



House of Commons
Defence Committee

Ministry of Defence Annual Report and Accounts 2007–08

Fifth Report of Session 2008–09

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

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The Defence Committee

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Summary

The scrutiny of a department's performance against its targets is central to the work undertaken by select committees. Like most select committees, we inquire on an annual basis into the Ministry of Defence's (MoD) Annual Report and Accounts (ARA). This Report examines the administration, expenditure, activities and achievements of the MoD during the 2007–08 financial year, as described by the MoD in its most recent ARA, which was published on 21 July 2008.

The implementation and operation of the Joint Personnel Administration programme (JPA) has so far revealed very considerable failings. The lack of sufficient financial controls led the Comptroller and Auditor General to qualify the MoD's Resource Accounts for 2007–08. The scope of these failings is significant and impacts upon several areas critical to service personnel satisfaction with life in the Armed Forces. It is, in our view, truly reprehensible that such mistakes were allowed to be made by those charged with oversight of the JPA programme. We will continue to monitor the operation of JPA, and hope to find evidence of vastly improved service when we inquire into ARA 2008–09.

On a separate but related issue, we note the MoD's extensive programme of change, in particular driven by efficiency targets—largely met—which have led to some quite dramatic headcount reductions. Whilst the Department has succeeded in meeting efficiency targets, it is unfortunate that these fell just as JPA was performing poorly. Some headcount reductions will no doubt have made the impact of some of JPA's failings worse, and we have other concerns about the management of the different aspects of the MoD's change programme where changes in staffing levels have placed increasing strains on personnel involved in supporting current operations.

We are disappointed that the MoD has failed to gauge accurately its likely performance against targets in the years preceding this year's Annual Report and Accounts, particularly with regard to its readiness targets. We are also concerned about the over-optimism that allowed the MoD to believe that it had some chance to meet targets that, in the end, it entirely failed to meet. Its forecasting of performance has been poor and must improve.

We must also express reservations about the transparency of the MoD's targets in the 2004 Spending Round reporting period, and about the clarity with which the MoD reported against them. The terminology used in reporting was ambiguous and could equally cover near-success and close to abject failure, and the level of subjectivity in assessing performance against some targets was very considerable indeed.

We hope that the system of objectives and targets currently in use in this new reporting period proves to be more transparent, and that the MoD's reporting against them is at least as thorough and regular as—and more objective than—equivalent reporting in the SR2004 period.

We must emphasise our particular concern about the Department's past performance against its readiness targets, which, along with recuperation issues, we are currently looking into in another inquiry. The consequences for our Armed Forces of long-term concurrent operations in Afghanistan and Iraq are perhaps nowhere more evident than in the

declining readiness of force elements. The MoD's planned recuperation programme is vital to improve performance but it must place no further pressures on already hard-pressed personnel while showing sufficient flexibility to deal with possible changing or increasing deployments to theatre in the near future. It is also a matter for continuing concern that performance against readiness targets in this reporting year have so far shown no improvement—with little chance of significant improvement for years to come.

1 Introduction

Purpose of our inquiry

1. Government departments are required to publish annual reports at the end of each financial year. Their purpose is to set out achievements and performance against objectives and targets, to describe administrative structures and set out financial information on actual and planned expenditure. Scrutiny of a department's performance against its targets, and of its expenditure is central to the work undertaken by select committees.¹ Our inquiry continues a series of annual inquiries into the MoD's Annual Report and Accounts. This Report examines the administration, expenditure, activities and achievements of the MoD during the 2007–08 financial year, using the *Ministry of Defence Annual Report and Accounts 2007–08*, published on 21 July 2008.²

2004 Spending Review Period (SR 2004)

2. Departmental Expenditure Limits are set in fixed three year periods, or Spending Review Periods, and are tied to objectives which set out the services and improvements to services that the public can expect from these resources.³ The MoD's three objectives in the 2005–08 period were underpinned by six PSA targets, as well as specific Gershon efficiency savings targets for increasing the MoD's efficiency. Reporting year 2007–08 was the third and final year of the 2004 Spending Review period (SR2004)⁴ and the final year that this round of PSA targets will be used to measure the MoD's performance. The MoD Annual Report and Accounts 2007–08 thus provides the MoD's final assessment against SR2004 PSA targets. We have followed the MoD progress towards its SR2004 PSA targets in our earlier reports; *Ministry of Defence Annual Report and Accounts 2005–06*;⁵ and *Ministry of Defence Annual Report and Accounts 2006–07*.⁶

Conduct of our inquiry

3. In a departure from previous inquiries into the MoD's Annual Report and Accounts, we held two oral evidence sessions instead of our usual one. This allowed us to question the Secretary of State about the MoD's performance as well as senior MoD officials, and to spend more time examining some of the key issues. We took evidence from Sir Bill Jeffrey, MoD's Permanent Under Secretary (PUS) and Mr Trevor Woolley, MoD's Finance Director, and from the new Secretary of State for Defence, the Rt Hon John Hutton MP,

1 Liaison Committee, Second Report of Session 2001–02, *Select Committees: modernisation proposals*, HC 692, para 16; Modernisation Committee, First Report of Session 2001–02, *Select Committees*, HC 224-I

2 Ministry of Defence, *Annual Report and Accounts 2007–08*, (HC 850-I & II, Session 2007–08) The Annual Report and Accounts consist of the Annual Performance Report (Volume I) and Departmental Resource Accounts and Annexes (Volume II)

3 http://62.164.176.164/spend_index.htm. The MoD's objectives are: achieve success in the military tasks we undertaken at home and abroad; be ready to respond to the tasks that might arise; build for the future.

4 The 2004 Spending Review (SR2004) Public Service Agreement (PSA) targets ran from 1 April 2005 to 31 March 2008.

5 Defence Committee, Second Report of Session 2006–07, *Ministry of Defence Annual Report and Accounts 2005–06*, HC 57

6 Defence Committee, Fifth Report of Session 2007–08, *Ministry of Defence Annual Report and Accounts 2006–07*, HC 61

who was appointed on 3 October 2008, and appeared before us only six weeks later. We welcome him to the post of Secretary of State as well as other new members of the MoD's ministerial team. As we noted at the evidence session, we recognise the scale of the task the Secretary of State faces in responding to a very broad range of issues after such a short time in office.⁷ We would like to place on record our appreciation to the Secretary of State for fulfilling his predecessor's appointment to appear before us.

4. We sent written questions, prepared with the assistance of the Committee Office Scrutiny Unit, to the MoD at the beginning of the inquiry. We also asked the MoD for further information following each of the evidence sessions. Both oral and written evidence are printed with this Report.⁸ We are grateful to the National Audit Office (NAO) for providing written briefing on the performance of the MoD—that briefing is available on the NAO's website.⁹ We extend our thanks to all those who assisted the Committee during the course of the inquiry

7 Q 129

8 Ev 1

9 National Audit Office, *Performance of the Ministry of Defence 2007–08, Briefing for the Defence Committee*, October 2008, available from http://www.nao.org.uk/publications/nao_reports/07-08/Performance_of_MOD_2007-08.pdf

2 The MoD's resources

The Joint Personnel Administration programme: the Qualified Audit Opinion

6. The MoD's total expenditure during 2007–08 was some £44.2 billion,¹⁰ including Armed Forces personnel payroll costs of £8.6 billion which was administered through the Joint Personnel Administration (JPA) programme. This year the Comptroller and Auditor General (C&AG), head of the National Audit Office (NAO), qualified the MoD's Resource Accounts because of a limitation of scope on personnel payments. In particular the C&AG was unable to verify:

- whether the allowances paid to Service personnel were correctly stated;
- the level of error within the Joint Personnel Administration (JPA) payroll system; and
- whether selected allowances and expenses paid through JPA were valid due to the lack of supporting documentation.

The C&AG also noted that there were no other methods to carry out an audit of this expenditure.¹¹

7. The C&AG further identified the following weaknesses in the MoD's financial control and management information:

- insufficient controls to prevent errors leading to significant over or under payments;
- limited ability to trace and correct high levels of mis-postings between cost centres;
- incorrect personal data held for between 5–10% of all military staff;
- an inability to reconcile payroll control accounts;
- inadequate budget monitoring because of inadequate up-to-date information on pay expenditure, debt and liabilities; and
- difficulties in recovering the £28.9 million owed by Service personnel because of uncertainties about over or under payments.¹²

These failings and weaknesses are all directly or indirectly attributable to the JPA programme.

8. The Joint Personnel Administration programme is a major change programme, intended to modernise the administrative support given to all members of the Armed

¹⁰ Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-I, p 12

¹¹ Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-II, p 270

¹² *ibid*, p 47, para 4.6–4.7

Forces. JPA was introduced across each Service because the “cost, risk and hindrance to business change from continuing with antiquated IT platforms had become unsustainable”.¹³ It replaced separate, single-Service systems of payroll delivery; separate career management systems—including the management of postings, promotions, recruitment and training; separate central policy and unit staff,¹⁴ achieving up to an estimated £100 million per year in financial savings and the reduction of 1,400 jobs.¹⁵ The MoD says that the “Armed Forces are benefiting from more harmonised and simplified business processes and policies and, for individuals, greater visibility of their personal information and the benefits of self-service use”.¹⁶ It also provided the MoD with a single authoritative source of personnel data (other than medical data) producing information to support decision making across defence.¹⁷ This would include the capacity to monitor adherence to harmony guidelines on an individual as well as a unit basis. The budget for the JPA programme was approved at £244.94 million (excluding VAT).¹⁸

9. The JPA programme was delivered through an existing contract between the Armed Forces Personnel Administration Agency (AFPAA)—which became the Service Personnel and Veterans Agency (SPVA) in April 2007—and the company EDS, rather than through a new and separate commercial arrangement. The MoD notes that “the decision to follow this route was subject to Defence Investment Approvals Board (IAB) endorsement and was taken on a combination of value for money and risk to successful and timely implementation grounds”.¹⁹

10. Although there have been serious difficulties with the implementation of JPA, the most significant problem seems to have been the fundamental one of its formulation. The NAO concluded that, in developing JPA, the MoD placed insufficient emphasis on financial reporting requirements or the need for management information data.²⁰ As Sir Bill Jeffrey explained:

As is I think clear from the Accounts, it reflects the fact that although the Joint Personnel Administration system is, we believe, now bedding down for the principal purposes for which it was introduced, it has had quite serious problems in terms of its ability to give us and give our auditors the information they need about expenditure on Service pay and allowances that would give them the confidence to test that aspect of our Accounts, so it is serious.²¹

It is difficult to exaggerate the magnitude of the failure of the Joint Personnel Administration programme. At a time when the Department is seeking, in many cases

13 Ministry of Defence, *Annual Report and Accounts 2006-07*, HC 697, p 108

14 Defence Committee, *Ministry of Defence Annual Report and Accounts 2006-07: Government Response to the Committee's Fifth Report of Session 2007-08*, Fifth Special Report of Session 2007-08, HC 468, p 24

15 Ministry of Defence, *Annual Report and Accounts 2006-07*, HC 697, p 125, para 206

16 Defence Committee, *Recruiting and retaining Armed Forces personnel: Government response to the Committee's Fourteenth Report of Session 2007-08*, Eleventh Special Report of Session 2007-08, HC 1074, p 40

17 HC (2007-08) 468, p 30

18 *ibid*, p 25

19 *ibid*, p 30

20 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-II, p 272

21 Q 27

successfully, to deal with areas of dissatisfaction in service personnel life, this failure, which affects pay, entitlements and service records, is unacceptable.

11. In response to the NAO’s criticisms and qualification of the Accounts, the Permanent Under Secretary commissioned a specific internal review, into the financial reporting shortcomings of JPA. The review, reported in May 2008, found that the MoD had monitored project timescales and costs carefully but had given insufficient priority to ensuring that basic financial control and reporting requirements were delivered; that the MoD saw JPA primarily as an HR project and did not sufficiently involve finance staff in its development; and that the MoD relied on EDS to advise it of the controls needed, although EDS did not have a clear understanding of what the MoD required.²²

12. This whole programme has been far from satisfactorily implemented. Last year, in our Report on the MoD’s Annual Report and Accounts 2006–07, we noted that JPA had “experienced problems and that substantial number of Armed Forces personnel...had incorrect deductions from their salaries”.²³ We followed up the issue of JPA in our Report Recruiting and retaining Armed Forces personnel. In its response to that Report, the MOD told us that self-service satisfaction with the JPA Centre had been as low as 31.5%, although it had recently risen to 45.5%.²⁴

13. We raised the matter of the qualification of the MoD’s Resource Accounts and JPA in our first evidence session with Sir Bill Jeffrey and Trevor Woolley. Sir Bill Jeffrey admitted that the qualification was “serious and troubling”.²⁵ Mr Woolley elaborated on the nature of the problem which had caused the qualified audit opinion:

...we have replaced a manual system with an automated system. In a manual system there are lots of opportunities for manual intervention if it looks as if a payment is being made at the wrong level or to the wrong person. The automated system we have in JPA does not have that same level of control and the same level of evidence that the right payments have been made to the right people.²⁶

Sir Bill Jeffrey admitted that the project as a whole, and its implications for the MoD’s Accounts, had not been properly thought through:

...the JPA project paid too little attention to the extent to which the system that was being produced would feed the Accounts and give us the confidence to have the Accounts properly audited.²⁷

14. We asked the Secretary of State whether he had been surprised to learn that no one in the MoD had realised that the introduction of a universal automated payroll system might

22 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-II, p 272

23 HC (2007–08) 61, para 104

24 HC (2007–08) 1074, p 40, response to Recommendation 40

25 Q 27

26 Q 29

27 Q 27

have implications for the departmental accounts. He told us that he was surprised, and assured us that “the department [was] looking to address these issues”.²⁸

15. We express our serious concern that the MoD’s Resource Accounts for 2007–08 were qualified by the Comptroller and Auditor General, as a result of their lacking financial controls, arising from the recently introduced Joint Personnel Administration system. We are also concerned by the number of weaknesses in financial control identified by the NAO. We look to the MoD to address these weaknesses as a matter of urgency.

16. In developing JPA, the MoD placed insufficient emphasis on financial reporting requirements or the requirements for management information. A system was put in place, presumably with the approval of the Department’s Finance Officer, that provided insufficient evidence of payments and which could have such adverse impacts upon Departmental Accounts. We consider this to be a basic and fundamental error which is unacceptable on a project of this scale and importance.

17. In addition, the MoD lists cases being passed between SPVA Enquiry Centre staff and unit staff without resolution as well as difficulties with the process to terminate employment as problems arising from the implementation the JPA programme. Shortcomings in JPA were also identified in our last Report on the Ministry of Defence Annual Report and Accounts 2006–07,²⁹ and in our Report *Recruiting and retaining Armed Forces personnel*,³⁰ where we noted that there were difficulties using the system, problems in the level of errors in payments, and the insufficient training provided to Armed Forces personnel. JPA has incurred additional costs of £2.3 million to date.

18. We asked the MoD what compensation it expected to secure from the contractor, EDS, for any failure by that company to deliver a system able to support the Resource Accounts satisfactorily. The MoD told us that there was:

no specific provision within the contract for EDS to compensate the MoD for failures associated with the production of the Resource Accounts, but charges are raised for Service Delivery Failures, some of which are likely to have contributed to the NAO forming the view that the accounts should be qualified. Charges vary according to the nature of each failure and also take into account the share of responsibility for the failure between MoD and EDS, the extent of the impact of the failure on customers and any other mitigating factors. The total failure charge raised in 2007–08 was £516,000.³¹

We asked Sir Bill Jeffrey whether the remaining £1.8 million of additional costs was the result of a failure by the MoD to extract proper and due payments for errors in the programme from the contractor. He said that he “would not be absolutely certain that is the sole explanation but it is certainly the case that the half million or so was as much,

28 Q 146

29 HC (2007–08) 61, paras 100-104

30 HC (2007–08) 424, paras 157-162

31 Ev 39

consistent with the contract, as we thought it reasonable to impose as penalties on EDS³².
The contractual cost paid to EDS in FY2007–08 by the SPVA was £68.9 million; of this, the cost for delivering the JPA system was £55.5 million.³³

19. It remains unclear whether the ability of the MoD to recover such a small proportion of the monies it paid out to EDS for JPA reflects the nature of the contract, a just assessment of the proportion of responsibility for JPA's weaknesses or both. The decision to implement the JPA programme through an existing contract, which was clearly insufficient to deal with problems that might arise, was short sighted. The lack of clarity in the design in the system at the outset has led significant costs being incurred by the Department which ought to have been entirely avoidable.

Resolving problems with JPA

20. The NAO notes that the MoD has devoted significant resources to improving JPA, although in its opinion, further action is required.³⁴ The table below sets out steps taken so far by the MoD in relation to the NAO's recommendations:

Table 1: Steps taken by the MoD and NAO's Recommendations for further action

Steps taken by the MoD	NAO further recommendations
Development of a detailed systems map to assess whether all necessary controls exist.	The detailed systems map should be completed urgently to allow the Department to instigate the necessary mitigating controls.
Establishment of a working group of stakeholders to ensure that issues at Top Level Budget Holder and lower accountability levels can be escalated and resolved.	The Department should produce an overall plan which prioritises the significant issues, with timescales set by which actions should be completed and adequate resources allocated to achieved the plans. The costs involved should be weighted against the risks associated with not introducing a system of input controls
Formation of a targeted team of accountants to identify the financial implication of known weaknesses, such as the need for reconciliation of control accounts.	More will need to be done to prevent and detect input and processing errors.
The RAF are planning to introduce JPA specialists in each of their Units to assist staff and be a local repository of expertise	Payroll account reconciliations need to concentrate on making corrections in sufficient time for departmental processing timetables.
Training in the production of regular and ad-hoc reports and been improved and on-line access has been widened to help with solving problems	

Data source: National Audit Office, Performance of the Ministry of Defence 2007–08, Briefing for the Defence Committee, October 2008

21. We asked the Permanent Under Secretary whether the MoD was confident that its accounts for 2008–09 would not be qualified for the same reason next year. He told us that he:

would not care to make a confident prediction about that yet because as we have gone into it there is a lot to be done to correct the situation, but there is a good

32 Q 35

33 Ev 47

34 NAO, *Performance of the Ministry of Defence 2007–08*, p 48, figure 17

prospect, and we are working very closely with the NAO who have been extremely helpful over this, of getting to the point where they can give us unqualified Accounts in this respect at the end of the current financial year.³⁵

We also asked him whether the NAO’s recommendations were being taken forward. He told us that “we are doing so as quickly as we can because I can assure the Committee that this is something that as Accounting Officer I take extremely seriously”.³⁶

22. We recognise that considerable work has been undertaken recently to enable JPA to support the MoD’s financial performance. We note that more work will need to be done. We will return to this subject in our next inquiry on the MoD’s Annual Report and Accounts. In its response to this Report the MoD should set out what the current state of JPA is, what current satisfaction levels within the service community are with regard to JPA, and what progress has been made in implementing the NAO’s recommendations.

Efficiency savings

23. The efficiency programme was introduced across Government at the time of the 2004 Spending Review, following the publication of the Gershon Report.³⁷ It included targets for monetary savings and headcount reductions. It also incorporated targets for the relocation of civil servants from London and the South East arising from the Lyons Review.³⁸

24. In addition to its six PSA targets, during the SR2004 period the Ministry of Defence agreed:

- to realise efficiency gains of at least £2.8 billion by 31 March 2008, of which 75% would be cash-releasing;
- to reduce its civilian staff by 10,000;
- to reduce the number of military staff in administrative and support functions by at least 5,000; and
- to be on course to relocate 3,900 posts out of London and the South East by 2010.³⁹

Table 2 sets out the MoD’s performance against these efficiency targets:

35 Q 28

36 Ev 30

37 Sir Peter Gershon CBE, *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, July 2004

38 Sir Michael Lyons, *Well placed to deliver? Shaping the pattern of Government service: Independent Review of Public Sector Relocation*, March 2004

39 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-I, p 25

Table 2: Performance against efficiency targets

Target	Achievement
£2.8 billion efficiency gains (of which ¾ are cash releasing)	Between £3.05 to £3.14 billion
Reduce civilian staff by 10,000	Reduction of some 17,500 staff
Reduce military staff in administrative and support functions by 5,000	Reduction of nearly 5,500 military administration and support posts
Relocate 3,900 out of London and the South East by 2010	Relocation of 2,700 posts out of London and the South east by 2008

Data source: MoD Annual Report and Accounts 2007–08, p 219–221, paras 365–67

25. The Annual Report and Accounts notes that “efficiencies in process and back-office functions are being reinvested in the core programme... The Treasury has agreed that up to £270 million of the final over-achievement can be counted against the value for money target of £2.7 billion”.⁴⁰

26. We asked the MoD for information relating to the location of the 17,500 civilian jobs which had been cut, and where 5,500 military administrative and support posts had also been lost. Tables 3 and 4 below set out this information detailing these reductions: Land, DE&S, Air Command, DSG and non-operational locally employed civilians account for the greatest civilian losses while the Defence Logistics Transformation Programme accounts for over 60% of cuts in military and administrative support posts.⁴¹

40 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-I, p 220, para 367

41 Ev 47-48

Table 3: Civilian Manpower Reductions

Land (including AG and NI)	-3100
Chief of Joint Operations	-110
Central and Defence Estates ^(a)	+770
Science, Innovation and Technology	+200
Defence Equipment and Support	-6720
Air Command	-3000
Fleet	-1340
Unallocated ^(b)	+230
Royal Fleet Auxiliary	-40
DSTL	+210
Met Office	-120
Hydrographic Office	+ 90
Defence Support Group	-2390
Non Operational Locally Employed Civilians	-3260
NET TOTAL REDUCTION	-18620

a. Defence Estates was part of the Central TLB in April 2004

b. staff who cannot be allocated to a particular TLB

Table 4: Military and Admin Support Posts

Closure of RAF Coltishall	738
Merger of Royal Navy TLBs	121
Merger of RAF TLBs	229
Joint Personnel Administration	588
Defence Logistics Transformation Programme	3418
Closure of Army Technical Foundation College Arborfield	147
Fleet delivery training	246
TOTAL REDUCTION	5487

27. As we noted in our last Report, the MoD has exceeded its efficiency targets by a wide margin. We commend the MoD for its focus in maintaining its core programme. We must however express some concern that these cuts come at a time of considerable change in the MoD, and of continuing high operational commitments. Inevitably, such reductions in staff have placed greater burdens upon personnel and hindered performance.

28. The MoD’s memorandum on JPA notes that “in order to release the resultant financial benefits of JPA back to the rest of Defence at the earliest opportunity, it was decided at the time of Defence Management Board endorsement that implementation time-scales and remaining within the approved funding framework would be the key drivers for the project”.⁴² The Comptroller and Auditor General notes that, as a result of this, “under pressure to achieve its efficiency targets, the Department sought to achieve the planned savings in HR personnel at too early a stage in the implementation of the JPA. Around 300 HR staff posts were cut at a time when the difficulties associated with the implementation were, in fact, creating a need for more experienced HR staff support”.⁴³

29. We are concerned that there has been a significant cost to the achievement of the MoD’s efficiency programme. We consider that the difficulties Service personnel experienced using the JPA system were in part due to the MoD’s pursuit of its efficiency targets. The fact that the MoD has exceeded its efficiency targets while the JPA system has performed so badly raises questions about the management of the MoD’s extensive change programme and about a possible conflict of priorities.

30. During our inquiry into *Recruiting and retaining Armed Forces personnel* we heard from the Army and RAF Families Federations and from Service personnel, via the web forum we established, that cuts in MoD personnel had had a negative effect on the service they received.⁴⁴ **We are concerned that MoD’s headcount reductions, office closures and consequent move towards contact centres have together proved a source of frustration to Service personnel. We note that the MoD has no method of measuring whether the quality of the service it provides to Armed Forces personnel has deteriorated as a result of the efficiency programme. We recommend that the MoD develop a system to monitor the effect of its efficiency programme so as better to enable it to manage its impacts on Service personnel.**

Capability Review

31. In March 2007 the Cabinet Office led the “Capability Review of the Ministry of Defence” which examined how senior leaders within the MoD, both military and civilian, collectively and individually lead, set strategy and deliver. The review concluded that the MoD had one of the most challenging briefs in Whitehall—preparing for unpredictable challenges from across the globe, and in exceptional circumstances, at home. The review also found that there was “a lack of clarity around roles, accountability and authority”. The key areas for action were identified as:

- reviewing leadership behaviours, governance and accountability to ensure that its governance structures and levels of accountability are fit to form the basis of its ambitious programme of change and development, to find ways for that Defence Management Board to communicate with one voice and to simplify business models and processes.

42 HC (2007-08) 468, p 25

43 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-II, p 272

44 HC (2007–08) 424, paras 116-129

- promoting the defence agenda more effectively across Whitehall, addressing the insularity of the MoD and refreshing strategy;
- building on human capability, by properly funding early departure schemes, increasing skill levels, reinforcing line management and improve succession planning.

32. The Capability Review also found that “the current level of sustained operational commitments puts at risk the Department’s ability to prepare for potential future missions. Striking a balance between short-term operational activity and long-term capability development will become increasingly challenging and will require the MoD leadership team to unite in taking tough prioritisation and resource allocation decisions”.⁴⁵

33. In its review of the MoD's performance, the NAO notes that the Department has embarked on a two-year programme to improve these areas of weakness. An important part of the programme is the Head Office Streamlining Programme which will reduce Head Office staff by 25 per cent, a loss of about 1,000 civilian jobs and 300 military posts.⁴⁶ The MoD Annual Report and Accounts 2007–08 notes that streamlining aims to achieve “swifter decision making, based on clearer roles and responsibilities, clearer accountability and elimination of over briefing and unnecessary or duplicated staff work. Senior staff are expected to set the example”.⁴⁷ From January 2008, as part of the Streamlining Programme, the Defence Management Board was replaced by the Defence Board, placing greater emphasis on strategic oversight and the direction of defence and managers’ performance.⁴⁸ A new Defence Operating Board was established as the means by which the decisions of the Defence Board and Chiefs of Staff Committee are fully implemented.⁴⁹

34. We asked the Permanent Under Secretary of State for examples of how these changes had improved leadership within the MoD. He told us: “I feel—and you will have to take my word for it I am afraid—that the Defence Board is cohering and has a common view on what we are trying to achieve”.⁵⁰ **It is probably too early to determine the success of these changes. We hope that the MoD will, in its next Annual Report and Accounts, describe in some detail the positive impact of the programme stemming from the Capability Review. We do remain concerned, however, that the Streamlining Programme, coming on top of the efficiency programme and accompanied by changes to processes and structures, may inadvertently affect the quality of performance within the MoD.**

Data security

35. This year the Cabinet Office introduced a requirement for all Departmental Annual Reports to list all data losses during the year. The MoD Annual Report and Accounts 2007–08 listed two breaches in data security:

45 Cabinet Office, *Capability Review of the Ministry of Defence*, March 2007, Section 3

46 “Streamlining the MOD's Head Office”, Ministry of Defence press notice, 23 October 2007

47 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-II, p 121

48 NAO, *Performance of the MoD 2007–08*, October 2008, p 27, para 3.14

49 *ibid.*

50 Q 41

Table 5: Summary of protected personal data related incidents formally reported to the Information Commissioner’s office in 2007–08

Date	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
Jan	Loss of a non-encrypted laptop from a hire car outside secured Govt premises.	Name, date of birth, address, passport number, next of kin, bank account details, National Insurance number.	Estimated at 620,000 personal records which also contain limited details of approx 450,000 referees and next of kin.	Individuals notified by post. Police notified. Media releases and a statement to Parliament on 21 Jan 2008.
Feb	Loss of a non-encrypted laptop from outside secured Gvt premises.	Name, date of birth, address, next of kin.	Estimated at 250.	Individuals notified by post. Police notified. Media releases.

Data source: MoD Annual Report and Accounts 2007–08, Vol II, p 247

In its briefing, the NAO further told us that since 2004 the MoD has lost 121 memory sticks (including 81 with restricted information and 5 with Secret information); and 747 laptops (32 of which have been recovered).⁵¹

36. In response to these losses, the Department commissioned Sir Edmund Burton to conduct a review of its data handling procedures. He found that “generally, there is little awareness of the current, real, threat to information, and hence to the Department’s ability to deliver and support operational capability. Consequently, there can be little assurance that information is being effectively protected”,⁵² and that “a serious security event of this nature was inevitable”.⁵³

37. The MoD has accepted Sir Edmund Burton’s findings and has published an action plan to implement changes,⁵⁴ including:

- embedding awareness of the importance of and the procedures for correctly handling personal data across the Department;
- complying with the Data Protection Act as soon as possible;
- establishing a rigorous regime of Audit, Assurance and Compliance for Data Protection; and
- ensuring that Top Level Budget areas and Trading Funds develop, resource and maintain adequate Data Protection.⁵⁵

38. In September 2008 (after the period covered by this year’s Annual Report and Accounts), three hard drives (two containing sensitive personal information) were stolen

51 NAO, *Performance of the Ministry of Defence 2007–08*, p 35

52 Sir Edmund Burton, *Report into the Loss of MoD Personal Data*, 30 April 2008, p 3 (Review)

53 *ibid*, p 4 (Review)

54 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-II, p 266

55 Ministry of Defence, *MoD Action Plan in response to Burton Report*, 20 June 2008

from a secure facility at Innsworth, Gloucestershire. On 10 October, the MoD announced that EDS could not account for a hard drive containing the details of 100,000 members of the Armed Forces and 600,000 potential recruits. It is not clear from the press notice whether this constitutes a new data loss or an earlier incident which has only come to light recently. Data held on the hard drive included bank details, passport numbers, addresses, driving licence details, addresses and telephone numbers.

39. We asked the Permanent Under Secretary why further losses occurred after the recommendations of the Burton Review. He told us: “I do not think we are ever going to eradicate in the modern world the loss of a laptop, for example, or systems of that kind. What we need to do is to reduce it and very definitely make its impact less damaging. The most recent case involving the loss of the hard disks actually resulted from a census by our suppliers of their removable media, which was being undertaken because of all the effort we have instigated from the centre to get more on top of this, so it is work in progress, but it is exceptionally important work”.⁵⁶

40. We asked how the MoD was ensuring that its policies and practices were put into practice, and specifically about what system of censure and punishment the MoD applied to those who lost, or compromised, personal data. Sir Bill Jeffrey told us that already 20,000 laptops had received new encryption; but he also stressed that the most challenging area of data protection was not equipment but the “behavioural aspect”.⁵⁷ This point was also stressed by the Secretary of State who said: “we have to change the culture”.⁵⁸ We were sent a draft of a revised table of security breach levels and resulting sanctions, drawn up following the Burton Review, which is included in the evidence of this Report.⁵⁹

41. We are concerned to learn that the MoD has been involved in separate incidents where significant amounts of personal data have been lost. We are pleased that the MoD has since then put in place firm measures markedly to reduce if not prevent similar incidents happening the future. While we agree with Sir Bill Jeffrey that preventing *any* reoccurrence of data loss is impossible, we emphasise that the MoD must show no complacency in this area. We are pleased to see that the matter is being overseen by the Defence Board, at the very highest level within the Department, and we expect clear and full information on progress to date in limiting or preventing such incidents in the next Annual Report and Accounts.

56 Q 52

57 Q 51

58 Q 146

59 Ev 42

3 The MoD's PSA performance

Overall performance

42. Table 4, below, sets out the MoD's assessment of its achievement against its Spending Round (SR) 2004 PSA targets. Only one of its six PSA targets was assessed by the MoD as having been 'met'—success in military tasks undertaken.

