NATIONAL AUDIT OFFICE

MINISTRY OF DEFENCE

Assessing and Reporting Military Readiness

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 72 Session 2005-2006 | 15 June 2005

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EXECUTIVE SUMMARY

1 Readiness is the term used to describe the means by which the Ministry of Defence (the Department) holds its military forces at varying levels of preparedness to respond to emerging operations. An effective system for assessing and reporting readiness is essential for all modern day Armed Forces. A readiness system gives a snapshot but also indicates trends which enable action to be taken to mitigate risks, tackle any deficiencies and plan for the future.

2 Ultimately, perfect readiness - having sufficient, well equipped, well supplied people in the right place at the right time to deal with any given situation which, in all probability, will have been unforeseen, is not achievable or even desirable. The cost of keeping forces 'ready' for contingencies has to be balanced against the likelihood of such contingencies occurring and the warning and preparation time available to respond. The Department, therefore, plans on maintaining forces at a variety of 'peacetime' readiness states and to be able to reconfigure forces to respond to contingencies within specific readiness times.

3 The ability to be ready has become increasingly demanding over the last three years and this trend is likely to continue. A good readiness reporting system is particularly important given the unpredictable nature of today's security environment, coupled with a high operational tempo. This has been confirmed in recent operations, including Operation TELIC in Iraq.

4 Against this background we examined whether the Department has a clear view of its readiness to undertake emerging operations. The methodology we adopted is set out at Appendix 1.

5 We found that the Department has a good system for reporting the readiness levels of the Armed Forces. It is continuously improving; it is used by commanders who have expressed confidence in it; recent operations have validated it, and it compares well with systems used in other countries. Reporting of readiness to external stakeholders has also developed but there is scope for further improvement. In addition, given the unpredictable security environment and high operational tempo, the Department needs to continue to develop its arrangements for addressing risks to readiness.

The Department has a good system for reporting the readiness of its Armed Forces

6 The Department has developed a sophisticated system for defining, measuring, and reporting the readiness of the Armed Forces. It assesses the readiness of individual Force Elements (for example, an armoured brigade, a ship or squadron of aircraft) which are then aggregated to give an assessment of the readiness of larger units or even the Armed Forces as a whole.

7 Measuring and aggregating readiness is a complex business. For 'peacetime' readiness requirements the three Services each set specific parameters for key elements of readiness such as manning levels, equipment support and collective training (that is the training units do together to ensure they can fight effectively as part of a larger force) which, if achieved, should allow them to deploy for their primary role within a set period. Assessments can be made against this firm baseline.

8 Measuring how ready forces are in reality for contingent operations is intrinsically more challenging, not least in answering the question 'ready for what'? As part of its planning process the Department has developed a number of planning assumptions. These are, in turn, based on a range of potential future scenarios, which are used to estimate the level of forces that might be required for contingencies at the 'scales of effort' described in the December 2003 Defence White Paper[1] and the additional training, manpower and logistic support that might be required to deploy and sustain them on operations.

9 The actual state of readiness against both peacetime requirements and future contingencies is then reported through a 'traffic light' information system which, depending on the reported state, shows the readiness state as being Green (satisfactory), Yellow (minor weakness), Amber (serious weakness) or Red (critical) and gives an accompanying explanation.

10 The readiness reporting system is continuously evolving and has proven itself over time. Military commanders who use the information to assess whether deployments can be made, or where there are problems to the readiness of forces, have expressed confidence in it. Recent operations have also largely validated the accuracy of the readiness reporting system in that readiness issues experienced on operations were largely those identified in advance. The system is also broadly similar to those used in other countries, for example, Australia, Denmark and the United States, and compares well with them.

Reporting of readiness to external stakeholders has improved but there is scope for further improvement

11 Reporting readiness states to those outside the Department is difficult, not least because readiness is a complex subject and because of security issues. The Department, nonetheless, has negotiated a Public Service Agreement target for readiness with the Treasury and reports progress against that target publicly on the Treasury and Departmental website and in its annual report and accounts. The Department has improved the target over the last few spending rounds and introduced a new target in April 2005. This target will cover the readiness of all Force Elements, and the various criteria against which readiness is assessed will be explained and reported more explicitly **(Figure 1)**.

1 Secretary of State for Defence, *Delivering Security in a Changing World,* London, The Stationery Office, 2003.

1 Public Service Agreement readiness target from April 2005

The readiness target for the three years from April 2005 covers a wide range of activities.

Target: Generate forces, which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives

Performance under this target will be measured against the following criteria by 2008:

- Peacetime readiness of all the Force Elements required to rapidly conduct the most demanding scale of effort shows a five per cent increase in the numbers reporting no serious or critical weakness, compared with Quarter 4 of 2004-05.
- Ability of Force Elements to generate from peacetime readiness, to immediate readiness for deployment on operations shows a five per cent increase in the numbers reporting no serious or critical weakness, compared with Quarter 4 of 2004-05.
- Ability of the Department to deploy its Force Elements, sustain them in theatre and thereafter recover them shows a five per cent increase in the numbers reporting no serious or critical weakness, compared with Quarter 4 of 2004-05.

Source: Ministry of Defence

12 The target introduced in April 2005 is a substantial improvement over previous Public Service Agreement readiness targets. It does, however, retain some limitations. For example, it requires a five per cent improvement in the number of Force Elements that have no "serious" or "critical" weaknesses to their readiness by March 2008 but, given the need to protect sensitive information about the state of units, it does not disclose the baseline performance. It is difficult, therefore, for external stakeholders to assess how significant such an improvement is. The target itself also offers no means for outsiders to assess at any point before March 2008 the extent to which the Department is on track to achieve its target, although in common with other Public Service Agreement targets the Department will provide a quarterly assessment of the degree to which it assesses it is on course to achieve these targets. And it is not clear how meaningful a five per cent target is when the proportion of Force Elements without "serious" or "critical" weaknesses can vary by more than 10 per cent within any one year.

Given the unpredictable security environment and high operational tempo, there are risks to the readiness of the Armed Forces for contingent operations that need to be managed

13 Any system based on graduated readiness – having forces ready at varying numbers of days notice – has inherent risks, the principal risk being that some factor will make it impossible for the forces to be ready for a new operation in time. Consequently, effective risk management is an essential component of readiness management.

14 The Department has a risk reporting system that includes readiness risks. The primary risks are reported quarterly to the Defence Management Board. The Department's risk management system has compared well in bench-marking exercises with other Departments. Below that, risk management arrangements across the Department are at various levels of maturity and further development is required to make best use of IT based systems, define more clearly mitigation actions and those who are responsible for managing particular risks. The Department has work in place in these areas.

15 Risks to readiness are managed against the background of an unpredictable security environment and military activity levels that for the last three years have exceeded the routine scale of effort envisaged in Defence Planning Assumptions. This position is expected to continue for the foreseeable future.

16 The Department has done well to identify the main areas of risk to readiness for contingent operations. It has also identified areas where more work needs to be done. For example, in aligning more closely the levels of support that the Defence Logistics Organisation provides with the levels front line forces require to meet readiness targets, the risk that increased operational tempo prevents adequate training and the need to define more clearly the 'Total Logistic Requirement' that might be implied by the scales of effort in Defence Planning Assumptions.

17 In addition, our examination indicated that more work could be done to:

a assess the degree of confidence that the risks identified are being successfully managed. For example, the Department is relying on urgent procurements to fill gaps in equipment levels within readiness timescales. As Operation TELIC showed this can be very successful, but current risk reporting arrangements do not provide any feel for the confidence that the Department has that the proposed mitigation measures will reduce the risk;

b evaluate the longer term risks to readiness of the practice of redistributing personnel and equipment from non-deploying units to those Force Elements required for operations. The Department currently relies heavily on redistributing people and equipment to bring Force Elements up to sufficient strength to deploy on operations and expects to continue to do so in the future. This practice is known colloquially as "cannibalisation". It is particularly marked in the case of the Army as a result of the high pace of operations and is becoming more prevalent in the Royal Navy. While the practice may be a useful measure of last resort it could have consequences for value for money and there may be longer term problems. For example, cannibalisation is often inefficient and reduces the Department's ability to generate forces quickly for larger scales of effort. In the longer term it may reduce the pool of equipment available for other operations or training, while the constant pull on people may result in retention difficulties and shortages of key skills within the Services; and

c evaluate and, where necessary, manage the cumulative risk to readiness for further operations presented by numerous minor risks reported across the Department. The Department's management boards rightly focus on those risks that appear to present the greatest threats to their business objectives. But there is a potential danger that the cumulative effect of a series of minor risks within and between the various Departmental reporting chains could have serious impacts on the readiness of Force Elements for further operations.

RECOMMENDATIONS

18 Our recommendations are that the Department should:

- In taking forward proposed changes to the new Public Service Agreement targets on readiness, develop supporting material that:
  - makes information publicly available that, as far as possible, indicates the broad baseline from which improvements will be made;
  - provides information in its regular published performance reports by which the public can periodically assess whether the Department is on course to meet the targets (for example, milestones or a planned trajectory of improvement); and
  - uses a measure that does not fluctuate too widely in year, thus rendering achievement of the target too dependent on non-controllable events.
- Continue work to develop and improve readiness risk management in accordance with the wider governmental risk improvement agenda and, in particular, to:
  - Estimate and include in management reports, for each risk, the level of confidence that the Department has that the proposed mitigation action will address the risk in question, and the level of residual risk that remains. For example, the degree of confidence that urgent procurement action can fill gaps within readiness timescales, if required;
  - Take into account the potential longer term risks of relying on redistribution of people and equipment (in particular, cannibalisation) to the Department's ability to generate forces for the larger scales of effort envisaged in Defence Planning Assumptions when planning operations and reviewing the Assumptions;
  - Consider ways of designating a single risk owner for groups of related risks that are individually too small to feature in high level reports and which may cross management boundaries to ensure that they do not collectively constitute significant risk to readiness.

19 The Department has already initiated work in response to these recommendations. In particular, it is drawing up additional information that will enhance the reporting of the Public Service Agreement readiness targets.

PART ONE

The Department has a good system for reporting the readiness of its Armed Forces, and has improvements planned

1.1 This Part of the Report focuses upon the Department's readiness reporting system and how this has been improved in recent years. It examines the complexities inherent in attempting to accurately define and report readiness, and provides a brief comparison with readiness reporting systems developed by similar nations. It reveals where the Department has improved, and continues to improve, its reporting system; and what additional work is necessary to enhance the external (public) reporting of readiness as part of the Department's own Public Service Agreement target.

The Department has a system for defining, measuring and reporting the readiness of the Armed Forces

1.2 In recent years the Department has improved considerably its readiness reporting system, broadly in parallel with the shift towards expeditionary operations. Since it is both impractical and unaffordable to have everything ready for all types of operations, the Department has developed a reliable system of 'graduated readiness' for the routine management of forces and has identified in the Strategic Defence Review of 1998 and the Defence White Paper of 2003[2] a range of 'scales of effort' that it should be able to achieve within readiness times. This is underpinned by a mix of planning scenarios in order to anticipate likely future commitments, and thereby influence the overall size and shape of the Armed Forces.

Readiness is a complex subject

1.3 Readiness is the term used to describe the way in which the Department holds its military forces at varying levels of preparedness to respond to emerging operations. The Department measures the readiness of Force Elements; this might be, for example, an armoured brigade in the Army, an individual ship in the Royal Navy or an individual aircraft or squadron of aircraft in the Royal Air Force.

