

# A Short Guide to the **Ministry of Defence**

July 2015



National Audit Office



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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 810 people. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.15 billion in 2014.

**This Short Guide summarises what the Ministry of Defence does, how much it costs, recent and planned changes and what to look out for across its main business areas and services.**

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## Snapshot of notable facts in the 2015 Short Guide



The Ministry of Defence (the Department) has largely balanced the historical funding gap between forecast expenditure and budget. It has achieved this through **better control of its Equipment Plan** and **headcount reductions**. Keeping the budget balanced is dependent on the areas listed below and right



The Department has introduced **major reform programmes** to address some of the reasons that led to a funding gap arising



The Department has made progress in stabilising the Equipment Plan. Through the 2010 Strategic Defence and Security Review (SDSR) the Department addressed some immediate causes of the funding gap by cancelling some equipment projects and taking equipment out of service earlier than originally planned. In addition, it controlled the flow of new projects entering the programme against capacity, and created a contingency fund to cushion the impact of short-term fluctuations. The Department's ten year Equipment Plan is valued at **£163 billion** based on current plans



The government is committed to an SDSR in 2015. The Department's budget is not protected and it is therefore exposed to wider government funding decisions during spending reviews. In June 2015, the Department announced its budget for 2015-16 would be reduced by £500 million to contribute to £4.5 billion of savings announced by the government



The Department has reduced its civilian staff by **32%** and its military staff by **19%** since 2010. It is restructuring its armed forces through Future Force 2020



The Department needs to make decisions on proceeding with investments in a large number of programmes. Major programmes include the Successor Submarines, Joint Strike Fighter aircraft and support to the aircraft carriers

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The Ministry of Defence is both a Department of State and a military headquarters, responsible for providing the military capability necessary to deliver the government's objectives and defining future military requirements. The principal activity of the Department is to deliver security for the people of the UK and the Overseas Territories by defending them, including against terrorism, and to act as a force for good by strengthening international peace and stability.

## Reforming the Department

In 2010, the Department announced that it had a **£38 billion** funding gap between funding and the forecast cost of Defence over the next ten years.

Since 2012, the Department has largely balanced the defence budget. In order to address some of the fundamental reasons why the funding gap arose, the Department launched a series of **programmes to reform defence**. The key changes focus on:

- **The size and structures of the armed forces**  
Future Force 2020 sets out the revised structures and size of the armed forces.
- **Accountability**  
The Department introduced a new operating model giving the Royal Navy, Army, RAF and Joint Forces Command greater accountability and control over budgets, equipment and staffing.

- **Equipment**

The Department has relaunched Defence, Equipment & Support (DE&S) as a bespoke trading entity to make the organisation more efficient and equipped with the skills to deliver the equipment required.

- **The Estate**

The Department is reforming the Defence Infrastructure Organisation (DIO) to improve its management of the Defence estate.

### The Department's 2014-15 priorities:

- to continue to bring stability to Afghanistan;
- to fulfil ongoing defence commitments at home and abroad;
- to be fully prepared to take on a wide range of other military operations, as they develop; and
- to continue the transformation of defence through the restructuring of the armed forces to create a simpler and more effective organisation at a lower cost to the taxpayer.

Source: Ministry of Defence

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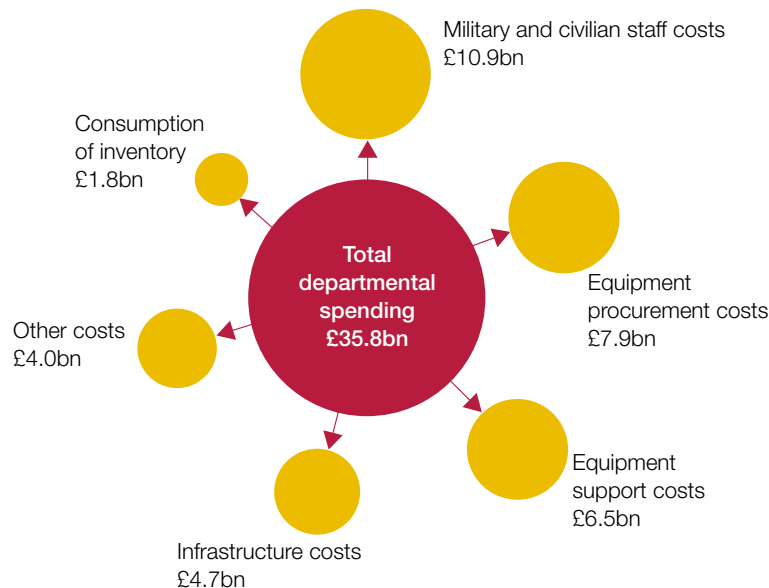
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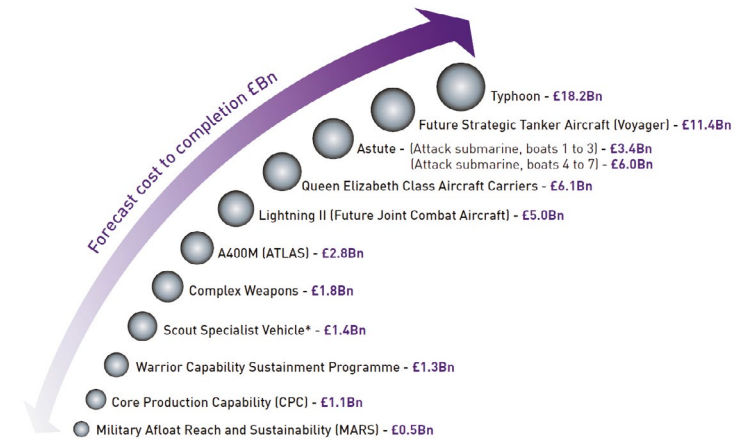
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In 2014-15, the Department spent **£35.8bn**. Military and civilian staff costs accounted for around 30% of the Department's expenditure. The cost of equipment accounted for 40% of the defence expenditure and was made up of **£7.9bn** of equipment procurement costs and **£6.5bn** of equipment support costs.

