



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Ministry of Defence**

# Reforming the civilian workforce

## Key facts

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**27,700**

a 32% reduction in the number of civilian personnel between 2010 and 2015, against a target reduction of 25,000 by 2015

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**1,100**

a 2% reduction in the number of civilian personnel between 2015 and 2018, against a target reduction of 17,000 by 2020

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**£87m**

the increase in civilian staff costs between 2015-16 and 2017-18

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**57,100**

number of civilian staff employed by the Ministry of Defence (the Department) in October 2018

**£2.5 billion**

Department's spending on its civilian workforce in 2017-18, 20% of its spending on personnel and 7% of its annual budget

**76,100**

drop in civilian staff since 1995, from 133,200 to 57,100

**220**

increase in the number of civilian staff between October 2017 and October 2018

**1,650**

staff shortfall in 12 key civilian trades in October 2018, 17% below the requirement

**£3 billion**

Department's initial estimate of potential annual savings by 2028 from its new transformation programmes

# Summary

**1** The Ministry of Defence (the Department) is under continuing pressure to develop the capabilities it needs to meet its current and future defence objectives while demonstrating that it is using resources efficiently and effectively. The Department is also adapting its whole workforce to respond to changing demands, driven by the evolving nature of warfare; for example, it is developing specialist capabilities in areas such as cyber skills and artificial intelligence. At the same time, it continues to face significant financial pressures, as illustrated by its need to make savings of £13.4 billion on its Equipment Plan over the next 10 years.

**2** The Department's workforce consists of a mix of military personnel (regulars and reserves), civilian personnel and contractors.<sup>1</sup> In October 2018, it employed 192,100 military personnel and 57,100 civilians. In 2017-18, the Department spent £2.5 billion on its civilian workforce. This amounted to 20% of its expenditure on personnel and 7% of its annual budget of £36.6 billion. The Department has been reducing the size of its civilian workforce for many years.

**3** Civilian staff support ministers (including in their role of accounting to Parliament for the oversight of the Armed Forces), manage the Department's administrative functions and help to deliver the Department's core work by ensuring the Armed Forces are ready for operations. Civilians carry out a wide range of roles including as policy staff, analysts, doctors, engineers and commercial managers. The civilian workforce is located across 570 sites throughout the United Kingdom and overseas. Many sites employ small numbers of civilian personnel.

**4** The Chief of Defence People oversees the Department's workforce. He is responsible for setting and assuring the Department's people policies and processes, within which the Department's front-line commands and other delivery organisations (defence organisations) operate. As part of the Department's delegated operating model, the defence organisations are responsible for workforce planning and managing their people on a day-to-day basis.

<sup>1</sup> The civilian workforce consists of civil servants and other civilian personnel employed by the Department, including locally employed civilians overseas. It does not include contractors or agency staff.

5 Against this background, we assessed the Department's approach to reducing and reforming its civilian workforce. Good practice suggests that this should be based on a comprehensive understanding of the existing workforce, current and future needs, and a clear plan to develop the required capabilities. This report examines the Department's approach to workforce planning during the current planning round, which began in 2015, but is set within the wider context of the reductions since 2010. We examined the Department's:

- approach to workforce planning (Part Two);
- progress in meeting its headcount reduction targets and reforming its workforce (Part Three); and
- new workforce transformation initiatives (Part Four).

6 We set out our audit approach in Appendix One. This is our fifth report on the Department's workforce changes since 2010. In 2012, we reported on how it was managing significant reductions in military and civilian headcount alongside developing a new operating model.<sup>2</sup> In 2014, we examined the Army's progress in implementing its Army 2020 programme.<sup>3</sup> In April 2018, we reported on how the Department ensures it has sufficient skilled military personnel.<sup>4</sup> In December 2018, we investigated the Army's performance in recruiting new soldiers.<sup>5</sup> This report focuses solely on civilian personnel.

