



National Audit Office

Report

by the Comptroller
and Auditor General

Ministry of Defence

Ensuring sufficient skilled military personnel

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

13 April 2018

This report examined the Ministry of Defence's approach to developing the capability of its regular forces, and how it is adapting to meet new challenges created by the changing character of warfare.

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Key facts

8,200

shortfall in the number of military personnel (full-time trained regulars) as at January 2018 – 5.7% below the requirement

102

number of trades where the Ministry of Defence has insufficient numbers of skilled personnel to maintain defence tasks without placing additional demands on regulars

94%

proportion of trades where the Ministry of Defence does not expect to resolve shortfalls in personnel in the next five years

Shortfalls in critical trades:

- 18%** proportion of regulars below the required number in the 102 trades with shortfalls
- 22** number of trades in which shortfalls in skilled personnel would have a detrimental impact on operations if additional demands were not regularly placed on regulars

Recruitment and retention difficulties:

- 5.6%** aggregate level of regulars leaving voluntarily in the 12 months to 31 December 2017, with much higher rates in some specific trades
- 24%** shortfall in the number of regulars recruited in 2016-17, compared with the Commands' (the Navy, Army and RAF) annual targets

The Ministry of Defence's workforce initiatives:

- £664 million** amount spent on recruitment and retention incentives in the last five years
- 19** number of new workforce projects introduced since 2010 that aim to improve the Armed Forces' terms and conditions
- 42%** proportion of regulars who stated they were "satisfied with service life" in the 2017 Armed Forces attitude survey, down from 60% in 2010

The future:

- Summer 2018** date when the Ministry of Defence will publish the capability review – the Modernising Defence Programme – setting out the new capabilities required to address the threats facing the UK

Summary

1 The Armed Forces need sufficient skilled personnel to meet the government's objectives for the Ministry of Defence (the Department), which were set out most recently in the 2015 *Strategic Defence and Security Review* (the Review). The Review required the Department to maintain a target number of regulars in the Army and make small increases in the size of the Navy and Royal Air Force (RAF). This commitment, together with a proposed £24 billion investment in new equipment, represented a significant change in direction. Previous Defence reviews had scaled back capabilities and reduced the size of the Armed Forces.¹

2 As at January 2018, the Armed Forces had 137,300 trained regulars. This was 8,200 (5.7%) below their requirement – the largest gap in recent years.² More significantly, the aggregate figures mask much larger shortfalls in the number of regulars with critical skills, such as engineers, pilots and intelligence analysts.

3 In 2016-17, the Department spent £9.6 billion of its defence budget on military personnel (27%). It forecasts this will rise to £10.3 billion by 2020-21. At the same time, the Department faces significant financial pressures; for example, it needs to find savings of at least £8.1 billion on its Equipment Plan by 2027 and has a minimum shortfall of £8.5 billion over the next 30 years on the defence estate. It therefore faces a significant challenge in developing the skilled personnel it needs to meet the future ambitions for the Armed Forces and exploit its investment in new equipment.

4 The Department has described “a more dangerous world” in which the threats to the UK are evolving rapidly. The Armed Forces were involved in 25 operations worldwide in 2016-17, with the RAF undertaking more missions than it has for 25 years. The Department is now considering the capabilities and skills needed within the Armed Forces to meet the new threats.³ These changes are likely to mean that the Department will increasingly face the challenge of competing for more specialist technical and digital skills in competitive recruitment markets. Without a flexible and effective approach to developing skills, the shortfalls could affect the Department's ability to undertake future missions. They could also place a greater strain on existing personnel, potentially making them less willing to remain in the Armed Forces.

1 The 2010 Strategic Defence and Security Review announced plans to reduce the size of the Armed Forces by 17,000 and to scale-back capabilities, such as the number of Challenger tanks, to tackle an unfunded liability of £38 billion over the next 10 years.

2 Full-time trained strength (Navy and RAF) and full-time trade trained strength (Army). The gap is measured as the proportion of regulars below the target number.

