



MOD Efficiency Programme

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MOD EFFICIENCY TECHNICAL NOTE

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The MoD has a target to deliver a minimum of 2.5% efficiency gains each year from 2005/06 to 2007/08, which equates to £2.83 billion in annual efficiencies by 2007/08; at least 75% of these efficiency gains will be cashable. This Technical Note explains how performance against the different components of MOD's efficiency programme that come together to meet the target will be measured.

MOD EFFICIENCY PROGRAMME

1. The following table summarises the MoD's efficiency programme, with the component programmes being grouped under main headings¹. These figures reflect the forecast efficiency delivery position as at October 2004; however, work is in hand to refine these figures, both within the component programmes and by the Finance Director's staff as part of the MoD's planning and budgeting process. More robust numbers will be available for many components by December 2004, with the remainder in February 2005. The outcome of this work will be published in due course on the MoD's website in an updated version of the Technical Note.

Table 1 - MOD EFFICIENCY PROGRAMME - SUMMARY						
	Total benefits			Of which cashable		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
	£M	£M	£M	£M	£M	£M
Headline Target	943	1,885	2,828	707	1,414	2,121
Efficiency Programme	1,093	2,101	2,903	716	1,435	2,207
comprising:						
Corporate Services	131	202	296	64	92	158
Logistics	565	822	992	356	570	714
Procurement	80	323	585	80	323	585
Organisation and Relocation	20	50	100	20	50	100
Force Structure	90	400	400	70	200	250
Manpower	125	200	400	125	200	400
Productivity	82	105	130	-	-	-

NB. Figures are at outturn prices.

¹ Given the complexity of Defence processes, these categories should be seen as indicative rather than as rigid boundaries; for example much of logistics expenditure is on the purchase of goods and services.

2. Continuing extra costs (such as the costs of operating information systems in support of human resources management reform) are deducted from savings, but not one-off programme implementation costs. These costs will be monitored as part of the overall management of the MoD efficiency programme. Estimated costs will be published in future updated versions of the Technical Note.

3. A key aspect of the MoD's Efficiency Programme is reducing military and civilian staff numbers. The MoD will manage the changes as far as possible through normal turnover in people and jobs and by re-training and re-deploying as many people as possible. The Department will also be helping to identify alternative job opportunities, and providing opportunities for training and skill improvement. The reductions currently anticipated are shown in Table 2:

Table 2 - Headcount	Apr-05	Apr-06	Apr-07	Apr-08
Total reductions	700	6,500	13,000	20,500
comprising:				
RN	0	500	1,000	1,500
Army	0	500	1,000	1,500
RAF	0	3,000	5,000	7,500
Civilian	700	2,500	6,000	10,000

4. For military personnel, these figures represent reductions in the trained strength from April 2004, excluding reservists mobilised for operations. For civilian personnel, the figures represent a reduction in the full time equivalent numbers of personnel from April 2004, excluding the staff of trading funds and locally employed civilians in operational theatres.

The Measurement of Efficiency

5. **In all cases, efficiency will be measured as the objectively verifiable benefits delivered by specific improvement initiatives.** All benefits (other than capital items) are measured against a baseline of efficiency as at April 2004² and represent incremental efficiencies to be delivered year on year. Capital expenditure efficiencies arise where efficiency improvements enable previously required and planned capital expenditure to be avoided; this will be scored as cashable where it enables reductions to be made in the MoD's approved forward financial plans, and will be attributed to the year when the expenditure would otherwise have been incurred.

6. Cashable savings are defined as efficiency benefits that take the form of reductions in input costs, excluding reductions in the cost of holding assets and depreciation arising under Resource Accounting and Budgeting. Cashable

² In the case of the Defence Logistics Transformation Programme, the baseline is the planned level of efficiency in 2004/05 under the existing PSA efficiency target.

savings will be reflected in adjustments to the budgets of the appropriate management areas, thus linking the tracking of benefits to the points where the financial consequences fall; this process is overseen by the Efficiency Delivery Board. As well as providing an incentive for budget holders to ensure that planned efficiency savings are achieved, this mitigates against the risk of double-counting efficiency benefits.

7 Non cashable savings include savings in items such as reductions in stockholdings and the disposal of surplus assets; and also benefits from improvement initiatives that deliver increases in the effectiveness with which resources are used, thus increasing the level of Departmental output for a given input (where this increase is consistent with overall MoD priorities). Measuring the achievement of output-related efficiencies is based upon specific metrics, each of which is linked to direct aspects of performance improvement. The calculation of the financial impact of these efficiencies will draw on the metrics outlined above, and apply relevant financial factors to calculate and quantify the benefits.