Table 6: MoD's performance against PSA targets 2005–2008

PSA Target	2005–2006 Interim Assessment	2006–2007 Interim Assessment	2007–2008 Final Assessment
Objective I: Achieve success in the Military Tasks we undertake at home and abroad			
1. Achieve the objectives established by Ministers for Operations and Military tasks in which the UK's Armed Forces are involved, including providing support to our civil communities.	On course	On course with some risk	Met
2. By 2008, deliver improved effectiveness of UK and international support for conflict prevention by addressing long-term structural cases of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular Africa, Asia, Balkans and the Middle East. (Joint target with FCO and DfID).	On course	Broadly on course with minor slippage	Partly met
Objective II: Be ready to respond to the tasks that might arise			
3. Generate forces which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives.	On course	Some risk	Not met
4. Play a timely role in the development of the European Security Agenda, and enhance capabilities to undertake timely and effective security operations, by successfully encouraging a more efficient and effective NATO, a more coherent and effective ESDP operating in strategic partnership with NATO, and enhanced European defence capabilities. (Joint target with FCO).	On course	On course	Partly met
5. Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives.	On course	On course with some risk	Partly met
Objective III: Build for the future			
6. Deliver the equipment programme to cost and time.	On course	On course	Partly met

Source: Ministry of Defence

43. The MoD points to the level of current operational commitments as the underlying reason for its poor performance against its PSA targets, particularly with regard to PSA target 3. It notes that:

For every one of the last seven years the Armed Forces have operated above the level that they are resourced and structured to deliver. Achieving this has only been possible at the expense of the readiness of the Armed Forces to undertake contingent operations, and with the unavoidable impact on Service personnel. Although the force structure is designed to be resilient, it cannot sustain indefinitely the nature, scale and intensity of operations being conducted in Iraq and Afghanistan over the last two years.⁶⁰

Quality of forecasting

44. In 2005–06, the MoD assessed that it was “on course” to meet all of its PSA targets. In 2006–07 it assessed that it was “on course” to meet two targets and “on course with some risk/minor slippage” to meet the remaining four targets. By the end of the SR2004 period it had met one target, partly met four targets and failed completely to meet another target. We therefore asked the Permanent Under-Secretary about the quality of the MoD’s forecasting. He told us that there “may have been a bit of institutional over-optimism at some stage”,⁶¹ as the MoD was “staffed by people who are keen to deliver what they can for the Armed Forces, the ultimate user”.⁶² **We commend the MoD for the efforts it clearly puts into supporting the Armed Forces and attempting to deliver its SR2004 PSA targets. However, we are disappointed by the quality of the MoD’s forecasting during the 2004 Spending Review period. We are concerned that institutional over-optimism might in some areas significantly impact on efforts to improve performance. We look to the MoD to make improvements to the accuracy of its forecasting in future and to inject a greater sense of realism into how its personnel carry out forecasting in future, and to report progress on this in its next Annual Report.**

45. We also asked the MoD about the terminology used to measure its progress against PSA targets; specifically whether “partly met” was an adequate expression when it could mean falling just short of the target or not getting close to it at all. The Permanent Under Secretary told us:

I think occasions when we have used the phrase “partly met” are usually in relation to PSA targets where there is more than one element to them. The obvious example is in relation to the equipment programme itself and the objective “build for the future, deliver the equipment programme to cost and time”. Our objectives there are partly met in the sense that we have delivered on key user requirements through the projects that the Committee knows about, but in relation to cost and time there has been slippage that exceeded the initial targets we were set, so in that sense the PSA target was met in part but not in whole. Elsewhere if you look at some of the international conflict prevention work, I think the view—and this is an inter-departmental one—has been that we have made significant progress but it would be overstating the case to say that we completely met the PSA target, so it is a variety. But I quite take the point, if you look in particular at the readiness target, over the last few years, as I have and as many members of this Committee have, we were

60 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-I, p 43, para 43

61 Q 2

62 Q 4

possibly holding out hopes of reversing the position longer than it was realistic to do so. I think that is a fair criticism.⁶³

46. We asked the Secretary of State whether he would consider ascribing an absolute value to the MoD's assessment of progress against targets in the future, since the expression 'partly met' was far from clear.⁶⁴ He promised to write to us to explain what 'partly met' meant in each case, and with an assessment of whether the MoD might consider moving to using an absolute value instead.

47. In a supplementary memorandum, the MoD pointed out that HM Treasury had mandated the use of the term 'partly met'. With regard to PSA target 2, of twelve sub-targets, two were met, nine partly met and one not met. With regard to PSA target 5, only five of twenty-two sub-targets were met. With regard to PSA target 6, only one of three sub-targets were met. The MoD stressed the fact that the judgement as to performance with regard to targets was often necessarily subjective. The number of sub-targets met in the context of PSA target 5—compared to those only partly met or not met at all—was “not a particularly helpful way of viewing achievement in such a complicated target set”.⁶⁵ Despite this qualification, no attempt was given in the response from the MoD to set out to what extent each sub-target was 'partly met'.

48. As far as giving an absolute value to the MoD's performance, the supplementary memorandum stressed the problems: “it was difficult to see...[how] meaningful quantitative indicators” could be assigned to any of these targets as such a process would rely upon judgements which were “likely to be subjective and will not replace the written assessment in allowing a reader to get a feel for what has been achieved in pursuit of the target”.⁶⁶ Although no suggestion had been made to the MoD that assigning an absolute value to performance ought to replace a detailed written assessment of that performance, we acknowledge the difficulty of recording performance at least with regard to such areas as represented by PSA target 5. But woolly terms such as “some slippage” and “partly met” may themselves have fostered the over-optimism that led to such poor forecasting.

49. We do not consider the MoD's current system of reporting its progress against its targets to be sufficiently transparent. The response we received from the MoD to our queries on this issue only emphasises the unsatisfactory way in which the headlines of the Annual Report were constructed. When targets comprise many sub-targets, when subjectivity is key to measurement, when no metrics are provided to assess what is meant when a sub-target is 'partly met', there is clearly insufficient transparency. We understand the need sensibly to balance clarity and accuracy with brevity. Nonetheless, we recommend that the MoD develop a more accurate method of measuring its progress against targets for next year's Annual Report and Accounts, and at the very least make performance against sub-targets a much more prominent part of that Report's headlines in future.

63 Q 6

64 Q 142

65 Ev 46

66 *Ibid.*

Operations

50. PSA target 1 required the MoD to “achieve the objectives established by Ministers for operations and military tasks in which the UK’s Armed Forces are involved, including those providing support to our civil communities”.⁶⁷ The MoD assessed that it had met this target. Given the sensitivity of the information upon which judgements are made within the MoD as to performance against this target, it is perhaps the least transparent of the PSA targets in use by the MoD in the SR2004 period. This was raised in evidence with Sir Bill Jeffrey who explained that “at root, the assessment of PSA1... rests on quite detailed military judgements...Inevitably, it is subjective in its assessment and the only people who can make, in my view, a reliable assessment of that are our military commanders”.⁶⁸

51. As the Permanent Under Secretary noted in his evidence, we as a Committee receive regular classified briefings and updates on progress in operations from the MoD, for which we are very grateful. Such regular operational briefings and updates should enable us to monitor whether good performance against the new equivalent Performance Indicator (within the revised targets) is being maintained. **We encourage the MoD to look into making publicly available as many of the unclassified elements of assessment within this area as possible, but we understand the operational sensitivities will mean that this area of performance will necessarily remain less accessible to the public than other areas of the MoD’s performance.**

Conflict prevention

52. PSA target 2 required the MoD to “deliver improved effectiveness of United Kingdom and international support for conflict prevention by addressing long-term structural cases of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the United Kingdom can make a significant contribution, in particular Africa, Asia, the Balkans and the Middle East”.⁶⁹ This was a joint target shared with the Foreign and Commonwealth Office (FCO) and with the Department for International Development (DfID). The MoD assessed that it had partly met this target. In supplementary written evidence to us, the MoD confirmed that, of the twelve sub-targets within this PSA target (which largely cover activities in individual countries, such as Sierra Leone, Nepal and Sudan), only two were met, nine were partly met and one not met at all. The MoD memorandum explained that “the nature of the sub-targets... were qualitative assessments made about regional stability issues many of which were outside of the control of the MoD”.

53. It is not clear what the relative weight and subjectivity of these sub-targets is, nor is it clear to what extent nine of the twelve sub-targets were only partly met. The detail of performance in this area again serves only to disguise exactly how the MoD has performed, given the very broad range of performance covered, with regard to targets or sub-targets, by the phrase “partly met”. **We accept that a number of the outcomes set out in the MoD’s Public Service Agreements for the period from 2004 to 2008 and in its**

67 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-I, p 13

68 Q 61

69 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-I, p 13

Departmental Strategic Objectives for the period from 2008 to 2011 are not subject to easy measurement. We also accept that the MoD’s own direct influence in relation to some of its international objectives will be necessarily limited. However, we reiterate the need for the MoD to try to develop more rigorous and objective methods for assessing performance.

Readiness

54. PSA target 3 required the MoD to generate forces which can be deployed, sustained and recovered at the scales of effort required to meet the Government’s strategic objectives. The MoD assessed that it had failed to meet this target. One of the measures of performance within this area was the percentage of force elements containing critical or serious weakness, meaning they were at significant risk of being below their target levels of readiness. The components of readiness are: manning levels, equipment, logistic support, and collective training (the training to assist units in working together as part of a larger force).⁷⁰ The level of actual operational commitments obviously has an impact on the readiness of the UK Armed Forces to respond to future or contingent operations. Concurrent operation in Iraq and Afghanistan have led to a deterioration in readiness levels and an enduring inability to improve them for as long as this concurrent operations remained at the same tempo or magnitude. During the whole SR2004 period, this area of performance was the one that always looked the most difficult to achieve. Yet even here there was no sense of impending failure against this target until right near the end of the SR2004 period.

55. At the time of the 2007–08 Spring Performance Report in May 2008, we wrote to the then Secretary of State with our concerns about the MoD’s continuing poor performance against the readiness target. He responded that:

“As we set out in March in our reply to your report on last year’s Annual Report and Accounts, it is simply not possible for the Armed Forces to operate at the level and intensity they have sustained for some years while simultaneously being prepared for the full range of potential additional hypothetical contingent operations underpinning Defence Planning Assumptions. Success on current operations in Iraq and Afghanistan is our overriding priority. We have therefore deliberately prioritised resources, including in the equipment programme, to support current operations. It is not that we are resigned to a low level of readiness, as you suggest. It is simply that there is a limit to how much we can expect the Armed Forces to do at the same time. Readiness levels should start to improve (with about a 6 month lag time) as commitments reduce. These are, quite simply, the two sides of the same coin”.⁷¹

Notwithstanding these comments, we find it perplexing that the MoD thought for so long that it would not fail against this readiness target, especially since it understood that the Armed Forces were “continuing to operate above the overall level of concurrent operations which they are resourced and structured to sustain over time”.

70 Ministry of Defence, *Annual Report and Accounts 2007–08*, HC 850-I, p 49, para 47

71 Letter from the Secretary of State to the Chairman, 9 June 2008

56. The NAO noted in its briefing for us that the MoD “is not currently able to generate the full Joint Rapid Reaction Force capability, which is intended to be a pool of agile and trained forces, ready to deploy in support of Britain’s foreign and security policy objectives. Critical standby capabilities which include the ability to mount a civilian evacuation mission, were maintained in 2007–08, but have been drawn on heavily in 2008–09 to deploy the Operational Reserve Force to Kosovo”.⁷² The 600-strong 2nd Battalion The Rifles deployed to Kosovo as part of the UK commitment to the NATO/EU shared pan-Balkans Operational Reserve Force (ORF).⁷³ The NAO sets out the different challenges for each of the three Services in achieving future readiness at expected levels. The Royal Navy needs to overcome reduced spending on supporting some ships in 2004–2006 which has reduced the readiness of the surface fleet for the full range of potential future operations. The Army’s lack of readiness is attributable to attrition caused by the current level of operations and the lack of training opportunities available as a result. The RAF has lacked training opportunities and suffers from shortages of personnel and equipment: operational losses and planned modification and maintenance programmes have also had a particular impact.⁷⁴

57. In its memorandum, the MoD told us that it had reviewed and modified the way it will calculate readiness for Reporting Year 2008–09 and for the period covered by the new Departmental Strategic Objectives (DSOs) and their performance indicators. This has entailed changing, for some force elements, the weightings used in measuring readiness, and relaxing some longer term readiness targets “for forces not required for current operations in order to focus resources on operational priorities”.⁷⁵ It was put to the Permanent Secretary in oral evidence that the changes to the readiness system had perhaps been put in place in order to improve the assessment of performance in future. He pointed out that these changes “have in fact had the effect of making the measured readiness level slightly worse than it otherwise would have been by about 2%”.⁷⁶ **We welcome the openness that the MoD has shown in explaining the complex metrics for measurement of performance with regard to readiness. We expect an assessment in the Spring Performance Report of how the MoD considers the new metrics to be working.**

58. The poor performance against readiness targets evident in the SR2004 period, and ending with failure in 2007–08, has continued into the new Reporting Year. The Quarter One Report for 2008–09, issued on 30 October 2008, showed a deterioration in performance with regard to readiness in the first three months of the year. The Quarter Two Report from the MoD, the Autumn Performance Report, issued on 15 December 2008, reveals a slight improvement since the Quarter One Report—but a level of performance still below that detailed in the 2007–08 Annual Report and Accounts.⁷⁷

72 NAO, *Performance of the Ministry of Defence 2007–08*, p 20, Box: PSA Target 3

73 “2 Rifles ready for Kosovo role”, Ministry of Defence press notice, 30 May 2008

74 NAO, *Performance of the Ministry of Defence 2007–08*, p 21, para 2.20

75 Ev 32

76 Q 83

77 Ministry of Defence, *MoD Public Service Agreement, Performance Report, Quarter 1 2008–09*, pp5-6; *MoD Public Service Agreement, Autumn Performance Report 2008–09*, p 6

59. **This continuing poor performance against readiness targets is serious. As the MoD’s recent Autumn Performance Report accepts, it limits “the ability of force elements to engage in new contingent operations and military tasks”. It also reveals the significant stresses which exist currently upon manpower, equipment, training and logistics. This puts into stark perspective the UK’s capacity to sustain current operations into the medium term.**

60. Improving performance in this area of readiness clearly must be a priority for the MoD. The Permanent Secretary explained that his Department is currently working on plans to support a programme to restore full contingent capability to the Armed Forces by 2013 or 2014 which “means that the force elements that [are assessed]... for these purposes are at a satisfactory state of readiness without significant or tactical weaknesses”.⁷⁸ In effect, this means that the MoD expects soon to commence a programme of recuperation which will allow readiness targets largely identical to those set out in the SR2004 PSA 3 to be achieved by 2013-14.

61. This programme is founded upon the assumption that there will be “for some time to come... a significant commitment” in Afghanistan and the MoD will be “able very substantially to reduce the 4,000 or so troops...in southern Iraq”⁷⁹—in other words, it assumes a draw-down in Iraq, a continuing presence in Afghanistan of the current order of magnitude and no further operational commitments. The timescale within this programme appears to envisage continuing poor performance against current readiness targets for approximately the next four years, in effect for the duration of the SR2008 targets and possibly into the next target cycle.

62. **Restoring full contingent capability for our Armed Forces is one of the most pressing issue the MoD faces. It is essential that the MoD’s programme of recuperation is effective and places no further strains upon our Armed Forces. We are particularly concerned that the programme is founded upon assumptions as to commitments which the UK Government may not be able to keep to over this period. We therefore stress to the Department the importance of this programme being able to take account of increased deployments in Afghanistan or new smaller operational commitments while still aiming to recuperate force elements to the required level in a reasonable time-scale. We are currently examining this issue of readiness and recuperation in more detail in a separate inquiry and hope to report to the House on this subject late in the Spring.**

The European Security Agenda, NATO and ESDP

63. PSA target 4 required the MoD to play a leading role in the development of the European Security Agenda, and enhance capabilities to undertake timely and effective security operations, but successfully encouraging a more efficient and effective NATO, a more coherent and effective European Security and Defence Policy operating in a strategic partnership with NATO, and enhanced European defence capabilities. This PSA target was shared with the Foreign and Commonwealth Office. The MoD assessed that it had partly met this target, and noted in its supplementary memorandum to us that the “targets were

78 Q 65

79 Q 67

about qualitative assessments of the value of UK contributions to NATO and EU issues”.⁸⁰ this is clearly another far from transparent area of performance. As a shared target and area of activity where the ability to reach aims and objectives lies in good part outside the MoD’s—or the UK’s—control, the MoD ought still however to be held fully accountable for failing fully to meet a target designed to measure its contribution rather than its success. **Other departmental select committees have in the past expressed concern about targets shared between departments, on the grounds that each department involved is tempted to believe that principal responsibility for action or success lies elsewhere. This is clearly unsatisfactory, and it is vital that areas of responsibility and sub-targets within each target are formally assigned to particular government departments so that lines of activity and responsibility are clear.**

Armed Forces personnel

64. PSA target 5 required the MoD to recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives. The MoD assessed that it had partly met this target. In its supplementary memorandum to us, the MoD noted that only five of twenty-two sub-targets were met which “suggests a 23% achievement rate”. The memorandum also adds, however, that “this is not a particularly helpful way of viewing achievement in such a complicated sub-target set”.⁸¹

65. The five principal areas within this PSA target were manning balance, gains to trained strength, numbers medically fit for task, voluntary outflow rates and performance against harmony guidelines. With regard to manning balance, there was clear improvement during 2007–08 with regard to the RAF, some improvements tailing off in the last quarter with regard to the Royal Navy and continuing deterioration with regard to the Army. Targets for gains to trained strength were largely not achieved, except for Naval Service Other Ranks and RAF Officers. A total of 85.4% of Armed Forces personnel were reported fit for task as against a target of 90%. Voluntary outflow in all Services at Officer and Other Ranks levels was higher than the stable long-term rate, although figures were not available in some areas and were provisional in others on account of failings within the JPA system. With regard to harmony guidelines, all three Services continued to exceed the target for levels in individual separated service, although the Royal Navy and Royal Marines only exceeded the guidelines by less than 1%. Performance on unit tour intervals was patchier, the Royal Navy and Royal Marines broadly meeting the guidelines, parts of the RAF exceeding them, and the Army as a whole exceeding them.⁸²

66. A full range of issues relating to Armed Forces personnel and the sub-targets within this PSA target were examined in our earlier Report, *Recruiting and retaining Armed Forces personnel*, which was published after the end of the 2007–08 Reporting Year, on 30 July 2008, and which was built upon evidence on performance from MoD made available during that year up to and including the time of the Spring Performance Report.⁸³

80 Ev 46

81 *Ibid.*

82 Ministry of Defence *Annual Report and Accounts 2007–08*, HC 850-I, pp 21-3

83 HC (2007–08) 424

Evidence taken during the Annual Report and Accounts inquiry therefore largely explored performance in 2008–09 against the new manning and personnel targets in the context of areas of poor performance in previous years.

67. The Secretary of State in his evidence to us acknowledged that the MoD has to improve its performance in particular with regard to manning balance and harmony guidelines. He also reported progress with regard to gains to trained strength: “We are seeing not just an increase in the training strength but in the numbers of those joining the regular forces coming through training”.⁸⁴ The Permanent Secretary in his earlier evidence to us suggested that the deteriorating economic situation would assist in recruitment and retention—as it had done historically—but that the MoD is not “banking on it” to solve all their personnel problems. He explained that the focus of much of the Department’s work in this area would be on how effective ...[the MoD is] at adding to the trained strength and ...in retaining people”, key to which was the “ability to convert initial recruits into additions to trained strength.”⁸⁵

68. Performance in 2008–09 so far within the new DSOs against the new performance indicators has so far been poor, with a slight improvement in manning balance in the Royal Navy and Army but a fall in the Royal Air Force recorded in the first quarter (all three Services remaining outside target levels), and no progress for the Army and a deterioration for the RAF and Royal Navy recorded in the Autumn Performance Report at the end of the second quarter.⁸⁶ Numbers of personnel medically fit for task also fell against the target. Harmony guidelines remain largely breached for the Army and the number of pinch-points in significant trades remains a cause for anxiety.

69. Personnel and manning issues are clearly another area of the MoD’s performance that needs addressing as a matter of urgency. The recuperation programme which the MoD is about to put in place to assist in improving readiness levels following the drawdown in Iraq will have to focus not just upon equipment and training issues but also upon manpower issues.

Equipment

70. PSA Target 6 requires the MoD to deliver its equipment programme to cost and time. The Department assessed that it had partly met this target. The MoD’s supplementary memorandum makes clear that one of the three sub-targets was met which “suggests a 33% success rate”. The Department failed against the sub-targets relating to cost and to time and succeeded with regard to its sub-target in relation to the percentage of Key User requirements achieved.⁸⁷ We did not pursue the issue of equipment in any detail during oral evidence for this inquiry, as oral evidence for our defence equipment inquiry was already planned for the following weeks. We have just recently published our annual Report on defence equipment, *Defence Equipment 2009*, which deals with this performance and many other issues relating to procurement and the performance of Defence

84 Q 141

85 Q 127

86 Ministry of Defence, *MoD Public Service Agreement, Autumn Performance Report 2008–09*, pp 7-12

87 Ev 46

Equipment and Support (DE&S). We noted in that Report that, in its first year of operation, DE&S failed to meet its Public Service Agreement to ‘Deliver the equipment programme to cost and time’. The Report continues:

“We note that the National Audit Office examined the procurement costs relating to the 20 largest projects and found that the aggregate forecast costs of these projects increased by £205 million and the aggregate in-service date slippage increased by eight years in 2007–08.”⁸⁸

As our Report on defence equipment makes clear, **we are not satisfied with explanations that have been given by the MoD as to what it intends to do to rectify this decline in performance with regard to defence equipment, and we will be returning to this matter in the future.**

Future DSO targets

71. The Comprehensive Spending Review, published in October 2007, announced a new smaller set of PSAs cutting across departments. The MoD was not given a lead role in any of the new PSAs. The CSR also introduced Departmental Strategic Objectives (DSOs) for each Department, either contributing to its own or joint departmental PSAs.⁸⁹ The MoD has three DSOs (success on operations; readiness; and equipment capability) which have been developed into six top level performance indicators and are set out in the *Defence Plan 2008–2012*.⁹⁰ The table below compares old PSA targets with new DSO targets.

72. It is of course too early to say definitively whether this new structure for assessing performance improves on that used for the SR2004 reporting period. We have already commented on the opacity of headline performance against some of the targets under the old system. It is clear from the first two quarterly reports that the MoD is monitoring the new system carefully. The MoD notes that it is paying particular attention in respect of readiness performance where the new metrics permit a variation in measurement of 2–3%. Both quarterly reports also note that much of the personnel and manning related data is still provisional on account of uncertainties about the accuracy of data derived from the JPA system (all such data from April 2007 onwards is classed as provisional).⁹¹

73. The NAO notes in its briefing for us that “with fewer PSA indicators than previously, the amount of information that the Department is mandated to report publicly will decrease. There is a risk that some data that the Department has routinely published in recent years will no longer be placed in the public domain”. The briefing however goes on to say that the MoD has made known its intention to cover “much of the same ground” in the provision of information as it did under the previous PSA system.⁹² Certainly the first two quarterly reports appear thorough and cover the same approximate level of

88 Defence Committee, Third Report of Session 2008–09, *Defence Equipment 2009*, HC 107, para 50

89 HM Treasury, *The 2007 Pre-Budget Report and Comprehensive Spending Review*, Cm 7227

90 Ministry of Defence, *Defence Plan, Including the Government’s Expenditure Plans, 2008–2012*, Cm 7385, pp 5–6

91 See, for example, *MoD Public Service Agreement Performance Report, Quarter 1, 2008–09*, p 7, footnote 1.

92 NAO, *Performance of the Ministry of Defence 2007–08*, p 11, para 1.5

information as their equivalent reports under SR2004 for those target areas where indicators or DSOs match previous PSA targets.

Table 7: Comparison of SR2004 PSA targets with new DSOs

MoD's SR–2004 PSA targets	CSR PSAs/DSOs
1 (military tasks undertaken)	MoD DSO 1: Achieve success in the military tasks we undertake, at home and abroad) Performance Indicator 1.1 Success on operations assessed against the military strategic objectives for each operation or military task we are conducting, including Counter Terrorism.
2 (conflict prevention)	(contributes to FCO-led Performance Indicators under PSA 30)
3 (readiness)	MoD DSO 2: Be ready to respond to the tasks that might arise Performance indicator 2.1 UK Defence Contingent capability and delivery of Force Elements at Readiness : Our ability to maintain forces at the readiness we deem necessary to respond to possible threats, assessed against the requirement set out in Strategic Guidance and the Defence Plan. Performance indicator 2.2 Manning Balance : 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.
4 (ESDP and NATO)	(contributes to FCO-led Performance Indicators under PSA 30)
5 (military personnel)	<i>[See DSO 2.2 (manning balance)]</i>
6 (equipment programme)	MoD DSO 3: Build for the future Performance Indicator 3.1 Procuring and supporting military equipment capability, through life , assessed against achieving of targets for Key User Requirements, Full Operational Capability Date, and in year variation of forecast costs for design, manufacture and support. Performance Indicator 3.2: Procuring and supporting military non-equipment capability through life , assessed against achievement of targets for Key User Requirements, Full Operational Capability Date, and in year variation of forecast costs. Performance Indicator 3.3: Sustainable Development , assessed against achievement of objectives for sustainable consumption and production, climate change and energy, natural resource protection and environmental enhancement, and sustainable communities.

74. However, the NAO also notes that in some respects the MoD's contribution to overall government performance is now less prominent on account of all PSA targets now being shared and the Department leading in none of them.⁹³ It is indeed hard to see how this will not affect the amount of information that the MoD makes available on those areas where it now contributes to performance indicators under PSA 30 ('to reduce the impact of conflict through enhanced UK and international efforts') on which the FCO leads—namely those

93 NAO, *Performance of the Ministry of Defence 2007–08*, p 10, para 1.2

areas represented by old PSA targets 2 and 4. The two quarterly reports issued so far this reporting year lack data on areas covered by old PSA targets 2 and 4, areas in which the Department is still very active. **We will monitor the MoD's reporting under this new system and call upon the MoD to include reporting on its work under the FCO-led PSA 30 in quarterly reports in future.**

Conclusions and recommendations

The Joint Personnel Administration programme: the Qualified Audit Opinion

1. It is difficult to exaggerate the magnitude of the failure of the Joint Personnel Administration programme. At a time when the Department is seeking, in many cases successfully, to deal with areas of dissatisfaction in service personnel life, this failure, which affects pay, entitlements and service records, is unacceptable. (Paragraph 10)
2. We express our serious concern that the MoD's Resource Accounts for 2007–08 were qualified by the Comptroller and Auditor General, as a result of their lacking financial controls, arising from the recently introduced Joint Personnel Administration system. We are also concerned by the number of weaknesses in financial control identified by the NAO. We look to the MoD to address these weaknesses as a matter of urgency. (Paragraph 15)
3. In developing JPA, the MoD placed insufficient emphasis on financial reporting requirements or the requirements for management information. A system was put in place, presumably with the approval of the Department's Finance Officer, that provided insufficient evidence of payments and which could have such adverse impacts upon Departmental Accounts. We consider this to be a basic and fundamental error which is unacceptable on a project of this scale and importance. (Paragraph 16)
4. It remains unclear whether the ability of the MoD to recover such a small proportion of the monies it paid out to EDS for JPA reflects the nature of the contract, a just assessment of the proportion of responsibility for JPA's weaknesses or both. The decision to implement the JPA programme through an existing contract, which was clearly insufficient to deal with problems that might arise, was short sighted. The lack of clarity in the design in the system at the outset has led significant costs being incurred by the Department which ought to have been entirely avoidable. (Paragraph 19)
5. We recognise that considerable work has been undertaken recently to enable JPA to support the MoD's financial performance. We note that more work will need to be done. We will return to this subject in our next inquiry on the MoD's Annual Report and Accounts. In its response to this Report the MoD should set out what the current state of JPA is, what current satisfaction levels within the service community are with regard to JPA, and what progress has been made in implementing the NAO's recommendations. (Paragraph 22)

Efficiency savings

6. As we noted in our last Report, the MoD has exceeded its efficiency targets by a wide margin. We commend the MoD for its focus in maintaining its core programme. We must however express some concern that these cuts come at a time of considerable

change in the MoD, and of continuing high operational commitments. Inevitably, such reductions in staff have placed greater burdens upon personnel and hindered performance. (Paragraph 27)

7. We are concerned that there has been a significant cost to the achievement of the MoD's efficiency programme. We consider that the difficulties Service personnel experienced using the JPA system were in part due to the MoD's pursuit of its efficiency targets. The fact that the MoD has exceeded its efficiency targets while the JPA system has performed so badly raises questions about the management of the MoD's extensive change programme and about a possible conflict of priorities. (Paragraph 29)
8. We are concerned that MoD's headcount reductions, office closures and consequent move towards contact centres have together proved a source of frustration to Service personnel. We note that the MoD has no method of measuring whether the quality of the service it provides to Armed Forces personnel has deteriorated as a result of the efficiency programme. We recommend that the MoD develop a system to monitor the effect of its efficiency programme so as better to enable it to manage its impacts on Service personnel. (Paragraph 30)

Capability Review

9. It is probably too early to determine the success of these changes. We hope that the MoD will, in its next Annual Report and Accounts, describe in some detail the positive impact of the programme stemming from the Capability Review. We do remain concerned, however, that the Streamlining Programme, coming on top of the efficiency programme and accompanied by changes to processes and structures, may inadvertently affect the quality of performance within the MoD. (Paragraph 34)

Data security

10. We are concerned to learn that the MoD has been involved in separate incidents where significant amounts of personal data have been lost. We are pleased that the MoD has since then put in place firm measures markedly to reduce if not prevent similar incidents happening the future. While we agree with Sir Bill Jeffrey that preventing any reoccurrence of data loss is impossible, we emphasise that the MoD must show no complacency in this area. We are pleased to see that the matter is being overseen by the Defence Board, at the very highest level within the Department, and we expect clear and full information on progress to date in limiting or preventing such incidents in the next Annual Report and Accounts. (Paragraph 41)

Overall performance

11. We commend the MoD for the efforts it clearly puts into supporting the Armed Forces and attempting to deliver its SR2004 PSA targets. However, we are disappointed by the quality of the MoD's forecasting during the 2004 Spending Review period. We are concerned that institutional over-optimism might in some areas significantly impact on efforts to improve performance. We look to the MoD to

make improvements to the accuracy of its forecasting in future and to inject a greater sense of realism into how its personnel carry out forecasting in future, and to report progress on this in its next Annual Report. (Paragraph 44)

12. We do not consider the MoD's current system of reporting its progress against its targets to be sufficiently transparent. The response we received from the MoD to our queries on this issue only emphasises the unsatisfactory way in which the headlines of the Annual Report were constructed. When targets comprise many sub-targets, when subjectivity is key to measurement, when no metrics are provided to assess what is meant when a sub-target is 'partly met', there is clearly insufficient transparency. We understand the need sensibly to balance clarity and accuracy with brevity. Nonetheless, we recommend that the MoD develop a more accurate method of measuring its progress against targets for next year's Annual Report and Accounts, and at the very least make performance against sub-targets a much more prominent part of that Report's headlines in future. (Paragraph 49)

Operations

13. We encourage the MoD to look into making publicly available as many of the unclassified elements of assessment within this area as possible, but we understand the operational sensitivities will mean that this area of performance will necessarily remain less accessible to the public than other areas of the MoD's performance. (Paragraph 51)

Conflict prevention

14. We accept that a number of the outcomes set out in the MoD's Public Service Agreements for the period from 2004 to 2008 and in its Departmental Strategic Objectives for the period from 2008 to 2011 are not subject to easy measurement. We also accept that the MoD's own direct influence in relation to some of its international objectives will be necessarily limited. However, we reiterate the need for the MoD to try to develop more rigorous and objective methods for assessing performance. (Paragraph 53)

Readiness

15. We find it perplexing that the MoD thought for so long that it would not fail against this readiness target, especially since it understood that the Armed Forces were "continuing to operate above the overall level of concurrent operations which they are resourced and structured to sustain over time" (Paragraph 55)
16. We welcome the openness that the MoD has shown in explaining the complex metrics for measurement of performance with regard to readiness. We expect an assessment in the Spring Performance Report of how the MoD considers the new metrics to be working. (Paragraph 57)
17. This continuing poor performance against readiness targets is serious. As the MoD's recent Autumn Performance Report accepts, it limits "the ability of force elements to engage in new contingent operations and military tasks". It also reveals the

significant stresses which exist currently upon manpower, equipment, training and logistics. This puts into stark perspective the UK's capacity to sustain current operations into the medium term. (Paragraph 59)

18. Restoring full contingent capability for our Armed Forces is one of the most pressing issue the MoD faces. It is essential that the MoD's programme of recuperation is effective and places no further strains upon our Armed Forces. We are particularly concerned that the programme is founded upon assumptions as to commitments which the UK Government may not be able to keep to over this period. We therefore stress to the Department the importance of this programme being able to take account of increased deployments in Afghanistan or new smaller operational commitments while still aiming to recuperate force elements to the required level in a reasonable time-scale. (Paragraph 62)

The European Security Agenda, NATO and ESDP

19. Other departmental select committees have in the past expressed concern about targets shared between departments, on the grounds that each department involved is tempted to believe that principal responsibility for action or success lies elsewhere. This is clearly unsatisfactory, and it is vital that areas of responsibility and sub-targets within each target are formally assigned to particular government departments so that lines of activity and responsibility are clear. (Paragraph 63)

Armed Forces personnel

20. Personnel and manning issues are clearly another area of the MoD's performance that needs addressing as a matter of urgency. The recuperation programme which the MoD is about to put in place to assist in improving readiness levels following the drawdown in Iraq will have to focus not just upon equipment and training issues but also upon manpower issues. (Paragraph 69)

Equipment

21. We are not satisfied with explanations that have been given by the MoD as to what it intends to do to rectify this decline in performance with regard to defence equipment, and we will be returning to this matter in the future. (Paragraph 70)

Future DSO targets

22. We will monitor the MoD's reporting under this new system and call upon the MoD to include reporting on its work under the FCO-led PSA 30 in quarterly reports in future. (Paragraph 74)

Annex: list of abbreviations

AFPAA	Armed Forces Personnel Administration Agency
C&AG	Comptroller and Auditor General
CSR	Comprehensive Spending Review
DE&S	Defence Equipment and Support
DfID	Department for International Development
DSG	Defence Support Group
DSO	Departmental Strategic Objective
ESDP	European Security and Defence Policy
EU	European Union
FCO	Foreign and Commonwealth Office
IAB	Investment Approvals Board
JPA	Joint Personnel Administration
MoD	Ministry of Defence
NAO	National Audit Office
NATO	North Atlantic Treaty Organisation
ORF	Operational Reserve Force
PSA	Public Service Agreement
PUS	Permanent Under Secretary
SPVA	Service Personnel and Veterans Agency
SR	Spending Round

Formal minutes

Wednesday 18 March 2009

Members present:

Mr James Arbuthnot, in the Chair

Linda Gilroy

Mr Bernard Jenkin

Mr Brian Jenkins

Mr Dai Havard

Robert Key

Draft Report (*Ministry of Defence Annual Report and Accounts 2007–08*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 74 read and agreed to.