The cost of the ten year (2014–2024) Equipment Plan is **£162.9bn**, which included a contingency fund (£4.6bn) and an unallocated budget (£9.2bn). The figure on the right depicts the Department's largest equipment projects as published in the 2014 Major Project Report. The figure bottom right depicts the planned equipment support expenditure for the next ten years, as published in the Defence Equipment Plan 2014. The Department must make key decisions about the future equipment programme as part of SDSR 2015.

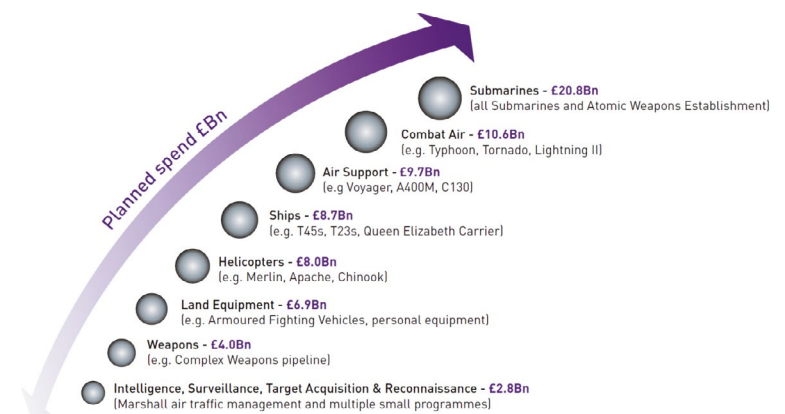


Largest equipment projects as published in the DE&S 2015–2018 Corporate Plan



\* Post MPR14, Scout passed its 2nd Main Gate approval, leading to the award of a £3.5bn manufacturing contract. Also post MPR14, a £1.5bn contract was awarded to deliver air traffic management services under Project Marshall.

10 year planned equipment support expenditure as set out in the DE&S 2015–2018 Corporate Plan



Key facts

As part of the 2010 Spending Review, the Department was required to make savings of 7.8% in real terms by the end of 2014 compared to its original budget for 2010-11.

About the Ministry of Defence

The figure shows actual outturn against planned outturn since 2010-11. Historically, the Department has had variable success in accurately forecasting expenditure. Since 2010-11, it has underspent against its forecast capital budget.

Ministry spending

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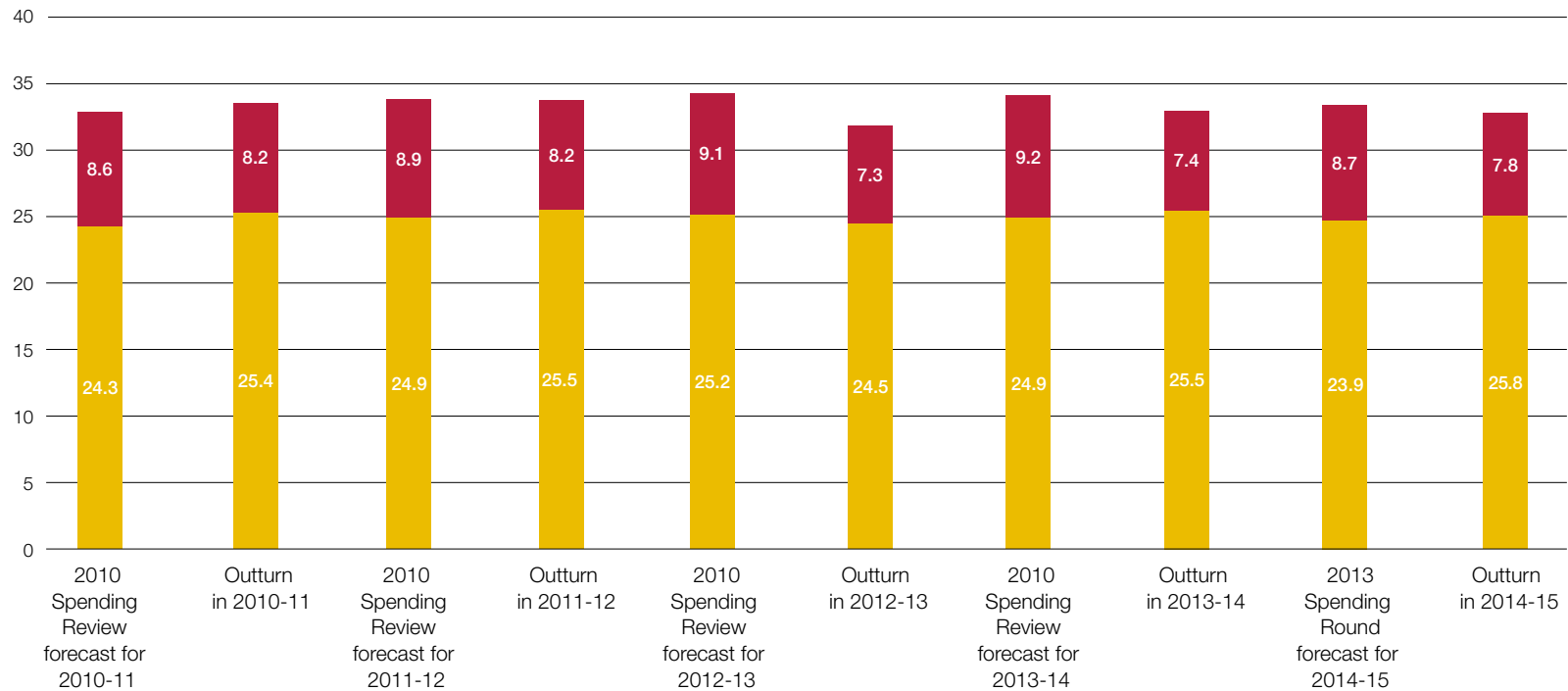
Headcount reductions



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Changes to the Department's budget

£ billion



 Capital Department Expenditure Limit  
 Resource Department Expenditure Limit

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### Improved financial management

Historically, the Department has struggled with the issue of poor financial management. Defence plans were unaffordable.