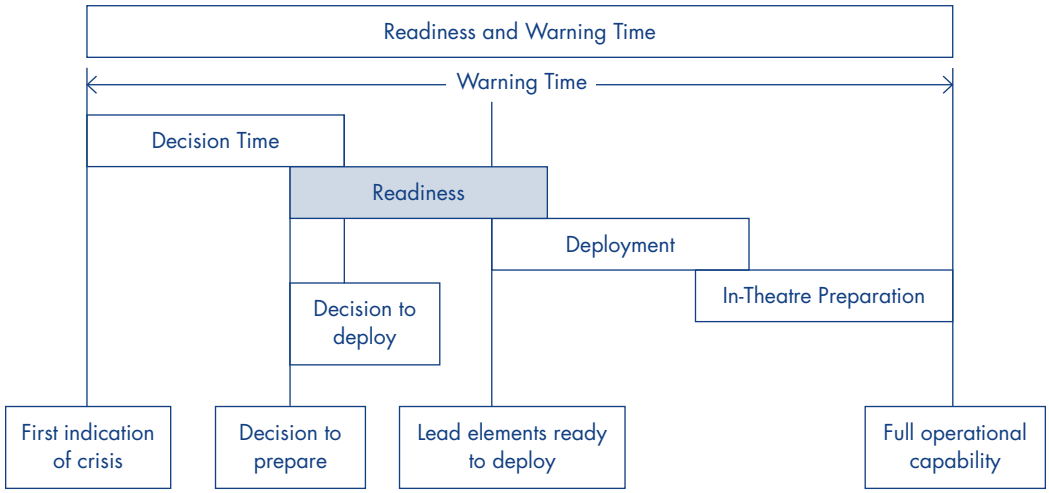
1.4 Determining the required readiness of a Force Element, and then assessing whether or not this is being achieved, is extremely complex. Each of the three Services has their own way of measuring readiness based on their particular operating practices. How this is done in practice is described at paragraphs 1.13 to 1.16.

1.5 The term 'readiness' itself is also often misunderstood. Some have taken it to mean that a force at five days readiness could be in theatre and ready to fight in that time. But in practice it broadly means that forces will be ready to deploy (for example, ready to leave their barracks) within five days. The total time from perceiving a threat to having forces in theatre ready to fight is known as Warning Time **(Figure 2 overleaf)**. Readiness is only one of four elements of this, which also consists of decision time; deployment time and in-theatre preparation. In-theatre preparation time varies considerably between different Force Elements, depending upon factors such as the nature of the operation and the environmental conditions of the region. For example, land elements, being manpower intensive, generally require longer in-theatre acclimatisation and training than ships or aircraft.

2 Secretary of State for Defence, *Delivering Security in a Changing World,* London, The Stationery Office, 2003.

2 Readiness and Warning Time

Readiness comprises one of four elements that make up Warning Time, the others consist of Decision Time, Deployment, and In-Theatre Preparation.



Source: Ministry of Defence

1.6 Perhaps the most difficult issue when determining readiness requirements is to ask the question 'ready for what?' Each operation, particularly in an era of expeditionary operations, is different in terms of its location, scale, duration and intensity of effort. For each operation, Force Elements are assigned to meet specific requirements and Force Elements need to remain flexible in order to adapt to particular operational circumstances.

1.7 In order to plan for future contingencies, the Department has developed a set of Defence Planning Assumptions. Until 2003, these assumed that the most demanding combination would be two medium-scale deployments.[3] The Assumptions were, however, modified in 2003 and made public in the December 2003 White Paper in order to reflect the more recent pattern of operations, with the emphasis on multiple concurrent medium- and small-scale deployments. The most demanding concurrency combination for some elements of the force structure has increased to two medium-scale deployments, together with a small-scale deployment.

1.8 Underpinning the Defence Planning Assumptions are various potential scenarios, such as amphibious operations, global counter terrorism, peacekeeping or humanitarian evacuation. Each of these can involve different environmental and operational challenges, against which more detailed potential force structure and readiness requirements can be developed. Although many of these scenarios use sophisticated modelling in order to assess Force Element requirements, they remain theoretical. These planning tools are critical to the Department's ability to plan against likely future commitments, offering a benchmark by which to measure and report readiness levels. They remain guidelines only, however, and are not intended to constrain decisions taken on the employment of the Armed Forces. The Department continues to place great emphasis on identifying lessons from real-world operations in order to inject a sense of reality into operational planning.

3 Depending upon the nature of the operation, for the Land component a small-scale operation is defined as approximately battalion-sized (500-1,000 personnel); brigade-sized (3,500-5,000) for a medium-scale operation; and roughly division-sized (10,000-20,000) for a large-scale operation.

Having everything ready all the time for all eventualities is impractical and unaffordable

1.9 The shift away from a defined operational area and identified enemy, to a strategy based upon expeditionary operations, has broadened the scope of potential operations. Holding Force Elements at readiness for all potential contingencies would be prohibitively expensive in terms of manpower, equipment, infrastructure and logistics.

1.10 Consequently, the Department holds its Force Elements at 'graduated readiness' levels. Some Force Elements are held at short notice to deploy whilst others are given gradually longer notice to reinforce or to replace units later in an operation. The more frequent incidence of operations in recent times demonstrates the necessity and relevance of having an effective graduated readiness system in place. **Figure 3** illustrates the various categories of graduated readiness, which may be assigned to Force Elements.

3 Readiness categories

Readiness categories describe the time taken to be ready to deploy on operations, appropriately manned, equipped, trained and supported to meet defined requirements and standards.

Readiness category	Abbreviation	Description
Immediate Readiness	R0	Force Elements ready to deploy, appropriately manned, equipped and supported
Extremely High Readiness	R1	At 2 days notice
Very High Readiness	R2	At 5 days notice
	R3	At 10 days notice
High Readiness	R4	At 20 days notice
	R5	At 30 days notice
Medium Readiness	R6	At 40 days notice
	R7	At 60 days notice
	R8	At 90 days notice
Low Readiness	R9	At 180 days notice
Very Low Readiness	R10	At 365 days notice
	R11	More than 365 days notice

Source: Ministry of Defence

1.11 At Extremely High Readiness (R1), for example, a Force Element will possess almost all of its established holdings of manpower and equipment, and be trained to a high standard. Further down the graduated readiness scale, units possess lower levels of manpower and equipment, based upon the assumption that use of the appropriate readiness mechanisms will give sufficient time to mobilise to the required levels.

The funded level of readiness is not designed to cover operations

1.12 Given the uncertainty surrounding the frequency, location, duration, scale and intensity of operations, Force Elements are only funded to their peacetime readiness levels. In colloquial terms, the nation pays for its Armed Forces to be ready for operations, but must pay extra to use them on such missions. The net additional cost of operations is met by the Conflict Prevention Fund or from the Government's Contingency Reserve.

The Department has a readiness reporting system

1.13 Recently, the Department has made significant progress in developing the means to measure military capability and, specifically, the readiness of its Force Elements to meet new circumstances. Under this system, individual Force Elements periodically report their levels of readiness against a number of specific criteria including: manpower, equipment, training and logistic support. Assessments are also made of their ability to deploy, be sustained and then recover from operations against the broader 'levels of effort' assumed in Defence Planning Assumptions.

1.14 These reports are then aggregated as they proceed up the chain of command, feeding into the Department's quarterly readiness reporting system, for use by senior commanders in order to consider options affecting resourcing and weigh decisions affecting the commitment of the Armed Forces worldwide. The quarterly readiness reporting system defines the ability to undertake future operations in three measures. The first (B1) measures the position of Force Elements in relation to their peacetime readiness states of R1 through to R11 (generically known as Rx – see Figure 3). These are the 'readiness' states or condition of Force Elements that the Front Line Commanders-in-Chief have undertaken to deliver within the Defence budget – the provision of military capability. The second measure (B2) provides an assessment of the ability of those Force Elements to get ready to deploy on operations (Rx to R0). The final measure (B3) looks at the ability to actually deploy to theatre, and conduct and sustain operations. This relationship is illustrated at **Figure 4**.

1.15 For ease of presentation, Force Elements (and groups of elements) are then categorised using a 'traffic light' system, comparing actual versus required capability; Green, signifying satisfactory performance; Yellow, representing minor weaknesses; Amber, serious weaknesses; and Red, denoting critical weaknesses. **Figure 5** defines 'serious' and 'critical' weaknesses, for B1/B2 and B3.

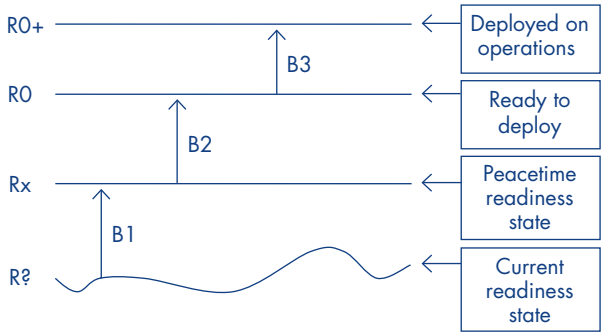
1.16 In addition to the quarterly reporting system used to report on the readiness of Force Elements within the three Services, the Chief of Joint Operations also reports on the readiness of the Force Elements that comprise the Joint Rapid Reaction Force. They form a pool of higher readiness (R1-5) forces that usually provide the initial-entry forces in the event of a crisis.

Alternative systems that are more explicit and timely, in terms of readiness to fight and deploy, would be difficult

1.17 The Department has considered using intrinsically more meaningful readiness terminology such as 'Ready to Deploy' and 'Ready to Fight', rather than the extant, abstract numbering system. However, whilst the Department continues to be funded only to peacetime graduated readiness levels, a system would still be required to measure in some form the time (and resources) necessary for a Force Element to reach a 'Ready to Deploy' state. Similarly, 'Ready to Fight' might mask the need to undertake specific in-theatre training.

4 Measures of readiness

The Department uses three measures to define its readiness to undertake operations.



Source: Ministry of Defence

The Department has successfully improved the readiness reporting system and further improvements are planned

1.18 In recent years, as set out in paragraphs 1.13 to 1.15, improvements have been made to the Department's readiness reporting system, and further improvements are planned. The reporting system compares well to those of other nations; and senior United Kingdom commanders have expressed their confidence in the system, which is reinforced by experience from recent operations. However, although external reporting of readiness information has improved, more can be achieved.

Improvements have been made

1.19 From April 2005, the Army's twice yearly reporting system is to be brought into line with the other two Services' quarterly reporting mechanisms, making comparisons of readiness data easier. The Army, however, needs to define more clearly the measurement parameters that drive key resource decisions on funding Force Elements. For example, for manpower, the standard required to meet readiness timelines has been defined, rather vaguely, as the 'Ability to deploy within the funded readiness state with no significant manpower gaps'. Similar concerns apply to equipment, sustainability and training. The Army continues to work to address these.

5 B1/B2 and B3 'serious' and 'critical' definitions

Force Elements' performance against peacetime readiness states (B1); ability to be ready to deploy on operations (B2); and to deploy on, and conduct and sustain, operations (B3).

Metric	Performance	Definition
B1 & B2	Serious Weakness	Force Elements fall substantially short of the single-Service performance standards criteria for funded readiness levels (B1) and Defence Planning Assumptions capability levels (B2). There is a medium risk to force generation within required timescales or to the available capability.
B1 & B2	Critical Weakness	Force Element is unable to provide the required funded readiness levels (B1) or Defence Planning Assumptions capability levels (B2). Generation of Force Elements in its primary role would attract high risk or it would not be possible to generate the Force Element in the required timescale.
B3	Serious Weakness	The Department's assessment of its ability to deploy, sustain and recover the Force Elements required for the most logistically demanding scenarios (two medium scale plus one small scale concurrently) falls substantially short of that required. There would, therefore, be medium risk to the available capability.
B3	Critical Weakness	The Department's assessment of its ability to deploy, sustain and recover the Force Elements required for the most logistically demanding scenarios (two medium scale plus one small scale concurrently) falls critically short of the requirement. Deploying these Force Elements would, therefore, attract high risk or it would not be possible to deploy the Force Elements.

