



National Audit Office

**BRIEFING FOR THE
COMMITTEE OF PUBLIC
ACCOUNTS**

FEBRUARY 2012

Ministry of Defence

Reforming the Ministry of Defence

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This document sets out the key elements of the transformation as at 21 February 2012. It has been prepared to inform a hearing of the Committee of Public Accounts on 27 February 2012.

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This review was conducted by Chris Lambert, Duncan Richmond and Emma Lucas under the direction of Tim Banfield.

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

Website: www.nao.org.uk

Twitter: @NAOorguk

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Key facts

£38bn

total cash spend of the Ministry of Defence in 2010-11

£4.3bn

non-frontline savings to be made over the Spending Review 2010 period

66,000

total military and civilian headcount reduction target by 2020

7.5 per cent real terms reduction in the Department's Comprehensive Spending Review 2010 settlement by 2014-15

April 2012 date for the Department to complete its 2012 annual financial planning round and balance its budget

April 2013 planned date for the Department to finish implementing the key elements of the new operating model

2015 intended date for the next Strategic Defence and Security Review

Early 2020s point by which the Department is expected to have completed its transformation and delivered:

- modern capable armed forces;
- a Department without indecision, red-tape and waste; and
- affordable and sustainable plans.

Introduction

- 1** The Ministry of Defence (the Department) has a poor track record of making realistic plans and effectively using its resources (illustrative findings from previous Committee of Public Accounts and National Audit Office reports are set out in Appendix One). The 2010 Strategic Defence and Security Review and Lord Levene's 2011 report on 'Defence Reform' have identified the key underlying reasons for poor performance and recommended how the Department can address them. The Department is in the early stages of implementing these recommendations.
- 2** The breadth of change is vast. Translating the aspirations into reality will require the Department to manage a highly complex portfolio of activities, many of which are interdependent. The programmes will take at least a decade to implement fully. The transformation is being undertaken against a backdrop of reduced funding and must be delivered in addition to both military commitments, for example in Afghanistan, and developing future military capability.
- 3** This document sets out the key elements of the transformation as at 21 February 2012. It has been prepared to inform a hearing of the Committee of Public Accounts, on 27 February 2012, where the Committee will discuss the plans with senior officials from the Department. Given the early stage of transformation and the fact that the Department is still developing detailed implementation plans, we have not reached a conclusion on value for money. The first section introduces the Department's planned transformation and the governance structures it has put in place to manage its delivery. The remaining four sections examine how the transformation seeks to address past problems with organisational structures and leadership; budgetary control and accountability; changing ways of working; and delivering military capability.
- 4** As evidenced by our reports and those of the Committee of Public Accounts, successive reviews and reorganisations have not substantially improved the Department's performance. It is therefore encouraging that the Department has recognised the fundamental problems which have adversely affected past performance. In particular, the desire to change cultures and behaviours and recognition of the importance of bringing spending back into balance with funding are positive.

5 The governance structures underpinning transformation appear reasonable in theory. Based on our knowledge of the Department and experience of evaluating other change programmes, for the arrangements to work effectively in practice will require:

- a unified vision of what a Department fit to deliver the defence elements of the National Security Strategy will look like and a clear plan for how the transformation will deliver it;
- articulating, leading and sustaining cultural change as well as introducing revised structures and processes;
- strong, consistent and united leadership across the civilian, military and political spheres throughout the decade-long transformation; and
- the Permanent Under Secretary to have appropriate authority to execute the transformation and to hold those with responsibility for delivery of the Department's objectives to account.

Transforming the Department

6 The National Security Strategy¹ and the Strategic Defence and Security Review,² published in October 2010, defined the strategic direction for the Department to address changing national security needs and balance planned defence spending with the budget.

7 In August 2010 the Secretary of State for Defence asked Lord Levene of Portsoken to examine the way the Department was structured and managed. His review,³ published in June 2011, proposed a new operating model designed to be simpler, more cost-effective, and allocating responsibilities, authority and accountability more clearly.

8 The Department is currently developing a new defence vision. It has set out seven priorities for the next five years in its 2011-15 business plan⁴ (**Figure 1**). The Department acknowledges that it fundamentally needs to change how it plans and organises its business, to deliver these priorities and avoid problems that previously affected delivering defence capability cost-effectively. Defence Transformation is the Department's response to the challenges.

Figure 1

The Department's priorities for defence

- 1 Succeed in Afghanistan
- 2 Continue to fulfil standing commitments
- 3 Succeed in other operations
- 4 Promote defence exports
- 5 Implement the Strategic Defence and Security Review
- 6 Implement the Defence Reform Unit's review
- 7 Deliver defence in the most effective, efficient and sustainable way

Source: Ministry of Defence, The Strategy for Defence 2011

1 HM Government, *A Strong Britain in an Age of Uncertainty: The National Security Strategy*, Cm 7953, October 2010.

2 HM Government, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*, Cm 7948, October 2010.

3 Lord Levene of Portsoken KBE, *Defence Reform – an independent report into the structure and management of the Ministry of Defence*, June 2011.

4 Ministry of Defence, *Business Plan 2011-2015*, November 2011, page 1.

The Transformation Portfolio

9 Defence Transformation comprises of a portfolio of 37 programmes plus 10 additional deliverables (listed in Appendix Two). The Defence Reform programme, which focuses on delivering the Levene recommendations, is a single programme within the Transformation Portfolio although some of the large elements (for example the reform of Defence Equipment and Support) are broken out into separate programmes. The programmes address a wide range of processes and operations within the Department to deliver on 99 commitments made in the Strategic Defence and Security Review. The National Security Council monitors the Department's progress in delivering these.

10 The transformation programmes and other initiatives within the Department, are expected to deliver combined non-frontline savings of at least £4.3 billion.

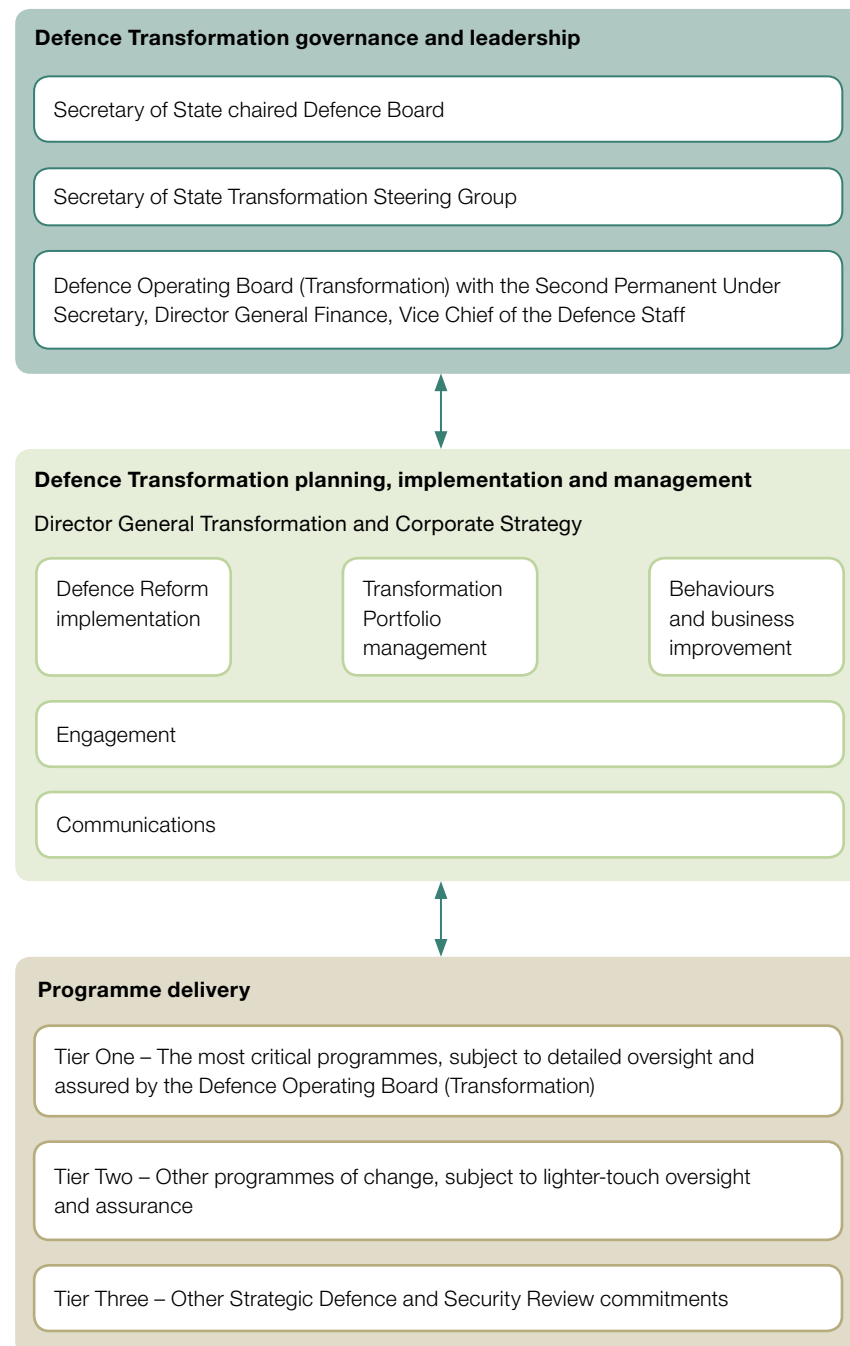
Governance of the change programmes

11 **Figure 2** sets out the governance structure for the Transformation Portfolio.

