



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 1791  
SESSION 2010–2012  
9 FEBRUARY 2012**

---

**Ministry of Defence**

Managing change in the  
Defence workforce

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

---

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.



National Audit Office

## Ministry of Defence

# Managing change in the Defence workforce

---

Ordered by the House of Commons  
to be printed on 7 February 2012

**Report by the Comptroller and Auditor General**

HC 1791 Session 2010–2012  
9 February 2012

London: The Stationery Office  
£16.00

This report has been  
prepared under Section 6  
of the National Audit Act  
1983 for presentation to  
the House of Commons  
in accordance with  
Section 9 of the Act.

Amyas Morse  
Comptroller and  
Auditor General

National Audit Office

6 February 2012

This report examines how effectively the Department is managing workforce changes without impacting negatively on the delivery of its strategic objectives given the speed of the reductions. It builds on earlier National Audit Office work that reported on how government departments are making cost reductions, while focusing on workforce change.

© National Audit Office 2012

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

# Contents

Key facts **4**

Summary **5**

Part One

The Department's financial  
and strategic challenge **11**

Part Two

Planning and implementing  
personnel change **15**

Part Three

Delivering headcount  
reductions **26**

Appendix One

Methodology **36**

---

The National Audit Office study team  
consisted of:

Ben Bourn, Ross Campbell,  
Marisa Chambers, Jennifer Heyman,  
Sarah Shakespeare, Heather Whitver  
and David Williams

This report can be found on the  
National Audit Office website at  
[www.nao.org.uk/mod-workforce-2012](http://www.nao.org.uk/mod-workforce-2012)

For further information about the  
National Audit Office please contact:

National Audit Office  
Press Office  
157–197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

Website: [www.nao.org.uk](http://www.nao.org.uk)

Twitter: @NAOorguk

# Key facts

---

**£4.1bn**

gross savings from reducing headcount by 2015 estimated by the Department

---

---

**£0.9bn**

total costs of redundancy and early release schemes estimated by the Department

---

<b>£38 billion</b>	funding gap identified in the ten-year Defence Budget announced in Summer 2010
<b>£4.3 billion</b>	overall savings from non-front line activities that the Department aims to make from taking measures outlined in the Strategic Defence and Security Review
<b>£2.7 billion, 7.5 per cent</b>	reduction in the Department's annual funding in real terms by 2014-15
<b>£4.1 billion</b>	savings the Department expects to make to its overall budget over four years through reducing headcount (excluding the three month exercise)
<b>29,000 (34 per cent)</b>	reduction in civilian personnel by 2015
<b>25,000 (14 per cent)</b>	reduction in military personnel by 2015

# Summary

## Background

**1** The Ministry of Defence (the Department) faces significant financial problems in balancing its budget. In 2010, it announced that it had a funding gap of £38 billion over the next 10 years. In addition, the 2010 Spending Review required the Department to make spending cuts of some 7.5 per cent in real terms (£2.7 billion) by 2014-15 as part of efforts to reduce the deficit across all government departments.

**2** In October 2010, the Strategic Defence and Security Review set out measures for the Department to balance its budget, which included cutting non-front line costs by an estimated £4.3 billion by 2015. The Defence budget has a relatively high level of fixed costs in the short term and a significant amount of procurement and equipment expenditure is committed for years in advance. The consequence is that the Department has relatively little flexibility to reduce spending in some areas of its budget.

**3** Personnel costs comprise over one-third of the budget and are more flexible in the medium and long term. As a result, a large part of the savings the Department needs to make under the Strategic Defence and Security Review will come from reducing headcount. The Review announced that the Department would cut its civilian workforce by around 25,000; and the military by around 17,000. In spring 2011, the Department conducted a subsequent exercise to identify further cost savings, known as the three month exercise. This exercise reduced the workforce further, the revised total reductions are: 29,000 in the civilian workforce (34 per cent) to 57,000 personnel and 25,000 (14 per cent) in the military, namely through further reductions in the Army, by 2015, to 152,000 personnel: a total of 54,000 headcount reductions.

**4** The Department estimates that reducing headcount will cut its costs by £4.1 billion between 2011-12 and 2014-15. This is based on the reductions set out in the Strategic Defence and Security Review and does not include the additional reductions in headcount required by the three month exercise which the Department has not yet finalised. The Department has not yet published any revisions to the amount it expects to save from the Strategic Defence and Security Review overall.

**5** To meet its headcount reduction targets, the Department has started a redundancy programme and a Voluntary Early Release Scheme, both of which run in several tranches. These aim to reduce the Defence workforce by around 23,000 civilian and military personnel. At least 16,000 (30 per cent of the total reductions required) will leave through natural wastage and approximately 1,700 personnel transferred to the private sector. These figures are likely to change depending on levels of natural wastage and changes in planning. Defence Trading Funds are expected to reduce headcount by

4,400, however, as they are undertaking this work separately from the Department we have not included their actions in this report. The Department has not yet determined in detail how it will reduce the Army headcount further by the 5,000 required by the three month exercise but expects it will be through a mixture of redundancies and natural wastage. The Department has not reduced its headcount on this scale since the 1990's 'Options for Change'.

**6** A number of cost savings were announced in the Strategic Defence and Security Review such as the early removal from service of some 'force elements' of the Armed Forces, such as the Harrier fleet. The numbers of military personnel associated with these 'force elements' are relatively clear and the Department understands the consequences of the reduction. The relationship between personnel numbers and the Department's other activities is less clear. The Department needs to determine how it will transform the way it works in order to deliver Defence's strategic objectives as its personnel decreases.

**7** The Department is developing a new operating model which will set out how Defence will work in order to meet its purpose of defending the United Kingdom and its Overseas Territories, citizens and interests and helping to strengthen international peace and security. By changing the way Defence operates, the Department is seeking to ensure it can continue to meet its objectives with fewer people. The high level structure of this model has now been determined and the Department is now working on the detail that will be needed to implement these new ways of working. The Department currently has a portfolio of some 47 initiatives to transform various elements of its business.

**8** The Department has had little choice other than to make cost cuts early if it is to meet spending review targets. Consequently, it has commenced reducing its headcount before the full detail of the new operating model has been determined. Recognising the risk inherent in this approach, the Department has taken steps to retain skills in line with the requirements of the new model as much as it can predict and is feasible. There remains a risk, however, that some of the skills it needs now and in the future may be lost.

**9** This report examines how effectively the Department is managing workforce changes without impacting negatively on the delivery of its strategic objectives given the speed of the reductions. It builds on earlier National Audit Office work that reported on how government departments are making cost reductions, while focusing on workforce change. This report will also consider some of the steps the Department has taken to limit the loss of some specific skills. Our study methods, undertaken in the second half of 2011, are outlined in Appendix One.



## Key findings

### Planning for headcount reduction

**10 Our review has concluded that the Department has followed good practice in planning its headcount reduction to date.** The Department has provided consistent central direction, allowing the detailed planning for military and civilians to evolve separately to consider different terms of employment. The first tranches of the military redundancy programme and civilian Voluntary Early Release Scheme have progressed without problems to date.

**11 The Department has developed good models and tools that have helped it to profile the numbers of headcount cuts required, and the predicted savings.** The assumptions underpinning these models need adjusting to reflect the actual cuts being made. This is not unexpected given the scale and complexity of the redundancy programme and Voluntary Early Release Scheme and the difficulty of predicting who will apply to leave.

**12 The Department has mixed information on its workforce.** Good workforce information is essential for departments to make sensible decisions about which skills, in what quantity, and where, they must retain to deliver their strategic objectives effectively. The Department recognises this and, in response to previous shortfalls in data quality, is now generating better information on the numbers of civilian personnel. It already has good information for its military personnel.

**13 The Department's information on civilian skills needs improving.** While the Department has good information on the skills of its military workforce, its information about the skills of the civilian workforce is limited. The Department has recognised this might lead to the risk of it inadvertently losing skilled personnel. To address this risk, data on civilian skills is being gathered from applications to the Voluntary Early Release Scheme. This approach will however, only provide data in respect of an individual applicant's skills and not the entire civilian workforce, and then, only once the scheme is under way. Consequently, the Department will struggle to target its headcount reductions on the skills it most needs to keep.

### Obstacles to successful delivery

**14 The Department faces a number of obstacles to reducing headcount while delivering Defence objectives.** These include the scale of change that the Department is undergoing and the possibility that the financial savings needed may not be realised.

### Scale of change

**15 The Department is undergoing a period of significant change alongside making headcount reductions.** It has a portfolio of some 47 change programmes and initiatives for which oversight and reporting arrangements are in place.