As part of the 2010 SDSR, the Department sought to address some of the immediate causes of the funding gap – through **headcount reductions** and **better control of the Equipment Plan** – achieved in part, by cancelling some equipment projects and taking equipment out of service earlier than planned.

On paper, the Department has now **closed the gap**, but this is dependent on delivering **£6 billion** in savings over the next ten years. In order to address some of the fundamental reasons why the funding gap arose, the Department launched a series of programmes to reform defence. Further details on the Department's financial management can be found in our report *Strategic financial management in the Ministry of Defence* which will publish in July 2015.

### Maintaining a balanced budget in the future

While the funding gap has been closed, the following **risks remain**:

- Alterations to the cost assumptions and anticipated savings underlying the budget. The NAO's Major Projects Report 2014 and Equipment Plan 2014–2024 highlighted that only a limited proportion of the anticipated savings have been achieved so far.
- The new government has committed to an SDSR in 2015. This and the planned government Spending Review may require the Department to significantly adjust its assumptions.
- The Department must make key decisions on its upcoming work programme as part of SDSR 2015 in order to keep the ten year Equipment Plan within budget.
- The Department must successfully embed and sustain the reforms it has put in place.

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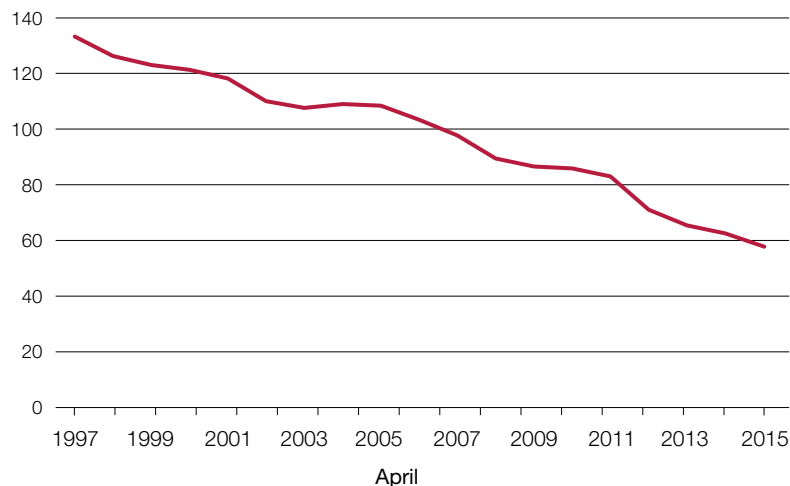
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The Department has managed to balance the budget partly through civilian and military staff reductions. Headcount has been steadily falling across the Department to meet mandated saving targets. Civilian headcount has fallen by 27,690 from 85,850 in 2010 to 58,160 as at 1 April 2015.

Future Force 2020 sets out the revised structures and size of the armed forces. All three Services have headcount targets to meet by 2015. Across the three Services, the headcount target for the end of 2014-15 was 150,700. As at 1 April 2015, the number of military staff (trained strength) was 144,120.

MoD civilian workforce

Number of full-time equivalent (000)



MoD armed forces numbers

	2012 1 Apr	2013 1 Apr	2014 1 Apr	2015 1 Apr
<b>All Services</b>				
Requirement <sup>1</sup>	174,840	162,940	159,640	150,700
Trained Strength	170,010	160,710	150,890	144,120
Surplus/Deficit	-4,830	-2,230	-8,750	-6,580
<b>Royal Navy/Royal Marines</b>				
Requirement <sup>1</sup>	34,800	30,530	30,340	30,290
Trained Strength	33,290	31,420	30,510	30,060
Surplus/Deficit	-1,510	890	160	-230
<b>Army</b>				
Requirement <sup>1</sup>	101,210	96,790	94,100	86,540
Trained Strength	98,600	93,940	87,180	82,230
Surplus/Deficit	-2,610	-2,850	-6,930	-4,300
<b>Royal Air Force</b>				
Requirement <sup>1</sup>	38,830	35,620	35,200	33,880
Trained Strength	38,120	35,350	33,210	31,830
Surplus/Deficit	-700	-270	-1,990	-2,050

Note

<sup>1</sup> Figures rounded to the nearest 10.

Source: Defence statistics (Tri-service)



