO.

Progress in improving the rapid response capabilities of European nations has continued. The Battlegroup concept has been adopted by the EU for development as a key mechanism for improving European capabilities, as well as strengthening EU support for the UN. Work started on identifying a possible UK contribution, anticipated to comprise a national battlegroup and a joint UK/NL amphibious battlegroup. The UK has continued to push for ensuring that EU battlegroups are fully compatible with the NATO Response Force and have common standards and common levels of certification.

Nick Witney (formerly MOD Director General International Security Policy) has been appointed as head of the Agency Establishment Team, promoting a capabilities focus to the European Defence Agency, formally agreed in June. The overarching vision for Headline Goal 2010 has also been agreed, with key themes identified of transformation, interoperability, deployability, sustainability and rapid response, which the UK strongly supports.

Objective III

To build for the future.

Target 6

Develop and deliver to time and cost targets military capability for the future, including battle-winning technology, equipment and systems, matched to the changing strategic environment.

(From 1 April 2003, this subsumes SR2000 Target 7, 'Develop and deliver battle-winning equipment to time, cost and capability requirement targets that will enable the Armed Forces to provide the military capability required of them now and in the future'.)

Overall Assessment

Not met.

(The PSA target was not met this year because of cost overruns and delays on pre-SMART Acquisition projects. However, future years' performance should see a reduction in overruns and delays as improved estimating and risk management processes become embedded.)

Sub-target Assessment

1. *On average, in-year slippage of equipment in-service dates of fewer than 10 days for new major projects, to be attained during 2003/04 and maintained throughout the PSA period*

Average slippage of 2.2 months reflecting revised forecasts from Type 45 Destroyer (T45), Aircrew Synthetic Training Aids (ASTA), Eurofighter and Airborne Stand-off Radar System (ASTOR). Final result subject to NAO validation of Major Projects Report 04 but overall assessment of performance unlikely to change.

2. *On average, in-year slippage of equipment in-service dates of fewer than 4 weeks for existing major projects, to be attained during 2003/04 and maintained throughout the PSA period*

Average slippage of 2.8 months reflecting revised forecasts from Brimstone (anti-armour missile) and Nimrod Maritime Reconnaissance Aircraft 4 (MRA4). Final result subject to NAO validation of Major Projects Report 04 but overall assessment of performance unlikely to change.

3. *97% of customers' key requirements attained during 2003/04 and maintained throughout the PSA period*

98.8% of customers' key requirements attained. Final result subject to NAO validation of Major Projects Report 04 but overall assessment of performance unlikely to change.

4. *On average, no real terms increase in major project costs¹, to be attained during 2003/04 and maintained throughout the PSA period*

Target breached following revised forecasts from A400M, Skynet 5, Beyond Visual Range Air to Air Missile, Joint Combat Aircraft, Nimrod Maritime Reconnaissance Aircraft 4, Type 45 Destroyer, Brimstone, Support Vehicle, CIP (Combat, DBL Infrastructure, Platform BISA) and Light Forces Anti-Tank Guided Weapons System. The resulting average cost growth against

¹ Measured against project approval levels as set out in the Major Projects Report.

approval was 2.2%². The final result is subject to NAO validation of Major Projects Report 04, but overall assessment of performance is unlikely to change.

² This figure does not reflect end March 04 performance, but is the latest available from the Major Projects Report validation process (end June 04).

Target 7

Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. Year-on-year output efficiency gains of 2.5% will be made each year from 2002/03 to 2005/06, including through a 20% output efficiency gain in the DLO. (Individual sub-target weighting in brackets).

Overall Assessment

On track: a good performance against sub-target 3, which constitutes the major element of this target, means that overall achievement is on target.

Sub-target Assessment

1. *Reduce the per capita cost of successfully training a military recruit by an average of 6% by April 06³ (target weighting = 9%)*

The RN, Army and RAF all achieved their targets (for 2.1%, 6.5%, and 1.2% reduction in per capita costs compared with 2001/02 respectively). The overall achievement against the 4% target was 4.2%.

2. *Achieve 0% average annual cost growth (or better) against the Major Equipment Procurement Projects⁴ (target weighting = 6%)*

Target breached following revised forecasts from A400M, Skynet 5, Beyond Visual Range Air to Air Missile, Joint Combat Aircraft, Nimrod Maritime Reconnaissance Aircraft 4, Type 45 Destroyer, Brimstone, Support Vehicle, CIP (Combat, DBL Infrastructure, Platform BISA) and Light Forces Anti-Tank Guided Weapons System. The average in-year cost growth for the Major Project Report projects was 3.1%⁵. The final result is subject to NAO validation of Major Projects Report 04, but overall performance is unlikely to change.

3. *Reduce by 20% (relative to April 2000) the output costs of the Defence Logistics Organisation, while maintaining support to the Front Line (target weighting = 68%)*

In year achievement is currently forecast as 3.7%, which puts the overall target on course.

4. *Reduce MOD Head Office and other management costs by 13% (target weighting = 5%)*

On target overall, although the number of Head Office posts is currently higher than predicted owing to the presence of a number of short-term project teams and an increase in staff supporting current operations. However, project teams are expected to reduce once they have completed their tasks enabling the required target to be achieved.

5. *Identify for disposal land and buildings with a Net Book value of over £300m (target weighting = 12%)*

Assets with a Net Book value of £95m were transferred from user commands to Defence Estates for disposal and the 03/04 target has been met. Remain on track to identify sufficient land and buildings to meet the predicted 04/05 and 05/06 targets.

³ Target report every six months.

⁴ Measured against estimated project costs at the beginning of the year.

⁵ This figure does not reflect end March 04 performance, but is the latest available from the Major Projects Report validation process (end June 04).