



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Ministry of Defence**

# Army 2020

## Key facts

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**82,500**

trained regular Army personnel planned in December 2018

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**30,000**

trained Army reserves planned by the end of the financial year, 2018-19

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**£10.6bn**

total reduction in the Army's budget between 2011-12 and 2021-22

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<b>20,000</b>	planned reduction in regular Army numbers, down from 102,000, by December 2018
<b>7,947</b>	Army personnel selected for redundancy between 2011 and May 2014
<b>11,000</b>	minimum increase in trained Army reserves, from 19,000, needed by the end of 2018-19
<b>1,975</b>	reserve soldiers recruited by Capita in 2013-14 against a December 2012 Army Demand Plan requirement of 6,000
<b>3,184</b>	regular Army training places unfilled in 2013-14, from a planned allocation of 9,382 places

# Summary

**1** The Coalition Agreement identified a need for the government to reduce public spending, including on defence, and the October 2010 Strategic Defence and Security Review set out proposals to increase the flexibility of the armed forces. This would help the Ministry of Defence (the Department) to better respond to an increasingly uncertain security environment. At the time of the Strategic Defence and Security Review, the Department planned to reduce the size of the regular Army from around 102,000 to 94,000 by 2020, which would help the Army make savings of £5.3 billion over the ten years from 2011-12 to 2020-21. Work undertaken by the Department following the Strategic Defence and Security Review led to it developing plans for an Army of 82,500 trained regular soldiers and 30,000 trained reserve soldiers. This is a change from pre-review levels of around 102,000 trained regular soldiers and 19,000 trained reserve soldiers.

**2** The Department projected that this further reduction would help the Army to make savings of £5.3 billion over the ten years from 2012-13 to 2021-22. These savings were in addition to the £5.3 billion of savings already identified by the Strategic Defence and Security Review. The Department therefore expected to make overall savings of £10.6 billion between 2011-12 and 2021-22. It removed these savings from the Army's budget over that period. The Army had to provide the capability needed within the staffing and funding requirements the Department set. The Army decided it needed to restructure itself into a fully integrated Army of regulars and reserves, and this became known as Army 2020.

**3** Army 2020 is an ambitious programme and means the Army must develop a force with a new size and adaptable structure that is able to respond to unexpected threats. The Army needs to reduce regular Army numbers by 20,000. It must also work with its recruitment partner, Capita, to recruit enough suitable personnel for the Army 2020 structure. The transition to Army 2020 will involve coordination of several activities over the next six years, and beyond, to ensure that the new Army structure operates as planned. These include: changing the Army's structure by merging and moving units; introducing new equipment; returning UK troops from Germany and combat operations in Afghanistan; and recruiting, training and integrating an increased number of reserves into a single Army.

**4** Army 2020 must take place alongside other changes in the Department. The Department designed these changes to bring the ten-year departmental programme in line with a reduced budget. They include work to address an affordability gap in the Department's Equipment Plan and the returning of the Army to the UK from Germany by 2020. Two of the main organisations that will be supporting Army 2020, the Defence Infrastructure Organisation and Defence Equipment and Support, are also themselves transforming over the same period.

## **Scope of the report**

**5** This report examines the development of Army 2020 and the Army's progress in implementing it. It also examines the main risks to successful implementation of Army 2020 and its dependencies with wider defence change programmes. It does not examine whether Army 2020 will provide enough military capability for the Army to meet its required defence outputs.

## **Key findings**

**6** Army 2020 requires the Army to adopt a fundamentally different structure. Implementation of that structure requires a significant reduction in the size of the regular Army and is reliant on the recruitment, training and integration of a substantially increased number of Army reserves. The primary judgements in our report are that:

- The decision to adopt an Army structure with fewer regular soldiers and an increased number of reserves was made to enable the Department to provide defence outputs within its available budget. We have not seen evidence that the feasibility of increasing the number of trained reserves within the planned timescale, needed to provide the required capability, was robustly tested.
- The Army has made progress in implementing structural changes and reducing the size of the regular Army, but the transition to the new Army structure comes with some significant further risks. If not mitigated, they could significantly affect value for money and the Army's ability to achieve its objectives.

### The decision to adopt a new Army structure

**7** **The future size of the Army was determined by the need to make financial savings while maintaining enough military capability to deliver required defence outputs.** The Department developed eight high-level force structures that would enable the Army to achieve the financial savings it needed. The Department costed and assessed options against whether it could meet several potential defence scenarios. The capability risks associated with these options were assessed by a senior military judgement panel on the basis of its military judgement. Such panels are considered by the Department to provide a suitable level of challenge on the risks and benefits to providing military capability. None of the eight options developed were considered by the panel to provide adequate capability and a 'hybrid' option was instead developed and chosen. The 'hybrid' option proposed a regular Army of around 80,000 personnel and options for an Army Reserve of between 19,000 and 38,000 (paragraphs 1.8 to 1.10 and 1.14 to 1.16).