Headcount reductions

# Army

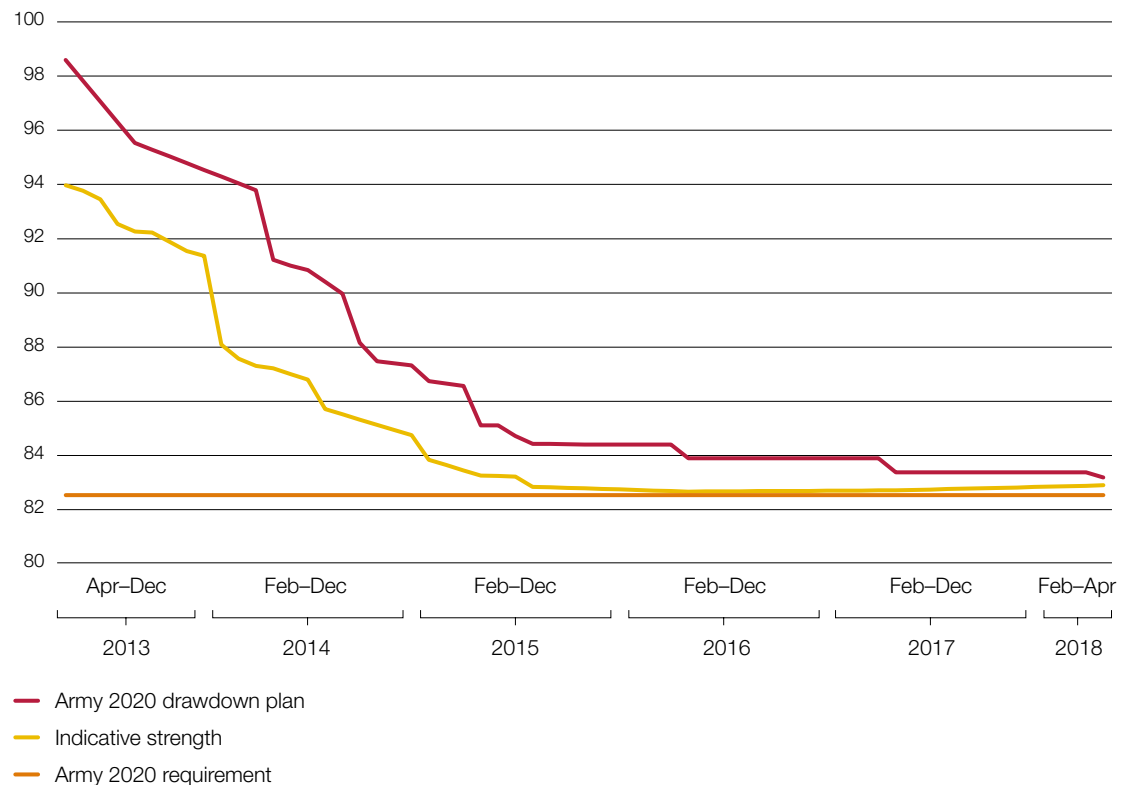
The Army has the largest headcount reduction target across the three Services. The chart on the right plots the Department's projected timeline for achieving the expected reductions. The yellow line shows that the number of trained soldiers (indicative strength) was reducing faster than the Army 2020 drawdown plan (red line). The Department considers the planned **20,000** reduction of soldiers will achieve savings of **£10.6 billion** over ten years to 2021-22. It forecasts that the four rounds of redundancy will cost **£320 million**.

Under Army 2020, the number of trained regular soldiers needs to be reduced by around **20,000**, from 102,000 in 2010 to 82,500 by 2019. Over the same period, the number of trained reserve soldiers needs to be increased by at least **11,000**, from 19,000 to 30,000.

There has been no significant growth in the overall trained strength of the Army reserve in the last two years. Given that Reserve recruitment targets increase substantially over the next five years, a significant change in performance is required if the Army 2020 structure is to be staffed in time.

The Army is ahead of target in its planned reduction of the Regular Army to 82,500 soldiers. However, recruitment of new regular soldiers was behind schedule in 2014-15. The Army recruited **7,350** regular soldiers against a target of **9,369** (a shortfall of **22%**).

Progress in reducing regular Army staffing (000)



Source: Comptroller and Auditor General, *Army 2020*, Session 2014-15, HC 263, National Audit Office, June 2014

## Headcount reductions

# Key findings from NAO reports

The risks and challenges below are highlighted in the NAO's report on Army 2020.

Key areas	Risks and challenges
Recruitment	Recruitment of both Regular soldiers and Reserves is below target. The Army has a recruitment contract with Capita which has been subject to a number of difficulties which have affected recruitment performance, including the MoD's failure to provide ICT infrastructure critical to the success of the project. This means poor recruitment performance cannot be distinguished from the impact of ICT failings.
Contingency plans	The Army has not publicly detailed what aspects of the transition to Army 2020 it needs to achieve, by when, for it to operate effectively. This makes it difficult to measure progress towards full implementation. The Army has also not set clear trigger points for enacting any contingency plans. For example, 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.
Integration of Regular and Reserve soldiers	Army 2020 seeks, for the first time, to integrate regulars and reserves fully within a single force structure. However, 53% of regular Army respondents (65% in 2014) to a 2015 MoD survey believe that regular and reserve forces are not well integrated.
Rebasing and drawdown from Germany	Army 2020 depends, in part, on ensuring all units return from Germany to the UK within agreed time frames. Delays in the Army's rebasing programme could increase costs – troops may have to remain in Germany longer than planned. This could impact on operational effectiveness if troops are separated from training locations and equipment.

Source: Comptroller and Auditor General, *Army 2020*, Session 2014-15, HC 263, National Audit Office, June 2014



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Headcount reductions

# Morale

## Civilian staff

The 2010 SDSR and subsequent headcount reductions had a visible impact on morale. Civilian staff in the Department routinely score lower than the wider civil service average on the Engagement Index (below), but there have been improvements since 2013.

### Attitudes of civilian staff in 2014 compared with 2013



### Engagement index 2014



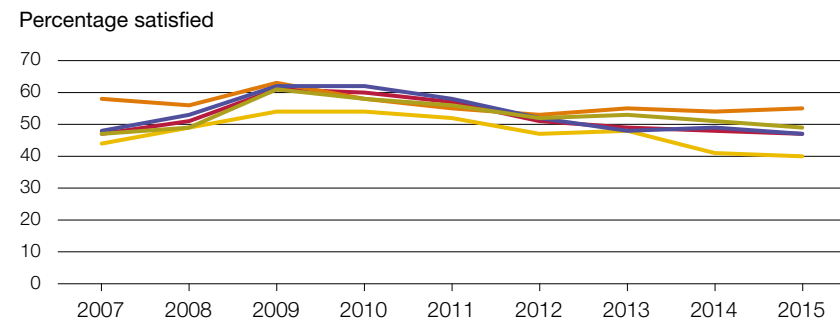
Sources: Civil Service People Survey 2013 and 2014