8. In addition to quality assurance measures applied by individual programmes, the MoD's overall performance management arrangements provide an assurance that cashable savings are genuine efficiency gains and not reductions in the quality of services or in the MoD's ability to meet Defence objectives. These arrangements include:

- A balanced scorecard used by the Defence Management Board - the MoD's top management board – to assess achievement of the MOD's organisational and strategic goals, and the delivery of its intermediate and final outputs;
- Service Delivery Agreements between the MoD's Head Office and each of the top-level budget holders. These set out the outputs to be delivered and objectives to be achieved together with the resources made available; they are agreed as part of the MoD's planning and budgeting process;
- Customer Supplier Agreements (also forming part of the MoD's forward financial planning system) that set out the quality and quantity of services that each internal supplier undertakes to deliver to the internal organisations that consume those services.

Governance and Accountability

9. Most of the efficiency programmes under the headings of corporate services, logistics, procurement and productivity fall within the Defence Change Programme which, since 2002, has brought together the MoD's key business improvement initiatives into a single coherent and prioritised programme. The Defence Change Programme has an established governance, monitoring and management structure which will support the Efficiency Programme.

10. Other efficiency programmes fall out of the work on *Future Capabilities* carried out by the Department during 2004 to examine how best to structure the Armed Forces and future equipment acquisition in order to achieve our policy goals and how to drive out overhead costs (the background to this work is set out at Annex A). These include:

- further rationalisation of headquarter organisations and their supporting staffs,
- changes to military force structures, and consequent changes to the requirement for military manpower and to the forward equipment programme, as explained in *Delivering Security in a Changing World: Future Capabilities*³.

11. The Vice Chief of the Defence Staff is personally accountable to the Defence Management Board the delivery of the *Future Capabilities* work and its associated efficiency benefits. He is supported by a small delivery board.

12. The Department has established an Efficiency Delivery Board to oversee the overall MoD Efficiency Programme, including the Defence Change Programme and *Future Capabilities* elements, relocation measures responding to the Independent Review of Public Sector Relocation⁴ and other initiatives (under the procurement heading). This Board is chaired by the 2nd Permanent Secretary and includes the Vice Chief of the Defence Staff and the Finance Director. It is responsible for driving forward the Department's overall Efficiency Programme and ensuring that the targeted efficiencies are delivered as planned; and for ensuring that further efficiency opportunities are identified and exploited, both as contingency measures to support delivery of the efficiency target, and to support the delivery of improved efficiency in the MoD in the longer term. Progress against the Efficiency Programme is reported to the Board each month.

³ Cm 6269

⁴ By Sir Michael Lyons; published in March 2004.

13. The Efficiency Delivery Board monitors the risks and dependencies associated with the Efficiency Programme; in particular the dependence of many change programmes upon the Defence Information Infrastructure programme, and the pressure upon the capacity of the MoD to deliver fundamental changes in a short timescale. The Chairman of the Efficiency Delivery Board reports progress regularly to the Defence Management Board and to Ministers.

CORPORATE SERVICES

The MoD has recognised the potential to improve the provision of a range of corporate services, in particular by exploiting modern technology with services hosted on a unified modern Defence Information Infrastructure (DII). A number of programmes are in hand that will contribute to the better and more efficient delivery of services.

Table 3 - CORPORATE SERVICES						
	Total benefits			Of which cashable		
	2005/06 £M	2006/07 £M	2007/08 £M	2005/06 £M	2006/07 £M	2007/08 £M
Efficiency Programme	131	202	296	64	92	158
comprising:						
Military HR	-	-	49	-	-	49
Civilian HR	-	4	11	-	4	11
Finance	8	17	17	8	17	17
Estates	54	89	127	30	45	54
Information Infrastructure	43	66	65	-	-	-
DLO enabling functions	26	26	27	26	26	27

14. **Military HR:** Improvements will be delivered through the Joint Personnel Administration (JPA) programme, which will modernise the management and administration of Armed Forces personnel. The programme will be delivered through a single commercial-off-the-shelf IT package, which will enable the harmonisation and simplification of a wide range of personnel policies and processes, including pay and allowances.

15. Cashable efficiency benefits are:

- savings as a result of reductions in the number of staff employed in the administration of military personnel. Post reductions have been identified, and the implementation of these will be monitored both by the Commands and by the centre. Benefits have been calculated against a profile of salaries prepared by the programme;
- the operating costs of the Armed Forces Personnel Administration Agency will be lower after JPA implementation; benefits will be tracked against the previous costs of the Agency.