**16 The Department will need to profoundly change how it works to ensure it can deliver its strategic objectives with fewer staff.** It has struggled to do this in the past with previous initiatives to reduce headcount such as PACE and Streamlining which did not change ways of working although they did successfully reduce headcount. We acknowledge progress is being made to change ways of working in the Defence estate and corporate services; and other initiatives, such as those at the Defence Equipment and Support organisation, seem to be heading in the right direction. We have not, so far, seen enough detail to determine whether in aggregate the overall programme of change initiatives will really transform how the Department works. Without real changes to ways of working, cutting headcount is likely to result in the Department either doing less with fewer people or trying to do the same with greater risk.

### Making financial savings

**17 The Department has not identified further potential savings measures should the headcount reduction not deliver the required financial savings.** Instead it is relying on some financial contingency and the tranche structure of the redundancy programme to give it flexibility. As planned savings are sensitive to several factors including delays to the redundancy programme, this approach may not be sufficient. For example, the second military tranche has been delayed by three months to allow for broader changes in the Department. The delay has reduced savings from this tranche alone by an estimated £100 million to £138 million to 2015; 4 to 5 per cent of total savings projected to be made in the military headcount reduction.

**18 The Department has not yet developed detailed plans on how it will reduce the Army headcount further.** The Department has to reduce the numbers in the Army by a further 5,000 as a result of the three month exercise to cut costs. The Department has started to redesign the structure of the Army around this new figure. It has not yet profiled the numbers of people that will go through natural wastage or through redundancy. Any delays to the process would erode the point at which the resultant savings exceed the cost as the Department continues to pay salaries, benefits and contributions to pensions.

## Skills gaps

**19 The significant reduction in headcount creates a risk that current skills gaps will worsen.** There is a significant risk that current skills shortages will worsen particularly as at least 16,000 personnel, 30 per cent of the reduction required, is predicted to occur through natural wastage, a process over which the Department has less control than redundancy. A loss of skills is of less concern for the first military redundancy tranche which has excluded key skills and targeted surplus trades. The Department also takes into account skills when assessing civilian applicants for Voluntary Early Release and has stipulated a small number of specific skills that cannot be released under the Scheme.

**20 Despite these efforts, skills gaps may become more acute in future because headcount reductions will be well under way by 2013, with the Royal Navy and RAF redundancies substantially complete.** This will be before the detail of the new operating model and the mix of skills required, have been determined. Furthermore, the Department has not yet stipulated the numbers of personnel who will leave individual business areas. These factors make it very problematic for the Department to target headcount reductions to areas deemed less critical although the latter gives the Department some flexibility to target areas as the operating model develops.

**21 The Department will struggle to maintain skills through recruitment.** The Department has learned from previous headcount reduction programmes and has continued to recruit military personnel, although at much lower levels. The Department is constrained on the civilian side by a government-wide civil service recruitment freeze albeit with some exceptions, for example, business critical posts.

## Conclusion on value for money

**22** The urgent need for the Ministry of Defence to reduce its costs has left it with little choice but to make rapid reductions to its workforce. The Department has acted decisively to put in place a redundancy programme and is making progress in planning for the future. So far, the redundancy programme is running well and the Department's approach has been largely in accordance with good practice. On that basis, we conclude that to date the Department has acted in a way that is consistent with value for money.

**23** For the Department to ensure that it can deliver its strategic objectives with fewer staff in the future, it will need to make far reaching changes to the ways in which it carries out its business. Developing the detail of the changes and implementing a new operating model for Defence will take time and is only likely to be complete after substantial numbers of skilled personnel have left. The Department needs to find a way to put in place a more targeted approach to achieve its intended outcomes to restructure its workforce as required and have the key skills it requires. Unless it does so, there are clear risks to its ability to make the necessary savings and still be able to deliver value for money in the future.

## Recommendations

**24** We make the following recommendations:

- a** The Department is in the difficult position of needing to cut its headcount quickly, to maximise financial savings. While it has taken some steps to retain some specific skills, it risks not having all skills that may be needed in the future. The full detail of the operating model will not be available until after the redundancy programme is well under way.

The Department should press on with developing and implementing the detailed operating model as a matter of priority and ensure that it aligns headcount reductions with the model as it develops.

- b** To ensure that Defence can deliver its strategic objectives with fewer personnel, the Department will need to transform how it works. We have not seen enough detail to determine whether the Department is making sufficiently substantial changes to the ways in which it works.

Greater emphasis is required on transforming ways of working to make sure strategic objectives can still be delivered with a reduced workforce.

- c** The Department currently has skills gaps in both its military and civilian workforce and estimates at least one-third of headcount reductions required will be made through natural wastage – a process over which it has less control.

The Department needs to maintain its vigilance over the emergence of new and worsening skills gaps in the medium to long term in its civilian and military workforce.

- d** The Department does not have good information on the skills of its civilian workforce.

It needs to step up its efforts to develop a comprehensive understanding of skills across its civilian workforce.

- e** Our experience shows that cost reduction programmes often deliver less than anticipated. While the Department has represented to us that it has set aside some financial contingency, it has not identified further potential savings measures in the event that current plans do not meet targets.

We raised the recommendation with the Department that it should develop a costed plan identifying how further savings would be made if they are needed. The Department believes it has the capacity to deal with any underachievement of its current plans through compensating adjustments in its budgeting process and that a costed plan is, therefore, unnecessary. Should this prove not to be the case we encourage the Department to revisit this recommendation in the future.

# Part One

## The Department's financial and strategic challenge

**1.1** This part outlines the financial and strategic challenges the Department faces and how it is approaching cost cutting by reducing headcount.

**1.2** The 2010 Spending Review required the Ministry of Defence (the Department) to make spending cuts of some 7.5 per cent per year in real terms (£2.7 billion) by 2014-15 to its overall budget as part of efforts to reduce the deficit across all government departments. The Department has fared relatively well over the Spending Review period compared with other departments. The Institute for Fiscal Studies calculated that the average cut in departmental budgets would be 11 per cent over the Spending Review period.<sup>1</sup> The Department's budget over the next four years will stay relatively constant in cash terms.

**1.3** In addition to the Spending Review savings, the Department needs to take measures to balance its budget. In 2010, the Department announced it had a funding gap of £38 billion over the next 10 years. In March 2011, the Department reported to the House of Commons Defence Select Committee that the funding gap had reached £42 billion.

**1.4** In October 2010, the Strategic Defence and Security Review set out a number of measures that the Department plans to take to balance its budget including cutting non-front line costs by an estimated £4.3 billion by 2015. Reducing headcount is a key part of reducing its overall budget<sup>2</sup> and the Review announced that the Department would cut its civilian workforce by approximately 25,000; and the military by 17,000. The subsequent three month exercise to identify additional cost cuts reduced the workforce further, the revised total reductions are approximately: 29,000 in the civilian workforce to 57,000 personnel and 25,000 in the military to 152,000 by 2015, a total of 54,000 personnel reductions. The military reduction includes a decrease of 2,000 RAF personnel which the Department had committed to make prior to the Strategic Defence and Security Review.

<sup>1</sup> Institute for Fiscal Studies, *Where did the axe fall?*

<sup>2</sup> Reducing headcount will decrease non-front line and front-line costs.

## Meeting the financial challenge

**1.5** The Department's spending has three main components: personnel, equipment, and infrastructure. The Defence budget has a relatively high level of fixed costs in the short term and a significant amount of procurement and equipment expenditure is committed for years in advance. The consequence is that the Department has relatively little flexibility to reduce spending in some areas of its budget. Personnel costs comprise over one-third of the budget and are more flexible in the medium and long term. As a result, a large part of the savings the Department needs to make under the Strategic Defence and Security Review will come from reducing headcount. Therefore, this report focuses on the Department's headcount reduction plans (**Figure 1**). We have separately examined equipment and operating costs in reports on the Aircraft Carriers, the Defence Estate, Typhoon Combat Aircraft and the annual Major Projects Report which examines the largest defence equipment projects.<sup>3</sup>

**1.6** The numbers required to be delivered from headcount reduction may be subject to change depending on the extent to which savings can be released from other parts of the budget. The latest figures from the Department are that the civilian workforce will decrease further to 54,000 by 2020 and that the Army will reduce to 82,000 by 2020.

**1.7** The Department estimates that reducing its headcount as set out in the Strategic Defence and Security Review will cut costs by £4.1 billion between 2011-12 and 2014-15 (**Figure 2**), excluding the impact of the additional reductions in headcount required by the three month exercise. Work on the impact of this reduction is advancing, for example, the Department has started to redesign the structure of the Army around this new figure. The Department has not yet published any revisions to the amount it expects to save from the Strategic Defence and Security Review overall. The military redundancy programme and civilian Voluntary Early Release Scheme are estimated to cost £0.9 billion to 2015 to cover the one-off costs of running the scheme, giving a net saving of over £3 billion. The costs for the redundancy and early release schemes cover compensation payments for staff leaving. Civilian personnel leaving under the Voluntary Early Release Scheme will be compensated under the terms of the Civil Service Compensation Scheme and the level of compensation is based on pay and years of service. For the military, the Department has calculated costs based on pay and years of service as specified by the terms and conditions of service. The estimated cost of the headcount reduction was reflected in the Department's Spending Review settlement.