12 The Defence Operating Board (Transformation) leads and governs the transformation activity of the project portfolio. The board meets at least once a week and is chaired jointly by the Second Permanent Under Secretary and Vice Chief of the Defence Staff. The Director General Finance is the other permanent member of the board and the Director General Transformation and Corporate Strategy also attends regularly. The board is supported by the Defence Transformation Unit. The board manages those developing and delivering the programmes and holds to account the Senior Responsible Owners delivering them. The board also reviews portfolio-wide risks, issues and dependencies, efficiency and wider transformation business.

13 A Senior Responsible Owner is nominated for each transformation programme, with those for Tier One programmes being formally appointed by the Permanent Under Secretary and made accountable to the Defence Board. So far the Department has identified 31 Senior Responsible Owners (some of whom are responsible for more than one programme) to manage 35 of the 37 programmes within the Transformation Portfolio. The remaining two programmes have not yet had a Senior Responsible Owner identified as they are still in the planning phase. Many of the Senior Responsible Owners have additional duties alongside managing the transformation programmes.

Figure 2
Transformation governance structure



Source: Ministry of Defence (reproduced)

Organisational structures and leadership

The challenge

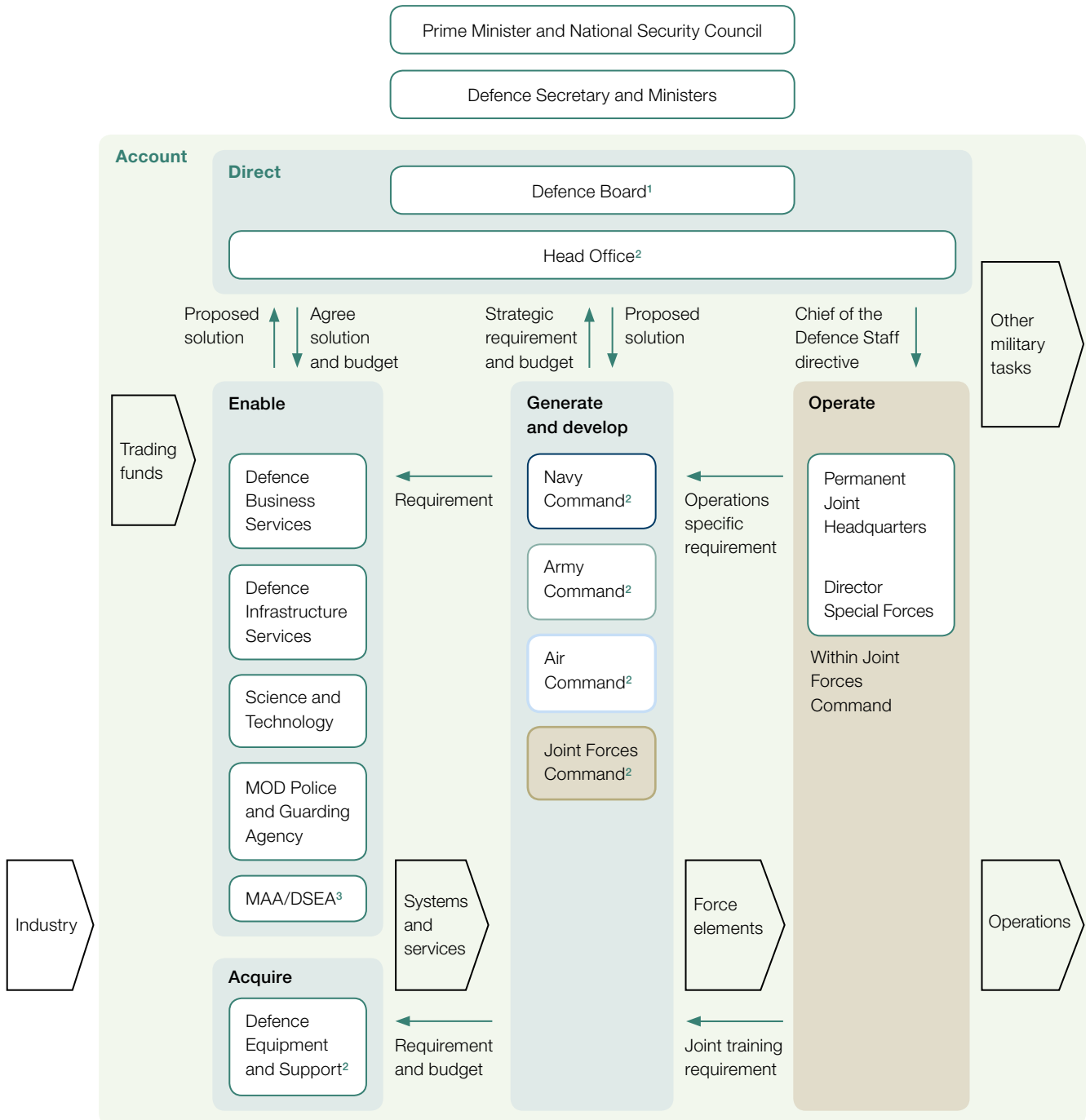
14 Under the current operating model, the Department is split into seven business units. Each unit has its own delegated budgets and responsibilities. Head Office makes policy and sets strategy, plans and allocates resources, manages the Department as a whole and acts as the UK's military strategic headquarters. The Department has lacked clarity about where responsibilities lie, emphasised reaching consensus in committees and therefore has been unable to take tough management decisions. These problems have been underpinned by a lack of strong, clear and consistent leadership and a failure to hold those responsible to account.

The Department's response

15 Lord Levene's review proposed a new operating model, which the Department has subsequently developed (**Figure 3**). This new model aims to:

- create a Head Office function that is smaller but stronger and with a more strategic focus;
- streamline the boards and committees structure;
- define clear roles and relationships between the elements of the Department; and
- emphasise individual accountability.

Figure 3
Future operating model for the Ministry of Defence



NOTES

- 1 Revised Defence Board consists of the Secretary of State, Minister of State for the Armed Forces, Permanent Under Secretary, Chief of the Defence Staff, Vice Chief of the Defence Staff, Director General Finance, Chief of Defence Materiel and four non-executive directors (three of whom have been appointed).
- 2 These organisations have roles in delivering both operations and other military tasks.
- 3 Military Aviation Authority and Defence Safety and Environment Authority.

Source: Ministry of Defence (reproduced)

16 Although full implementation will take longer, the Department intends to implement the key elements of its new operating model by April 2013. The model is made up of six key functions:

- **Direct** – Sets the strategic direction of the Department. Defines, at a high level, the military capability the Armed Forces need. Allocates resources to business units and holds them to account. It will be led by Ministers through the Permanent Under Secretary and Chief of the Defence Staff. The composition of the Defence Board was revised in July 2011 and further updated in January 2012 (**Figure 4**).
- **Enable** – The corporate framework across Defence including managing finance and both military and civilian personnel; and delivering the supporting services including infrastructure and corporate services. Notably, the Defence Infrastructure Organisation was established in April 2011 to manage the majority of infrastructure projects, estates and property. The Department established Defence Business Services in July 2011 to provide civilian human resources and civilian human resources management, finance, information and security vetting. This function will be overseen by the Second Permanent Under Secretary.
- **Acquire** – Procuring and supporting the equipment, systems and commodities needed to support military capability. This function will be led by the Chief of Defence Materiel supported by the Defence Equipment and Support organisation.
- **Generate and develop** – Producing the forces needed for current operations and developing forces for the future. Under direction from Head Office, this will set the equipment and support requirements and budget for the Defence Equipment and Support organisation. The function will be led by the service chiefs and the commander of the new Joint Force Command.
- **Operate** – Using military capability on operations and other military tasks as directed by the Government. Operations will continue to be led by the Chief of the Defence Staff with the Permanent Under Secretary providing policy advice to Ministers.
- **Account** – Accounting for and reporting on Defence activity and spending to Parliament and the public. This will be headed by the Permanent Under Secretary as the Department's Accounting Officer.

