



House of Commons
Defence Committee

Winter Supplementary Estimates 2008–09

First Report of Session 2008–09

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

*Ordered by the House of Commons
to be printed 9 December 2008*

The Defence Committee

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Ministry of Defence and its associated public bodies.

Current membership

Rt Hon James Arbuthnot MP (*Conservative, North East Hampshire*) (Chairman)
Mr David S Borrow MP (*Labour, South Ribble*)
Mr David Crausby MP (*Labour, Bolton North East*)
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Richard Younger-Ross MP (*Liberal Democrat, Teignbridge*)

The following Members were also Members of the Committee during the Parliament.

Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
Derek Conway MP (*Conservative, Old Bexley and Sidcup*)
Mr Mark Lancaster MP (*Conservative, North East Milton Keynes*)
Willie Rennie MP (*Liberal Democrat, Dunfermline and West Fife*)
Mr Desmond Swayne MP (*Conservative, New Forest West*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at: www.parliament.uk/defcom

Committee staff

The current staff of the Committee are Mike Hennessy (Clerk), Richard Ward (Second Clerk), Ian Rogers (Audit Adviser), Richard Dawson (Senior Committee Assistant), Christine McGrane (Committee Assistant) and Stewart McIlvenna (Committee Support Assistant).

Contacts

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Introduction

1. The Winter Supplementary Estimates for the Financial Year 2008–09 were laid before the House on 25 November 2008.¹ The Ministry of Defence (MoD) is seeking a net increase in resources and capital expenditure of £3,739.112 million—in cash terms a net increase of £3,389.112 million.² Table 1 provides a breakdown of the requested increase in expenditure.

Table 1: Changes in Resource and Capital Expenditure in the Winter Supplementary Estimate

Resource Expenditure	£ million
Provision of Defence Capability (RfR1)	989.692
Operations and Peacekeeping (RfR2)	2,636.430
<i>Total Net Request for Resources</i>	<i>3,626.122</i>
Capital Expenditure	
Net Provision of Defence Capability (RfR1)	(950,000)
Operations and Peacekeeping (RfR2)	1,063.000
<i>Total Net Request for Capital</i>	<i>113.000</i>
Total Change in Capital and Resource	3,739.122

Source: Ministry of Defence³

2. In the past we have criticised the MoD for the ambiguity of the ambit for Request for Resources 2 (RfR2) within the Supplementary Estimates which simply referred to “Conflict Prevention”.⁴ In the Winter Supplementary Estimates in the last Financial Year, the MoD took the opportunity to redefine RfR2 as being for “Operations and Peacekeeping”, a move which we welcomed.⁵ Nonetheless, there was still no explicit reference within the Estimates to current operations in Iraq and Afghanistan. In our Report on the MoD's Main Estimate for 2008–09, published on 7 July this year, we made the point that we were still dissatisfied with this omission.⁶ The Government in its response (issued in early October and which we published as a Special Report on 27 October)⁷ explained that it was considering a change to the wording for the ambit of RfR2 for the Winter Supplementary Estimates for

1 HM Treasury, *Central Government Supply Estimates 2008–09 Winter Supplementary Estimates*, HC 1163, November 2008

2 HC (2008–09) 1163, pp 215–30

3 Ev 1, Table 1

4 See, for example, the Twelfth Report of the Defence Committee of Session 2006–07, *Ministry of Defence Main Estimates 2006–07*, HC 835, para 10

5 Defence Committee, Second Report of Session 2007–08, *Cost of Operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08*, HC 138, para 2

6 Defence Committee, Eleventh Report of Session 2007–08, *Ministry of Defence Main Estimates 2008–09*, HC 885, para 8

7 Defence Committee, Ninth Special Report of Session 2007–08, *Ministry of Defence Main Estimates 2008–09: Government response to the Committee's Eleventh Report of Session 2007–08*, HC 1072, response to recommendation 3

2008–09. **We are pleased that the Government, retaining the general title of “Operations and Peacekeeping” for Request for Resources 2, in its Estimates now includes direct reference to “current operations in Iraq, Afghanistan and the Balkans”.**

3. Most of the additional funds requested in the MoD's Winter Supplementary Estimates are to meet the additional cost of expenditure in Iraq and Afghanistan which the MoD estimates to be some £3,699.430 million—comprising £2,636.430 million in resources and £1,063 million in capital expenditure—in the current Financial Year (see Table 1). This represents a sum three times that requested from Parliament at this stage in the last Financial Year, and 25% higher than the outturn for 2007–08. Clearly, the expectation is that this Financial Year will represent the most expensive yet for these overseas operations. **We commend the MoD for including in these figures indirect as well as direct resource costs which was not the case in last year's Winter Supplementary Estimates.**

4. It is expected that the House of Commons will be asked to approve the Winter Supplementary Estimates on Tuesday 16 December, three weeks after they were laid—this is the current normal timetable for Supplementary Estimates. While we are aware that the Treasury-led Alignment project is looking at ways to simplify the Estimates and Supplementary Estimates process in order to assist parliamentary scrutiny, **we remain concerned at the very short amount of time available to committees such as our own, between the laying of the Supplementary Estimates and the decision of the House to approve them, to carry out careful and thorough analysis of these Estimates and engage in a dialogue with Government Departments over any areas of uncertainty or concern. We remain hopeful that some mechanism will be introduced that will permit a better examination of departmental estimates in the future than what currently obtains:** for the interim, while the timetable for analysis remains so tight, we have set out later in this Report some proposals that will assist us in our future scrutiny of the Supplementary Estimates.⁸

Minor issues: DARA, QinetiQ and The Royal Hospital Chelsea

5. We note the extra £260 million in funds available to the MoD for capital expenditure on account of extra receipts from the disposal of its interests in the Defence Aviation Repair Agency (DARA) and QinetiQ (£60 and £200 million respectively).⁹ We further note that these funds, if not used this Financial Year, should be available to be drawn down, as End Year Flexibility (EYF), in a subsequent year. The MoD's position with regard to its access to EYF funds has however been unclear since the Department has for some time failed to include a table of EYF balances in the memoranda accompanying its Estimates, despite Treasury guidance recommending the inclusion of such tables. As a result, its memorandum accompanying the Main Estimates earlier this year provided no assistance in understanding why the Treasury's EYF statistics in its *Provisional Outturn* publication did not tally with the MoD's EYF draw-downs during 2007–08.¹⁰ Only in response to our questions did the Department explain that the Treasury's Defence EYF statistics were