16. **Civilian HR:** The Civilian Human Resources Transformation Programme will transform the management of civilian staff in the MoD through the introduction of modern information systems and a single Service Delivery Organisation. As a key initial step, all civilian staff records have now been transferred to a single database, the HR Management System (HRMS), which will be further developed to provide a full suite of e-enabled self-service HR processes, and to provide support to the Service Delivery Organisation. The maintenance of the quality of the service provided will be measured by staff surveys and maturity models.

17. Planned cashable input efficiency savings arise from:

- reductions in the number of civilian staff through both the introduction of a new information system and through the centralisation of previously delegated HR functions. These benefits originate from post reductions and have been calculated using a model of pay bands reflecting the planned change in grade mix over time. Actual benefits will be tracked by the programme by management areas;
- lower maintenance costs of HRMS compared with previous systems, which will be tracked against historic data;
- savings in maintenance costs from replacing the old pay system by Future Pay; which will modernise and simplify pay policy and processes by replacing the existing civilian payroll information system with one based on a COTS package. Efficiency savings will be in reduction of the IS support needed for the package, and in reduction of non-value adding data entry by 1,600 Departmental Pay Reporting Points.
- savings in Pay and Pensions Agency (PPA) costs from the replacement of paper by electronic forms. The PPA is tracking the benefits through the take up of e-forms and the historical cost of providing paper based forms.

18. In addition, there are non-cashable benefits from:

- increased productivity of personnel through a reduction in time taken in dealing with HR matters (measured by FTE equivalent savings against current measures). This comes from:
 - Reduced 'transaction time' between personnel and HR; e.g. quicker process for filling internal vacancies (the MOD's Job Opportunity Bulletin scheme)
 - Increased functionality of the IT system, enabling the provision of a broader range of services e.g. ensuring as many HR services as possible are e-enabled and user friendly.

19. **Finance:** The Finance modernisation programme encompasses a number of initiatives to simplify, standardise and modernise the finance functions within Defence. These will not only provide cashable savings from a reduction in headcount required to perform the current services, but will also enable output benefits through the improvement of the service provided

20. Key cashable benefits arise from staff reduction which is measured against the baseline figures and is enabled by:

- convergence to a single modern system for accounting operations which encompasses both software and hardware aspects of the platform (Oracle 11i);
- introduction of shared service centres to serve multiple management areas;
- review and simplification of financial planning and budgeting processes, including aligning planning cycles with the Spending Review timelines.

21. **Estates:** The Estates Modernisation programme includes a number of initiatives to improve the management and utilisation of the Defence estate. Cashable efficiencies will come from:

- centralising the estates management function, leading to net staff savings which will be measured against baseline figures;
- the merger of the Defence Housing Executive agency with the Defence Estates agency, leading to savings in running costs, measured by the impact upon the accounts of the merged Agency;
- manpower and overhead savings from letting a prime contract for Defence housing.

22. Other Estates Modernisation initiatives give rise to efficiencies that reflect improvements in quality rather than reductions in costs, and are thus non-cashable:

- the introduction of regional prime contracts will lead to better value for money being obtained from expenditure on maintaining the estate; this will be measured as part of the arrangements for monitoring the performance of contractors;
- centralised contracts for providing modernised single living accommodation, measured by comparison with the public sector comparator used to appraise contractors bids;

- Project Aquatrine will provide improved water and sewerage services across the Defence Estate. Benefits are based on comparison with the public sector comparator, and result from an increase in the quality of service delivered which will allow the Department to meet legislative requirements.

23. The Defence Estates Agency is currently carrying out work to scope and identify options for further rationalisation of the Defence estate - moving to fewer, larger sites and increasing overall estate utilisation. This is expected to produce additional efficiencies in the running costs of the estate.

24. **Information Infrastructure:** The Defence Information Infrastructure (DII) programme will provide a single modern information infrastructure across Defence, replacing 300 diverse information systems across 2000 locations worldwide. It represents a considerable programme of work in its own right.

25. DII is a key enabler for many of the other business improvement initiatives in the Efficiency Programme; the efficiencies resulting from these initiatives are reported against the relevant improvement programmes as described above.

