



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

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Ministry of Defence

# Reforming the civilian workforce

Report by the Comptroller and Auditor General

Ordered by the House of Commons  
to be printed on 7 March 2019

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

28 February 2019

This report examines the Ministry of Defence's approach to reforming its civilian workforce to meet its current and future defence objectives, and its progress against the workforce commitments set out in the Strategic Defence and Security Review 2015.

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## 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.

# Part One

## Background

**1.1** This part provides an overview of the Ministry of Defence's (the Department's) civilian workforce and explains who is responsible for workforce planning.

### **The Department's civilian workforce**

**1.2** The Department's civilian workforce has been shrinking for many years, reflecting reductions in the size of the military and, more generally, the wider civil service. Between 1995 and 2010, the civilian workforce reduced by an average of 12% every five years from 133,200 to 85,900, partially through privatising some defence functions (**Figure 1**). The Department committed to reducing its civilian headcount at a faster rate from 2010. It agreed to reductions of around 30% in both the 2010–2015 and 2015–2020 planning periods. These targets reflected the government's wider public spending commitments and the Department's need to make savings to improve its financial position. Financial pressures remain, and the Department must save £13.4 billion on its Equipment Plan over the next 10 years.

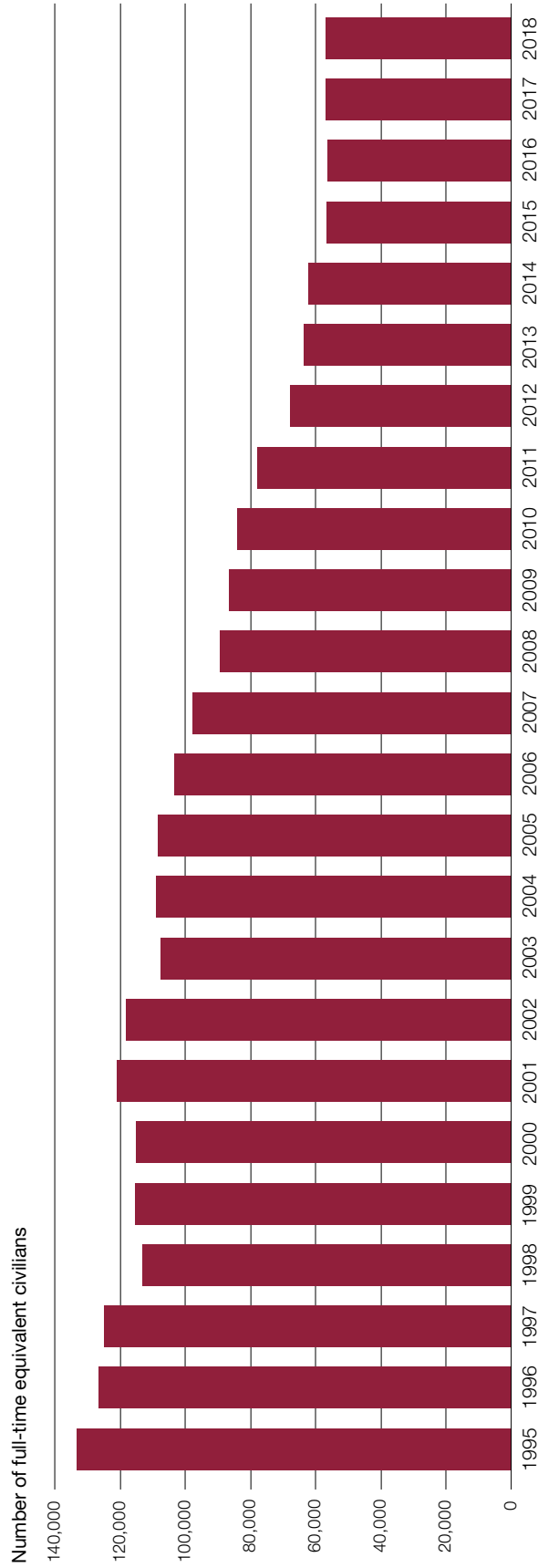
**1.3** The Department also faces the ongoing challenge of adapting its whole workforce to respond to the changing nature of warfare; for example, it is developing specialist capabilities in areas such as cyber skills and artificial intelligence. In January 2018, the Department announced the Modernising Defence Programme, which reviewed the UK's defence capabilities to meet increasing threats and address its financial pressures. In July and December 2018, it announced some headline findings, highlighting the need to develop IT, security, biological and chemical skills.

**1.4** In October 2018, the Department employed 57,100 civilian staff, 23% of its personnel.<sup>6</sup> In 2017-18, it spent £2.5 billion on its civilian workforce, 20% of its spending on personnel and 7% of its £36.6 billion annual budget.

**1.5** The Department's civilian staff support ministers (including in their role of accounting to Parliament for their oversight of the Armed Forces) and carry out a wide range of roles across its Head Office, the front-line commands and delivery organisations (the defence organisations). They include the full range of administrative and policy staff that are common to most departments such as commercial staff and project managers. Defence organisations also employ staff who provide front-line (non-military) services at bases in the UK and overseas and a wide range of specialist roles, including cartographers and nuclear physicists (**Figure 2** on page 14). In total, civilians undertake more than 1,000 different job roles.

<sup>6</sup> In October 2018, there were 192,100 military personnel, including 135,400 trained regulars and 32,300 trained reserves.