## Military staff

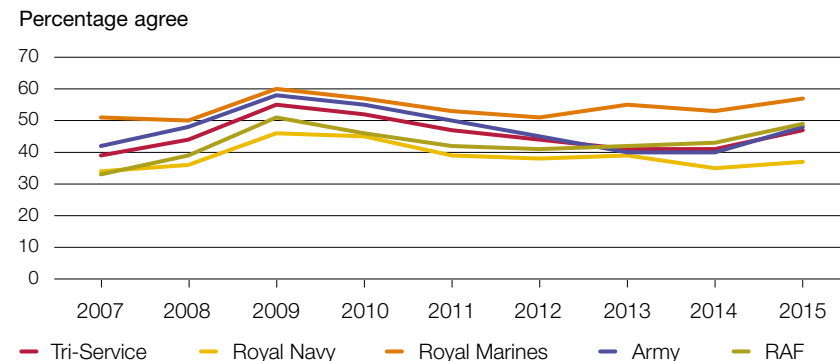
Around half (47%) of Service personnel are satisfied with Service life in general. The level of satisfaction has stabilised in the last two years, however it remains below that observed in previous years. The number of personnel stating that they are dissatisfied with Service life, however, has risen to 32%, up from 27% in 2014.

After a drop in agreement between 2009 and 2013, the proportion of personnel who would recommend others to join their Service has risen by 6% over the last two years to 47%. The Army has seen the largest rise in agreement since 2014 of eight percentage points (48%). Royal Marine agreement remains the highest of the Services (57%). Royal Navy remains the lowest at 37%, but has increased by 2% compared to 2014.

### Overall satisfaction



### Would recommend others to join the Services



Source: Armed Forces Continuous Attitude Survey, May 2015

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The Department's strategy for **improving its financial management** is delivering results, with considerable challenges still ahead. It has addressed the £38 billion equipment funding gap.



While the Department has made progress reducing its costs and stabilising its budget, **risks remain**.



Ensuring that the Department continues to stay within its budget requires reform of Defence to be successful. Many of the Department's changes are still to embed, and as such are **not yet fully tested**.



Over the next few years, the Department must **make key decisions about future equipment**.

There is increasing dominance within the Equipment Plan of a small number of large, complex, and politically important programmes, including the future strategic deterrent (Successor), the introduction of Joint Strike Fighter aircraft, and decisions around support to the aircraft carriers. The scale of some of these projects, and the assumptions that underpin the future costings, have the potential to destabilise the budget.

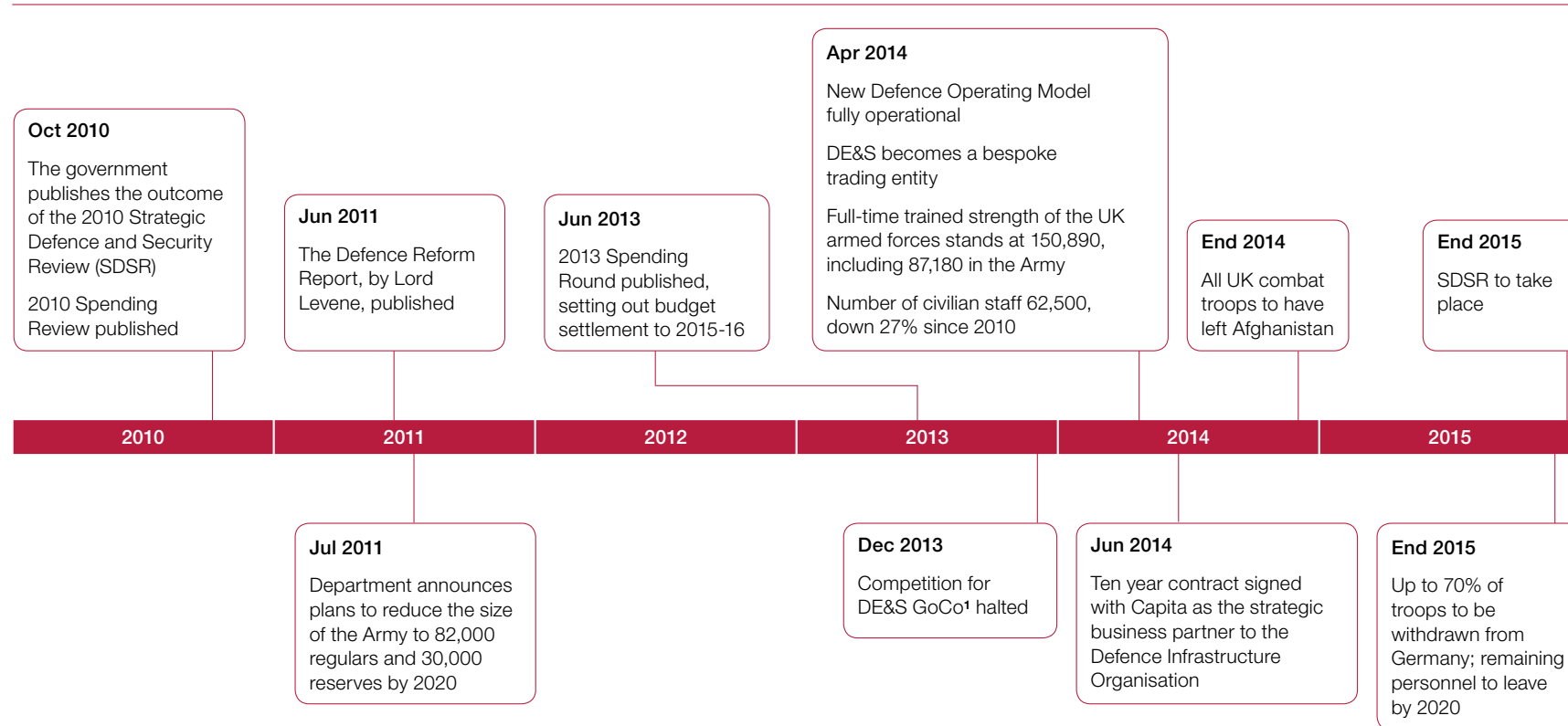


The new government has committed to an **SDSR in 2015. There will also be a Spending Review**.

