

**Report by the
Comptroller and Auditor General**

Ministry of Defence

**Kosovo:
The Financial
Management of
Military Operations**

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Executive summary

1 The Armed Services of the United Kingdom made a major and successful contribution to the NATO operation in Kosovo. They were not only successful in the direct security remit - they provided 48 aircraft for the air campaign, and had up to 10,500 personnel in the region at the peak of activity in June 1999 - they also made a major contribution in the wider sense of helping to rebuild infrastructure and relationships. All this is an outstanding testament to the professionalism and commitment of our armed forces. And it should also be noted that the complex, multinational operation had to be planned and, initially, conducted in circumstances where there was considerable uncertainty about the behaviour of Yugoslav/Serbian forces and militia, and of the returning Kosovan refugees. Once engaged on peacekeeping, facilities for our soldiers in Kosovo have been basic, and they have been exposed to summer temperatures in excess of 40° centigrade, and winter temperatures below minus 15° centigrade.

2 This Report looks at the financial management of the United Kingdom element of the operation, within that overall context. It sets out the assessment and reporting of additional costs, and then follows the main areas of additional cost - air campaign and initial deployment, accommodation and staff support, and equipment and logistics, before closing with an overview of financial management controls in-theatre. It follows-up our similar Report on the operation in the former Yugoslavia (Bosnia).

Costs

3 The approach to costing deployments – agreed by the Committee of Public Accounts following their inquiry on the Bosnia operation – is based on the identification of costs additional to those that would have been incurred without the deployment. On that basis the Department estimated, in late November 1999, additional costs at £398 million for 1999-00 and these monies were voted to the Department as part of the Spring Supplementary Estimate. In February 2000, however, the Department revised their cost estimate to £342 million, largely as a result of slippage in provision of accommodation and replenishment of munitions. Estimates of additional expenditure actually incurred have been provided to Parliament at approximately monthly intervals since April 1999. But forecasts of the additional costs were provided to Parliament, in the form of evidence to the House of Commons Defence Committee, only in January 2000 and only for 1999-00 (paragraphs 2.2 to 2.10).

4 In examining the Department's cost figures, we found that they had applied the costing convention as accurately as their costing systems would allow, but that the convention itself produced some anomalies, and did not fully capture the value of extra resources applied to our participation in the Kosovo Force (KFOR). Differences related mainly to assets lost or damaged – such as the loss of a Hercules on take-off, with a net book value of £1.3 million - and munitions dropped. Such items only become assessed as an additional cost when and if they are replaced. Expenditure on campaign accommodation was correctly assessed as 'additional' for the year in question. Nevertheless, there were potential overlaps between additional funds provided for Urgent Operational Requirements and programme funding for pre-existing planned procurements. The Department have told us that they will take account of the enhanced capabilities provided by the additional funds when assessing future funding requirements (paragraphs 2.11 to 2.16 and 2.18).

5 As well as additional costs, the Department require budget holders to identify any offsetting savings. These may arise if training exercises are cancelled or if personal allowances are lower during operational deployments. For the Kosovo operations savings amounted to £3.4 million despite over 30 exercises being cancelled. This contrasts with recent experience in Mozambique where there were savings of £0.6 million and when one exercise was cancelled (paragraph 2.17).

6 A proportion of the Department's additional costs relate to provision of general services to NATO - such as our support to the Headquarters Allied Command Europe Rapid Reaction Corps, the command of KFOR for the first six months - or to other nations, Government Departments or humanitarian organisations. Some or all of those costs can be recovered. We examined the Department's systems for identifying and recovering such costs. We found that they had identified costs for recovery of £10.6 million, of which £5.7 million had been recovered by January 2000, and the largest outstanding amount was for £3.7 million payable by NATO expected to be recovered in 1999-00. At lower levels, the Department had not collated or raised invoices on all food, fuel and other services provided to other nations in Kosovo (paragraph 2.19).