Source: Ministry of Defence

The Department has improved the reporting system to include readiness to conduct and sustain operations

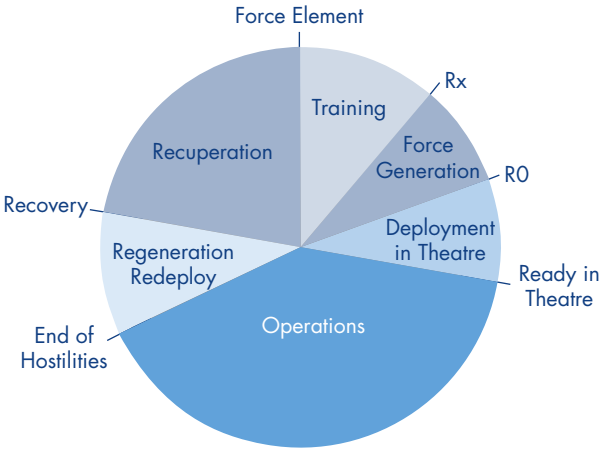
1.20 As noted in paragraph 1.15, the Department uses the B1-B3 metrics to assess its preparedness to undertake operations. However, with the focus through the Cold War and until recently more upon the maintenance of a level of available military capability than the actual conduct of operations the readiness reporting system has focused on measuring the funded peacetime element of readiness (B1). Consequently, until recently, assessments of the ability to generate forces to be ready to deploy (B2), and to actually deploy and sustain operations (B3), were less well-defined. The Department has begun to better define these requirements, however, and has set in hand a body of work to improve the basis on which the requirement for logistics support and sustainability is articulated, known as the Total Logistics Requirement.

Further developments are planned

1.21 The Total Logistics Requirement comprises the total logistic support required around the readiness cycle, other than for the Recovery and Recuperation phase **(Figure 6)**.

6 Force Element Readiness Cycle

Logistics support and sustainability is required for all elements of the readiness cycle.



Source: Ministry of Defence

1.22 Defining a Total Logistics Requirement against the most challenging scales of effort envisaged as a baseline against which judgements on what needs to be stockpiled or what could be obtained within readiness times is a considerable challenge (see paragraphs 2.34 to 2.36). This includes support for peacetime training (B1); generating forces for operations (B2); deploying on and sustaining operations (B3), as well as recuperating from theatre (although the Total Logistic Requirement will not cover the latter), ready to begin the cycle once again. The Department is currently using its Logistic Sustainability and Deployability Audits in order to better gauge what these total requirements might be.

The readiness reporting system compares well with those used by other countries

1.23 As part of the fieldwork for this study, we visited Australia, Denmark and the United States to discuss readiness issues and to examine the readiness reporting mechanisms used by those countries' defence organisations. We found that the Department's readiness reporting system compared favourably in each case.

1.24 The United States is developing a sophisticated readiness reporting system that could provide real-time readiness information, if required. Not all Force Elements are currently captured by the reporting system, but the aspiration is that all will eventually be included. The Australians use a similar reporting system to the United Kingdom; however, with a smaller force pool they have also been able to report on the readiness of individual Service personnel. All three overseas Armed Forces feed the information up their respective chains of command in order to allow decisions to be taken on future commitment levels.

Commanders have expressed confidence in the readiness reporting system, and use it

1.25 In recent years, driven in part by the high tempo of operations, the quarterly reporting system has become more sophisticated in its analysis, and senior commanders have expressed increasing confidence in it. Consequently, the other principal readiness reporting system, that used to report on the Joint Rapid Reaction Force, is now largely being subsumed within the quarterly reporting system. This should reduce the duplication involved in repackaging quarterly reporting information for the Joint Rapid Reaction Force report, and harmonise the latter with the mainstream reporting system by moving it from a twice-yearly to a quarterly report.

1.26 Senior commanders have noted that, as readiness reports move up the chain of command, the key is to retain data that is both accurate and informative. By understanding the rationale behind a specific readiness assessment of a Force Element, senior commanders can better judge where risk can acceptably be taken - a key output of readiness reporting. Particular attention is, therefore, being paid to ensure that reporting the status of the higher readiness forces is not diluted within the combined report. This amalgamation of the two reports is expected to be largely complete by 2006.

Recent operations have largely validated the accuracy of the readiness reporting system

1.27 Our report on the warfighting phase of Operation TELIC[4] pointed out a number of weaknesses in the readiness of forces deploying to Iraq. However, the vast majority of these had already been identified by either the quarterly reporting system or the Joint Rapid Reaction Force's readiness report before the conflict began. **Figure 7** illustrates some of the major shortages that could affect readiness which were highlighted by our Operation TELIC report, and provides an assessment of whether the Department's readiness reporting systems had identified the issue prior to Operation TELIC.

4 Report by the Comptroller and Auditor General *Operation TELIC – United Kingdom Operations in Iraq*, HC 60 Session 2003-2004, 11 December 2003, paras 6-8.

7 Shortages identified during Operation TELIC.

There were a number of shortages in Iraq that were identified by the Department's readiness reporting system, prior to the commencement of hostilities.

Subject	NAO's Findings, outlined in: 'Operation TELIC – United Kingdom Military Operations in Iraq'	Identified by Department pre-TELIC?
Operational stock levels	'One of the key lessons... was that operational stock levels were, in many instances, not sufficient for readiness and sustainability requirements of Operation TELIC'. (paragraph 2.8b)	Yes
Deployable communications	'The majority of communications equipment worked well...although the force sometimes had difficulty in maintaining strategic communications between the United Kingdom and units in-theatre'. (paragraph 4.8)	Yes
Strategic Lift	'the Department continues to rely upon the leasing of commercial air and sea transport to deploy forces on medium-scale or larger operations. The Department considers this to be a manageable risk'. (paragraph 4.6)	Yes
Industry & Urgent Operational Requirements	'...risks had been taken that low levels of operational stock, such as combat clothing and boots, medical supplies, helicopter spares and ammunition, could be made good by industry in time. In practice, this was extremely difficult for industry to do'. (paragraph 2.8c)	Yes
Manning shortfalls	'The mounting of Operation TELIC was further complicated by longstanding shortfalls in specialist personnel'. (paragraph 5.7)	Yes
Asset Tracking	'...shortfalls at the front line of some equipment and supplies (partly) because equipment had arrived in-theatre but difficulties in locating it preventing it being delivered to where it was needed'. (paragraph 3.8)	Yes
Nuclear, Biological and Chemical stockpiles	'Shortfalls...because of asset tracking and because low stocks of some items, for example, Nuclear, Biological and Chemical consumables could not be rectified in time'. (Figure 6, page19)	Yes

Source: Ministry of Defence

1.28 That these specific readiness weaknesses were recognised in advance shows that force commanders were in a position to make effective risk-based decisions on whether in-theatre forces were capable of successfully accomplishing the tasks asked of them.

1.29 Certain issues such as shortages of Enhanced Combat Body Armour, were not identified by the readiness reporting system prior to Operation TELIC. Enhanced Combat Body Armour affords protection from fragments and exploding munitions in the same way as un-enhanced Combat Body Armour, but affords the additional protection of a pair of ceramic plates fitted front and back over the heart and aorta capable of defeating a high-velocity bullet strike. Prior to Operation TELIC the Department had formulated policy on the issue of body protection discreetly for each emerging operation. Just prior to the warfighting phase of TELIC the Department agreed that enhanced ballistic protection should be issued to all Service personnel deploying to Iraq, irrespective of their role. The Department was aware that it did not hold sufficient stocks of Enhanced Combat Body Armour for a large-scale operation such as TELIC, and it therefore initiated the urgent purchases procedure of Enhanced Combat Body Armour to secure sufficient stocks within anticipated readiness timelines. No readiness system can be expected to predict changes in operational requirements such as this. As a result of the lessons learnt from TELIC, the Chiefs of Staff have now endorsed a formal standing policy, applicable to all Service personnel and supporting civilians. This states that, for future expeditionary operations, all personnel who require Enhanced Combat Body Armour will be equipped with it by the time they arrive in the operational area. This policy has been incorporated within readiness reporting.

The reporting system is showing minor weaknesses in current readiness but serious potential weaknesses in readiness for the possible additional tasks of tomorrow

1.30 Against a background of operational commitments exceeding the routine concurrency assumptions[5] in Defence Planning Assumptions (paragraph 2.13) readiness states for October to December 2004 (the most recent data available) were assessed overall as "Yellow" – minor weaknesses from target. This performance represented a marked improvement over the preceding year in terms of the proportion of Force Elements with no critical weaknesses, which increased from 80 per cent in July to September 2003 to 98 per cent in October to December 2004 **(Figure 8)**.

1.31 Figure 8 reports the position against the peacetime readiness requirements. The improvement in Force Elements reporting no critical weaknesses was largely made as forces which had been deployed in the early phases of Operation TELIC in Iraq were returned and re-equipped to planned peacetime levels. However, the proportion reporting no serious or critical weaknesses over the period was more variable ranging from two-thirds to four-fifths of Force Elements (at an average of 72 per cent, or roughly three-quarters of Force Elements). The increase in serious weaknesses – graded as "amber" was due to training issues (paragraph 2.5), logistic support issues (paragraphs 2.5 and 2.8 to 2.11) and manpower availability resulting principally from the continuing high level of operational tempo.

1.32 Looking separately at readiness for future tasks; this was assessed overall as being "Amber" – with serious weaknesses that would need to be addressed before forces could deploy. As with peacetime readiness levels, this reflected risks arising where operational commitments have reduced training, but also the longer-term risks arising from logistics issues (paragraphs 2.24 to 2.45) and shortages of helicopters, as set out in our report on Battlefield Helicopters.[6]

Reporting of readiness to external stakeholders has improved but there is scope for further improvement

1.33 The reporting of military readiness in the public domain is difficult. The Department has adopted a pragmatic approach to measuring readiness and has progressively sought to improve the coverage and validity of its measures, incorporated in successive Public Service Agreements negotiated with the Treasury. Despite these improvements, however, there continue to be some key limitations in the readiness targets used by the Department that make it difficult for those outside of Government to gauge progress in improving the readiness of the Armed Forces.

The Department has agreed a Public Service Agreement target for readiness with the Treasury and reports its progress against the target in several ways

1.34 Given the complexity of the subject, and the clear national security issues associated with the information, it is difficult for the Department to report the readiness of the Armed Forces in a way that is meaningful to those outside the Department. Despite the difficulties surrounding the disclosure of such information it is important that the Department remains accountable for its use of public funds. In common with other Government departments, the Department has entered into a Public Service Agreement with the Treasury setting objectives and targets for the priority areas of its work, including readiness. The objectives express intended outcomes for the medium to longer term.

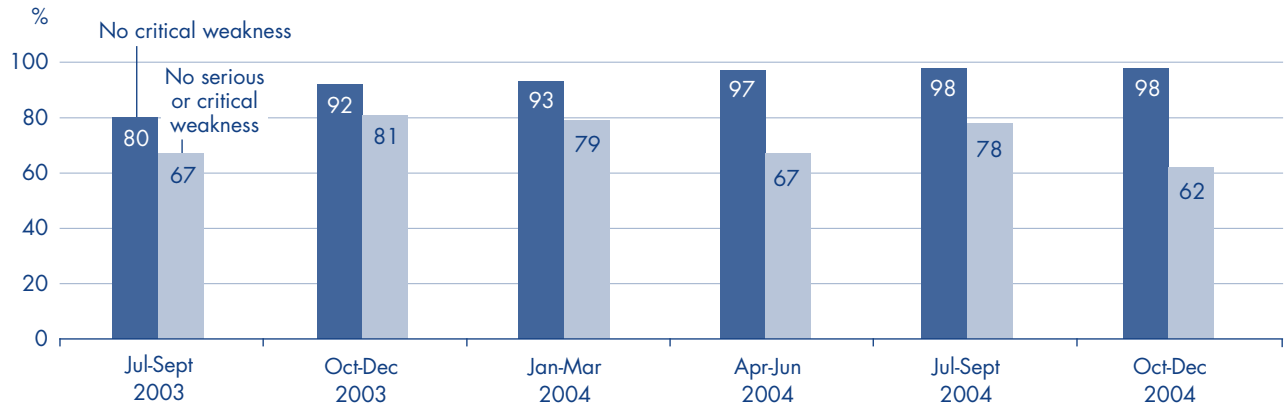
1.35 Public Service Agreements are at the centre of departments' performance measurement systems. As such, in reporting progress against readiness targets the Department uses the same source data as is used to report achievements internally. The Department reports its progress against its Public Service Agreement objectives and targets to the Treasury each quarter and to Parliament in its Annual Report and Accounts. Summaries are also published on the Department's and Treasury's websites.