Figure 4
Membership of the Defence Board

	December 2010	January 2012
Ministerial	None	Secretary of State (chair) Minister for the Armed Forces
Civilian	Permanent Under Secretary (chair) Second Permanent Under Secretary Chief of Defence Materiel Director General Finance Chief Scientific Adviser	Permanent Under Secretary Chief of Defence Materiel Director General Finance
Military	Chief of the Defence Staff Vice Chief of the Defence Staff First Sea Lord and Chief of the Naval Staff Chief of the General Staff Chief of the Air Staff	Chief of the Defence Staff Vice Chief of the Defence Staff
Non-executives	Dr David Allen Ian Rushby Priscilla Vascassin	Gerry Grimstone Dr David Allen Graham Williams 4th non-executive director to be appointed

Source: Ministry of Defence

17 Within the overall model and direction set by Head Office, the business units are each developing their own structures and staffing models for the new operating model. Given the scale and complexity of the transformation, the units will need to undertake a significant amount of further design and implementation work. Appendix Three sets out the core responsibilities and accountabilities of Ministers and senior management under the new operating model.

18 **Figure 5** sets out the key deliverables and business benefits the Department expects to achieve from the planned changes to its organisational structures and leadership model.

Figure 5
Organisational structures and leadership – key deliverables and expected business benefits

Key deliverable	Target or delivered date	Expected business benefit
Implement a new smaller board structure with ministerial leadership and significantly fewer armed forces representatives in line with Lord Levene's review and Cabinet Office guidance	July 2011	Strengthened decision making with greater strategic focus
Finish implementing the key elements of the new operating and financial model	April 2013	A simpler and smaller organisational structure with more efficient and effective decision making (less time and fewer committees); greater accountability; and helping the Department to be more agile and sustain an affordable defence programme

Source: National Audit Office review of Departmental plans

Budgetary control and accountability

The challenge

19 The Department has a track record of planning to deliver more than it can afford. This has created a funding shortfall which the Department has tried to address by making short-term cuts and re-profiling spending. This has resulted in poor value for money for the taxpayer and has reduced the funds available to support frontline activities. In March 2011⁵ the Department reported that this shortfall totalled around £42 billion⁶ over the ten-year period to 2021.

20 The 2010 Comprehensive Spending Review reduced defence funding by 7.5 per cent in real terms by 2014-15. HM Treasury has indicated however that from 2015, the funding for equipment and support will increase by 1 per cent a year in real terms.⁷

21 **Figure 6** overleaf breaks down annual defence spending into its major parts. Within these parts there are a number of long-term commitments, for example to fund staff, procurement, support contracts and PFI deals. Indicatively, in 2010-11,⁸ the Department had effectively committed around 90 per cent of its budget in the near-term before its annual financial planning round. This high level of commitment reduces the Department's ability to rebalance its budget in the short term.

22 In addition to reduced funding and high levels of forward commitment, the Department faces rising costs of defence personnel and equipment procurement and support. These costs are rising at a rate higher than the inflation provision used by the Treasury to increase defence funding.⁹

23 As set out by Lord Levene, the Department's framework of delegating responsibilities and authority has evolved organically, rather than by deliberate overall design. Many of the business units have not been empowered to carry out their roles, and their activities have been micro-managed by Head Office. Although the Permanent Under Secretary appoints Senior Responsible Owners for major military capability and business change programmes, they have not been held to account for significant project failures.

⁵ Secretary of State for Defence, *Oral evidence to the House of Commons Defence Select Committee on the Strategic Defence and Security Review and the National Security Strategy*, Wednesday 9 March 2011.

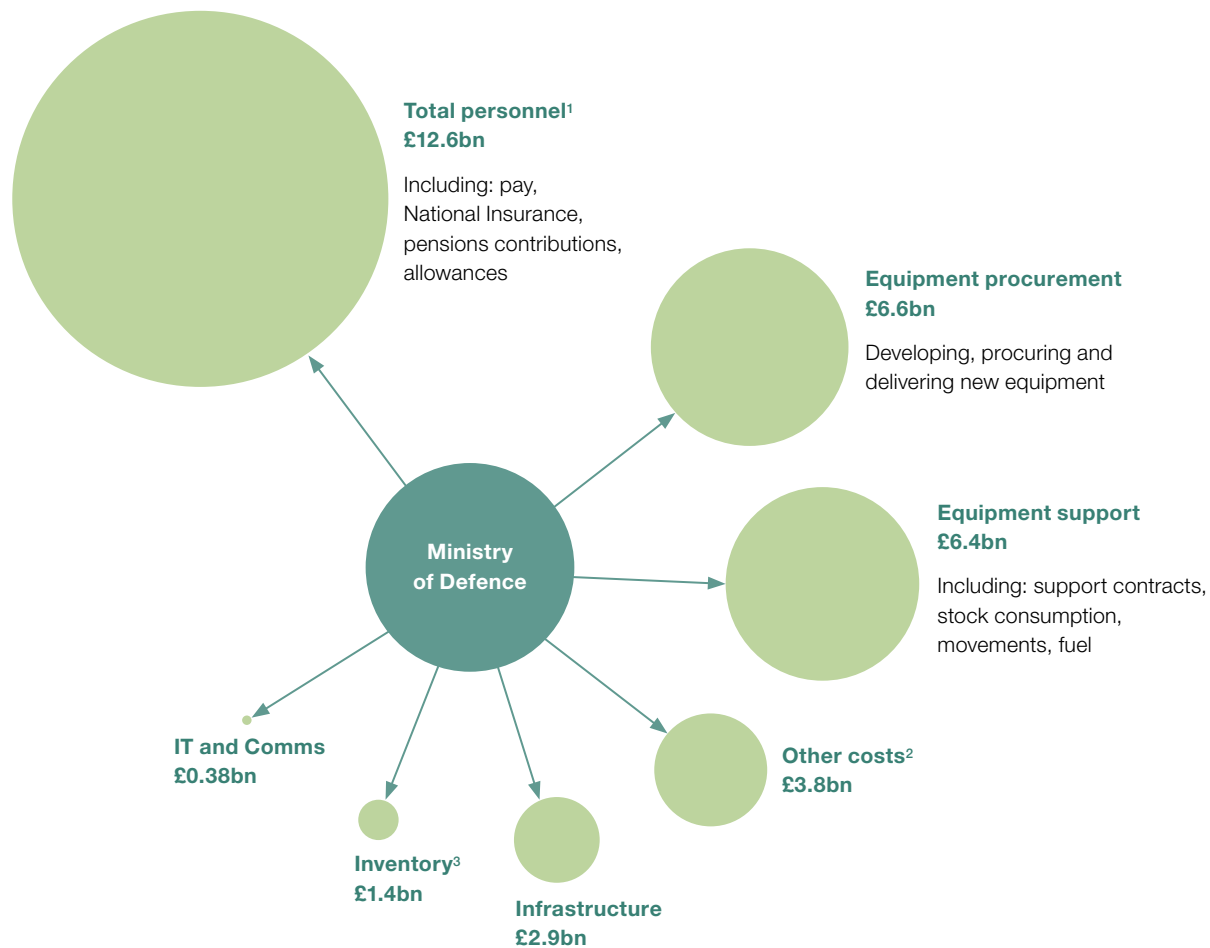
⁶ £38 billion excluding the cost of replacing the nuclear deterrent.

⁷ Increase is in real terms, i.e. above inflation.

⁸ Secretary of State for Defence, *Oral evidence to the House of Commons Defence Select Committee on the Strategic Defence and Security Review and the National Security Strategy*, Wednesday 9 March 2011, Response to Q130.

⁹ The Defence Analytical Services and Advice (DASA) organisation estimates that UK defence inflation averaged 1.3 percentage points higher than the GDP deflator between 2005-06 and 2010-11. DASA, *Defence Inflation Estimates Statistical Notice 2010-11* (revised), October 2011.