7 The Department should:

- report the forecast costs of the deployment to Parliament at the earliest opportunity - in line with their undertaking to the Committee of Public Accounts, following the Committee's scrutiny of operations in Bosnia;

- consider preparation of a ‘resources consumed’ costing, drawing on Resource Accounting and Budgeting developments, to supplement their ‘additional costs’ statements. For some purposes, the former provides a more complete view of the United Kingdom’s additional contribution to operations;
- make clear any ‘additional costs’ which are already planned for years outside the report period, and therefore do not represent additional funding over the longer term;
- ensure that all savings resulting from the operations are identified and the cost figure put forward for additional funding is the net cost; and
- ensure that all outstanding debts and liabilities are swiftly identified, and cost recovery action initiated.

The air campaign and initial deployment

8 The United Kingdom made a significant contribution to the air campaign, flying 10 per cent of NATO strike sorties and dropping over 1,000 bombs. The extra costs relating to the air campaign centre on the replacement of munitions, and the additional flying undertaken by support aircraft for refuelling and transport activities. These additional flying costs were for extra fuel and spares consumed but do not include any estimates for additional wear and tear on the actual aircraft (paragraphs 2.13 to 2.14 and 3.3).

9 The Department judged the air campaign to be a success - in that NATO secured Serb agreement to its objectives, and an unopposed entry for KFOR into Kosovo. The main lessons emerging from the Department’s review have centred on gaps in capability - particularly the inability to strike targets accurately from medium altitude in adverse weather conditions. On the support side, there were shortages of spares for some aircraft, and of skilled ground crew. The rate of consumption of precision guided munitions was at times a cause of concern and required urgent procurement action. In the event when the air campaign was suspended, stocks were sufficient to continue the campaign for some time but experience in Kosovo has reinforced the need to keep stockpiles of precision guided munitions under close review. The number of bases at which RAF assets were deployed also caused some difficulties and extra cost (paragraphs 3.2 and 3.4 to 3.5).

10 While planning the air campaign, military staff were also analysing options for the land phase of the operation. Having defined the precise United Kingdom forces needed, following a series of NATO planning iterations to sort out overall needs and the contributions of the various allies, deployment began - initially to holding camps in The Former Yugoslav Republic of Macedonia and Albania. In forming units to deploy, the Department had to 'top-up' personnel in the chosen units to take them to a full complement. That action reflects the strain put on Service personnel by the number of operations underway, while being below planned manning levels. And some of the more specialist staff, such as those in signals or logistics, are particularly heavily engaged on deployments (paragraphs 3.6 to 3.8).

11 Deployment highlighted the lack of heavy lift capability already identified in the Strategic Defence Review. On this occasion, however, the Department managed the chartering of the vessels quickly and effectively - making sure that they secured the necessary charters before similar action by allies forced up charter prices. Heavy air lift presented more problems since, given Russian criticism of the NATO air campaign, the Department faced difficulties during the campaign in chartering the Russian-registered aircraft operated by commercial firms - the Russian registration meant that certification could be withdrawn, grounding the aircraft. Nevertheless the Department made use of commercial heavy air lift before and after the air campaign, supplemented by some use of American military aircraft - although those aircraft were in great demand to support the American deployment (paragraphs 3.10 to 3.12).

12 Military staff played a full part in providing assistance to refugees in Albania and Macedonia, despite the need to finalise plans for the expected military deployment into Kosovo. For example, United Kingdom forces assisted in the establishment of refugee camps, food supply, and the provision of utilities (paragraphs 3.16).

13 The Department should:

- press ahead with their plans to change their balance of equipment and weaponry to reflect the needs of deployment actions such as Kosovo; and
- build on recent experiences of humanitarian support activity in framing military training for deployment, and in maintaining relationships with other stakeholders in this field.

Infrastructure and services

14 Following the advance into Kosovo, United Kingdom forces had to select suitable bases from which to command their sector and deliver the objectives required of them. They were able to secure suitable offices and workshops, largely occupying former state buildings on which they would pay no rent or compensation, under the terms of the Military Technical Agreement signed with the Yugoslav/ Serbian authorities. In most cases, they had undertaken initial building conditions surveys, to protect them from the risk of unsubstantiated claims for compensation for damage. The Department now require such surveys to be undertaken of all occupied buildings (paragraphs 4.7 to 4.8).