Annex and Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

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

[Adjourned till Tuesday 24 March at 10.00 am

Witnesses

Tuesday 4 November 2008

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Sir Bill Jeffrey KCB, Permanent Under Secretary of State, and **Mr Trevor Woolley CB**, Finance Director, Ministry of Defence Ev 1

Tuesday 11 November 2008

The Rt. Hon John Hutton MP, Secretary of State for Defence Ev 19

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List of Reports from the Committee during the current Parliament

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

Session 2005–06

First Report	Armed Forces Bill	HC 747 (HC 1021)
Second Report	Future Carrier and Joint Combat Aircraft Programmes	HC 554 (HC 926)
Third Report	Delivering Front Line Capability to the RAF	HC 557 (HC 1000)
Fourth Report	Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06	HC 980 (HC 1136)
Fifth Report	The UK deployment to Afghanistan	HC 558 (HC 1211)
Sixth Report	Ministry of Defence Annual Report and Accounts 2004–05	HC 822 (HC 1293)
Seventh Report	The Defence Industrial Strategy	HC 824 (HC 1488)
Eighth Report	The Future of the UK's Strategic Nuclear Deterrent: the Strategic Context	HC 986 (HC 1558)
Ninth Report	Ministry of Defence Main Estimates 2006–07	HC 1366 (HC 1601)
Tenth Report	The work of the Met Office	HC 823 (HC 1602)
Eleventh Report	Educating Service Children	HC 1054 (HC 58)
Twelfth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 (Cm 6954)
Thirteenth Report	UK Operations in Iraq	HC 1241 (HC 1603)
Fourteenth Report	Armed Forces Bill: proposal for a Service Complaints Commissioner	HC 1711 (HC 180)

Session 2006–07

First Report	Defence Procurement 2006	HC 56 (HC 318)
Second Report	Ministry of Defence Annual Report and Accounts 2005–06	HC 57 (HC 376)
Third Report	Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2006–07	HC 129 (HC 317)
Fourth Report	The Future of the UK's Strategic Nuclear Deterrent: the Manufacturing and Skills Base	HC 59 (HC 304)
Fifth Report	The work of the Committee in 2005 and 2006	HC 233 (HC 344)
Sixth Report	The Defence Industrial Strategy: update	HC 177 (HC 481)
Seventh Report	The Army's requirement for armoured vehicles: the FRES programme	HC 159 (HC 511)
Eighth Report	The work of the Defence Science and Technology Laboratory and the funding of defence research	HC 84 (HC 512)
Ninth Report	The Future of the UK's Strategic Nuclear Deterrent: the White Paper	HC 225–I and –II (HC 551)
Tenth Report	Cost of military operations: Spring Supplementary Estimate 2006–07	HC 379 (HC 558)

Eleventh Report	Strategic Lift	HC 462 (HC1025)
Twelfth Report	Ministry of Defence Main Estimates 2007–08	HC 835 (HC 1026)
Thirteenth Report	UK operations in Afghanistan	HC 408 (HC 1024)
Fourteenth Report	Strategic Export Controls: 2007 Review	HC 117 (Cm 7260)
Fifteenth Report	The work of Defence Estates	HC 535 (HC 109)

Session 2007–08

First Report	UK land operations in Iraq 2007	HC 110 (HC 352)
Second Report	Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08	HC 138 ^A
Third Report	UK/US Defence Trade Cooperation Treaty	HC 107 (HC 375)
Fourth Report	The Iran hostages incident: the lessons learned	HC 181 (HC 399)
Fifth Report	Ministry of Defence Annual Report and Accounts 2006–07	HC 61 (HC 468)
Sixth Report	The work of the Committee in 2007	HC 274
Seventh Report	Medical care for the Armed Forces	HC 327 (HC 500)
Eighth Report	Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08	HC 400 ^B
Ninth Report	The future of NATO and European defence	HC 111 (HC 660)
Tenth Report	Defence Equipment 2008	HC 295 (HC 555)
Eleventh Report	Ministry of Defence Main Estimates 2008–09	HC 885 (HC 1072)
Twelfth Report	Scrutiny of Arms Export controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
Thirteen Report	The contribution of Unmanned Aerial Vehicles to ISTAR capability	HC 535 (HC 1087)
Fourteenth Report	Recruiting and retaining Armed Forces personnel	HC 424 (HC 1074)
Fifteenth Report	UK operations in Iraq and the Gulf	HC 982 (HC 1073)

^A Government response published as Memorandum in the Committee's Eighth Report (HC 400)

^B Government response published as Memorandum in the Committee's Eleventh Report (HC 885)

Session 2008–09

First Report	Winter Supplementary Estimates 2008–09	HC 52 ^A
Second Report	The work of the Committee 2007–08	HC 106
Third Report	Defence Equipment 2009	HC 120
Fourth Report	Spring Supplementary Estimate 2008–09	HC 301

^A Government response published as Memorandum in the Committee's Fourth Report (HC 301)

Oral evidence

Taken before the Defence Committee

on Tuesday 4 November 2008

Members present:

Mr James Arbuthnot, in the Chair

Mr David Crausby
Linda Gilroy
Mr Dai Havard
Mr Adam Holloway

Mr Bernard Jenkin
Mr Brian Jenkins
Robert Key
Richard Younger-Ross

Witnesses: **Sir Bill Jeffrey KCB**, Permanent Under Secretary of State, and **Mr Trevor Woolley CB**, Finance Director, Ministry of Defence, gave evidence.

Q1 Chairman: Good morning and welcome to this the first of two evidence sessions on the Ministry of Defence Report and Accounts. Sir Bill, Mr Woolley, may I say first thank you very much indeed for putting in your memorandum in good time for our inquiries this year. Can I begin by asking you about your PSA targets, please? You had six PSA targets and you met in full only one of them and I wondered why that was and whether you were satisfied with that?

Sir Bill Jeffrey: I do not think we could be satisfied with that performance as you have described it, Chairman. As the Committee will know very well from the attention it pays to our business, there were different reasons in each case. I think the most obvious example of an unmet PSA target is the readiness one where, as the Committee knows, there is a very clear explanation for that which is to do with the extent to which the Armed Forces have been deployed on current operations and therefore it just has not been possible to maintain the levels of readiness that were set in the original target. Overall what I would say is on the first of the PSA objectives, which is the one to do with operational success, again the Committee through its extensive work and its visits will know this well, indeed better than I do, we feel that at that end of the business, although there is a lot still to do in Afghanistan particularly, there is a lot to be proud of as well.

Q2 Chairman: We will come back to that specific target later on this morning. You were deployed on operations in 2005, 2006 and 2007 and in your interim assessments you knew you were deployed on those operations and yet you were predicting a much more positive outcome on your PSA targets. Those predictions proved to be wrong. Why was that do you think?

Sir Bill Jeffrey: Certainly for some time now, as I look back on the quarterly reports we have been predicting (because the trend was clear) that we were unlikely to meet the readiness target. There may have been a bit of institutional over-optimism at some stage but in relation to that target in particular I hope the Committee would agree that we have been clear for a year or so, if not longer, that it was

heading in the wrong direction. Whether we could have spotted that trend earlier I would not be able to say.

Q3 Chairman: Your forecasting leaves room for improvement, does it not? How will you improve it?

Sir Bill Jeffrey: You could present it that way, Chairman. It is very hard to assess in an empirical way what the impact of deployed operations will be on an indicator like this. As I said to the Committee in this session last year, and I think as the Chief of Defence Staff has said to you as well, it would have been surprising if readiness levels as we measure them had not declined. Exactly how far and how fast I think is quite challenging technically to forecast. What we have been doing as a Department all the way through is our best to maintain such readiness as we can whilst obviously regarding the support and manning of deployed operations as, by some way, the highest priority.

Q4 Chairman: Is there a culture in your Department of what you described as institutional over-optimism?

Sir Bill Jeffrey: I would not go as far as to say it is a culture, Chairman. It is something we need to guard against because—and again I hope the Committee feels this as you meet people and as you get about the Department—people are enthusiastic about what they do. I certainly feel that in the area that I am sure the Committee will come on to this morning of acquisition and procurement we need to guard very much against a combination of ourselves in our project teams, staffed by people who are keen to deliver what they can for the Armed Forces, the ultimate user and indeed our suppliers all feeling optimistic about the deliverability of a project in time. We have worked hard to counter that—in some areas successfully and some areas less so.

Q5 Chairman: You need to inject an element of reality and realism into your forecasting, do you not?

Sir Bill Jeffrey: On the particular area that I have identified, I think the main means by which we can do that is by more systematic use of what are known in the trade as “should cost” exercises,

benchmarking, asking ourselves the question if you look internationally at what others are paying for this sort of capability what should we expect to pay. We have done that in the past but not as systematically as I think we ought to.¹

Q6 Mr Jenkins: One thing you might be able to help me with, or you might not be able to help me with, is to cast some light on some of these PSA targets we have got. If you look on 2005-06, 2006-07, 2007-08 we have “on course”, “broadly on course with minor slippage” and then “partly met”. By “partly met” do you mean it was 2% off target or 50% off target? When does “partly met” become “not met”? Do you have any way of indicating exactly the degree of concern because “broadly on course with minor slippage” and “partly met” could mean the same thing to me. When did it become “partly met” rather than “broadly on course with minor slippage”?

Sir Bill Jeffrey: I think occasions when we have used the phrase “partly met” are usually in relation to PSA targets where there is more than one element to them. The obvious example is in relation to the equipment programme itself and the objective “build for the future, deliver the equipment programme to cost and time”. Our objectives there are partly met in the sense that we have delivered on key user requirements through the projects that the Committee knows about, but in relation to cost and time there has been slippage that exceeded the initial targets we were set, so in that sense the PSA target was met in part but not in whole. Elsewhere if you look at some of the international conflict prevention work, I think the view—and this is an inter-departmental one—has been that we have made significant progress but it would be overstating the case to say that we completely met the PSA target, so it is a variety. But I quite take the point, if you look in particular at the readiness target, over the last few years, as I have and as many members of this Committee have, we were possibly holding out hopes of reversing the position longer than it was realistic to do so. I think that is a fair criticism.

Q7 Mr Jenkin: I am trying to get a handle on what assumptions you were making then that now do not apply. Is it that additional deployments have been made therefore cancelling more training or is it additional attrition on equipment? These terms “slippage” and “some risk” are euphemisms for what? Is it just optimism or are you being optimistic about what we will not be required to do and a year down the track we find we are doing all sorts of extra things that were not in the original assessment which is why it has slipped?

Sir Bill Jeffrey: Obviously we did not have perfect vision of what the commitments would be. We did not at some stages during these three years know exactly what decisions ministers would take on deployments. I think the main feature of this is the extent to which one can assess the impact of deployment over this period of this degree of intensity on the Force elements whose readiness on

all the measures that are described in these papers we were attempting to assess. I think to an extent, as I have said, we probably held out for longer on an assumption that we could steady this or improve it than might have been realistic. It is worth bearing in mind that the 78% (which was the original target when it was set at the beginning of the PSA period after the 2004 Spending Review) was seen as a stretching target because it was 5% more than we were achieving at the time, and in that sense maybe it is not that surprising that it has tailed off in the period since then.

Q8 Mr Jenkin: In March this year the National Security Strategy said that we were going to enter into a period of recovery from operations and recuperation but in the six months since then it has just not turned out to be that. Were you happy with that assessment going into the National Security Strategy?

Sir Bill Jeffrey: We are now looking forward rather than looking backwards and I think there is reason to believe that there will be a significant scaling down as we achieve the fundamental change of mission in Iraq for example that the Prime Minister has referred to, so there is the prospect in reasonably short time, notwithstanding the fact that we will no doubt still have some presence in Iraq, of getting down for the purposes of this sort of planning instrument to one medium scale.

Q9 Mr Jenkin: That assumes we are not going to send additional staff to Iraq, we are not going to Somalia, we are not going to Darfur, we are not going to The Congo. The potential demands on the Armed Forces seem to get larger and larger. Is it realistic for the Ministry of Defence to be happy with such an assessment?

Sir Bill Jeffrey: I think the only sensible posture for the Department to take is that we will do what we are required to do and are doing now in two theatres. As I said, there is reason to suppose that the commitment in Iraq will scale down as we get into next year. To the greatest extent possible it is our responsibility when that happens to use the opportunity to reconstitute military capability and to get these figures of theoretical readiness for a future war, into a better state than we are now. I think if we did otherwise we would be being defeatist.

Q10 Mr Jenkin: But what demands are made upon you are not within your control?

Sir Bill Jeffrey: I think to that extent this is the construct of a business trying to manage itself as rationally as it can in an uncertain world. I do not make any apology for that. I think it is in the nature of the business we are in that we do not exactly know the future nor do our ministers nor does anybody.

Mr Havard: This question of recuperation and recovery, I am told that we are not going to be in a position to have another large overseas conflict or be ready for it until 2017. Is that correct? How long is it going to take to get back to this state?

¹ See Ev 40

Q11 Chairman: We will come on to that later I think. Answer that question if you would and we will explore it further, later on.

Sir Bill Jeffrey: It is difficult to be precise. It is certainly the case that reconstitution for what is known in the planning business as large-scale deliberate intervention will take longer than reconstitution for another medium-scale operation should one come along. I do not recall the 2017 date but I will check and give the Committee some information.²

Chairman: We will come on to your own predictions on that in a few minutes' time. David Crausby?

Q12 Mr Crausby: The National Audit Office tells us that you have not yet published detailed measurement and delivery plans for your new Departmental Strategic Objective targets despite the Treasury's deadline of April 2008. When will you be able to provide us with a copy of these objectives?

Sir Bill Jeffrey: I am not immediately certain from the way you have described it, Mr Crausby, what the National Audit Office was referring to. There is an intention within the Department certainly to pull together a cross-departmental strategy and that is going on now. It is putting together our defence strategic thinking, our business strategy and our long-term resource strategy, but I do not recognise the term that the National Audit Office are quoted as using.

Q13 Mr Crausby: The NAO simply noted the deadline set by HM Treasury for departments to create detailed measurement and delivery plans for their Departmental Strategic Objectives was April 2008 and those detailed plans have not been published to date.

Sir Bill Jeffrey: I do apologise, it is not something that is immediately known to us and I think the safest course with the Committee, as ever, is to offer to give you a note.

Mr Woolley: We do have detailed targets for each of the Departmental Strategic Objectives against which we are reporting now and against which we reported at the first quarter recently.

Q14 Chairman: Maybe you would send us a note on that.

Sir Bill Jeffrey: We will certainly do so.³ It may be what is at issue here is what Trevor Woolley has just described which is the new style Departmental Strategic Objectives which replaced the PSA objectives. We have published these and indeed, as he says, the first quarter's report against them is the one we sent you a few days ago.

Mr Woolley: There are a couple of sub-objectives where we did not report at the first quarter where we said we would be reporting at the second quarter, but we do have detailed targets that relate to those sub-objectives and they have been agreed and we can certainly provide those to the Committee if that would be helpful.

Q15 Mr Crausby: So you will send us a note. Can I ask some questions about defence inflation and the impact that that will have on our targets. The Committee recently held a seminar at Shrivenham and three experts told us there that price inflation for defence equipment was some 3% higher than normal inflation. Does that calculation of 3% defence equipment inflation ring true with you and what impact will that have on our performance?

Sir Bill Jeffrey: It is certainly the case, and I can recall in the equivalent session last year discussing this with the Committee, that some of our input costs are rising faster than general inflation, although it has fluctuated hugely in the last few months, and oil and fuel is one of these. I am aware of the analysis by Professor Kirkpatrick that you were briefed on at Shrivenham and it is an interesting one. I do not think we could immediately validate the figure of 3%. Like any analysis of this kind, it rests pretty heavily on the assumptions that are made at each stage as Professor Kirkpatrick sets out the argument and I think we would question in particular the assumption that we should not discount technological improvements in comparing the costs of different generations of defence equipment. However, it is an interesting piece of work and it is certainly an area that within the Department we are devoting quite a lot of attention to.

Q16 Mr Crausby: So do you calculate a figure of your own? First of all, do you accept that defence inflation is running higher than the GDP deflator? Secondly, do you calculate a figure of your own?

Sir Bill Jeffrey: If I might make one comment on the GDP deflator point, the thing to bear in mind about the GDP deflator is that it measures in the end inflation in the output of the economy; it does not measure input inflation, and often elsewhere in the economy the cost of inputs rise more rapidly than the eventual price that one pays in term of outputs. As I have said before, we would certainly recognise a picture in which the mix of goods and services, (and dare I say it also people because we are always (to the extent that it is affordable) pleased when Armed Forces pay settlements are at the top end of the range) that that mix of goods and services and people in some respects inflates year-on-year by more than general inflation. I would not care to go further than that and I certainly do not think that although we have found it a good lead (and I do not mean that in any critical way) we could as a Department sign up to the 3% figure.

Mr Woolley: I think that is right. I think it is important to be aware of this distinction between input and output inflation. It is very difficult to measure a unit of defence capability, which is our defence output. If you cannot measure a unit of defence capability it is very difficult to say how the cost of that unit of defence capability may have increased or not from one year to the next. What we are obviously very interested in is the input cost because it is in the nature of the economy that you would expect the input cost to increase faster than the output cost, just as a company's wage bill will

² See Ev 40

³ See Ev 40

tend to increase at a faster rate of inflation than the prices of the products that a company is manufacturing. Nonetheless, it is important for us to understand what the inflation of those input costs is. In terms of pay, which is a very large part of our budget, we have a very good understanding of that. In terms of the equipment it is quite a complex issue. To the extent that we have equipment programmes with firm price contracts, where over a period of years what we are paying for a particular contract has been absolutely fixed, you have to make an assumption as to what element of inflation is built into that firm price and that is not self-evident. In the cases of contracts for defence equipment that have variation of price clauses, which are intended to take account of inflation, these variation of price clauses are linked to a whole series of published indices. These may be the retail price index, they may be industry-specific indices, and each contract has a different variation of price clause in it relating to these indices and some different measures in some different proportions, and therefore in terms of trying to get a feel for the overall average weighted rate of inflation in defence equipment procurement with variation of price clauses, this is a far from straightforward exercise, but we are trying to assemble more information on this. It is a very detailed exercise we have to undertake and that will give us a better understanding of our input inflation. We would expect input inflation to be higher than the inflation in the rest of the economy because we would expect our efficiency, like any private company's efficiency, to be able to translate those rises in input cost to rather lower output prices.

Q17 Mr Crausby: So are you saying that you think it is there but it is difficult to calculate?

Sir Bill Jeffrey: I think we are saying it is difficult to analyse (because it is as complex as it is) what the inflation of input prices and the equipment we acquire is, although we are working on that. We are certainly not saying that there is not an effect called defence inflation. I think every defence department in the world experiences the generational effect that Professor Kirkpatrick's paper describes in the sense that the equipment we buy is becoming more capable but item-for-item more expensive as technology advances. That is undoubtedly there, it is something we have to cope with as a Department and, as Trevor Woolley said, in a way, this is what lies behind the major efforts to improve efficiency that are described in the report the Committee has in front of them.

Q18 Chairman: So you are working on it?

Sir Bill Jeffrey: Yes.

Q19 Chairman: Is this not what you said last year?

Sir Bill Jeffrey: It is.

Q20 Chairman: Is it what you will say next year?

Sir Bill Jeffrey: I hope not. I think we will have a better picture before then and we can certainly, if the Committee would welcome it, provide some analysis of this issue as we see it at present. It is certainly not

one in which we are at all uninterested and, for the avoidance of doubt, it is one that we do play into our discussions with the Treasury because we do draw to their attention some of the cost pressures that we face that we have just been describing.

Q21 Chairman: What is the timescale for the outcome of this work?

Sir Bill Jeffrey: I think the detailed work will take a year.

Q22 Chairman: It has already taken a year, has it not?

Mr Woolley: It has but in terms of the information that we need to assemble through an analysis of all the different defence contracts this is a time-consuming process, and obviously we need to have an intellectually robust product at the end of it, and we expect that to take another year.

Q23 Chairman: Another year?

Mr Woolley: Yes.

Sir Bill Jeffrey: I do think since the Committee is as interested in this topic as it obviously is, we should try to furnish you with a note with what we are able to say about this issue complex as it is.⁴

Chairman: It would be helpful if you could because, as you say, it is very important in your negotiations with the Treasury. Brian Jenkins?

Q24 Mr Jenkins: I am sitting here listening to the answers and in some part you have answered some of the questions. Going back a number of years, I remember going through the retail price indices with families and pensioners and why they are different. It is only recently (this was 30 years ago) we started re-establishing the differences in different groups and different purchasers. When you start talking about it is difficult to estimate the rate of inflation because of inputs and outputs, they seem quite simple calculations to do: an input analysis and a rate of inflation. What worries me is the widespread belief, and I do not know how you answer this, where everyone recognises out there that the MoD is a customer that buys last year's technology at next year's prices and you are tied into long contracts which do not appear to have taken any inference from the falling cost of technology whereas anyone around the table would know that the technological advances we have seen in society in consumer goods should be reflected back through the producers into the goods you are purchasing. Why is that not happening?

Sir Bill Jeffrey: To some extent, Mr Jenkins, I think the argument in the defence area is about numbers of repeats. The huge savings in the civil sector tend to be in areas where there is a mass market and there can be massive economies of scale through production. We are in a different sort of business and we have to recognise that. I do not think it is fair to say that we get last year's technology at next year's prices. We certainly try to negotiate the best prices we can. As Mr Woolley said, there are variational

⁴ See Ev 40

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price clauses in most contracts that are intended to address that. I am not saying to the Committee there is not an issue there. It clearly is the case that if you look at the basket of things that we acquire that there are significant variations in year-on-year costs within it. We understand a bit about that but the detailed exercise that we have been at for some time, and I fear will be at for a bit longer is intended to get much more under the surface.

Q25 Chairman: Is the real risk that the best will be the enemy of the good? Moving on, your Report and Accounts were qualified this year. When were they last qualified?

Sir Bill Jeffrey: They were qualified the previous year for an entirely technical reason, which I am sure the Committee will recall, to do with the expenditure in theatre.

Mr Woolley: There was a small over-spend on "Requests for Resources 2", that is the cost of operations, in 2006-07 which led to a technical qualification by the National Audit Office because of that overspend, but in terms of the substance of the Accounts they were last qualified in, I believe, 2002-03.

Q26 Chairman: The qualification this year was not what you would describe as a small technical qualification?

Sir Bill Jeffrey: No it was not.

Q27 Chairman: Is it serious? It sounds pretty serious to me.

Sir Bill Jeffrey: It is. It is serious and troubling and we are working hard to make sure that it does not happen at the end of this year. As is I think clear from the Accounts, it reflects the fact that although the Joint Personnel Administration system is, we believe, now bedding down for the principal purposes for which it was introduced, it has had quite serious problems in terms of its ability to give us and give our auditors the information they need about expenditure on Service pay and allowances that would give them the confidence to test that aspect of our Accounts, so it is serious. I asked for an internal piece of work, which the Committee I think will be aware of, to be done which revealed that, looking back on it, the JPA project paid too little attention to the extent to which the system that was being produced would feed the Accounts and give us the confidence to have the Accounts properly audited. We are working very hard at the moment. I had a conversation with the recently appointed Chief Executive of the Service Personnel and Veterans Agency a week or so ago to address all the issues that the NAO drew to our attention and on which we were already working, with a view to sorting this out as quickly as we can.

Q28 Chairman: So you have introduced new financial controls on JPA. Do you think that these controls will have the effect that the Accounts will not be qualified, or at least not for the same reason next year?

Sir Bill Jeffrey: I would not care to make a confident prediction about that yet because as we have gone into it there is a lot to be done to correct the situation, but there is a good prospect, and we are working very closely with the NAO who have been extremely helpful over this, of getting to the point where they can give us unqualified Accounts in this respect at the end of the current financial year.

Q29 Chairman: Why would you not be confident of that?

Sir Bill Jeffrey: I think principally because of the technical complexity of this issue. It comes down to the means by which very, very large numbers of payments are made in a system, notwithstanding the extent to which the JPA is enabling us to make it simpler, which is extremely complicated. I do not know whether Trevor Woolley would like to add to that. It is proving a difficult task but there is a lot of effort being invested in it.

Mr Woolley: I think the difficulty is that we have replaced a manual system with an automated system. In a manual system there are lots of opportunities for manual intervention if it looks as if a payment is being made at the wrong level or to the wrong person. The automated system we have in JPA does not have that same level of control and the same level of evidence that the right payments have been made to the right people. There is no suggestion that there is a significant amount of wrong payments being paid but there is no actual evidence to satisfy the NAO that the right payments are being made. The reason I think we cannot be absolutely confident is that although we are putting a lot of procedures into the system to give greater assurance, it will only be at the end of the financial year that the NAO tell us whether in their view there is sufficient assurance.

Q30 Chairman: So the set of suggestions that the NAO have made about completing a systems map, having new processes to ensure that there are not input errors or output processing errors, an overall plan for prioritising issues, are those recommendations ones which you are following?

Sir Bill Jeffrey: Yes exactly, and we are doing so as quickly as we can because I can assure the Committee that this is something that as Accounting Officer I take extremely seriously.

Chairman: Still on JPA, Richard Younger-Ross?

Q31 Richard Younger-Ross: In terms of self-service satisfaction you told us that the JPA Centre was currently running at 45.5%. How do you intend to improve that figure?

Sir Bill Jeffrey: I thought the current figures (although I do not have them in front of me) were better than that. Certainly I know that the satisfaction surveys have been on an upward trend and some of the teething problems that we undoubtedly had as we initially rolled the system out have been addressed successfully so that people are now getting their basic pay without interruption, but I do not have an up-to-date satisfaction survey figure in front of me. My recollection is that it is a bit higher than you have just quoted.

Q32 Richard Younger-Ross: You say it is going up?
Sir Bill Jeffrey: Yes.

Q33 Richard Younger-Ross: When is it going to get to the 90–95% level which is what I would expect from any pay roll system, if not higher?

Sir Bill Jeffrey: As quickly as possible. I would find it hard to put a date on that but again this is something I discussed with the new SPVA Chief Executive when she took over and building up the satisfaction levels within the system is something that I have asked her to take as a pretty high priority.⁵

Q34 Richard Younger-Ross: The contract you let out to do this ran at an addition of £2.3 million over budget. Only £516,000 of that was reclaimable from one of the contractors EDS. Why was so little reclaimable?

Sir Bill Jeffrey: There is a provision in the contract for a failure charge which is essentially something that takes account of the nature of any failure in service delivery under the contract and also the extent to which it is reasonable to attribute responsibility either to EDS or to the Department, and there is an agreed procedure for settling between us what failure charges should be imposed on EDS. In 2007-08, as you say Mr Younger-Ross, that figure was £516,000.

Q35 Richard Younger-Ross: So the other nearly £1.8 million is a failing by the Department?

Sir Bill Jeffrey: I would not be absolutely certain that is the sole explanation but it is certainly the case that the half million or so was as much, consistent with the contract, as we thought it reasonable to impose as penalties on EDS.⁶

Q36 Richard Younger-Ross: It has been suggested that part of the problem was that the hardware was designed in one part of the country and the software in another part of the country; is that true?

Sir Bill Jeffrey: It depends which problem you are talking about. If we are back at the problem of the issues which led to the qualification of the Accounts, the source of that was, as I have said, the project paid too little attention to the financial dimension of the issue. If your point is about the extent to which in its early days the system in all three Services suffered teething problems and there were issues that gave rise to complaints, I think I would argue that with big systems of this sort inevitably this is going to happen to some extent. I do not recall ever having been told that the particular way in which the hardware and software were put together contributed to that.

Q37 Richard Younger-Ross: I think we would all accept that you can have some small teething problems in any system but this seems to have been a major failing and if the satisfaction figures, which

I am told by the way are up to 77%, were down to 45% at one point, that strikes me as not a small teething problem but a systemic failing.

Sir Bill Jeffrey: I am not going to sit here and defend 45% as a favourable rating but having seen one or two of these things across government there is a period when not only are some people affected by mistakes in the system but a lot of others who know them know about them and therefore there is a sense around that the system is not performing and that reflects itself in favourability ratings. The figure that I did not have but your Clerk has been able to provide you with suggests that we are on quite a rapid upward trend, as I believed we would be. These are big, complex systems and it is never at all satisfactory or defensible when people are paid the wrong amounts on encounter difficulties in the self-service element of it, but I think we are getting into a better position now.

Q38 Richard Younger-Ross: That is what I mean, Sir Bill. You seem to accept that this level of failure is acceptable. The real question that we want as a Committee to know is how do you stop failures like this occurring at future dates?

Sir Bill Jeffrey: It is principally, as the project is developed, by taking as much of the risk out as possible and delivering it carefully in stages so there are as few risks as possible of things going wrong. I do not remotely want to say that this was completely satisfactory, of course it was not, I am simply asking the Committee to consider the fact that this was replacing myriad manual systems, it was covering a very large population of employees, it was essentially automating a pay and allowances system which is extraordinarily complex and needs to be made less complex, and therefore it perhaps was not as surprising as all that that we encountered some of the problems that we did.

Chairman: Moving on to the implementation of the efficiency programme, Robert Key.

Q39 Robert Key: The achievement in cutting civilian staff numbers has been quite remarkable. Your target was to reduce the civilian staff by at least 10,000. The achievement to the end of year 2007–08 was actually to cut civilian staff by 17,500. That has however clearly been achieved at a substantial cost and I draw the Committee's attention, Chairman, to the Annual Report and Accounts, paragraph 213, on page 127 and if I may, I will quote two sentences: "We must address the limits on individual and organisational performance imposed by the variable quality of management and leadership and the limitations of our pay and reward structure. We must address the threat to future capability flowing from the skills gap associated with streamlining the Defence Equipment and Support Business Strategy, the lack of a deep understanding of our skills needs and our uncertainty over whether we will have an adequate supply of talented people sufficiently representative of the society we serve to fill key posts in the future." That is a very, very bleak assessment of how you have managed to cut 17,500 civilian jobs. Is this what has been contributing to the stretch

⁵ See Ev 41

⁶ See Ev 41

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currently experienced by the Armed Forces themselves—not just civilians? It has had an impact, surely, on the efficiency of the uniformed members of the Armed Forces?

Sir Bill Jeffrey: I think, Mr Key, there are two different issues here. One is that we were committed to reduce the number of civilians and the Joint Personnel Administration Project, which we have been discussing, is an example of one of the means by which we did so, by automating processes that were labour-intensive. Another good example is the Defence Logistics Transformation Programme where we have reduced the number of civilian staff very significantly by doing things smarter, and I think the report brings out in many respects very successfully. Reducing civilian numbers is something we have been working on and ought to be working on and every other part of government is doing so. That we over-achieved to the extent that we did I think reflects the particular situation in one or two parts of the organisation, of which the Defence Equipment and Support organisation is a contributor in the sense that we lost people more rapidly than we had probably been expecting, but it also reflects the fact that some of these efficiency measures did deliver achievable reductions in civilian numbers. The second point is the one dealt with in this paragraph which may be on the self-critical side but it does bring out the fact that as a Department we have to look to our skills base in particular and we have been developing a strategy for doing that right across the board, in relation to financial accountancy skills in Trevor Woolley's area, commercial and project management skills and some of the high-tech skills as well so we very much need strategically to build the skills of the Department to face the challenges of the future.