## Key findings

The Department's progress against its civilian workforce targets

7 **Between 2010 and 2015, the Department cut its civilian workforce, mainly using voluntary exit schemes.** The Department has reduced the size of its military and civilian workforce for many years, in line with staff reductions across the wider civil service. Between 2010 and 2015, it met its target to reduce the size of its civilian workforce by 27,700 (32%), from 85,900 to 58,200. This represented a much higher rate of reduction than in previous years. It achieved this by running two voluntary exit schemes, transferring the Met Office to the Department for Business, Innovation & Skills, privatising parts of its catering and support functions, and withdrawing elements of the Army from Germany. The Department continued to deliver its core functions, but it could not demonstrate whether these staff reductions had led to more efficient ways of working. In addition, transferring activities to other government departments or contracting work out to private sector companies means the government will continue to pay for these services (paragraphs 1.2, 3.2 and 3.3).

2 Comptroller and Auditor General, *Managing change in the Defence workforce*, Session 2010–2012, HC 1791, National Audit Office, February 2012.

3 Comptroller and Auditor General, *Army 2020*, Session 2014–15, HC 263, National Audit Office, June 2014.

4 Comptroller and Auditor General, *Ensuring sufficient skilled military personnel*, Session 2017–2019, HC 947, National Audit Office, April 2018.

5 Comptroller and Auditor General, *Investigation into the British Army's Recruiting Partnering Project*, Session 2017–2019, HC 1781, National Audit Office, December 2018.

**8 In 2015, the Department did not have sufficient understanding of the use of its civilian workforce to establish a coherent plan for achieving further reductions.**

In 2015, as part of the government's Strategic Defence and Security Review, the Department increased investment in defence capabilities. Alongside this, it agreed to cut its civilian workforce further by almost 30% by 2020, to 41,000. The Department's management information on its civilian workforce was poor, which meant that it had a weak negotiating position when discussing the reduction target with the Cabinet Office and HM Treasury. Within the delegated model, it did not fully understand whether its civilian personnel were being used effectively. As a result, the Department did not have a clear vision of its future workforce's size and shape, or how to achieve further headcount reductions and agreed efficiencies. Nor had it assessed the impact on its capabilities of the cuts between 2010 and 2015 and its ability to respond to changing demands (paragraphs 1.8 and 3.5 to 3.8).

**9 By October 2018, the Department had made little progress in reducing civilian headcount.**

Between July 2015 and October 2018, the number of civilian personnel fell by 1,100, a decrease of 2%. However, in the year to October 2018, the number of civilian personnel increased by 220. The main reasons were:

- defence organisations recruited new staff to develop their capabilities and implement their objectives (for example, the Defence Science and Technology Laboratory's need for data scientists);
- the Department's over-optimistic assumptions on likely headcount reductions from existing and planned projects. In October 2016 it expected these to reduce staff by 7,980 by 2020, but a year later it revised this forecast reduction to 4,370; and
- some projects were put on hold, including where the defence organisations had initially intended to reduce civilian staff numbers by contracting-out work but decided against using external contractors for commercial considerations, such as value for money.

In January 2018, the Department asked HM Treasury and the Cabinet Office if it could pause the 30% headcount target, but reaffirmed its commitment to the accompanying £310 million savings target and to developing a new business modernisation programme. The Department warned the Cabinet Office that achieving the headcount target would be challenging and might lead to unintended outcomes, such as replacing civilians with more expensive military personnel (paragraphs 2.16 and 3.14 to 3.16).

**10 The Department will not meet its target of saving an additional £310 million from civilian staff costs by 2020.** In autumn 2017 the Department proposed a new methodology to estimate savings and, on this basis, subsequently told HM Treasury and Cabinet Office that it would deliver savings of £310 million from the civilian paybill. However, the methodology differed from the original intention that savings would come from new projects to reduce civilian headcount. Only £19 million of the Department's estimated savings was based on new projects, and as these were at an early stage, included unvalidated assumptions. Some £288 million came from projects already under way or planned, and so did not count towards the savings target. The Department's civilian staff costs also increased by £87 million between 2015-16 and 2017-18, and are expected to continue to rise in 2018-19. HM Treasury and the Cabinet Office did not sufficiently challenge the Department's methodology for claiming progress towards its savings target. In June 2018, the Permanent Secretary of the Ministry of Defence assured the Committee of Public Accounts that the Department was on track to achieve its savings target. In February 2019, the Department wrote to the Committee to clarify that it would not meet this target by 2020 and to explain that the Permanent Secretary's previous assurance had been based on an external review, which had identified potential opportunities for future efficiency savings. It is now seeking to pursue these efficiencies as part of its wider transformation programme (paragraphs 3.17 to 3.23).