**Figure 1**  
 Ministry of Defence civilian personnel, 1995 to 2018  
 Ministry of Defence's civilian workforce decreased by 76,100 (57%) between 1995 and 2018

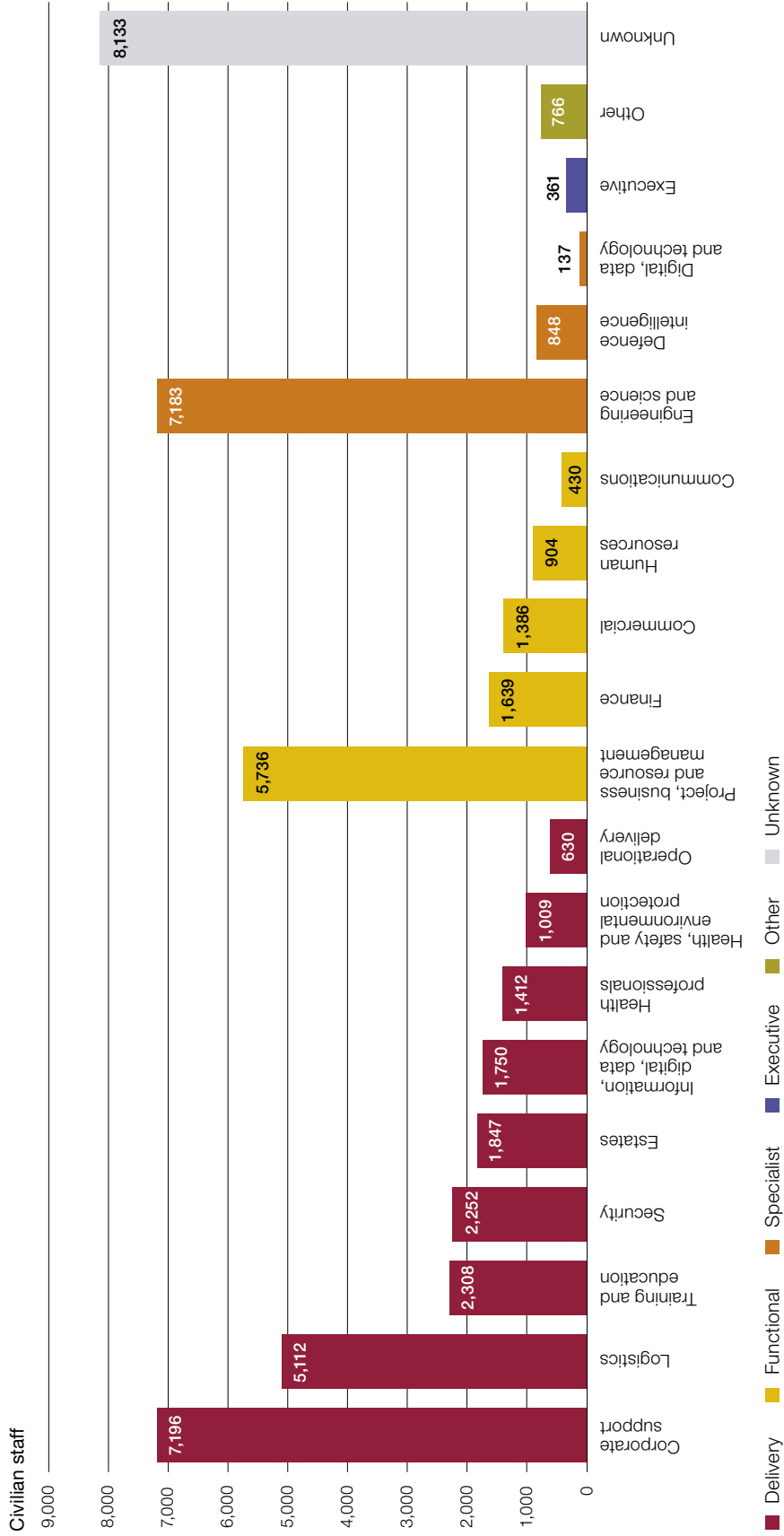


**Notes**

- 1 Some reductions were because of privatisation, for example of the Defence Evaluation and Research Agency in 2001 and Defence Support Group in 2008.
- 2 Full-time equivalent figures have been available for local civilians employed at overseas bases since 2012. Before this, it was measured on a headcount basis.

Source: National Audit Office analysis of Ministry of Defence statistics and the 1995, 2000, 2005 and 2010 Defence Statistics Compendium

**Figure 2**  
 Ministry of Defence civilian personnel by job role  
 Ministry of Defence's civilian workforce work across 18 job roles (trades)



**Notes**

- 1 Data are drawn from across multiple data sources. Data for Defence Science and Technology Laboratory, Defence Electronics and Components Agency and Defence Equipment & Support are based on full-time equivalent staff. Data for other bodies are based on headcount.
- 2 Executive includes policy, strategy, Parliamentary commitments, environment and sustainability, Internal Audit and legal.
- 3 'Other' includes: information management and integrated logistics, digital data and technology, economics, facilities management services, knowledge and information management, legal, statistics, technical and transformation.
- 4 Unknown includes: all civilians from Head Office and Corporate Services, Defence Nuclear Organisation and Defence Electronics and Components Agency, as information on specific jobs was not available.

Source: National Audit Office analysis of Ministry of Defence top-level budget data



**1.6** The Department's civilian personnel are spread across 570 locations in the UK and overseas (**Figure 3** on page 16).<sup>7</sup> Half of these people work at the 20 largest bases, but 313 bases have fewer than 10 civilian employees. The Department also has an ageing workforce. In 2018, 47% of civilians were over 50 years old (up from 41% in 2010), and just 11% of the workforce was aged between 16 and 29. Of civilian staff, 5% were from Black, Asian and Minority Ethnic (BAME) groups, and 43% were women. The Department has not set a recruitment target for BAME personnel, although it has diversity recruitment targets for military personnel.<sup>8</sup>

### **How the Department organises its workforce**

**1.7** The Department's accounting officer is ultimately responsible for ensuring that resources, including people, are used efficiently and effectively. Within the Department's delegated operating model, the Chief of Defence People (CDP) is responsible for setting and assuring the Department's people policies and processes and providing advice on defence-wide issues (**Figure 4** on page 17). The defence organisations are responsible for workforce planning and managing their people on a day-to-day basis, within the framework set by the CDP. Defence organisations are also responsible for appointing staff below senior civil service levels and providing training and education. Defence Equipment and Support (DE&S) is a bespoke trading entity and has been given additional freedoms to set its own terms and conditions.