<sup>3</sup> Comptroller and Auditor General, *Major Projects Report 2010*, Session 2010-11, HC 489, National Audit Office, October 2010; *Carrier Strike*, Session 2010-12, HC 1092, National Audit Office, July 2011; *A defence estate of the right size to meet operational needs*, Session 2010-11, HC 70, National Audit Office, July 2010; *Management of the Typhoon Project*, Session 2010-11, HC 755, National Audit Office, March 2011.

**Figure 1**

## Planned headcount reductions in the Ministry of Defence

Type of personnel	Baseline number of personnel	Number of personnel in 2015	Number of personnel in 2020
Civilian personnel (Full Time Equivalents)	86,000	57,000	54,000
Total trained service personnel	177,000	152,000	143,000
Army	101,000	89,000	82,000
RAF	40,000	33,000	32,000
Royal Navy	35,000	30,000	29,000
<b>Total personnel</b>	<b>263,000</b>	<b>209,000</b>	<b>197,000</b>

**NOTES**

- 1 These figures are approximate and may not add due to rounding.
- 2 The numbers include the Strategic Defence and Security Review and the Department's internal three month exercise
- 3 Civilian baseline is April 2010 and the military is April 2011.
- 4 Prior to the Strategic Defence and Security Review the RAF had committed to reducing personnel by 2,000. This is included in the 40,000 personnel baseline, noted above. By adding the 5,000 personnel reductions set out in the Strategic Defence and Security Review the RAF will reduce to 33,000 personnel by 2015.
- 5 The civilian 2015 figure includes a reduction of 4,400 personnel in Trading Funds. A Trading Fund is a financing framework for Government operations that is not seen as central to government processes. The fund can usually manage its financial affairs more freely than if its costs are met by its parent Department.
- 6 These figures are correct at the time of publication.

Source: Figures provided by the Department

**Figure 2**

## Estimated savings from reducing headcount from the Strategic Defence and Security Review between 2011 and 2015

	Service personnel (£bn)	Civilian personnel (£bn)	Total (£bn)
Estimated cost	0.4	0.5	0.9
Estimated gross savings	2.7	1.4	4.1
Estimated net savings	2.3	0.9	3.2

**NOTE**

- 1 This is based on headcount reductions set by the Strategic Defence and Security Review and excludes the additional reductions determined in the three month exercise.

Source: National Audit Office analysis of Departmental data

## Strategic change

**1.8** While the 2010 Spending Review set the financial direction for the Department, the National Security Strategy and the Strategic Defence and Security Review set the strategic direction. Implementing this high-level strategic vision is being informed by a number of formal reviews; in particular the Defence Reform review led by Lord Levene. This review reported eight months after the Spending Review and has far-reaching consequences for the Department's structure and ways of working.<sup>4</sup> The Department is, therefore, implementing headcount reductions alongside a period of significant strategic change across its business. The Department has recognised the risk inherent in this approach, however, the need to make rapid savings has driven it to start planning for headcount reductions before determining the detail of how it will operate in future.

## Key success factors

**1.9** To reduce headcount and make cost reductions the Department must address some critical factors. We considered its plan against NAO good practice, which cites the following factors for success:

- Learning from previous experience of change programmes.
- Rigour in planning.
- Good governance structures for planning and implementing change.
- Having management information systems that are sufficiently robust to monitor progress in reducing headcount and associated financial savings.
- Assessing skills (including specialist skills) needed for the future and plans to fill skills gaps.
- Identifying and mitigating the key risks to delivery.
- Implementing continuous improvement plans or changes to how the Department works.

<sup>4</sup> Lord Levene et al, *Defence Reform*, 2011.



# Part Two

## Planning and implementing personnel change

**2.1** This section of the report examines how effectively the Department has planned and implemented its headcount reduction.

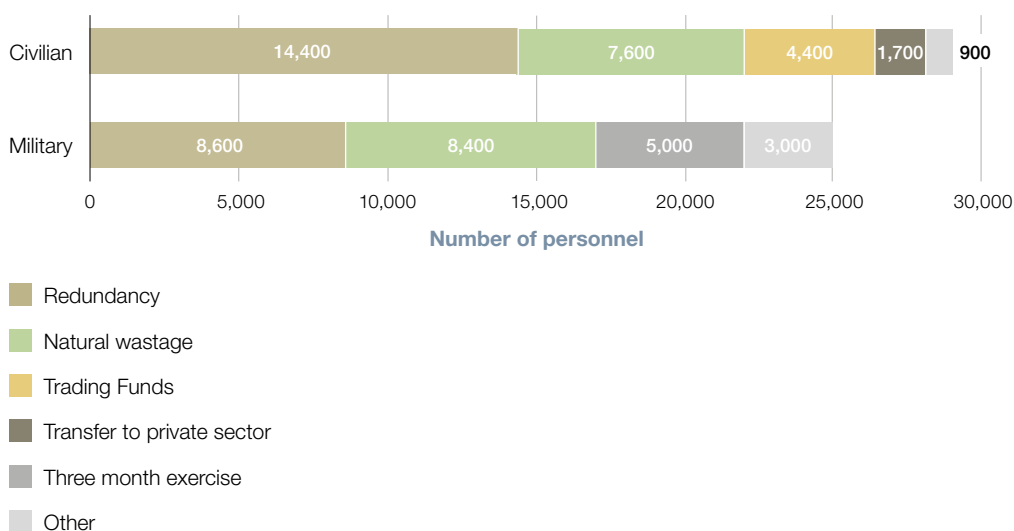
**2.2** The Department has steadily reduced its headcount over the past 20 years with reductions of 37 per cent in trained military personnel and 51 per cent in civilian personnel. The Department aims to further reduce its headcount by approximately 25,000 military and 29,000 civilian personnel by 2015. There will be more reductions up to 2020. The Department has not reduced headcount on this scale since the early 1990's during the 'Options for Change' programme after the end of the Cold War.

**2.3** There are two main ways to reduce headcount: reduce the intake of personnel; and increase the numbers of people leaving, through natural wastage or redundancy. The Department's headcount reduction programme plans to use all these options for civilian and military personnel to differing degrees (see **Figure 3** overleaf). A reduction of 4,400 personnel in Trading Funds is also expected, however, we have not included the Trading Funds' actions in this report as they are undertaking this work separately from the Department.<sup>5</sup>

**2.4** Both of the above approaches to reduce headcount have implications for the age profile of the Department. Recruitment tends to bring in younger employees. This is particularly the case for military recruitment. Data for the civil service generally for 2010-11 indicates that older employees (aged 50 and over) are more likely to leave under paid voluntary terms than younger counterparts, potentially leaving a workforce with fewer experienced employees. This will be difficult to control for the civilian workforce as, to ensure equality, the Department is unable to discriminate against certain groups in its selection criteria. However, the military have mitigated this impact to a certain extent by stipulating the ranks, which are intrinsically linked to age, that are to be lost through headcount reduction. As **Figure 4** on page 17 shows, the age profile after the first tranche of military redundancies remains largely unchanged.

<sup>5</sup> A Trading Fund is a financing framework for government operations that is not seen as central to government processes. The fund can usually manage its financial affairs more freely than if its costs are met by its parent Department.

**Figure 3**  
How the Department plans to reduce headcount 2011–15



**NOTES**

- 1 As a result of the three month exercise the Army is expected to reduce by a further 5,000 personnel and the Department has yet to determine the detail of how it will achieve this reduction.
- 2 The “other” category for the military workforce includes the 2,000 personnel reduction the RAF committed to make before the Strategic Defence and Security Review and 1,000 which is a mix of rounding and adjustment of the Army baseline to 2011.
- 3 The “other” category in the civilian workforce includes the 900 reduction through natural wastage in the Department’s wider civilian workforce for example Locally Engaged staff and Royal Navy Auxiliary.
- 4 Civilian numbers are based on Full Time Equivalents.
- 5 These figures were correct at the time of publication.