26. But there are also further efficiencies which will be delivered by DII which are not attributable to other programmes. These are non-cashable savings which will increase capability and effectiveness rather than reduce cashable costs. They include:

- avoiding the costs of providing additional user accounts for occasional users (for example, to provide access to future military and civilian HR systems, and to electronic training packages) which include manpower and hardware costs (e.g. additional terminals). The IPT will monitor the take up and use of these accounts and calculate benefits;
- reducing the costs relating to systems down-time and under-performance. These costs relate to both the reduced effectiveness of personnel and the cost of staff required to repair systems. Savings are derived from both the increased reliability of modern systems and avoiding of the need for three separate resilience designs and implementations which would otherwise have occurred during the period;
- providing a single secure conduit to other government departments and to allies; savings are the avoided costs of having to provide secure connections for seven existing systems, apportioned over three years, the assumed development cycle;

- a single solution for electronic document and record management, avoiding costs of implementing multiple solutions;
- other expected process-related efficiencies which are not otherwise scored within the reported figures.

27. ***DLO Enabling Functions:*** a programme of work is underway within the Defence Logistics Organisation (DLO) to bring a common approach to the provision of enabling functions such as HR, Secretariat and Finance. Providing these functions on a common whole-DLO basis will provide a better service to Integrated Project Teams (IPTs) and other delivery units that are at the heart of delivering DLO outputs; it will also deliver cashable efficiency through reduced headcount.

LOGISTICS

Improving the provision of logistic support to the Armed Forces lies at the core of the MoD's efficiency programme. A key reform following the Strategic Defence Review was the creation of the Defence Logistics Organisation, to bring together the three single Service logistic Commands into a unified structure

Table 4 - LOGISTICS						
	Total benefits			Of which cashable		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
	£M	£M	£M	£M	£M	£M
Efficiency Programme	565	822	992	356	570	714
comprising:						
DLTP (net of PR and enabling functions)	502	714	884	346	556	706
Whole Fleet Management	63	108	109	11	14	7

28. The **Defence Logistics Transformation Programme** (DLTP)⁵ embraces all logistic activity within Defence, whether it occurs in preparation for operations; deployed in theatre; within the defence industry, during the early stages of equipment acquisition, or when planning for equipment disposal. The previous DLO Change Programme focused primarily on the improving efficiency through reducing costs and driving waste out of the system within the DLO. DLTP builds on this foundation, but extends to embrace efficiency “end to end” from industry, through the DLO and into the front-line Commands. It is focused on transformation – ‘delivering in a different way’ – in order to deliver improved operational effectiveness, efficiency and flexibility.

29. The DLTP covers all areas of the logistics process. The programme is organised into seven “environments”. At the core of the programme are:

- Strike – which includes fixed-wing aircraft from all three Services
- Land – which includes vehicles and helicopters from all three Services
- Maritime - including ships and submarines

⁵ DLO procurement reform and the restructuring of DLO enabling functions fall within the DLTP; however, for the purposes of the MoD Efficiency Programme they are reported under Procurement and Corporate Services respectively.

30. These are the delivery environments, which are accountable for assuring the performance of the DLO in supplying the Front Line Commands – Strike Command, Land Command and Fleet - with the outputs from the DLO specified in Customer Supplier Agreements.

31. In addition there are four enabling environments that support pan-Defence change:

- Strategy - covering the development and implementation of defence logistics policy and doctrine and the logistics information strategy
- Joint - developing and implementing transformation of the joint supply chain, both operational and non-operational.
- Acquisition – including procurement reform and electronic procurement enablers (covered in the Procurement section), through-life management and cost of ownership, and tri-Service facilities management.
- Centre – the implications of the DLTP for MoD’s programme to modernise the management and organisation of resources and for the Defence Estate

32. Each environment has a team leader and team with a governance structure and a detailed programme plan including benefits targets. The environments are overseen by a single programme management office and team leader reporting to a programme-wide Board. The programme is supported by a sophisticated benefits tracking system, which records and tracks each of the several hundred improvement initiatives within the programme. Examples of cashable benefits are:

- reduced expenditure on contract repair;
- lower costs as a result of quicker turn around times, improved logistic processes and a “lean” approach to engineering and supply;
- headcount reductions within the DLO and in front-line Commands.

33. There are also non-cash savings from reductions in holdings of stocks and fixed assets.

34. A fundamental element of the Defence Logistics Transformation Programme (DLTP) is the holistic review of the logistic support process for both the Strike and the Land environments (covering the aircraft and vehicles of all three Services). For fixed wing aircraft, this will involve reducing the number of locations at which ‘deep maintenance’ repair is carried out on equipment, delivering very significant cashable savings and reductions in headcount.

35. **Whole Fleet Management** will produce efficiency benefits from the better management of the military vehicle fleet. Cashable savings will come from:

- reduced consumption of spares enabled by the introduction of Controlled Humidity Environment storage, measured by comparison with previous usage;
- reductions in vehicle holdings, with benefits being tracked through the DLO benefits tracking tool;
- reductions in the requirement for technical accommodation, realised through reducing the budgets of the Commands concerned.