8 See para 16

9 Ev 2, para 2.4

10 HM Treasury, *Provisional Outturn 2007–08*, Cm 7419, p 14

incorrect, and that a component part of the MoD's EYF balance had been set to zero.¹¹ Again, there is no EYF table in the memorandum accompanying this latest Winter Supplementary Estimates. **For the sake of clarity we call on the MoD in future to provide End Year Flexibility tables in its future Estimates memoranda, as recommended by the Treasury's guidance.**

6. This year's Main Estimates presented a grant figure of £9.5 million to The Royal Hospital Chelsea.¹² The Winter Supplementary Estimates show that this grant has increased by £1 million to £10.5 million.¹³ However, the Supplementary Estimates also reveal a £9.2m reallocation of Chelsea Hospital costs from Voted expenditure to Non-Voted expenditure.¹⁴ It is not clear to us how this relates to the funds granted, and no explanation is given in the memorandum accompanying the Estimates for this reallocation. **We would be grateful for the MoD to provide us with an explanation for the changes in the Estimates relating to the Royal Hospital Chelsea in its response to this Report.**

Science Innovation and Technology

7. We note the reduction of £119.543 million in the Science Innovation and Technology Departmental Expenditure Limit (DEL) under Request for Resources 1. We understand that changes in DELs often amount to little more than reallocations between Top-Level Budget Holders which represent no real reductions in spending. Nonetheless, **we would like an explanation from the Ministry of Defence for this significant reduction in the Departmental Expenditure Limit for Science Innovation and Technology and whether it signals a cut in spending, and—if so—what the consequences of this reduction will be.**

Cost of military operations

8. **The Winter Supplementary Estimates estimate the additional costs of operations in Iraq and Afghanistan in 2008–09 as £1,397 million and £2,318 million respectively.**¹⁵ The cost of current military operations is our principal focus in this Report, and will no doubt remain such in future Estimates Reports while such operations continue overseas. In the past we have expressed dissatisfaction that the MoD has not given any forecast of likely operational costs at the time of its laying of the Main Estimates each Financial Year.¹⁶ While we understood the MoD's position that forecasting accurately the operational costs for Financial Years at their outset, even within generous parameters, was a difficult task, we felt that the House required more information earlier in each Financial Year than was then being made available. The MoD brought forward its first operational cost forecast each Financial Year from the Spring to the Winter Supplementary Estimates (in other words from February of each Financial Year to November of each such Year) to assist the House,

11 Available on the Defence Committee website at <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmdfence/memo/ara/ucm0202.htm>

12 HC (2007-08) 885, Ev 4, Table 6 and HM Treasury, *Central Government Supply Estimates 2008-09 Main Supply Estimates*, 21 April 2008, HC 479

13 Ev 5, para 4.9

14 HC (2007-08) 1163, p 216

15 Ev 6, Table 5

16 See, for example, HC (2007-08) 138, para 7

a move which we welcomed.¹⁷ Nonetheless we continued to seek from the MoD an earlier forecast of operational costs at the time of its Main Estimate each Financial Year. We were therefore very pleased when the MoD agreed to give an indication of the expected costs of Urgent Operational Requirements (UORs) and some sense of expected overall operational costs in the memorandum accompanying its Main Estimate each Financial Year.¹⁸

9. In that memorandum accompanying its Main Estimate laid on 21 April this year, the MoD signalled as an initial forecast “a net additional cost of at least £2 billion... split between Afghanistan and Iraq”. Within that sum the MoD estimated UOR expenditure of £1,065 million.¹⁹ Figures from this Winter Supplementary Estimate show that much higher expenditure than £2 billion is expected: current estimates of almost £3.7 billion not only go far beyond the figure signalled as a minimum in the Main Estimate memorandum but represent an increase of 25% over the outturn for the last Financial Year, 2007–08. (The scale of the increase in operational costs between 2006–07 and 2007–08 and between 2007–08 and the Winter Supplementary Estimates forecast for 2008–09 is set out in Table 2.) Indeed, with costs for Iraq and Afghanistan amounting to almost £3 billion in 2007–08, the statement that operational costs in 2008–09 would be “at least £2 billion” was perhaps over-cautious. **While we are aware that in future memoranda accompanying its Main Estimate the MoD intends to give a more robust sense of expected operational costs over that Financial Year, we are disappointed that the figure given in its Main Estimate memorandum for this Financial Year appears so loose.**

Table 2: Comparison of outturn cost of 2006–07 and 2007–08 with each other and the latter with the 2008–09 WSE forecast % change

	Outturn 2006–07	Outturn 2007–08	% change	Outturn 2007–08	WSE forecast 2008–09	% change
Iraq	956	1457	+ 52.41 %	1457	1397	- 4.1 %
Afghanistan	738	1504	+ 103.8 %	1504	2318	+ 54.1 %
TOTAL	1694	2961	+ 74.8 %	2961	3715	+ 25.5 %

Note: Includes indirect resource costs

10. From work undertaken in the preparation of previous Reports on the MoD’s Supplementary Estimates, we are aware that operational costs can increase significantly between the Winter and Spring Supplementary Estimates. In Financial Year 2006-7 the forecast of operational costs increased by 26.6% between Supplementary Estimates. In 2007-08 this increase was in the order of 49.7% (see Table 3). We commented upon this increase in our Report on the 2007–08 Spring Supplementary Estimates, where we stated that “the magnitude of increase in the cost estimate is surprising”.²⁰ We added that explanation needs to be given in future Spring Supplementary Estimates’ memoranda of any significant increase in expected costs—something which the Government agreed to in

17 HC (2007-08) 138, para 5

18 HC (2007-08) 885, para 14

19 *ibid.*, Ev 3, para 4.4

20 Defence Committee, Eighth Report of Session 2007-08, *Operational costs in Afghanistan and Iraq; Spring Supplementary Estimate 2007-08*, HC 400, para 12

its response to that Report—and we also suggested that the acknowledged difficulty of providing a robust forecast of costs early in the Financial Year might encourage the Government not to attempt to put together as well-founded a forecast as otherwise it might, since it has a second chance to change the figures at the time of the Spring Supplementary Estimates.²¹ **We restate our hope that the MoD manifests no complacency with regard to its forecast of operational costs made early in each Financial Year.**