The Department's approach to workforce planning

**11 The Department's Head Office has not had sufficient oversight of workforce planning across the defence organisations.** The centre of the Department oversees the defence organisations but has had limited power to direct them to tackle strategic workforce issues. It had limited oversight of how defence organisations were using and adapting their civilian personnel. It has begun to strengthen its engagement and increase collaboration across the defence organisations (paragraphs 2.2 and 2.3).

**12 Defence organisations' approaches to workforce planning have been hampered by poor management information.** Workforce planning is vital if the defence organisations are to use their workforces effectively and respond to changing demands. But the approaches they have adopted are at differing levels of maturity, with some organisations implementing local initiatives to improve their data. Defence organisations have lacked accurate information on the roles that civilian personnel currently perform, which has limited their ability to assess whether civilian functions were being conducted efficiently. For example, they have not assessed whether working practices across bases or organisations are consistent, or whether their personnel are organised efficiently (paragraphs 2.4 to 2.6 and 3.10 to 3.13).

**13 The Department has failed to identify potential efficiencies because of a lack of joint working between defence organisations.** Much of the civilian workforce is scattered around the country, often in small pockets at military bases. Defence organisations have operated largely independently, pursuing their own objectives, unrelated to the Department's target to reduce its civilian workforce by 30% by 2020. They have not worked together to consider the consistency of their job roles and working practices, or how they use their people. They have not assessed more efficient ways of working across common roles, such as human resources. This has limited the Department's ability to consider the scope for efficiencies from regionalisation or economies of scale (paragraphs 2.4 and 2.7).

**14 The defence organisations have identified existing skill gaps in their civilian workforce.** The defence organisations have identified 57 roles in 12 trades where they do not have the number of skilled staff they need (known as 'pinch-points'). They have a shortfall of 1,650 civilian personnel in these areas, 17% below their requirement. The largest shortfalls are in science and engineering, project management and information. The Department has had shortfalls in these trades since at least 2012. Future demand for new skills is driven by the evolving nature of warfare and wider departmental policies. Defence organisations have focused more on meeting short-term demands, rather than assessing longer-term capability requirements and their ability to respond quickly to these (paragraphs 2.8 to 2.12).

**15 The defence organisations do not have clear plans to close these skill gaps in the next five years.** They assessed that 38 of the 57 pinch-points have at least a 'high impact' on the business, meaning that defence organisations must regularly place extra demands on staff to maintain outputs. They have adopted a wide range of responses – providing training for staff and developing links with industry – to tackle recruitment challenges and develop their capabilities. However, they could provide only limited detail on the effectiveness of their strategies to close these gaps, and do not expect to resolve any pinch-points in the next five years (paragraphs 2.11 to 2.19).

#### The Department's new workforce initiatives

**16 Despite being aware of inefficient and inconsistent working practices since 2010, the Department has not yet modernised the functions performed by its civilian workforce.** The Department carried out five reviews between 2010 and 2017, which reached similar conclusions on the scope for efficiencies. But it has been slow to introduce initiatives to improve its working practices in administrative and support functions, such as human resources. The Department identified the need to reform its corporate functions as early as 2010. Our 2012 report also recommended that the Department should improve its understanding of the civilian workforce to achieve efficiencies. However, in May 2017, the Department had still not reviewed the scope for efficiencies in half of the roles performed by its civilian personnel (paragraphs 3.8, 3.12, 4.2 to 4.4).