**8 The Department did not test whether increasing the trained strength of the Army Reserve to 30,000 was feasible.** The government commissioned a review of the reserves. The review recommended that the Department increase the trained strength of the reserves from around 19,000 to 30,000. The Department accepted this recommendation. However, the Department did not assess whether it was feasible to recruit and train the required number of reserves within the necessary timescale. Undertaking such testing was particularly important in view of the requirement for reserves to undertake a substantially different role in a smaller army in order for the Army to provide the defence outputs required of it (paragraphs 1.15 and 1.23).

**9 The Department's recruitment targets for reserves are not underpinned by robust planning data.** When the Department set the target to increase the trained strength of the Army Reserve from around 19,000 to 30,000 it did not have a mature workforce model or good data to help it accurately assess how long it would take to recruit the required number of reserves. The Department has since developed a workforce model for reserves but it contains limited historical data. It is not yet clear what effect steps being taken by the Army to improve recruitment, such as marketing campaigns and the offer of financial incentives, are having on recruitment rates. However, the model suggests that it could be 2025 before the trained strength of the reserve is increased to 30,000. This assessment assumes an increase in recruitment rates for new reserves as well as an un-evidenced assumption that the percentage of reserve recruits that go on to become 'trained strength' can be increased from the current level of 34 per cent to 55 per cent from 2015-16. A significant further improvement in both areas will be required if the Army is to increase the trained strength of the Army Reserve to 30,000 by April 2019. The Department is confident that the action it is taking will increase the trained strength of the Army Reserve to 30,000 by April 2019 if the trained strength of the Army Reserve includes reserves returning from Full Time Reserve Service in the regular Army and sponsored reserves. We were not provided with the revised model that informs this assessment and have not, therefore, been able to test the Department's assumptions (paragraphs 1.17 and 2.28).

**10 Reducing the size of the Army will not alone deliver the financial savings required.** The Department's 2011 decision to further reduce the size of the Army from the previously planned 94,000 to 82,500 enabled it to reduce the Army budget by an additional £5.3 billion over the ten years to 2021-22. However, the Department identified that further savings of £1.1 billion a year would need to be made across the armed forces from budget areas other than equipment by the end of the ten-year period. The Department accepted that further savings would be required to offset the higher costs of the chosen option and took these into account when finalising its overall financial position (paragraphs 1.1, 1.14 to 1.15 and 1.25).

**11 Greater reliance on reserves will help the Department make savings but may lead to increased costs for HM Treasury.** Costing work considered by the Department suggests that reserves cost around 87 per cent compared to regulars when mobilised. However, these costs do not take account of all of the costs related to the training, integration and preparation of reserves for use on operations. As a result, the senior military judgement panel identified that the “Treasury might be required to pay more when [reserves are] mobilised”. This is because the Department is funded to generate armed forces ready for operations and the extra costs of military operations are currently funded through the Treasury Special Reserve. Relying more on reserves will help the Department to make savings on its staffing budget, but if reserves are used on operations there may be an increase in costs for the Treasury. The Department planned on the assumption that the Treasury will continue to meet these costs, in line with existing government policy (paragraphs 1.21 to 1.22).

**12 The Department did not fully assess the value for money of its decision to reduce the size of the Army.** Work carried out by the Department following the Strategic Defence and Security Review aimed to develop options for providing required defence outputs while also bringing the Department closer to its budget. The Department assessed that value for money could be achieved on the basis of the cost savings the Army could make through staff reductions, while also maintaining enough military capability to provide required defence outputs. However, cost reduction itself does not necessarily result in value for money. For example, other factors that can influence value for money, such as whether the Army would achieve its outputs more efficiently, were not considered at that time because the implications of the decision on the Army’s structure and ways of working had not been determined. Since developing the Army 2020 structure, the Army is seeking to assess value for money as it develops detailed implementation plans for the programme and establishes the consequential impact it may have on Army basing, training and equipment (paragraph 1.24).

Transition to a new Army structure

#### **Transitional changes to staffing and structure**

**13 The Army has identified and planned the structural changes needed to set up Army 2020.** Transition to the Army 2020 design requires changes such as moving personnel, merging or disbanding Army units, creating new units and changing command and control arrangements. The necessary structural changes are planned to take place between April 2014 and the end of 2017. As at 1 June 2014, the Army reported that it had issued 167 of 303 implementation orders to make the required structural changes (paragraphs 2.4 to 2.5).