Figure 6
Estimated Departmental spending 2011-12



NOTES

- 1 Total personnel is made up of military personnel costs of £9.9 billion and civilian personnel costs of £2.7 billion.
- 2 Other costs is made up of general administration costs such as purchasing consumables, professional fees, medical and legal costs and rentals under operating leases.
- 3 Inventory is made up of the cost of buying raw material and consumable inventory items. The cost of buying other inventory items such as engines or missiles falls under equipment procurement and other equipment support.

Source: Ministry of Defence (reproduced)

The Department's response

24 The Department has begun to bring overall spending back into balance with its funding. It has begun to reduce the number of both military and civilian personnel, has withdrawn some capabilities such as aircraft carriers and the Harrier, has cancelled programmes such as the Nimrod MRA4 maritime patrol aircraft, and reduced order sizes for some equipment. These decisions have led to significant savings but reduced military capability in line with the Strategic Defence and Security Review.¹⁰

25 On 30 November 2011 the Permanent Under Secretary for Defence assured the Committee of Public Accounts that the Department's planned spending and budget were now broadly in balance but not completely so. The Secretary of State for Defence announced on 20 February 2012, that he hoped to be in a position to announce the achievement of a sustainable and balanced defence budget shortly.¹¹ Ministers have committed to publishing an assessment of the affordability of the Department's ten-year equipment plan later this year.

26 The Department is also implementing a new framework to improve financial and capability management to prevent funding shortfalls arising again. A key aspect will be introducing revised accountability arrangements, with senior budget holders expected to deliver capabilities within a delegated budget. Unlike the previous, more centralised system, budget holders are expected to take responsibility for their own financial plans, in accordance with the Strategic Defence and Security Review and corporate policy, and to refresh them at least annually. The corporate Head Office will challenge these plans, covering all aspects of the budget including equipment. From July 2012, the Permanent Under Secretary will have quarterly meetings with budget holders to hold them to account for delivering outputs on time, within budget and complying with procedures.

27 Since November 2011, the Department has been piloting new approaches to deliver more informed and robust financial planning, risk management and cost reduction. These include clearly mapping the financial milestones and timing of programmes to better understand the level and timing of funding commitments and control future budgets.

¹⁰ The Committee of Public Accounts, Uncorrected transcript of oral evidence to be published as HC 1444-i, Monday 24 October 2011.

¹¹ House of Commons, Questions to the Secretary of State for Defence, Q1 Balancing Department budget, 20 February 2012.

28 Figure 7 sets out the key deliverables and business benefits the Department expects to achieve from the planned changes to its budgetary control and accountability framework.

Figure 7
Budgetary control and accountability – key deliverables and expected business benefits

Key deliverable	Target or delivered date	Expected business benefit
A balanced programme for both the short and long term that allows the Department to operate within its reduced 2010 Spending Review settlement until 2015	End of the 2012 planning round	Stability in budgets for projects and programmes to focus on maximising value for money of delivery, not reworking plans Ability to keep the programme in balance until the next Strategic Defence and Security Review
Fully implementing new capability and financial management framework, including approaches to financial planning, risk management and cost reduction	April 2013	More efficient, informed and robust financial management across the Department and greater accountability for affordable delivery
Following piloting, fully introducing delegated financial planning to business units	April 2013	Clear delegations and accountability to motivate senior managers to be responsible for delivering activities. Where this has not happened, enabling the Accounting Officer to hold them to account

Source: National Audit Office review of Departmental plans

Changing ways of working

Business intelligence

The challenge

29 Information is crucial for decision making across all levels and parts of the Department. The Department has struggled to make the function coherent, across all its business. As set out by Lord Levene, the Department's evidence-based analysis has been weak and it has lacked transparent and shared management information. This has adversely affected the Department's ability to make well-informed decisions, build strong financial management, increase cost-effective delivery, and it led to poor accountability.

The Department's response

30 As part of the 'Enable' function of the new operating model, the Department plans to embed coherent information systems throughout the organisation. These will span its communications network, links to other government departments and allies, hardware, software and the organisations and the people required to produce the information. An example of this is the Defence Board's agreement to fund the Future Logistics Information System in the 2011 budget, to address problems with logistics and stock management. Where new or updated systems are required, the Department intends to use common services across government and only introduce bespoke services where absolutely necessary.

Sufficient skilled staff

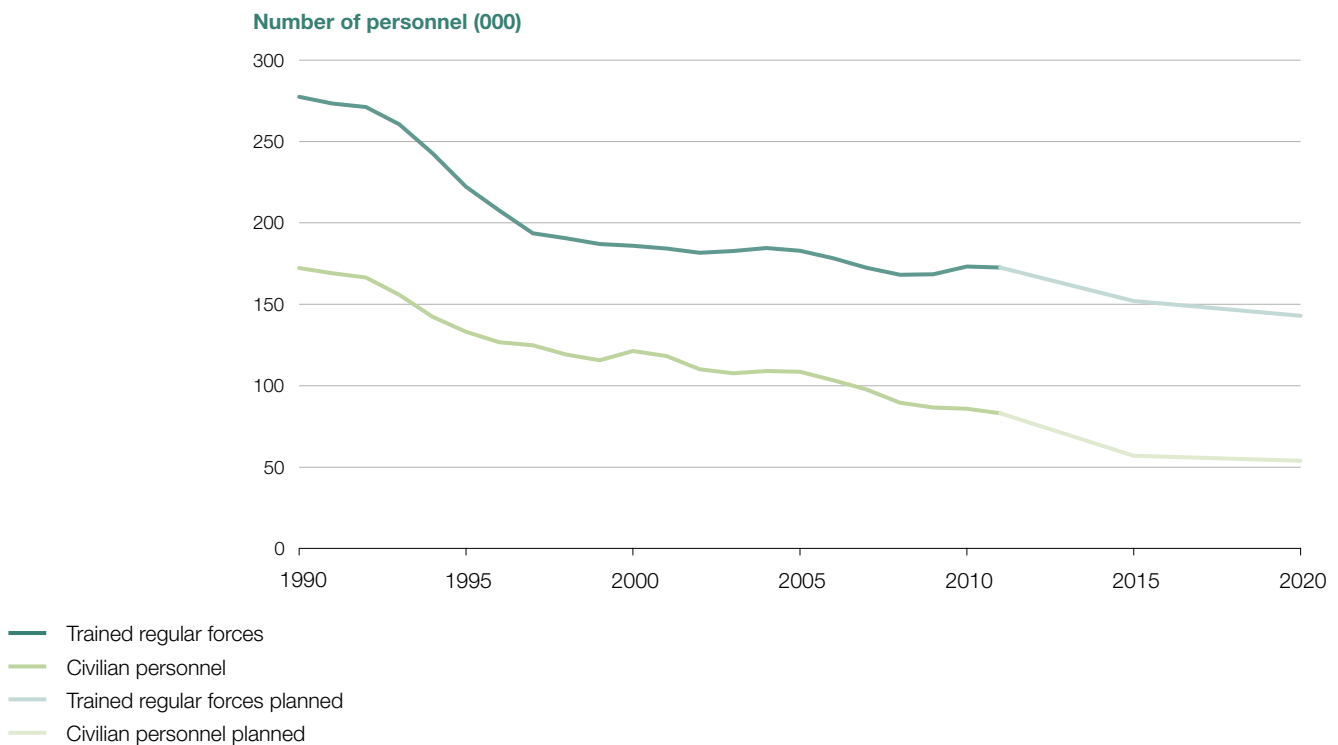
The challenge

31 A lack of sufficient suitably skilled staff has adversely affected the Department's ability to manage its business effectively. As highlighted by Lord Levene, this is reflected by an inability to take tough, timely decisions in the interest of the Department and a lack of financial rigour throughout the organisation.

32 The Department has also significantly reduced the number of personnel employed since 1990, as shown in **Figure 8** overleaf, with further reductions planned.

Figure 8

Changes in Departmental personnel numbers since 1990 and planned reductions to 2015 and 2020



Source: National Audit Office analysis of Departmental data

33 The move to new structures and ways of working, running concurrently with personnel reductions, is generating a demand for both new skills and a requirement to relocate skills within the Department. The skills required range from project, programme and portfolio management to leadership of organisational and behavioural change.