Q40 Robert Key: But looking to the future you also say in the same paragraph: "We must address the risk to our change programmes posed by the decline in overall satisfaction with the Ministry of Defence as an employer and the disengagement many of our people feel with them." Looking ahead for example to the move of Headquarters Land from Erskine Barracks, Wilton to Andover, first of all the military were very concerned about this because they thought they might get something worse rather than something better, but were assured they would be in a new building, something worthy of Headquarters Land if they moved to Andover, or somewhere else (because as you know there were a number of options). In fact, they are going to move into the refurbished buildings that have been vacated at Andover. That has had a substantial impact on morale locally amongst the 1,200 people employed at Land many of whom I represent in my constituency. Although the Wilton taskforce is working well it is also true to say, I imagine, because of the shortage now of civilian manpower, that Defence Estates is not able to liaise properly with the local planning authority to actually manage the change. I was told only this week about the problems that they are having there. How are you going to

arrest the decline in morale in the dwindling civilian workforce in order to achieve efficient service for the Armed Services?

Sir Bill Jeffrey: I am aware of the Land Command case that you mention and I quite accept that that will have had an impact on staff there. Across the Department I think it is the case that during a period of significant organisational change and upheaval there is an inevitable impact on the way our staff feel. The surveys that we conduct reflect that but they also reflect staff who are broadly very committed to the job that they are doing, feel motivated about it, generally speaking, feel that they are clear about their role in the organisation, so that the survey material (and I think some of it is reflected in the report) does reflect what I would hope are the relatively short-term consequences of organisational and structural upheaval but it also reflects staff who, rightly, are proud of what they are doing and convinced of its importance.

Q41 Robert Key: I am grateful for that honest assessment. Could we move on to the Capability Review which found weaknesses in the leadership at the Ministry of Defence, specifically that the Defence Management Board did not act as a unified group but represented the interests of different parts of the Department. Can I be quite clear that I understand this. What happened was that the Defence Management Board itself was scrapped and replaced by the Defence Board which was to make high-level strategic decisions and in addition a new Defence Operating Board was created to implement those decisions. How does all of that actually improve leadership within the Ministry of Defence?

Sir Bill Jeffrey: It does not in itself do so, Mr Key. I think what the Capability Review found, and in doing so was to some extent reflecting back to us what some of us had said to the reviewers, was that we needed as a Board to operate more strategically and more corporately and in self-critical mode that is what we believed at the time. The CDS and I have set ourselves the task, in what are very busy times, of using more meetings to consider the strategic direction of the Department supported by the Operating Board where the Vice Chief of the Defence Staff and Second Permanent Secretary in effect are there to drive through the strategic direction that the top board gives to ensure that everybody is clear about who is following through on particular remits. We think it is a better working model. Whether we are operating more corporately you would need to ask individual members of the Board. I certainly believe, again in quite challenging times, the group of colleagues that sits around the Defence Board table are all fully committed to defence as an entity. It is inevitable that they bring issues that are particular to their role in the organisation to the table and it is right that they should, but I feel—and you will have to take my word for it I am afraid—that the Defence Board is cohering and has a common view on what we are trying to achieve.

Q42 Robert Key: Sir Bill, the streamlining process is going to result in a 25% saving in manpower at head office. How have you gone about deciding where to make these cuts? It has been argued by some that management simply said to each individual division or section in head office each section has got to cut 25% and you identify how you are going to cut it and then all those 25% were aggregated into the final figure, which was not a very coherent way, was it? In management terms you would not just say every department cuts 25%; you would say perhaps you need to cut less and you can cut more or we can merge you here and there? Could you explain the process a little so that we can understand how efficient and effective the 25% cuts have been?

Sir Bill Jeffrey: It was not as crude as you have been led to believe. One has to start somewhere and there is an element of chicken and egg about this. What the Board did at the beginning of the process was to take, I would say, three things. First, we had to reduce numbers because every government department had an obligation after the Spending Review to reduce its administrative cost base by 5% a year cumulative, so we had to reduce numbers by something of this order. Secondly, we believed it ought to be possible. Thirdly, we saw it as an opportunity to enable the head office to work in a less elaborate, simpler, better-defined fashion with quicker decisions and less elaborate staffing. How we did it was to start by saying that a 25% reduction overall ought to be possible and then to ask the three stars in each of the main areas to make an assessment within their own areas with a starting point that was not 25% in each case. It reflected a judgment of where it was likely to be least likely to find savings or most likely, so it was differentiated from the outset. There was then a process in which those who knew their part of the business best analysed it and came up with proposals for ways of doing things differently. Some of these were quite substantial with different processes, and a redefinition of what needs to be done at the centre, and out of that came restructuring with numbers of posts at different levels in each of the main areas. It came back to the Board and we had to reach a judgment on how much of this to pursue and how much not to do so, so it took time, it took longer than some within the organisation would have wished but I think it was a better process as a consequence.

Q43 Robert Key: Thank you for that. Finally, would you be so kind as to try and explain to me what the Chief of Defence Staff meant in a recent article about streamlining. He said that the streamlining project would help to “stimulate and embed a more agile way of working across the MoD”. Can you give us some examples of what this will mean in practice?

Sir Bill Jeffrey: The Chief of the Defence Staff uses the word “agility” a lot and I think it is a helpful one in this Department. Most members of this Committee now know us quite well and I think—and I say that as somebody who has not spent most of my working life in the MoD—the MoD has quite a strength in terms of its grasp of its business but sometimes agile it is not. It can staff the same issue

successively at different levels and it can sometimes embark on very elaborate processes. I think what Jock Stirrup meant was that there is an opportunity here, if we manage it well, to address that issue and to enable us to take decisions more quickly and be clearer about who is actually responsible for taking them.

Q44 Mr Havard: All this streamlining, different working methods, agility and all the rest of it, a lot of it is predicated, as I understand it, on technological support not the least of which is the Defence Information Infrastructure Project which, as I understand it, was originally going to cost £2 billion and now it is going to cost £7 billion and is late. Perhaps you could explain to us exactly how the support is going to come through this fewer number of people who are going to be more agile and do all these things?

Sir Bill Jeffrey: There is a long explanation of the £2 billion/£7 billion figures that I had to give to the Public Accounts Committee a few weeks ago. I think it was actually £3 billion that at an earlier point was the value of the contracts that had actually been approved. The £7 billion is the NAO’s estimate of what the total cost of the project, including some associated aspects, will in the end be. It does not mean that the cost has gone up. The actual increase in cost is in the small numbers of hundreds of millions, which is a lot of money but it is barely 3% of the total cost of the project. I think when they audited it the National Audit Office felt that this was a project that by the, admittedly unstretching, standards of government IT procurements was on the right lines. As far as timescales are concerned, there has been significant slippage in the roll-out of the terminals which we have had to accommodate ourselves to, and we are now expecting by the end of January to have delivered the first group of 68,000, as I recall, terminals and are well on course for that now.

Q45 Mr Havard: They are all being trained and this transformation is all taking place seamlessly to create less people doing more?

Sir Bill Jeffrey: What this is is a new IT infrastructure which replaces a number of very self-contained functionalities across the Department. It is not in itself one of these functionalities; it is the infrastructure in which a number of other systems reside. Again, I think in project management terms one of the things the National Audit Office felt we had done well was not in that sense to bite off more than we could chew by wrapping individual projects up with the DII. The DII in a way, which will in time cover the whole of the defence business, including the deployed part of it, will be the IT infrastructure by which the whole business does its work.

Q46 Mr Havard: What I am trying to get at is the support mechanism that is coming in in concert with the reduction in the number of people so that you are supporting a higher level of work for a fewer number of people? Are they going hand-in-hand or are they disconnected in some fashion?

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Sir Bill Jeffrey: Certainly there has been an extensive training programme and there will continue to be around the roll-out of the DII. The DII is not itself the means by which most of these staff savings will be made. They tend to come from projects like the JPA and the Defence Logistics Transformation Programme. What it is is the element that unites them all because many of these change projects are dependent on having for the first time in the MoD a single IT infrastructure that enables everything, and there is a lot of associated training, I can assure you.

Q47 Chairman: Despite the size of this, Sir Bill, I would recommend that you abandon use of the phrase “small numbers of hundreds of millions”. It does not go down well!

Sir Bill Jeffrey: I understand that, Chairman.

Q48 Mr Jenkins: I noticed in one of your answers, Sir Bill, you said “we reassessed what needs to be done at headquarters”. That always gets an alarm bell ringing in my head. Have we moved any work or staff out of the headquarters on to another site?

Sir Bill Jeffrey: There has not been a block of work that has moved. In two significant areas there has been the reappraisal of the relationship between people at headquarters and people elsewhere in the Department. In the Deputy Chief of the Defence Staff (Personnel) area, some of the reductions there reflect the changed way of working between DCDS (Pers), as he is known, and the principal personnel officers in the three Services. In the equipment capability area, similarly there has been a discussion between DCDS (EC) and the Defence Equipment and Support Organisation about exactly what the relationship between the two is. The consequence of that has been to define in a more strategic way what General Figgures and colleagues do at the centre, so it is a redefinition to make the centre of the Department more strategic.

Q49 Mr Jenkins: So the answer is yes, that most of them will be?

Sir Bill Jeffrey: I would not describe it as ‘moving work’. The answer is that we have found ways of enabling us to do the work that needs doing at the centre with somewhat fewer people.

Q50 Mr Jenkins: The percentage of people, we always have civilian and uniformed in the headquarters, so what was the percentage of civilian and uniformed? Will it be the same?

Sir Bill Jeffrey: As I recall, it is about one in three or one in four of our people in the head office are military staff. This exercise has scarcely changed it.

Mr Woolley: The proportions are very-little-changed, with a very slightly higher reduction in civilian numbers proportionately than military numbers, but it is very close, within a percentage or two.

Q51 Linda Gilroy: Sir Bill, the Cabinet Office has introduced a requirement for all departmental accounts and reports to list data losses during the year, and of course the MoD Annual Report lists

two serious ones from January and February of this year, the loss of substantial amounts of data relating to personnel records containing limited details also of referees and next of kin. We have been told by the NAO as well that, since 2004, the MoD has lost 121 memory sticks and 747 laptops. The Burton Review looked into that and said that there was, nevertheless, some good practice in the MoD in policy, but, in practice, he was highly critical that the procedures were not dealing properly with what should be, in the MoD of all departments, key operational business and business assets. The Burton Review identified 51 recommendations. Where are we with the implementation of those recommendations?

Sir Bill Jeffrey: Well, the first point to make is that we accepted all of them and have established and published, at the time when the Burton Report was published, an action plan to implement them, and we are on course with that. Some of them could be done quickly. We have, in particular, already encrypted around 20,000 laptops and others will take longer. The thing that is most challenging, as you implied, is the behavioural aspect of this. I was dismayed by the sequence of events which Sir Edmund Burton was asked by me to investigate because it revealed that, although, as you say, our systems and processes were as you would wish and our policies were right, it just was not getting followed through in practice, so, to my mind, the most important aspect of the Burton Action Plan is the awareness and education campaign to just drive home to people that this is as important as it is.

Q52 Linda Gilroy: Well, he said that that would depend significantly on support and leadership across the Department. Given that there have been further data losses more recently, what does that say about leadership? Who owns the Action Plan? What does it look like in terms of the daily/weekly/monthly business of what you do?

Sir Bill Jeffrey: The Action Plan is owned at the centre by John Taylor, the Chief Information Officer, and he has a team to support him in doing that, but the most important lead comes, as we were implying earlier to Mr Key’s questions, from the Defence Board. We have been as clear as we possibly could be across the organisation that this is a very high priority, which we have established as one of the strategic risks that we monitor and manage within our Board. Why have there been other cases? I do not think we are ever going to eradicate in the modern world the loss of a laptop, for example, or systems of that kind. What we need to do is to reduce it and very definitely make its impact less damaging. The most recent case involving the loss of the hard disks actually resulted from a census by our suppliers of their removable media, which was being undertaken because of all the effort we have instigated from the centre to get more on top of this, so it is work in progress, but it is exceptionally important work.

Q53 Linda Gilroy: The problem with it is that any single loss can incur a huge loss of data even if you reduce the number of actual incidents.

Sir Bill Jeffrey: Indeed.

Q54 Linda Gilroy: I would like just to ask you about recommendation 17 in particular, which says that “a coherent joint Service and Civil Service awareness should be launched on the importance of information and data as a key operational and business asset, with appropriate attention devoted to exploitation and protection within the law”. What does that look like from the many individuals in the Department who have access to, and use, these huge amounts of data?

Sir Bill Jeffrey: Well, it is happening. It is hard to describe a campaign in a few words in front of a committee like this, but it is definitely being pursued energetically. An aspect of it, which I think is, as you implied when you referred to the recruitment database, very important, is that this should not just be about the importance of protecting systems and data security, as such, it must also be about the proportionality of these systems. One of the problems with the recruitment data that was in the laptop was that it was more extensive than it needed to be for its purpose and was not being kept up-to-date and, in a number of other respects, was not compliant with data protection legislation, so, in trying to shift the way our people manage these issues, we are spreading that message as well.

Q55 Linda Gilroy: But surely that message has to be spread on a regular and consistent basis? Am I not right in thinking that there are industry standards which are implemented in the private sector and presumably, through the Cabinet Office, it is being implemented across government departments? For instance, from an individual point of view, because this is about motivating and making sure that individuals pay attention to this, is it embedded in the appraisal and reporting system?

Sir Bill Jeffrey: It is, yes.

Q56 Linda Gilroy: And, as far as the people who accredit these issues are concerned, I notice in a further recommendation, and I am just interested following on Robert Key’s series of questions to you, that one of the things that Sir Edmund drew attention to was that the current cadre of accreditors within the Department was small to cope with the scale of the task it faces, and they are currently 15 short of the required manning level of 60. What has been done about that, and presumably this is an area that has been exempt from the streamlining process?

Sir Bill Jeffrey: My recollection is that we have been addressing that and the numbers have been rising, but I do not have a figure in front of me and, if I may, I might add that to the list of things to give the Committee more information about.⁷

Q57 Linda Gilroy: Finally, recommendation 38 also referred to another thing that is necessary for the enforcement of this and just to make sure that people do take it seriously, and it required that “the MoD should review and formalise a coherent system of censure and punishment for those who lose, or compromise, personal data”. What has been done about that so that people realise that there are consequences to being careless? Previously, in the Second World War, we had “Careless words cost lives”, and, in the Cold War, information issues were taken very seriously. The consequences of the loss of data in the modern IT age are even more substantial and, therefore, the efforts have to be regular, consistent and substantial, and I just do not get a sense from your responses that that is the case.

Sir Bill Jeffrey: We have to be fair to individuals when these events occur and, therefore, every case needs to be looked at individually, but, subject to that, the information campaign that we have been discussing certainly includes very clear messages that this is an area where people will be held responsible and accountable for their actions or failures, and I think right across government that the climate on this issue has become significantly chillier and staff know that they will be severely dealt with if they have actually behaved negligently.

Q58 Linda Gilroy: So could we have a note about what that consists of as well because my understanding is that these very serious data losses resulted in administrative action rather than anything more serious. When would there be more serious action than straightforward administrative action?

Sir Bill Jeffrey: Yes, we will provide something on that.⁸

Q59 Chairman: It would probably not be a fair question to ask you, but, if a civil servant loses a memory stick, one consequence follows, and, if a minister loses the same memory stick, it would be interesting to know what consequence followed as a result of that, but that would be a question perhaps to ask the Secretary of State when he comes before us next week.

Sir Bill Jeffrey: I shall warn him to expect it!

Q60 Mr Jenkin: Objective 1, just to remind ourselves, to “achieve the objectives established by ministers for operations and military tasks in which the UK’s Armed Forces are involved, including providing support to our civil communities”, this is the only target which is fully met, but we are not allowed to judge that measurement because this is the one where the criteria for that target are kept secret. Can you understand that we are a little bit frustrated by this?

⁷ See Ev 41

⁸ See Ev 41

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Sir Bill Jeffrey: Yes, I can.

Q61 Mr Jenkin: How should we best deal with it?

Sir Bill Jeffrey: I think what the Department certainly does, and the Committee has not been slow to ask, is provide quite extensive information about current operations. At root, the assessment of PSA1, as it was, rests on quite detailed military judgments, and Trevor may be able to remind me as to exactly what these are.

Mr Woolley: We try to give more information on the criteria on the successor to this, the departmental strategic objective 1, in the memorandum that we gave the Committee recently in terms of what the criteria were that we look at in establishing whether or not this objective is met.

Q62 Mr Jenkin: To give a specific example, the operations in Afghanistan, I think it would be safe to say, are problematic, and nothing I say should in any way be seen as criticism of the Armed Forces themselves, we think they are doing an absolutely incredible job, but the flow of drugs money to the insurgency is up, the areas controlled by the Taliban are up, every patrol that goes out is making contact with the enemy, and it is difficult to argue that these military operations are “a success” unless success is drawn in very narrow terms. Can you elaborate in any way without compromising the secrecy of those objectives?

Sir Bill Jeffrey: I was trying to find the relevant reference, but it is certainly objective 1 in the PSA agreement in this Annual Report over the whole period, “Objective—achieve success in the military tasks we undertake at home and abroad”, and the assessment is that this was met, and that is over that period up to the end of March 2008. Our first quarterly performance report, which the Committee received a few days ago, for 2008-09 against departmental strategic objective 1, which is the equivalent objective, says, “Some progress. Security in Iraq improved. Operations in Afghanistan have remained challenging. The operation of reserve force battalion was successfully deployed to Kosovo”, so it was a bit more nuanced than simply declaring it met would imply.

Q63 Mr Jenkin: But is the target really about successfully deploying rather than the outcome of the military operation itself? Is that what the target is about?

Sir Bill Jeffrey: No, it is defined in terms of achieving success in the military tasks. I do not want to understate the significance of this, but this is an entirely natural first strategic objective for a department like this to have, and you would question us pretty closely if we did not have this as our first objective. Inevitably, it is subjective in its assessment and the only people who can make, in my view, a reliable assessment of that are our military commanders, which is what they do. But in the quarterly reports, like the one that you received recently, we try, in a way that would not give heart to the enemy, to give an honest account of where we think the campaign has reached. I think what I have

just quoted, “Security in Iraq improved, Operations in Afghanistan have remained challenging”, is a pretty accurate description of the situation.

Q64 Mr Jenkin: I think it is impossible to pursue this line of questioning, Chairman, and I do not know whether we ought to seek a briefing in private on this matter.⁹ Perhaps that is something we could address with the Secretary of State. Moving on to restoring capability, your memorandum states that, “we continue to analyse the qualitative impact this”, referring to current operations, “is having and to develop and cost a programme designed to restore full capability once commitments return to level anticipated within defence planning assumptions”. Your memo says that you are assessing how to restore full capability after current operations in Iraq and Afghanistan. When you have done all of this report, which covers all aspects of operations and military capability, will it be a report which you can share with us?

Sir Bill Jeffrey: I would have thought so. This is the work on detailed ways of restoring capability and we will certainly be able to give the Committee a note on that when the time comes.¹⁰

Q65 Mr Jenkin: As my colleague Mr Havard referred to earlier, you say that you expect to restore full contingent capability by 2013 or 2014. Can you first explain what you mean by “full contingent capability”?

Sir Bill Jeffrey: It means that the force elements that we assess for these purposes are at a satisfactory state of readiness without significant or tactical weaknesses. It means, in effect, reversing the trend of the last few years when operational deployment has made these figures go down.

Q66 Mr Jenkin: Are we perhaps straying into over-optimism again because I have heard very senior and respected figures, who no longer work in your Department, saying very much later dates than that, 2017 or even 2020. Are we straying into over-optimism again?

Sir Bill Jeffrey: It depends what you are talking about. Mr Havard’s question, I took it to be about large-scale deliberate intervention and I think that could be further off for the reasons that you imply, but there is an awful lot of uncertainty about this. I do not want to sound as if I am ducking the question, but the fact is that we do not know when we will be in a position to really start the process of regenerating what my military colleagues call the “seedcorn”. We know that it is going to be a principal preoccupation of the Department as soon as we can get on to it, but we do not know exactly what the condition of the Armed Forces will be when we get to that happy state of lower commitments and, as you implied earlier, we may find it hard to do so because we may be asked to do other things. This is a world in which there is considerable uncertainty and our task is to manage that uncertainty as well as we can.

⁹ See Ev 43

¹⁰ See Ev 43

Q67 Mr Jenkin: But how do you assess risk? Presumably, there must be a way of making an assessment of risk that this forecast will not be met, for example, and what the risks are of being required to do something before full contingent capability is restored and of not being able to do something perhaps?

Sir Bill Jeffrey: Undoubtedly, one of the risks is that the commitments that the Armed Forces are expected to fulfil expand in ways that we, at the moment, know nothing of, but, as I said earlier, the working assumption, which seems the best one for us to make, is that for some time to come Afghanistan will be a significant commitment, but that, as we move into the fundamental change in the mission in Iraq next year that the Prime Minister has described, then we will be able very substantially to reduce the 4,000 or so troops that we have in southern Iraq.

Q68 Mr Jenkin: You say in your memo that, if the Treasury decides to run the next Spending Review for publication next summer, you will be in a position to ensure that the necessary costs are taken into account. Is there some doubt about that?

Sir Bill Jeffrey: About when the next Spending Review will be?

Q69 Mr Jenkin: No. Presumably, there are some costs associated with restoring full contingent capability. Will all of those costs be taken into account in the next Spending Round?

Sir Bill Jeffrey: We will need to ensure that they are, first of all, identified and that it is all costed properly and we will need to ensure that, in the discussions with the Treasury in the next Spending Round, we register them as important priorities.

Q70 Mr Jenkin: Is there some question about not having the necessary data to enable you to do that?

Sir Bill Jeffrey: I do not believe so, no, and Trevor may want to comment. There is inevitable uncertainty about some of this, but, if the next Spending Review is next year, it will deal with the succeeding three years and we will need to make our best estimate of how much recuperation we expect to be engaging in over these three years.

Q71 Mr Jenkin: Presumably, the 2013/14 forecast is based on an assumption that these costs will be fully funded?

Sir Bill Jeffrey: I think it is, yes.

Mr Woolley: What we are trying to establish is what it would be necessary to do in order to ensure that we would have that full contingent capability by 2013/14, and clearly that involves a number of military judgments about the capabilities of the Armed Forces, some of which give rise to additional expenditure, and we will be seeking to identify what that additional expenditure will be. There is though quite a lot of uncertainty. It obviously depends on the level of commitment in Afghanistan, and that might be higher or lower, and that in itself then works its way into the level of additional training that might be required for members of the Armed Forces who have been focused specifically on

training for Afghanistan rather than exercising more general skills, and it depends to a large extent on the state of equipment returning from Afghanistan and the extent to which that needs to be replaced or refurbished, so there are a lot of uncertainties. I think that we will need to offer a range of possible costs and continually refine them in attempting to establish what the cost of recuperating to a full contingent capability will be.

Q72 Mr Jenkin: I think obviously what this Committee would like to know is what the range of costs are once you have established them, and then we would like to know to what extent you are able to cover those costs out of the allocations you are given. Is that a possibility?

Sir Bill Jeffrey: That is an entirely reasonable request. At this stage, we do not know, but we can certainly flag up the Committee's interest.

Q73 Chairman: It is not only a range of possible costs, it also sounds to me as though it is a range of possible dates because what you said in your memorandum was not that you expected to restore full contingent capability by 2013/14, but that you are doing work to see how you might restore full contingent capability by 2013/14. Why was it that date that you chose? Was it that you did not expect any sudden need for this contingent capability to arise before 2013/14?

Mr Woolley: I think it is more a question that we think it, in practice, unlikely that we could establish this in less than five years, and that is why we took 2013.

Q74 Chairman: Whether the need exists or not?

Mr Woolley: Well, the need of course could crop up at any time, but it is a question of when we think it might be realistic to establish that full contingent capability that our defence planning assumptions set out.

Q75 Chairman: So, if the need cropped up in 2012, there would be absolutely nothing you could do about it?

Mr Woolley: I do not think we are saying that. At any one time, ministers and the chiefs of staff reach judgments as to what might be deployable on particular operations, but it may be that, in order to deploy on operations, we would have to break some of our planning assumptions—for example, our harmony guidelines for the tour intervals of members of the Armed Forces. What we are talking about here is restoring a full contingent capability that is consistent with our defence planning assumptions. Clearly, to the extent that we are prepared to break those defence planning assumptions in terms of harmony, we can do more on an exceptional basis in a shorter time-frame.

Q76 Chairman: So 2013–14 is not just a figure plucked out of the air, it is the earliest conceivable time by which you could restore full contingent capability?

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Sir Bill Jeffrey: I would say that the earliest is the more realistic time and I do not think one can ever be so absolute as to say that nothing can be done in the meantime, for the reasons that Trevor gives. This is a world in which we plan as well as we can, but still have to deal with events.

Q77 Mr Havard: You have got various mechanisms to help you with the planning assumptions, the Studies and Assumptions Group and lots of other people who presumably feed into all of this, but this all comes back to these assumptions, so you are trying to make the process consistent with them. Is there not an argument, and it is an argument which is going on generally, about how those planning assumptions are dealt with and whether or not we need a new Strategic Defence Review and actually change what it is we are prepared or anticipating to do, whether it be large, small or medium and the various combinations of? Is this an active debate and an active piece of work within the Department?

Sir Bill Jeffrey: Well, there are two points there. The first is that, on the planning assumptions, they are really what it says on the tin, they are the working assumptions about the demands that one might expect to be made on the Armed Forces and the capabilities from which they derive, and the fact that we are operating above them and have been for some years, I think, is a tribute to the military, in particular, but the system as a whole. It does not mean that they were the wrong assumptions, it simply means that, in the event, we have ended up—

Q78 Mr Havard: If we have been tested in battle, it is always the plan that goes first.

Sir Bill Jeffrey:—exceeding them.

Q79 Mr Havard: Perhaps you need a new plan.

Sir Bill Jeffrey: As far as a Defence Review is concerned, you might want to ask my Secretary of State about that when you see him in a week or so.

Q80 Mr Havard: I am sure I will!

Sir Bill Jeffrey: Sorry, “you might want to ask” is a bit Sir Humphrey-ish! I do not think there is any current intention to have a full-scale Defence Review, comparable to the Strategic Defence Review in 1997, in the foreseeable future.

Q81 Mr Holloway: Sir Bill, moving on to readiness, the targets to improve it have not been met and indeed it has deteriorated. Does this mean that we will not be ready for future operations beyond the stuff we are doing now?

Sir Bill Jeffrey: It certainly means that the measures that we use to assess readiness show the decline that we have seen and, as I argued earlier, I think we all feel, and the Chief of Defence Staff has said the same to this Committee in the past himself, that there is a certain inevitability about that. By definition, if you use the military instrument, and certainly if you use it as intensively as we do now, it becomes less ready for other tasks than it would otherwise have been. It does not mean that we will not be capable of doing more in the future and, for all the reasons we have

just been discussing, I think one of our prime responsibilities as a department is, as soon as we possibly can, to regenerate this capability for future use. I think it is also worth adding that, even if we were operating within the defence planning assumptions, sustained operations within these assumptions would be having some impact on readiness.

Q82 Chairman: But we are not.

Sir Bill Jeffrey: We are not.

Q83 Mr Jenkin: You are planning to recast your readiness targets in which, you tell us, you are planning to relax the readiness targets for some force elements, so what does this actually mean in practice, like we are not going to be ready to do what compared to what we are planning to be ready for at the moment? Is the Department refocusing on current operations?

Sir Bill Jeffrey: There have been some changes made in the way in which readiness is measured in the last few months, and they are reflected in the first quarterly report, which the Committee has just had. Their purpose is to focus more on our capabilities rather than specifics and to avoid an element of duplication that was there before, and the changes there have in fact had the effect of making the measured readiness level slightly worse than it would otherwise have been by about 2%, we think.

Q84 Mr Jenkin: Making the readiness level worse? What do you mean?

Sir Bill Jeffrey: I think your question may have related more to what we do to measure readiness in future, and I do not know whether Trevor can say something about that.

Mr Woolley: I think there are two issues. There is the issue of how we measure against this target and what we have done is reconstructed the measure to make it more realistic. We have a large number of force elements and each force element is assessed as to whether it is at serious or critical weakness, but obviously, in having an overall index, we need to weight individual force elements because you would not weight our Gazelle helicopters at the same weight as you would weight our nuclear deterrent, for example.

Q85 Mr Jenkin: But it does suggest to me that these new readiness targets mean our Armed Forces are actually going to be less ready than they would have been under the old targets. You will score them as ready and you are setting an easier target.

Mr Woolley: Well, there is separately the fact that, in one or two cases, I think not more than half a dozen, we have relaxed the required readiness state of some of our Armed Forces.

Q86 Mr Jenkin: But that smacks of moving the goalposts of a target you have decided you just cannot meet.

Mr Woolley: Well, it is not in relation to the target, it is in relation to an assessment of the likelihood of requiring those particular force elements at the level of readiness we are ultimately required to have.

Q87 Mr Jenkin: So basically we are then downgrading the readiness of the force elements that we just do not think we will require or the capabilities we do not think we will use?

Sir Bill Jeffrey: I think I may have misunderstood your first question, and I apologise. There are two things going on. One is that we have made some changes in the way in which readiness is measured, which are reflected in the last quarter's report. They are more to do with making sure that there is not double-counting or disproportionate attention given to some capabilities and not others.

Q88 Mr Jenkin: No, I understand that point you are making.

Sir Bill Jeffrey: The net effect is to make the figures look worse than they actually are rather than better.

Q89 Mr Jenkin: But I think Mr Woolley was making another point, that there were certain capabilities which we are less likely to use which we do not, therefore, keep at such a high level of readiness.

Sir Bill Jeffrey: Yes, and I think there is a limited extent to which that is affected.

Q90 Mr Jenkin: What sort of elements are we talking about, what sort of capabilities?

Mr Woolley: I cannot, off the top of my head, give you specific force elements whose readiness has been reduced. There are no more, as I say, than a handful, but we can give you further information on that.

Q91 Mr Jenkin: Cynically, one could refer to this as another round of cuts to make savings.

Mr Woolley: It is a reflection of the priority we are giving to force elements that we expect to deploy on operations.

Q92 Mr Jenkin: Could we have a note on those capabilities?

Mr Woolley: Yes.¹¹

Q93 Mr Crausby: My first questions are aimed at the Permanent Under-Secretary because you commissioned the review which led to the merger of the DPA and the DLO in April 2007 with the objective of creating a "fit-for-purpose" integrated procurement and support organisation. Has this fit-for-purpose objective been met and what is your assessment of the progress made by the new organisation?

Sir Bill Jeffrey: I think the new organisation has made good progress. I think you will have an opportunity, as a committee when you take evidence from the Chief of Defence Materiel later this month, to take his view on this. I have been impressed by the speed with which the merged organisation has settled down. One good aspect of the changes has

been the creation of project teams that cover not only the initial acquisition of equipment, but its through life support as well, and that is, I believe, bringing benefit. We have also strengthened in what are known in Abbey Wood as 'clusters', the two-star oversight of groups of associated projects, and I feel, when I hear about the way that is working, that it is moving in the right direction. In the so-called 'Pace' programme that Kevin O'Donoghue has put in hand, there are changes again associated with necessary reductions in manpower which will allow staff to be used more flexibly. Now, that is part of it. The other part, and this will take longer, but I think is heading in the right direction, is really what we were discussing earlier around the building of skills. Again, Sir Kevin can give you more detail than, I imagine, we can cover this morning, but, in terms of identifying groups of jobs where we expect particular levels of qualifications, the licensing of project managers, the building of commercial skills, it is inevitably something which will take time, but I think we are making progress.

Q94 Mr Crausby: I think it was proposed to cut manpower by 27%, was it not, by 2012, as I understood it from the joint organisations as they came together? What progress has been made in that field?

Sir Bill Jeffrey: I cannot give an immediate figure, but certainly the staffing level has fallen quite significantly over the last 12 months or so, and I think General O'Donoghue would say he was on course to deliver the reductions that are expected.

Q95 Mr Crausby: The PSA Target 6 was "to deliver the equipment programme to cost and time", which was only partly met. Now, your Annual Report and Accounts 2007-08 also states that "procurement performance declined", so what are the reasons for this poor performance?

Sir Bill Jeffrey: The one which was met, as we observed earlier, was the key user requirements where 100%, as it happens, of key user requirements and projects were met. In the end, that is a very important figure because it means, albeit sometimes later than was originally planned, the military getting what they need. The two other elements of this are the average cost increase across the larger programmes over the year and the average time slippage, and here we have seen some deterioration which is attributable actually to quite small numbers of projects. On the cost increase front, it is Nimrod, which this Committee knows well and which continued to cause us problems during the course of last year, and the estimated cost there increased 2½% over the year, and the Meteor missile, BVRAAM, where, for a variety of reasons, costs increased by 9½%, although actually are still less than the approved cost when the programme went through its main gate approval. These two, between them in the way this works, have had a disproportionate effect on the cost growth over that single financial year, but I am not pretending that this is other than a step backwards

¹¹ Classified (Not printed)

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in terms of the observable figures because, in the previous two years, we were in fact remarkably close to these targets.