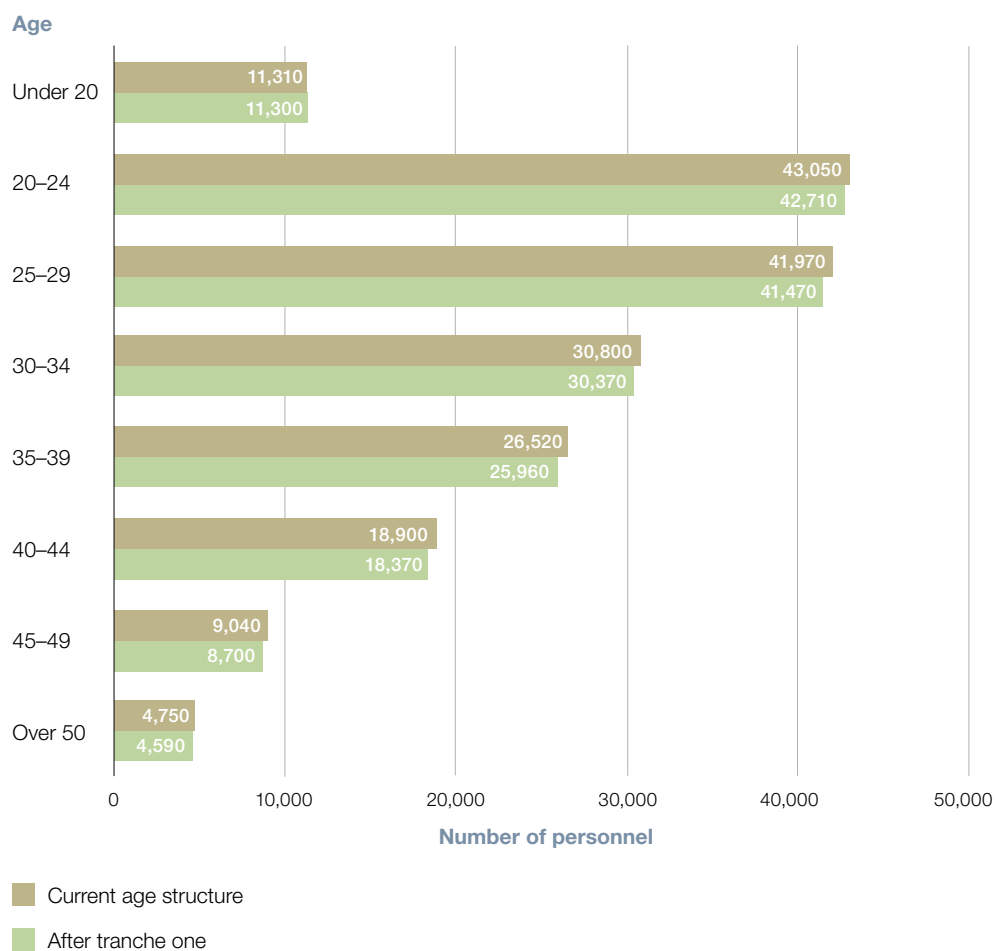
Source: Figures provided by the Department

**The planning process**

**2.5** To plan and deliver sustainable cost reduction, the Department must develop effective and rigorous plans. Plans need to be built from a robust baseline and a good understanding of numbers, location and workforce skills. The Department also needs a clear vision of the end state to be achieved, together with the steps needed to move from the baseline position to the new operating model. To translate this vision into sustainable savings, the Department must understand the costs and the relationship between personnel, resources, costs and activities. Our experience is that savings programmes often over-promise and under-deliver. The Department has represented to us that it has sufficient financial contingency set aside, however, it would be prudent for the Department to have plans that identify potential further savings, in the event that initial savings targets cannot be met.

**Figure 4**

Age profile in the military before and after tranche one



Source: Annual Defence Statistics 2011 and UK Armed Forces, Redundancy Programme tranche one statistics

**2.6** When it is no longer possible to continue current working practices with fewer staff and still deliver strategic objectives, new ways of working and operating models are needed. The Levene Report provides a high level vision of the end state of the Department. The Department is developing a new operating model to give the necessary detail to implement this vision.

**2.7** To reduce its headcount, the Department has formulated high-level guidance and a phased approach to reducing headcount, with a consistent overall message. It developed detailed plans and processes for reducing civilian and military headcount separately within this framework to allow for their different terms and conditions of service.

**2.8** The Department has planned and is implementing its military redundancy programme and civilian Voluntary Early Release Scheme in a series of flexible tranches. Currently the Department plans to run two tranches of civilian releases; the Army is planning four tranches and the Royal Navy and RAF have recently adjusted their plans and reduced the number of tranches from three to two, although there may be a small number of redundancies made in a third tranche.

## Communication plans and morale

**2.9** The Department is aware that workforce morale will be affected by the uncertainty of a headcount reduction programme. Consequently, in recognition that clear communication is important for maintaining morale, it has developed a communication plan for civilians. The Trade Unions have, however, criticised the effectiveness of this communication and feel that the Department is conveying the message that its civilian staff are not wanted. There has been central oversight of communications to military staff with key messages conveyed through the Chain of Command. The Department itself reports that morale is 'fragile'.

**2.10** The Department carries out staff surveys every year that ask questions about morale and communication. Results for the military have shown a drop in morale: in 2010, 52 per cent rated their morale as high, this declined to 46 per cent in 2011. When asked about morale in their own Service specifically, 25 per cent said morale was high but this dropped to 18 per cent by 2011.<sup>6</sup> In 2011, the civilian staff survey showed staff engagement, which is considered an indicator of morale, to be 53 per cent; a decrease from 58 per cent from the previous year.<sup>7</sup>

## Information and data

### Information on numbers of personnel

**2.11** Previous headcount reduction initiatives have led to the Department recognising the importance of having an agreed baseline of personnel numbers to monitor the progress of reducing headcount against targets. To develop good monitoring data, the Department needs to: agree a start and end date; develop clear criteria about what it will measure; develop good quality data to allow consistent measurement to be made; and regularly report results.

**2.12** The Department acknowledges shortfalls in its information about its civilian workforce and has been taking steps to improve its information. Its analytical service has recently created an agreed baseline that includes civilians for whom the Department is financially responsible, but excludes military personnel in civilian posts, and intends to publish this as a national statistic. This will help the Department to monitor progress against headcount reduction targets. The Department has good baseline information about its military personnel and it regularly reports on the number of military personnel through various national statistical publications.

<sup>6</sup> Ministry of Defence, *Armed Forces Continuous Attitude Survey 2010 and 2011*.

<sup>7</sup> Ministry of Defence, *Your Say*, 2010 and 2011.

## Information on skills

**2.13** The information the Department holds on the type of skills its personnel possess varies in quality and quantity. The Department generally understands the trades and ranks of its military personnel well. In contrast, its knowledge of the skills of the civilian workforce is generally poor.

**2.14** The Department is aware that it lacks good information on civilian skills. It plans to improve this information by requiring all applicants for the Voluntary Early Release Scheme to complete a skills profile. This process will help the Department make sure it does not lose essential skills. However, this will only give the Department information on the skills of applicants rather than its wider civilian workforce. Without a better understanding of the skills of its workforce, the Department will struggle to target its headcount reduction programme on the skills it needs to keep most.

## Protecting key skills

**2.15** The Department has taken steps to try to protect key skills in its civilian workforce with a selection panel assessing applications using five criteria which have been weighted according to importance:

- Skills value to the Department (weighted 5)
- Skills value to the business area (weighted 4)
- Cost (weighted 4)
- Proposed date of departure (weighted 3)
- Location (weighted 1)<sup>8</sup>

The Department has stipulated a small number of specific skills that cannot be released under the Scheme. The Department has not yet determined how headcount reductions will fall in individual business areas, which means that the current release of staff is not strategically targeted to protect critical areas.

<sup>8</sup> The criteria for the second civilian tranche have been altered slightly to include performance.

**2.16** The military are also seeking to protect skills and have excluded from the redundancy programme key trades based on operational demand or existing shortages. For example, the RAF excluded trained pilots, the Royal Navy excluded submariners and the Army excluded bomb disposal experts. Its redundancy programme has specific criteria on the ranks and trades that are, and are not, eligible for redundancy. This process allows the Armed Forces to target redundancies to surplus areas and ranks created partly by retiring equipment and closing bases, while protecting critical skills. For the first redundancy tranche, the Armed Forces also excluded the following non-applicants:<sup>9</sup>

- Those receiving the operational allowance on the notification date (includes Afghanistan and Libya).
- Those preparing for operations.
- Those returning from operations.

### Departmental modelling of options

**2.17** As a part of the Strategic Defence and Security Review process, all three Services conducted scenario modelling to assess the impact of various options to reduce headcount on Force structure and sustainability. This was done consistently across the three Services, to show a comparison, and used good quality workforce planning models. The Department had less detailed information on its civilian workforce so carried out some broad scenario analysis.

**2.18** The Department has created profiles of the numbers of personnel it expects to leave through natural wastage. These profiles are based on its previous experience and, for the military, are based on forecast economic conditions. It has also created profiles of the numbers of personnel it will need to make redundant or release in each tranche. These profiles are regularly revised to reflect the predicted numbers of redundancies and releases. This is not unexpected given the scale of headcount cuts the Department is making and the difficulty of predicting how many people will apply to leave. The Department has yet to determine in detail how it will reduce the Army's headcount by a further 5,000 as required by the three month exercise, although it has determined the overall split of numbers of additional civilians who will need to leave through the Voluntary Early Release Scheme and natural wastage.