**14 The Army is ahead of its target to reduce its military staff to 82,500 by 2018 and deliver the staffing savings required by its reduced budget.** As at May 2014, the Department had selected 7,947 personnel for redundancy. The Army expects the remaining reduction of around 12,000 personnel to come from a fourth and final round of approximately 1,000 redundancies to be announced in June 2014, voluntary exits, involuntary exits, retirement and lower-than-projected recruitment. The Army forecasts that the four rounds of redundancy will cost some £320 million. These costs will be met centrally by the Department and have been planned for (paragraphs 2.7, 2.10 and Figure 4).

**15 The trained strength of the Army Reserve has not increased since April 2012.** At April 2012, the trained strength of the Army Reserve was 19,410. As at April 2014, the trained strength of the Army Reserve was 19,400. This is some 600 above the target of 18,800 set by the Department in December 2013. There has not been a significant growth in the overall trained strength of the Army Reserve in the last two years (paragraphs 2.26 to 2.27).

**16 Recruitment of reserve and regular soldiers is behind the requirement set by the Army for 2013-14.** In 2013-14, 6,366 regular Army recruits entered training against a target of 9,715. This is an in-year shortfall of 34 per cent. Recruiting reserves has also been lower than expected. The Department had set no targets for recruiting reserves at the start of 2013-14. The Army set Capita a requirement to recruit 6,000 reserves to staff the new Army structure by the end of March 2014. By 31 March 2014, Capita had recruited 1,975 new and rejoining reserves. This is some 67 per cent below its contractual requirement. In December 2013, the Department forecast that by the end of March 2014 it would recruit 1,750 new reserves and 750 former regulars into the Army Reserve. By 31 March 2014, the Army and Capita had together recruited 1,310 new reserves (25 per cent below forecast) and 1,050 former regulars (40 per cent above forecast). A further 660 reserves were obtained through other means, for example reserves returning from a full-time post in the regular Army, leading to a reported total inflow to the Army Reserve of 3,020 in 2013-14. Reserve recruitment targets increase substantially over the next five years. For example, in 2016-17, the Army will need to recruit 9,270 reserves, including 8,000 new recruits. A significant change in performance is therefore required, particularly for new reserves, if the Army 2020 structure is to be staffed in time. The Department is taking mitigating actions to improve recruitment, such as offering financial incentives to recruits, but it is too early to say how effective these will be (paragraphs 2.23 and 2.26 to 2.27).

**17 The Department failed to provide ICT infrastructure critical to the success of the Army's Recruiting Partnering Project with Capita.** Capita's performance, agreed in its contract with the Army, depended on the Department providing supporting ICT infrastructure for Capita's new recruitment software by an agreed date. The Department did not provide this infrastructure which meant Capita could not run the recruitment process as it had planned to. Capita had to develop an interim approach which introduced new processes and built on existing recruitment software. This means poor recruitment performance cannot be distinguished from the impact of ICT failings and the Army could not implement its performance regime. Capita has, however, voluntarily agreed to an interim performance regime which is planned to be in place from June 2014 (paragraph 2.17).

**18 The Department's failure to enable the setting up of new recruitment software has impacted on recruitment activities and increased costs.** Recruitment software that was to be launched in March 2013 is now not expected to be ready until summer 2015. In the interim, the Army is incurring increased operational costs of around £1 million a month. These costs relate to the Army having to use legacy recruitment systems for longer, support manual 'workarounds' by funding extra civilian staff to help Capita with recruitment activities and pay Capita extra interim operational costs. If Capita launches the software in summer 2015 as planned, these extra costs are likely to total some £25 million. These costs do not include the opportunity costs of using additional soldiers to support the interim recruitment arrangements (paragraph 2.17).

### **Operational risks**

**19 The financial and operational benefits of Army 2020 are heavily dependent upon timely and successful delivery of a number of wider change programmes.** The Army faces a significant challenge to implement Army 2020 alongside other substantial change programmes, such as the implementation of a new Army basing programme including the return of UK troops from Germany. Working-level meetings have identified the high-level dependencies between these programmes. However, the Army cannot sufficiently differentiate the potential financial and operational impact these dependencies pose to the programme. The Army 2020 programme board alone cannot fully control the mitigations for these risks. The Army must better understand these risks as dependencies become financially and operationally critical during the later stages of the programme. The senior responsible owners for these interdependent programmes met to discuss key strategic dependencies in March 2014 (paragraphs 2.1 to 2.2 and 2.36 to 2.43).