The Department's response

34 The Department is developing a new staffing model. The guiding principle is to have the right person, with the right skills, in the right post, for the right amount of time. Key components are:

- introducing the 'Whole Force Concept' for making decisions based on the most cost-effective balance of staff across regular military personnel, reserves, civilian staff and contractors;
- reducing the number of senior civilian and military posts and creating a new model for career management which will include a default of longer four- to five-year periods in each role; and
- implementing a new approach to managing civilian career and skills development, particularly professional skills.

Culture and behaviours

The challenge

35 The Department has previously tended to operate as a ‘collection of tribes’ with loyalty to individual parts of the organisation rather than to the Department as a whole.

36 There has also been a culture of over-optimism within the Department and it often assumes it will meet targets and deliverables without having credible plans to do so. Staff within the Department also have a cultural tendency to report only good news to their superiors.

37 The Department acknowledges that “...it has often under-estimated how hard it is to change behaviours and culture; the resources required to do it; and the senior commitment involved”. It has, therefore, “...failed to build the foundations for real changes in working practice and expected too much, too soon without support for those affected.”¹²

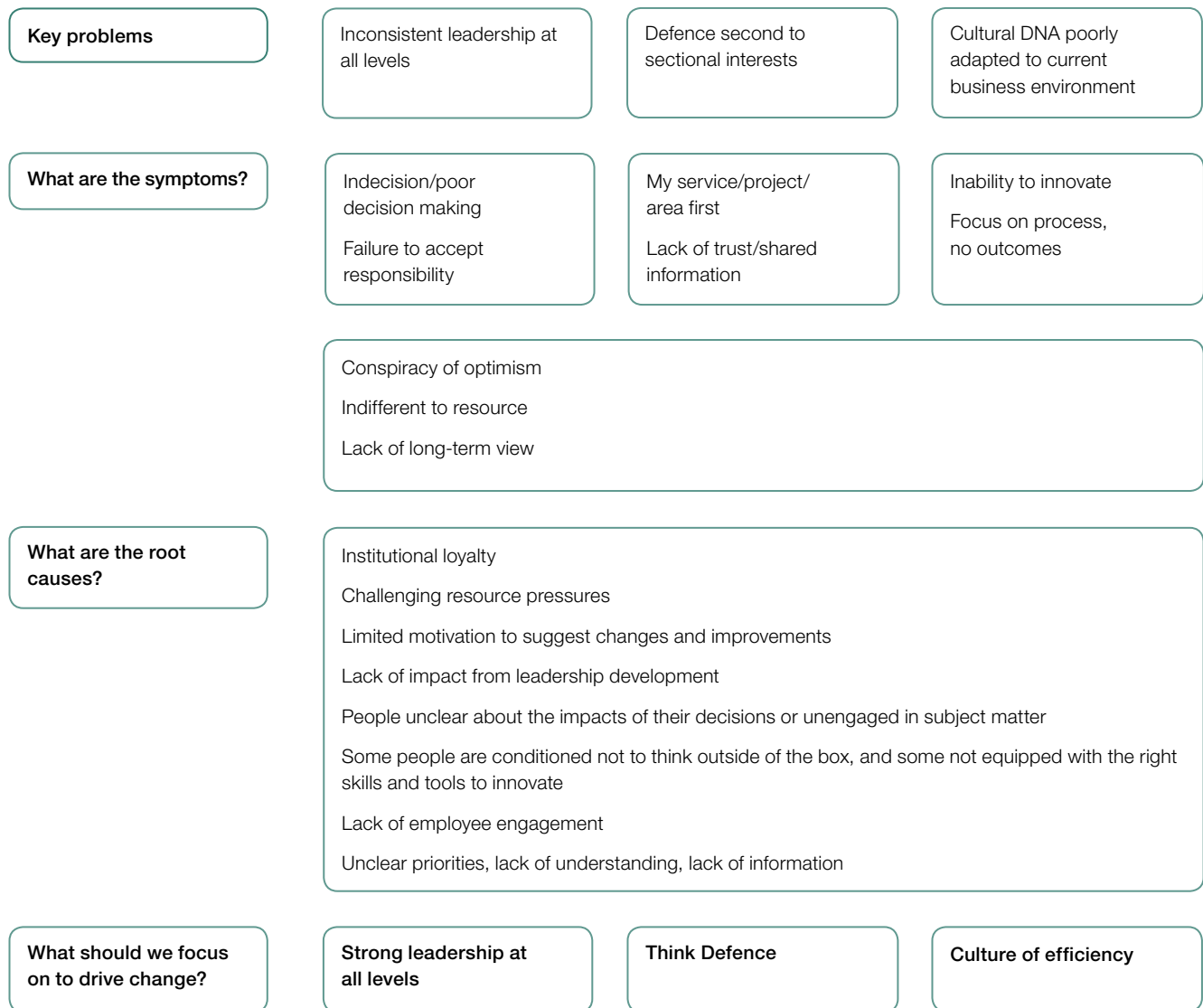
The Department’s response

38 The Department has established a Business Improvement and Behaviours programme as part of the transformation. This programme has already identified three broad behavioural themes that exist within the Department as set out in **Figure 9** overleaf. The programme recognises that staff in the Department want to make a difference and do the right thing, and do not intentionally make bad decisions or choose not to lead effectively. The programme will therefore focus on understanding what causes certain behaviour within the Department.

39 **Figure 10** on page 23 sets out the key deliverables and business benefits the Department expects to achieve from the planned changes to its ways of working.

¹² Lord Levene of Portsoken KBE, June 2011, *Defence Reform – an independent report into the structure and management of the Ministry of Defence, Annex G – Lessons from past organisational reform* a note by the Defence Reform Unit.

Figure 9
Broad behavioural challenges



Source: Ministry of Defence

Figure 10

Changing ways of working – key deliverables and expected business benefits

Key deliverable	Target or delivered date	Expected business benefit
Business intelligence		
Further develop the scope and structure of the Defence Business Services and Defence Infrastructure Organisations	2013 and 2014	Continued improvement towards more efficient, effective and professional delivery of facilities management, infrastructure projects, estates management, civilian human resources management, finance, business information and security vetting.
Sufficient skilled staff		
Implement planned military and civilian headcount reductions	2015 and 2020	Reduced staffing costs and a workforce appropriately sized for the new operating model.
Reassess staff in post and move those with expertise to where they are required under the new operating model	Around 2013	Posts allocated to staff with the most appropriate skills, meaning more effective and efficient use of, and greater value added by, staff.
Culture and behaviours		
Develop and implement a plan to change behaviours and culture within the Department	Ongoing	Staff are motivated to put the needs of the whole Department first, behave openly and honestly and embrace change and continuous improvement.
Review sanctions and rewards needed to support new culture of individual accountability and further integrate key behaviours into military and civilian performance reporting	April 2012	Clear delegations and accountability should motivate senior managers to lead by example and take responsibility for delivering their activities. Where this does not happen, those responsible are held to account.

Source: National Audit Office review of Departmental plans

Delivering military capability

The challenge

40 Military capability is the ability of armed forces to deliver a specified military effect. For example this might be to maintain a nuclear deterrent or to sustain a certain number of personnel on operations for a period of time.

41 To deliver capability, the Department assess the objectives it may be asked to achieve, determines the overall capability it needs to achieve it and the personnel and equipment it requires to deliver these. To deliver these effectively it must address and integrate a range of factors such as training, logistics and support arrangements. The Department calls these the Defence Lines of Development.¹³

42 Although the Department is focusing significant activity on transformation its main effort is success in Afghanistan while continuing to fulfil its ongoing tasks. While meeting its ongoing commitments, the Department must ensure it can achieve the full range of military tasks and operations it might be asked to undertake by the Government (**Figure 11**). Since 2001, the Armed Forces have operated beyond the level the Department is resourced and structured to routinely sustain.¹⁴ The Department acknowledges, however, that it cannot afford to meet the demands of every conceivable circumstance and must focus on delivering the key capabilities that it judges it will need, either by developing them itself or through cooperation with other allies and partners.

43 Capability planning is currently led by the Capability Sponsor organisation in Head Office, but budgets are dispersed with equipment and most support funding held by the Capability Sponsor, and personnel, training and some support funding held by the individual Armed Forces. This reduced the Department's ability to plan capabilities strategically and coherently and make best use of the Department's resources. Coupled with over-ambitious requirements, this has resulted in the Department repeatedly failing to deliver projects on time or on budget. This has led to gaps forming in key capabilities such as armoured vehicles and attack submarines.

¹³ The Department's Defence Lines of Development are: training, equipment, personnel, information concepts and doctrine, organisation, infrastructure and logistics.