5 The Department defines 'routine' as the ability to meet a medium-scale and a small-scale commitment on an enduring basis, plus a one-off small-scale commitment, whilst remaining within the 'Harmony' personnel guidelines designed to balance time spent on operations and exercises against periods of recuperation and leave.

6 Report by the Comptroller and Auditor General, *Battlefield Helicopters*, HC 486 Session 2003-2004, 7 April 2004, paras 4.3-4.4.

8 Force Elements reporting no serious or critical weaknesses

The percentage of Force Elements with no critical weaknesses to their readiness has improved markedly and over the period July 2003 to December 2004 between 62 per cent and 81 per cent of Force Elements had neither serious nor critical weaknesses.



Source: Ministry of Defence

Previous Public Service Agreement readiness targets had limitations

1.36 The readiness targets negotiated as part of the Government's Spending Reviews of 2000 and 2002, and contained in the respective Public Service Agreements for the years 2001-02 to 2003-04 and 2003-04 to 2005-06, are shown at **Figure 9**.

1.37 The usefulness of these targets as measures of readiness was limited. For example, baseline data was not disclosed, and the targets were focussed solely on high readiness forces within the three Services. This was inadequate since the designation of forces to be held at high readiness changes throughout the period of the Public Service Agreements, rendering any true measure of progress meaningless. And focussing only on high readiness forces did not provide a complete picture of overall military capability.

9 Public Service Agreement readiness targets set in 2000 and 2002

Previous readiness targets were originally intended to focus on high readiness forces.

Readiness target set in Spending Review 2000
By 2005, ensure that a minimum of 90 per cent of rapidly available units are at required states of readiness.

Readiness target set in Spending Review 2002
By 2006 ensure that a minimum of 90 per cent of high readiness forces are at their required states of readiness with no critical weaknesses.[1]

Source: Ministry of Defence

NOTE

1 From 1 April 2003, this subsumes the spending review 2000 target.

1.38 The Department recognised that there were limitations in reporting only on high readiness forces and, from April 2003, extended its reporting under the Agreements to cover all Force Elements. While it considered this to be a more demanding target, the Department also considered that it provided a better picture of the ability of the Armed Forces to cope with the high levels of operational activity being undertaken.

The Department has improved the Public Service Agreement readiness target for Spending Review 2004

1.39 The Department's Public Service Agreement for 2005-06 to 2007-08, negotiated during the Spending Review 2004, contains a revised target for readiness **(Figure 10)**.

10 Public Service Agreement readiness target set in 2004

The readiness target for the three years from April 2005 covers a wider range of activities.

Target: Generate forces, which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives

Performance under this target will be measured against the following criteria by 2008:

- Peacetime readiness of all the Force Elements required to rapidly conduct the most demanding scale of effort shows a five per cent increase in the numbers reporting no serious or critical weakness, compared with Quarter 4 of 2004-05.
- Ability of Force Elements to generate from peacetime readiness, to immediate readiness for deployment on operations shows a five per cent increase in the numbers reporting no serious or critical weakness, compared with Quarter 4 of 2004-05.
- Ability of the Department to deploy its Force Elements, sustain them in theatre and thereafter recover them shows a five per cent increase in the numbers reporting no serious or critical weakness, compared with Quarter 4 of 2004-05.

Source: Ministry of Defence

1.40 The revised readiness target represents a logical development in the way that the Department has sought to improve its targets and measures in this difficult area. The revised target is better than those previously used for several reasons:

- It covers all Force Elements, not just those units held at high readiness. As such, it continues to provide the benefit noted at paragraph 1.38 above;
- It better reflects the Department's activities by recognising the importance of related elements of military operations from peacetime activities through to generating, deploying, sustaining and recovering forces on operations;
- It takes account of the scales of effort proposed in the Defence White Paper – Delivering Security in a Changing World.[7] Previous readiness targets have only measured the Department's performance in meeting the requirements of forces' peacetime activity levels rather than focus on the forces required to carry out activities within the concurrency assumptions in Defence Planning Assumptions; and
- In view of the above factors, it aligns totally with the Department's internal performance management and reporting practices for the first time.

7 Secretary of State for Defence: *Delivering Security in a Changing World*, London, The Stationery Office, 2003.

The revised Public Service Agreement readiness target retains some limitations

1.41 Despite these improvements, the revised Public Service Agreement target, and the proposed measurement criteria, do have some important limitations, some of which applied to previous iterations of the readiness target:

- The target provides no basis for external assessment since it is couched in very open language. For example, the performance required is neither specifically defined nor measurable. The supporting measurement criteria, in effect sub-targets, are more specific but will not enable a complete assessment of performance to be made by those outside of government;
- Each of the three performance criteria requires a five per cent improvement in the number of units reporting no serious or critical weaknesses over the three years from April 2005, but does not disclose the baseline that will be used. Therefore, it will be impossible to assess from published data whether a five per cent improvement over this timeframe is a good or a bad performance. If current performance is low then a five per cent improvement would be relatively easy to achieve. Conversely, were current performance levels high, achieving the same degree of improvement would represent a significant challenge;
- The performance criteria do not permit an ongoing evaluation of performance to be made during the lifetime of the target since the Department has adopted a single census date – 31 March 2008. Therefore, at the extreme, it would be acceptable for the Department to fail to achieve any improvement in the readiness states of Force Elements, or even experience a degradation of the current position, throughout the three year period provided that the Department could demonstrate a five per cent improvement on 31 March 2008. The criteria could have assessed ongoing performance if it were expressed as a percentage of quarterly reporting periods when appropriate readiness states had been achieved. Alternatively, the Department could have defined the rate of progress that it wished to achieve on a quarter by quarter or year by year basis. As with other Public Service Agreement targets the Department will, however, provide quarterly assessments of progress towards the target;
- There is no indication of the relative importance of the three performance criteria or how they should be aggregated to allow an assessment of the Department's performance against the overall Public Service Agreement target. For example, if the Department were to meet two of the three criteria would it be judged to have achieved 66.7 per cent of its readiness target or to have failed it altogether?

1.42 Collectively, these limitations will make it difficult to judge whether the Department has made real progress in improving the readiness of the Armed Forces over time. The Department has already acknowledged the disadvantages of using a single census date, and intends to address these concerns before the target comes into force in April 2005.

PART TWO

Given the unpredictable security environment and high operational tempo, there are risks to readiness of the Armed Forces for contingent operations that need to be managed

2.1 This Part of the Report examines how the Department reports risks to the readiness of its Armed Forces and the action that it takes or plans to address them. Effective risk management is essential to the generation of Force Elements for operations. We found that the Department has a risk reporting system that includes readiness risks, although specific risk management arrangements vary across the Department. The Department reports risks against a background of an unpredictable security environment and there are currently risks to achieving planned peacetime levels of readiness. In addition, there are risks to the Department's ability to take on additional operational commitments which are being managed against a background of a high current operational tempo. The Department has identified a number of risks to its ability to reconfigure for higher scales of effort and where further work is required.

Effective risk management is essential to the delivery of forces at readiness

2.2 Given that resources are limited, it would be both impractical and unaffordable to maintain military forces constantly at high operational readiness to conduct any and all contingent operations overseas.[8] The Department's system of graduated readiness is, therefore, intended to ensure that the right Force Elements are sufficiently funded to be ready to undertake their planned peacetime activities. For this system to be effective, the Department has to prioritise the use of its resources and, in doing so, be aware of where it is taking risk and of the extent of the measures that it needs to have in place to address those risks. Effective risk management is, therefore, a fundamental requirement of the Department's day to day activities. To this end the Department has comprehensive risk management arrangements across all of its activities. Appendix 2 outlines the Department's arrangements for reporting and managing risk.

Risks are reported against a background of an unpredictable security environment

2.3 The present security environment is unpredictable in contrast with the situation that existed during much of the Cold War when the threat to the security of the United Kingdom and its Allies was more clearly defined. The Department's move away from preparing for a high-intensity conflict in Europe to an expeditionary posture was central to the Strategic Defence Review of 1998. In 2003, the Defence White Paper further refined the Department's policy to address the major threats of international terrorism and the proliferation of weapons of mass destruction, and also the problems posed to international security by weak and failing states. This led to the force structure changes set out in the 2004 Defence Command paper.[9]

8 In addition to its standing commitments in the United Kingdom and overseas, the Department is prepared to conduct expeditionary operations, ranging from delivering humanitarian assistance to intervention. The potential combination of these contingent operations overseas is described in the Department's concurrency assumptions.

9 Secretary of State for Defence, *Delivering Security in a Changing World: Future Capabilities*, London, The Stationery Office, 2004.

2.4 The unpredictability of the security environment has important consequences for the management of risk. The process is made especially complex by the need to react to unforeseen events anywhere in the world. Such unpredictability demands a particularly robust risk management regime.

There are risks to readiness

2.5 Risks to readiness exist at a number of levels. As with any business, there are risks to the delivery of the firm targets managers have been set and resourced to deliver. For the Armed Forces this corresponds to the risks to the delivery of the peacetime level of readiness Front Line Commanders have been directed to achieve and for which they should be fully resourced. These risks result from factors such as potential shortages of personnel with the required skills, possible delays in supplying spares or repairing equipment and possible shortfalls in the training which units should be carrying out together to achieve required levels of operational competence. For example, the Joint Helicopter Command is experiencing difficulties with the supply of spares for helicopters which have affected the readiness of some helicopter types and the Department has difficulties in supporting the Nimrod MR2 fleet because of the obsolescence of some of the equipments fitted. The Army's current commitment to operations also means that some peacetime activities, such as collective training for roles not employed in current operations, has been curtailed (paragraph 2.15). However, as the Department's reports against its current Public Service Agreement targets show, 98 per cent of Force Elements are currently achieving their routine readiness standards without any critical weakness, with 62 per cent having no critical or serious weaknesses (Figure 8).

2.6 But risks also exist in the Department's ability to generate forces from their peacetime readiness states to be ready to deploy on operations and then to actually deploy, sustain and recover them from specific operations. In each case, the Department would expect to have some warning and preparation time for such deployments and to be provided with additional funding in order to achieve these ends. The risks are, therefore, different in kind – relating primarily to the adequacy of contingency planning - but require no less careful management. Actual operational tempo will also impact upon the nature and scale of these risks, with a level of operations above what the Department plans to be able to sustain as a norm and without creating overstretch (an enduring medium scale Peace Support Operation[10] simultaneously with an enduring small scale Peace Support Operation together with a one-off small scale Intervention Operation) inevitably reducing the Department's ability to keep forces at the required peacetime readiness levels for their primary role. This, therefore, increases the gap that would have to be made up within readiness times if more forces were to deploy on a new operation requiring those capabilities. The approximate relationship between the scale of operational commitments, compared to what the Department would expect to be able to sustain as a norm, and the readiness state of Force Elements in their primary role, as reported by the Department in its Public Service Agreement reports, is shown at **Figure 11**.