9 Non-applicants are military personnel who are selected for compulsory redundancy.

## Departmental modelling of expected costs and savings

**2.19** The Department has forecast the likely costs and savings of the headcount reduction programme, using different methods for civilian and military. For both methods, the outputs are sensitive to the assumptions made and will also need updating and adjusting to consider changing expectations and experience. Given the size and complexity of the headcount reduction programme the need for adjustment is expected, however, the change in assumptions will have a financial impact. The financial implications of these adjustments are explored in Part Three. The Department has begun to calculate the impact on its forecasted savings to consider its experience of tranche one and also needs to calculate the impact of removing tranche three for the Royal Navy and RAF and subsequent changes to tranche two.

**2.20** The forecast savings calculations do not consider wider costs such as equipment, or accommodation used by personnel leaving. As these costs are largely fixed it is appropriate to exclude them from the analysis in the short term. We would expect the Department to find wider savings, for example by selling surplus property, in the medium term. The key features of the civilian and military methodologies are outlined below.

### Civilian

- Uses a robust model.
- Assumes average capitation rates (cost per person including salary, pension contributions and benefits); predicts how many people will go by business area each year although the actual numbers have not been agreed; and assumes that the grade profile of people leaving under the Voluntary Early Release Scheme will match the current grade profile of the workforce.

### Military

- Uses several tools including financial analysis and project management tools. While less sophisticated than the civilian modelling, it is adequate and follows accepted good practice.<sup>10</sup>
- The main sensitivities include the capitation rate, pension rights and the ratio between applicants and non-applicants for redundancy.

<sup>10</sup> Comptroller and Auditor General, *Cabinet Office: the Efficiency and Reform's Group role in improving public sector value for money*, Session 2010-11, HC 887, National Audit Office, March 2011.

## Implementing personnel change to date

Outside the redundancy programme and Voluntary Early Release Scheme

### Civilian

**2.21** The Department aims to reduce civilian headcount by around 7,600 through natural wastage (excluding recruitment) by 2015 (Figure 3), 26 per cent of its overall target. There has been a recruitment freeze across the entire civil service (with the exception of posts deemed business critical, support to operations and a limited number of fast stream entrants). The Department expects to increase recruitment to pre-2010 levels once the freeze ends in 2014-15. Intake of civilian personnel (excluding trading funds) has reduced significantly from 4,200 in 2009-10 to 1,610 in 2010-11. The number of civilians leaving the Department from 2009-10 has remained relatively steady and in 2010-11, 4,470 civilian staff (excluding Trading Funds) left the Department. As **Figure 5** shows, loss of staff through privatisation was the most significant factor at the start of 2011-12, while there have been minor changes in the numbers of resignations. The Department has experienced a steady outflow of people since April 2010, although it has less control of which people are lost through natural wastage than through a redundancy programme.<sup>11</sup>

### Military

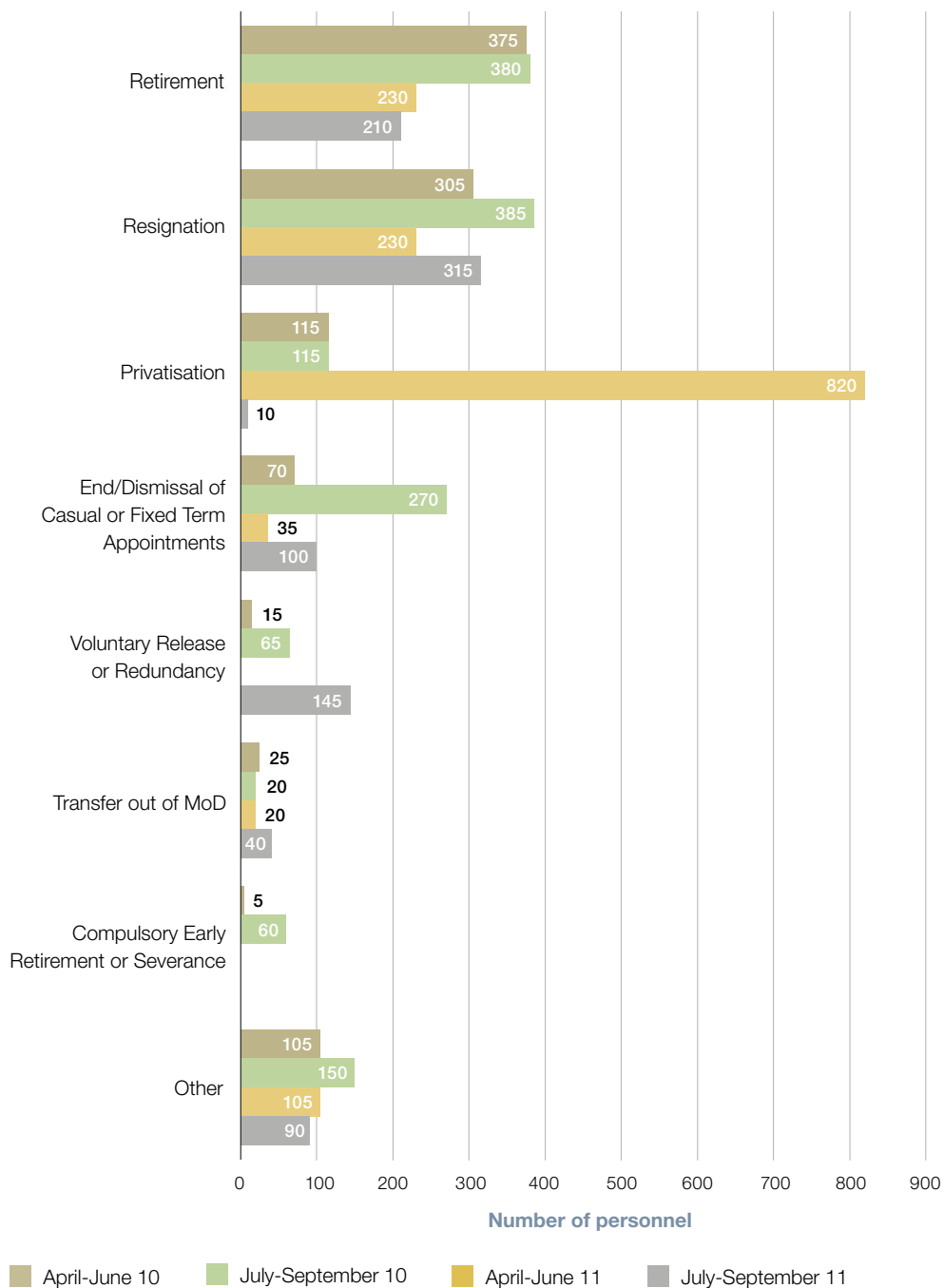
**2.22** The Department aims to reduce military headcount by at least 8,400 through natural wastage and reduced recruitment by 2015 (Figure 3) which is 34 per cent of its overall target of 25,000 headcount reductions. The military have substantially reduced but not ceased recruitment. Stopping recruitment previously led to serious skills gaps in trades such as submariners from which the military is still recovering. The recruitment reduction is the biggest influence on declining personnel numbers before redundancy takes effect. As shown in **Figure 6** on page 24, recruitment has nearly halved from 21,800 in 2009-10 to 12,800 in 2010-11. The numbers of trained personnel leaving the military have increased by 14 per cent from 12,280 in 2009-10 to 13,950 in 2010-11. The majority of people leaving in 2010 to 2011 left 'voluntarily' – before the end of their contract; or when their employment contract expired (time expiry).

**2.23** While the Department has successfully reduced recruitment, the steady outflow of civilian staff and moderate increase in military staff leaving voluntarily were not sufficient for the Department to rely on natural wastage alone to make reductions in headcount on the scale needed. Therefore, the Department decided that some form of redundancy programme was required.

<sup>11</sup> Natural wastage includes several factors such as personnel choosing to leave the organisation and retirement.



**Figure 5**  
Reasons for civilians leaving the Department



**NOTE**

1 These data are of numbers of personnel rather than full time equivalents and is based on a representative selection of time periods.

Source: Data provided by the Defence Analytical and Statistical Agency

**Figure 6**

Annual recruitment into the Services



Source: Annual UK Defence Statistics 2011, 2009, 2008, 2007, 2005, 2004

## The military redundancy programme and civilian Voluntary Early Release Scheme

**2.24** The civilian Voluntary Early Release Scheme was announced across the Department on 28 February 2011 through two schemes: senior civil servants and grades below. There were no exemptions<sup>12</sup> and any civil servant could apply. The Department expected to release 4,000 staff in tranche one but actually received 13,500 applications. Such a high level of interest could indicate poor morale among the Department's civilian workforce with large numbers of people seeking to leave.