15 Accommodation for military personnel was not so readily available. While some troops were accommodated initially in former hotels and similar buildings, most lived in tents. At the outset, these tents were the same as those used in Bosnia - and which afforded accommodation that was too hot in summer, and too cold in a Balkan winter. The planned response to these problems - the development of an Expeditionary Campaign Infrastructure - had not advanced sufficiently by the start of the Kosovo campaign to provide a solution. The Department therefore set in train two urgent procurements: one, Improved Tented Camps, designed to provide a quick improvement in tented accommodation; and the other, Temporary Field Accommodation, to provide modular hard-walled accommodation for the expected duration of the deployment (paragraphs 3.13 and 4.10 to 4.12).

16 There have, however, been problems with both projects:

- some shower units for Improved Tented Camps were damaged in transit, as some of the units were lifted from the top rather than from the floor as specified (paragraph 4.15);
- there has been substantial delay in the Temporary Field Accommodation project, with the result that troops were only in Improved Tentage in the depths of winter – the first camp was handed over in February and the last camps are not expected to be handed over until the end of May when they were all contracted to be handed over before the end of December (paragraph 4.17);
- the required number and configuration of Temporary Field Accommodation camps changed after contract signature. The changes may make it more difficult for the Department to recover liquidated damages for the full period of late delivery - even though the operational cause of much of the delay rests with the contractor (paragraph 4.18); and

- on both projects, not all equipments were in the event deployed in theatre. Surplus equipments are being held in the United Kingdom and provide an expeditionary accommodation reserve (paragraphs 4.14 and 4.19 to 4.20).

17 Despite these problems, the standard of field accommodation will be substantially improved by the combination of these projects when completed – and the Improved Tented Camps may be used on other deployments in the future. We note, however, that the earlier equivalents of Temporary Field Accommodation used in Bosnia, while nominally mobile, were in an insufficiently sound condition after three years to permit redeployment to Kosovo. And given the likely costs, the Department do not intend to recover the mobile shower and washbasin units deployed in Kosovo as part of the Improved Tented Camps. It may be, therefore, that not all elements of Temporary Field Accommodation will be redeployable in practice (paragraphs 4.10 and 4.20).

18 The Department have to provide medical support for their troops which consists of field units with limited facilities, and a more advanced facility which can treat some injuries and stabilise more serious cases before passing them back to the United Kingdom for further treatment. The latter facility was based initially at Lipljan, some 10 miles from Pristina, the main concentration of United Kingdom forces. Facilities in Lipljan were basic, with tents being erected within damaged buildings. Given the need to set up improved medical facilities urgently, local staff let a contract for converting an existing building in Pristina. After studying the plans, London medical staff concluded that the facilities would be inadequate. The contract was cancelled and the Department paid £228,000 to the contractor in respect of materials provided and work done. In the meantime, the Department have deployed a modular field hospital unit located in Pristina which provides most, if not all, of the benefits the converted building would have provided. Full facilities will likely await a decision between the main nations in the peacekeeping force about the possibility of a joint, new-build hospital (paragraphs 4.34 to 4.38).

19 The provision of good quality food, and associated catering, is another important element in the support of the operation. Food supply has been contracted out to Supreme, who have performed well in delivering food responsively, and in difficult circumstances. An enabling agreement provides a framework for food supply rather than a full contractual commitment: that will change when formal contracts for food supply in both Kosovo and Bosnia are put in place in mid 2000. On the catering side, we noted that units deployed with too few chefs, putting great strain on chefs who were deployed. The food produced has been, nonetheless, of high quality and good variety (paragraphs 4.21 to 4.26).

20 We found that soldiers were pleased with the quality of their new combat uniform - 'Combat Soldier 95' - and with the relatively rapid deployment of leisure facilities such as gym equipment. They were less content with the provision of communications home, which took some time to be put in place in all units (although there were limited communications for some units within 48 hours of deployment into Kosovo), were initially unreliable, and despite an increase in the length of free phone calls to 20 minutes a week, compared poorly with the facilities afforded some international colleagues. The Department sought to learn lessons from Kosovo and made improvements for the subsequent East Timor operation, deploying welfare satellite communications along with units (paragraphs 4.27 and 4.29 to 4.31).

21 Senior officers told us that the quality of accommodation, ablutions, food and welfare were crucial factors influencing the morale of deployed troops, and hence their performance. In the course of time, they would also affect recruitment and retention. While there have been improvements in the quality of these services since the Bosnia deployment, the Department were not able to achieve the quality they desired in the early phases of the deployment.