36 In addition, there are non-cashable benefits:

- cost avoidance because the size of future equipment buys can be reduced, measured through operational effectiveness modelling and by reference to the previous equipment procurement programme;
- savings in military labour on vehicle husbandry.

PROCUREMENT

The MoD is building on its Smart Acquisition programme, which was launched some six years ago and has been revised recently as a result of a stocktake by the Defence Procurement Agency. The MoD is aware of the need to implement more fully the key principles of the programme and to go further in creating a better, more open relationship with industry - in particular through: increasing the levels of early investment to de-risk projects; improving the operation of the approvals process to enable decisions to be taken more quickly; and enhancing performance management across the procurement process. The MoD has already taken a number of steps to streamline and improve its procurement processes, thus securing cashable efficiency benefits.

Table 5 - PROCUREMENT						
	Total benefits			Of which cashable		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
	£M	£M	£M	£M	£M	£M
Efficiency Programme	80	323	585	80	323	585
comprising:						
Equipment Programme	33	206	373	33	206	373
DLO Procurement Reform	47	94	157	47	94	157
Procurement Process	-	10	30	-	10	30
Fully Serviced Infrastructure	-	13	25	-	13	25

37. In accordance with its Public Service Agreement (PSA) target to *Deliver the Equipment Programme to cost and time* the MoD aims to provide equipment that meets the user's requirements, on budget, and when the user needs the equipment. The PSA target is underpinned by demanding supporting targets that measure success in meeting the user's key requirements; minimising slippage in in-service dates; and minimising cost growth. These targets are also reflected in the published Key Targets of the Defence Procurement Agency. Performance against the PSA target will be reported in the MoD's Annual Performance Report and Accounts.

38. The *Future Capabilities* work described at Annex A has identified opportunities to improve the value for money to be obtained from expenditure on the forward equipment programme:

- The procurement strategy for the future helicopter fleet has been revised to rationalise the number of different aircraft types to be procured, thus delivering the required capability at a lower cost through savings on development, testing and logistic support.

- Operational analysis has shown that a more efficient way of providing the required offensive air capability out to 2020 is to use multirole fast jets, so reducing the number of platform types. An improved procurement strategy also allows us to reduce the rate of spend on the assessment phase for the Future Offensive Air System (FOAS) without delaying when the platform will enter into service; plans for procuring FOAS have therefore been revised.
- The procurement strategy for the Future Rapid Effects System (FRES), the new air deployable family of land vehicles, has been revised to extend the assessment phase. This will reduce and defer expenditure on the overall project, while making it more certain that the solution will provide the required capability. Funding for the assessment and development phases has been increased by some £28M against the original plans, with spending now concentrated on the technically more complex variants. The revised in-service date for FRES is coherent with plans to increase strategic airlift. Until then, the MoD's ability to achieve the required strategic effect is not impaired by using existing platforms.
- The Indirect Fire Precision Attack project will provide smarter ammunition for field artillery. Operational analysis has shown that the new force structure will be able to achieve the same strategic effect with fewer precision attack munitions. Expenditure on the project has therefore been reduced with no operational penalty, thus providing better value for money.

39. The procurement of fighting equipment and other specialised military equipment by the DPA represents only about one—third of the MoD's procurement expenditure. A very wide range of other goods and services is procured, much of it by the Defence Logistics Organisation (DLO), which is undertaking a major programme of **Procurement reform**. This initiative, which forms part of the Defence Logistics Transformation Programme, will realise efficiencies through:

- developing robust sourcing strategies;
- improving the professionalism and skills of procurement staff;
- creating procurement processes underpinned by e-enabled capability;
- improved performance-focused relationships with suppliers.

40. Cashable savings will be tracked through the DLTP benefits tracking system; these include savings that fall to other management areas for whom the DLO provides a centralised purchasing function, as well as savings falling to the DLO's own budget.

41. The principles of procurement reform are being extended more widely through the establishment of a single owner (the Second Permanent Secretary) for the **procurement process** across the MoD; it is expected that this will deliver further cashable savings.

42. **Defence e-Commerce Service** (DECS) provides a fully secure interface between the MoD and its trading partners on which value-added services are hosted. It will deliver benefits through the support of rationalised business services and processes that span the MoD / private sector boundary. Many of these benefits fall are already covered by DLO Procurement Reform. Wider benefits from DECS will be included in the Efficiency Programme when they have been defined in detail.