Q96 Mr Jenkin: Do you make any assessment of how much delay in decisions by procurement actually adds to costs?

Sir Bill Jeffrey: I would find it hard to quantify, although we could have a go, but it certainly does. There is no doubt that time costs money, and one of the sources of cost growth is delay because they tend to be correlated.

Q97 Mr Jenkin: It took ages for the carriers to get through Main Gate. It seems to be taking ages to get Future Linx through Main Gate, though we understand quite considerable money has been spent on that project. What is the point of delaying these decisions or is this a political question?

Sir Bill Jeffrey: Well, there are two things at play. One is that there are sometimes very good reasons for taking time and spending money in the earlier stages of a project. Some of the NAO work, well beyond the Ministry of Defence, illustrates that it is worth investing, and a rough order of magnitude figure that the NAO have been talking about is 15%, a proportion of the expected cost of the project early on before the final commitment is made and before Main Gate occurs in order to take some of the risk out at later stages. We have been doing that more and I think it is the right thing to do. Sometimes, delay occurs for less noble reasons than that and I do not mean political reasons, it is simply because the system takes a while either to agree on the specification or to scope a project, and it is that which we ought to be tackling. In a way, it is that I was alluding to, among other things, when I talked earlier about greater agility because, if we could get some of the agility of our UOR process into our main procurement effort, it would be a very desirable outcome.

Q98 Chairman: I would like to come on to the issue of UORs. When we went to Abbey Wood in October, we heard that a large proportion of the defence equipment staff were focusing on current operational issues, some of them UORs, some of them the ordinary current operational issues. Presumably, this has the effect that longer-term equipment procurement has a reduced number of staff or perhaps reduced quality of staff because the focus is on the current operational requirements or the UORs. Would you say that it had any impact on longer-term equipment programmes?

Sir Bill Jeffrey: It is certainly the priority, and I think the Committee would expect it to be. I ought to take the opportunity at this hearing to mention things that the Department ought to be proud of. I think our performance in delivering UORs with industry has been remarkable. To date in this year, 82% delivered on, or before, their 50% confidence level in terms of timing, so we are doing well there. I would not overstate the knock-on impact on the rest of the business. There undoubtedly is some because certainly, when I visit Abbey Wood, I hear the same

accounts of significant staff effort being devoted to the UOR process, but I do not think it is more in the end than a relatively small proportion of the total staff effort, so I would not jump to the conclusion that our longer-term investments are at risk because of this.

Q99 Chairman: Still on UORs, have you heard, anecdotally perhaps, that a UOR is asked for by a unit in theatre and, by the time it actually comes into operation, that unit has moved out and the new unit that has moved in has got little understanding of why that UOR was requested and little need for it, so it lies around in containers? Have you heard that?

Sir Bill Jeffrey: I think I may have heard it said, but I am not sure that I have ever been presented with a concrete example.

Q100 Chairman: Have you looked for it? Have you looked for a concrete example?

Sir Bill Jeffrey: No, I confess, I have not, Chairman, but I am not aware of a particular example of that where the original requirement was unfounded.

Q101 Chairman: No, but, if the incoming unit has got no understanding of the need for that requirement, then it means that the money has been wasted, does it not?

Sir Bill Jeffrey: It raises an issue, as much as anything, about the transition from one deployed tone to the next, which, I know, is something that my military colleagues take very seriously, the transfer of knowledge and understanding of what the operating conditions are, and it would certainly be disappointing if the conclusion was that a UOR that we were working hard on was simply not required. If that were the conclusion, we would stop trying to acquire it.

Q102 Mr Holloway: Sir Bill, you talk about operating conditions, and I know that the UOR thing has been a great success, but you talk about operating conditions and I will give you an example of a commander I met, admittedly, seven months ago who was about to go out and do the police mentoring job, a troop commander, and they were saying on the ranges that he was pulling his hair out. He had put an urgent request in to PJHQ that they should not have to have Snatch Land Rovers and that they should have some weapons with rather more range than the Demarco, and this guy was, as I say, pulling his hair out because he was being told the particular vehicle that he needed for his task and the weapon systems that he needed for his task when he and everybody in his unit and the sister unit that had been there before disagreed. This particular guy was personally ringing up TA units in provincial towns to see if he could borrow some GPMGs. That is woeful.

Sir Bill Jeffrey: Well, I am not familiar with that particular example.

Chairman: I think you will need to provide chapter and verse.

Mr Holloway: Sure, but my point though is that actually, in terms of operating conditions, often when commanders are asking for things that they need,

they are being told, "No, that is not actually the appropriate thing", like longer-range weapons, like vehicles that can cross grain.

Q103 Chairman: I think also that is actually probably a question that you need to put to the Secretary of State next week because it is a general question and I think that, if by next week you can provide some details, that would be helpful.

Sir Bill Jeffrey: What we are talking about here essentially is the means by which the urgent operational requirement is identified and then processed. If there are examples of any confusion about what the requirement actually is, then we can, and should, look into these. All I was saying was that, if you look at the system as a whole and look at the extent to which over time we have delivered on equipment like Mastiff, for example, there has been progress, and I would not want to overstate it, but there has been.

Q104 Mr Jenkin: Could you kindly update us on where we are with the short examination of equipment programme?

Sir Bill Jeffrey: It has taken longer than we would wish, is the first point to make. It has not, to pick up a point that was made earlier, constituted anything like a full-scale defence review, but we have wanted, as we have done it, to assess the policy implications of the options that are open to us. In some cases, we have had discussions with our suppliers about different ways in which our capability requirements can be met, and we are not yet quite at the end. I have been very conscious, as have ministers past and present, of the need to keep the period of uncertainty to the minimum. We had a good discussion in the National Defence Industries Council last week, I think the industry understands where we are, and we are hoping that we can resolve this one way or the other within the next few weeks.

Q105 Mr Jenkin: Does not the fact of the examination really rest on the fact that the present equipment programme is not affordable in the current planning round that we are in?

Sir Bill Jeffrey: It reflects the fact that our current costings have shown some quite significant increases and we do need to find ways of reducing costs over the forthcoming period.

Q106 Mr Jenkin: But when last did the forward equipment programme actually match what you were given by the Treasury?

Sir Bill Jeffrey: Well, there is always an extent to which we take things at risk because there is always an extent to which it might safely be assumed that equipment will take longer to deliver than is, on the face of it, planned. As it happens, notwithstanding what we were saying earlier, I think we are getting better at acquiring on roughly the timescales we originally planned and, therefore, one can take less of a risk than may have been the case in the past, but there definitely is an issue and there are respects in which we will need to find ways of reducing the overall costs of the programme.

Q107 Mr Jenkin: Can you put a financial figure on the gap?

Sir Bill Jeffrey: Not easily, and I have thought about this before this session because the one thing is that, if you get beyond the end of the year after next, we are into new spending review periods and who is to say what the outcome of a spending review will be.

Q108 Mr Jenkin: But within the present time-frame?

Sir Bill Jeffrey: In the shorter term, there is the linked question of the rest of the programme and how much, and we may face some pressures there, we have some opportunities for making savings, so it is hard to put a specific figure on it, but it is undoubtedly the case that we need to make some decisions that will refocus the programme, not least for the reason that the then Secretary of State gave when he wrote to your Chairman about this a few months ago, to try, if we possibly can, to balance the programme more towards the nearer-term operational priorities.

Q109 Mr Jenkin: But, within the constraints, it is very understandable that that should be the priority, but the effect of this is that you really only have the two options, either to cancel programmes or delay programmes. Those are the only two options.

Sir Bill Jeffrey: Or rescope them in some fashion.

Q110 Mr Jenkin: Downwards in some way?

Sir Bill Jeffrey: Yes.

Q111 Mr Jenkin: How will we better support the front line? What do you mean by that?

Sir Bill Jeffrey: Well, we can all think of particular capabilities that current deployments are stretching more than others.

Q112 Mr Jenkin: Yes, but we are told that those will all come out of UORs.

Sir Bill Jeffrey: They will, but nonetheless there is an extent to it. To take armoured vehicles and force protection as an example, these are issues that have been hugely significant for us in the last few years and it would be highly desirable if we could do so, to focus on these, to the extent that the budget allows us to, but I do not think I can go much further than that in terms of specifics at this stage. We are conscious of the need to take decisions on this as quickly as possible.

Q113 Mr Jenkin: When do you think the review will be completed?

Sir Bill Jeffrey: I would say within weeks rather than months.

Q114 Mr Jenkin: So before Christmas?

Sir Bill Jeffrey: Yes.

Q115 Mr Jenkin: That is very good news. Obviously, there is public concern being expressed by some of the Forces' chiefs, that they are going to lose some of their sort of high-end longer-term capabilities, like Joint Strike Fighter, for example. Is that a possibility?

Sir Bill Jeffrey: I do not think any of the chiefs of staff have been commenting on this publicly, to my knowledge. Do you mean some of their predecessors?

Q116 Mr Jenkin: Possibly. The Chief of Defence Materiel (Air) recently commented that the RAF faced “serious challenges” in balancing its short-term operational commitments with the country’s long-term strategic planning. Presumably, that is what he is referring to.

Sir Bill Jeffrey: Yes, well, I do not think anything I have said today will displace the sense that we do face a challenge on this, that is what we are trying to work our way through, but the chiefs of staff, I think, and it goes back to our earlier discussion about the corporate way in which the Defence Board approaches these things, they are, above all, keen to get an outcome through this set of discussions that is best for defence overall.

Q117 Mr Jenkin: But do you not dream one day of having an affordable equipment programme?

Sir Bill Jeffrey: It would be a very desirable state to be in. There is a tendency always to find that our ambition sometimes exceeds our means and we just have to manage that as best we can.

Q118 Mr Havard: There are obviously reports in the press about individual projects and so on, the fictional sort of stuff that you would expect really, but there was a report in the last couple of days. You mentioned armoured vehicles and the FRES Programme being, in some fashion, renegotiated with General Dynamics. Are these the sorts of things that are taking place in terms of readjusting the programme that you are talking about, so is there a series of elements like that?

Sir Bill Jeffrey: There is a limit to what I can say about the FRES Programme at the moment because there are still some commercially sensitive discussions going on.

Q119 Mr Havard: Yes, but the question I am asking, Bill, is that big-ticket items, like JSF at one end, and there are known projects which need to go ahead, are presumably being readjusted or re-evaluated in some fashion, so is that what is happening within the plan?

Sir Bill Jeffrey: What we have been doing is looking at the full range of projects in the equipment programme and seeing where it would make more sense to rescope or to change the period within which the project is intended to be delivered. On FRES, the position is that it is currently in its assessment phase. We selected General Dynamics in May as the provisional preferred designer for the FRES utility vehicle and we are still discussing exactly how to pursue that relationship, and there is nothing more, I am afraid, I can say to the Committee at the moment.

Q120 Linda Gilroy: I have just been looking at page 106-107 of the Annual Report which deals with research and the work that is flowing from maximising the defence capability through research and development and the work of the Research and Development Board. There are tensions there, as there are in all the rest of the budget, between trying to align things with urgent requirements, but also looking to the long term. Whenever we take evidence from industry, they tell us that it is a 20-year payoff

and, if you cut back on the research budget, then it will be the long-term capability that suffers. Can you just tell the Committee how those tensions are being resolved, if they are being discussed, to your knowledge, through the Board that deals with these things?

Sir Bill Jeffrey: They are constantly being discussed. We attach very high importance to the Research and Development Programme and, as a result of changes made in the last year or so, we are now managing it through the Board you have referred to, more as an entity with not just—

Q121 Linda Gilroy: But there has been a cut in the research budget, has there not, and no doubt they are being looked to to bring forward efficiencies and other such things, but is there also a concern, with the pressures on addressing the pressure areas arising from deployments and urgent operational requirements, that there is a danger that, in the long run and with a cut of that scale in their budget, they will not be developing the capability we need to keep us ahead?

Sir Bill Jeffrey: There has been some reduction recently. We are certainly very keen to protect this area of expenditure, if we possibly can, because it is, for the reason you give, long-term very significant. We are also keen, through the Defence Technology Strategy and other means, to give industry a sufficiently clear picture about some of our longer-term requirements for industry to feel able to invest more of its own money in this area because I think most of those whom I talk to in the industry feel that is not unreasonable, but they need a good sense of our judgment of what our future requirements are going to be.

Q122 Linda Gilroy: So is there any prospect of DIS 2 coming forward and describing how some of these tensions are being resolved?

Sir Bill Jeffrey: Well, the Industrial Strategy, as opposed to the Technology Strategy, we have a longstanding commitment to reissue that. The view we have reached, and it is one that industry strongly supports and it said so at the NDIC last week, is that it would be pretty pointless to reissue the Defence Industrial Strategy until we completed the examination of the equipment programme. To be completely clear about it, the view of the industry is that they would prefer us, for the time being, to be holding off on reissuing the DIS until we are able to say more about the content of the individual industrial sectors.

Q123 Chairman: If I can finally remind you, Sir Bill, last year you told us that it was the view of industry that there was not much point in producing DIS 2 until the outcome of the planning round. This year, there is not much point in producing DIS 2 until the outcome of the short examination. What will it be next year?

Sir Bill Jeffrey: I hope by next year that it will have been issued.

Q124 Chairman: Well, I rather do too, but history suggests it will not.

Sir Bill Jeffrey: The one thing I would say, Chairman, is that we may not be in a position to give as much detail just at the moment or in recent months about the part of the original Defence Industrial Strategy that was to do with individual sectors, for reasons that the Committee understands very well, but the more general description within that first DIS of the approach we take to defence procurement, the areas that we regard as being proper for onshore provision, the importance we attach to partnerships and a wide variety of procurement approaches, the importance of a close and transparent relationship with industry, all of this still holds good. We are still operating under the Defence Industrial Strategy and I think, were some of our industrial suppliers here, they would attest to that.

Q125 Chairman: The only comment I would make on that is that the discussions that I have had with defence industries suggests that they feel that the mood of openness has gone, there is a much reduced degree of openness. Can I pursue one point that Linda Gilroy has just raised about the cut in the defence research budget. Would it be possible, in your note that you are writing to us please, to give us up-to-date figures of the level of defence research spending funded by your Department over the last 15 years?¹²

Sir Bill Jeffrey: Yes.

Q126 Robert Key: Could we look at the manning balance, Sir Bill. Your predictions about when you will achieve manning balance, particularly for the Army, have been pushed back each year since the Spending Review 2004, and there is a very depressing graph on page 172 of the Annual Report and Accounts. How do you arrive at those estimates?

Mr Woolley: Obviously, in terms of making forward predictions of the strength of each of the Armed Forces, we make assumptions and estimates of what we think the intake will be and we make estimates of what we think the outflow will be, and that informs our estimate of what we think the strength will be in one, two, three years' time. Now, obviously, these are subject to variabilities. The extent to which we succeed or not in meeting recruitment targets is, to some extent, unpredictable and it will depend, for example, on the state of the economy. Similarly, outflow rates are not entirely predictable because, whilst, to some extent, people leave at the end of a fixed term, they do have the option to re-engage with voluntary outflow to factor in as well. The three Services have embedded in them parts of the Defence

Statistical Organisation and they are responsible for doing analysis to come up with forecasts to inform our judgments.

Q127 Robert Key: This of course is not only about statistics. Looking at past form on this, what is your hunch about the impact of the current recession in the economy on recruitment and retention?

Sir Bill Jeffrey: I think it will help for as long as it lasts, and obviously one has mixed emotions about that, but I do not think we are banking on it. We have a number of steps, including the retention allowance and the particular retention centres that we are operating, and indeed right across the board there are efforts to improve retention. The other area that I would focus on because, as Trevor says, it is a combination of how effective we are at adding to the trained strength and how effective we are in retaining people, one of the factors which, I feel, is increasingly significant is our ability to convert initial recruits into additions to trained strength. The raw recruitment figures are in fact, for all three Services, not that bad and they are not so very far away from the targets that the three Services have been working to, but, particularly for the Army, converting recruits into additions to trained strength, for reasons that this Committee understands very well, is quite difficult. It is something the Army are working on very hard indeed, but it is the point at which we can begin to affect this balance positively.

Q128 Robert Key: But is this an art or a science? In other words, have you currently got computer prediction models of what you would expect to happen to recruitment and retention, given the economic and social data that are now emerging as we enter recession?

Sir Bill Jeffrey: We adjust the estimates as we go to take account of as much as we know about steps we are taking ourselves to impact on retention, in particular, through the various allowances and what we know of the labour market. I do not know if you are more familiar with the detail than I am, Trevor. It is not computerised, but it is quite a careful process.

Mr Woolley: Yes, I think there is 'computery' in doing the modelling, but obviously the assumptions that go into the models as to how the future might be different from the past is a matter of judgment and, in that sense, an art.

Chairman: We will be writing to you with a couple of more questions about recruitment and retention and pinchpoint trades and things like that,¹³ but I think that concludes the questions that we would like to ask both of you, so thank you to both of you very much indeed for joining us this morning, which has been helpful, and we look forward to seeing the Secretary of State next week.

¹² See Ev 43

¹³ See Ev 43

Wednesday 12 November 2008

Members present:

Mr James Arbuthnot, in the Chair

Mr David S Borrow
Mr David Crausby
Linda Gilroy
Mr Mike Hancock
Mr Dai Havard

Mr Adam Holloway
Mr Bernard Jenkin
Mr Brian Jenkins
Robert Key
John Smith

Witness: **Mr John Hutton MP**, Secretary of State for Defence, gave evidence.

Q129 Chairman: Secretary of State, welcome to the Committee. You have appeared before the Committee before jointly with the Foreign Secretary but this is the first of your appearances in front of the Committee alone and you are most welcome. I have to say that I always think that the inquiry we do into the Report and Accounts is probably the most difficult one for the witnesses to deal with because we can and do cover everything across the board. For you to be faced with this inquiry within your first month as Secretary of State does not mean that we will be kind to you, but we recognise the Herculean nature of the task that you are faced with. As it is your first appearance in front of the Committee talking in a general sense, I wonder if I could ask you please to give us a general idea of what your own personal priorities are likely to be in your new department over the next 12 months. How are we to judge you? The division has given you about 15 minutes' respite. You have some warning of what it is you are going to be facing. I will adjourn the Committee.

*The Committee suspended from 2.33pm to 2.53 pm
for a division in the House*

Mr Hutton: I think it is right that my focus should be on operations so my priorities are Iraq and Afghanistan and the necessary decisions that need to be made to sustain success on both of those very important operations. There are some equipment issues to deal with of course; there are some people issues to do with that and that is self-evident too. Given the scale of the operations the Armed Force are currently undertaking it is right and proper that my focus should be first and foremost to help continue to ensure success on those two very important operational deployments.

Q130 Chairman: How will we judge whether you have succeeded?

Mr Hutton: It will not just be my view, it will be the views of the military commanders and the guys on the ground. I understand that the Committee itself has a regular quarterly report summarising some of the issues that arise from the deployments in Iraq and Afghanistan. It will be important, however, to be transparent, to be straight with the Committee, the House and the country about the state of deployment in both Iraq and Afghanistan. The

country has the right to challenge both the tactics and the strategy that underpin those two very important deployments and I would want people to say of my time as Secretary of State that I was as straight as it was possible to be with the Committee and with the public about the status of both of those operations. It is in no-one's interest to present a picture that is not anything other than 100% accurate about the state of play in both Iraq and Afghanistan and I want to make sure that that happens at all times.

Q131 Chairman: My own impression was that you made a good start with your speech on Afghanistan.

Mr Hutton: That is very kind you. If you could write to me about that it would be very welcome! Joking aside, actually it is a very serious subject and I think it is first and foremost the responsibility of ministers who made the decision collectively with members of the House to deploy our forces to Afghanistan and Iraq to be regular in the reports we make and to be straight with the country about why we are there. Given many of the headlines and many of the complicated messages that sometimes surround a deployment, particularly in Afghanistan, it is important just to keep reminding people about what the basic mission is all about and I intend to continue to do that.

Q132 Chairman: The Armed Forces, as the Ministry of Defence tells us, are operating above the level for which they are resourced and structured and have been doing so for a long time. How do you intend to deal with that? What do you intend to do about it?

Mr Hutton: I will try to answer that question in several bite sized chunks. I think it is true to start with that we have been operating outside the framework of the planning assumptions that governed how we generate force structures and so on. That is true; everyone knows that. It has been true, actually, in each of the last five or six years. I think it is an amazing tribute to the men and women that we have in uniform that they have been able to do the job that they have done and many of the other jobs we ask them to do simultaneously as completing some of these very dangerous missions in Iraq and Afghanistan. Next year we will see a very significant change in mission in Iraq and that I hope will produce some operational relaxation in the tempo under which our Armed Forces are operating and

that will be pretty welcome. In the context of Afghanistan I do not want to speculate about force numbers or redeployment to Afghanistan today; I do not think that would be very sensible. I made clear when I gave evidence to the joint session (the two committees) a couple of weeks ago that I think a first call on any such assets would be helicopter assets because there is a recognised shortage. Again, with the indulgence of the Committee, I will not go into the numbers of helicopter assets that we are talking about here but I think a Merlin fleet could play a very useful role in Afghanistan. On the money side of it—obviously the other chunk that has to be digested here—I think in historical terms the MoD has a good settlement. We are continuing to see overall levels of spending on defence continue to rise but I think it is quite clear as well in the context of the spending review that the Ministry of Defence is going to have to improve its level of performance in the context of value for money, in terms of reducing administrative overhead costs both in the department and all the way through the organisation. We have some very challenging tasks ahead of us to do that. I think the key contribution in relaxing some of the operational pressure will be if and when we are able to make a significant draw down in Iraq which I hope will take place in the first half of next year. Then we will have to see exactly what our advice is about re-deployment, if any, to Afghanistan. There are some very big issues to be decided there. Of course we will make sure the Committee and the House are as fully informed as it is possible for them to be about all of this. Ministers have made it quite clear and the Prime Minister has made it very clear that before any significant troop redeployment took place to Afghanistan there will be a proper statement in the Houses and I think that is right.

Q133 Chairman: I do not know whether you lie awake at nights, but if you were to lie awake at nights and you had a list of things you were worrying about, what would be at the top of it?

Mr Hutton: Right now it is the safety, security and well-being of our guys in uniform in Iraq and Afghanistan. That does cause me and many others to spend a considerable amount of our time making sure we have covered all the basics there and continue to do whatever extra needs to be done. Guaranteeing success in those two missions is absolutely at the heart of what the Ministry is focussed on. We have probably had many discussions in this Committee and elsewhere in the House with all of us together privately and sometimes in public about the nature of these missions. Although I am quite aware of some of the doubts members of the Committee have about aspects of the tactics and maybe even the strategy, my view I am afraid is very simple, that we must succeed in Afghanistan. It is vital to NATO, it is vital to our national security. That is what my priority would be and if there is anything that keeps me awake at night it is that.

Mr Hancock: Good afternoon, Secretary of State. I am sure everybody in the room shares your view that we have to get the right decision and the right solution for Afghanistan. I share your view that it is important to clearly identify to the public and remind people why we are there. At the same time the public are continuously being told that the government of Afghanistan has no real mandate across the country, that the government is full of corruption and it is very hard to see how a military solution that does not deal with the corruption inside Afghanistan itself and the confusion over whether or not we can tackle the drug trade properly can ever bring about the solution that you and I would both want. Is there going to be a change of policy? Is there going to be an initiative which is actually going to give the British public confidence that your ambition can be realised?

Q134 Chairman: I will allow that question, Secretary of State. Please give it a brief answer because I do not want to go over the ground again that we went over in the joint session with the foreign secretary.

Mr Hutton: Again in the context of Afghanistan I think it is quite important that we do not over-egg the pudding. Afghanistan has never been characterised as having a strong central government. That is the first point. At least this government has a democratic mandate. I accept it does not run in every part of Afghanistan and that is because parts of Afghanistan are affected by the Taliban-al-Qaeda insurgency. That is what our guys are there to try to contain and eradicate. We are making progress there; it is slow, painful, costly but necessary. On the political side I think I would say that we have worked very hard with President Karzai's government and we continue to provide maximum support at all levels for the work that he and his Ministers are trying to achieve in Afghanistan. Part of his own objectives—which he has re-stated very clearly recently which I think is very important—is to bear down on corruption, to support a greater effort against the narcotics trade which is the poison right at the heart of the Afghan society which is feeding the insurgency which we have to deal with. We are prepared to stand by the president and support his administration in making progress in these areas, but progress there has to be. That is something, I can assure the Committee, that we are very, very heavily focussed on.

Q135 Mr Crausby: Secretary of State, you have taken over a department that only met in full one of its six PSA targets and even more worrying on the objective two target—be ready to respond to the tasks that might arise—that target was not met. Are you surprised by how poorly the MoD has performed against these targets? What is your initial assessment of why the MoD's performance against its PSA targets was so poor?

Mr Hutton: I do not think anyone in the MoD is happy that we only fully met one of the six PSA targets. We are not delirious about our performance at all. What is the best argument I can put forward today to the Committee about that level of

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performance? I think it is a pretty good one actually in the context of where we are. My view, the view of the department, the view of the military chiefs certainly is that the overriding objective, the absolute number one objective for the department is to successfully deploy and maintain those deployments successfully in Iraq and Afghanistan. We have tried to supply the Committee with information about those deployments on a regular basis. We can say to the Committee and to the country that those deployments have been successful. We have sustained a very complicated military and civilian effort in both Iraq and Afghanistan for many, many years and we have produced some significant results. I think my argument to you is that we need to do better; we are trying to do better. Some of those PSA targets were not exclusively within the realm of competence of the Ministry to deliver on its own; some of them were shared with other government departments; some of them depended on the performance of other interlocutors. If we are talking about the Middle East peace process, for example, which is one of the sub-targets in PSA two or three then I hope people can cut us a bit of slack on failing in the time of this Annual Report to actually deliver peace in the Middle East. I hope there is a balance around the table about some of these targets. Some are more straightforward than others. On the equipment side for sure we need to do much better: value for money, cost overruns, delivering some of the strategic equipment needs of the Armed Forces. We have to do better. I am not actually going to apologise to the Committee today for the department making, during the course of the last 12 months, operational success its number one priority; that is the right and proper thing.

Q136 Mr Crausby: I think that is fair. The objective one target was met and that is a most important target. However, it is the future that we are a little bit worried about to say the least. Your Permanent Secretary told us last week that there may be a bit of institutional over-optimism in the MoD's forecasting of performance against its PSA targets. How will you ensure that the MoD performs better against its new Departmental Strategic Objectives (DSOs)?

Mr Hutton: I take responsibility for the performance of the department and am not trying to duck that point. My Ministers and I will be focussed very heavily on the DSOs in the next 12 months or so, making sure that processes within the department are focussed on delivery. I think there is an obvious case, particularly in number two around equipment and the issue of personnel, readiness, recuperation, manning levels where we are very strongly focussed on seeing if we cannot make a better fist of it next year. That is not in any way a criticism of my predecessor who I think was a very fine and decent Secretary of State, but I think some of these difficulties, particularly on the equipment and manning side—again it may not be the best defence but it is worth putting on the record—have concerned every Minister since time immemorial in

the Ministry of Defence. We have with us today a very distinguished former Minister in the department and, if he was able to—I am sure he would not want to—he himself could bear testimony to how difficult some of these issues are. The other observation I would bring to this Committee today is that if there was a magic lever or wand or button to press in the department the Chairman would have found it, his predecessors would have found it; we would have found these problems solved a long time ago. The simple truth is that there is not a magic wand. We are focussed on trying to improve our performance and we are going to do the best we can over the next 12 months.

Q137 Mr Crausby: The Q1 report on DSO 2, be ready to respond to the task that might arise, says, “No progress—Readiness to for contingent operations declined”. The first measure of progress against DSO 2 is no change.

Mr Hutton: That is absolutely true; I am not going to argue with that. Again the reason for that failure to make the headway we would have liked there, to give the Armed Forces a greater level and range of response capabilities, is because of our focus on Iraq and Afghanistan. The Chairman was absolutely spot on ten minutes ago when he said that we are operating outside the box; we are. This is what the consequence of that is. Does it mean that we are not able to respond to any type of contingent request for UK forces? No, it does not, but it has shrunk the scale of that readiness. Am I happy with that? No; none of us should be happy with that. However, I am afraid it is a consequence of operating way beyond the parameters that the planning assumptions specified for the department. That has been true, as I said, in every year since 2002. I believe things will begin to look better next year because of the likely draw down of forces in Iraq and I think we have to make sure that one of the things that comes out of that change is more of a breathing space to allow some of the recuperation that I know the Committee is concerned about to take place. Exactly how much of that of course will depend on decisions that we and our allies make about the level of appropriate forces that should be deployed in Afghanistan but, as I said, I do not want to speculate about that. One thing I am pretty clear about is that we have to seize the advantage of that drawdown to give ourselves more of a breathing space to allow training to cover a wider range of functions because the Army, the Navy, the Marines, the Air Force have been focussed very heavily on those two operational deployments. We have to give ourselves that space in which to take on some of the smaller scale peace keeping roles that maybe at the moment look harder for us to do but it will take time. We are simply not going to be able to build up the sort of responsiveness and readiness levels that we would all like instantaneously come the middle of next year. That is not how things work out but I think we can begin to turn a page on this issue next year. We have to seize that as a gain for the men and women who serve our country in uniform because if we go on with the current level of

operational deployments indefinitely then I think the consequences will be very significant indeed and I do not want to contemplate that today.

Q138 Mr Jenkin: Secretary of State, you have said laudably that you want to be as honest as you possibly can be and we are not holding you personally responsible for some of the difficulties you are discovering in your department, but are you not rather shocked by some of the things you have found in your department?

Mr Hutton: No, I am not shocked. I have taken a close interest in defence for a long period of time and what I discovered when I came into the department was pretty much what I expected. If I can be really straight with the Committee, the things that have surprised me are the extraordinary men and women that we have working for the Ministry and our country in the Armed Forces. I was a fan of the Armed Forces before I came into the Ministry, but I do not think there is an adjective now that I could use to describe what I feel about them today. That has surprised me; I did not think I would be as surprised by that as I was. Operationally we have some very significant challenges to face and certainly some of the detail of that I do not want to share in public today but I would be very happy to try to share more of that detail in private with the Committee. I do retain, I think, a strong sense of confidence in both operation missions and an extraordinary commitment to delivering success in the department.

Q139 Mr Jenkin: Do you not feel, as many people now do feel, that first of all there has been a deliberate act by the government to leave the Ministry of Defence relatively short changed in view of the commitments it has over a period of years, a deliberate act of policy? Secondly, the government is relying on the goodwill, professionalism and dedication of our Armed Forces perhaps to an unreasonably degree.

Mr Hutton: I disagree with the first part of that question. I do not believe it is a fair or reasonable criticism to make of the government. We have tried to correct the tide of previous spending on the MoD and actually turn it round so that the MoD can look forward to real—

Q140 Mr Jenkin: The government found an extra 100% more money for the health service; it has found very much less extra money for defence.

Mr Hutton: Defence spending has not increased at the same rate as NHS spending and that obviously is an aspect of decision making that we and everyone on the government side I think can reasonably defend. I think that is clear, given the state of spending in the National Health Service and the state of decline that we did inherit. In the context of the Ministry of Defence there have been very significant increases in real term resources. I do not want to be partisan unnecessarily today, they corrected the trend that we discovered when we came into office. Do the Armed Forces have all the resources they would like? I think the answer to that

is no. Does any army, navy or air force anywhere in the world have all the money and resources it wants? Probably not. We have to make political decisions and I stand by them but I would not characterise—I do not think it is fair to characterise—our spending decisions as wilfully in the way you have described, to deprive the Armed Forces of the vital resources they need. In fact, if anything, from my experience of theatres when I have been there—I can say this in complete honesty, I am not putting words into anyone’s mouth here—I spent the entire time in Iraq and Afghanistan trying to find people who would say that the kit is not good enough or the equipment they have is not good enough. I did not find many people who said that. My understanding is that has also been the experience of the Committee when it has been in these theatres too. I think it is important to have that on record. I believe that the forces that we have deployed to Iraq and Afghanistan today are better equipped and better provided for than they have been during recent years. On your point of are we using people’s good will and good faith, we must not do that. I think part and parcel of the deal here has to be two-fold. One is that, when the circumstances allow, we have to take a foot off the operational tempo pedal and I am determined that we can do that; I think we will be able to do that next year. Secondly, we have to deliver on the promises we set out in the summer when we made a very conscious effort to make sure that the military covenant—this is a vital part of the whole deal here—is honoured in full. We look at the whole range of issues about pay, recruitment, retention, career prospects, accommodation and prospects for the men and women in uniform when they leave the Army, Navy or Air Force so that they can resume effective and profitable careers so no tuition fees, streamlined access to healthcare, schooling and so on. This is all part and parcel I think of the job of running the Ministry and we have to stick to it. I recognise that there is a deficit and there will be many people in the Armed Forces who would make the criticism that you have made of Government. What I would say to you and what I would say to them is that we are going to improve our performance in all these areas. My predecessor set out a very, very comprehensive range of measures that will allow us to do that.