Table 3: Changes in forecasts for operational costs between WSE and SSE in 2006–07 and 2007–08

	WSE 2006–07	SSE 2006–07	% change	WSE 2007–08	SSE 2007–08	% change
Iraq	860	1002	+ 16.5 %	955	1449	+ 51.7 %
Afghanistan	540	770	+ 42.6 %	964	1424	+ 47.7 %
TOTAL	1400	1772	+ 26.6 %	1919	2873	+ 49.7 %

Note: Does not include indirect resource costs

11. Clearly, forecasts for operational costs in each Financial Year are subject to the possibility of considerable and sudden variations. The forecast for operational costs for Iraq in 2007–8, brought forward in the Winter Supplementary Estimates in November 2007, was just below the outturn costs for the previous Financial Year: by the time of the Spring Supplementary Estimates, just 4 months later, it had increased by 51%. For Afghanistan the story was similar: a 30.6% increase between the 2006–07 outturn and the first operational forecast for 2007–08, made in November 2007, yielded a further 47.7% increase four months later (see Table 3).²² As we have said before, **we understand the volatility that inevitably accompanies forecasts for operational costs. However we remain to be convinced that these forecasts are as robust as they ought to be.**

12. One problem which compromises the robustness of these forecasts involves the timetable for their composition. In our Report on the 2008–09 Main Estimates we pointed out how each Supplementary Estimate was based upon a quite distant initial forecast. The Government response to our 2007–08 Spring Supplementary Estimate Report, made clear that the November-laid Winter Supplementary Estimates were based upon end-July forecasts, and the February-laid Spring Supplementary Estimates were based upon end-November forecasts.²³ In other words, the forecast that informs the Spring Supplementary Estimates is available to the MoD before the House has considered figures in the Winter Supplementary Estimate which are based upon a forecast made four-and-a-half months before. That position has been only slightly mitigated by the Department basing its latest Winter Supplementary Estimates on forecasts made at the end of August 2008, rather than the end of July in previous years.²⁴ **We are aware that Treasury processes make the preparation of the Supplementary Estimates a longer process than is ideal for the presentation of up-to-date costs. Nonetheless we continue to believe it unsatisfactory**

21 HC (2007–08) 400, paras 12 and 15

22 See also HC (2007–08) 138, p 8, Table 3

23 HC (2007–08) 885, paras 23–4

24 HC (2007–08) 1072, response to recommendation 15

that the House is asked to agree to Supplementary Estimates that represent such out-of-date forecasts of costs for operations overseas without it having sight of any more up-to-date assessments of those costs.

13. We have to expect that there will be changes in the Winter Supplementary Estimates forecasts which will become apparent when the Spring Supplementary Estimates are laid a couple of months later. As we noted above, it is likely that the Ministry of Defence has by December of each Financial Year a better forecast of costs on which it is beginning to work to base the Spring Supplementary Estimates. In its response to our Report on the Main Estimates, the Government indicated its willingness to provide the Committee with an interim forecast of operational costs between Supplementary Estimates.²⁵ **We would be grateful if the MoD could provide us with the working forecast used to prepare the Spring Supplementary Estimates in whatever form it considers most appropriate early in the New Year. The MoD might also look to attach to its Winter Supplementary Estimates memorandum in future an indication of this forecast, if it is available by then, or make it available to us before the Estimates are considered in the House each Winter.**

14. **We hope that the interim forecast we have asked for from the MoD and the estimate of operational costs which will appear in a couple of months time in the Spring Supplementary Estimates will show less significant changes than has been the case in the last two Financial Years,** reflecting the particular robustness of this Winter Supplementary Estimates figure this Financial Year. The particularly steep increase in expected Afghanistan costs in this Estimate perhaps reflects a more realistic assessment of costs over the year: if this is so—and only time will tell—then we commend the MoD for providing a better forecast of operational costs at this stage in the Financial Year than it has done before.

15. Looking in more detail at the Winter Supplementary Estimates forecast, there has, as anticipated, been a slight decline, of 4.1%, in operational costs for Iraq (see table 4). Direct resource costs remain higher than in the last Financial Year, principally on account of higher military personnel and equipment support costs; but there is a decline in capital additions costs which last year comprised 30% of operational costs for Iraq (not including indirect resource costs). It is not at all clear from the memorandum accompanying the Winter Supplementary Estimates why it is expected that some costs in Iraq will actually increase over the Financial Year and others remain broadly static where it might have been expected, given an anticipated drawdown in 2009, that some costs would fall. **We call on the Ministry of Defence to provide us in its response to this Report with an explanation for the continuing high level of costs in Iraq, and in particular for the significant increases to military personnel and equipment support costs.** The overall 4.1% decline in operational costs for Iraq is however set beside the significant and steep increase of 54.1% in operational costs expected for Afghanistan. Every category of cost, in that theatre, except for those relating to infrastructure, is expected to rise during 2008–09 as compared to the 2007–08 outturn. The two most significant increases, themselves amounting to £549 million, or half of the expected increase over the 2007–08 costs, are attributable to

25 HC (2007-08) 1072, response to recommendation 17

equipment support and capital additions costs, the former rising by 92.5% and the latter rising by 86.4%.

Table 4: The Direct costs of operations in Iraq and Afghanistan for 2006–07 and 2007–08 and their Winter Supplementary Estimates forecast Direct cost for 2008–09

Cost Type	Iraq outturn 2006–07	Iraq outturn 2007–08	Iraq WSE forecast 2008–09	Afghan outturn 2006–07	Afghan outturn 2007–08	Afghan WSE forecast 2008–09
Resource–Direct						
Military personnel	100	98	116	50	85	106
Civilian personnel	15	14	17	4	9	10
Stock/other consumption	218	237	195	164	301	379
Infrastructure costs	83	130	119	101	149	147
Equipment support costs	206	278	332	112	200	385
Other costs and services	137	162	194	89	160	311
Income foregone / (generated)	5	4	(2)	(2)	(11)	(7)
Total	764	923	971	518	893	1331
Capital additions	169	403	256	178	433	807
Total Direct costs	933	1326	1227	696	1326	2138