**1.8** The Department's workforce targets are decided as part of its five-year strategic planning cycle. The 2010 and 2015 Strategic Defence and Security Reviews set headcount targets for military and civilian personnel. There were reductions in the number of civilian personnel in both, but small increases in military personnel in 2015 as part of increased investment in defence capabilities. The CDP is responsible for meeting the Department's workforce targets. He can seek to achieve this through central initiatives or by using the Department's annual budgeting cycle, through which it allocates funding to the defence organisations.

**1.9** In October 2018, the front-line commands employed 22,700 civilian staff, with the Army making up the largest number (**Figure 5** on page 18). Other defence organisations employed 30,200 civilians, with 10,300 at DE&S. In addition, 4,200 locally employed civilians worked across the front-line commands.

<sup>7</sup> The Department intends to concentrate investment on a significantly smaller estate over the next 25 years: see Ministry of Defence, *A Better Defence Estate*, November 2016, p.9, available at: [www.gov.uk/government/publications/better-defence-estate-strategy](http://www.gov.uk/government/publications/better-defence-estate-strategy)

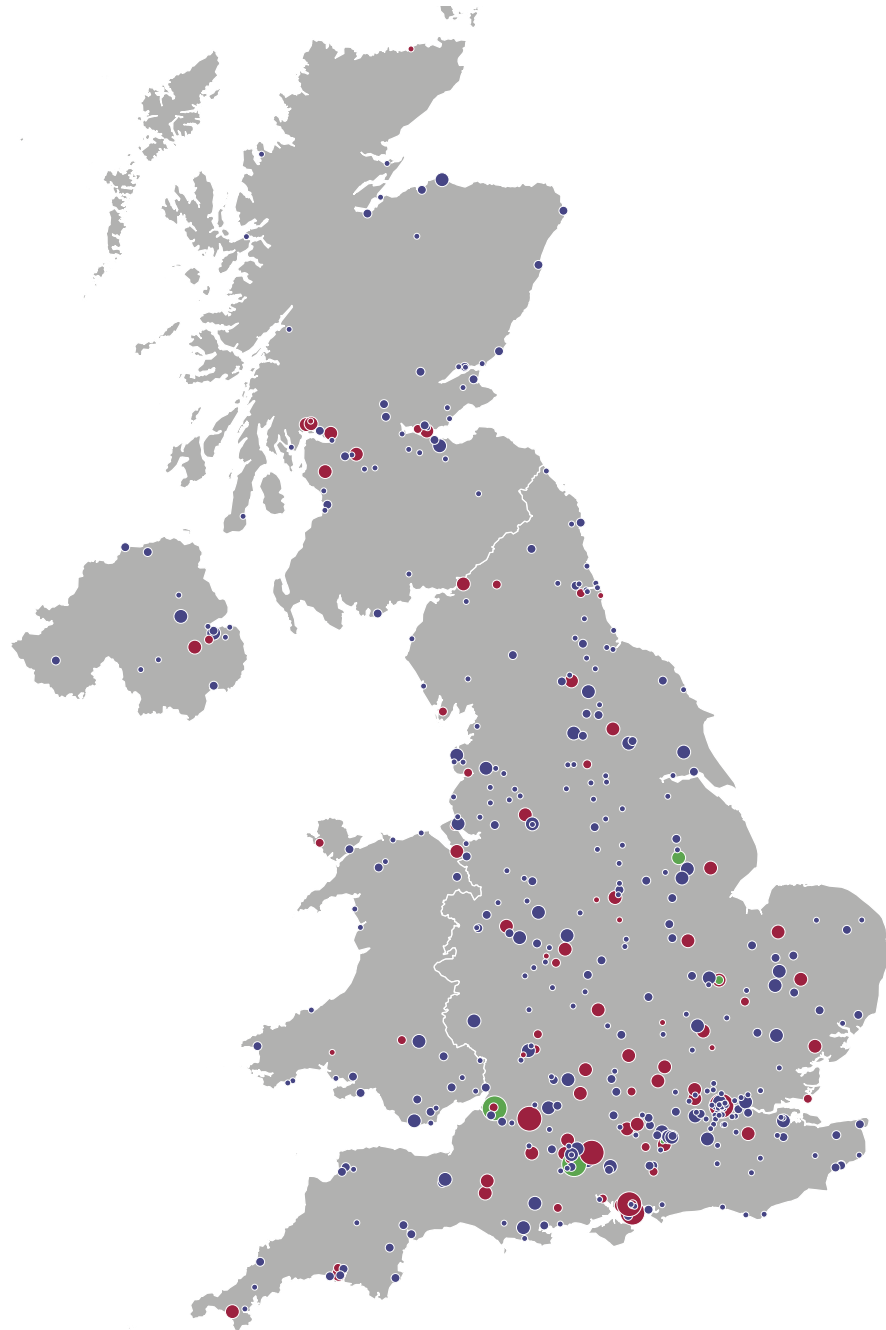
<sup>8</sup> The Department has targets that, by 2020, 10% of military recruits will be from BAME groups and 15% will be women.

**Figure 3**  
Distribution of the Ministry of Defence's civilian workforce in the United Kingdom

The civilian workforce is spread across the Department's bases and sites

Size of site by headcount

- Over 1,000 staff
- Less than 1,000 staff
- Less than 100 staff
- Less than 10 staff
  
- One defence organisation at site
- Two defence organisations at site
- Three or more defence organisations at site