Both of these may have a significant impact on the future direction of defence.

Major programmes and developments to reform Defence

# Major developments since 2010



**Note**

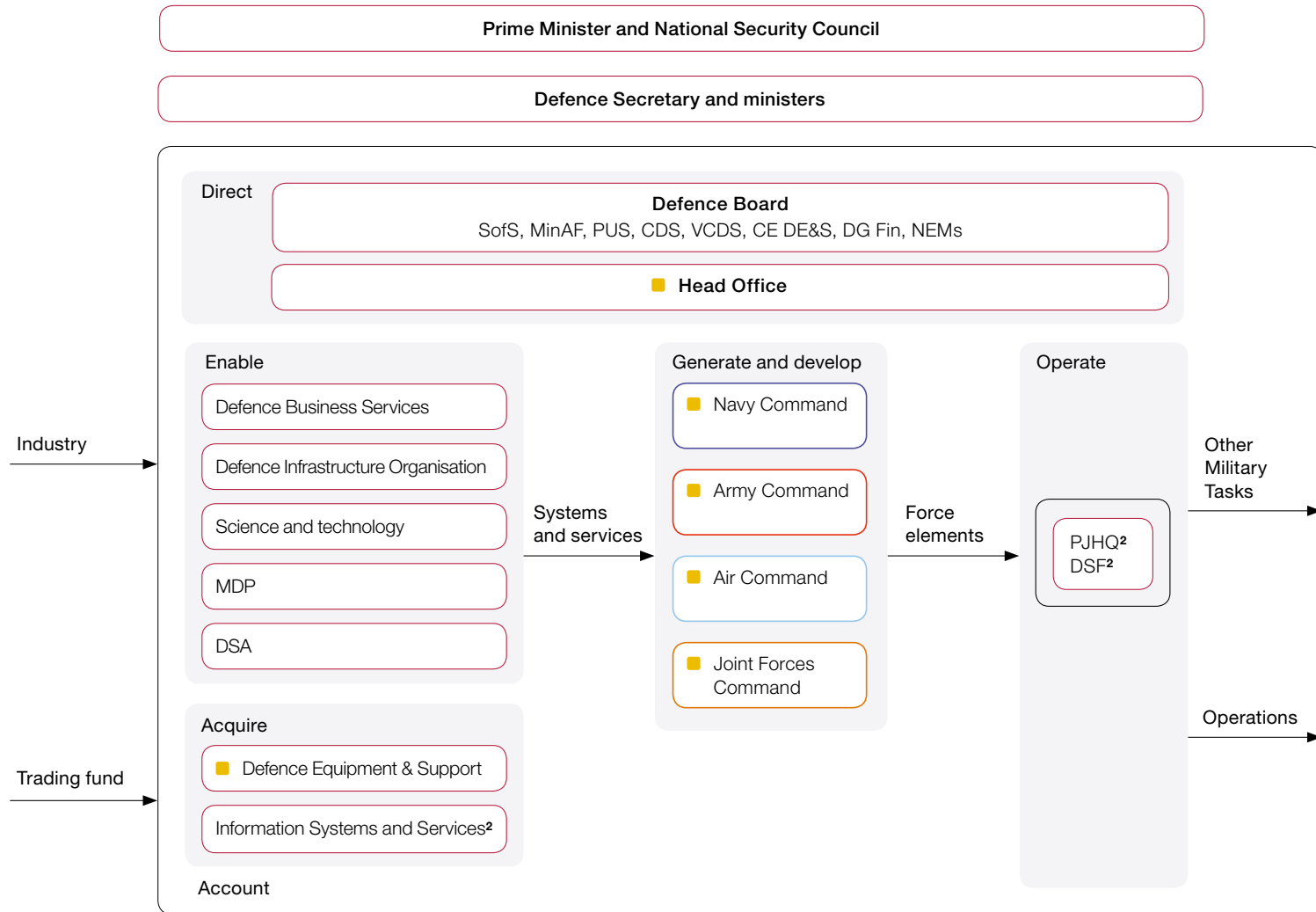
1 'Government-owned, Contractor-operated organisation'. An organisation providing equipment and or services to government but outside the government boundary; ring-fenced as a private sector entity.

New Operating Model

# Overview

## The Defence Operating Model and key elements of the Acquisition System

The Department introduced a new operating model which became fully operational in April 2014. The key changes are that the Head Office has a more strategic role, and the four line Commands (Royal Navy, Army, RAF and Joint Forces Command) assume accountability for delivering agreed outcomes within a delegated budget, with greater freedom to make choices about the best balance of manpower, training, equipment and support.