Source: Ministry of Defence

16. One clear area of increase in costs expected this Financial Year compared to last is in Capital Additions and Equipment Support. It seems likely that these increases are connected to the announcement on 29 October of the purchase of 700 new armoured vehicles for use in theatre.²⁶ However, the memorandum from the MoD accompanying the Winter Supplementary Estimates is silent on any such connection, and indeed does not explain any of the significant changes in forecast costs compared to the costs in the previous year's outturn. We have before commended the MoD on its Estimates' and Supplementary Estimates' memoranda.²⁷ Information setting out changes between previous years' outturns and Estimates and between Estimates in-year is a very welcome feature of the MoD's Annual Report and Accounts which we have likewise commended the Department for in the past.²⁸ However, we believe that in future within each Supplementary Estimates memorandum there should be some explanation of significant changes in operational costs since the presentation of the last figures,

26 HC Deb, 29 October 2008, col 28-30WS

27 See for example, HC (2007-08) 400, para 4

28 HC (2007-08) 138, para 24

whether from the previous year's outturn, from the memorandum accompanying the Main Estimate or from the Winter Supplementary Estimates. This information would clearly be of interest and use to us and to the House as a whole.

Urgent Operational Requirements

17. As we have noted, in the memorandum accompanying its Main Estimate for 2008–09, the MoD explained that it expects spending on UORs of £1,065 million for this Financial Year.²⁹ In its response to our Report on the Main Estimate, the MoD said that any overspend on UORs in 2008–09—expenditure beyond the agreed figure—will have no impact on the Department's core (RfR1) budget for 2008–09. Rather any excess will be split 50/50 and half fall onto the Department's budget for 2010–11, in line with the arrangements agreed in the last Comprehensive Spending Review.³⁰ The memorandum accompanying the Winter Supplementary Estimates notes that £1,063 million of the RfR2 capital request is for UORs in Iraq and Afghanistan.³¹ In other words, already the UOR limit for the Financial Year has almost been reached, notwithstanding possible volatilities and further urgent requirements during the months that remain. **We would be grateful for an indication from the MoD in the response to this Report of whether spending on Urgent Operational Requirements beyond £1,065 million is expected this Financial Year, and, if so, what the impact of that spending will be on the MoD's 2010–11 budget, including any current assessment of which equipment programmes could be affected in that year. We call on the MoD to provide in future with the Supplementary Estimates more detail of expected spending on Urgent Operational Requirements.**

Summary

18. In summary, in order to provide us and the House with a clearer sense of the reasons for changes in operational cost forecasts and a better and more current assessment of the trajectory of such costs in each Financial Year, **we would for future Financial Years like the MoD to provide us with:**

- **a more detailed account of operational costs expected in the Financial Year in the memorandum accompanying the Main Estimate, explaining any significant change between those costs and those in the previous Financial Year's outturn;**
- **a further forecast of operational costs before the summer, or as soon as possible thereafter;**
- **an explanation in the memorandum attached to the Winter Supplementary Estimates of any significant changes between its figures for operational costs and those in the memorandum accompanying the Main Estimate;**
- **a third forecast of operational costs shortly after the Winter Supplementary Estimates are laid, preferably before they are considered by the House;**

29 HC (2007-08) 885, Ev 3, para 4.4

30 HC (2007-08) 1072, response to recommendation 7

31 Ev 5, para 5

- more detail where appropriate, in the documents between the Main Estimate and the subsequent Annual Report and Accounts for that year, of expected and final spending figures for Urgent Operational Requirements; and
- an explanation in the memorandum attached to the Spring Supplementary Estimates of any significant changes between its figures for operational costs and those in the memorandum accompanying the earlier Winter Supplementary Estimates.

We are aware that the MoD has already made clear its intention to provide the first of these from 2009–10 onwards and already provides the last. We hope the MoD will be able to take the other three proposals on board also which will enable better scrutiny of its Estimates by our Committee and by the House of Commons.

Conclusion

19. We recommend that the House of Commons approve the request for resources set out in the MoD's Winter Supplementary Estimates. The £3,739.112 million requested to meet the forecast cost of operations in Iraq and Afghanistan in 2009–09 is a very significant sum of public money, but it is vital that our Armed Forces are properly resourced to carry out those important tasks which they have been given.

Conclusions and recommendations

1. We are pleased that the Government, retaining the general title of “Operations and Peacekeeping” for Request for Resources 2, in its Estimates now includes direct reference to “current operations in Iraq, Afghanistan and the Balkans”. (Paragraph 2)
2. We commend the MoD for including in these figures indirect as well as direct resource costs which was not the case in last year’s Winter Supplementary Estimates. (Paragraph 3)
3. We remain concerned at the very short amount of time available to committees such as our own, between the laying of the Supplementary Estimates and the decision of the House to approve them, to carry out careful and thorough analysis of these Estimates and engage in a dialogue with Government Departments over any areas of uncertainty or concern. We remain hopeful that some mechanism will be introduced that will permit a better examination of departmental estimates in the future than what currently obtains. (Paragraph 4)
4. For the sake of clarity we call on the MoD in future to provide End Year Flexibility tables in its future Estimates memoranda, as recommended by the Treasury’s guidance. (Paragraph 5)
5. We would be grateful for the MoD to provide us with an explanation for the changes in the Estimates relating to the Royal Hospital Chelsea in its response to this Report. (Paragraph 6)
6. We would like an explanation from the Ministry of Defence for this significant reduction in the Departmental Expenditure Limit for Science Innovation and Technology and whether it signals a cut in spending, and—if so—what the consequences of this reduction will be. (Paragraph 7)
7. The Winter Supplementary Estimates estimate the additional costs of operations in Iraq and Afghanistan in 2008–09 as £1,397 million and £2,318 million respectively. (Paragraph 8)
8. While we are aware that in future memoranda accompanying its Main Estimate the MoD intends to give a more robust sense of expected operational costs over that Financial Year, we are disappointed that the figure given in its Main Estimate memorandum for this Financial Year appears so loose. (Paragraph 9)
9. We restate our hope that the MoD manifests no complacency with regard to its forecast of operational costs made early in each Financial Year. (Paragraph 10)
10. We understand the volatility that inevitably accompanies forecasts for operational costs. However we remain to be convinced that these forecasts are as robust as they ought to be. (Paragraph 11)
11. We are aware that Treasury processes make the preparation of the Supplementary Estimates a longer process than is ideal for the presentation of up-to-date costs. Nonetheless we continue to believe it unsatisfactory that the House is asked to agree

to Supplementary Estimates that represent such out-of-date forecasts of costs for operations overseas without it having sight of any more up-to-date assessments of those costs. (Paragraph 12)