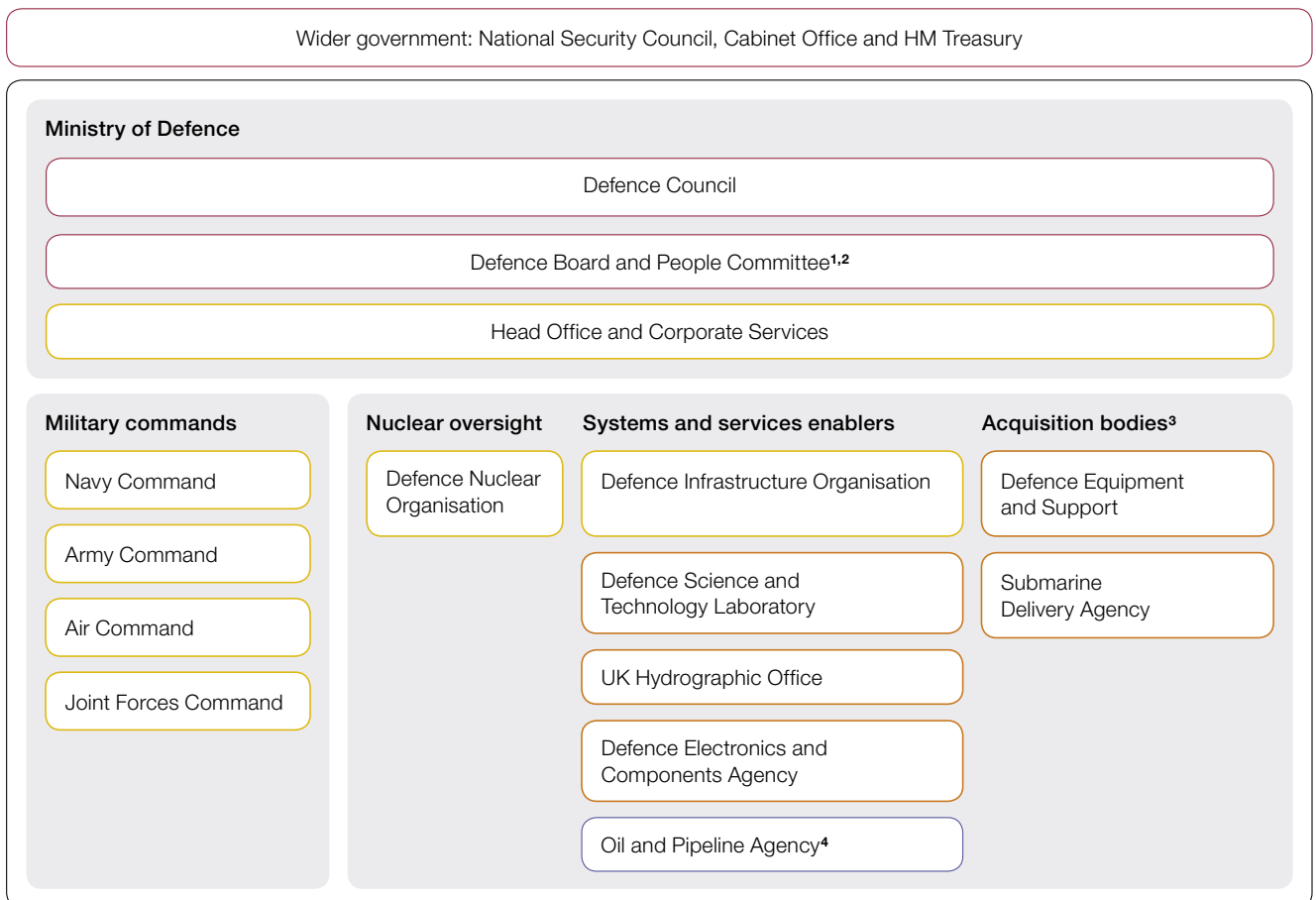
**Notes**

- 1 These data include no or incorrect postcodes for 3,740 staff, of which 1,950 are from the Royal Fleet Auxiliary.
- 2 The number of Ministry of Defence staff has been aggregated for sites when defence organisations have the same postcode.
- 3 Not all locations may be visible on this representation due to overlapping geometries and scale.
- 4 These data do not include Ministry of Defence staff located overseas.

Source: National Audit Office analysis of Office for National Statistics Annual Civil Servant Employment Survey 2018 data

**Figure 4**  
The Ministry of Defence's delegated operating model

Ministry of Defence is organised into seven top-level budgets and other delivery organisations



- Top Level Budget (TLB)
- Arm's-length bodies
- Part of a TLB managed on an arm's-length basis