**2.25** To enable it to make early financial savings, the Department offered terms to 8,000 applicants and subsequently made 7,700 offers. To date, 5,900 of those offers have been accepted. Although increasing the number of offers to be made enhanced the costs of tranche one by £100 million, the Department estimated it would save an additional £260 million through earlier reductions in the payment of salaries, pension contributions and benefits. The Department has not, so far, had to make any compulsory redundancies in its civilian workforce and announced tranche two of the Voluntary Early Release Scheme in November 2011.

<sup>12</sup> Except for staff working for the US visiting forces.

**2.26** The military scheme is slightly different. If an application is accepted, the applicant has up to six months to leave the Armed Forces. Non-applicants who are selected for compulsory redundancy have up to 12 months to leave once notified. Therefore, non-applicants offer less savings than applicants as the Department must continue to pay salaries and benefits for longer.

**2.27** To date, the first tranches of the civilian early release and military redundancy campaigns have progressed without significant problems. The redundancies and early releases have not occurred exactly as profiled with the consequence that the Department has needed to re-profile numbers of people being made redundant in each tranche. It also has had to adjust its plans to take account of the profile of those people in terms of salary, and for the military, those who have applied for redundancy and those selected for redundancy. Changes to predictions of natural wastage have also led to the need to re-profile. The need to re-profile is not surprising given the complexity of the redundancy programme.

# Part Three

## Delivering headcount reductions

**3.1** This part assesses the main obstacles to the Department in delivering a sustainable savings programme. These include managing the timing of the tranches to maximise savings and relying on the transformation programme to change ways of working. We also assess the impact on the Department in terms of skills. The skills required under the new operating model will need to be identified early and retained for strategic objectives to be delivered.

**3.2** Our experience of previous savings programmes is that an average of 20 per cent of gross annual savings targeted are not realised. Consequently, organisations often need to find further reductions to achieve overall savings targets. The Department has not identified further potential savings measures to find additional cost reductions if it fails to deliver the targets of its current plan. Instead, the Department is relying on some financial contingency and the tranche structure of the redundancy and early release programmes to be flexible enough to meet the financial savings target.

**3.3** The Departmental Board monitors the progress of reducing headcount and the risks to delivery through its existing reporting arrangements. The Board receives reports on the Department's progress in delivering the savings required by the Strategic Defence and Security Review, although we have not found evidence that it explicitly measures the progress made by headcount reduction towards reaching its financial target.

### Realisation of financial savings

**3.4** The Department must cut headcount within a fixed timetable to achieve the required financial savings. This is a greater challenge for the Army redundancy tranches which are occurring on a greater scale than the Royal Navy and RAF and may continue up to 2015. The Department has not yet determined in detail how it will reduce its headcount by the additional 5,000 Army personnel as required by the three month exercise, nor has it finalised the financial savings to be made as a result. There are several factors which may prevent the Department realising the required savings (**Figure 7**):

- Delaying the tranches.
- Phasing of departures by year.
- Changing the profile of the personnel expected to leave.

These would delay and/or lower the savings that can be achieved as the Department would continue to pay salaries, pension contributions, and benefits for longer. The required savings will then need to be found from elsewhere in the Department.

## Figure 7

### Factors which can affect financial savings from the tranches

Factor	Detail	Military impact	Civilian impact
Delays to tranche	Decreases and delays savings as Department will continue to pay salaries, pension contributions, and benefits for longer.	Military tranche two has been delayed by three months to consider broader changes in the Department. It estimates a reduction in savings of £100 million to £138 million by 2015, 4 to 5 per cent of the target savings, equating to up to 1,055 personnel to 2015.	Our analysis shows a similar delay in the civilian tranches will reduce savings by £175 million by 2015, equating to 1,915 personnel, and 12.5 per cent of the target savings. The likelihood of such a delay has diminished as the first tranche is now closed and the second tranche underway although this will not end until March 2014.
Phasing of departures by year	If more personnel leave in later tranches.	The Department has to reduce the numbers in the Army by a further 5,000 as a result of the three month exercise. It has not yet profiled the numbers of people that will go through natural wastage or through redundancy. Delays to planning increases the likelihood of redundancies occurring in later rather than earlier tranches.	The civilian tranche one is now closed. The Department revised its initial prediction of 4,000 redundancies to 8,000 based on a high level of applicants. 5,900 applicants have accepted the Department's offer for early release; above the original target but below the revised target. Financial impact is not yet calculated.
Changes in profile of leavers in tranche	If make-up of personnel differs from the assumptions in the models.	In tranche one there were greater numbers of non-applicants made redundant than originally profiled. Non-applicants have up to 12 months to leave and so are more expensive than applicants.	The grades and therefore salaries of people who have applied for early release in tranche one are lower than that assumed in the Department's profile. If the profile is amended to reflect this difference the Department has estimated that proposed savings will decrease by some £190 million.

Source: National Audit Office analysis based on Departmental models and analysis of data provided by the Department

## Natural wastage

**3.5** The Department's forecasting of cost reductions predicts that both civilian and military personnel will leave through natural wastage and this is taken into account when planning headcount reduction. Natural wastage includes several factors: personnel choosing to leave the organisation; retirement; and in addition for military personnel specifically, the Department not renewing employment contracts when they expire. For both military and civilians, leaving the Department voluntarily is the predominant factor in natural wastage. The Department also takes into account reduced military recruitment and a recruitment freeze for the civilian workforce. These factors combine to give an overall assumption that 30 per cent of headcount reductions will be made through natural wastage and reduced recruitment by 2015. The Department's original modelling predicted fewer people would want to leave voluntarily in the earlier stages of the programme because of difficult economic conditions, or a preference to leave through redundancy or early release because of compensation. The Department has refined its forecasts and assumptions based on the experience to date.

**3.6** The Department currently forecasts that natural wastage of civilian personnel (which is predominantly people leaving voluntarily) will double from 2 per cent in 2011-12 to 4 per cent by 2014-15. The Department's latest forecast assumes that military personnel leaving voluntarily will increase from 3.8 per cent in March 2011 to 4.3 per cent in March 2015 (**Figure 8**). The number of people leaving voluntarily generally depends on the wider economic environment. With the UK economic environment uncertain and a high unemployment rate, relying on individuals leaving voluntarily is a risky strategy as it is to a large extent outside the Department's control.

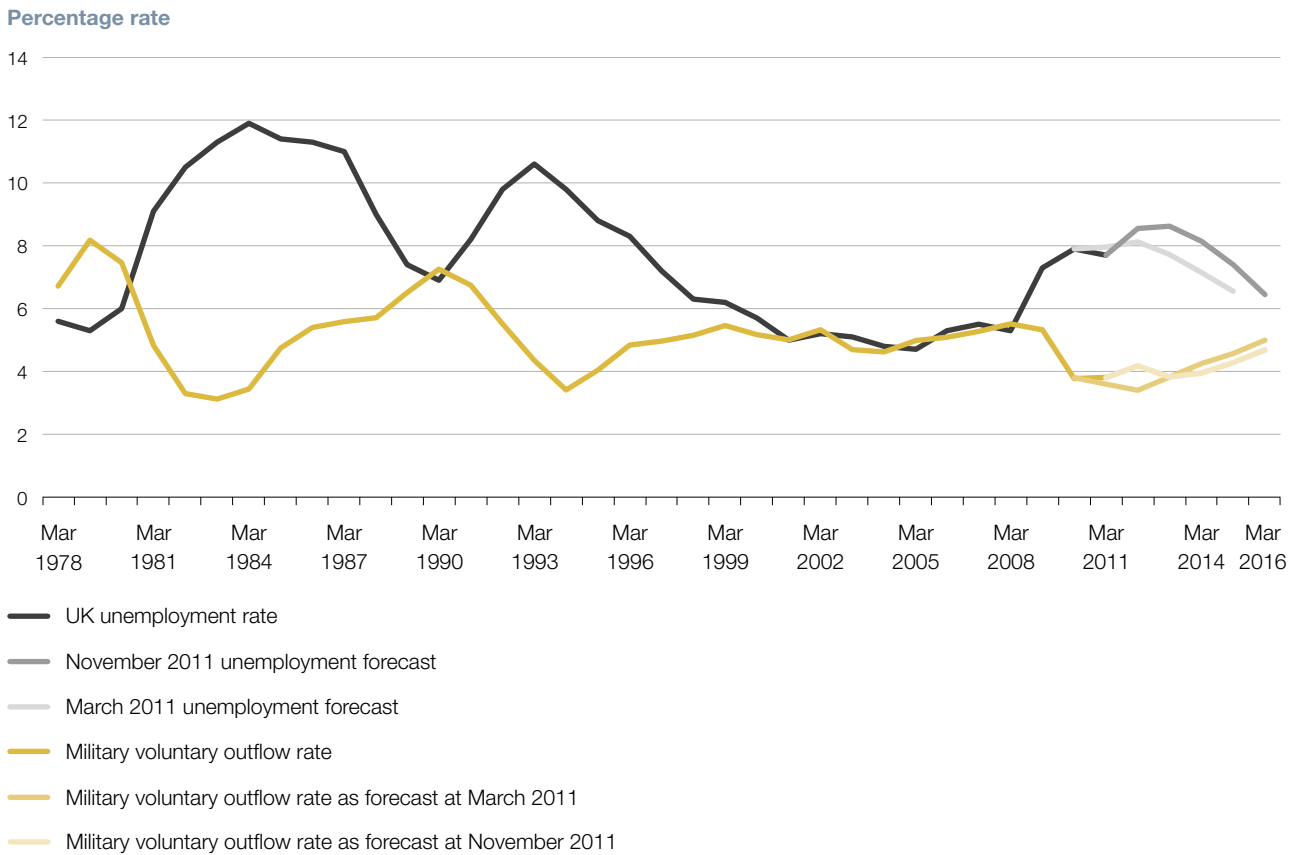
**3.7** The Department has analysed the sensitivity of its predictions of people leaving the military voluntarily and determined that a 1 per cent decrease in people leaving will lead to a 5 per cent reduction in savings. There is a greater impact if natural wastage among the civilian workforce reduces below the level expected. Our analysis of the civilian model shows that a 1 per cent decrease each year in natural wastage reduces cumulative savings by 8 per cent. The Department is aware of this risk.