■ Acquisition System

**Note**

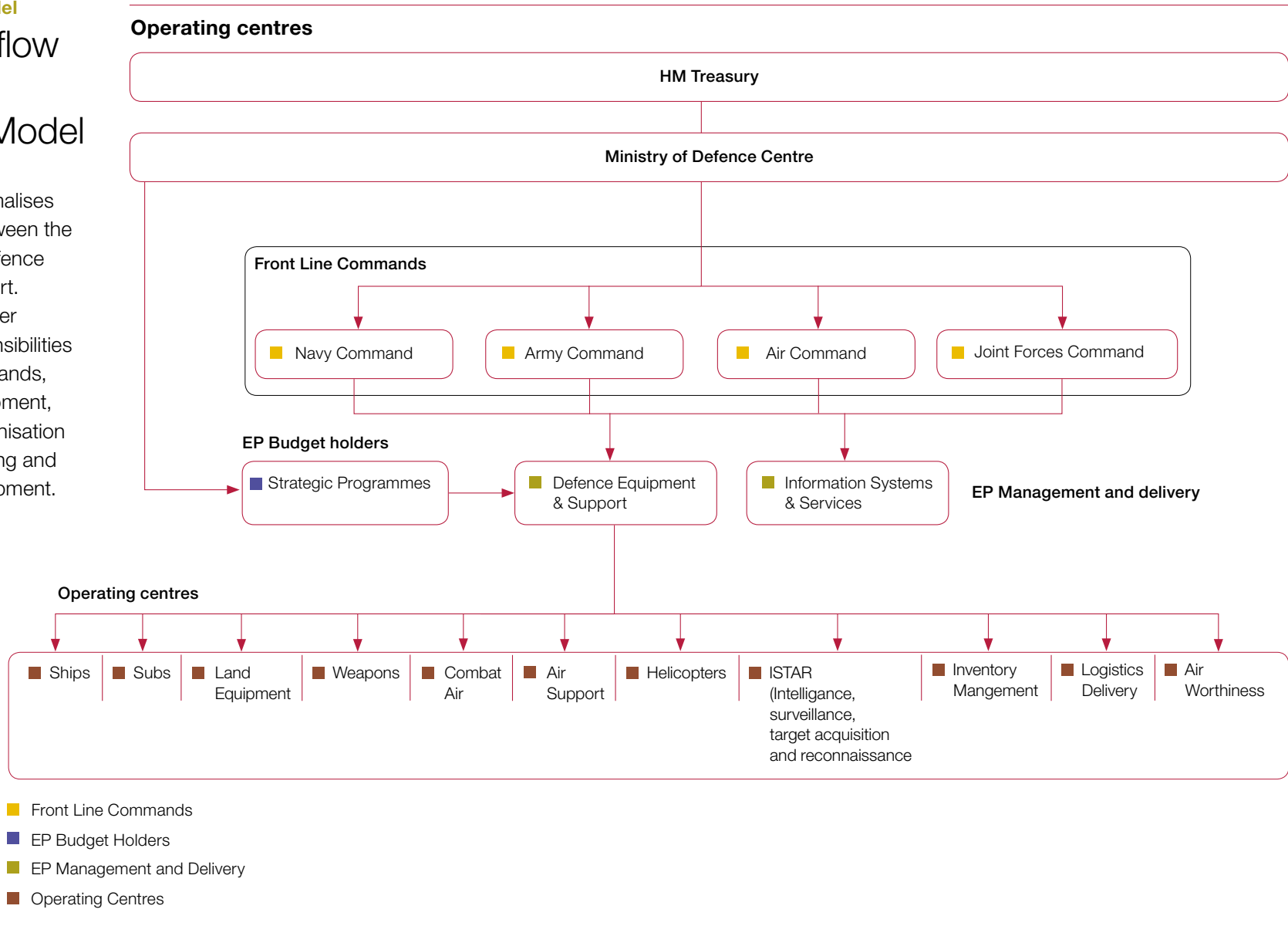
1 SofS = Secretary of State; MinAF = Minister for the Armed Forces; PUS = Permanent Under Secretary; CDS = Chief of Defence Staff; VCDS = Vice Chief of the Defence Staff; CE DE&S = Chief Executive of Defence Equipment and Support and Chief of Defence Materiel; DG Fin = Director-General Finance; NEMs = Non-Executive Members; MDP = MoD Police; MAA = Military Aviation Authority; DSA = Defence Safety Authority; PJHQ = Permanent Joint Headquarters; DSF = Directorate of Special Forces.

2 Within Joint Forces Command.

# New Operating Model

## Budgetary flow in the New Operating Model

The new model formalises the relationship between the Commands and Defence Equipment & Support. There is now a clearer separation of responsibilities between the Commands, which request equipment, and DE&S, the organisation responsible for buying and supporting the equipment.



## Defence, Equipment & Support

# Overview



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## What does it do

DE&S procures and supports a range of military equipment for the UK's armed forces. DE&S will deliver an Equipment Programme spend of some **£163 billion** over a 10-year period.

## Why reform was needed

It was estimated **£1.5 billion** was lost annually because of three systemic issues:

- to offset cost overruns in the equipment programme, major projects were routinely delayed. The Department's short-term savings decisions often increased overall costs. Equipment programmes on average overran by 80% with cost increases of 40%;
- the Department struggled to make strategic investment decisions because of blurred roles and accountabilities between head office, the Commands and DE&S; and
- DE&S lacked the skills and management freedoms to maximise the value of funds allocated to buying equipment and to manage projects through their life.

Reform was therefore needed to improve the capabilities and skills of DE&S staff, the systems and tools available within the organisation and the way DE&S interacts with the front line Commands (Royal Navy, Army, RAF, Joint Forces Command) and Strategic Programmes.

## Choice of operating model

The Department's preferred option to make DE&S more cost-effective was through a government-owned, contractor-operated (GoCo) model – a company where the government controls the assets, but that would be operated on a for-profit basis by a private company. However, this model proved undeliverable when the commercial competition resulted in only one bidder submitting a proposal. The resulting lack of commercial tension and associated risks were deemed too great and unlikely to provide value for money. The GoCo competition was halted in 2013, by which point the Department had spent **£33 million** and two and a half years trying to implement reform at DE&S. Although the GoCo option was halted the Department gained a better insight into its business needs within the context of an affordable equipment programme and has achieved significant freedoms in how it recruits and remunerates its staff.

DE&S was relaunched as a bespoke trading entity on 1 April 2014. It is an arm's-length body, remaining in the public sector but with significant management freedoms around how it manages its business, and an addition of private sector support, through contracts for Managed Service Providers (MSPs). The Department is investing around a quarter of a billion pounds with MSPs over the next 3–4 years. With its headquarters in Bristol, DE&S employs around **12,300** civilian and military staff throughout the UK and overseas.