2.7 Within a finite defence budget, and in order to balance risks to readiness against likely operational requirements, the Department has reduced the planned readiness of a number of Force Elements. This is demonstrated by the introduction of the Reduced Support Period in the Royal Navy and reductions in fast jet flying hours in the Royal Air Force.

Readiness of the Royal Navy and Royal Air Force

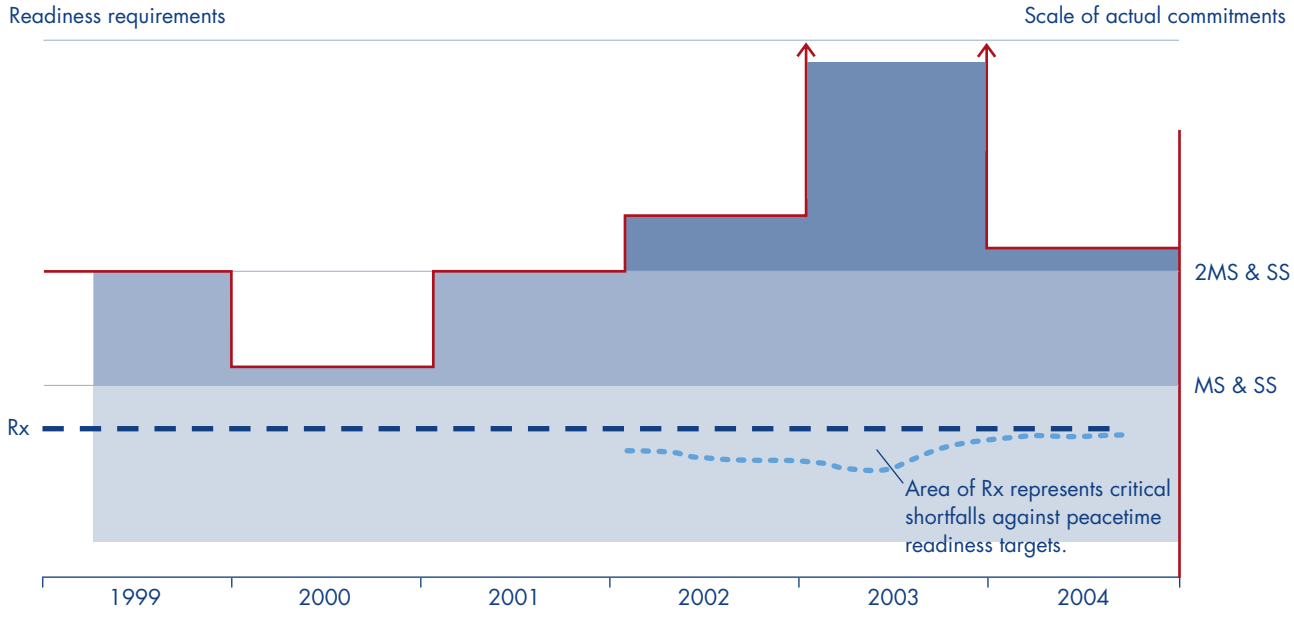
2.8 Against the background of the continuing likelihood of the greatest operational demands being made of the Army and some elements of the Royal Air Force, such as strategic lift and reconnaissance, the Department has deliberately decided that it should take risk against the peacetime readiness levels of some maritime forces, reducing resource allocations for the first two years of the four year planning period 2004-05 to 2007-08 to the Director General Logistics (FLEET) organisation (part of the Defence Logistics Organisation)[11] by around £310 million (approximately 10 per cent of what would normally be spent on equipment support in those two years). This is in addition to smaller funding reductions introduced in 2001-02 covering the four years from 2002-03 to 2005-06. This has had considerable impact upon the management of support to the Royal Navy, and Fleet has identified the impact of reduced funding levels on its operational capability as the top risk in its risk register.

10 Peace Support Operations are separated from war on the basis of the declared campaign objectives. In war, the objective is Conflict Prosecution and the securing of a militarily defined victory or end-state. In Peace Support Operations, the objective is Conflict Resolution and the securing of long-term, and politically defined, steady state conditions.

11 Known as the Warship Support Agency before 1 April 2005.

11 Scales of effort, planning assumptions, readiness and performance

As operational commitment levels rise beyond the planned routine levels, risks to the readiness of Force Elements and to the generation of forces for additional operations increase.



Approximate scale of actual commitments, including deployments in Iraq, Bosnia/Kosovo and Afghanistan.

'Peacetime' readiness requirements (Rx). Changing levels represent normal management decisions about the readiness levels required for Force Elements, including reductions in maritime readiness.

Level of Force Element readiness without critical weakness (Lowest point represents 80 per cent of Force Elements without critical weakness - see Figure 8). Data prior to 2002-2003 is not available on an equivalent basis.

MS Medium Scale Operation
SS Small Scale Operation

2.9 To mitigate the risk of the Royal Navy not being able to provide a balanced set of capabilities to the Department's Joint Rapid Reaction Force during this period, should this be required, the Department introduced a 'Reduced Support Period' arrangement in June 2004, aimed at making best use of capital spares and prioritising funding for repair support. These arrangements were endorsed by the Defence Management Board and will apply, initially, until March 2006. Under the revised arrangements, all ships have been given either normal support status or reduced support status. Ships with reduced support status will, generally, only receive support for defects affecting health and safety and environmental safety. The intention is to preserve a core capability to deploy a medium scale task group for the Joint Rapid Reaction Force and to ensure that priority peacetime tasks remain supported and that non-essential activity is removed from the Royal Navy's programme.

2.10 The Department recognises that this mitigation action has, itself, introduced further risks to the capability of the Royal Navy. Although funding is planned to start to return to normal from 2006, the Department anticipates that the material state of the fleet will degrade, along with its ability to undertake high readiness tasks, over a longer period. **Figure 12** illustrates the actual and predicted deteriorating readiness status of the fleet resulting from the period of successive funding restrictions if no remedial action were taken.

2.11 In recognition that recovery could take longer than originally envisaged, additional funding was subsequently provided in 2004-05 and it is now planned to inject further funds in 2005-06, with funding levels being restored progressively from 2006-07. However, the actual time taken to restore required readiness levels will depend on a number of as yet undetermined factors such as the depth of impact of the reduced support period and of its impact on industry's ability to respond to demand. This is the subject of further detailed work.

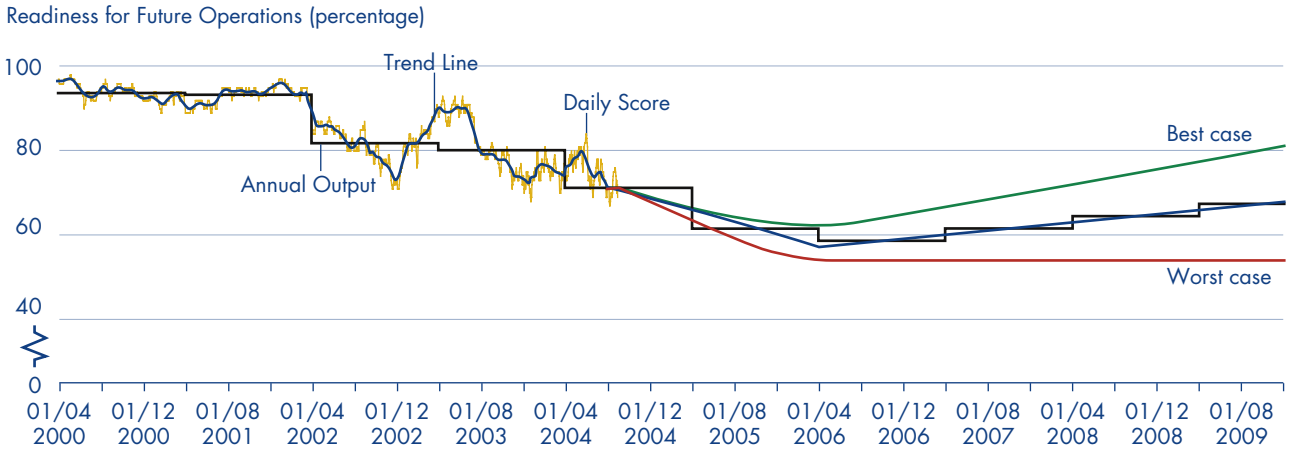
2.12 Similar, but smaller, reductions have been made in funding for the training activity needed to maintain the readiness of, in particular, fast jet pilots with crew flying time temporarily reducing from 17.5 hours a month to 16.5 hours in 2005-06, a risk the Department considers acceptable for a period of one year. The immediate impact on readiness could impact on generation, recuperation and high-end warfighting skill sets and over time risks a dilution in skills and experience.[12] The Department intends to monitor this position very carefully.

Risks to generating additional forces for new operations and higher levels of effort are being managed against a background of a high current operational tempo

2.13 As noted above, the Department plans on the basis that it should be able, on a routine basis and without over-stretching personnel, to carry out a number of concurrent military operations of differing scales of effort each year. **Figure 13**, however, shows that the operations on which the United Kingdom's Armed Forces are committed have consistently exceeded this planned level of activity in the past three years. The Department considers that it is likely to continue to do so for the foreseeable future.

12 The readiness status of the fleet.

The readiness of the fleet began to decline in 2002, recovered for a time through the injection of resources for operations in the Gulf, and is forecast to keep falling during the Reduced Support Period, recovering, in a best case, from 2006-07 and in a worst case only after 2010.

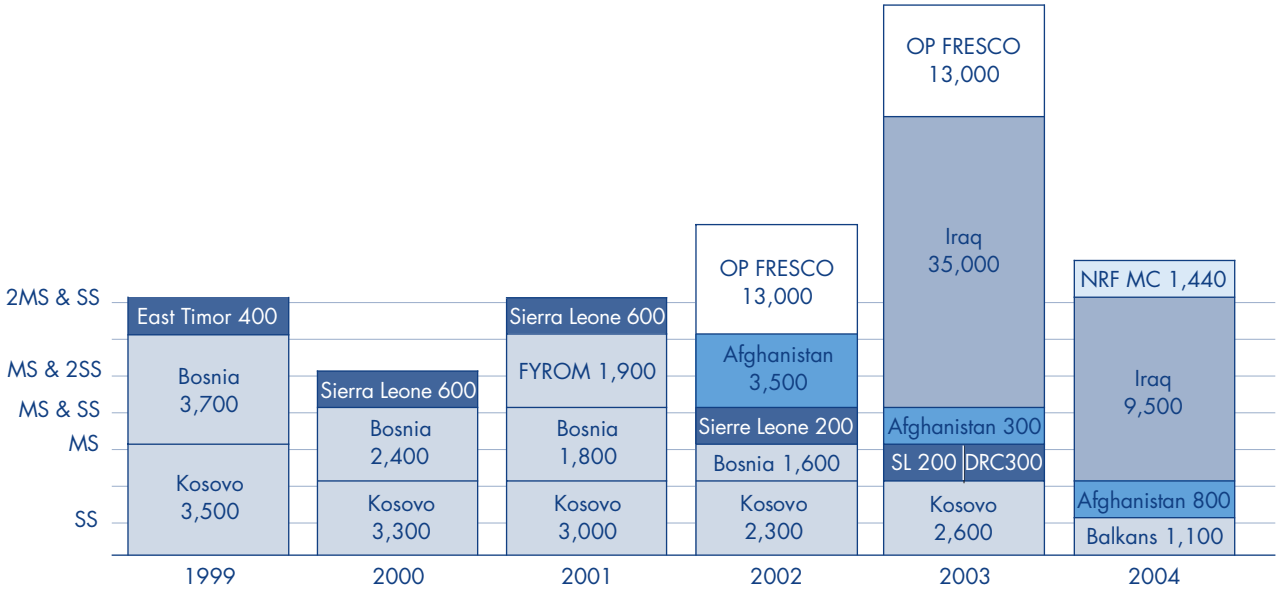


Source: Ministry of Defence

12 For example, the Royal Air Force is currently addressing concerns with the balance of inexperienced versus experienced pilots in front-line squadrons, known as the 'dilution' rate, in part because of high operational tempo but also due to cuts during the past three years to monthly flying rates, from 18.5 to 17.5 hours (and 16.5 hours in 2005/06). The Defence Management Board's Balanced Scorecard has identified and is monitoring the risk.