3 The Department has announced a Modernising Defence Programme and plans to report in summer 2018.

5 We have reviewed whether the Department has an effective approach to developing the capability of its regular forces, and how it is adapting to meet the new challenges.⁴ We have not reviewed the approach for civilians, reserves or contractors, which are the other elements of the Defence workforce. Our report focuses on the effectiveness of the Department's current workforce management framework and its strategic approach to developing capability. We assessed the Department's:

- approach to establishing the requirements for its regular forces (Part One);
- understanding of its capability gaps (Part Two);
- current approach to developing the capability it needs (Part Three); and
- initiatives to reform the way it manages its workforce (Part Four).

Our audit approach is in Appendix One and evidence base is in Appendix Two.

6 The Department's Head Office is responsible for establishing a framework of personnel policies and processes. The Navy, Army and RAF (the Commands) work within this framework and are responsible for recruiting, training and managing the regular forces. Ultimately, the permanent secretary, as accounting officer, is responsible for the Department's use of resources and holds the Commands to account for completing their agreed defence tasks.

Key findings

Establishing personnel requirements

7 **The Department's 2015 headcount targets were not primarily based on a detailed assessment of the skills needed to deliver defence tasks.** The 2015 *Strategic Defence and Security Review* set headcount targets to maintain the size of the Army (at 82,000) and increase the number of regulars in the Navy (by 400 to 30,450) and RAF (by 300 to 31,750) in anticipation of new equipment and future military deployments. These targets were based on negotiations within government, which considered its ambition for the Armed Forces, assessments of future threats and the available budget. The Commands were then required to identify and develop the skills needed to meet the commitments specified in the Review (paragraphs 1.3 to 1.7).

8 **The Department is not on track to meet its workforce targets.** In January 2018, the number of regulars was 5.7% below the requirement. The Department does not expect to meet its target of 144,200 trained regulars by 2020. Its recently announced review – the Modernising Defence Programme – will reconsider the appropriate strength of the future Armed Forces. The Commands also have targets to increase diversity in the regulars and reserves that they recruit. However, the Navy and Army were well below the target that 15% of their intake will be female by 2020, and the Navy and RAF were well below the target that 10% of intake will be from Black, Asian and Minority Ethnic communities (paragraphs 1.8 to 1.11).

4 The Armed Forces are made up of regulars and reserves, as well as civilians and external contractors.

Understanding existing skill gaps

9 The Armed Forces currently have significant shortfalls in critical skills.

The overall headcount figures mask much larger shortfalls in critical trades, including pilots, engineers and intelligence analysts. Between 2010 and 2015, the Department implemented a redundancy programme based on an assessment of affordability and future capabilities. As a result, it released 12,130 trained regulars, including 6,120 from engineering, logistics and aircrew trades – specialisms that now have shortfalls. The Department monitors the shortfalls in specific trades. In April 2017, it identified that 102 trades did not have enough trained regulars to perform operational tasks without taking mitigating actions. These are known as ‘pinch-point’ trades. These trades had a shortfall of 7,700 regulars – 18% below the required number. The size of shortfalls in pinch-point trades has grown over the last year (paragraphs 2.2 to 2.5 and 2.12).

10 The Department understands the scale of existing shortfalls but needs to conduct a deeper analysis of the causes of shortfalls in pinch-point trades.

The Commands have identified the trades and ranks in which there are shortfalls in the number of regulars. They also understand the main reasons why some people leave the Armed Forces and others stay. The level of voluntary outflow in some pinch-point trades is, however, several times higher than the Armed Forces’ average. The Department has not fully analysed data, such as its annual survey of regulars and exit interviews, to understand whether there are specific factors causing higher levels of departures in pinch-point trades. The Commands monitor data on personnel, such as compliance with harmony guidelines. But a deeper analysis of pinch-point trades would enable the Department to better understand where shortfalls are likely to increase and create risks to the completion of future defence tasks (paragraphs 2.10 to 2.14).

11 The changing character of warfare means the Department faces an immediate and growing challenge to develop the skills it will need in the future.

The threats faced by the UK are constantly evolving. For example, the increasing risk of cyber and electronic attacks will change the capabilities – and skills – that the Armed Forces will need in the future. The new demands will add to the pressure to increase capability in some trades that already have shortfalls. For example, as at April 2017, the Department had 11 ‘pinch-points’ in intelligence analyst trades and a 26% shortfall in the required number of regulars. The Department is seeking to increase the number of regulars with specialist skills or be able to access these skills from the other elements of its workforce. For example, it is growing its cyber capability. However, the Department has not yet identified how it will meet all of its future skill requirements for which, increasingly, it will have to compete with the private sector for scarce, specialist skills (paragraphs 2.5, 2.8 to 2.9 and 3.7).