Q141 Mr Jenkins: I appreciate that some of the PSAs, particularly recruit, train, motivate and retain, are composites but we have an outcome, a final assessment of “partly met”. I find difficulty with “partly met”. Is it 90% partly met or 70% partly met? Do you not think in the interests of transparency if there was a figure in there we could know that next year if that figure goes up then we are improving. “Partly met” means nothing to me. I know it is a difficult task but would you like to go away and think about whether it is possible to give us some figures so we can see what improvements and progress are being made.

Mr Hutton: I will certainly go away and think about that. If there is any more information or better particulars we can provide to the Committee of

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course we will do that. PSA five was a complex target—it had five subsets contained within it—and we fell short in particular in two very significant areas, one is in the Service Manning Balance and secondly in the Harmony Guidelines. We have to improve our performance in both of those areas. I can say to the Committee, particularly in terms of service manning, that we are doing pretty well. I think the numbers coming into all three services are running at a very high level, the highest since 2004. We are seeing not just an increase in the training strength but in the numbers of those joining the regular forces coming through training. The manning balance is better for the Royal Navy, it is better for the Army, it has slightly dipped for the Royal Air Force and we need to drill down and look at some of those issues. I think we are making progress. We are not making as good progress as we should be on the Harmony Guidelines but again it comes back to the priority that we attach to the operational target. That is our priority.

Q142 Chairman: Would you give consideration to Brian Jenkins' point about assessing this with figures.¹⁴

Mr Hutton: Yes. There are figures out there that I am sure we can reasonably share with the Committee. I would be very happy to do that if I can.

Q143 John Smith: I can assess one of the targets with figures. It is a target that MoD has failed year in year out for the last ten years on the recruitment of ethnic minorities. In fact the targets are nowhere near achieved. As the new Secretary of State for Defence do you think it is important that we do recruit ethnic and other cultural minorities into the Armed Forces and the British Armed Forces should reflect the society that it serves?

Mr Hutton: It is absolutely important that the Army, Navy and Air Force do reflect the society it serves. I agree very strongly with that. I think the figures are going in the right direction. The target we have actually set is to be realised in 2013 and that is to get to 8% ethnic minority representation in the Armed Forces. At the moment it is about 6.2%. The numbers are increasing but it is work that we need to continue to focus on.

Q144 John Smith: You may or may not be aware, Secretary of State, given that you have not been in the post very long, but the figures you are using actually are the ethnic make up of the British Armed Forces drawing on Commonwealth recruits. The targets that were originally set after the Strategic Defence Review was the recruitment of British ethnic minorities, UK citizens. If you do have a chance to go back and have a look at that I think you will find it is an abysmal failure. We are not in the blame game in this Committee; what we aim to do is to try and address that issue.

Mr Hutton: I am aware of the figures that I gave and of course the figures for UK ethnic minorities are 2.4%. We have to get to 8% by 2013 so that is the

finishing line. We have not crossed the finishing line yet and the department will do all it can to make sure when we cross that finishing line in 2013 we have got the numbers up to 8% cent. It is going to take a significant effort to get there but all three service chiefs have assured me of their commitment to this goal and we are working together to try and achieve it.

Q145 Linda Gilroy: Secretary of State, you referred just now to work in MoD headquarters and in the support and administration, however the administration of the MoD has been severely criticised by the Burton review in the wake of the serious data losses. There has also been the disastrous introduction of the JPA which was the result of poor decision making and the Cabinet Office's Capability Review concluded that there were weaknesses in the leadership of the MoD. What specific action are you going to take to improve these areas?

Mr Hutton: I think the Permanent Secretary certainly addressed the issue of the failures of the JPA when he was before the Committee last week. I am not sure I have very much more to add to that. We have discovered a number of problems with JPA as the roll out has proceeded, not least of which some of them led to the qualification of the MoD's accounts this year which is very regrettable. I think those failures are to do with the quantum of auditable information that JPA generates which can form the basis obviously of the work of the NAO. We found that we did not focus enough attention on that. That is being addressed by the department and I hope we do not have a re-run of the qualification for that reason next year.

Q146 Linda Gilroy: Does it surprise you that so little attention was paid to the way in which that would feed into the accounts?

Mr Hutton: I was not familiar with the detail of JPA until about two weeks ago as I began to prepare myself for this session but yes, I think I was surprised. Hindsight is a very precious commodity in Ministerial life and I am not sure it actually adds up to very much, but I think the department is looking to try to address these issues. On the data loss point I agree, I share the frustration with everyone here and outside that we continue to lose personal data; this cannot go on. We are looking very carefully now and we have done a number of studies and projects. I know people say it is time we delivered on them and it is. We have to change the culture. We have to make sure that there is responsibility when data goes missing. We have to make sure our principal contractor takes greater responsibility for security of data. Work is in hand on all of those areas to try and tighten up performances. It is simply not acceptable for this kind of data to go walkabout, in particular when it jeopardises potentially the financial security and personal security of members of the Armed Forces; they expect better from us and we have to do better in this regard.

¹⁴ See Ev 46

Q147 Linda Gilroy: Last week I asked the Permanent Secretary about recommendation 38 which is to do with organising a coherent system of censure and punishment for those who lose or compromise personal data. Is that something that you will be paying attention to to try and change the culture as you have just said? Would that include Ministers if they were found wanting in that respect as well as officials?

Mr Hutton: I think the Permanent Secretary is ultimately responsible for these matters in the department and it is his responsibility to make sure not just the sanctions and the disciplinary side of things that are appropriate, but to be perfectly honest I think the focus should be on making sure it does not happen and not dealing with the consequences when it does. I am content that the Permanent Secretary is taking the right measures in this regard and I am happy for him to get on and deal with it. As far as ministerial responsibility is concerned I think the Ministerial Code is very clear about this. If Ministers break the law, if they do not uphold standards of public life then there are issues for a Minister staying in post. One thing I have learned over the many years I have been a Minister is that whether a minister stays in post or not is ultimately a matter for the Prime Minister not myself. I think that any minister who found him or herself in a position where there had been a serious compromise of personal data, particularly involving the Armed Forces or found him or herself in the situation where there had been a breach of the data protection laws, I think their position would be pretty untenable.

Q148 Mr Hancock: Can I ask, Secretary of State, are we now close to knowing what the true cost of JPA will be? Are you able to give us an assurance that the on-going costs of maintaining, updating it and getting it to function properly are not going to seriously take much needed resources away from other elements within the MoD's budget?

Mr Hutton: I am afraid I cannot give you a figure today but I am very happy to follow that up with a letter to the Committee about the costs of JPA.¹⁵ My understanding is that we are on top of all the difficulties associated with JPA and there are remedies in place to address the shortcomings. In the context of the resource implications I think it would probably be better if I took time to reflect on that and send a note to the Committee.

Q149 Mr Hancock: That would be very helpful. Could I ask then what your opinion is on the basis of the way in which the MoD's planning assumptions are put together and how those assumptions currently interact with operational responsibilities? Is the way in which the planning assumptions are put together part of the difficulty in the MoD tending to lose out in the spending rounds when they come forward? Are you intending to change that at all?

Mr Hutton: We have always got to look at the planning assumptions; we have to keep those under review and we do. Not wanting to restart the conversation we began with about how we all know we are outside of that box and already have been for many, many years, maybe I could usefully add one thing. I know Bill Jeffrey dealt largely with this point last week as well when he talked about the planning assumptions being designed to do exactly what they say do on the tin, they are designed to conform levels of force structure, what forces we need to deploy and the state of readiness of those forces. They are not designed to, as it were, provide an absolute limit and detailed actual pattern of operational commitment. They are designed to inform those who have the job of generating force structures and levels within the department. We have had to operate, as I said, in a different context for many, many years and the department has been able to expand and deal with that. As I said earlier, it cannot do that indefinitely without some fundamental give in the system. We have to get to a point where the actual level of our operational deployments come back within a reasonable spectrum. At the moment they are outside that spectrum and they cannot go on indefinitely being outside it. I am not critical of the process; I am not in a position to criticise that. Have we learned lessons? I think so. However, at the end of the day, going back to the point that Bernard made, the Ministry and the Armed Forces have to be able to respond to the requests that we receive. If it is Her Majesty's Government's priority that the forces deployed are of capable size and strength in Afghanistan we have to find the resources. Of course, strictly on the resources point, we have a longstanding agreement with the Treasury which predates this government and goes back decades about the net additional costs of operations being met by the reserve. That deal has stood and it has meant that nearly £10 billion of additional resources for us. Although in one sense the resources have been provided to meet the additional operational needs, you cannot in that sense buy your way out of some of the other problems of what the stretch in requirement has meant for the MoD in terms of people. Sometimes you cannot even buy a way out of that in terms of equipment either. I think you have to get this thing back in the box and that is what I want to see happen. I think the planning process itself, the planning assumptions, are perfectly reasonable. I am not aware that anyone has actually taken substantive issue with the planning assumptions that underpin the 2003 White Paper.

Q150 Mr Hancock: We have as a Committee. I think it came as a surprise to the majority of the Committee and a disappointment to many of us that your predecessor said he did not foresee any real radical change in those assumptions. You are new in the post, are you prepared to look again at how you actually bring operational requirements and planning assumptions closer together so they actually do reflect the true needs of the MoD in the future?

¹⁵ See Ev 47

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Mr Hutton: I think there are some things that need to be disaggregated there. I do not think there is an easy yes/no answer to that question to be fair. As my briefing notes always consistently remind me, I am new in post so I want to take time to think about what my response to the detail of that question is. I am not going to say yes or no to that today because I have not had time to properly go into all this. I think the question about getting force structures more in line with operational requirements, how we manage the demand on the men and women of the Armed Forces, we are going to make progress on that next year. I believe that fundamentally. As I said earlier, we will be able to turn a page on getting resources, people and commitments back into line. That will not be as a result of a change in planning assumptions; that will be the result of a change in operational requirements. I have a very strong feeling, a month into this job, that that is always how it is going to be. I think you can twiddle about with the planning assumptions for a very, very long time indeed but you always have to recognise that something might happen in the world; something is going to happen to change those planning assumptions. That is the nature, I suspect, of military strategic planning here and right the way round the world. It is being able to retain that flexibility, that is the key thing, and that does underpin the planning assumptions themselves and I think successfully so.

Q151 Mr Jenkin: To return to a previous theme, it has been happening in the world for the last six or seven years and I would invite you in your consideration of your new responsibilities to consider this, that in fact the foreign security strategy of the UK is very much more militarist than your defence planning assumptions allow for. Has it not got to the point where we must stop hoping year after year that there is going to be a relaxation in the tempo of military operations and we should start planning for what has been happening for a period longer than the Second World War?

Mr Hutton: We do a lot of that type of thinking and planning in the department.

Q152 Mr Jenkin: It needs to be beyond the department, does it not?

Mr Hutton: It needs to be cross-government, I accept that. We do look at all of these things. To answer the specific question you have raised, the advice that I receive is that although our Armed Forces are stretched—as they palpably are—we are able to sustain our current level of operational deployments. That is the first thing I want to say. We are not in that sense incapable of sustaining these operations. If that were the case we would be talking in very different terms, it would be a very different sort of debate. Can we go on doing that indefinitely? As I said and I have made myself very clear, no we cannot. There will have to come a point in time, sooner rather than later, where there is a rebalancing. I think that will come next year and that will be welcome. However, I think the wider point I suspect you are hinting at is, is this time for a strategic

defence review because that is essentially I think the logic of where your question is going. On that too I do not want to be drawn in any great detail today. You can try your best but you will not get me to comment in any more detail other than this, that I think, certainly in the short term, we have to make clear that we can live within our existing resources in the CSR. That is partly what the equipment examination programme is designed to help us achieve and I hope to be in a position soon to be able to make some announcements about that. Looking beyond that my perspective is this: I think we should reflect very carefully over the next few months about those issues. We need to make sure that we have the right long term agenda and perspective. I am going to consider all those points very carefully. The final point of your question, has our foreign policy become overly militaristic—

Q153 Mr Jenkin: I am just saying it is more militaristic than has been planned for; I am not saying that is wrong.

Mr Hutton: That is a very important clarification because I got the sense that you thought we were using military force inappropriately. I think, again with very great respect, the bottom line is probably this, as I said a few minutes ago, that you have to be able to respond sometimes to circumstances that are outwith your planning assumptions. That is the nature of life and that is the nature of the Armed Forces. We have had to be able to do that and we have had the capability and flexibility to do that over five or six years but it is not an indefinite capability because as you rightly say—and the Committee has drawn attention to it before—we are not resourced indefinitely to do that. We will have to come to a point where there is a better balance between the resources and commitment and equipment and people. We are not in balance yet. I am no great historian on this point but I am not sure whether you would ever get consensus in the post-war period that there has been that strategic balance. I remember a defence debate under the last government where many were arguing that we did not have such a balance then. We probably do not have such a balance now but I think the important point to focus on is, as we have tried to do in this report and in my argument today to the Committee, what our forces are capable of doing when they have to do it. As I said at the beginning, that is the focus of what I want to deal with in my time as secretary of state.

Q154 Chairman: Secretary of State, one thing that came out of that interesting reply was that I got the impression that when you talked about a strategic defence review you were not saying that you were opposed to the idea in principle. Are you opposed to the idea in principle or do you just want to leave that on the table for further consideration?

Mr Hutton: I do not think this is the right time for it. That is what I would say. I think we need to focus on the here and now. I am content with the overall positioning of defence strategy at the moment. We have a growing resource envelope but an increasing ambition as to the areas in which we should spend it.

We have to get all of that back into balance. I am not arguing for a strategic defence review now. Could I rule it out at any point in the future? Of course I cannot because I am not able to bind my successors.

Q155 Mr Jenkins: With regards to all the planning assumptions and everything else we are going to do with reviewing our commitments, you used the term we should be able to get it back in the box. What if, realistically, you come to the conclusion that we cannot get it back in the box, we need to buy a bigger box. Is it not about time that as a government and a nation we faced up to the fact that we cannot put this back in the box? Do we need a bigger box?

Mr Hutton: Again I do not want to re-run the argument about the costs of operations because the costs of operations are in addition to the comprehensive spending review and the accounts that we presented before the Committee and we are debating today. Over the last few years that has come to £10 billion of additional defence spending. I think there would be a serious problem for the country and for the Armed Forces if the net costs of operations had to be met from within the MoD's budget. That would obviously be an unsustainable position but it is not where we are and we will not be in that position. I think the cost of operations is one thing and I am not worried about that. What I am worried about, as I tried to say earlier, is the impact on the men and women of the Armed Forces of maintaining that type of operational tempo. There, I believe, we have some genuine issues to address and that is why it is very important that there is this rebalancing. I think next year we will be able to do a great deal of rebalancing as the operational deployment in Iraq comes to an end.

Q156 Linda Gilroy: As well as being concerned, rightly so, about the impact on our personnel, are you also concerned that we are at that point where the flexibility that you also set so much store on, and rightly so, begins to be at stake? I am thinking there of things like maintaining a flexibility to respond to piracy in Somalia, the recent change in the posture of Russia, so things like the training that is required to maintain paratroopers, anti-submarine warfare, naval flight personnel etc and their training. Is that something that is also on your horizon to have in consideration?

Mr Hutton: Yes, we have to look at all of those things. I think you have identified all the important issues there. We have talked about the readiness and ability to deploy for contingent operations and the PSA timeframe, in fact we have not met the levels of deployability that we would have liked. We were able, nonetheless, to commit resources to the anti-piracy mission in Somalia. Over the summer we deployed the reserve battalion to Kosovo. We are able to continue to meet a range of other operational requirements outside of Iraq and Afghanistan. That again is a tribute to the planners and the men and women who actually go and do these jobs. On the training point, again I tried to refer to this earlier, I think this is an issue of very real importance. The natural consequence of the very heavy focus on Iraq

and Afghanistan has been that we have increasingly focussed on training for those two theatres and it is very, very clear to me that we need to maintain the right level of capabilities across a range of disciplines and a range of areas that are actually not theatre specific. You mentioned anti-submarine warfare interests. Personally I think this is going to be an increasing issue. We have already seen signs of the need to improve our training and operational deployments in those areas and I think that is something we will have to focus on too. You mentioned the RAF and pilot training, that too has been focussed on in theatre. I think we have to be very careful that we keep a wider range of skills and talents properly developed, including the ability to land and take off from carriers for example. All of this has to be factored into the mix.

Q157 Mr Jenkin: Secretary of State, a few minutes ago you said you had to be able to respond and yet it is your readiness targets which you are missing. The PSA target last year: not met, partly met, partly met, and this year: readiness for contingent operations declined. I sense that this is one of your priorities, to improve readiness. The DSOs that are being introduced are actually reducing the readiness of some aspects of our Armed Forces to make it easier to fit into the financial envelope. Last week Mr Woolley told us, "What we have done is reconstructed the measure to make it more realistic" and he added, "we have relaxed the required readiness state of some of our Armed Forces".

Mr Hutton: Yes.

Q158 Mr Jenkin: This is doing exactly what you say you should not be doing. You are not going to be in a position to respond.

Mr Hutton: I think I have tried to set out the fact that we have been able to respond when it has been necessary to provide additional forces for additional roles. I highlighted two of them a second ago. It is true that levels of readiness amongst some units have been adjusted and have been relaxed, that is true. That has been happening for some time and that is of course one of the ways that you calibrate for risk and how you match resources to your operational priorities. It is a judgment, not a judgment that I make—let me be quite clear about this—but this is a judgment that my military advisors present to us. Speculating and arguing about whether people would like high levels of risk and readiness, I think the answer—although I have caveated it already by saying we should not speculate—is probably yes they would. This is something we can turn to and address during the course of the next period as we release some of the operational tension from the system with the draw down in Iraq. I think the balance always has to be a carefully struck one. I remain confident that we are able, if necessary, to make additional responses to meet additional security challenges that affect the vital security interests of the United Kingdom and we have demonstrated I think on a number of occasions our ability to do that. Iraq and Afghanistan have not

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made it impossible to respond to the right level of need for the deployment of UK forces. Have they made it harder? Yes.

Q159 Mr Jenkin: Were we faced with the need for a major civilian evacuation operation from the Balkans, for example (which is something that was exercised earlier this year) or a rogue state invading a sovereign state (something that has happened twice in my lifetime where British Armed Forces had to respond) we would simply not be able to respond. You said a little while ago that there is no magic lever but there is actually one lever which the government refuses to pull which is to increase the funding for the Armed Forces so that the resources actually match all the demands and the required readiness which the government's own defence policy says is required.

Mr Hutton: We have provided significant additions for the Armed Forces and I think it is far too sweeping a generalisation to make to claim today that we would not be able to respond in a way that you have suggested we should to those kinds of major events. I would prefer, again with very great respect, to take the advice of my military commanders about that rather than a member of the Committee. The advice that I do receive and continue to receive is that although stretched the Armed Forces retain very, very capable Armed Forces. I do not doubt—partly because we have the benefit of strong strategic alliances through NATO collective security and other strategic partnerships—that we retain the ability to defend ourselves and that front and centre is the foremost responsibility—

Q160 Mr Jenkin: With the greatest respect, Secretary of State, we all know what the defence chiefs are saying both in private and sometimes even in public about the shortage of resources for defence.

Mr Hutton: Show me a quote where someone has said that the Armed Forces are not capable of defending our country.

Mr Jenkin: I have not said that.

Chairman: We are now going to move onto people and equipment.

Q161 John Smith: In the 2007-08 Annual Report there is a very worrying trend and that is the continuing decline in satisfaction levels amongst Armed Forces personnel. Why do you think this is? What do you think you can do as Secretary of State to try to reverse that trend?

Mr Hutton: I think there are signs of some modest recovery in that position. I think we have made a very real and substantial and sustained effort to try to address some of those morale issues and we have tried to do so on a number of different levels. A very important issue for morale is the kit that you are issued with and I think that will reflect the level of commitment that you yourself detect on the part of government, tax payers and everyone else to give you the tools you need to do your job properly. The level of satisfaction with kit is rising. I think the set of proposals, the 40 measures that I referred to earlier, about addressing some of the recruitment and retention issues in the round have been warmly

welcomed. Levels of personal satisfaction in the Army, Navy and Air Force are actually at very high levels. It is the highest level I have ever seen in any department I have worked with. There is an 80% pride in the job and so on; I wish there were other parts of government where we saw that kind of score in attitudinal service. I have worked in departments where the figures are definitely on the wrong side of that line.

Q162 John Smith: A factor that comes up repeatedly is the X-factor pay and we wonder if you have any plans to increase that.

Mr Hutton: These are ultimately matters that the Armed Forces Pay Review Body looks at every four or five years. It was adjusted last year and I think it was increased by 1%. It is right that the Armed Forces Pay Review Body should look at the X-factor. We try very hard in the evidence we give and the resources we provide to be in a position to respond to the recommendations of the Armed Forces Pay Review Body in the full which we have been able to do in recent years. I think the X-factor, complicated methodology, very important that there is such a factor adjustment in armed services pay. I think it will be two or three years before the X-factor is looked at again by the Armed Forces Pay Review Body.

Q163 Mr Borrow: Are you concerned about value for money so far as the MoD is concerned and also about the level of equipment our Armed Forces have? You mentioned earlier your recognition in terms of equipment and you felt that that perception was wrong, but I got a hint from an earlier reply that you recognise things need to be done on the value for money front. I wonder what you feel needs to be done to change public perception in terms of the overall efficiency and effectiveness of the Ministry of Defence.

Mr Hutton: We have to deliver more equipment on time, we have to deliver more equipment on budget and we have to meet more of the key user requirements that the chiefs and services have for those items of equipment. We are focussed on trying to improve performance in all of those areas. The new Commercial Director in the department has brought a wealth of private sector expertise and experience into play and I think it is important that that happens. I think on the other side of that coin—there are always two sides to that coin—one thing that has struck me, looking at the range of equipment issues in the last month or so, is that it is right that we focus on value for money and the CSR settlement has imposed a very substantial set of facility disciplines on the department to improve value for money: 5% efficiency gains that have to be done year on year. We have to generate those savings in order to get the resources that we think we need. We have plans to reduce the admin costs and overheads, reductions in the head office and so on. However, the other side of that coin—I think we should never lose sight of it if we can avoid doing so—is that the equipment we buy for the Armed Forces (although some equipment programmes have

been beset with difficulties) in terms of capability is significantly an improvement on what it is replacing. The Type 42/Type 45 debate I think is a classic example of that where Type 45s are a league above and beyond the capability and range of the Type 42s. I think therefore we need greater utility, we need better value out of the assets that we are acquiring but I think the department in many respects has a good reputation when it comes to exploiting technological advantage and providing the Armed Forces with some very, very capable bits of kit. I do not think we should lose sight of that as we ponder over the nuances of the argument about value for money and defence inflation.

Q164 Mr Borrow: Would you refute the arguments that some make that the MoD should not have consideration for British industry and the need to buy bits of kit and large pieces of equipment within the UK both from a strategic and industrial point of view and should simply be prepared to buy off the shelves from whoever is the cheapest supplier of a particular kit?

Mr Hutton: I think the Defence Industrial Strategy which we published a few years ago has answered that question very clearly. We have to strike the right balance in all of this. I think the British defence industry can and does provide equipment and products of inestimable value for British Armed Forces. I think we should do everything we can to help sustain sovereign defence capabilities in a number of very critical areas. The Defence Industrial Strategy tried to set those out. I think it is a balance we have to strike here. We must retain the ability to equip and provide the vital kit that we need from within our own defence industrial base if we are going to retain essential sovereignty in defence policy. I think there is a balance here but I think it is very important that we see the whole picture. We have to see the defence industrial base. Of course a successful defence base here in the UK can actually help us address some of the value for money issues that you have described. Nowhere is that more evident to me than in the area of exports where we have to get right behind our defence manufacturers in the exporting work that they do because that can help address some of these knotty problems about value and marginal costs and everything else that bedevil defence procurement. My view is that the Armed Forces, the Ministry and the defence industry really can and should and are working well together to achieve all of these mutual objectives. I do not think there is any real dispute now—maybe there is among some of the theologians on defence policy—and I think we have got to see the defence industrial base alongside the needs of the Armed Forces here.

Q165 Mr Borrow: On the public's perception in terms of our military capabilities, there have been quite a large number of high profile calls in the last 12 months for an increase in defence expenditure. Would you recognise that there is a danger that unless public support for the military is maintained to ensure that there is sufficient resources for the

MoD to do the job that it is expected to do that will become more and more difficult to sustain particularly at a time when there are pressures on other areas of public expenditure?

Mr Hutton: It could and that is why we have to avoid it happening. My personal perception is that the level of support for the British Armed Forces has probably never been higher than it is today in my lifetime. That, I think, is in direct relation to the operational deployments. There are still people who dispute the deployment to Iraq, there are some who dispute the deployment to Afghanistan, but I think where we are united I hope as a nation is in the work that the Armed Forces do. They do not get a say in whether they go to Iraq or Afghanistan; they do not get a vote; there is no trade union for them; they go and do it for good—maybe old fashioned—reasons, but they are thoroughly good ones: love of country, pride in the Armed Forces. Collectively I think in this country, in this House, if we can make common cause in defending those values that would be a very good thing to do.

Q166 Mr Borrow: Which would be the top priorities for the department in implementing the recommendations of the National Recognition of our Armed Forces report?

Mr Hutton: I think very recently the Minister for the Armed Forces set out how we are going to take the Recognition Study forward. I know there are many Committee members here who have taken part in some of these parades, for example, and they are pretty moving occasions. I think we can help sustain confidence and support the Armed Forces by doing that and other things. I think the public love to see the Armed Forces out on the streets with the drums and the flags and the bayonets. The more we do of that the better.

Q167 Chairman: You mentioned the Defence Industrial Strategy. Who within your department owns that Strategy and who is driving it forward? We had a real sense of who owned it when Lord Drayson was minister, who owns it now both at a ministerial level and at a level within the department?

Mr Hutton: The Minister for Defence Equipment is the Minister who has, as it were, day to day responsibility for the Strategy. I decided to chair the National Defence Industry Council because I am very, very interested in this work of the department. In addition to operations which I described as my focus, the equipment programme for anyone who does my job is going to be in your face day in and day out. Relations with industry are very, very important to us so I am going to be very heavily involved in this as well. Quentin has the day to day responsibility but I see myself as very, very closely involved in this as well.

Q168 Mr Jenkins: If I can take you back to public perception, you were quite right, 83% of our public rated our Armed Forces as best in the world. When it comes to the MoD there was a different perception and they blame the MoD for the lack of equipment. Is it just the MoD itself, is it you and the MoD, is it

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the political side as well? What are you going to do to start changing the public perception in regard to the equipment and how could the MoD help?

Mr Hutton: I know my limitations; there is probably not a lot I can do in the short term to turn round those images and those perceptions. However, we are going to try to do what we can. One of the most important and interesting things here to consider is that I know there is a temptation to see the Ministry of Defence as this vast bureaucracy that is simply designed to try to stop things happening and make things more complicated. That is completely untrue. I think in a number of very important areas if the MoD were here and were able to blow their own trumpet there are things they can point to and look at which are very significant things that have made life different in a positive way for the Armed Forces on the front line. The urgent operational requirements have been a great success. We have converted very, very complicated equipment ideas into equipment on the ground in six months. We should learn a lesson from that for the wider equipment procurement programme. The MoD is working flat out to support our guys and it annoys me actually when people look at the MoD and say it is just a bureaucracy that gets in the way; it is not. The other thing I would say about the MoD—all of you will know this because you are very closely involved in all of this—is that it became very clear to me on the first Wednesday I was in my department which is uniform day in the MoD, half the people had uniform on. This idea that the MoD is this sort of bureaucracy of civil servants out to trample on the Armed Forces, forget it; it is not. It is an integrated part of the Armed Forces. It needs to be as integrated as it possibly can be. I am not speaking through a sense of frustration, things happen too slowly; we are trying to address that point. I think there is more we can do.

Q169 Mr Holloway: A recent article in *Janes Defence Weekly* says that you are trying to “bring clarity to British defence policy after a period of considerable drift and confusion” which I guess is what you have also been saying. What about how we bring clarity to the area of defence equipment? What is your main priority? You have already said that it is in terms of having the right stuff for operations but how is that going to play out?

Mr Hutton: I think the equipment programme is designed to deliver the long term core capabilities that we set out both in the SDR and in subsequent white papers so it is heavily focussed on providing us with an effective expedition capacity capability, new and more modern and effective equipment for the Army, the future rapid effects system is a very important part of that. Of course for the Royal Air Force, they are in the middle of a fundamental re-equipment process. I think it will be quite difficult to remember a similar time when just about every level in the RAF and every type of equipment is going through this major programme of renewal and investment. I have not seen this article in *Janes* but it sounds like a good one actually. I think the clarity around the equipment programme I believe is there.

It is focussed on these really important strategic long term core capabilities that will mean the ability to deploy expeditionary forces over air, land and sea to make sure our guys have the most up-to-date kit that they possibly can have. I think there is clarity around that. The frustration is about the delay but I think the equipment needs are clear.

Q170 Mr Holloway: What about programmes like carriers and Future Rapid Effect?

Mr Hutton: We have been right the way round the houses on the carrier and we have brought people together on the carrier, we have committed ourselves to two carriers. We should just get on now and produce the kit.

Q171 Mr Holloway: Are there any programmes that are looking like being cancelled or deferred?

Mr Hutton: I am not going to comment on particular programmes because we are looking at a range of programmes in the equipment examination, but we have made a decision on a carrier. Once you have got to the point where we have on the carrier, it is time to get on and do the carrier. I think the carrier is definitely going to proceed. It is fundamental to any conception of an effective Royal Navy that I can envisage. It brings with it a whole range of other equipment priorities: anti-submarine warfare, above the air and below the sea and so on, frigates, destroyers. It comes as a package and we have to configure the Royal Navy accordingly. I do not want to speculate about individual programmes. I have said a lot about the carriers simply because that is the most obvious one to say something about. We have done the deal on the carriers and I am surprised there is still debate going on.

Mr Holloway: I totally agree with what you said earlier that our Armed Forces in Afghanistan, certainly when we go there, are superbly equipped, but there are these huge holes. We have known that we were going to be involved in Afghanistan for a considerable period of time so why is it that Jock Stirrup in April is reported to have been in Musa Qala and been horrified to see Snatch Land Rovers being used? Why is it, when we have been there for three years, that the very first brigade were whingeing about not having enough of the right sorts of helicopters? Why is it that we have so few people who speak the languages? Why is it that we only get the medical stuff right when the tabloid press make a fuss about it? Is there some sort of problem at the heart of the MoD that we cannot get some of these things right?

Q172 Chairman: Secretary of State, could you answer that question in one minute, please, because we need to keep this under control.

Mr Hutton: If I have a minute I will not be able to answer that question.

Q173 Mr Holloway: Can I make it really easy for you then? In 2007 this Committee was told by General Houghton that Snatch would be withdrawn by the

autumn of that year. Why is it that Snatch has still not been withdrawn completely? Is there a problem with the MoD?

Mr Hutton: I have not seen General Houghton's comments on the Snatch so I do not want to get drawn into rebutting or otherwise what was said. The advice that we have consistently received is that Snatch has a role to play in operational deployments because it is a highly manoeuvrable vehicle, but it has to be deployed in the context of appreciable risks. That is why we have spent a huge amount of resource—

Q174 Mr Holloway: Late.

Mr Hutton: Over the last two years we have been redeploying Mastiff, we have Ridgback going in, we have Jackal going in to meet the threat. The threat has changed. We have tried to adapt our deployment to meet a different type of threat and the threat is a very real one now from IEDs, landmines and other very, very dangerous weapons that have been deployed against us and our guys must have better protective vehicles. I hope by the end of next year we will have 1200 new and better armoured vehicles to deploy in theatre which I have been advised will meet the operational needs of the theatre and we have pulled our finger out in the way I have tried to describe to get that kit out as quickly as possible. We have done so at a speed and at a rate which I think it unprecedented in modern British military history. Yes, you can point the finger if you like, but what I do not believe is fair is to say that the MoD, including the service chiefs and everyone involved, has not been aware of the dangers and risks and tried to mitigate them as far as they possibly can. I have driven in Snatch in Afghanistan by the way, you probably have as well; it has a role to play in moving people about but it has to be in the context of where is the risk. If the risk of IED and landmines is higher—

Q175 Mr Holloway: Then you use helicopters.