13 United Kingdom Military Operations (including numbers of personnel deployed)

The Department has consistently exceeded the level of activity it plans to be able to sustain as a norm in recent years and expects to do so for the foreseeable future.[13]



FYROM = Former Yugoslav Republic of Macedonia
SL = Sierra Leone
DRC = Democratic Republic of Congo

NRF MC = NATO Reaction Force, Maritime Component
Operation FRESCO = Military assistance during the fire fighters' strike

Source: Ministry of Defence

2.14 The high operational tempo conducted by the Department generates a number of personnel and equipment related risks. These risks include: reduced opportunities for, and levels of, training – leading to skill fade in processes and techniques not exercised in current or recent operations; potentially negative impacts on recruitment and retention rates (although these need to be balanced against the attraction of the opportunities provided by an active and challenging career); a reduced pool of reserve forces to augment regular personnel and units; the need for additional equipment; and added demands on both equipment and logistic support. The recurring high tempo of operations also places a premium on the Department's ability to identify such risks quickly and to take early mitigation action.

2.15 The Department believes that the current level of activity is stretching, but not unsustainable. It considers, however, that the impact of high activity levels is pervasive and results in additional strains on processes, people and equipment across the Department and inevitably impacts on the ability of the Armed Forces to reconfigure for new tasks. For example, reduced levels of collective training within the Army could, if continued, detract from its ability to conduct certain types of operation in the future. These strains and stresses are not something that can be easily quantified in financial terms – and may not be mitigated simply by injecting additional funds – and, therefore, arise despite the net additional costs of operations being met, in full, from the Government's Conflict Prevention Funds or the Reserve.

13 Figure 13 compares the cumulative scale of operations (MS = Medium Scale Operation; SS = Small Scale Operations) with the planned level of activity. The planned level falls in line with the assumption that as a norm forces should now be able to conduct one medium scale operation and one small scale operation at the same time, plus an occasional, additional non-enduring small scale operation. The scales of effort illustrated are approximate and do not take into account the differing nature of the operations and the distinct requirements in terms of personnel and equipments that each requires.

The need for recuperation from previous operations adds to the risks that have to be managed in taking on new tasks

2.16 Achievement of peacetime readiness states and the capability of the Armed Forces to reconfigure for new operations are also affected by the speed with which forces are able to recuperate from previous operations.

2.17 Recuperation is the term used by the Department to cover the repair or replacement of equipment, replenishment of stocks consumed and the recovery and training of personnel ready for use on future operations. As Figure 6 shows, recuperation is the final phase of any military operation that requires logistics support.

2.18 The Department faced a huge challenge in recuperating from the warfighting phase of Operation TELIC, a large scale operation. It has plans in place to achieve this, but these are inevitably subject to revision in the light of continuing commitments. Even assuming operational commitments in Iraq reduce over the next one to two years, the Department does not expect to have completely recuperated to normal levels of preparedness until beyond the end of 2006.

2.19 The Department's planned recuperation of its forces to pre-TELIC levels will bring forces back to the routine readiness states the Department would have planned to have had, all other factors remaining the same, prior to the Operation. Recuperation will not, therefore, in itself mitigate the risks that have to be managed in order to generate forces from their routine readiness states, and subsequently deploy and sustain them, on new operations should this be required. Recuperating from a major operation while also conducting a continuing high level of operational activity also adds to the challenge posed by the need to generate additional forces for any new tasks.

Recuperation from Operation TELIC

2.20 The speed with which each of the three Front Line Commands[14] has been able to recover from Operation TELIC has varied.

2.21 Under original plans, the Royal Navy had expected to take until the end of 2004 to recover from the Operation. By redirecting resources, however, and deferring certain operational commitments, the Royal Navy had largely recuperated to pre-TELIC levels by the end of 2003. Similarly, the Royal Air Force had recuperated sufficiently by the summer of 2004 to be able to undertake a further medium scale operation and plans to be ready to undertake a large scale operation, if required, by the end of 2006.

2.22 The Army's aim to recuperate all its forces to pre-TELIC levels, however, is inevitably affected by ongoing commitments in Iraq. Other factors complicating the Army's ability to recover to pre-TELIC levels of readiness are: the phased introduction of the Bowman communications system, which effectively removes successive brigades from the forces available to be deployed whilst conversion and subsequent training is undertaken until scheduled completion of the programme in 2007; a lack of funding for training, as current commitments draw down, to recover standards in those roles not being practised in current operations; and industrial capacity constraints on, for example, helicopter spares. Although the Department has recognized these difficulties, and provided additional funds for training over the next four years, taken together they are likely to mean that that the Land contribution to any Joint Rapid Reaction Force will remain limited beyond the end of 2006. This would perpetuate risks to the Department's ability to generate a Rapid Reaction Force to undertake tasks requiring a significant ground component for warfighting operations.

The Department has identified a number of risks to its ability to reconfigure for higher scales of effort where further work is required

2.23 As shown in Figure 11, there is a difference between the maximum scales of effort that the Department plans to be able to undertake under Defence Planning Assumptions and what it is funded to do in peacetime. This reflects the fact that it would not be sensible, and nor would it offer value for money, to tie up resources on equipment and logistic stocks that could be obtained within the readiness times assumed and that might never be required. Instead, the Department seeks to focus available resources on those elements of the force structure, and its supporting infrastructure, that are most likely to be used or could not otherwise be brought up to the required condition within assumed readiness times.

14 The Service Commands (Fleet, Land and Strike) comprise the three Front Line Commands.

The Department's ability to undertake operations relies on urgent purchases of equipment and stores

2.24 In moving from actual levels of readiness to having forces that are ready to deploy and be sustained on operations the Department needs to increase the stockholdings of equipment and spares that it holds to: meet increased consumption rates; acquire new equipment for the specific needs of the operation in hand; and modify equipment to operate effectively against the specific threats faced and in the particular climatic and environmental conditions that will be encountered. The Department's established procedures provide for it to make up its equipment requirements for particular operations through purchasing additional capability from industry. These urgent purchases are referred to as Urgent Operational Requirements.[15] Similarly, rather than holding stocks on a "just in case" basis, the Department plans that the gap between peacetime stockholdings and the requirements for a particular operation would be filled by purchasing what is needed.

2.25 There are risks to this approach including the possibility that the additional equipments or stocks required cannot be obtained in the timescales needed, or that they cannot be delivered into the theatre quickly enough. The onus, therefore, on obtaining sufficient warning time to prepare for an operation and acquiring Ministerial and Treasury approval to commit resources for an operation also becomes more critical. Where such time is limited, political decisions are delayed or the size of the gap is not sufficiently well defined or understood, then, even with additional funding available, there is a risk that action to close the gap may be unsuccessful. Furthermore, the scale and frequency of operations the Department is now undertaking, and the diversity of theatres in which it is operating, add to these risks.

2.26 The use made by the Department of its urgent purchase arrangements can be extensive. For example, to support the warfighting phase of Operation TELIC, it processed a total of 194 urgent operational requirements, valued at a total of £510 million, and made other urgent logistics purchases worth £140 million. And the Department made a further £148 million worth of urgent purchases in preparation for the warfighting phase of operations in Afghanistan.

2.27 The Department's current readiness arrangements rely on the timely delivery of these purchases. As our previous report on the Department's arrangements for making urgent purchases in support of operations made clear, the data available suggests that the majority of urgent operational requirements for the operation in Iraq were successful and some were delivered with impressive speed.[16] However, there is a clear risk to the effective conduct of operations where the additional capability is not available to the Department within readiness timescales. While we found that there was a general appreciation of this risk amongst staff whom we visited, the risks were not always articulated in individual risk registers that we examined. For example, we found that there is a degree of trust within the Front Line Commands that the Defence Logistics Organisation would deliver the urgent purchases as required, yet that Organisation's risk register did not refer explicitly to the risk that this would not happen. While it addressed some risks presented to its business related to industry's performance, these risks were not specific to the timely delivery of urgent purchases.

2.28 Nor has the Department routinely collected information on the timely delivery of urgent purchases that it makes. In our previous report we found that the Department did not have information on the timely delivery of all its urgent operational requirements procured for Iraq - data on timely delivery was available for only 102 of the 194 urgent operational requirements made (paragraph 2.26). Of the 102 acquisitions for which data was available, 77 were required to be ready for use before warfighting began.[17] Of these, 53 were fully delivered, fitted and usable in time while, in a further 19 cases, part quantities had been delivered, fitted and were usable.

2.29 Without full information the Department cannot adequately manage the risks to readiness inherent in its urgent purchase arrangements. It needs to do more work to define and quantify the risks that are present and, in particular, to ascertain the degree of confidence that it can have that industry will deliver equipment, spares and modifications within readiness timescales. This is particularly true in the current climate of high operational tempo.

15 The Department defines an Urgent Operational Requirement as a procedure used for the rapid purchase of new or additional equipment, or for an enhancement or essential modification to existing equipment, in order to support a current or imminent military operation.
16 National Audit Office, *The Rapid Procurement of Capability to Support Operations*, HC 1161, Session 2003 04, 19 November 2004, page 3.
17 Ibid, page 18.

The Department has identified that establishing the potential Total Logistic Requirement is a key issue in managing these risks

2.30 Planning to procure the additional spares and other consumable stocks that would be needed for an operation within readiness and preparation times places a premium on judgements as to what can be obtained in the time available and what must be kept in stock so as to be available for immediate use. It also requires a good understanding of what is likely to be the logistic requirement for any operations against which such judgements can be made.

2.31 Through its lessons identified process and quarterly performance reporting system, the Department has recognised that logistics issues pose key risks to the ability to generate and sustain the Armed Forces on new operations. For example, on Operation TELIC, a key lesson identified by the Department was that operational stock levels were, in many instances, not sufficient for the force generation and sustainability requirements that warfighting operations at a large scale in Iraq dictated. This was especially so given the compressed warning and preparation time available once political decisions had been taken.

2.32 Logistical requirements are complicated to estimate, however. The expeditionary warfare environment within which the Department now operates naturally leads to uncertainty about the type and location of operations that will be undertaken and the varying military effects that might need to be achieved and therefore of the volume and nature of logistic support that will be required. And the reality of the operations that the Department is called upon to mount may be very different from the theoretical scenarios that the Department uses to underpin the Defence Planning Assumptions on which logistic support requirements are based.

2.33 In recognition of the need to improve the overview of logistics risks and processes across the organisation, the Department has appointed the Chief of Defence Logistics as the "Process Owner"[18] for logistics covering all aspects of logistics support from industry to the front line. While he does not have budgetary or line management responsibility for all logistical assets in the Department, he has the authority to ensure that coherent doctrine, policies and standards are being followed across all logistics processes. He is accountable to the Defence Management Board for enabling better delivery of logistic capabilities and is responsible for directing the Defence Logistics Transformation Programme (paragraphs 2.46 and 2.47). In response to lessons from Operation TELIC, the Department has also created the post of Assistant Chief of the Defence Staff (Logistic Operations) to improve senior logistics representation and advice within its central staff during the planning phase of operations.