12 The Department has assessed that shortfalls in 22 trades mean that Commands are regularly having to place additional demands on regulars to maintain operations. The Commands have managed the consequences of shortfalls by prioritising ‘front-line’ activities and continually reassessing the impact of shortfalls on the delivery of their tasks. However, having insufficient skilled personnel puts the delivery of future defence tasks at risk. In 11 of these pinch-point trades, Commands had to routinely place greater demands on regulars – such as cancelling leave or training – to maintain operations. In addition, the Department has 33 pinch-points that are regularly having a detrimental impact on the sustainability of the trade. These shortfalls in particular skills have persisted at a time when relatively low numbers of personnel have been deployed.⁵ This means the Department could face greater risks if military commitments increase (paragraphs 2.15 to 2.18).

The Department’s current approach to developing workforce capability

13 The Department has not established effective authority to undertake a strategic assessment of future workforce capability. Under the Department’s delegated operating model, the Chief of Defence People (CDP) has authority for personnel across the Armed Forces. However, the CDP is not able to direct the Commands or tackle recruitment or capability issues that require a cross-Command, longer-term or structural response. Similarly, the Department has appointed ‘skills champions’ for some critical trades but, at most, they perform an ‘advocacy’ role and do not have the authority to develop a targeted response for these trades. As part of its Modernising Defence Programme review, the Department is reconsidering the responsibilities of the CDP (paragraphs 3.2 to 3.6).

14 Head Office has not undertaken a longer-term, strategic analysis of the trades with shortfalls or its ability to meet the changing demands for new skills. It has not assessed whether its existing workforce management policies enable it to develop the capabilities that are needed in trades where the demand for new skills is growing, or where shortfalls have endured. It has not systematically assessed, for example, whether its recruitment policies, career structures and remuneration package enable it to attract and develop the new skills that it will need in the future (paragraph 3.7).

15 Under the delegated model, Head Office does not know how Commands have used workforce budgets. In particular:

- The continuing shortfall in the number of regulars has meant that Commands have been able to reallocate some of their workforce funding to other areas, such as equipment maintenance. Head Office is aware that Commands have not spent all of their workforce funding in 2017-18 but does not know how they have reallocated these funds or whether they are deprioritising skill development in order to achieve other tasks. The Department forecasts that, in 2017-18, the Commands did not use £261 million of funding allocated for personnel.

5 Deployments fell from 231,880 in 2011-12 to 56,900 in 2016-17.

- Head Office could not establish whether the Commands have maintained levels of discretionary expenditure on training and marketing. This is despite evidence that reductions in discretionary marketing activities in 2016-17 had an adverse affect on recruitment and the closure of shortfalls (paragraphs 3.8 to 3.12).

16 The Department's reliance on the 'base-fed' workforce model has not enabled it to close the capability gaps quickly enough. The Department has relied primarily on a 'base-fed' workforce model, in which the Navy, Army and RAF recruit regulars at the lowest ranks and develop their skills and experience over time. The Commands have missed recruitment targets for the last three years. Recruitment was an aggregate of 24% below target in 2016-17. The Commands were also 23% below their target for training new regulars and, with high levels of regulars leaving voluntarily, are unable to fill shortfalls across several ranks and posts. The Commands can also take many years to develop the expertise they require; for example, it can take the Navy 12 years to train and develop a chief petty officer. This limits their ability to respond quickly to changing demands for skills (paragraphs 3.13 to 3.15).

17 The Department does not expect to resolve shortfalls in 96 of 102 pinch-point trades in the next five years. The Department expects to reduce the impact of shortfalls in 35 pinch-point trades over the next five years. However, at the same time, the impact will worsen in 23 trades. The Department has used financial incentives to try to address the shortfalls, paying £664 million in recruitment and retention incentives over the last five years. Its research shows that these payments have helped retain personnel in some key areas, but the shortfalls persist. In addition, the Commands have adapted the Department's standard workforce management practices to improve recruitment, training and retention. Their initiatives have included altering entry criteria, streamlining training requirements and accelerated progression. Many of these changes are, though, at an early stage and small-scale. Head Office has not done enough to review how the Commands' initiatives are helping to address the shortfalls (paragraphs 2.16, 3.16 to 3.21).