¹⁴ National Audit Office, *Strategic Financial Management of the Defence Budget*, Session 2010-2011, HC 290, July 2010, paragraph 1.10.

Figure 11

Military tasks

Ongoing military tasks

Provision of strategic intelligence

Maintenance of the nuclear deterrent

Defence against direct threats to the UK and its overseas territories

Providing a Defence contribution to UK influence

Military tasks that the Government may ask the Department to undertake

Counter-terrorism and military aid to the civil authorities

Defending our interests by projecting power strategically and through expeditionary operations

Providing security for stabilisation

Source: Ministry of Defence

The Department's response

44 In the short term the Department has attempted to address gaps in capability by finding alternative ways of delivering the capability it needs. In some cases it has taken additional risk.

45 To meet specific operational needs, the Department uses the Urgent Operational Requirements process. This provides additional HM Treasury funding for it to modify and buy additional equipment for specific conditions. As a result, the Armed Forces are now better equipped for current operations in Afghanistan, with significantly improved protection against threats. Such equipment is often specific to a particular need and may not necessarily be as suitable across the whole range of military tasks as equipment purchased through the standard acquisition process.

46 For the longer term, the Strategic Defence and Security Review set out a new structure for the UK Armed Forces which the Department is required to deliver by the early 2020s. Through this 'Future Force 2020', the Department aims to deliver a more adaptable structure by restructuring existing forces, drawing more effectively on reserve forces and working more closely with our allies and partners. The Government has also announced that it intends to carry out further Strategic Defence and Security Reviews every five years.

47 The Department has begun to plan how it will implement the new force structure. It has recently undertaken a review of where it bases personnel and is now reviewing the force structure of the Army. It is also developing a new employment model for military personnel.

48 Under the new operating model, the Royal Navy, Army, Royal Air Force and Joint Forces Command will be responsible for detailed capability planning, along with the budgets for equipment and support. By doing this the Department aims to empower forces with the control and flexibility to deliver the capabilities they need. Head Office will act strategically to ensure that the individual plans are robust, coherent and together deliver the full range of capabilities the Department requires.

49 The Department will now aim to buy equipment that it can use to address a wider range of tasks and operations. This will involve purchasing more off-the-shelf and multi-role equipment to adequately deliver a range of capabilities more cost-effectively. The Department will also need to assess whether it has a continuing need for some of the £6.8 billion of Urgent Operational Requirements it has purchased once operations in Afghanistan have ended.

50 On 1 February 2012 the Government published the White Paper *National Security Through Technology*.¹⁵ The paper sets out a new approach to how the UK will procure technology, equipment, and support to meet its defence and security requirements. This approach is to be based on "...open procurement and the protection of operational advantage and freedom of action".

51 The Chief of Defence Materiel is also considering options to reform the Department's acquisition processes and the purpose, boundaries, skills, capabilities and operating model for Defence Equipment and Support. Whatever option the Department chooses, changes will take some time to implement. Therefore aside from some changes to downsize the organisation, adapt interfaces to the overall new Defence operating model, and implement some initial reforms, the basic Defence Equipment and Support model will remain for some years.

52 **Figure 12** sets out the key deliverables and business benefits the Department expects to achieve in respect of delivering military capability.

¹⁵ Secretary of State for Defence, *National Security Through Technology: Technology, Equipment, and Support for UK Defence and Security*, Cm 8278, February 2012.

Figure 12

Delivering military capability – key deliverables and expected business benefits

Key deliverable	Target or delivered date	Expected business benefit
Conduct a review of military basing	2011	Reduced costs for maintaining the Armed Forces while maintaining ability to meet requirements.
Carry out review of how the Department generates the Armed Forces and implement a new employment model for military personnel	2012 and unknown	Greater efficiency while successfully implementing the military covenant.
Deliver Future Force 2020; a structural reorganisation of the Armed Forces alongside a reconfiguration of the equipment available for military operations	Early 2020s	Modern and coherent armed forces, able to be deployed by the early 2020s, which allow the Department to undertake the full range of military operations set out in the Strategic Defence and Security Review.

Source: National Audit Office review of Departmental plans

Appendix One

Examples of previous Committee of Public Accounts and National Audit Office conclusions and recommendations

Conclusions and recommendations	Source
<p>Organisational structures and leadership</p>	
<p>The Department must develop a more robust decision-making process, which balances perceived operational need with the cost of holding and running major assets.</p>	<p>Committee of Public Accounts, <i>Managing the Defence budget and estate</i>, Tenth Report of Session 2010-11, HC 503, December 2010.</p>
<p>The Department's latest programme of reform to improve defence procurement, DPA Forward, will require better joint working among various departmental stakeholders to ensure success. Strong leadership will be crucial in determining the success of the reform programme. The Department needs to be able to evaluate the strength and consistency of the leadership of the programme at all levels.</p>	<p>Committee of Public Accounts, <i>Ministry of Defence: Major Projects Report 2004</i>, Third Report of Session 2005-06, HC 410, October 2005.</p>
<p>The defence budget is unaffordable by between £6 billion and £36 billion. The deficit is a reflection of shortcomings in the Department's governance and budgeting arrangements. The implications of the failings are not just about increasing costs and poor value for money on individual projects but, vitally, mean the Armed Forces will not get the operational benefits of new capabilities as quickly as expected and some equipments will only be delivered in reduced numbers.</p>	<p>Committee of Public Accounts, <i>Ministry of Defence: Major Projects Report 2009</i>, Twenty-third Report of Session 2009-10, HC 338, March 2010.</p>

Conclusions and recommendations
Source**Budgetary control and accountability****Budgetary control**

The Department's poor financial management has led to a severe funding shortfall of up to £36 billion in defence spending over the next ten years.

Committee of Public Accounts, *Managing the Defence budget and estate*, Tenth Report of Session 2010-11, HC 503, December 2010.

Weaknesses in financial planning and management have resulted in poor value for money from delays, changes to project specifications and costly contract renegotiations.

When the Department signed the contract for the aircraft carriers, it was aware that the overall defence budget was unaffordable. The decision is a compelling example of the Department's failure to exercise adequate governance and control over its expenditure programme. In future, before entering into new contracts, the Defence Board should consider the effects of decisions on the affordability of the overall defence budget.

Committee of Public Accounts, *Ministry of Defence: Major Projects Report 2010*, Twenty-third Report of Session 2010-11, HC 687, February 2011.

Despite buying 30 per cent fewer Typhoons than originally planned, the cost of production and development has risen to £20.2 billion, £3.5 billion more than the Department first expected. This reflects the accumulated effect of over-optimism on costs.

Committee of Public Accounts, *Management of the Typhoon project*, Thirtieth Report of Session 2010-12, HC 860, April 2011.

Accountability

Despite having failed to deliver any principal armoured vehicles for over a decade, the Accounting Officer was unable to tell us who was responsible or whether anyone had paid the penalty for these failures.

Committee of Public Accounts, *The cost-effective delivery of an armoured vehicle capability*, Fifty-ninth Report of Session 2010-12, HC 1444, December 2011.

Senior Responsible Owners (SROs) for major defence projects typically move post every two to three years, eroding accountability. It also seems common for the Department to appoint a single individual to be responsible for a wide range of different major projects – a task no one person can properly fulfil.

Committee of Public Accounts, *Ministry of Defence: Major Projects Report 2010*, Twenty-third Report of Session 2010-11, HC 687, February 2011.

'Responsible' means that such individuals should be held to account for delivering the project within an agreed budget and should have the authority to direct those involved in delivering the project. Neither is true in Defence. The Department should ensure that SROs remain in post during key phases of a project lifecycle.