22 The Department should:

- press ahead quickly with their Expeditionary Campaign Infrastructure project, taking full account of the Improved Tented Camp and Temporary Field Accommodation components to be held as a reserve, to ensure that any future deployment does not suffer from further delays in securing suitable troop accommodation;
- ensure that they contract for accommodation in a way that recognises and protects against the inevitable uncertainties of deployments – integrated project teams should ensure a closer relationship between commercial and engineering staff both in the Department and with the prime contractor; and pursue vigorously their rights under the current contracts;
- consider the merits of securing deployable, modular medical facilities capable of providing adequate facilities until any new build or conversion can provide permanent facilities, and which easily integrate with the rest of the Expeditionary Campaign Infrastructure;
- build on the successful enabling arrangements for food supply in negotiating a firm contract for future supply;

- ensure the quality and speed of provision of welfare communications meets standards defined in advance; and
- consider more generally the lessons arising from the use of contractors during operations where there have been a number of major successes, identifying those factors that contributed to the major successes as well as analysing areas for improvement.

Vehicles and equipment support

23 The Department deployed a range of vehicles and equipments to Kosovo, including armoured vehicles, utility vehicles, communications equipments and support equipments - but not civilian vehicles, which were left in home bases. For fighting vehicles, the key operational measure is of availability of vehicles to commit to operations. On this measure, the vehicle fleet performed very well, meeting or beating targets for all fleets, bar some small fleets of specialised vehicles. The reliability of vehicles, the factor that drives the cost of vehicle maintenance, could not be discerned from the Department's records, save for specific attention the engineering personnel deployed in Kosovo had paid to recording the reasons for failures of selected powerpack and other high value items. This lack of information is unchanged from that revealed in our report on Bosnian operations, and compares poorly with other fleet-managing organisations (paragraphs 5.1 to 5.12).

24 Support for equipment was well organised, with impressive depot maintenance facilities, and a clear desire to minimise maintenance staff and spares holdings once a pattern of usage had been established. Good equipment availability was achieved despite the spares supply system struggling to meet priority related supply time targets - the time taken to supply the main depot in Pristina - with local distribution to units taking up to a further three days. The Department's logistics IT systems cannot as yet monitor the overall time taken for individual items to arrive in Pristina. In the absence of firm data, the best evidence on supply performance was provided by deployed units in theatre whose experience was that average pipeline times exceeded targets, although extended pipeline times did not cause them operational problems. That failure arose partly from the time taken for land or sea re-supply of Kosovo, and partly because of lengthy turnaround times for items sourced from United Kingdom depots. Delays occurred both as a result of reprovisioning of stocks and depot processing - in part because the Department did not have an effective IT-based warehouse management system until November 1999. When measuring depot performance, the Department monitor the time taken to process demands only when the depot

holds stock – if stock has to be reprovisioned then the time taken to reprovision stock plays no part in the assessment of depot performance (paragraphs 5.13 to 5.16 and 5.29 to 5.34).

25 The quality and availability of communications was another area of major importance. The Department's own lessons learned work has identified problems with brigade communications failing when on the move, and with the poor security of tactical radio systems at all times. We found the latter problem still evident when we visited Kosovo, although the availability of other communications systems had been good, if not fully at the levels desired. We also found that local purchase of a large number of commercial mobile phones had been necessary, partly because the Kosovan land line system was less reliable than expected, and partly because contact with civilians was an essential part of the peacekeeping process (paragraphs 5.38 to 5.43).

26 The Department should:

- build on the success of their equipment support arrangements, by working on the remaining problem areas such as the support of small numbers of specialist, but important, vehicles;
- rectify the poor quality of data available on reliability, which is crucial to both minimising the cost and logistics burden of high volumes of spares, and to the improvement of fleet reliability over time. Better data are also required on the usage of equipments and the reasons for failure of equipments;
- make clear the basis for setting targets for the turnaround of spares requests and ensure that they have effective systems for measuring performance on the same basis as the target, focusing on those factors which are important to the customer - such as overall supply time;
- investigate the reasons for extended turnaround of spares requests in the logistics chain in the United Kingdom, and consider whether the system for prioritising requests and assigning target resupply times should be made more theatre-specific;
- look to solve quickly their problems with the security of tactical communications; and

- factor in the need not only for secure military communications, but ready communication with civil authorities, to future deployment planning.