## Defence, Equipment and Support

# What are the things to look out for?



### Key Events

### Risks and challenges for DE&S

Choice of operating model

To assess whether the new structure improves DE&S's performance, the Department will need to set robust measures of success. Being able to track the benefits of investment in private-sector expertise will be essential to allow DE&S to take any additional measures to improve performance, should it be necessary.

The Department is not currently planning to retest the government-owned contractor operated proposition as it previously stated, however it may decide to do so in future.

Commands budgetary ownership

Responsibility for managing budgets has been delegated to the Commands, who continue to build their capabilities at varying paces. In general, there are weaknesses in the processes by which budget holders are held to account in line with these delegations. Processes by which Commands hold DE&S to account for performance are not yet fully developed.

There a risk that if Commands can't manage budgets, Head Office may take control and due to limited budget headroom, could strip/move budgets from one Command to another.

People, capability and skills shortages

Skill shortages exist within both the acquisition and wider defence environment. Improving the skills and capabilities of its staff is a key focus of the reform of DE&S.

DE&S reduced permanent staff numbers by nearly half between 2007 and 2014 to try to reduce operating costs. Potential savings, however, have been offset by employing contractors who, on average, cost between three and four times more than permanent DE&S staff. In 2013-14, we estimate that contractors' costs comprised 37% of overall operating costs.

Contracting through managed service providers (MSPs)

DE&S is placing great reliance on MSPs to secure improvements in project delivery, human resources, management information systems and information technology. In return, DE&S expects to pay around a quarter of a billion pounds over three and a half years for this business support. DE&S has agreed contracts with the MSPs whereby part of their fees are, in principle, linked to milestones and a set of metrics, but has not yet established these metrics and a baseline to track progress.

## Defence Infrastructure Organisation

# Overview

The Defence Infrastructure Organisation (DIO) plays a vital role in supporting defence staff. It is responsible for the acquisition, disposal, allocation, construction and maintenance of defence infrastructure in the UK and overseas. In June 2014, the MOD appointed Capita as DIO's strategic business partner to help it achieve annual savings of up to £300 million over ten years.

The MoD owns a diverse estate measuring nearly **230,000 hectares** and holds the rights to a further **222,000 hectares** of land. This equates to approximately 1% of the UK landmass.

- **Rural Estate – 380,000 hectares**

This provides various facilities for training such as driving military vehicles, infantry manoeuvres and areas for artillery firing.

- **Built Estate – 75,000 hectares**

This comprises naval bases, barracks, airfields and Defence facilities in the UK and overseas. The built estate contains 815 listed buildings and over 700 scheduled monuments.

At 31 March 2015, the Department's estate related assets were valued at **£31 billion**.

Since 1998-99, DIO has disposed of land and facilities surplus to requirements to the value of **£1.46 billion**.

The Army Basing Programme plans to return **50%** of the British Army from Germany by 2015 and the remainder by 2020, which is planned to save the Department an annual figure of up to **£240 million** per annum.

The DIO has implemented a new operating model. This includes: a new organisational design; a new IT system; fewer and more standardised business processes; and new ways of working, including putting in place a range of prime contracts and capital works frameworks to deliver the 'Next Generation Estate Contracts (NGEC) programme'. DIO is also rolling out an Infrastructure Management System (IMS) during 2014-15 and 2015-16.

The future suite of DIO contracts is estimated to be worth between **£500 million** to **£600 million** per year, and more than **£5 billion** over ten years.

## Defence Infrastructure Organisation

# What are the things to look out for?

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### Key areas

### Risks and Challenges

Strategic business partner

Following a competition for a Strategic Business Partner (SBP) to bring in private sector expertise to facilitate better planning and delivery of the strategy, Capita was awarded the contract and began its role as the Executive Management team of DIO in September 2014.

Managing the Defence estate

In 2010, the NAO carried out a review of the Defence estate concluding not only that substantial further reductions in cost should be sought but also that a more robust and systematic approach to estate rationalisation was required. One of Capita's key deliverables is the development of the Footprint Strategy defining the future locations of MoD sites, identifying the essential elements and those surplus to requirements. DIO has implemented an Infrastructure Management System (IMS) which provides data to manage the estate. While DIO has started to benefit from having information on the IMS, progress is needed to further improve the data to enable it to be used to better manage the Defence estate.

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# Appendix One

## Sponsored bodies

### Executive agency

[Defence Electronics and Components Agency](#)

[Defence Science and Technology Laboratory](#)

[UK Hydrographic Office](#)

### Executive non-departmental public body

[National Army Museum](#)

[National Museum of the Royal Navy](#)

[Royal Air Force Museum](#)

[Single Source Regulations Office](#)

### Advisory non-departmental public body

[Advisory Committee on Conscientious Objectors](#)

[Armed Forces' Pay Review Body](#)

[Defence Nuclear Safety Committee](#)

[Defence Scientific Advisory Council](#)

[Independent Medical Expert Group](#)

[National Employer Advisory Board](#)

[Nuclear Research Advisory Council](#)

[Review Board for Government Contracts](#)

[Scientific Advisory Committee on the Medical Implications of Less-Lethal Weapons](#)

[Veterans Advisory and Pensions Committees](#)

### Public corporation

[The Oil and Pipelines Agency](#)

### Other

[Advisory Group on Military Medicine](#)

[Defence Academy of the United Kingdom](#)

[Defence Sixth Form College](#)

[Defence, Press and Broadcasting Advisory Committee](#)

[Fleet Air Arm Museum](#)

[Reserve Forces' and Cadets' Associations](#)

[Royal Marines Museum](#)

[Royal Navy Submarine Museum](#)

[Service Complaints Commissioner](#)

[Service Prosecuting Authority](#)

[United Kingdom Reserve Forces Association](#)