Mr Hutton: We have increased helicopters by 60%. We have a 60% increase in helicopter hours available for our guys and we are looking to do more. I would like to get the Merlin fleet out here as quickly as possible.

John Smith: Taking up the remark about the tabloid press leading changes in medical support services, this Committee drew the opposite conclusion and in our report we pointed out just how good medical services were for our Armed Forces. My question is about equipment. There is no point in introducing 21st century equipment to the Armed Forces unless we have 21st century technical training to support that equipment. Secretary of State, will you be as committed to the defence training rationalisation programme as was your predecessor?

Q176 Chairman: The correct answer is "yes".

Mr Hutton: Okay, the answer is yes.

Q177 Mr Havard: The question of rebalancing and particularly equipment: we have been told is that there is a short examination taking place which will

be concluded by Christmas. We were wondering how short was short, given that it started in the summer. Within that the equipment programme will obviously deal with current frontline activities. Part of the concern we have is how is that going to be related to recuperation given that there is so much money and resources linked in with legacy policies and legacy issues. Perhaps you could make some comment about whether or not that short term equipment programme review is going to be done by Christmas and how will it inform the change of the planning assumptions that we were told were going to take place in March? Does that still apply?

Mr Hutton: I think on the equipment examination it will conclude in the next few weeks. I do not want to crack a joke, but if it started in the summer and concluded by the end of the year in MoD terms that is short. I think we are getting at this as quickly as we can. As far as the point about the planning assumptions are concerned, I made it clear earlier that we continually look at what we can do, what we ought to be doing and so on. The point about recuperation you were making is a really, really important one. There is a lot of work going on in the department about this. I think this might benefit from a briefing from the Vice Chief of the Defence Staff who is leading the work on recuperation. As I said earlier, it is going to take time. We will not get back to where we want to be any time in the immediate future but I think we can start by short, small scale operations maybe as an initial focus of restoring some capability around that area. I think VCDS is probably the best person to take the Committee through a fuller briefing if that would be helpful for you.

Q178 Mr Havard: I assume the Chairman will say yes to that. I think that would be a very good idea because it is clearly central to the argument about how you deal with the problem of equipping for the present and the immediate future and how you balance that against long term equipment needs. My concern is how do you balance the two? Clearly the UOR process (Bulldog, Mastiff, the dogs of war) that we are employing to deal with immediate equipment needs is very good, but it has implications for FRES and the future equipment programme. How do you balance the two. If recuperation means that—as we understand it—we are not going to be able to do large scale operations in any sensible way until 2017, then those are particularly important issues that we would like to discuss.

Mr Hutton: I would probably want to challenge that last bit.

Q179 Mr Havard: Good, challenge it. There is a lot of rumour about the fact that the one is prejudicing the other.

Mr Hutton: I think the current scale of operations is going to change very fundamentally during the course of the next few months and I think we need to factor that in. The point you make about the relationship between the core equipment programme and the urgent operational requirements is very important. Again I do not have a quick

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answer to that question; it does raise pretty profound issues. We should just reflect on this one obvious fact, someone mentioned the Future Rapid Effect System earlier and how important it is because that is an attempt to look ahead 20, 30, 40 years and give ourselves some capable platforms on which we can adapt and build. In the process of the last three years we have actually acquired 1200 new armoured vehicles and we have to be aware of the capability that that represents as well. FRES remains a fundamentally important programme for the Army. We are looking at aspects of FRES in the equipment examination at the moment, as you would expect; there is nothing outwith that. We are looking at how we can meet the needs of the Army taking into account the obvious addition to the armoured vehicles strength of the UORs.

Q180 Mr Havard: Can I ask you one question in relation to this? You are quite right about the strategic defence review, it is a much longer thing. However, the Armed Forces minister in June said that the planning assumption review that was taking place which would be informed by the equipment review will be a ten year look at planning assumptions for the future. Is that still the case?

Mr Hutton: I have not seen any work on the planning assumptions on that basis, no. Maybe I need to think about that.

Q181 Mr Jenkin: Just before we leave Snatch, I understand you have received a letter from the solicitors representing the families of the victims, those who have died in Snatch Land Rovers, requesting that you instigate some kind of inquiry that would be beyond the scope of a coroner's inquest. Would you consider holding such an inquiry—I am not suggesting it need be a public inquiry—chaired by a senior retired armed services chief and perhaps some privy councillors taking part to demonstrate that the equipment being provided to the frontline is what we really need? There is obviously a crisis of confidence amongst many of the Armed Forces and certainly in the public about this matter.

Mr Hutton: I would be prepared to look at that. I have to say, I have not had that letter drawn to my attention so I have not seen this correspondence yet. Obviously I would look very seriously at that, yes.

Chairman: We will move onto the issue of Afghanistan and Iraq, the helicopter issue that you were talking about earlier, Secretary of State. Adam Holloway?

Mr Holloway: Sorry, I am totally off the ball today. Where are we?

Chairman: We will move further on because I think actually you have answered that question. Let us move onto the issue of NATO.

Q182 Mr Hancock: The MoD hosted a formal meeting in September focussed on the modernisation of NATO. We ourselves have done a report on the future of NATO. What issues were discussed and in what ways do you believe that

NATO has to change to become more efficient and more effective in what they can and what they are prepared to do?

Mr Hutton: I think it has to change in two fundamental ways. It has to become far less bureaucratic because it is far too bureaucratic at the moment. I think there are over 3,000 committees involved in the work of NATO. I might have added a digit to that, someone can correct me in a minute, but there are hundreds and hundreds of committees. That is just not viable. We have to streamline the headquarters function of NATO. We have to make it more effective and efficient as a planning entity. Finally I think we have to focus on perhaps the most important issue of all, we have to work with our NATO partners and allies to improve the levels of deployability of NATO forces because the nature of the new security challenge is different to the old one. I think there is precious little point in having 80 or 90% of our forces positioned in static places pointing at the Russians; I do not understand that.

Q183 Mr Hancock: Some of your predecessors have indicated the view that NATO partners had to change their opinion on things, particularly their willingness to share the real burden when it comes to war fighting. Are you optimistic that there is going to be a significant change within the idea that you can buy into NATO collectively but you can be selective in what you actually put your forces to as being a thing of the past and they need to be more realistic now to say that it cannot always be the same half a dozen countries who put their troops on the line time and time again?

Mr Hutton: Am I optimistic? I have attended one meeting of NATO Defence Ministers and I think I am going to reserve judgment about whether I am optimistic or pessimistic about this. What I do believe very strongly is that NATO membership brings with it some pretty full on obligations and it is not a pick and mix menu; I do not believe that that is what NATO membership involves. On burden sharing, I think we have to respect some important constitutional issues that some members of NATO have to carry and work under, about the extent to which operational forces can be deployed in a context and I think we have to respect that, in which case we need other types of help and other types of support. There cannot be a general get out clause to do nothing. I think we have to work at this, we have to build alliances and I think it is very important that we retain NATO unity as we set about doing this re-organisation. I do not think it is going to help me; it is not going to help us in Afghanistan if it looks like a bun fight around the NATO Council Chamber. That is not a good idea. I think we are going to have to work with our friends and allies and these are our closest friends and allies, we should never lose sight of that fact although sometimes it is easy to do that. These are our closest friends and allies. We share a very strong agenda with many of them to shake up NATO, to get it better aligned to the modern world, not least of which is the United States which shares

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our view about these things. So let us work and try to get the change. I do not know how long it is going to take us, but we have to keep focus on it.

Q184 Mr Hancock: Could you give us your view of what the nature and the quality of NATO's commitments to both Georgia and the Ukraine are?

Mr Hutton: I think they were set out pretty clearly at Bucharest, that they will become members of NATO.

Q185 Mr Hancock: Do you believe, at this moment in time, that there is a commitment from NATO to protect and look after them?

Mr Hutton: Article five will extend when they become members of NATO.

Q186 Mr Hancock: At the present time do you believe they are mistaken in their belief that that commitment is already there?

Mr Hutton: Yes. There is no Article five commitment to countries that are not members of NATO.

Q187 Linda Gilroy: What do you think the prospects are for working with EU partners to achieve better alignment of some of the capabilities to enable them to step up to the mark alongside us?

Mr Hutton: I think the prospects are good and I think the Somalia mission will be the first maritime mission under the ESDP banner. That will be a good thing. I consider this to be a genuine additional resource that is becoming available to deal with the problem of piracy off the Horn of Africa. I think the prospects are good but, as I have been trying to say, we have to be pragmatic about this and not theological. I think we should look to build these

alliances where they are going to add value, where they are going to add to UK national security interests and that is the way we should focus on it. Just to correct some of the stories, I am not in favour of a European army; I think that is a barmy idea and if ever it was it would get pretty short shrift.

Q188 Chairman: Would I be right in thinking, Secretary of State, that some of your remarks were over interpreted and what you were saying was that where Europe can add defence value that is to be welcomed?

Mr Hutton: That is what I was trying to say. The other thing I have learned since I came into this job is that every word counts. I am trying to be a bit clearer today about my intentions in this regard. The questioning, as I remember it, was about the ESDP; it was not about a European army. My comments about being pragmatic and looking at things that would work were in the context of the European Security and Defence Policy and not in the context of some notional argument about whether we should have a European army.

Chairman: Secretary of State and to the Committee, I would like to say thank you to both of you because the Committee has been disciplined and, Secretary of State, so have you. You have come to the end before 16.18 when we are just about to have some votes. If I may diffidently say so, I thought that was an extremely impressive first outing in front of the Committee alone. There will be things no doubt that we will want to ask you questions about. I would like to end with an apology to Adam Holloway because I gave the impression that he had missed a question about helicopters when actually the person who had missed the question about helicopters was me. That is the end of the session. Thank you very much.

Memorandum from the Ministry of Defence

1. *The Annual Report notes that the 2003 White Paper envisaged manning for a range of scenarios, including undertaking an "enduring medium scale peace-support" and an "enduring small scale peace-support" operation simultaneously (para 42). In noting that "the force structure . . . cannot sustain indefinitely the nature, scale and intensity of operations being conducted in Iraq and Afghanistan over the last two years" (para 43), is the Department signalling a need to review and revise the 2003 planning assumptions? What is the MoD's current view of the number and scale of generic types of operations that can be sustained by the armed forces as currently manned and resourced?*

As the 2003 White Paper noted, the planning assumptions guide the development of capability over the medium to long term and are not intended either to constrain or precisely describe the actual pattern of operational commitments at any one time. We judge that as currently manned and resourced, the Armed Forces can sustain a level of operations consistent with these assumptions, but not, indefinitely, the higher level which the Iraq and Afghanistan commitments have required over the last two years.

2. *The Annual Report notes that the MoD is investigating how readiness and deployability might be better measured (p 57). What is the Department's latest thinking on what changes might be forthcoming from that work? When will the work be completed?*

The work has been completed and the department's first Quarter report for 2008–09 reflects our latest thinking. The Defence Secretary will shortly send the Committee a copy of this and it will be published on the MoD web site at www.mod.uk. A main objective of the review was to ensure that the detailed methodology and targets underpinning our readiness assessment reflect current operational priorities, rather than those of four years ago. Accordingly, we have decided to relax some longer term readiness targets for forces not required for current operations in order to focus resources on operational priorities. We have

also reviewed and modified the weightings attached to certain force elements. A consequence of these changes is that the calculation of the proportion of force elements which have no serious or critical weakness from 1 April 2008 is slightly different from that of previous years.

3. *The Annual Report notes that the Department is planning for how “full capability” might be restored once Iraq/Afghanistan operations are completed (para 43). What is emerging from that review? What might be the likely cost any programme to restore “full capability”?*

Work to examine how the Department might restore full contingent capability over the period 2008–09 to 2013–14, including any associated costs, is underway. An initial report is expected by the end of the year. This will encompass the training, equipment, platforms and munitions implications. It is too early to estimate the cost of restoring this level of capability.

4. *With the RAF manning requirement falling rapidly over the last two years (Annual Report p 171), why has the RAF not been able to manage the reduction in its in-post strength so as to avoid a manning deficit?*

The RAF planned to drawdown from a trained strength of 48,000 in 2005 to 41,000 in 2008. Two main factors will cause a deficit against the requirement in the period 2008–10:

- The RAF has recently faced a relatively small but significant increase in the historical exit rate (both “voluntary outflow” and “optional exit points”).
- Earlier this year a number of increases to manpower liability (requirement) were agreed, particularly for areas facing increasing demands from operations, such as the RAF Regiment.

The RAF is taking steps to address the deficit through its current recruitment campaign and by the pursuit of various retention initiatives at both Service and MoD level. Full manning balance is currently forecast for 2011.

5. *The failure of the Royal Navy to be in manning balance is attributed in the Annual Report to the requirement not reducing as quickly as had originally been planned (para 275, first bullet). Why did it not fall as intended?*

The requirement for manpower in the Naval Service has not reduced as quickly as originally envisaged for two reasons:

- The planned drawdown in liability (requirement) that was expected through the various initiatives in Fleet, and Defence Equipment & Support has not been as rapid as originally estimated.
- There has also been a small increase in liability (requirement) in discrete areas. These reflect the manpower changes designed to enhance RN support to Land operations and improve initial training capacity in order to increase Gains to Trained Strength.

The overall result is that the requirement will still reduce, but at a slower rate, from 35,760 in 2009 to 35,480 in 2012.

6. *The Annual Report’s data on manning outflows and separated service has missing or only provisional data for the Army, because of problems with the JPA system (Tables 12 and 13 and their footnotes; and para 308). What is the MoD’s latest assessment of Voluntary Outflow rates for the Army? In the absence of usable JPA data, what alternatives means are being examined to get a reliable measure of Army outflow and separated service levels?*

Although JPA is not yet producing data on Army voluntary outflow it does provide data on the total Army outflow from the Trained Strength which is stable at 11.1% for the year to 1 August 2008 against a figure of 11.4% for the year to 1 August 2007; there has been no sudden outflow of Army personnel.

Historically, the Army has monitored the voluntary outflow rate very carefully, seeking to identify trends and to reinforce the success of those measures which are effective in reducing outflow. The Army wish to retain more personnel, particularly battle-hardened soldiers and officers with recent operational expertise and skills in pinch point trades. A number of financial incentives have been put in place both to encourage retention, and those who have recently left to rejoin. These vary from Financial Retention Incentives for key trades to measures to extend and increase the rejoin bounty to encourage those with key skills and experience now out of the Army to return.

Enhancing JPA is the best way to improve the data available on manning patterns and the Department is committed to this. In addition, last November, the Service Personnel and Veterans Agency (SPVA) introduced a process which should allow Defence Analytical Services and Advice (DASA) to publish greater detail on the reason for leaving, including Voluntary Outflow, in future. An assessment of the data quality will be conducted during February 2009. Once the data can be verified and proved to be accurate, Voluntary Outflow rates will be available for future DASA manning statistics reports.

As regards separated service JPA remains the best source of information and we are still working through the issues of Army data integrity.

7. In 2007–08 the MoD missed its equipment procurement targets for in-year cost slippage and in-year time slippage (*Annual Report pp 136–7*). Has the Department been able to quantify, or estimate, the extent to which the margin by which those targets were missed can be attributed to its focus being on supporting ongoing operations in Iraq and Afghanistan? Without those operations, would those procurement targets have been met in 2007–08?

Supporting operations, not least through the procurement of equipment to meet Urgent Operational Requirements, has been the Department's highest priority. Resources within Defence Equipment and Support have been prioritised accordingly. It is not, however, possible to assess to what extent, if any, this effort has impacted on our performance against the procurement targets.

8. Savings from the Defence Logistics Transformation Programme are put at £1.3 billion–£1.4 billion a year by March 2008 (*Annual Report para 233*). The *Annual Report* also notes, however, that logistics support to “force elements at readiness” missed target levels set down in DE&S's customer supplier agreement (*para 231*), and that readiness levels for force elements continued to fall (*para 232*). To what extent will such aggregate measures of the quality of the logistics service be taken into account when efficiency savings figures are computed for the CSR efficiency programme?

The missed target on delivery of force elements at readiness in 2007–08 was not related to the Defence Logistics Transformation Programme (DLTP). The SR04 efficiency programme only permitted efficiency gains to be attributed to the DLTP where lower costs whilst maintaining the same level of output could be demonstrated (or, for output efficiencies, increased outputs for the same financial outlay). Value for Money savings in equipment support over the CSR 07 will be assessed on the same basis.

9. In implementing changes following the 2007 Capability Review, the *Annual Report* notes that plans for “future structures, behaviours and working practices will be set out in July, with relevant aspects subject to formal consultation” (*p 122*). When will those plans be published?

We published the plans on 29 July at the start of the third consultation period with the Trade Unions on the Streamlining Process. We sent the copies of the consultation document to the Committee on the 26 September. We announced the end of consultation and the next phase of implementation on 15 October.

10. The *Public Expenditure Provisional Outturn report for 2007-08* shows End Year Flexibility available at the start of 2008–09 as £3,121 million (*Resource DEL*) and £214 million (*Capital DEL*) (*Cm 7419, p 14*). The Committee would like to have detailed calculations showing how these figures were derived from EYF stocks reported in the previous year's *Provisional Outturn report* (*Cm 7156, p 14*), including details of EYF draw-downs during 2007–08 and any adjustments to DEL under/over-spends in previous years

The table below sets out how the figures for End Year Flexibility for Near Cash Resource DEL and Capital DEL in CM 7419 were derived from those in CM 7156. For Non-Cash Resource DEL, the figure in CM 7156 was £2419 million. £1621 million was drawn down in Spring Supplementary Estimates, and the final underspend against the DEL was £1,046 million. This implies a notional EYF stock for Non-Cash Resource DEL at the end of 2007–08 of some £1.8 billion. The figure of £3.121 billion quoted in CM7419 is an error which is much regretted. However, the Department agreed with the Treasury in the CSR 07 settlement that its non-cash EYF stock would be set at zero at the start of 2008–09, and that any requirement for further non-cash provision would be considered with the Treasury when it arose.

<i>£ million</i>	<i>Near Cash Resource</i>	<i>Capital</i>
2006–07 PEOWP (Cm 7156) EYF	21	406
Less: RfR ¹		(99)
Other Adjustments ²		(7)
2006–07 Stock Balance	21	300
Drawn down at 2007–08 WSE	(21)	(65)
Drawn down at 2007–08 SSE	0	(40)
2007–08 Stock Balance	0	195
Underspend RfR 1	127	19
Balance 2007–08 PEOWP (Cm 7419)	27	214

¹ Underspend on RfR2 is not eligible for carry forward.

² Roundings and other budgeting regime adjustments.

11. *MoD's PSA-4 under the 2004 Spending Review addressed progress in developing the ESDP and NATO capability. Where, if anywhere, does the new PSA/DSO regime of the CSR cover these endeavours?*

Under the Comprehensive Spending Review 2007 arrangements developing the ESDP and NATO capability are incorporated under PSA 30, Indicator 3—"More effective international institutions, better able to prevent, manage and resolve conflict and build peace". This indicator sets out HMG's vision for NATO and ESDP and the key actions we will take to achieve it. The FCO have the overall lead for PSA 30 but it will be delivered in partnership with MoD, DfID and the Stabilisation Unit. The PSA Delivery Board, chaired by the FCO's PUS, has also recently agreed a tri-departmental delivery plan to ensure we meet the ambition of the PSA. The MoD will not be covering these issues in its quarterly public reporting, but will provide a narrative description of the defence contribution in its Annual Reports at the end of each year.

12. *The Defence Plan sets out five 'sub-objectives' for the new MoD DSO 1.1 (success on operations) on pages 15–16, and two sub-objectives for DSO 2.1 (readiness) on page 18. For those sub-objectives, how will performance be measured, what are the baselines, and what will the targets be?*

In considering the sub-objectives for Success on Operations and Readiness, it may be helpful to think in terms of current and contingent operations. The sub-objectives for Success on Operations, and the metrics that are used to measure success against them, all relate to current UK military operations, primarily in Iraq and Afghanistan, as well as standing military tasks. The sub-objectives for Readiness, on the other hand, relate to UK military preparedness for a broad range of contingent future operations, the requirements for which are laid down by the MoD's Studies & Assumptions Group.

DEPARTMENTAL STRATEGIC OBJECTIVE 1.1

Sub Objective 1 is about achieving Success on Operations and is—"In conjunction with other Government Departments, to achieve substantial progress towards the objectives established by Ministers for operations and other Military Tasks, as set out in the Chief of Defence Staff Directive for each operation".

Performance is measured by the relevant operation's Commander applying military judgment to assess progress in achieving the Military Strategic Objectives (MSOs) set out in the Chief of the Defence Staff's directive for each operation.

Sub Objective 2 is about Activity Levels and is to—"Manage the activity levels of the Armed Forces over time".

Activity levels are measured for each Service and Defence overall in three categories:

- Service Personnel Deployed on Contingent Operations;
- Service Personnel Deployed on Contingent Operations and undertaking Military Tasks; and
- Service Personnel Committed to Operations and undertaking Military Tasks.

There are no baselines or targets. The information is used to monitor the proportion of the Armed Forces undertaking Operations and Military Tasks and gives senior management an overview of the total commitment of the Services.

Sub Objective 3 is about Generating and Sustaining Capability and is—"Generate and sustain the necessary capability to conduct current and enduring operations and Military Tasks".

Performance is measured by the Commander of each individual Force Element applying military judgment to assess that Force Element's ability to be generated and sustained based on a broad assessment of the state of the force Element's Manpower, Equipment, Training and Support. The baseline and targets are articulated in a classified document by Permanent Joint Headquarters' (PJHQ's) called the *Combined Joint Statement of Requirement*.

Sub Objective 4 is about the Residual Capability of the Joint Rapid Reaction Force and is—"Monitor the capability to generate the Joint Rapid Reaction Force (JRRF) and assess JRRF capability against generic planning scenarios".

Two pieces of analysis are used to measure performance:

- The Directorate of Joint Capability assesses the capability of uncommitted UK forces against a range of different types and scales of operation.
- The PJHQ Joint Operational Estimate of Capability and Readiness (JOECR) assesses the capability of those force elements that are nominated as part of the Joint Rapid Reaction Force (JRRF).

The baseline is set against the generic planning scenarios created by the Studies and Assumptions Group. These scenarios form part of Defence Strategic Guidance. Targets are set against required levels for contingent forces articulated in Defence Strategic Guidance, or as modified by Defence Board recuperation targets.

Sub Objective 5 is about Recuperation and is—“Recuperate the force structure to the capability to undertake the most demanding operations provided for in Defence Planning Assumptions”. (This is defined as a Medium Scale enduring peacekeeping operation plus a Small Scale peacekeeping operation together with an occasional further limited duration Small Scale operation).

Performance is measured by the Commanders of individual Force Elements applying military judgment based on a broad assessment of the state of the Force Element’s Manpower, Equipment, Training and Support. The baseline is the current residual capability of the force structure. The target is to recuperate to the capability to undertake the most demanding operations provided for in Defence Planning Assumptions.

DEPARTMENTAL STRATEGIC OBJECTIVE 2.1

Sub Objective 1 is about Readiness and is to—“Achieve target readiness states for Force Elements, against the requirements laid down in the Defence Programme and the standards set out by individual services for manpower, equipment, collective training and support, including logistics”.

Performance is measured as the proportion of Force Elements without Serious or Critical Weaknesses in achieving Funded Readiness. The baselines are the Force Elements at Readiness (FE@R) requirements laid down in the Defence Programme. The aim is to achieve the baseline set out in the Defence Programme and the target is to have 73% of the total FE@R requirement set out in the Defence Programme without serious or critical weakness.

Sub Objective 2 is about Readiness to deploy on and sustain contingent operations and is—“Be able to generate, deploy, sustain and recover the Force Elements for contingent operations”.

Performance will be measured as a percentage of the assumed period of a double-Medium Scale concurrency commitment for which Force Elements will be sustainable. The baselines are the Force Elements at Sustainability (FE@S) requirements laid down in the Defence programme. Work to determine the full FE@S requirement is underway. However, FE@S is a new measure and, until the work to determine the full requirement completes, there will be no hard FE@S targets.

13. *Will the MoD’s performance progress against its DSOs be published in the 2008 Autumn Performance Report?*

Yes.

14. *The Annual Report notes that the equipment programme planning assumptions for the next 10-year period will “shift the overall balance of Defence procurement towards support for current operations”. What potential changes to specific programmes are likely to be made as a result of the review of equipment programme planning assumptions? When will the results be published?*

The examination of the equipment programme referred to in the Annual Report continues. It aims to bear down on cost increases to equipment programmes and to shift the overall balance of defence procurement to the support of operations, in line with our commitment in the National Security Strategy. We are looking at our planning assumptions for the equipment programme in the round, and at this stage it would not be sensible to speculate on potential changes to specific programmes. It is envisaged that the results of the examination will provide an important input to our 2009 planning round, which will be completed in Spring 2009. Ministers have undertaken to inform Parliament of significant decisions affecting projects as soon as they are able to do so.

15. *What are the performance indicators and targets under the PACE programme? Will performance against such targets be published?*

The PACE performance indicators and targets are being defined and agreed with internal owners. Monitoring of hard benefits—budgets and manpower—has started and other measures (including support to current and future operations; reducing acquisition cycle time; reducing Defence Equipment and Support (DE&S) accommodation footprint; up-skilling of DE&S and improved staff utilisation; more effective ways of working; better through life decision making; and improved stakeholder confidence) will be introduced from October 2008. Progress towards MOD’s £2.7 billion Value For Money target, including the contribution from PACE, will be included in our published Autumn Performance Report and Annual Report and Accounts.

16. *What arrangements has the Department made for its efficiency savings under the CSR to be externally audited? Will the results of any such audits be published?*

The Department intends to conduct an internal audit of its VFM programme during the course of the current financial year in line with HM Treasury requirements for the CSR programme. This will be for internal use, to inform our assessment of progress made in delivering the Value for Money programme. HMT has asked the NAO to audit departments' CSR savings programmes to provide public assurance to Parliament, and MOD expects to be included in this process.

17. *What is the MoD's current best estimate of the income that could be realised from the release of a proportion of its electromagnetic spectrum holdings to the market during 2009 and 2010? To what extent does the MoD's CSR settlement already presuppose a certain level of receipts from such a sale? For any income that might be realised over and above any sum already built into the MoD's CSR budget, will that extra income be added to the MoD's budget or surrendered to the Treasury?*

The revenue generated from the release of spectrum will depend on a range of factors, including the commercial attractiveness of specific bands selected for release and market conditions at the timing of any sale. The Department is permitted to retain up to £500 million of spectrum receipts over the CSR period. The level of receipt assumed in our internal plans is commercially sensitive.

18. *In 2007–08, there was a £1.554 billion under-spend against the RfR-1 expenditure Estimate, attributed to an over-estimated Spring Supplementary Estimate for depreciation charges and movements on provisions that did not in the event materialise (Resource Accounts, p 291). What were the main depreciation charges and provision non-movements involved, why were these charges over-estimated, and which TLBs were primarily responsible for the miscalculations?*

The Department bases its requests for any increased non-cash resource provision on Top Level Budget (TLB) forecasts available two thirds of the way through the financial year, which are then centrally adjusted. The Department strives to present robust Supplementary Estimates to Parliament, but errs on the side of prudence to avoid the risk of an overspend. Non-cash spend is difficult to forecast, and is sensitive to accounting judgements made by the auditors after the end of the year.

At the time of the 2007–08 Spring Supplementary Estimate (SSE), the full impact of the fixed asset revaluation exercise (the Quinquennial review) was not known, and a contingency of £500 million to cover this was added to the Defence Equipment & Support (DE&S) TLB forecasts. This contingency proved to be over prudent. In addition, the Accounting Period 8 (AP08) DE&S forecast was further enhanced by £200 million to reflect emerging fixed asset write off costs arising from the Department's fixed asset verification exercise. In the event the contingency was not required. Central and DE & S TLB AP08 forecasts included some £164 million for redundancy provisions. At the year end, and after lengthy discussions, the National Audit Office audit concluded that the provisions did not fully meet the Financial Reporting Standard (FRS) 12 for provisions, contingent liabilities and Contingent Assets criteria. The provisions were, therefore, excluded from our final accounts. The balance of the underspend arose from a large number of other factors, distributed across TLBs.

19. *The table on page 292 of the Annual Report shows that the cost of Iraq operations was £190 million (12%) less than that the estimate provided with the Spring Supplementary Estimate, and Afghanistan £145 million (9%) less. For Iraq, the main differences were equipment support costs (£79 million less) and UOR costs and capital additions/write-offs (£93 million less). For Afghanistan, the main differences were UOR costs and capital additions/write-offs (£168 million less) and stock consumption (£64 million more). The Committee would like to have further detail on these areas of variation in the cost estimates, including what UORs, stocks and other costs were involved*

As stated in our 2007–08 Annual Report and Accounts, the Department works hard to ensure that the figures presented to Parliament are reliable, but there is always likely to be a variation between the forecasts used to inform the Spring Supplementary Estimate (SSE) and the final end of year outturn. The SSE request must be robust enough to accommodate any new requirements agreed after the request is submitted. In particular, the Department needs to avoid an excess vote and accounts qualification, which would result from an overspend against the SSE request approved by Parliament. (Our 2006–07 accounts were qualified because we under estimated the costs for depreciation and cost of capital).

The Capital resource request in the Spring Supplementary round for Iraq and Afghanistan was based on details of UORs that had received financial approval at that time. The request, therefore, represented the maximum level of expenditure the Department could expect. Not all the UORs were delivered prior to the end of the financial year resulting in the underspend against capital. Associated equipment support costs, non-cash costs for depreciation and costs of capital were therefore also lower than expected.

20. *The Accounts included a sum of £687 million of income that was surrenderable to the Consolidated Fund, rather than made available to support Defence expenditure through the Appropriations-in-Aid facility (Note 5 on p 295). What was the reason for and source of this income?*

The £687 million of income relates to the Typhoon Aircraft Diversion and Replacement Agreement between the MOD and BAE Systems (Operations) Ltd.

The receipt arrived in March 2008, and was included in our final accounts for that year. In resource terms the Department was able to utilise the benefit of the CDEL receipt in 2007–08 by netting—off the gross assets in the course of construction expenditure by the total value of the receipt. The net cash benefit of the Typhoon receipt was not required since the Department already had sufficient net cash resources to meet all its planned payments at year-end. Accordingly, the cash was passed to the Consolidated Fund.

21. *The Annual Report envisages that the JPA will, once running smoothly, save £100 million a year (para 206). What level of JPA efficiency savings have been, or will be, claimed against the MoD's efficiency programmes? What additional costs have been incurred as a result of the problems in implementing JPA, and to what extent are such costs offset against the efficiency savings claimed?*

Gross JPA efficiency savings to date of £63 million will be claimed against the MOD's efficiency programme for the period ending 31 March 2008.

£2.3 million of additional costs has been incurred by the Service Personnel and Veterans Agency (SPVA) as a result of problems in implementing JPA. For example extra staff were necessary to address unforeseen issues in relation to the Department's financial accounting requirements, and it was necessary to establish the Service Requests Management Group, to provide a one-stop-shop query service for customers. Also additional Enquiry Centre Staff were required to support the new self service environment. Taking implementation costs into account (including the above £2.3 million) JPA savings during the period ending 31 March 2008 were some £40 million.

22. *In the aftermath of the problems with the Joint Personnel Administration (JPA) system, what plans does the Department have to identify and check whether any forces personnel have been under- or over-paid?*

The SPVA has set in place a number of assurance checks to minimise inaccuracy. On a monthly basis, before the payroll starts and at each stage of the process, a number of reports are run which alert the Payroll team to anomalies, issues and exceptions within the database. These include a high (over £10K) and low (£0K) balance check for all personnel on the Regular payroll; whilst those on the reservist payroll are subject to a high balance check (of £3K). These reports have proved to be very effective in assisting the Payroll Operations and Payroll Support teams successfully to investigate and resolve issues and anomalies before payment is made to individuals' bank accounts. On occasion they have also detected trends and this has permitted the identification and fixing of system errors.

In a similar vein, before any major change to the system programming is released, rigorous acceptance testing is conducted to alert SPVA to any programming anomalies or unintended consequences of change that might adversely impact pay accuracy.

Before the main pay run is credited to bank accounts, the forthcoming (draft) Statements of Earnings are visible to Unit HR personnel. This provides a window of opportunity for Unit HR staff to raise problems through the JPA Enquiry Centre or single Service JPA Focal Points. This is proving to be a very efficient way of scrutinising pay, allowances and charges at a crucial stage in the pay process. This allows SPVA the opportunity to take action prior to the crediting of pay to bank accounts.