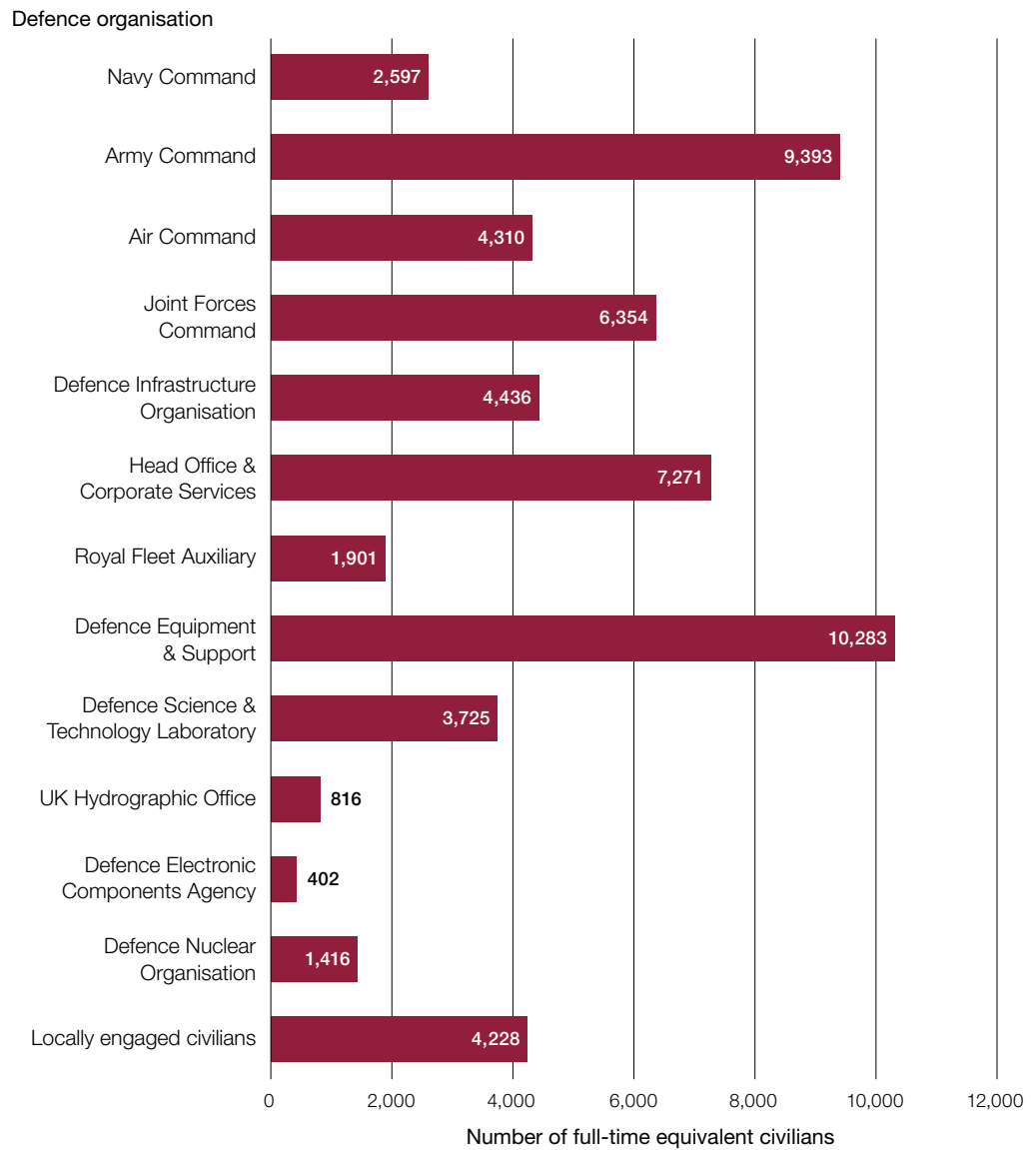
**Notes**

- 1 The Defence Board oversees the strategic direction and oversight of defence, supported by an Investment Approvals Committee, Audit Committee and People Committee.
- 2 The People Committee provides strategic direction and guidance on people issues.
- 3 Acquisition bodies act as agents for their customers, such as the Commands.
- 4 The Oil and Pipeline Agency is a public corporation sponsored by the Ministry of Defence.
- 5 The Defence Nuclear Organisation overseas all defence nuclear business, excluding operations.

Source: National Audit Office, *Departmental Overview 2018*

**Figure 5**  
Civilian personnel employed in the defence organisations

The size of the civilian workforce varies widely across the defence organisations



**Note**

1 Figures are measured on a full-time equivalent basis on 1 October 2018.

Source: National Audit Office analysis of Ministry of Defence biannual civilian personnel report

# Part Two

## The Department's approach to workforce planning

**2.1** The Ministry of Defence (the Department) must regularly adapt its civilian workforce to respond to new demands and changing pressures. Strategic workforce planning is the process of analysing the current workforce, determining future needs, identifying gaps and implementing solutions to achieve an organisation's goals. We reviewed the maturity of the Department's approach against workforce planning principles.<sup>9</sup>

### Understanding the workforce

**2.2** Under the Department's delegated model, defence organisations are responsible for workforce planning, in accordance with a framework set by Head Office. However, the centre has had limited oversight of how defence organisations were approaching workforce planning and whether there were strategic issues that it needed to address. It did not have the resources or management information to monitor the approaches adopted by the defence organisations.

**2.3** In 2016, the Department recognised that it needed to develop a more comprehensive planning process for its civilian workforce to achieve the objectives set out in the 2015 Strategic Defence and Security Review (SDSR). The Department now has:

- a common framework for workforce planning;
- greater collaborative working across defence organisations; and
- senior civilian workforce advisers and human resources business partners within defence organisations, who coordinate the delivery of civilian workforce policies.

It has also started to develop a new civilian workforce strategy.

<sup>9</sup> We developed a framework for examining the Department's strategic workforce planning, based on the Chartered Institute of Personnel and Development's workforce planning practice ([www.cipd.co.uk/knowledge/strategy/organisational-development/workforce-planning-practice](http://www.cipd.co.uk/knowledge/strategy/organisational-development/workforce-planning-practice)) and the Civil Service Strategic Workforce Planning Maturity Audit questionnaire, June 2017.

**2.4** The defence organisations are developing civilian workforce strategies and plans that reflect their own business priorities. For example, the Defence Science and Technology Laboratory (DSTL) needs to retain and develop specialist skills that are not readily available in the marketplace, including expertise in chemical, biological and radiological fields, and explosives and energetics. These organisations' objectives do not, therefore, always align with the Department's central targets. The trading bodies and executive agencies employed 1,920 more civilian staff on 1 October 2018 compared with a year earlier, and the civilian workforce increased at three of the seven top-level budgets over the same period.<sup>10</sup>

**2.5** Data quality problems have hindered defence organisations in developing a detailed understanding of their workforces. The Department's human resources management system is outdated. It provides basic management information, but its data on workforce skills, grades, professions, locations, ages and diversity are incomplete. Managers have low confidence in the data. Several organisations have undertaken data cleansing exercises to remove incorrect data on posts that are vacant, unfunded or no longer needed.

**2.6** Defence organisations have focused on short-term workforce planning, rather than longer-term workforce shaping. Only the Navy, Air Force and DSTL had longer-term strategic workforce plans. Other bodies need to develop a better understanding of how the capabilities they need will evolve, but uncertainty has restricted their planning. For example, defence organisations told us that they were unclear what impact the Modernising Defence Programme would have on their operations, including the need to increase capabilities in specialist areas such as cyber skills, artificial intelligence, and space to meet emerging threats. In December 2018, the Department published its final report on the programme, announcing that there would be implications for the size and shape of its workforce. The Department still needs to establish what these might be, and has not yet set a timetable for this work. It has stated that the outcome would supersede its SDSR commitments.<sup>11</sup>

**2.7** Half the civilian workforce is scattered in small pockets at military bases around the country. Defence organisations have operated largely independently, limiting their ability to consider the scope for efficiencies from regionalisation or economies of scale. They have not developed options for coordinating common roles and, potentially, rationalising staff numbers. Some, however, are considering this approach. For example, the Royal Air Force is contemplating setting up regional hubs for its support services.