12. We would be grateful if the MoD could provide us with the working forecast used to prepare the Spring Supplementary Estimates in whatever form it considers most appropriate early in the New Year. The MoD might also look to attach to its Winter Supplementary Estimates memorandum in future an indication of this forecast, if it is available by then, or make it available to us before the Estimates are considered in the House each Winter. (Paragraph 13)
13. We hope that the interim forecast we have asked for from the MoD and the estimate of operational costs which will appear in a couple of months time in the Spring Supplementary Estimates will show less significant changes than has been the case in the last two Financial Years. (Paragraph 14)
14. We call on the Ministry of Defence to provide us in its response to this Report with an explanation for the continuing high level of costs in Iraq, and in particular for the significant increases to military personnel and equipment support costs. (Paragraph 15)
15. We believe that in future within each Supplementary Estimates memorandum there should be some explanation of significant changes in operational costs since the presentation of the last figures, whether from the previous year's outturn, from the memorandum accompanying the Main Estimate or from the Winter Supplementary Estimates. This information would clearly be of interest and use to us and to the House as a whole. (Paragraph 16)
16. We would be grateful for an indication from the MoD in the response to this Report of whether spending on Urgent Operational Requirements beyond £1,065 million is expected this Financial Year, and, if so, what the impact of that spending will be on the MoD's 2010-11 budget, including any current assessment of which equipment programmes could be affected in that year. We call on the MoD to provide in future with the Supplementary Estimates more detail of expected spending on Urgent Operational Requirements. (Paragraph 17)
17. We would for future Financial Years like the MoD to provide us with:
 - a more detailed account of operational costs expected in the Financial Year in the memorandum accompanying the Main Estimate, explaining any significant change between those costs and those in the previous Financial Year's outturn;
 - a further forecast of operational costs before the summer, or as soon as possible thereafter;
 - an explanation in the memorandum attached to the Winter Supplementary Estimates of any significant changes between its figures for operational costs and those in the memorandum accompanying the Main Estimate;
 - a third forecast of operational costs shortly after the Winter Supplementary Estimates are laid, preferably before they are considered by the House;

- more detail where appropriate, in the documents between the Main Estimate and the subsequent Annual Report and Accounts for that year, of expected and final spending figures for Urgent Operational Requirements; and
- an explanation in the memorandum attached to the Spring Supplementary Estimates of any significant changes between its figures for operational costs and those in the memorandum accompanying the earlier Winter Supplementary Estimates.

We are aware that the MoD has already made clear its intention to provide the first of these from 2009–10 onwards and already provides the last. We hope the MoD will be able to take the other three proposals on board also which will enable better scrutiny of its Estimates by our Committee and by the House of Commons. (Paragraph 18)

18. We recommend that the House of Commons approve the request for resources set out in the MoD's Winter Supplementary Estimates. The £3,739.112 million requested to meet the forecast cost of operations in Iraq and Afghanistan in 2009–09 is a very significant sum of public money, but it is vital that our Armed Forces are properly resourced to carry out those important tasks which they have been given. (Paragraph 19)

Formal minutes

Tuesday 9 December 2008

Members present:

Mr James Arbuthnot, in the Chair

Mr David S. Borrow

Mr David Crausby

Mr Mike Hancock

Mr Adam Holloway

Linda Gilroy

Mr Bernard Jenkin

Robert Key

Draft Report (*Winter Supplementary Estimates 2008–09*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 19 read and agreed to.

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

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

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

[Adjourned till Tuesday 16 December at 10.00 am

List of written evidence

1 Ministry of Defence

Ev 1

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)
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^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)

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Written evidence

Memorandum from the Ministry of Defence

WINTER SUPPLEMENTARY ESTIMATES 2008–09

1. INTRODUCTION

1.1 This Memorandum covers the Winter Supplementary Estimate for the Ministry of Defence (MoD) and should be read in conjunction with the Department's Winter Supplementary Estimate (2008–09). The Introduction to the Estimate lists the changes being made since the Main Estimate. This is shown by Request for Resources (RfR), and the section number shown in brackets after the detail for each change is a reference to the line(s) that are affected by the change in Part II of the Estimate.

1.2 There is a separate Estimates Memorandum for the Armed Forces Retired Pay and Pensions Vote.

2. SUMMARY OF RESOURCES SOUGHT IN THE ESTIMATE

2.1 The Introduction to the Estimate shows a net increase in Voted DEL resources of £3,560 million from £33,567 million at Main Estimates to £37,127 million. There are two principal elements to this:

- a) When Main Estimates were submitted to Parliament, the Department's internal planning round had not been completed and a number of changes to the Defence Budget from that announced in the Government's 2007 Comprehensive Spending Review had not been finalized. The figures in Main Estimates were thus to some extent provisional. The Winter Supplementary Estimate reflects the outcome of the planning round and the changes to the Budget. The main change in RfR1 is a reallocation of £1 billion from Single Use Military Equipment (SUME) Capital DEL to near cash Resource DEL; and an addition of £50 million (fiscal) Capital DEL. These changes align the budget more closely to the cost of the Defence programme in 2008–09 resulting from the Department's 2008 planning round. Further details are at paragraph 4.3.
- b) The RfR2 (Operations and Peace Keeping¹) resources net request of £2,636 million is additional funding for military operations in Iraq, Afghanistan and the Balkans and comprises net direct resource costs of £2,286 million and indirect resources of £350 million. The RfR2 capital request of £1,063 million is mainly for Urgent Operational Requirements (UORs) in Iraq and Afghanistan. Further details are provided at paragraphs 4 and 5.