The Department's workforce change programme

18 The Department is implementing a substantial workforce change programme, although this has not yet improved recruitment or retention.

Since 2010, the Department has introduced a series of changes to its workforce policies. These are designed to improve recruitment and retention, and make regulars' terms and conditions more attractive. For example, the new pay model enabled the Department to better reward people for their skills. However, some of the changes will not affect many people and two projects may have a negative effect on morale, including higher accommodation charges for regulars living in service family accommodation. The programme's aim was to improve retention but, so far, the level of voluntary outflow has increased from 3.8% in March 2010 to 5.6% in December 2017. The Department's annual attitude surveys also show that satisfaction with pay, accommodation and life in the services has fallen (paragraphs 4.3 to 4.10).

19 The Department is developing a long-term response to workforce capability but has not yet developed its skills strategy. The Department engages widely across government, industry and schools to generate interest in joining the Armed Forces. For example, it is establishing collaborative arrangements with its commercial suppliers to share qualified personnel, strengthening the cadet forces and committing to the government's apprenticeship programme. It is, however, likely to be many years before the benefits of these initiatives are seen. In May 2018, the Department's People Committee will review Head Office's early plans to develop a skills strategy (paragraphs 4.13 to 4.14).

Conclusion on value for money

20 The Armed Forces have significant skill shortfalls in many critical areas. The Commands have responded to these shortfalls by prioritising essential defence tasks, but the reliance on placing increasing demands on regulars is not sustainable in the long-term. The Department also faces the growing challenge of responding quickly to changes in how warfare is conducted. This will increasingly require new specialist technical and digital skills, and will bring it into greater competition with the private sector.

21 Head Office and the Commands are implementing a range of measures to address recruitment and retention problems. Despite these efforts, the Department does not expect to resolve the majority of the shortfalls in the next five years. In view of this, the Department must: fundamentally reassess how to fill its skills gaps; exploit its existing innovative initiatives more widely; and adapt its long-established approaches to managing the development of workforce capabilities to deliver the required skills. Unless it does this, the Department will not have the personnel it needs to respond rapidly to changing demands and make effective use of new equipment, with attendant damage to value for money.

Recommendations

22 The Department needs to reassess its approach to workforce management so that it can respond to future recruitment and retention challenges and, ultimately, develop a workforce capable of meeting the changing demands of modern warfare. We recommend:

- a** After publication of the Modernising Defence Programme in summer 2018, Head Office should work quickly to develop workforce strategies for critical trades. In doing so, it should test whether its recruitment requirements, career structures, remuneration packages and role designations enable it to compete effectively in employment markets for the specialist skills it requires.

- b** The Department should ensure that the Chief of Defence People (CDP) has the authority needed to ensure there is a targeted and sustained emphasis on reducing shortfalls and developing the skills needed in the longer-term. Drawing on input from Heads of Professions and skills champions, the CDP needs to be able to focus on new and changing skill requirements and to direct the Commands to target long-standing capability shortfalls and improve diversity.
- c** Head Office should conduct a review to understand the impact of financial pressures on how the Commands develop the workforce capability needed in the longer-term. It should collect more detailed information to better understand Commands' workforce expenditure. This would enable it to review the incentives created by the budget allocation process and ensure Commands are maintaining an appropriate emphasis on workforce skill development.
- d** Head Office should systematically review its management information to build a deeper understanding of the causes of capability shortfalls for the pinch-point trades and monitor the strain placed on personnel.
- e** Head Office should assess the potential to expand the more innovative approaches to alleviating shortfalls in pinch-point trades. For example, it should assess the potential to: widen the use of direct recruitment into more senior roles (lateral recruitment); increase flexibility to move personnel between Commands; assess whether military posts could be re-designated to be filled by civilians or reserves; and work more closely with other government departments and national security organisations.
- f** Head Office should improve its assessment of how workforce management initiatives are impacting on its 'offer' to regulars. It should establish a clear baseline and metrics to understand the impact of the changes in the Armed Forces People Programme. It should then regularly review its evidence base to better understand the cumulative effect of these changes.