<sup>10</sup> The three top-level budgets are the Navy, Joint Forces Command and Defence Infrastructure Organisation.

<sup>11</sup> Ministry of Defence, *Mobilising, Modernising & Transforming Defence – A report on the Modernising Defence Programme*, December 2018.

## Identifying skills gaps

**2.8** The defence organisations have reviewed their current skills gaps. They report quarterly to Head Office on whether they have enough staff to achieve their agreed tasks, the scale of any gaps and how critical they are. Trades in which they do not have enough trained staff to perform operational tasks without taking mitigating action, such as placing extra demands on existing staff, are known as ‘pinch-points’.

**2.9** In October 2018, the defence organisations reported 57 pinch-points across 12 of the Department’s 18 job roles (trades) (**Figure 6** overleaf). The total shortfall was more than 1,650 staff, 17% below the requirement for these trades.

**2.10** The defence organisations have made little progress in tackling the shortfalls in pinch-point trades. In 2012, 16% of civilian posts were vacant in six business-critical trades.<sup>12</sup> In October 2018, shortfalls remained in five of these trades:<sup>13</sup>

- engineering and science was understaffed by 428 (15%), with the largest shortfall across the Defence Nuclear Enterprise;<sup>14</sup>
- portfolio, programme and project management was understaffed by 314 (26%), with the largest shortfall at the Defence Infrastructure Organisation (DIO);
- information was understaffed by 197 (16%), with the largest shortfall in the Army;
- commercial was understaffed by 135 (15%), with the largest shortfall at Head Office and Corporate Services; and
- finance was understaffed by 110 (18%), with the largest shortfall in the Army.

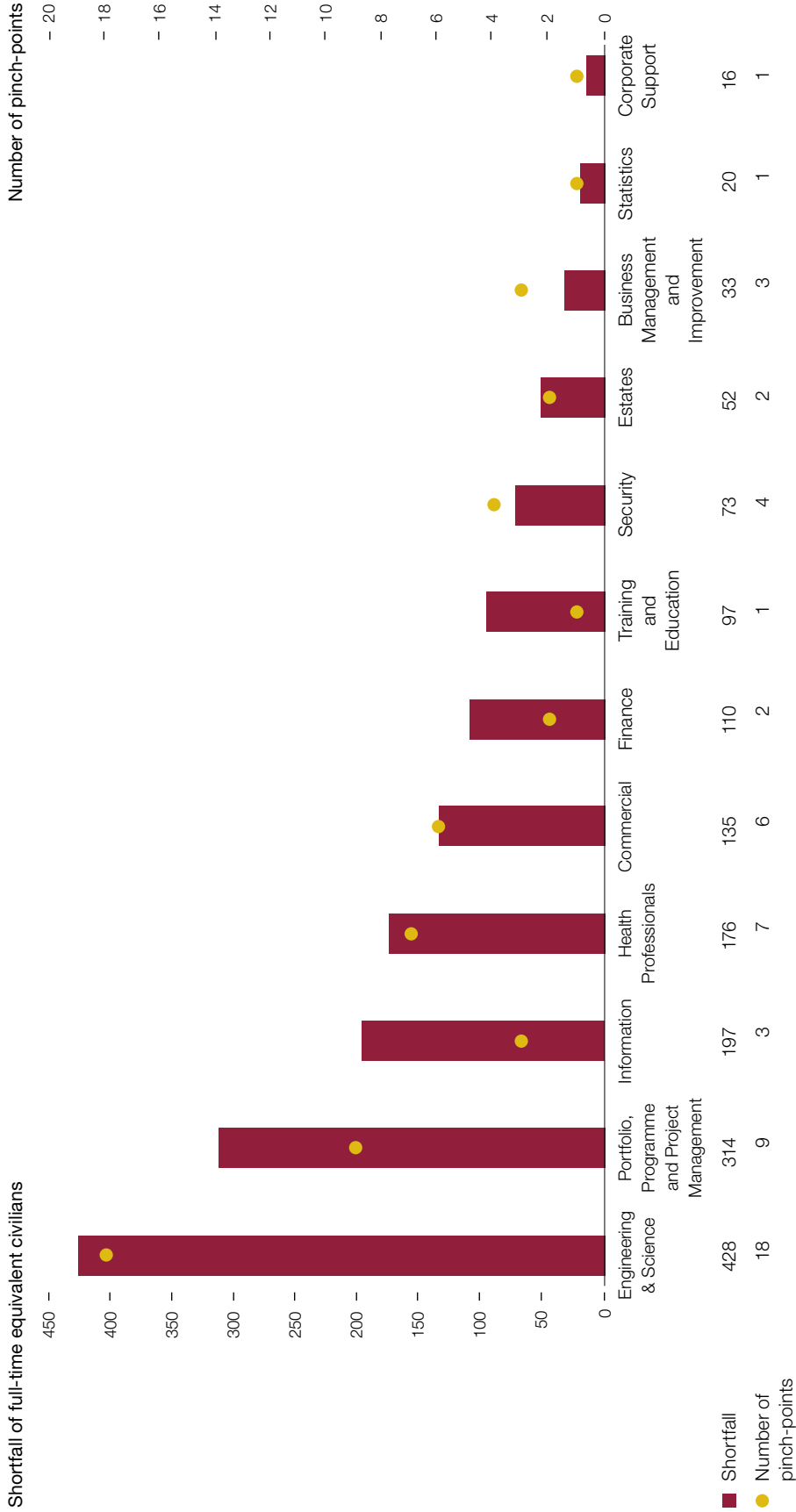
**2.11** In October 2018, the defence organisations assessed that 38 of the 57 pinch-points had at least a ‘high impact’ on their business (**Figure 7** on page 23). This means that they must regularly place additional demands on staff or use temporary staff to maintain outputs. Defence organisations did not have a clear understanding of the longer-term impact of the shortfalls. They had not assessed the impact of shortfalls on their business over the next five years for 24 pinch-points.