## Scale of change in the Department

**3.8** The Department's headcount reduction programme is occurring against a background of profound change in the rest of its business. There is currently a portfolio of some 47 change programmes and initiatives in the Department, only some of which have a significant and direct role in reducing headcount. Change on this scale represents a significant burden on senior management who have a finite amount of time and must also supervise the Department's day-to-day business.

**Figure 8**

Link between unemployment and military personnel leaving voluntarily (voluntary outflow)



Source: Departmental analysis of UK unemployment rate, military personnel leaving voluntarily, Office for Budget Responsibility unemployment forecast and Departmental forecast for military personnel leaving voluntarily

**3.9** An experienced Director General Transformation and Corporate Strategy, with overall responsibility for all change programmes, has been appointed to provide management focus and expertise. The various change programmes and initiatives are organised into three tiers and report to the Defence Operating Board (Transformation) which meets on a weekly basis. Tier one contains the most complex and high-risk programmes, while tier two contains programmes of a more moderate complexity and tier three contains smaller initiatives. Oversight and reporting arrangements are in place for these programmes and initiatives.

**3.10** The Department is aware that leadership is important in changing how people work and is seeking to improve its capabilities in this area. The 2009 Capability Review of the Department also highlighted that leadership needed to be developed. Additionally, in staff surveys only 22 per cent of military respondents and 12 per cent of civilian respondents agreed that the Department handles change well. In response, the Department has made leadership a central component of its behavioural change programme and has launched a number of initiatives to improve leadership.

## Transforming ways of working

**3.11** The Department has made strategic decisions about reducing its activities in the Strategic Defence and Security Review. It has also recognised the need to transform the way it works following the Levene Review and has begun to implement these changes. Despite good progress in developing a new operating model, the impact of such a significant reduction in personnel on delivery of the Department's strategic objectives is not yet certain. Success will depend on the Department's ability to deliver its programme of structural and behavioural change.

**3.12** While some duplicated administrative functions may be removed, and other bureaucratic processes streamlined, reductions on this scale are likely to require profound changes to ways of working, whole-scale outsourcing or privatisation, or stopping some activities. We spoke to key personnel involved in implementing previous headcount reduction initiatives, such as PACE and Streamlining. They told us that while these initiatives successfully reduced headcount, the associated changes in working methods that were sought from these initiatives did not materialise.

**3.13** Two of the notable tier one programmes relating to defence estates and corporate services represent progress towards different ways of working. The Defence Infrastructure Transformation Programme and the Defence Corporate Services Transformation Programme are designed to centralise and rationalise estate management and corporate services respectively. These programmes are expected to reduce 2,000 posts each. The Defence Equipment and Support organisation is also progressing its plans through the development of its 'Materiel Strategy'. However, so far, we have seen little evidence of the detail that will be needed to support initiatives that will substantially change the way the Department works.

**3.14** Recent NAO reports have focused on how other departments plan to reduce costs, for example, the Department for Work and Pensions plans to reduce costs and headcount. At the time of our report, the Department for Work and Pensions did not have a clearly defined target operating model and was undertaking reviews to help develop one. Jobcentre Plus had developed its model to a greater extent than other parts of the Department for Work and Pensions. This model considered how it would change the way it worked and included reducing the number of contact centres, benefit delivery centres and Jobcentres, and relying more on online services.<sup>13</sup>

<sup>13</sup> Comptroller and Auditor General, *Reducing costs in the Department for Work and Pensions*, Session 2010-12, HC 1089, National Audit Office, June 2011.



## Managing skills in the Department

**3.15** The Department aims to have the right people with the right skills in the right place at the right time. During the change process and headcount reduction the Department has to manage the risk of maintaining and retaining the skills Defence needs now and in the future. However, the Department suffers from skills gaps in both its civilian and military workforce, which it must manage as it reduces its headcount. The Department estimates that it will make at least one-third of its headcount reductions through natural wastage (including reduced recruitment in the military) over which it has less control than redundancies and so risks losing key skills through this process.

### Skills required

**3.16** The Department has identified the following six business-critical skills it needs:

- Commercial
- Defence policy
- Engineering and science
- Finance
- Information
- Programme and project management.

### Current skills gaps

**3.17** The Department is aware that it has skills gaps in its civilian workforce but finds it difficult to quantify exactly what skills and where, owing to poor information available. To address this shortfall, the Department has undertaken some analysis on the six business-critical areas identified above. This analysis has shown that 16 per cent of civilian posts in these critical areas are vacant.<sup>14</sup>

**3.18** The Department cannot forecast likely future skills gaps as it has no civilian workforce planning model; although this is common in the Civil Service. It recognises that this is a deficiency and is developing a civilian workforce planning model along similar lines to the military.

<sup>14</sup> This includes posts which have been vacant for more than six months.

**3.19** The Department's ability to address some of these skills gaps is currently constrained by a civil service-wide recruitment freeze. Limited numbers of new posts that were approved between January and March 2011 were in the following areas:

- Twenty-eight per cent support to operations.
- Twenty-seven per cent business resilience-Health and Safety.
- Seventeen per cent Defence Acquisition Reform Programme.
- Twenty-eight per cent for other business-critical posts.

**3.20** The military has two types of skills gaps:

- Operational pinch-point trades, where existing skills gaps are affecting operational output.
- Manning pinch-point trades, where skills gaps could potentially affect future operations if action is not taken now.

**3.21** Pinch points can occur for a variety of reasons: failure to recruit; poor retention; number and frequency of operations; or shortfalls in skills sets. The military currently has 80 pinch-point trades across all three Services, such as helicopter pilots, and pharmacists. The Department tries to manage these gaps by, for example, allowing non-operational posts to become vacant; requiring personnel to break harmony guidelines;<sup>15</sup> using less or more experienced personnel; and financial incentives. To increase personnel in specific trades, the Department can increase training capacity, amend training courses, change the trade structure and offer financial incentives. To understand how the Royal Navy has managed the skills shortages in submariners see **Figure 9**.

## Future skills gaps

### Retaining skills for the new Departmental operating model

**3.22** The Department is undergoing wider reform as part of the Defence Transformation Agenda including developing a new operating model. The model aims to achieve a simpler, leaner organisation and be a more effective way of running the Department through:

- strengthening financial management;
- strengthening decision-making and individual accountability;
- enhancing the joint delivery of military operations;
- improving the delivery of support services; and
- more effective use of military and civilian personnel.

<sup>15</sup> Harmony sets the frequency with which military personnel should be deployed on operations with the aim of striking a balance between deploying people on operations, training and spending time with their families, which varies by service.

## Figure 9

### Managing skills shortages in submariners

Having sufficient numbers of suitably qualified submariners is crucial to deliver the continuous at-sea deterrent. However, there are a number of challenges faced in maintaining the right level of staffing:

- Long training time and limited pool of potential personnel. It takes in excess of 12 years of training and development for some more senior personnel; and personnel also need to meet the demanding physical and mental fitness standards.
- Unfavourable working conditions: separation, isolation, long periods at sea with, in some cases, almost no outside communication, demanding work and only short periods of time for rest and relaxation.