Control of materiel and finances

27 In our earlier report on operations in Bosnia, we found that the information on assets held in theatre, and the controls exerted over stock held, were flawed. When we visited Kosovo, we found that substantial improvements had been made. The Department had introduced an asset tracking system, designed to capture equipments when first deployed, confirm their existence at six monthly intervals, and then check them out when they were returned to home bases. That system had helped obtain a £75 million cost recovery from the United Nations when it was introduced in Bosnia. The quality of stocks and stores management had improved dramatically, with the full range of normal stores management controls operating effectively, and with no major losses or discrepancies arising (paragraphs 6.2 to 6.4 and 6.8 to 6.10).

28 There were, however, some areas capable of further improvement:

- the asset tracking system, while valuable, is not yet fully accurate, and information collected for this purpose is not integrated with other equipment management data – the Department’s planned developments in asset tracking systems should help (paragraphs 6.5 to 6.7);
- ammunition was stored in a site which did not meet normal safety requirements; and during the initial deployment ammunition deliveries could not readily be reconciled to supporting documentation, although that problem was resolved quickly (paragraphs 6.12 to 6.15);
- fuel stores can be estimated only by dipping the tanks - an inaccurate method - while those in charge of fuel stocks must account in detail for fuel (paragraph 6.20); and
- medical stores were not as tightly controlled, nor as well protected, as other stores, although we found no evidence of losses or unnecessary deterioration of supplies. We did note, however, a substantial volume of medical stores which may have to be written-off in theatre because they have a finite shelf-life, and given current levels of demand in theatre are unlikely to be used nor can they be taken back into main stores because of the lesser standards of storage in local stores (paragraph 6.17).

29 Financial control was of a high standard. Civilian finance and contracts staff had been deployed into Kosovo alongside the military force, and had helped set up sound financial systems and provided ready support to military staff. The “cash” nature of the local economy posed special risks to propriety, but sensible controls had been put in place to ensure, for example, separation of duties between expenditure authorisation and payment authorisation, and reconciliations of cash holdings (paragraphs 6.22 to 6.32). Our main observations were:

- the absence of specialised stationery for documentation such as completion certificates in support of invoices from contractors and, in some instances, of authorised signatory lists, could have undermined otherwise sound control systems (paragraph 6.31);
- arrangements for paying locally employed staff were over-bureaucratic, with some processes adding no discernible value (paragraph 6.29 to 6.30);
- in letting contracts, it was not always clear that opportunities were taken to aggregate unit requests and achieve economies of scale once operational circumstances permitted (paragraph 6.27); and
- the system for reviewing the level of overall write-offs in-theatre did not function well - although the level of actual write-off was relatively low (paragraphs 6.33 to 6.34).

30 In learning administrative lessons from the Kosovo operation, the Department should:

- look to integrate the asset tracking system with broader equipment management information initiatives, and make use of unit staff to ensure records are accurate and complete;
- make sure that the quality of stores management is consistent across storage areas, and that when dispensing stock, such as fuel, measuring equipment can meet the standards of accounting demanded;

- view the deployment of civilian expertise in much the same way as they do for military capability, maintaining a rapidly deployable corps of experienced and/or suitably trained staff, and of any supporting infrastructure - such as deployable office equipment or specialised stationery - as may be appropriate; and
- provide a mechanism for local review of the balance of central control and delegation of financial powers to military units, in the light of demonstrated unit competence to control and account for expenditure.

31 Overall, the quality of financial and materiel management in Kosovo represents a clear improvement over that demonstrated in Bosnia, and in many areas achieves the Department's objectives to reach peacetime accounting and stewardship standards in operations such as Kosovo. In some cases, however, notably in that of information and communication, failings in current equipment or systems limit the Department's ability to act cost-effectively. And in other areas, such as transport and accommodation, equipment is not yet fully suited to the type of deployment represented by Kosovo. Nonetheless, the quality of management on the ground was such that the impact of any systematic weakness was minimised, and the operation a notable success. That professionalism was reflected in informal comment to us from soldiers in other nations' peacekeeping contingents in the British sector - that the British were their 'partners of choice'.