Defining the Total Logistic Requirement

2.34 To improve its understanding of logistic requirements, the Department conducts regular Logistic Sustainability and Deployability Audits and is working to define a total logistic requirement embracing what might be required for operations up to the most demanding level envisaged in Defence Planning Assumptions. It is intended to fully articulate the Total Logistic Requirement by April 2007.

2.35 The Total Logistic Requirement has three elements reflecting the three components of the readiness reporting system described in Part 1 of this Report:

- **logistic support of Force Elements at their peacetime readiness states (Rx).** This represents the level of logistic support required to maintain Force Elements at their funded levels of readiness as defined in Customer Supplier Agreements between the three Front Line Commands and the Defence Logistics Organisation;
- **logistic support of Force Generation (Rx to R0).** This represents the equipment, spares or logistic activities required to generate forces from their peacetime readiness states to be ready to deploy on operations. It is intended that this should also be captured in Customer Supplier Agreements; and

18 There are intended to be 13 Process Owners responsible for key business streams, for example logistics, which will cut across traditional budgetary hierarchies.

- **logistic support of forces conducting operations (R0+).** This represents the equipment, spares and logistic activity that could be required to deploy, conduct in-theatre training, sustain operations, rotate forces on enduring operations, and subsequently recover forces to the United Kingdom based on a realistic mix of potential scenarios up to the most demanding scale of effort envisaged in Defence Planning Assumptions.

The Department has recognised shortfalls in the current understanding of the last two components in particular and has, therefore, begun work to improve the basis on which the requirement for logistic support and sustainability is articulated.

2.36 The improvements that are being sought, specifically with a view to quantifying better the risk in this area, aim to:

- ensure that both the Total Logistic Requirement and the judgements made about what might be available within the relevant warning times are explicitly articulated;
- ensure that the logistic sustainability requirement is expressed in terms of the operational effect to be achieved within a given level of resources.

2.37 At this stage, it is too early to know whether these developments will deliver the improvements that the Department seeks, but in taking forward the work there are some aspects that it needs to take into account. For example:

a the generally lower overall level of stocks now routinely held; and,

b at present, some forces can only be made ready for operations through widespread redistribution of parts from units that are not, themselves, scheduled for deployment.

Example a: Reduced stock holdings

2.38 The Department has, since the Cold War, gradually reduced the overall level of stocks that it holds routinely. Given modern logistical methods, this is sensible practice and where the Department can be sure that stocks can be obtained from industry within readiness timescales also offers improved value for money. But there is a risk that operational stockholdings may be run down too far; and even that unit holdings and equipment levels become insufficient to meet their normal requirements. The Department is very alive to this risk and effective management of it against the need to improve and reduce the cost of logistic arrangements is a key element of the Logistics Transformation Programme (paragraphs 2.46 and 2.47). As a result of work already completed, the Department has authorised the purchase of consumable operational stocks amounting to some £120 million, including Nuclear, Biological and Chemical protective clothing; tropical clothing; operational ration packs, and Enhanced Combat Body Armour. In addition, several small enhancements have been made to the logistic support package for some armoured vehicles and helicopters on operations. For example, enhancements have been made to the logistics support package for the Battle Group Thermal Imager for some Warrior armoured vehicles, and more Deployable Spares Packs for the Apache and Chinook helicopters have been purchased for use on operations.

2.39 Although not a logistics issue, a similar risk applies to personnel. This is particularly true in the Army, where deploying units frequently need to transfer personnel from other units to fulfil their warfighting establishments. Operation TELIC highlighted particular areas of under-manning: medical personnel including nurses, surgeons and anaesthetists; signals and communications personnel; logisticians; vehicle maintenance technicians; intelligence staff; aircrew; engineers and chefs. Recent assessments by the Department have shown that there continue to be shortages of essential personnel, including general and specialist medical staff, Royal Navy weapons engineering personnel and mechanics, and Weapon Systems Operators aircrew within the Royal Air Force.

2.40 The continued use of personnel on operations may lead to retention problems among these personnel, thereby exacerbating the shortage of specialist skills within the Services, or more extensive drawing down of reservists which may, in turn, impact on their availability for other operations in the medium term, as legislation prevents them being called on again for a further three years. The Department has, however, a range of initiatives in hand in these areas including targeted financial incentives and recruitment drives and does not consider the problem unmanageable. In addition, a key component of the new Future Army Structure announced in the Defence White Paper, "Delivering Security in a Changing world – Future Capabilities", in July 2004, is the reinvestment of manpower released from the drawdown of the infantry into those areas which have been most under pressure, such as engineers, signals and logistics personnel.

Example b: "Cannibalisation"

2.41 The redistribution of parts from units that are not, themselves, scheduled for deployment is referred to as "cannibalisation". The Department relies extensively on cannibalising equipment and transferring spares between platforms to deploy and sustain forces, particularly at a time of high tempo operations. This is particularly the case for Army equipment where a significant number of armoured vehicles were cannibalised to provide sufficient capability during the warfighting phase of Operation TELIC **(Figure 14)**.

2.42 Cannibalisation[19] is also becoming more prevalent within the fleet. It is intended to be the last method of equipment supply and all occurrences are specifically authorised by a central team within Fleet headquarters. The practice occurs across a wide range of Fleet equipment including marine engineering, weapon engineering and air equipment. The introduction of reduced support arrangements in June 2004 (paragraph 2.9) has led to a significant upturn in the frequency of such actions – from around five to 10 instances each month to 30. The increased trend is likely to continue during the reduced support period. Similar processes are used in the Royal Air Force where this is necessary to generate the required aircraft for operational activity.

2.43 More generally, the Department expects to continue to rely heavily on this practice in future. In assessing its ability to meet the number and type of concurrent operations envisaged by the Defence Planning Assumptions in the short to medium term, the Department recognises that its ability to do so will continue to depend on the extensive reallocation of land forces' equipment, including cannibalisation across a wide range of its armoured vehicle fleet. The Department has also identified that it is unable to sustain the majority of its helicopter fleets, operating in all three Service environments, beyond current peacetime programmed activity rates without heavy cannibalisation of equipment.

2.44 The Department believes that this practice, if effectively managed, is a sensible approach to generating forces for operations and one that allows a more rapid response than could otherwise be achieved. It also believes it offers value for money compared to the opportunity cost of stockpiling equipments and spares that might never be needed. The practice does, however, have several disadvantages. It is frequently inefficient, introduces engineering risk, is manpower intensive, uses resources that are already busy during force preparation or support, and reduces the Department's ability subsequently to generate forces for even higher scales of effort should that be required.

14 Vehicle types and number affected by cannibalisation on Operation TELIC

Equipment was removed from a number of vehicles held at home bases to provide additional spares for those vehicles deployed to the Gulf.

Vehicle	Number of vehicles cannibalised	Percentage of non-deployed fleet cannibalised	Total number of components cannibalised by vehicle type
Challenger 2	44	22.4	172
Warrior	24	4.7	30
AS90	37	29.0	149
Challenger Armoured Recovery & Repair Vehicle	5	12.5	10
Chieftain Armoured Recovery & Repair Vehicle	13		
Chieftain Armoured Vehicle Launched Bridge	8	36.0	46
Chieftain Armoured Vehicle Royal Engineers	8		
Combat Vehicle Reconnaissance - Tracked (variants)	56	5.8	149

Source: National Audit Office

19 The redistribution of parts between units in the Royal Navy is covered by a procedure called STOROB.

2.45 Widespread cannibalisation may also result in longer term consequences for the Department. In addition to the disadvantages listed at paragraph 2.44, the cannibalisation of equipment will deplete the remaining pool of equipment that is available for other operations or to replace equipment damaged on operations. It may also reduce the pool of equipment available for training, leading to wider detrimental impacts on both individual and collective skills. In addition, the extended use of cannibalised equipment will lead to it reaching the end of its useful life sooner than would otherwise have been the case, thus further diminishing the pool of equipment. It may, however, be the only acceptable course of action available to the Department where replacement items cannot be acquired from industry or the established repair chain within the required timescales. The Department should, nevertheless, take into account the potential longer term risks associated with the redistribution of people and equipment on its ability to generate forces for the larger scales of effort envisaged in Defence Planning Assumptions.

The Defence Logistics Organisation's Transformation Programme

2.46 The Defence Logistics Transformation Programme is central to the way in which the Department is addressing the issues of reduced level of stocks and cannibalisation. The programme covers all Defence logistics activity including: deploying forward on operations; within Defence industry; during the early stages of equipment acquisition; and when planning for disposal. Key elements of the Programme include the implementation of the recommendations of the End to End study and activities that were previously part of the Defence Logistic Organisation Change Programme.[20]

2.47 The Transformation Programme will increase the effectiveness of logistics delivery to the Armed Forces by encouraging the adoption of best practice and working towards implementing the joint End to End study. It should, amongst other things, result in: shorter and quicker repair loops; more responsive and closer links to industry; and, improved management information systems both at home and in-theatre requiring lower holdings of stocks and capital spares. Overall, the Department considers that the Programme has the potential to increase the flexibility of the Armed Forces by facilitating improved readiness and increased agility in logistics performance in theatre, and realise around £2 billion in efficiency savings by 2010-11 through a combination of more efficient processes and maximising the Department's purchasing power.

The Department has done well to identify and begin to address these risks

2.48 Generally, we consider the Department has an increasingly good understanding of the risks to readiness and good plans in place to mitigate them; including, where necessary, to make available to Ministers the necessary information where these risks are too great for it to take on a particular new task. The risk management arrangements put in place across the Department have resulted in the identification of many risks to readiness. These risks vary in nature and scale and are not all of equal importance. The reporting arrangements provide for the filtering of those risks assessed as being of lesser importance by successive levels of management, so that Departmental management boards may focus on those risks that appear to present the greatest threats to the achievement of their respective objectives.

2.49 There is a potential danger, however, that the cumulative effect of a series of minor risks within and between the various Departmental reporting chains could have serious impacts on the readiness of the Armed Forces. This is particularly true where reporting systems adopted by budget holders do not facilitate ease of access to all levels of the reporting chain, as with the paper-based system operated by the Defence Logistics Organisation. We found no evidence that staff considered risks to readiness from this perspective in any of the Top Level Budget areas that we visited. In focussing on major risks, the Department must be mindful of the potentially serious impacts of the cumulative effects of minor risks to readiness.

20 The 2002 'DLO Change Programme' was designed to address three areas: better management; better value, and strategic change. The End-to-End study looked at land and air supply chains from industry to front-line. The Transformation Programme broadens the End-to-End study to other areas of the Defence Logistics Organisation, including the maritime environment and the Front Line Commands.

APPENDIX 1
Methodology

1 This Appendix sets out the methodologies that we utilised in the course of the study.

Review of Departmental papers

2 We undertook a wide ranging review of the Department's documentation. This included policy and planning papers related to the readiness status of individual military units across the three Services together with a range of readiness performance reports prepared by the Armed Forces' chains of command and the Department's central staff. We also examined a significant quantity of material relating to the Department's risk management and reporting arrangements. In addition, we examined "lessons identified" reports and other Departmental reviews to supplement the evidence that we had gathered from elsewhere.