**17 In 2017, the Department recognised that it had to reform working practices to achieve sustainable reductions in civilian headcount.** It believed that making cuts in the same way as during the 2010–2015 period would harm its capability to deliver its defence objectives. In late 2017, the Department began to develop a new approach to transformation, having identified a total shortfall of £12 billion in savings across all defence activities over the period to 2028. It commissioned management consultancies to review the potential to reform working practices at a cost of £12 million. It is aiming to introduce more consistent working practices across the defence organisations and, from this, ensure that its whole workforce is the right size and has the right capabilities. The new transformation portfolio covers support, technology, acquisition, people and infrastructure, and seeks to build capabilities across 10 functional areas, including commercial and finance. This work is still at an early stage and the scale of change will depend on available funding. The Department estimates that these programmes could reduce costs by up to £3 billion each year by 2028 (paragraphs 3.8 and 4.5 to 4.9).

**18 The Department has created some of the conditions needed to make improvement possible.** The Department’s governance arrangements, poor-quality management information and competing objectives across defence organisations have previously hampered its progress in reforming the civilian workforce. As part of its new change programme, the Department has begun to address these barriers to change. For example, it has appointed a chief operating officer to lead its transformation programme, made funds available to invest in new technology and adopted a joined-up approach with defence organisations. It is, however, still early days and the Department continues to face challenges, particularly in coordinating a programme of this scale and developing good-quality management information to oversee progress and monitor the impact of the changes (paragraphs 4.10 to 4.12).

### **Conclusion on value for money**

**19** To make the best use of its resources and respond to changing demands, the Department needs a clear vision for the shape of its future workforce, including the skills required, and a plan for achieving this vision. To date, the Department’s inadequate understanding of how it uses its civilian workforce has meant it has not modernised working practices or achieved efficiency savings. Its previous headcount reductions were made in an arbitrary way in order to achieve savings targets that had been imposed to allow for spending elsewhere (for example, on the Equipment Plan).

**20** The Department says it has recognised the limitations of its past approach and is now seeking to reform its business. It has begun to address the organisational barriers that have restricted its ability to modernise in the past. However, it must invest in the skills needed to transform the organisation so that it can operate at a lower cost. It has not achieved anything yet, and it is not obvious to us that all the necessary components are now in place to accomplish the objectives of its change programme.



## Recommendations

**21** As the Department seeks to modernise how it uses its workforce and, at the same time, develop the capabilities it needs, we recommend it should:

- a** **establish a shared workforce vision, and a consistent approach to strategic workforce planning, with the defence organisations.** Following the publication of the final output from the Modernising Defence Programme, Head Office should now work quickly to agree a future workforce strategy (across its whole force) with each defence organisation. Together, they should establish a shared vision of the future size and shape of the workforce, and a clear strategy for achieving this. Head Office should use the strategies to communicate its workforce objectives to the defence organisations and assess how its other policies, such as its estates strategy, will affect workforce shaping;
- b** **re-assess the basis of its workforce targets.** The target for reducing civilian headcount has not created the necessary incentives for the Department to modernise systematically its working practices. In addition, having separate targets for military and civilian workforces has led to perverse incentives and separate management of these personnel. As part of its current reform programme, the Department should set combined workforce savings targets to encourage a more integrated use of the whole force and a stronger focus on efficiency savings;
- c** **tackle the barriers to change.** The way the Department has implemented its delegated model has contributed to its lack of progress in modernising its civilian workforce. It is now introducing a new, large-scale transformation programme and has begun to address the factors that have previously restricted its ability to modernise. As a priority, the Department should: improve the quality of its management information to ensure that its proposed initiatives are realistic; track its progress and the consequences of changes; ensure that it understands the overlaps and dependencies between the initiatives; and provide continuity of senior personnel to see these initiatives through; and
- d** **strengthen the approach to evaluating the impact of workforce reforms and calculating financial savings.** The Department has a limited understanding of the impacts of previous headcount reductions, and the financial savings it anticipates are based on unsubstantiated assumptions. It should fundamentally review its methodology and quality assurance arrangements for calculating workforce efficiency savings. In addition, it should develop better evidence about savings, including a clearer link to its data on people and business indicators, to provide assurance that new reforms are making workforce functions more efficient.