There is a shortfall in the number of Officers and Senior Ratings, in certain sub-specialisations.

#### Impact of headcount reductions

Submariners' on-board posts are protected from headcount reductions, but their on-shore posts are not. The loss of shore-based posts could impact the balance between time spent at sea and on-shore thus worsening already difficult working conditions.

#### Measures the Royal Navy is taking to improve recruitment and retention

Recruitment:

- The Royal Navy continues to prioritise submarine recruiting in areas of shortage and a televised recruitment campaign is in progress.

Retention:

- Trying to increase the numbers of individuals volunteering to the Submarine Service from within the Royal Navy.
- Improving the quality of submarine life where possible and cost effective.
- Implementing revised terms of service.
- Improving financial incentives in critical shortage areas.

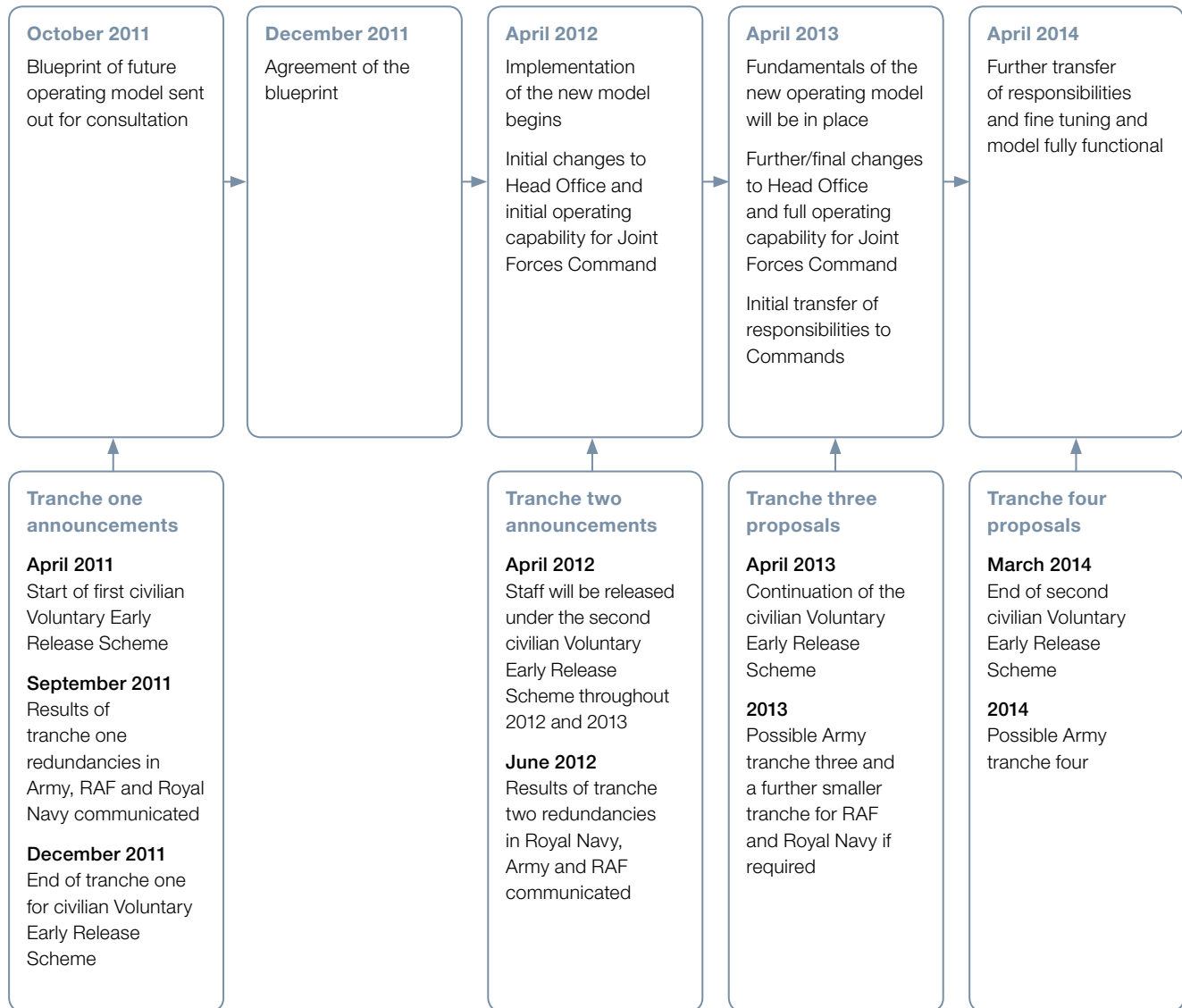
These initiatives do not address the issues associated with separation, isolation and unfavourable working conditions which are unlikely to be resolved in the short term. In the future the Royal Navy expects to need more submariners.

*Source: National Audit Office analysis of Departmental Interviews*

**3.23** The Department sent out the initial model for consultation in September 2011, which was agreed by the Secretary of State in December 2011. The Department intends to start implementing the new operating model in April 2012, and is confident that the fundamentals will be in place by April 2013, with the new model fully functional by April 2014. However, this does not align with the timing of the military redundancy and Voluntary Early Release Scheme tranches, which will be well under way by 2013 with the RAF and Royal Navy redundancy tranches largely complete (**Figure 10** overleaf) although the Department expects that these redundancies will mainly be made in line with reductions in capability rather than changes in the operating model. Given this timing, there is a risk that the Department will not have key skills needed under the new operating model, creating new skills gaps or worsen existing gaps. The Department has not determined how many personnel will leave in each business area, making it almost impossible to target redundancies to areas deemed less critical, although this does provide flexibility to target areas as the operating model develops.

**Figure 10**

Development of operating model against timings of redundancy tranches



Source: Blue print for the Department's new operating model, timeline for military redundancies, DIN for Civilian Voluntary Early Release

**3.24** Ideally, the Department would create a new operating model and then take decisions on the number of staff and skills required based on the model. However, it is under pressure to reduce costs early, to meet its spending review settlement, and delaying reducing headcount to match the model would risk cost reduction targets not being met. Pushing ahead with headcount reductions now may mean additional costs are incurred to re-recruit personnel with key skills.

## Replacing skills

### Civilian personnel

**3.25** If the Department needs to re-recruit skills it loses, it will reduce the overall savings it aims to achieve, as recruitment is costly. In 2009, the average cost of hiring a civil servant in the Department was £2,700.<sup>16</sup>

### Military personnel

**3.26** The military needs to recruit regularly at entry level to sustain its forces as they promote from within. In the 1990's military recruitment stopped, which caused skills gaps that have often been filled by using more experienced personnel than was required for the role. The Army has calculated that the resulting gaps have cost £250 million over 20 years from retaining more experienced personnel. While the Department continues to recruit military personnel, it is at much reduced levels.

**3.27** There is a risk that the Services could have further skills shortfalls in the future as the Department consequently faces a difficult choice: whether to proceed with reducing headcount, risking critical skills gaps and rehiring personnel; or risk not meeting headcount savings targets with more painful cuts to other parts of its business. Subsequent reports will review and assess how the Department's senior management have balanced these competing priorities.

<sup>16</sup> Comptroller and Auditor General, *Recruiting Civil Servants Efficiently*, Session 2008-09, HC 134, National Audit Office, February 2009.

# Appendix One

## Methodology

The main elements of our fieldwork, which took place between June and October 2011, were:

---

### Method

### Purpose

#### Interviews

We conducted 34 semi-structured interviews with staff in the Department and other stakeholders.

To understand the Department's approach to planning and implementing headcount reductions, and to understand how workforce change fits into wider Departmental change.

#### Document review

We reviewed a variety of papers from the Department covering key issues regarding the headcount reduction and associated financial savings, and transformation documents related to the workforce. These included Board minutes and papers, monitoring reports and planning briefings.

To understand the current position of the Department's plans for reducing headcount and associated savings.

#### Case study of submariners

Developed using semi-structured interviews with relevant personnel and document review.

To highlight the complexity in workforce planning, and exemplify issues that need considering during workforce planning.

#### Financial and quantitative data analysis

To understand the Department's plans for reducing headcount and associated financial savings by considering costs and savings of plans, timings of personnel releases and impact of timings on savings, and assumptions underpinning the plans.

We also used staff surveys to understand the impact the Department's transformation was having on staff satisfaction.

---



Design and Production by  
NAO Communications  
DP Ref: 009775-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

**Online**

[www.tsoshop.co.uk](http://www.tsoshop.co.uk)

**Mail, Telephone, Fax & Email**

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone: 0870 240 3701

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders: 020 7219 3866

Email: [bookshop@parliament.uk](mailto:bookshop@parliament.uk)

Internet: <http://www.bookshop.parliament.uk>

**TSO@Blackwell and other Accredited Agents**

£16.00