Conclusions and recommendations	Source
Changing ways of working	
Business intelligence	
<p>Good decisions are based on good information. If the Department is to make more realistic and achievable investment decisions in future, it needs to have a comprehensive understanding of the balance between costs, number of aircraft kept in service and the operational capability which the aircraft provide.</p>	<p>Committee of Public Accounts, <i>Management of the Typhoon project</i>, Thirtieth Report of Session 2010–12, HC 860, April 2011.</p>
<p>The Department should set out clearly its financial and performance data needs, how it will develop the underpinning management information systems and how long this will take.</p>	<p>Committee of Public Accounts, <i>Delivering Multi-Tanker Aircraft Capability</i>, Second Report of Session 2010-11, HC 425, September 2010.</p>
<p>The Department does not have good information on the overall costs and risks of its programmes.</p>	<p>Committee of Public Accounts, <i>Ministry of Defence: Major Projects Report 2009</i>, Twenty-third Report of Session 2009-10, HC 338, March 2010.</p>
Sufficient skilled staff	
<p>Many roles in the performance management cells in the supply chain are filled by non-specialists who often lack the requisite skills, furthermore, skills developed in-role are often lost as staff usually stay in post for two years or less. This is inefficient and risks value for money. The Department should ensure it has specialists in post, through: creating a specialist career path for logisticians to allow retention and reward of key skills; and implementing documented handover processes and mentoring of new staff.</p>	<p>Comptroller and Auditor General, <i>The use of information to manage the logistics supply chain</i>, Session 2010-11, HC 827, National Audit Office, March 2011.</p>
<p>Although recent progress has been made in licensing project managers, the Department admits that it needs to achieve more consistent skill levels across its procurement staff. The Department should introduce a more consistent approach across its own project management discipline, including further development of staff skills and the use of standardised project management systems.</p>	<p>Committee of Public Accounts, <i>Ministry of Defence: Major Projects Report 2008</i>, Twentieth Report of Session 2008-09, HC 165, May 2009.</p>

Conclusions and recommendations
Source**Culture and behaviours**

The Department should, in developing its model for managing its estate, put in place levers and mechanisms that encourage all parts of the Department and the Services to drive through structured cost reduction aggressively.

Comptroller and Auditor General, *A Defence estate of the right size to meet operational needs*, Session 2010-11, HC 70, National Audit Office, July 2010.

The Department has not clearly identified which arrangements are best suited for increasing the awareness of its staff of the need for good data, or for improving skills to produce data. The Department should develop its 'federated' model for producing good data on its business.

Comptroller and Auditor General, *The use of information to manage the logistics supply chain*, Session 2010-11, HC 827, National Audit Office, March 2011.

The Department should set out clearly how it will change the culture of the organisation to place a premium on generating and using such information.

Committee of Public Accounts, *Delivering Multi-Tanker Aircraft Capability*, Second Report of Session 2010-11, HC 425, September 2010.

Delivering military capability

Delays bringing core vehicles into service have meant the Department has had to use other equipment to deliver essential capabilities. This has required helicopters in particular to undertake additional battlefield reconnaissance and other tasks, spreading scarce resources more thinly. The Department acknowledges that this is neither effective nor efficient.

Committee of Public Accounts, *The cost-effective delivery of an armoured vehicle capability*, Fifty-ninth Report of Session 2010-12, HC 1444, December 2011.

Delaying projects once they have started increases costs, postpones the delivery of military capability and puts the Department at a disadvantage as it tries to secure value from its commercial partners. In future the Department must ensure that decisions to accelerate or slow down projects, or change the numbers or capabilities of equipments, are supported by quantified operational and financial analyses to enable the full costs and benefits to be identified and compared on a like-for-like basis.

Committee of Public Accounts, *Ministry of Defence: Major Projects Report 2009*, Twenty-third Report of Session 2009-10, HC 338, March 2010.

Appendix Two

Programmes and deliverables within the Defence Transformation Portfolio

The table below sets out the individual programmes and deliverables that make up the Transformation Portfolio. The portfolio is divided into three tiers:

- Tier One – Larger and more complex programmes
- Tier Two – Other programmes
- Tier Three – Other deliverables/objectives

Programmes and deliverables within the Defence Transformation Portfolio

Programme	Description	Tier	Indicative delivery/end date
Policy			
Security relationship with France	An intensification of our defence relationship with France	Three	Ongoing
Future Reserves Review	A review of the future role and structure of the Reserves	Three	Published July 2011
Industrial and Technology White Paper	A formalisation of Defence industrial and technology policy for the next four years	Three	Published February 2012
Reform and efficiency			
Defence Reform Programme	Primarily the establishment of Joint Forces Command; restructuring the Head Office; and introducing new financial systems	One	2013
Accommodation Services	A Land Forces programme improving efficiency in managing and delivering accommodation stores	Two	2012
Materiel Strategy Programme	Developing and implementing a new model for equipment acquisition and support	One	Not yet known

Programme	Description	Tier	Indicative delivery/end date
Strategic Defence and Security Review 6.1 Energy Programme (spend to save)	Implementing a range of energy efficient projects to deliver carbon reductions and financial savings	Two	2014
Project Wellesley	Co-location of existing Deepcut units with other related schools at Worthy Down	Two	2017
Non-frontline savings	Savings from non-frontline activity, including from other programmes in the portfolio	Three	2014-15
Defence Health Change Programme	Strengthening the core capabilities of the Defence Medical Services and improving infrastructure	Two	2016
Navy Command Review	Delivery of service and civilian non-frontline manpower reduction targets within Navy Command	Two	Not yet known
Land Support Change Portfolio	An emerging portfolio approach to understand a range of activities underway in Land Support	Two	Not yet known
HQ Air Capability Structure Review	Implementing new structure and delivering HQ Air outputs more efficiently and effectively	Two	2015
Land Forces Finance Function Review	A review and rationalisation of the finance function within the Land Forces budget	Two	2012
Maritime Change Programme	Activities to deliver affordable, sustainable and efficient maritime build, equipment and through-life support	Two	Not yet known
Support	Further savings in equipment support – programme currently undefined	Not yet commenced	Not yet commenced
Asset Management Programme	Sale of assets such as the Marchwood Sea Mounting Centre, Defence Support Group, and running-cost reductions	One	2015
Logistics Commodities Services Transformation	More effective and efficient management of commodity procurement, storage and distribution system	One	2018
Next Generation Estate Contracts	Aims to determine the best value and most efficient mix of contract arrangements	Two	2014

Programme	Description	Tier	Indicative delivery/end date
Defence Infrastructure Transformation Programme	Establishing a single organisation (the Defence Infrastructure Organisation) to deliver all Defence Infrastructure with a reduction in posts	One	2015
Whole Fleet Management	Aims to ensure the better management of the vehicle fleet	Two	2025
Phoenix	Aims to transport people and materiel and provide a defined set of specialist vehicles, in the most cost-effective manner	Two	2015
Corporate Services Transformation Programme and Corporate Services Systems Convergence Programme	Creation of a single Defence Business Services organisation to run back office functions Introduces a common set of systems and business applications within areas such as finance, HR and commercial	One	2020
Defence Technical Training Change Programme	Aims to meet personnel requirements by delivering an innovative and efficient technical training solution, supporting systems and facilities	Two	Not yet known
Future capability			
Submarine Enterprise Performance Programme	Providing the required submarine capability while achieving significant cost savings	One	2013
Information Infrastructure	Defence Information Infrastructure – Replacing the 300 diverse information systems with one, across 2,000 locations worldwide	One	2015
	Defence Core Network Services – A programme aimed at delivering better integrated end-to-end information and communication systems with greater agility and at less cost	One	2020
Carrier Enabled Power Projection	Provision of a single aircraft carrier carrying 12 Joint Strike Fighters and supporting infrastructure, by around 2020	One	2030
Defence Intelligence Modernisation Programme	A single coordinated change programme to enable the modernisation of the Defence Intelligence Service	Two	2014

Programme	Description	Tier	Indicative delivery/end date
Defence Cyber Security Programme	Aims to establish a Cyber organisation within the Department as part of the cross-government initiative set out in the Strategic Defence and Security Review	One	2015
Project Embrace	The rationalisation of non-Defence Information Infrastructure systems, specifically in the training space	Two	Delivery of study findings by 2011
Basing			
Basing Optimisation Programme and Borona	Major changes to the basing of Armed Forces units. Includes rationalising the defence estate and associated running-cost reductions and Borona, a programme to relocate some of our soldiers and their families currently based in Germany back to the UK and rationalise the related estate	One	2019
Avanti	Restructuring the existing Regional Brigade and Divisional Headquarters architecture that currently delivers the supporting Firm (UK) Base for Land Forces to provide the most cost-effective structure	Two	2012
Future Brize	Creation of a single Military Air Port of Embarkation by collocating capabilities onto a single operating base	Two	2015
Project Euston	Reducing the UK's presence in Gibraltar, with consequent savings	Two	2017
Personnel and training			
Civilian Workforce Programme	A reduction from 86,000 to 57,000 by 2015, with a further 3,000 reduction by 2020	One	2020
Reductions in service personnel	Royal Navy: a reduction from c. 35,000 to c. 30,000 by 2015, with a further 1,000 reduction by 2020 Army: a reduction from c. 101,000 to c. 89,000 by 2015, with a further 7,000 reduction by 2020 Royal Air Force: a reduction from c. 40,000 to c. 33,000 by 2015, with a further 1,000 reduction by 2020	One	2020