43. The MoD is examining the feasibility of moving towards the concept of a **fully serviced infrastructure**, integrating the provision of land and buildings with the full range of supporting accommodation functions and services. The benefits will largely fall outside the Spending Review 2004 period; however, early benefits are expected from the rationalisation of multi-activity contracts for the provision of facilities. These benefits will be included within the current targets when it is prudent to do so, and will then be tracked against clearly identifiable historic costs.

ORGANISATION AND RELOCATION

In 2004 the MoD moved its slimmed down Head Office back into the Main Building in Whitehall. The project has resulted in the release of buildings in London (with the number of buildings the MOD occupies having reduced from more than 20 in 1991 to just 3 in 2004), generated efficiency savings, and reduced staff numbers. A range of initiatives – many of them stemming from Future Capabilities – are now in hand to reduce still further the management overhead and the number of sites occupied by the Department.

44. **Head Office** – A programme is being developed to identify the essential functions of Head Office and to plan and manage further reductions in numbers (some of which may be through relocation). Some elements of the Defence Intelligence staff will be located in the space in the MoD Main Building thus freed up, with the remainder being relocated as part of a plan to dispose of the Old War Office Building.

45. **Naval HQs** – The objective is to create a single Navy command with a modern, effective headquarters, thus maximising the Navy's operational capability and delivering cashable efficiency benefits through headcount savings.

46. **Army HQs** – The aim is to collocate the headquarters of Land Command and of the Adjutant General on a single site to improve working practices and deliver efficiencies, leading to cashable headcount savings (and potentially estate savings).

47. **RAF HQs** – The objectives of the RAF Process and Organisational Review programme are to collocate the headquarters of the RAF Strike and Personnel and Training Commands, delivering efficiencies and improving working practices; and to vacate and dispose of one or both of the existing sites; leading to cashable headcount savings (and potentially estate savings).

48. **DLO/DPA** – This programme aims to co-locate (some) DLO staff with DPA counterparts, enabling reductions in manpower and freeing up accommodation for alternative use or disposal.

49. **ATFC Arborfield**: As part of the MoD's response to the Lyons Review, the Army Technical Foundation College at Arborfield is being closed, with training being moved to the Army Foundation College at Harrogate. Savings in military and civilian pay (including that of trainees, from shorter courses) and from stock consumption and property management will be tracked through the accounts of the Army Training and Recruiting Agency.

50. Except for the ATFC Arborfield, these projects are still at an early stage of planning and it is not yet possible to give detailed cost and benefits estimates. Indicative figures are included in Table 1.

The Independent Review of Public Sector Location (Lyons Review)

51. The MoD has relocated a significant amount of Defence activity out of London and the South East in recent years. Building on this and the work already underway to rationalise the Defence estate, the Department put forward proposals to the Lyons Review to move 3,900 posts out of London and the South East by 2010. These proposals were:

- rationalising Woolwich station in south-east London and relocating units as appropriate (1,020 posts relocated, 100 posts cut);
- closing the ATFC at Arborfield in Berkshire (1,230 posts relocated, 180 posts cut);
- relocating the Disposal Services Agency from London (80 posts relocated);
- collocating the Defence Medical Training Centre, currently at Aldershot and Gosport, with the Royal Centre for Defence Medicine, already at Birmingham (1,070 posts relocated, 60 posts cut);
- rationalising the Defence Science and Technology Laboratories (490 posts relocated, mainly from Farnborough).

52. Of these proposals, the closure of the ATFC will deliver efficiency gains in the period to 2007/08, and is therefore included in the Efficiency Programme. The other proposals are subject to further work, including on affordability, and will require consultation with the Trade Unions and further Ministerial consideration before final decisions on whether to proceed. The MoD is committed to meeting its target to relocate 3,900 posts out of London and the South East by 2010, whether through these proposals or through other projects; business cases will of course be undertaken on individual projects to ensure that they represent value for money. The Efficiency Delivery Board will monitor progress in meeting this target. The Department will also continue to explore opportunities to relocate further posts from London and the South East.

MANPOWER CHANGES

Military Manpower

53. The improvement programmes under the Corporate Services, Logistics, and Organisation and Relocation headings will deliver reductions in military posts. These reductions will be counted as cashable savings by the programmes concerned as they occur.

54. The changes to the force structure set out below, together with the post reduction from improvement programmes will lead to a reduction in the overall requirement for military manpower in each Service. The MoD has a Public Service Agreement target to achieve and maintain manning balance; planning will now be directed towards achieving the lower requirement. In consequence, the trained strength will be lower than it would otherwise have been. The difference between the previous planned and funded strength and the new planned and funded strength, less the savings counted against individual improvement programmes, will be counted as cashable savings. Indicative figures are included in Table 1.