**20 Successfully integrating reserves into the Army is critical and will require a significant behavioural change.** Army 2020 seeks, for the first time, to integrate fully regulars and reserves within a single force structure. The Department's 2014 Armed Forces Continuous Attitude Survey data show that 65 per cent of regular Army respondents believe regular and reserve forces are not well integrated, compared to 44 per cent in 2011. Regular Army respondents' views of the professionalism and value of reserves have also declined over the same period, although there was little change in the results between 2013 and 2014. The Army plans to improve integration through joint training and pairing reserves with regular units, to prepare for paired deployment on operations. The Army's ability to do this depends in part on the success of the basing programme that the Defence Infrastructure Organisation is running, working jointly with the Army, to build new living and training facilities for regulars and reserves (paragraphs 2.44 to 2.47 and Figure 10).

**21 Army 2020 is dependent on additional funding for equipment.** The Army's budget has been set for the next ten years. To balance its Equipment Plan, the Department has an uncommitted equipment budget of £8.4 billion over the next ten years. The Department has indicatively allocated £4.7 billion of this budget to pay for the equipment necessary for Army 2020. The Department and the Army are planning on the basis that the Army will be allocated this £4.7 billion. If these funds are not available in future years, the Army will not have sufficient equipment to provide the capability required of Army 2020 (paragraphs 2.39 to 2.40).

**22 The Army has not publicly set out in detail the required dates for the different aspects of transformational change that are needed for Army 2020 to operate effectively.** For example, while the Army plan to achieve the full integration of reserves into the Army structure by 2020, they have not set out how progress towards this objective will be measured. This makes it difficult to measure progress towards full implementation. The Army has also not set clear trigger points for enacting any contingency plans in the event that recruitment, training and integration of reserves into the Army 2020 structure remains behind schedule (paragraph 2.6).

## **Conclusion on value for money**

**23** Army 2020 requires the Army to adopt a fundamentally different structure. Successful implementation of this structure requires a significant reduction in the size of the regular Army and is reliant on the recruitment, training and integration of a substantially increased number of Army reserves. We understand the importance of military judgement in making decisions on capability, but committing to moving towards an Army structure with fewer regular soldiers and an increased number of reserves within the planned timescale should have been subject to more rigorous testing of feasibility.

**24** Transition to the new structure comes with significant risks associated with key dependencies on other defence change programmes and successful recruitment, training and integration of the required numbers of reserves, which was well behind the original requirement set by the Army for 2013-14. If the reserve recruitment shortfall persists there is a risk of staffing gaps in some parts of the Army structure and increased pressure on regular units. There are significant risks to value for money which are currently not well understood by the Department or the Army.

## **Recommendations**

**25 The Department and the Army should continue to work together to assess the ongoing value for money of the Army 2020 programme.** The Army is focused on working within its reduced staffing budget. But the overall value for money of Army 2020 depends on the savings in other change programmes. If other programmes are delayed, or assumptions about future funding change, the Army will need to make informed decisions about value for money in adjusting Army 2020 milestones or objectives.

**26 Senior responsible owners of other Army change programmes, on which Army 2020 is dependent, should continue to work together through the Defence Major Programmes Portfolio to understand programme interdependencies and key milestones for delivery.** Without better understanding of these dependencies, and when risks may materialise, the Army 2020 programme board can have only limited assurance that mitigations are in place to address risks in dependent programmes. Without comprehensive data on the progress of these programmes, the board may focus on performance against high-profile targets and overlook areas where data are poor. The senior responsible owners for these interdependent programmes met to discuss key strategic dependencies in March 2014.

**27 The Department should reassess its targets for recruiting reserves.** The Army will soon have data for a full cohort of recruits passing through the recruitment and training system. The Department should use these data to see whether future reserve recruitment and trained strength targets will be met.

**28 The Army should seek to better understand the factors that are affecting recruitment performance.** There is a risk that too much focus on the issues with implementation of new recruitment software is distracting attention from understanding more fundamental problems with Army recruitment. The Army has identified reasons for poor recruitment beyond the issues with implementation of new recruitment software. It needs to better understand the relative effect of each of these factors, and how it can influence them, if it is to address them successfully.

**29 The Army should assess the impact of the incentives they are offering new recruits in an effort to increase recruitment rates.** The Army has developed a new package of financial incentives, designed to improve recruitment performance. The impact of these financial incentives should be assessed to allow them to be tailored and used effectively.

**30 The Department should closely monitor the effectiveness of the governance regime put in place to monitor Capita in developing a new 'environment' to host its recruitment application.** The Department needs to oversee Capita as it develops its new 'hosting environment' and recruitment software. The Department must ensure that the ICT Programme Board, established in May 2014, is effectively managing risks to further delays in the Recruiting Partnering Project operating as intended.

**31 The Army should develop contingency plans to be enacted if it fails to fully staff the Army 2020 structure.** If recruitment of regulars and reserves does not improve, the Army may need to take mitigating actions to ensure it has sufficient capability to deliver its objectives. The Army needs to establish what these actions will be and clear criteria for triggering them.