<sup>12</sup> Comptroller and Auditor General, *Managing change in the Defence workforce*, Session 2010–2012, HC 1791, National Audit Office, February 2012. The six business-critical skills were: commercial; defence policy; engineering and science; finance; information; and programme and project management.

<sup>13</sup> The Department did not identify a pinch-point for defence policy.

<sup>14</sup> The defence Nuclear Enterprise covers the whole defence nuclear civilian profession, which has personnel across the Defence Nuclear Organisation, Submarine Delivery Agency, Navy Command, Joint Forces Command and Defence Infrastructure Organisation.

**Figure 6**  
Civilian workforce pinch-points, October 2018  
The highest number of pinch-points are for engineers and scientists



**Notes**

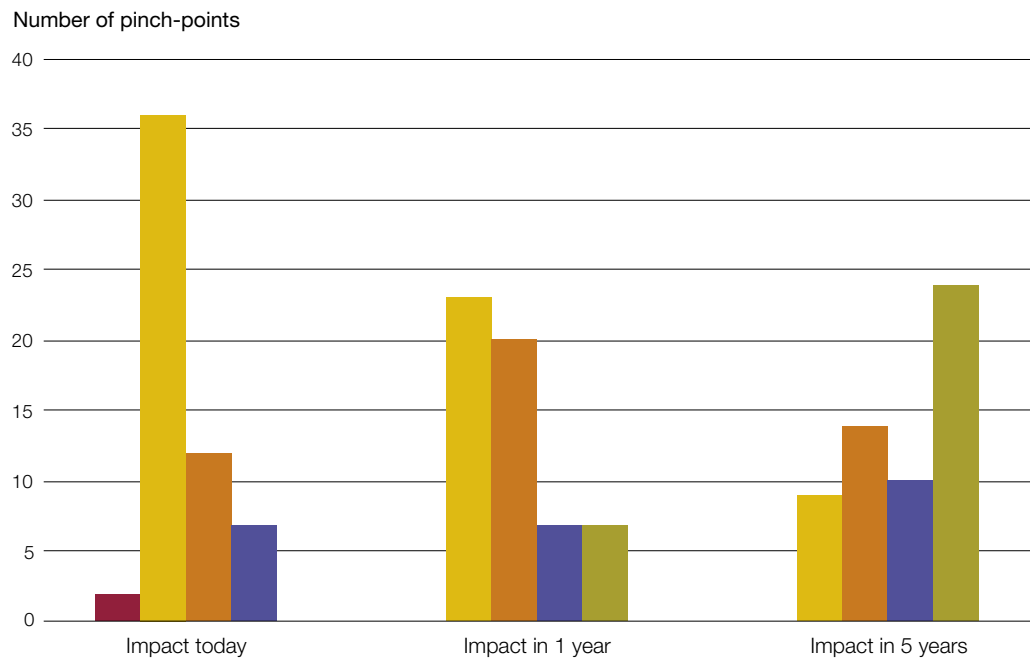
- 1 Shortfall denotes the number of staff below the business requirement.
- 2 Pinch-points denote the number of job roles where there are insufficient trained staff to perform operational tasks.
- 3 Pinch-points are self-reported by defence organisations.
- 4 Air Command has reported a pinch-point for portfolio, programme and project management, but has not stated the size of the shortfall.

Source: National Audit Office analysis of Ministry of Defence data



**Figure 7**  
 Assessment of the impact of pinch-points, October 2018

Thirty-eight pinch-points currently have a significant or high impact on the Ministry of Defence



■ Significant impact	2
■ High impact	36
■ Occasional impact	12
■ Low impact	7
■ No impact assessment	0

**Notes**

- 1 Pinch-points denote the number of job roles where there are insufficient trained staff to perform operational tasks.
- 2 Pinch-points are self-reported by defence organisations.

Source: National Audit Office analysis of Ministry of Defence data

## Addressing workforce requirements

**2.12** The evolving nature of warfare will change the Department's skills needs, such as the increasing need for cyber specialists. We have also previously highlighted shortfalls in skilled personnel in commercial and nuclear roles.<sup>15</sup> The Department therefore faces the ongoing challenge of developing its workforce to respond to changing demands.

**2.13** The Department must compete with industry for scarce skills in competitive recruitment markets. It has identified factors that affect its ability to recruit skilled personnel:

- **National skills shortage.** There are national shortages in some areas in which the Department is recruiting, resulting in greater competition for these skills. For example, our report on science, technology, engineering and mathematics (STEM) skills included an estimate that 700,000 more STEM technicians will be needed to meet employer demand by 2024.<sup>16</sup> Science and engineering has the largest number of pinch-points and the biggest staff shortfall (Figure 6).
- **Generational changes.** Research suggests that people who reached adulthood in the early 21st century may be less willing to commit to long-term careers, limiting the Department's ability to develop and retain specialist skills.<sup>17</sup> In 2018, a disproportionately large number of younger staff left defence organisations. Around 12% of staff aged between 16 and 29 left, compared with 5% of staff aged between 30 and 59. This has contributed to the Department's ageing workforce profile.
- **Location of bases.** The Department has many sites that employ small numbers of civilians, including 313 sites with fewer than 10 civilian employees. This limits the Department's scope for rationalisation of administrative and support roles, especially where sites are in remote locations. Furthermore, some bodies, such as the UK Hydrographic Office and DSTL, are based in areas where it is difficult to recruit specialist skills locally.

**2.14** Defence organisations face the constant challenge of retaining skilled staff. In 2018, only around one-quarter of their staff considered that their pay was reasonable compared with people doing a similar job in other organisations (**Figure 8**). As a result, for example, the Defence Electronics and Components Agency lost three-quarters of its apprentices after they qualified. They cited salary and limited career development opportunities as reasons for leaving.

<sup>15</sup> Comptroller and Auditor General, *The Defence Nuclear Enterprise: a landscape review*, Session 2017–2019, HC 1003, National Audit Office, May 2018; Comptroller and Auditor General, *Improving value for money in non-competitive procurement of defence equipment*, Session 2017–2019, HC 412, National Audit Office, October 2017.