Civilian Manpower

55. Reductions in civilian staff numbers are counted as cashable savings where they are attributable to specific improvement initiatives. The programmes under the Corporate Services, Logistics, and Organisation programmes account for some 8,000 reductions, and a further 1,000 are expected to result from the force structure changes. The balance stems from local initiatives across the MoD. Changes as far as possible through normal turnover in people and jobs and by re-training and re-deployment; the affordability of redundancy costs will be a factor to be considered.

FORCE STRUCTURE CHANGES

The 2003 Defence White Paper⁶ set out the Government's analysis of the future security environment, the implications for defence, our strategic priorities and how we intend to adapt our forces to meet potential threats. The analysis showed that we face increased threats in certain areas (principally, international terrorism and instability, requiring a move to a more expeditionary posture), reduced threats in other areas (e.g. anti-submarine warfare and threats to the UK homeland), and the important role of technology in enabling more effective and efficient use to be made of existing platforms and manpower.

The MoD subsequently undertook a detailed study of force structures and the equipment programme and determined that extensive re-structuring would allow us achieve better policy outcomes with smaller, lighter and more capable forces, with a corresponding reduction in future spend on acquisition of certain types of equipment. Delivering Security in a Changing World: Future Capabilities, published in July 2004, sets out these changes in detail. The resources released from the areas set out below will be reflected in the forward financial plans for the budget holders concerned, and be re-directed to MOD's priorities.

56. Submarines

- reducing the attack submarine force level to eight from the present ten; enabled by reduced threat and by the additional effects based capability of the future ASTUTE class - cashable savings from operating and maintenance costs, non-cash savings from reductions in fixed assets holdings
- reducing torpedo maintenance costs through revised servicing routines - cashable savings from reduced contractor costs;.

57. Ships

- Destroyers and Frigates:

⁶ *Delivering Security in a Changing World: Cm 6041*

- and Type 23 frigates earlier than previously planned; enabled by reduced conventional threat, revised assumptions about concurrent operations, and improved networked capability - cashable savings from operating and maintenance costs, non-cash savings from reductions in fixed assets holdings;
- removing support and manpower from certain sonar equipments - cashable savings from maintenance costs and reduced headcount.
- Patrol Vessels:
 - reducing minehunter force levels to 16; enabled by reduced threat and changed requirement for large scale operations - cashable savings from operating and maintenance costs, non-cash savings from reductions in fixed assets holdings;
 - removing the three Northern Ireland patrol vessels; enabled by the improved security situation - cashable savings from operating and maintenance costs, non-cash savings from reductions in fixed assets holdings.

58. ***Land forces***

- Armour: reducing the number of Challenger squadrons and AS90 batteries, providing instead light armoured and reconnaissance squadrons and Light Gun batteries; reflecting a shift in emphasis from heavy to light and medium weight forces
- Ground Based Air Defence: reorganisation and reduction in numbers of fire units in the light of assessment of the future security environment.

59. ***Aircraft***

- Fast Jets – in parallel with the introduction into service of Typhoon, bringing forward the disposal of Tornado F3 and Jaguar; reducing missile stockpiles; reducing the Tornado GR4 aircrew requirement; planning on the basis of a full multi-role capability for Typhoon; disposing of RAF Coltishall; enabled by advance weapons and aircraft capabilities and in networking.
- Maritime Patrol Aircraft – reducing the number of Nimrod MR2s, in response to a reduction in the perceived submarine threat, and shifting their role towards wider surveillance in support of joint military and security operations.

- Helicopters – reducing the required fleet sizes for Lynx and Gazelle; reflecting the improved security situation in Northern Ireland

60. Savings arise from:

- reductions in capital equipment holdings, saving on maintenance and operating costs (cashable) and on capital charges and depreciation (non cashable);
- estate disposals.

61. Table 1 includes indicative figures for savings from force structure changes.

PRODUCTIVITY

62. One of the objectives of the wide-ranging ***Defence Health Change Programme*** is to increase the proportion of military personnel who are fit-for-task, by improving the quality of healthcare using Regional Rehabilitation Units and other methods. The average length of time a patient takes to recover will be monitored and compared with historical data; the improvement will be converted to additional man-years (of personnel available for operational deployment) and valued using a capitation rate⁷, the benefits are shown in Table 1.