2.2 The Voted Resource and Capital changes are summarised in the following tables:

Table 1

CHANGES IN RESOURCE AND CAPITAL EXPENDITURE

<i>Resource Expenditure</i>	<i>£ M</i>
Provision of Defence Capability (RfR1)	989.692
Operations and Peace Keeping (RfR2)	2,636.430
Total Net Request for Resources	3,626.122
<i>Capital Expenditure</i>	<i>£ M</i>
Net Provision of Defence Capability (RfR1)	(950.000)
Operations and Peace Keeping (RfR2)	1,063.000
Total Net Request for Capital	113.000
	<i>£ M</i>
Total Change in Capital and Resource	3,739.122

2.3 The total change in the Estimate is £3,739.112 million, which generates an additional net cash requirement of £3,389.122 million. The cash requirement is analysed in the following table, and a reconciliation between the changes in the Estimate and the net cash requirement is shown in Part II of the Estimate, "Resource to Cash Reconciliation".

¹ Now re-named from Conflict Prevention to Operations and Peace Keeping.

Table 2

CHANGE IN VOTED CASH REQUIREMENT

	<i>£ M</i>
Near Cash (Voted) in Resource DEL	3,210.019
Near Cash Non Budget	66.103
Near Cash in Capital DEL	113.000
Net Cash Requirement	3,389.122

2.4 In addition to the changes outlined in paragraphs 2.1 above, the changes to the Winter Supplementary Estimate comprise:

- additional Non Operating Capital receipts arising from the sale of MoD's interests in DARA (£60 million) and QinetiQ (£200 million), offset by a corresponding increase in gross capital expenditure;
- net budgetary transfers out of £16.646 million to Other Government Departments under RfR1 and RfR2 (Table 4). The largest transfers are to the FCO for the Stabilisation Fund, and from the FCO for helicopter pilot training for counter-narcotics;
- Various technical changes relating to Non Departmental Public Bodies (NDPBs) which have been re-classified from Voted DEL to Non Budget and Non-Voted DEL;
- Re-alignment of Resource and Capital Sub Head provisions to reflect the finalisation of MOD plans (see para 2.1(a) above), and changes in budgetary responsibility, with no overall impact on DEL.

3. DETAILED EXPLANATION OF CHANGES

3.1 Part I of the Estimate summarises the changes described above and provides detail about the costs included in each RfR.

3.2 Part II of the Estimate shows the changes proposed in the Estimate, by Top Level Budget Holder (TLB). This shows the present net position (the position at Main Estimates), the changes in the position, and the new net provision (Winter Supplementary Estimates). Again this is set out by Request for Resources. The transfers and other changes outlined in the Introduction to the Estimate are analysed in this section of the Memorandum.

3.3 The table overleaf shows how the Winter Supplementary Estimate is compiled, identifying changes since 2008–09 Main Estimates.

Table 3

SHOWING CHANGES TO VOTED RESOURCES AND CAPITAL AT WINTER SUPPLEMENTARY ESTIMATES

<i>£M</i>	<i>Direct R DEL</i>	<i>Indirect R DEL</i>	<i>Total R DEL</i>	<i>AME</i>	<i>Non budget Near cash</i>	<i>Total Net Resources</i>	<i>Net Capital DEL</i>	<i>Capital Non Budget/ AME</i>	<i>Total Net Capital</i>
	1	2	3	4	5	6	7	8	9
RfR1 Provision at Main Estimates	22,537.2	10,940.5	33,477.7	-84.8	28.4	33,421.3	7,870.1	2	7,872.1
Switch £1Bn from C DEL to R DEL	1,000.0		1,000.0			1,000.0	-1,000.0		-1,000.0
Additional C DEL Provision							50.0		50.0
Transfers In	3.0		3.0			3.0			
Transfers Out	-4.1		-4.1			-4.1			
Reallocation of NDPBs	-73.3		-73.3		64.2	-9.2			
Additional Grants to NDPBs	-2				2	0			
RFR1 at Winter Supplementary Estimates	23,460.8	10,940.5	34,401.3	-84.8	94.5	34,411.0	6,920.1	2	6,922.1
RfR2 Provision at Main Estimates	89.6	0	86.6	0	0	89.6	0	0	0
Additional Provision at Winter Supplementary Estimates	2,302.0	350.0	2,652.0			2,652.0	1,063.0	0	1,063
Transfers In	2.4		2.4			2.4			
Transfers Out	-18.0		-18.0						
RFR2 at Winter Supplementary Estimates	2,376.0	350.0	2726.0	0	0	2,726.0	1,063.0	0	1,063.0
RfR3 Provision at Main Estimates				1,015.1		1,105.1			
RFR3 at Winter Supplementary Estimates				1,015.1		1,015.1			
Winter Supplementary Estimates Total*	25,836.8	11,290.5	37,127.3	930.3	94.5	38,152.1	7,983.1	2	7,985.1

[1] Definitions of the column headings are shown at Annex 1.

[2] Minimal differences may occur due to roundings.

4. RfR1 PROVISION OF DEFENCE CAPABILITY- EXPLANATION OF CHANGES

Transfers In/Out

4.1 The Estimate includes three transfers in from Other Government Departments and five transfers out, which are detailed in Table 4.

Table 4

SHOWING TRANSFERS BETWEEN MOD AND OTHER GOVERNMENT DEPARTMENTS

<i>Transfers Out</i>	<i>RfR</i>	<i>£M</i>	<i>Purpose</i>
Her Majesty's Treasury	1	(0.045)	Transfer to the Centre of Expertise for Sustainable Procurement administration costs—a pan-Government initiative.
Cabinet Office	1	(0.040)	Transfer for contribution to the Government's Secure Zone Fund costs.
Department for Business, Enterprise and Regulatory Reform (BERR)	1	(4.000)	MoD Contribution to the Chemical and Nuclear Weapons Disposal Pool.
Foreign and Commonwealth Office (FCO)	2	(16.000)	Stabilisation Aid Fund costs transfer for Iraq & Afghanistan.
Department for International Development (DIFD)	2	(1.970)	Stabilisation Aid Fund costs transfer for Iraq and Afghanistan.
Transfers In			
Foreign & Commonwealth Office	1	2.800	Contribution for Helicopter pilot training costs.
Cabinet Office	1	0.209	Transfer for the Parliamentary Counsel costs.
Foreign & Commonwealth Office	2	2.400	Contribution to the Balkan Conflict Prevention Pool Costs.
Total Net Transfers Out		(16.646)	

End Year Flexibility

4.2 The Department may draw down its end year flexibility for resource and capital in the Spring Supplementary round.

Transfer of £1 billion Budgetary Flexibility from Capital DEL (SUME) to Resource DEL

4.3 Spending on Single Use Military Equipment (SUME) is classified in the National Accounts as resource rather than capital expenditure. Under the terms of the Comprehensive Spending Review (CSR), MoD has been permitted to transfer elements of its budget from SUME to near-cash resource DEL. For 2007–08 the transfer amounted to some £400 million. At the time of 2008–09 Main Estimates the level of any transfer required for 2008–09 had still to be agreed between MoD and HM Treasury. In Winter Supplementary Estimates a transfer of £1 billion for the current year is sought. A further transfer is likely to be sought in the course of the next financial year.