Interviews with key stakeholders

3 During the study fieldwork, we consulted with a large number of key individuals and organisations within the Department responsible for issues affecting the readiness of the Armed Forces and risk management and reporting arrangements:

Directorate of Performance & Analysis, Ministry of Defence

Director General Resources & Plans, Ministry of Defence

Defence Resources & Plans, Ministry of Defence

Resources & Plans (Centre), Ministry of Defence

Director Naval Resources & Plans, Ministry of Defence

Army Resources & Plans, Ministry of Defence

Air Resources & Plans, Ministry of Defence

HMS Portland

RFA Fort George

Commander, 3 Commando Brigade, Royal Marines

Commander, 16 Air Assault Brigade

Royal Air Force Lossiemouth

Royal Air Force Cottesmore

Chief of Joint Operations, Permanent Joint Headquarters

Assistant Chief of Defence Staff (Logistic Operations)

Headquarters, Defence Logistics Organisation

Defence Logistics Transformation Team, Defence Logistics Organisation

Deputy Chief of Defence Staff (Commitments)

Directorate Capability Resources and Scrutiny (Equipment Capability Customer)

Directorate Joint Warfare (Ministry of Defence Centre)

Headquarters Fleet (Royal Navy)

Headquarters Land Command (British Army)

Headquarters Strike Command (Royal Air Force)

Permanent Joint Headquarters

Major Warships Integrated Project Team, Defence Logistics Organisation

Tank Systems Support Integrated Project Team, Defence Logistics Organisation

Tornado Integrated Project Team, Defence Logistics Organisation

Customer Supplier Agreement Integrated Project Team, Defence Logistics Organisation

Output Performance Integrated Project Team, Defence Logistics Organisation

DLO Secretariat, Defence Logistics Organisation

Fleet Operational Maintenance Officer, Headquarters Fleet

Directorate of Operational Capability, Ministry of Defence

Fieldwork visits to Australia, Denmark and the United States

4 As part of our fieldwork, we visited the National Audit Offices of Australia, Denmark and the United States (the Australian National Audit Office, the Rigsrevisionen and the Government Accountability Office respectively) to discuss work that they had done on examining the readiness management and reporting arrangements used by their countries' Armed Forces. We also discussed these issues in more detail with officials from the Australian Department of Defence and the United States Department of Defense.

Consultants

5 We appointed Professor Andy Neely, Deputy Director of the Advanced Institute of Management Research to critique the Department's Public Service Agreement readiness targets agreed with HM Treasury as part of the Spending Reviews 2000, 2002 and 2004. And, in order to provide us with high level military guidance for our work, we engaged the former Vice Chief of the Defence Staff, Admiral Sir Peter Abbott GBE KCB, as a consultant.

APPENDIX 2

Risk reporting and management arrangements

1 In common with other parts of Government, the Department is continuing to develop a risk reporting and management system for all its activities, including readiness.

The Department is participating in wider moves within Government to manage risks

2 In recent years there has been a concerted drive across Government to improve the way that departments handle risks and uncertainties to their business. In particular, reports from the National Audit Office and the Prime Minister's Strategy Unit, published in 2000 and 2002 respectively, have been key factors in taking forward the wider risk management agenda.[21] Departments were responsible for taking forward most of the Strategy Unit report's recommendations, which centred on the two year Risk Programme to improve risk management across departments. This programme ended in 2004 but the Treasury is working to ensure that departments continue to improve their risk management capabilities. In particular, in October 2004, it updated its 2001 guidance to departments, known as the "Orange Book", which provides broad-based general guidance on the principles of risk management and draws on departments' recent experiences in this area.[22]

The Department's risk reporting and management system is in place and is developing

3 Building on the Treasury's Orange Book and other sources such as the National Audit Office and the Strategy Unit reports noted at paragraph 2, the Department issued its own guidance to staff on corporate governance and risk management in May 2004. The guidance explains the Department's policy on corporate governance and risk management and provides a summary of the roles and responsibilities of key committees and staff within the Department. **Figure 15** provides an overview of the Department's risk reporting and management system.

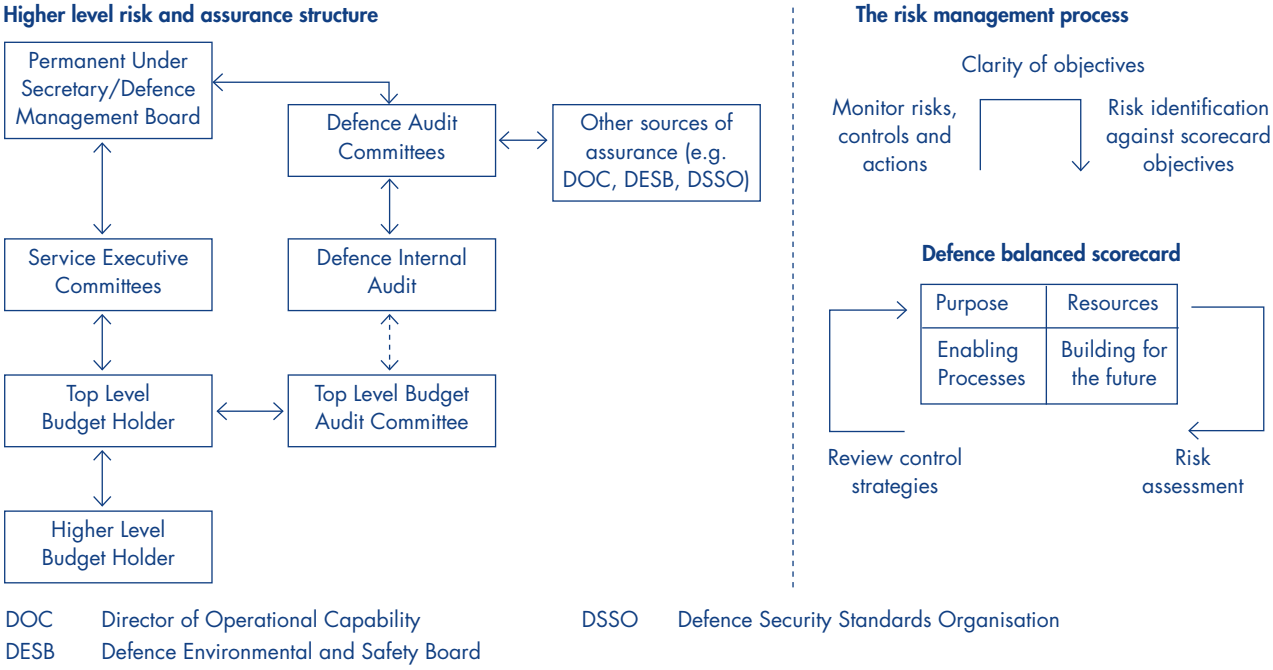
4 As the Department's executive board, the Defence Management Board is responsible for performance and risk management within the Department. In carrying out this role, the Board is responsible for establishing the Department's risk management objectives and policy and for reviewing and approving controls and strategies for dealing with significant risks. It periodically reviews the effectiveness of the system of internal control with specific regard to managing the risks that the Department faces. The Board also owns the Departmental Risk Register (paragraph 7).

5 While the Permanent Under Secretary and the Defence Management Board retain overall responsibility for risk management within the Department they are supported by the Service Chiefs of Staff, Top Level Budget Holders and others below board level who have delegated responsibilities to own and manage the particular risks to the achievement of their respective objectives. Top Level Budget Holders are, therefore, responsible for the systematic identification, assessment and management of the risks to the delivery of their key outputs and targets. They operate separate risk management systems within the broad Departmental guidance available. Responsibility for the management of individual risks is further delegated to individuals within the Top Level Budget areas.

21 National Audit Office, *Supporting Innovation – Managing Risk in Government Departments*, HC 864, Session 1999-00, 17 August 2000; and the Strategy Unit, *Risk – improving government's capability to handle risk and uncertainty*, 20 November 2002.
22 HM Treasury, *The Orange Book, Management of Risk – Principles and Concepts*, October 2004.

15 Overview of the Department's risk reporting and management system

The Department's risk management system identifies risks to the achievement of objectives within its Balanced Scorecard which are reported and managed by successive tiers of management.



DOC Director of Operational Capability
DESB Defence Environmental and Safety Board
DSSO Defence Security Standards Organisation

Source: National Audit Office

6 The Defence Management Board uses the Defence Balanced Scorecard to manage performance across the Department. The Scorecard provides a comprehensive view of Departmental performance in key areas, measured against a series of objectives and indicators that reflects the Department's strategic priorities. The Scorecard's objectives provide the starting point for the identification, evaluation, control and reporting of risks to the Department's key activities, including readiness. The Department reports each quarter to the Defence Management Board on its performance against the Scorecard objectives and on any risks to their achievement.

7 The Department's risk management and reporting systems are still evolving, in particular better to embrace risks cutting across organisational boundaries and to quantify the risk exposure across the Department, and a new Business Management System, to be introduced from April 2005, will create senior level 'Process Owners' to oversee cross-cutting activities with the specific remit to identify and manage such risks. The Department has also created a Departmental Risk Register in addition to the Board's own strategic risk register which draws together the most significant risks – those that would have the highest impact and/or are most likely to occur – from risk registers maintained by all Top Level Budget Holders, Service Executive Committees[23] and, in due course, newly created Process Owners.[24] This will allow the Board a better overview of the totality of risk including risks being managed at lower levels in the Department.

23 The Navy Board, the Executive Committee of the Army Board and the Air Force Board Standing Committee.
24 Precise terms of reference for Process Owners have still to be finalised and the Department does not expect them all to have complete and robust risk registers until March 2006.

8 The Defence Management Board has been using risk assessments reported through the Balanced Scorecard to drive Board discussion for several years using both a risk picture (showing risks positioned according to their impact and probability) and a commentary on the key risks identified. From the first quarter of 2004-05 this has been based on the top risks from the new Departmental Risk Register rather than just the strategic risks identified by the Board. Given the number of risks identified across the Department the Board look at a summary of the top risks graded by impact and probability, together with details of any mitigation action in place. The full risk register is however available to Board members and is reviewed by the Defence Audit Committee.

Risk management arrangements vary across the Department

9 The Department's guidance on risk management (paragraph 3), does not mandate specific risk management techniques or standards but sets out, in broad terms, what risk management arrangements should be in place. It emphasises that the correct identification of risks to the achievement of objectives and of strategies to manage them are key aspects to the risk management process and that the alignment of objectives to the Defence Balanced Scorecard is fundamental to tracking performance and risk. We found that the maturity of individual arrangements for managing risks to readiness operated by Top Level Budget Holders that we visited varied and, in some cases, required further development:

a **Some arrangements are IT-based and some are paper-based:** The sophistication of the risk reporting mechanisms used throughout the Department varies. For example, both Land Command and the Defence Logistics Organisation use systems that are constructed using paper-based or emailed information. Conversely, Fleet and Strike Commands, both use and are developing IT-based systems to report risks and improve visibility of them throughout their respective organisations;

b **In some areas, risk mitigation action is dependent on others:** Most risk mitigation measures or controls are clearly set out in the relevant risk register. However, there are instances where the effectiveness of the control is dependent on events not within the control of the risk owner. For example, risks have been identified against which the control requires the provision of extra resources which are unlikely to be forthcoming. It would be sensible to have fallback mitigation measures in place in such cases;

c **Some well developed arrangements are used as a basis for management discussions at board level:** For example, the Fleet Command Management Board are regularly provided with assessments of the risk prioritised according to impact, likelihood and cost, thereby identifying risks that could be mitigated within the Command and those that would have to be considered by more senior boards. And Strike Command Management Board consideration of quarterly performance reports focuses on the top 10 risks to the Command;

d **Ownership of generic risk remains unclear:** While specific risks are generally the responsibility of designated individuals to manage, at a generic level there is no obvious owner of, for example, the risks inherent in deploying and sustaining forces on operations beyond their peacetime readiness levels. The Department has recognised that the respective responsibilities of the Chief of Defence Logistics and the Front Line Commands need to be more clearly defined in Customer Supplier Agreements.

More can be done explicitly to examine lessons from operations in terms of risk reduction

10 The Department has a well established process for identifying lessons from military operations and exercises, drawing input from the Permanent Joint Headquarters, the Front Line Commands and across the Department, and reviews action taken every six months. The process focuses principally on such issues as shortages of skilled personnel and equipment. But there is scope for the Department to use the material gathered during this process to consider how it might improve its performance more widely through reducing the risks that it faces, for example, of incurring casualties or of the potential for mission failure or delay.