CONTINGENCIES

63. In addition to the specific programmes and initiatives described, the work of the MoD Efficiency Programme includes a continuing search for further sources of increased efficiency. Possible sources include the following:

- Enhanced efficiencies within programmes already contributing to the Efficiency Programme - identifiable once the programmes move forward and more detailed financial and benefits data are derived.
- Newly identified projects within the Department. A requirement has been placed on top-level budget holders to identify further efficiency initiatives, as an integral part of the MoD's financial planning process.
- The development of a management framework (the Business Management System) which will facilitate continuous improvement in the delivery of core defence outputs through a better understanding of the high-level cross-Departmental processes, their interconnections and single point accountability for their effectiveness and efficiency.

64. Where further efficiencies are identified that do not fit within the categories covered by this Technical Note, appropriate measurement methodologies will be agreed with HM Treasury. It will remain the case that all efficiency must be attributable to specific improvement initiatives, and that all cashable efficiency must be also be attributable to budgets.

⁷ Lance Corporal is used as a representative rank for costing purposes

FUTURE CAPABILITIES – BACKGROUND

The 2003 Defence White Paper set out our analysis of the future security environment, the implications for defence, our strategic priorities and how we intend to adapt our forces to meet potential threats. This policy was an evolution of the strategy contained in the 1998 Strategic Defence Review, and built on the conclusions of the 2002 SDR New Chapter and recent operational experience. Crucially it demonstrated the need to defend against the principal security challenges of the future: international terrorism, the proliferation of weapons of mass destruction, and weak and failing states.

Following the publication of the White Paper, the Defence Management Board commissioned an exercise, linked to the forward financial planning process, to look in a considered way at the defence programme's major costs and drivers, including the force structure, in order to create a sustainable, coherent and affordable force structure optimised to meet the operational requirements of the new security environment. This exercise highlighted the importance of the continued transformation of our forces to concentrate on the characteristics of speed, precision, agility, deployability, reach and sustainability. Key to this is our ability to exploit the benefits of Networked Enabled capability, precision munitions and the development of effects-based planning and operations.

Sixteen thematic workstreams were created as a result of the Board's direction. These involved a rigorous examination of force structure, specific equipment requirements and supporting infrastructure, manpower and organisational structure. This reflected the fact that the Department's costs are determined ultimately by the size and shape of our current and planned military capability. A fundamental requirement of the workstreams was that they should reduce expenditure without compromising the ability of the Department to deliver the military capability needed to meet the policy defined in the White Paper; the implementation of the workstreams thus leads a more efficient use of Defence resources. Treasury officials were involved fully in the exercise.

KEY POLICY JUDGEMENTS

The work was driven strongly by an appraisal of the policy set out in the Defence White Paper, updating the judgements we made in the SDR and New Chapter. The underlying basis and extent of our Defence Planning Assumptions remain valid. However, more detailed analysis has revealed that further policy judgements can be made on the scales of effort, endurance and concurrency. The following policy judgements have been particularly significant in deriving proposals to change the force structure:

- a. Because **large scale operations**, if undertaken, would invariably be conducted as part of a US-led coalition, and given that the US has the capability to conduct such operations unilaterally, our contribution should consist of those capabilities most likely to achieve the maximum influence over the planning and execution of the operation. Workstreams were therefore encouraged to identify the 'large scale premium' – ie the difference between the capabilities we retain exclusively for large scale and those we require for concurrent medium/small scale operations.
- b. Based on the experience of the last 10 years, we can assume that in **enduring peacekeeping operations**, once the joint force has been deployed and stability established, there is scope for achieving the desired effects (Prevent, Stabilise, Deter, Contain) with lower force levels. This implies a reduced requirement in mature peacekeeping operations for maritime sea control, elements of combat support for ground manoeuvre, offensive support and air defence.
- c. Although the serious impact that the presence of hostile submarines could have on maritime operations requires us to retain the capability to neutralise the threat, the potential threat is assessed to be very low. We have therefore judged it appropriate to reduce the numbers of **platforms optimised for anti-submarine operations** (destroyer/frigate, SSN, Nimrod aircraft, Merlin helicopters and MCMVs), while continuing to enhance the quality of those that remain and ensure that they are able to contribute fully in other capability areas.
- d. Similarly, the air threat to deployed forces has greatly reduced and the capability of our air superiority aircraft and other **air defence** assets is continuing to improve. So we need fewer aircraft and fewer ground-based air defence systems to meet the threat.
- e. The effectiveness of modern precision weapons and sensors, which can be used in all weathers, day and night, means that highly accurate air delivered offensive effects can be achieved with fewer **fast jets** than before.
- f. While recognising the need to continue to provide appropriate support to the Police Service of Northern Ireland, the more favourable security situation allows further reductions in **forces permanently committed to Northern Ireland**.