Additional Fiscal Capital Request of £50 million

4.4 The Winter Supplementary Estimate includes a request for an additional £50 million fiscal Capital. This is primarily to cover for the forecast down turn in expected receipts from the disposal of MoD land by Defence Estates.

*Other Changes***AME Items**

4.5 There are no changes to RfR1 Resource AME at Winter Supplementary Estimates.

Non Budget Items

4.6 The changes to Non Budget at the Winter Supplementary Estimate reflect the re-classification of the museums from Voted DEL to Non Budget.

Neutral Sub Head Budget Transfers

4.7 The changes under these sub-headings reflect alterations to TLB allocations of Resource and Capital funding to bring the allocations into line with responsibility transfers between TLBs, and other funding adjustments to align TLB provision with the outcome of the Department's planning round which was finalised after Main Estimates. The capital transfers between sub heads are principally for transfers of budgetary provision from "customer" budgets to Defence Estates, which is responsible for most estate expenditure. There are related IRDEL cost re-allocations associated with the Capital budget re-allocations.

Non Operating Appropriations in Aid

4.8 The Non-Operating Appropriations in Aid changes to the Winter Supplementary Estimate reflect the anticipated receipts from the sale of the Defence Aviation Repair Agency (DARA), and QinetiQ, with a corresponding increase in gross capital expenditure.

Grants in Aid

4.9 There are five Grants in Aid increases recognised in the Winter Supplementary Estimates. The grant in aid of £0.075 million to the Royal Naval Museum (for the single RN museums project set up costs); £1 million for the Royal Hospital Chelsea (superannuation payments and additional running costs for the new infirmary); £0.400 million for the Royal Air Force Museum (roof repairs and maintenance for the Hendon Museum); £0.395 million for the National Army Museum (mainly for asbestos removal, increased fuel costs and a special exhibition on the relationship between the Army and the public); and £0.080 million for the Armed Forces Memorial (in-year maintenance costs). The Grants in Aid have been allocated within the existing provision of the TLBs' current DEL.

Implementation of stage 1 of the International Financial Reporting Standards

4.10 The Department has implemented part of the IFRS requirements at Winter Supplementary Estimates. The first stage of the IFRS implementation relates to discounting of long-term debtors/liabilities and the movement on financial derivatives on forward purchase contracts. The impact of these changes score to IRDEL. The Department has estimated a neutral impact overall at Winter Supplementary Estimates, and will revise its forecasts in the Spring Supplementary Estimates because of the high volatility of these transactions at present. The impact of FRS 23, which relates to valuing all foreign currency transactions at spot rate rather than using the General Accounting Rate (which was aligned to the buy forward rate) will be implemented in the Spring Supplementary Estimates.

5. REQUEST FOR RESOURCES 2: OPERATIONS AND PEACE KEEPING

5.1 The Winter Supplementary Estimate requests an additional £1,397 million for peace keeping operations in Iraq and £2,318 million for peace keeping operations in Afghanistan. This is summarised in Table 5 below, with a more detailed analysis is shown in Table 6. The increase reflects the demands of the operations concerned, in particular the need for Urgent Operational Requirements. There are transfers of funding out to FCO (£16 million) and DIFD (£1.97 million) being the MoD's contribution to the Government's Stabilisation Fund. There is also a transfer in of £2.4 million from the FCO as a contribution to the Balkans cost of operations. A further transfer in from DIFD will be made in the Spring Supplementary round for their contribution to the Global Pool costs.

Table 5

SUMMARY COST OF OPERATIONS AND PEACE KEEPING CLAIM AT 2008–09 WSE

<i>Operation</i>	<i>Direct Resource DEL £M</i>	<i>Indirect Resource DEL £M</i>	<i>Capital DEL £M</i>	<i>Total WSE request 2008–09 £M</i>	<i>Outturn 2007–08</i>
Iraq	971	170	256	1,397	1,457
Afghanistan	1,331	180	807	2,318	1,504
Balkans	2			2	26
Stabilisation Fund contribution out to FCO and DIFD	– 18			– 18	0
Total	2,286	350	1,063	3,699	2,987

5.2 The current cost estimate for operations in Iraq, Afghanistan and the Balkans for the 2008–09 Winter Supplementary Estimates is shown in Table 6.

5.3 The Department has requested the £350 million Indirect Resource DEL from the Treasury Reserve to cover cost of capital, depreciation and impairment charges associated with fixed assets purchased under Urgent Operational Requirement arrangements. These are continuing non-cash charges associated with holding these assets and are charged to RfR2 for as long as they are deployed on operations.

Table 6

THE ESTIMATED COST OF OPERATIONS IN AFGHANISTAN, IRAQ AND THE BALKANS AT WSE 2008–09

<i>Cost Type</i>	<i>Iraq £M</i>	<i>Afghanistan £M</i>	<i>Balkans £M</i>
Direct Resource DEL			
Civilian Personnel	17	10	1
Military Personnel	116	106	1
Stock/Other Consumption	195	379	6
Infrastructure Costs	119	147	5
Equipment Support Costs	332	385	6
Other Costs and Services	194	311	2
Income Foregone/ Generated (-)	– 2	– 7	– 2
Total Direct Resource DEL	971	1,331	19
Indirect Resource DEL	170	180	0
Total Resource DEL	1,141	1,511	19
Capital DEL			
Capital Additions	256	807	0
Total Capital DEL	256	807	0
Total Estimated Costs	1,397	2,318	19

5.4 The Department has revised the Estimate ambit for RfR2 to reflect the Committee's 2007–08 Spring Supplementary Estimates recommendations for a more detailed description of our RfR2 activities.