Programme	Description	Tier	Indicative delivery/end date
New Employment Model	Aims to deliver a New Employment Model that provides for sufficient, capable and motivated service personnel	One	2021
Defence Individual Training Management	Replacement of current individual training management IT systems by a new tri-service system	Two	2012
Military Flying Training System	Seeks to replace the present training arrangements with one tri-service programme for the entire front line	Two	2018
Training	Overall approach to service training – no new programmes currently defined	Not yet commenced	Not yet commenced
Armed Forces Covenant	Rebuilding and formalising the support available to service personnel	Three	November 2011
Force structure change			
Vanguard Warheads	Reduction in the number of warheads and missiles on board Vanguard and in stockpile	Three	Not yet known
Remove HMS Illustrious	Decommissioning of aircraft carrier HMS Illustrious	Three	Not yet known
Army 2020	To design an integrated Army force for 2020 and beyond, involves restructuring the Army	One	May 2012
Army Equipment Rationalisation	Rationalise wider Army equipment holdings	Three	2015
RAF Rationalisation	Rationalise RAF holdings	Three	Not yet known
Other deliverables			
Deliver against other commitments	Deliver against all other National Security Council Strategic Defence and Security Review commitments	Three	Not yet known

Appendix Three

Core responsibilities and accountabilities of Ministers and the Department's senior management

Ministerial responsibilities

Position	Responsible for:
Secretary of State for Defence	<ul style="list-style-type: none"> ● Making and executing Defence policy ● Accounting to Parliament for the resources used to run the Department ● Chairing the Defence Board and the Defence Council and its three delegated Service Boards ● Providing strategic direction on the key activities of the Department, for example on operations and the Strategic Defence and Security Review ● Deputising for the Secretary of State
Minister of State for the Armed Forces	<p>Leading on:</p> <ul style="list-style-type: none"> ● supporting Secretary of State on operational aspects of implementing the Strategic Defence and Security Review; ● producing and maintaining the armed forces required for operations; ● operations (excluding Afghanistan); ● judicial engagement and inquiries; ● Permanent Joint Operating Bases and Overseas Territories; ● Defence Training Review and re-basing from Germany; and ● arms control and disarmament.
Parliamentary Under Secretary of State and Minister for Defence Equipment, Support and Technology	<p>Leading on:</p> <ul style="list-style-type: none"> ● through-life equipment procurement and support programme; ● Defence Equipment and Support organisation; ● Atomic Weapons Establishment; ● Science and technology, including Defence Science and Technology Laboratory; and ● Defence Support Group and Oil and Pipelines Agency.

Parliamentary Under Secretary of State and Minister for Defence Personnel, Welfare and Veterans

Leading on:

- the Department's approach to Service personnel and civil servants;
- the Department's approach to wider service personnel, including Reserves and families; and
- the MOD Police and Guarding Agency, Service Children's Education and UK Hydrographic Office.

Parliamentary Under Secretary of State and Minister for International Security Strategy

Leading on:

- international Defence strategy, relations and diplomacy; and
- Defence exports.

Under Secretary of State and the Lords spokesman on Defence

- Acting as Lords spokesman on Defence policy, operations, personnel, equipment and legacy issues

Source: Ministry of Defence

Core responsibilities and accountabilities of top posts

Position	Responsible for	Accountable to
Permanent Under Secretary	Leading the Department, with the Chief of the Defence Staff	Secretary of State
	Defence and nuclear policy advice to Ministers and the Defence Board	Secretary of State
	Accounting Officer duties, including organising and managing the Department	Secretary of State/Parliament
	Developing an affordable programme	Secretary of State
	Setting Departmental strategy, with support from the Chief of the Defence Staff	Secretary of State
Chief of the Defence Staff	Leading the Department, with Permanent Under Secretary	Secretary of State
	Planning, direction and conduct of all military operations as Strategic Military Commander	Secretary of State/wider Government
	Professional head of the Armed Forces	Secretary of State
	Providing military advice to Ministers, wider Government and the Defence Board	Secretary of State/wider Government
	Supporting the Permanent Under Secretary in formulating Defence strategy	Secretary of State
Service Chiefs	Leading and ensuring the long-term health of the Service	Secretary of State
	Developing and maintaining forces in the Service	Chief of the Defence Staff, supported by Permanent Under Secretary
	Managing Services to deliver their plans within their delegated budget and the corporate framework	Permanent Under Secretary and the Chief of the Defence Staff
	Commissioning Defence Equipment and Support for equipment and support outputs	Permanent Under Secretary
	Advising the Chief of the Defence Staff and Ministers on the operational employment of the Service	Chief of the Defence Staff and Secretary of State
	Contributing to the Chief of the Defence Staff formulating military advice	Chief of the Defence Staff

Position	Responsible for	Accountable to
Chief of Defence Materiel	Advising in particular on equipment and support issues	Secretary of State
	Delivering equipment and support to meet the requirements of the Department	Service Chiefs and Commander Joint Forces Command
	Managing Defence Equipment and Support to deliver its plan within delegated budget and corporate framework	Permanent Under Secretary
	Providing logistic support to current operations	Chief of the Defence Staff
	Defence commercial and industrial policy advice	Permanent Under Secretary
	Leading the Department's relationship with industrial suppliers	Permanent Under Secretary
	Representing UK acquisition interests internationally	Permanent Under Secretary
Second Permanent Under Secretary	Deputising for the Permanent Under Secretary	Permanent Under Secretary
	Coordinating delivering top-level decision making and running Head Office (with the Vice Chief of the Defence Staff)	Permanent Under Secretary and the Chief of the Defence Staff
	Overseeing and coordinating the 'Enable' function within the new operating model	Permanent Under Secretary
	Managing Head Office and Corporate Services to deliver their plans within their delegated budgets and the corporate framework	Permanent Under Secretary
	Acting as head of profession for MOD civil servants	Permanent Under Secretary
	Leading Defence Transformation (with the Vice Chief of the Defence Staff)	Permanent Under Secretary
Vice Chief of the Defence Staff	Deputising for the Chief of the Defence Staff	Chief of the Defence Staff
	Coordinating delivery of top-level decision making and running Head Office (with Second Permanent Under Secretary)	Permanent Under Secretary and the Chief of the Defence Staff
	Leading senior military judgement for the future development of the Armed Forces	Permanent Under Secretary and the Chief of the Defence Staff
	Leading Defence Transformation (with Second Permanent Under Secretary)	Permanent Under Secretary
	Managing Service personnel, in a role that the Department is still defining	Chief of the Defence Staff

Position	Responsible for	Accountable to
Commander Joint Forces Command	Commanding Joint Forces Command with responsibility for developing and generating allocated capabilities	Chief of the Defence Staff
	Managing Joint Forces Command to deliver within its delegated budget and the corporate framework	Permanent Under Secretary, supported by the Chief of the Defence Staff
	Commissioning Defence Equipment and Support for equipment and support outputs	Permanent Under Secretary
	Advising the Chief of the Defence Staff on the operational employment of joint capabilities	Chief of the Defence Staff
	Integrating, championing and supporting the development of capabilities held within the single Services	Chief of the Defence Staff, supported by Permanent Under Secretary
	Leading joint warfare development to ensure the effective delivery of joint operational capability	Chief of the Defence Staff
Director General Finance	Advising Ministers, Permanent Under Secretary and the Defence Board on developing an affordable programme, allocating resources and financial management	Permanent Under Secretary
	Deciding on or advising Ministers on investment proposals	Permanent Under Secretary
	Supporting the Permanent Under Secretary as Accounting Officer by: leading Spending Review negotiations with HM Treasury over the future size of the Department's budget; ensuring effective performance management and corporate governance arrangements; and leading on financial policy and standards, procedures and staffing for the finance function	Permanent Under Secretary
Chief Executive Defence Infrastructure Organisation	Managing the Defence Infrastructure Organisation to deliver their plans within their delegated budget and the corporate framework	Permanent Under Secretary
	Developing infrastructure policy and strategy	Second Permanent Under Secretary
	Developing a cost-effective infrastructure asset management plan and an affordable infrastructure programme for the Department	Permanent Under Secretary, supported by Second Permanent Under Secretary
	Delivering infrastructure services to meet the requirements of the Department	Department's business units

Source: National Audit Office review of Departmental plans

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