Over and above this routine monthly activity, SPVA conducts periodic process reviews to identify areas for system improvement. A review completed in May 2008, focused on payroll. This showed the payroll process to be fundamentally sound, but further recommendations are now being taken forward and include, *inter alia*: a review of some of the instructions used by unit HR staff and improvements to the training and education of self service users and HR Professionals, both intended to reduce further incorrect data input, and the imposition of various limits on data fields to eliminate the possibility of significant overpayments through error.

Notwithstanding these measures, the reliance on correct data entry by end users, HR staff, career managers and SPVA's own staff, inevitably means that errors may still occur.

Where an overpayment has occurred the MOD will seek to recover the monies in accordance with HM Treasury Managing Public Money (formerly Government Accounting) regulations. Armed Forces personnel who have been underpaid can request cash supplements equivalent to the underpayments from their Units. All pay errors are rectified as soon as possible.

23. *What compensation, if any, does the MoD expect to secure from the JPA prime contractor—EDS—for any failure on its part to deliver a system able to support the Resource Accounts satisfactorily?*

There is no specific provision within the contract for EDS to compensate the MoD for failures associated with the production of the Resource Accounts, but charges are raised for Service Delivery Failures, some of which are likely to have contributed to the NAO forming the view that the accounts should be qualified. Charges vary according to the nature of each failure and also take into account the share of responsibility for the failure between MoD and EDS, the extent of the impact of the failure on customers and any other mitigating factors. The total failure charge raised in 2007–08 was £516,000.

24. *Pages 318–321 of the Departmental Resource Accounts list the MoD's PFI commitments. How is the "credit crunch" affecting, or expected to affect, the PFI projects currently underway? How is the "credit crunch" expected to affect future PFI projects which the MoD is considering?*

The current economic situation has had a number of impacts on the Defence Public Private Partnership (PPP) and Private Finance Initiative (PFI) programme. Firstly, there has been a significant downturn in the availability of private finance in the last 12 months during the "credit crunch". In particular, the Bond market has all but disappeared largely due to the lack of monoline insurance. The bank finance that has been available during this period has largely been at cost. Nevertheless, five PPP/PFI deals have been closed in the past 10 months (Future Provision Marine Services, Future Strategic Transport Aircraft, Military Flying Training Service, Corsham Development Project and the Royal School of Military Engineering). Each was judged to be both value for money and affordable. Both the Future Strategic Transport Aircraft and the Corsham Development Project included provisions in the contract to ensure the Department benefits from a greater share of the gains (over and above the normal HM Treasury mandated 50%) from refinancing these PFI deals in future when the markets have stabilised and borrowing rates reduce.

Looking ahead, the lack of finance or its increased cost is not an immediate issue in the Defence PFI programme as no PFI projects are expected to close within the next 18 months. However, beyond that, the two PFI projects that are in procurement (Defence Training Review and Search & Rescue Helicopters (a joint project with Dept of Transport)) may have to address these issues.

25. *On 9 September 2008, the MoD sold its remaining shares in QinetiQ Group plc for £257.3 million. What proportion of the proceeds from this sale will be retained by the MoD and how will the proceeds be used ie have they been earmarked for any specific defence activities/purposes?*

Net proceeds from the sale were £254.7 million, of which £200 million will be retained by the Department. These receipts have not been hypothecated but will be available indirectly to offset a variety of cost pressures which have emerged in the defence programme in 2008–09.

26. *How much more (in value and percentage terms) does the MoD expect to spend on fuel (for ships, vehicles, aircraft) in 2008–09 compared to what it was originally forecasting to spend? How is the MoD seeking to absorb the higher cost of fuel? Has the higher cost of fuel impacted upon the amount of training that was planned for 2008–09? If so, in what ways and in what specific areas?*

The cost of fuel in 2008–09 is around 70% higher than our assumptions at the time of the CSR settlement. This amounts to some £250M. Much of the increased cost of fuel was factored into decisions taken on the overall defence programme in the 2008 planning round. No training exercises funded in the 2008 planning round have been cancelled due to increased fuel costs.

27. *Is the current inflation level higher than the level assumed in the 2007 Comprehensive Spending Review settlement for defence? If so, by how much? How is the MoD seeking to absorb the increased costs resulting from higher than expected inflation? What specific action is the MoD taking to ensure that it remains within budget for 2008–09?*

The CSR reflected a forecast GDP inflation of 2.7%. The current published forecast for 2008–09 is slightly higher at 3.0%.

In estimating the future cost of the defence programme, including equipment acquisition, we seek to use the most realistic forecasts available. Nonetheless, since the CSR costs have risen more rapidly than expected in a number of areas, especially fuel and utilities. The majority of these pressures were taken in to account in Planning Round 08, which implemented the CSR outcome. The remaining pressures will be addressed as part of our normal in-year management. The Defence Board regularly reviews the in-year position and, if necessary, will agree changes to programmes to remain within the overall resources available.

Supplementary memorandum from the Ministry of Defence

**RESPONSES TO COMMITTEE LETTER OF 11 NOVEMBER—EVIDENCE FROM THE
PERMANENT SECRETARY AND FINANCE DIRECTOR (4 NOVEMBER 2008)**

Q.1. *More details about the “eschewed costs exercises” referred to in Question 5. [Q 5]*

This question is based on a misunderstanding caused by a transcription error which we have sought to correct. Sir Bill Jeffrey actually referred to a “should cost” exercise. As he explained, we are looking to employ benchmarking techniques more systematically in the future.

Q.2. *Confirmation as to whether UK Armed Forces will be in a position to undertake a large-scale deliberate intervention before 2017. [Q 11]*

The Department is undertaking work to develop and cost a recuperation programme to restore full contingent capability once operational commitments return to the level within Defence Planning Assumptions. We plan to restore contingent capability (albeit recognising lessons learnt from current operations) in accordance with Departmental priorities—beginning with the ability to conduct Small Scale operations and, at later dates, more demanding Medium and Large Scale operations.

We simply do not know how long it will take to restore a generic contingent capability in line with Defence Planning Assumptions. Timescales will be heavily dependent on the tempo of continuing operations—particularly the level of commitment in Afghanistan which is difficult to predict accurately. But we are not currently planning to restore a Large Scale Deliberate Intervention capability before 2017.

In the short term we continue to retain a very limited contingent capability. However, were circumstances such that we needed to commit a larger force before 2017 it would be possible if we judged it a higher priority than support to current operations and if we were prepared further to breach harmony.

Q.3. *A copy of the MoD’s detailed measurement and delivery plans for its new DSO targets (please refer to p 11, paragraph 1.7 of the Performance of the MoD 2007–08, by the NAO). [Qq 12–14]*

In accordance with the Treasury requirement the MoD published a document *The MoD Departmental Strategic Objectives 2008–09—2010–11* on the MoD internet website on 25 February 2008. This document set out how we intended to report against Departmental Strategic Objectives. The document remains available at:

<http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/PolicyStrategyandPlanning/ModDepartmentalStrategicObjectives200809201011.htm>.

The Defence Plan 2008–12 (Cm 7385), published in June 2008, also gives further detail on how the Department is reporting against PSAs and DSOs. In addition, our response to Question 12 of the Committee’s prior written questions dealt with the detailed reporting against DSO 1.1. and DSO 2.1.

Q.4. *MoD’s current estimate of Defence Inflation and the MoD’s current estimate of when this work will be completed. [Qq 16–23]*

The programme of work underway to develop a robust measure of inflation for total defence expenditure will produce publishable estimates for FY 07/08 and FY 08/09 by April 2010. For FY 09/10 we hope an estimate will be produced in September 2010; this cannot be produced earlier because data for some UK and foreign indices is not published until September.

Amalgamation of these work-strands will lead to a measure of inflation in the input costs of Defence (the goods and services we purchase and the wages we pay). We cannot measure changes in the output cost of Defence as we have no quantitative measure of Defence outputs, but would expect inflation in Defence output costs to be lower than that of input costs, thanks to efficiencies and productivity improvements in delivering outputs. It is also important not to confuse Defence Inflation with the escalation in unit cost of defence equipment. The latter tends to run above deflator inflation, because new generations of defence equipment are much more capable, than their predecessor.

Constructing a measure of inflation for equipment projects is a complex exercise. For example, most major equipment projects have “variation of price” (VOP), clauses, relating to a particular industry index or range of indices. Details of VOP clauses are not stored centrally and appropriate details have to be obtained for each contract separately. Each contract’s VOP arrangement is different. VOP clauses are a collection of formulae that use a wide range of price indices and exchange rates.

A prototype database for storing contract VOP details has been built. Processes for matching data to contracts payment data and to price index data should be complete by December 2009.

Latest estimates, based upon 123 contracts which we have been able to match to expenditure data, account for around £2.5 billion annual expenditure. The average inflation rates for these was 3.6% in the year 2006–07 to 2007–08. For the top 10 contracts the rate ranged from 1.7% to 5.3%.

Q.5. *More details about how the new SPVA Chief Executive intends to build up the level of satisfaction with the JPA system. [Q 33]*

A number of initiatives are currently being taken forward. The JPA I-Expenses Interface Review seeks to identify the potential options for improving the self service user's experience of the Interface. 47 "usability" issues were raised by the single Services ranging from simplifying the user guide, providing additional help screens and simplifying the input for Disturbance Allowance. 35 JPA system amendments are planned to be delivered by August 2009 and 12 non-system (process and documentation) changes will be completed in the same timescale. This will make the i-expense package much easier to use. Further improvements, will depend on simplifying allowance policy. This review has already been commissioned by the Service Personnel Policy Branch.

Q.6. *A breakdown of the £2.3 million additional costs which have been incurred by SPVA as the result of problems in implementing JPA and the reasons for those costs. [Q 35]*

The table below provides the detailed breakdown of the £2.3 million of additional costs incurred by SPVA as the result of problems encountered whilst implementing JPA:

Enquiry Centre Staff	£1.795 million
Business Process Organisation Finance Team	£0.377 million
Service Request Management Group Team	£0.095 million
Total	£2.267 million

These additional staff costs were required to provide additional support during the Army's transition to a fully self-service environment; to respond to unforeseen problems in relation to the Department's financial accounting requirements; and the creation of the Service Requests Management Group, to provide a one-stop-shop query service for customers.

Q.7. *The number of data security accreditors currently within the MoD and clarification as to whether these posts are exempt from the streamlining/efficiency process? [Q 56]*

We currently have 47 accreditors in Defence Security and Safety Assurance (DSSA), fulfilling the central accreditation role. Top Level Budgets and Front Line Commands have delegated responsibility for self-accreditation of systems operating at "Secret" level and below that are "stand alone" with no connectivity to other MoD networks. A further six accreditors work in these areas and have a functional responsibility to the DSSA. All accreditors are located outside London HQ and have not been included in the Streamlining exercise. We have a professional development scheme for accreditors, completion of which leads to a Recruitment and Retention allowance. We are acutely aware of the seriousness of data losses and provision has been obtained for an additional nine accreditors, for whom recruitment action is in hand. This will raise the total number of accreditors to 62 in the MoD. In addition, MoD has established a Head of Profession for accreditation and work is underway to establish a competence framework consistent with that being prepared by the Cabinet Office.

Q.8. *The disciplinary consequences for staff who have acted negligently with data? Sir Edward Burton's report said that only the most recent serious loss of data "appears to have led to disciplinary proceedings" (p 2, para 7); and why disciplinary action was not taken following other serious data loss incidents? [Q 58]*

MoD has always had processes in place to discipline staff in cases of negligence. As part of the programme of activities following the Burton Report a revised table of security breach levels and resulting sanctions is being produced will be published in due course—the current draft follows. Both Military and Civilian disciplinary procedures have been reviewed to ensure that these revised procedures can be used within the existing guidelines. As part of the Data Protection awareness campaign it is intended to publish anonymous aggregated details of disciplinary actions taken.

Decisions on whether to pursue disciplinary action in particular cases rest with the line management chain and should be made in the light of the available facts, including the extent to which the loss may have been the result of individual or systemic failings. Information about previous cases is not held centrally and it is not possible to identify the reasons for decisions taken in previous cases. The purpose of the revised table and fresh publicity is to ensure individuals are aware of the consequences of any breach and to remind line managers of the steps they should take if members of their staff are responsible for such an incident. Disciplinary action has been taken against a number of staff since the recommendations of the Burton Report were accepted.

<i>Breach Level</i>	<i>Example of Breach</i>	<i>Disciplinary/administrative action procedures to be followed</i>
Minor	<ul style="list-style-type: none"> (a) Loss of Restricted material/assets outside the MOD estate due to negligence. (b) Transmitting Restricted material on unclassified systems due to negligence. (c) Negligently leaving a secure cabinet open at cease of work or leaving documents/assets out overnight unsecured. (d) Not wearing a pass or ID card in MOD premises when it is policy to do so. (e) Loss of building pass/personal ID card (eg Form 90) due to negligence. (f) Loss and/or compromise of personal data that does not impact significantly on the individual(s) concerned. 	<p>Civilian personnel: Minor disciplinary procedures may apply. Any action taken is to be recorded on Human Resources Management System (HRMS).</p> <p>RFA personnel: Minor disciplinary procedures may apply. Action to be recorded on personnel file.</p> <p>MDP Officers: Minor breaches may be considered in the context of the Ministry of Defence Police (Conduct) Regulations 2004. (MDP(Conduct) 04 Regs.)</p> <p>Service Personnel: Minor administrative action procedures may apply—JSP 833. Depending on the circumstances, disciplinary action may be more appropriate—however, minor administrative action and disciplinary action are mutually exclusive.</p>
Major	<ul style="list-style-type: none"> (a) Loss of Confidential material/assets outside MOD establishments due to negligence. (b) Wilful transmitting of Confidential material/assets at lower PM level or over unclassified/open systems. (c) Removing Confidential material from MOD without authorisation (or unauthorised carriage from MOD site of Confidential PM material). (d) Repeated minor security breaches (within a 12 month period) (e) Removing an unencrypted laptop from MOD premises. 	<p>Civilian personnel: Major disciplinary procedures apply. The DVA is to be informed and AIR (Aftercare Incident Report) raised. Action taken is to be recorded on HRMS.</p> <p>RFA personnel: Major disciplinary procedures apply. Action to be recorded on personnel file. The DVA is to be informed and AIR (Aftercare Incident Report) raised.</p> <p>MDP Officers: Major breaches are likely to be considered in the context of the MDP (Conduct) Regs 04.</p> <p>Service Personnel: Major administrative action procedures may apply. Depending on the circumstances, disciplinary action through the single Service disciplinary procedures may be more appropriate. The DVA is to be informed and AIR raised. Where possible, action taken is to be recorded on JPA or in personnel records as appropriate.</p>
Gross	<ul style="list-style-type: none"> (a) Loss of Secret and above material/assets outside MOD establishments due to negligence. (b) Unauthorised or inappropriate carriage or transmission of Secret and above material at lower PM levels or on unclassified systems. (c) Removing Secret and above material from official premises without proper authorisation and safeguarding. (d) Leaving PM assets in a public place eg laptop together with token and password due to negligence. (e) Loss and/or compromise of personal data that impacts significantly on the individual(s) concerned and/or has to be reported to the Information Commissioner. 	<p>Civilian personnel: Major discipline procedures apply; the breach may constitute a Gross Misconduct Offence.</p> <p>The DVA is to be informed and AIR raised/suspension of clearances. Action, where taken, is to be recorded on HRMS.</p> <p>RFA personnel: Major disciplinary procedures apply—the breach may constitute a Gross Misconduct Offence The DVA is to be informed and AIR raised/suspension of clearances. Action, where taken, is to be recorded in personnel file.</p> <p>MDP Officers: Gross breaches are likely to be considered in the context of the MDP (Conduct) Regs 04.</p>

<i>Breach Level</i>	<i>Example of Breach</i>	<i>Disciplinary/administrative action procedures to be followed</i>
		Service Personnel: Major administrative action procedures may apply. Depending on the circumstances, disciplinary action through the single Service disciplinary procedures may be more appropriate. The DVA is to be informed and AIR raised/suspension of clearances. Where possible, action taken is to be recorded on JPA or in personnel records as appropriate.

Q.9. *Whether the MoD will brief the Committee about the MOD's performance against the equivalent DSO 1 next year? [Q 64]*

We will provide external reporting against the new DSO1 throughout the year in Quarterly reports and the target will receive appropriate coverage in the Annual Report and Accounts next summer. Whether the Committee requests a confidential briefing from the Department is, of course, a matter for the Committee.

Q.10. *Details of when the Committee can expect to receive a note on the MOD's assessment of how to restore full capability following current operations in Iraq and Afghanistan. [Q 64]*

The Committee will receive an oral briefing early in the New Year.

Q.11. *A list of the force elements where readiness has been reduced. [Qq 90–92]*

(Answer to be provided separately.)

Q.12. *Up-to-date figures of the level of defence research spending funded by the MoD over the last 15 years. [Q 125]*

Research is essential for the delivery of battle-winning military capability now and in the future. MoD's research spend is published as a matter of public record, set out in the MoD's annual statistical compendium, *UK Defence Statistics*, copies of which are in the library of the House. As National Statistics, the MOD R&D numbers are required to be collected under a set of internationally agreed definitions known as Frascati guidelines. These, amongst other things, require us to provide the widest possible coverage of the R&D activity undertaken by the Department. A detailed explanation on how the MoD R&D statistics are compiled can be found in DASA Defence Statistics Bulletin No.6, a copy of which is available in the Library of the House. The most recently published figures for net MoD research spending (as reported in the year of spend) are:

INCLUSIVE OF NON RECOVERABLE VAT AT CURRENT PRICES (£ MILLION)

<i>Year</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>	<i>1997–98</i>	<i>1998–99</i>
£ million	466	513	654	665	676	672	564	560
<i>Year</i>	<i>1999–2000</i>	<i>2000–01</i>	<i>2001–02</i>	<i>2002–03</i>	<i>2003–04</i>	<i>2004–05</i>	<i>2005–06</i>	<i>2006–07</i>
£ million	552	566	557	515	524	639	598	632

Figures for 2007–08 are due to be published in September 2009.

Q.13. *In the MoD's response to the Committee's Report on Recruiting and retaining Armed forces personnel, the MoD said that Financial Retention Initiatives were short-term measures which gave the MoD time to address the underlying non-remunerative issues. What are those underlying non-remunerative issues and how is the MoD addressing them?*

The challenges facing the Services in recruiting and retaining Armed Forces personnel cut across all aspects of military life and they are kept under constant review. The single Services share experiences and there is considerable cross pollination of ideas and the overall "offer" to the Armed Forces, both financial and non-financial, is reviewed and adjusted in response to experience and changing circumstances.

The MoD's approach to securing sufficient, capable and motivated Service personnel is set out in the Service Personnel Plan. This encompasses a broad range of projects and links into the many personnel initiatives that were articulated in the MoD's responses to the Committee. These affect all aspects of military life from initial recruitment, reducing wastage during New Entry training, improving terms and conditions

of service, providing better support to families, improving single and families accommodation, through to caring for our injured personnel and Veterans. The *Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans (Cm 7424)*, published in July 2008, also articulates a wide range of new measures that will complement existing provisions and both remove disadvantages imposed by service life on our people and their families and address the circumstances where service justifies special treatment.

Q.14. *In the MoD's response to the Committee's Report on Recruiting and retaining Armed forces personnel the MoD said that Operational and Manning pinchpoints were "reported against subjective criteria which since 2003 have become progressively more rigorous." What are those subjective criteria and how have they become more rigorous?*

A Pinch Point trade becomes apparent when there is a shortfall, or an anticipation of a shortfall, in qualified manpower. A shortfall is caused either by too many people choosing to leave (Voluntary Outflow) or insufficient numbers coming through the training process (Gains to Trained Strength). It is the interpretation of the effect that the shortfall will cause that determines whether it is included on the register or not. The decision to include a trade on the Pinch Point register is based on consideration of the operational situation, manpower planning, the economic situation, trends, national demographics and equipment enhancements. The process through which these criteria are applied, primarily through single-Service and Joint Pinch Point Working Groups, has become more rigorous as the definition of Pinch Points has become more precise. For example, the "Infantry" Pinch Point has now been refined to "Infantry: Private-Lance Corporal", a smaller and more distinct cohort. It is only these two ranks that needed to be targeted as a Pinch Point with specific plans and resources to alleviate the pressure. Greater clarity has allowed these resources to be targeted to better effect.

Q.15. *Whether the MoD expects the number of pinchpoint trades to increase or decrease over 2008-09 period?*

It is clearly our intention that current measures will have a positive effect on key Pinch Points, some of which we would hope to remove from the register as a result.

Q.16. *Have the major changes to the structure of the infantry had any impact on recruitment and retention?*

The introduction of the Future Infantry Structure (FIS) was primarily intended to create a more coherent force structure. It was also intended to offer soldiers greater choice over where they serve and in what role (for example, a typical regiment will now contain battalions with different specialisms, such as Armoured or Light Role, and offer a variety of geographical choices). FIS aimed to create units that are better manned to deliver operational requirements, and in part to reduce the pressure on personnel. The implementation of FIS has recently been successfully completed (some changes were only implemented in late 2006-07). There are likely to be a small number of cases in which the implementation of FIS has been a factor in an individual's career planning and choices; however, the changes have not been raised as a factor on welfare and attitude surveys for either serving soldiers or potential recruits.

Q.17. *To what extent will the temporary structural changes made in the Army alleviate the stretch on personnel as a result of the current operational tempo?*

Temporary changes to the Army's force structure in order to sustain current operations fall into four broad categories:

- creation of new temporary structures to respond to the particular needs of operations in Iraq and Afghanistan. These include Brigade Headquarters (HQ 11 Bde and the creation of temporary posts to make 104 Log Bde HQ deployable) and additional Military Working Dogs Support Units;
- using units in roles for which they are not formally attributed (known as roling) to increase the number of units able to provide the capabilities most needed on operations. Examples include roling Royal Engineer General Support Squadrons to provide Close Support, and roling AS90 Batterys to operate the 105mm Light Gun;
- roling of capability not currently required on operations to crew Urgent Operational Requirement (UOR) equipment. This provides the Army with the flexibility to force generate without adding unduly to the operational demand and ensures that newly procured equipment is deployed on operations as soon as reasonably possible. Examples include roling High Velocity Missile (HVM) Air Defence Missile Batterys to operate the Medium Unmanned Air Vehicle UOR; and
- using Force Elements in their secondary role as Infantry, which has seen both Royal Artillery and RLC Pioneer Corps sub-units used in the Infantry role in Iraq.

These structural changes are focused primarily on sustaining current operations and have been made with the principle of reversibility in mind.

In addition, the measures described above have eased some of the pressure on personnel in areas such as the infantry and a number of the key pinch points by increasing the Army's capacity to generate the capabilities required for operations. While the requirements of our current commitments mean that there remain several areas where harmony guidelines are not being met, rerolling contributes to managing this impact while also providing those capabilities most in need on the front line.

Q.18. *What has the new Conflict Prevention Pool achieved to date?*

The new Conflict Prevention Pool (CPP) is on course to deliver against its annual goals across its eight strategies. It is currently only half-way through its inaugural year and its first annual report will provide full details of achievements over 2008–09. Two examples of progress to date are:

- The Africa Programme continues to support building the capacity of the African Union (AU). The AU has recently shown greater political will to become involved in mediation—for example with the Government of Sudan on both Darfur and the Comprehensive Peace Agreement.
- The work under the CPP programme in Moldova, in particular the *Transnistrian Dialogues*, continues to provide the only confidence building measures that are working between the Moldovan and the Transnistrian sides, and it has received endorsement from the EU Special Representative.

Q.19. *Has cooperation continued between the UK and the Russian Federation in dealing with stockpiles of former Soviet weapons following the events of the summer?*

The UK and the Russian Federation have cooperated for several years in making safe and secure the legacies of the Weapons of Mass Destruction programmes of the Former Soviet Union. This includes a programme of assistance with construction of a facility for destruction of chemical weapon stockpiles at Shchuch'ye in the Urals region. This programme is managed by the MoD and is due to complete in 2009. It has not been affected by the events of the summer.

Q.20. *What evaluation have the MoD made of the impact of the Stabilisation Aid Fund, and Conflict Prevention Pool money before this, in Iraq and Afghanistan?*

Evaluation of the impact of the Stabilisation Aid Fund (SAF) is undertaken tri-departmentally with FCO and DFID (as was the evaluation of the impact of the Conflict Prevention Pool before it). The recent tri-departmental SAF review reported progress as being on track in Iraq. Two examples are successful capacity building, in the form of 5,000 Iraqi officers trained; and economic initiatives supporting the securing of a £4bn investment contract). There has been partial success in Afghanistan, where there have been successes in the counter-narcotics programme, the successful launch of a radio station and key infrastructure developments. The full impact of SAF programming in support of NSID goals will be reported at the end of its first year of operation.

Q.21. *In what way did progress in the Balkans, Congo, Nepal, and Nigeria fall short of expectations, and why was information on this not included in the Annual Report?*

Information was provided at Annex C of Volume II of the MoD Annual Report and Accounts.

Q.22. *As part of the Streamlining initiative, the Department will no longer need office space at the Old War Office and St George's Court. What will happen to these buildings?*

The exit strategies for both St George's Court and the Old War Office Building are currently being developed. The lease agreement commits the MoD to St George's Court until 2017 at the earliest. Options being explored include the transfer of the lease to a third party and the renting of office space to third parties. At present no decisions have been made. For Old War Office, consideration is being given to disposal options and reuse within the central Government Estate. No decisions have been made.

Q.23. *What will be the impact of the implementation of the International Financial Reporting Standards (IFRS) on the Department's resource accounts?*

The implementation of International Financial Reporting Standards (IFRS) is being undertaken in two tranches: Financial Instruments and Foreign Exchange Accounting with effect from April 2008; and remaining IFRS changes as adopted by HM Treasury with effect from April 2009. The latter includes the requirement to produce shadow IFRS-based accounts for 2008–09, by September 2009. Implementation is progressing well and the NAO have already commenced their audit of Financial Instruments. MoD is also on target to produce shadow 2008–09 accounts by 10 September 2009.

FINANCIAL INSTRUMENTS AND FOREIGN EXCHANGE ACCOUNTING (2008–09)

The only impact of the financial instrument standards is in respect of foreign currency accounting:

- The foreign exchange forward buy programme is a derivative to be valued at fair value, creating a net financial asset (£260 million) on the balance sheet as at 1 April 2008. Subsequent movement in the valuation is through the Operating Cost Statement.
- Foreign currency transactions translated at the spot rate rather than the forward purchase contract rate. This will result in an increase or decrease in Capital DEL and Resource DEL expenditure related to the particular transaction if the spot rates vary from the forward purchase contract rate; offset centrally by the movement in the derivative.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (2009–10)

The key changes to the Department's resource accounts are:

- **Service Concession Arrangements** (accounting for current Public Private Partnership (PPP)/Private Finance Initiative (PFI) arrangements). Arrangements are assessed under International Financial Reporting Interpretation Committee (IFRIC) note 12. Initial assessments indicate that the majority of the current off-balance sheet PFIs will become on-balance sheet resulting in a significant increase in Departmental assets.
- **Employee Benefits**. The Department will be required to accrue for benefits earned but not taken eg untaken leave at the balance sheet date. This is likely to result in a significant balance sheet liability for the Department.
- **Lease-type arrangements**. The Department needs to identify any lease type arrangements arising from the use of specific assets over which the Department can demonstrate control. Arrangements meeting the criteria of IFRIC may be accounted for as finance lease, resulting in an increase in Departmental assets.

Despite the good progress achieved to date, the full impact of changes have yet to be fully assessed and agreed with HMT and the NAO. Consequently, MOD cannot at this stage provide a view on the likely values. However, it is inevitable that changes to foreign exchange accounting and service concession arrangements will result in changes to the 2009–10 accounts.

RESPONSES TO COMMITTEE LETTER OF 18 NOVEMBER—EVIDENCE FROM THE SECRETARY OF STATE FOR DEFENCE (12 NOVEMBER 2008)

Q.24. *Figures quantifying the MOD's achievements against its PSA targets. [Qq 141–142]*

The terminology “partly met” was mandated by the Treasury. It was designed to ensure consistency of reporting across departments. Four PSA targets were recorded as “partly met” in the summary section of the Annual Report and Accounts. In all cases we provided further detail designed to allow a clearer view about the actual achievement in the body of the report:

- **PSA target 2**—page 15, and Annex C (See also Q21 above) This records that of the 12 sub-targets, two were met, nine partly met and one not met. The nature of the sub-targets, as indicated by the Secretary of State in his evidence, were qualitative assessments made about regional stability issues, many of which were outside the control of the MoD.
- **PSA target 4**—pages 20 and 65. The targets were about qualitative assessments of the value of UK contributions to NATO and EU issues.
- **PSA target 5**—page 21 and paragraphs 276 *et seq.* This records that five of 22 sub-targets were met. In arithmetic terms this suggests a 23% achievement rate, but this is not a particularly helpful way of viewing achievement in such a complicated sub target set.
- **PSA target 6**—page 24 and paragraph 226 *et seq.* This records that one of three sub-targets were met and suggests a 33% success rate.

It is difficult to see how we could assign a meaningful quantitative indicators to any of these targets. To do so we should have to give a weighting to each of the individual objectives and, ideally, include an assessment of the level of achievement for those objectives that were not met. Such judgements are likely to be subjective and will not replace the written assessment in allowing a reader to get a feel for what has been achieved in pursuit of the target.

Q.25. *A full breakdown of the on-going costs attributed to JPA. [Q 148]*

As reported in the Service Personnel and Veterans Agency's (SPVA) Annual Report and Accounts the contractual cost paid to Electronic Data Systems (EDS) in FY 2007/08 was £68.9 million. The cost for delivering the JPA service was £55.5 million. This can be broken down as follows:

JPA Implementation	£1.5m
JPA Annual Target Price	£45.0m
JPA Change	£9.0m
Total	£55.5m
Other (non JPA related)	£13.4m
Total	£68.9m

The release of any other financial information (cost or estimate) relating to the SPVA Interim Contract is inappropriate at this time because the bids for the next contract are currently being evaluated, and as such, this information is commercially sensitive.

Q.26. *The MoD's assessment of the risks which may arise from reducing the numbers of Defence Intelligence Staff*

The DIS has some 4500 personnel, nearly 90% of whom are located outside of the MOD Head Office. The remaining 600 DIS staff form part of the MoD Head Office and will be reduced by 122. A further 70 will be relocated to Feltham; the majority of the reductions will be in business and functional support areas, and the reduction in analytical staff (some 50 posts) will be less than half of the total reductions.

Planned moves of staff from the Old War Office Building to more efficient open plan offices and new ways of working will enable many of these reductions, but we have also decided that certain lower priority tasks can receive less analytical attention. These proposals have been the subject of extensive consultation within the MOD and across the wider intelligence community. The main potential risks of overstretch on analytical resources and reduced organisational agility in responding to new requirements are judged to be manageable through adoption of more flexible tasking arrangements and better prioritisation of demands..

Q.27. *Details of where the MoD's headcount efficiency targets have been achieved—for both civilian staff and military administration and support posts*

A breakdown of civilian manpower reductions between April 2004 and April 2008 (the period covered for the purpose of the SR04 efficiency targets) by budgetary area is given below. Please note that due to rounding, the individual figures do not add up to the total and comparisons between 2004 and 2008 are distorted in some cases by transfers of responsibility between TLBs. These reductions have been enabled by the Department's continuing efficiency and change programmes, such as the Defence Logistics Transformation Programme, the People Programme, Joint Personnel Administration and TLB collocations and mergers.

CIVILIAN MANPOWER REDUCTIONS

Land (including AG and NI)	- 3,100
Chief of Joint Operations	- 110
Central and Defence Estates ¹	+ 770
Science, Innovation and Technology	+ 200
Defence Equipment and Support	- 6,720
Air Command	- 3,000
Fleet	- 1,340
Unallocated ²	+ 230
Royal Fleet Auxiliary	- 40
DSTL	+ 210
Met Office	- 120
Hydrographic Office	+ 90
Defence Support Group	- 2,390
Non Operational Locally Employed Civilians	- 3,260
Net Total Reduction	- 18,620

¹ Defence Estates was part of the Central TLB in April 2004.

² Staff who cannot be allocated to a particular TLB.

A breakdown of the reduction in military and admin support posts by enabling initiative is as follows:

MILITARY AND ADMIN SUPPORT POSTS

Closure of RAF Coltishall	– 738
Merger of Royal Navy TLBs	– 121
Merger of RAF TLBs	– 229
Joint Personnel Administration	– 588
Defence Logistics Transformation Programme	– 3,418
Closure of Army Technical Foundation College Arborfield	– 147
Fleet delivery training	– 246
Total Reduction	– 5,487

4 December 2008