6. RfR3 WAR PENSION BENEFIT (WPB)

6.1 There are no changes to the RfR3 War Pension Benefit at Winter Supplementary Estimates.

7. THE DEPARTMENTAL EXPENDITURE LIMIT (DEL)

7.1 Table 8 shows the DEL from 2005–06 to 2008–09 for all RfRs. The Total DEL is calculated by adding Resource DEL, Capital DEL and deducting depreciation, which forms part of Resource DEL. Depreciation is excluded from Total DEL; including this as well as Capital DEL would be double counting. The figures are for Voted and Non-voted DEL; the Non voted DEL figure for 2008–09 is £137.561 million net of depreciation, and this is shown in more detail in the Notes to the Winter Supplementary Estimate.

Table 8**CHANGES TO MOD DEPARTMENTAL EXPENDITURE LIMITS**

	<i>2005–06</i> <i>SSE £M</i>	<i>2006–07</i> <i>SSE £M</i>	<i>2007–08</i> <i>SSE £M</i>	<i>2008–09</i> <i>ME £M</i>	<i>2008–09</i> <i>WSE</i>
Resource DEL	33,727	34,104	36,940	33,623	37,273
Capital DEL	6,798	7,448	8,120	7,871	7,984
Depreciation	– 8,168	– 7,401	– 8,218	– 7,418	– 7,747
Total DEL	32,357	34,151	36,842	34,076	37,510

8. ADMINISTRATION COSTS LIMIT

8.1 The Department introduced an Administration Costs Limit in its 2008–09 Main Estimates for the first time. There is a small reduction of £0.045 million reflecting a budgetary transfer to the Treasury, reflecting the MoD's contribution to the Centre of Expertise for Sustainable Procurement.

9. PROVISIONS AND CONTINGENT LIABILITIES

9.1 No changes have been made at WSE.

10. MACHINERY OF GOVERNMENT CHANGES

10.1 There are no Machinery of Government Changes.

11. IMPACT ON PSA TARGETS

11.1 The changes in provision sought are not linked to the overall achievement of the PSA targets to which the Department contributes our Departmental Strategic Objectives (DSO) but rather enables delivery across the range of outputs in accordance with our plans. However, a failure to grant the additional RfR2 allocation would undermine the prosecution of operations in Iraq and Afghanistan (PSA 30 and DSO 1).

12. NET ADDITIONAL CASH REQUIREMENT

12.1 The Net Cash impact for the Winter Supplementary Estimate is an increased requirement of £3,389.122 million. This is broken down in Table 2.

Annex 1**A. DEFINITION OF TERMS****1. Direct Resource Departmental Expenditure Limits (RDEL)**

This is a control aggregate within the resource budget. It excludes the non-cash items such as depreciation, cost of capital and movement in provisions. Direct Resource DEL is also known as “near cash in the resource budget”.

2. Indirect Resource DEL (IRDEL)

This covers items such as depreciation, cost of capital charges, movement in provisions, and the notional auditors' fees for the National Audit Office (NAO). This is also known as non-cash.

3. Total Resource DEL

This is the sum of Direct and Indirect Resource DEL.

4. Annually Managed Expenditure (AME)

Annually Managed Expenditure (AME) includes Programmes that are demand-led, such as War Pensions (RfR3) and exceptionally volatile items that cannot be controlled by the Department. AME also includes Programmes that are so large that the Department could not be expected to absorb the effects of volatility within them, such as cash release of nuclear provisions.

5. *Non-Budget*

Items of expenditure which are included in the Estimate, but are outside of DEL and AME eg Grants in Aid, Royal Hospital Chelsea. This is a Parliamentary control but not a Treasury control.

6. *Total Net Resources*

This is the net of items 1 to 5.

7. *Capital Departmental Expenditure Limit (CDEL)*

This is for new investment, including Capital additions, disposals, and the capital repayment of loans.

8. *Capital AME*

Includes the capital element of the loan repayments for self-financing public corporations, such as QinetiQ.

9. *Total Net Capital*

This is the sum of the above capital items.

10. *Total Near Cash*

This is the total accrued expenditure spend and is the sum of Direct RDEL and Capital DEL.

11. *Request for Resources 1*

Provision of Defence Capability, provides for expenditure primarily to meet the Ministry of Defence's operational support and logistics services costs and the costs of providing the equipment capability required by defence policy.

12. *Request for Resources 2*

Request for Resources 2 provides primarily for the additional costs of peace keeping and operations. These are the net additional costs incurred: the costs that the Department would have incurred regardless of the operation taking place, such as wages and salaries are recorded against RfR1.

13. *Request for Resources 3*

War Pensions and Allowances, etc. provides primarily for the payments of pensions and allowances for disablement or death arising out of war or service in the Armed Forces after 2 September 1939, and associated non-cash items.

B. LIST OF ABBREVIATIONS USED IN THE ESTIMATE

AME	Annually Managed Expenditure
CSR	Comprehensive Spending review
DE & S	Defence Equipment and Support
DSO	Departmental Strategic Objective
EYF	End Year Flexibility
FCO	Foreign and Commonwealth Office
GAR	General Accounting Rate
HCDC	House of Commons Defence Committee
MoD	Ministry of Defence
NAO	National Audit Office
NDPB	Non Departmental Public Body
PSA	Public Service Agreement
RfR	Request for Resources
SSE	Spring Supplementary Estimates
SUME	Single Use Military Equipment
UOR	Urgent Operational Requirement
WSE	Winter Supplementary Estimates

Annex 2

ARMED FORCES RETIRED PAY, PENSIONS, ETC
2008–09 WINTER SUPPLEMENTARY
ESTIMATES MEMORANDUM

REQUEST FOR RESOURCES 1—ARMED FORCES RETIRED PAY, PENSIONS, ETC

1. *Summary of Changes sought in the Winter Supplementary Estimate*

The Armed Forces Retired Pay and Pensions Winter Supplementary Estimate seeks an increased net cash requirement of £30 million.

2. *Detailed Explanation of the Change and Allocation*

The increase in the net cash requirement of £30 million arises from higher than anticipated lump sum payments and Early Departure Payments.

There is additionally an increase of £1k resource is a nominal sum required to process the additional cash requirement.

3. *Changes to Cash Requirement Allocation*

There is an increase in the net cash requirement of £30 million as a result of these changes.