<sup>16</sup> Comptroller and Auditor General, *Delivering STEM skills for the economy*, Session 2017–2019, HC 716, National Audit Office, January 2018.

<sup>17</sup> P.J. Montana and F. Petit, 'Motivating Generation X and Y on the Job and Preparing Z', *Global Journal of Business Research*, Vol. 2 number 2, 2008; W. Strauss and N. Howe, *Millennials Rising: The Next Generation*, 2000.

**Figure 8**

## Ministry of Defence staff's views on pay and benefits, 2018

Around one-quarter of staff think their pay is reasonable compared with other organisations

	MOD (core)	DE&S	DECA	DSTL	UKHO	SDA	Civil service benchmark (median)
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Pay reflects performance	31	22	13	23	21	22	31
Satisfaction with the total benefits package	33	25	22	34	37	25	36
Pay reasonable compared with other organisations	27	17	12	16	21	14	27

**Notes**

- 1 Percentages denote the number of people who either agree or strongly agree.
- 2 Figures are drawn from the annual staff survey.
- 3 The table uses the following abbreviations: Ministry of Defence (MOD); Defence Equipment & Support (DE&S); Defence Electronics and Components Agency (DECA); Defence Science and Technology Laboratory (DSTL); UK Hydrographic Office (UKHO); and Submarine Delivery Agency (SDA).
- 4 Civil servants employed by MOD are reported together, except for DE&S, DECA, DSTL, UKHO and SDA.

Source: National Audit Office analysis of the Civil Service People Survey 2018

**2.15** The Department must comply with wider public sector pay constraints, although defence organisations can pay allowances if they cannot recruit to particular posts. The burden of proof for these is high and the need is regularly reassessed. Although Defence Equipment & Support (DE&S) has additional flexibility around its pay policy, its survey results are no better than those of other defence organisations: in 2018, 9% of its staff left, compared with 8% for the rest of the Department. The Department's Head Office has not reviewed how its workforce policies, such as its terms and conditions, affect its ability to recruit and retain the civilian staff that it needs.

**2.16** Most defence organisations are seeking to build the skills they need internally, rather than recruiting trained staff. For example:

- DE&S is tackling a national shortage of acquisition, safety and environment protection engineers by reskilling existing staff;
- UK Hydrographic Office (UKHO) is addressing a shortage of digital, data and technology skills, including a shortage of data scientists, by re-training its own cartographers, although it acknowledges that this might not fulfil all its requirements; and
- DSTL is developing data scientists by training graduate mathematicians.

**2.17** Defence organisations have also sought to develop the capabilities they need through secondments and closer links with industry. This also helps them to upskill their staff by transferring specialist knowledge from secondees and consultants.

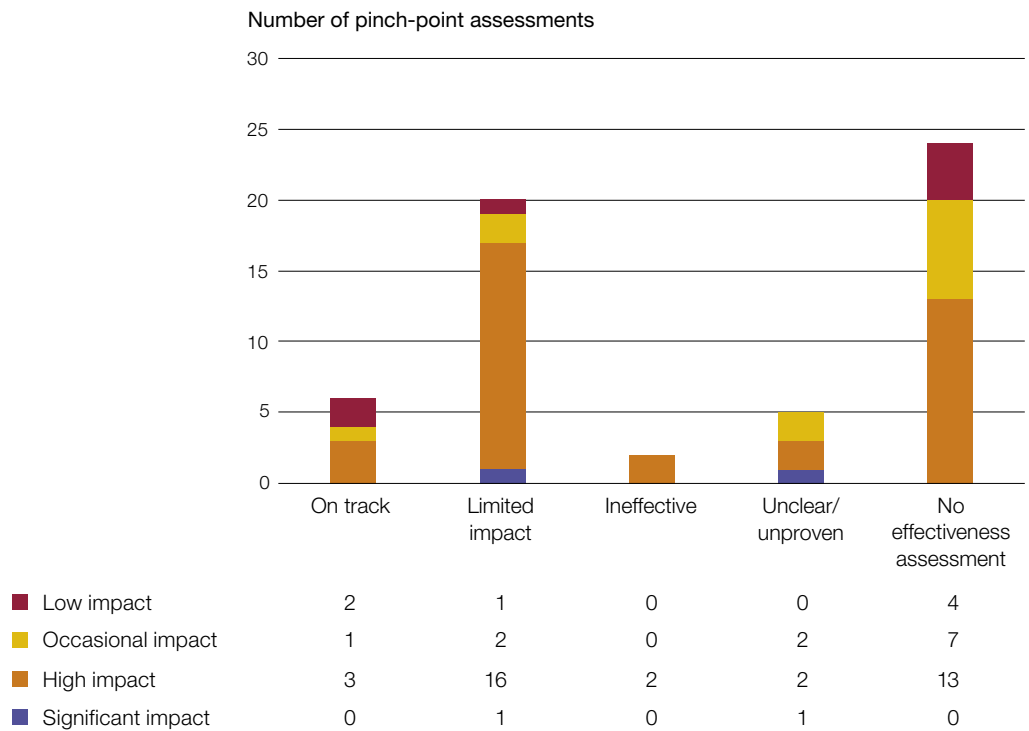
**2.18** However, defence organisations do not expect to close the shortfalls. They were 'on track' to do so in only three high-impact areas, but had not assessed how effective their mitigating actions were for 24 of 57 pinch-points, including 13 with a high or significant impact, such as the lack of defence statisticians (**Figure 9**). They do not expect to remove any pinch-points in the next five years.

**2.19** Some bodies use military staff and reservists to supply the capabilities they need. For example, DE&S used military personnel for specialist tasks such as testing airworthiness. There are some examples of bodies adopting a 'whole force' approach, such as Joint Force Command's integrated whole force approach, and the Air Force co-locating its civilian and military workforce planning teams. However, the defence organisations told us that inadequate management information, conflicting military and civilian targets and the separate management of the two types of workforce hindered this approach. Front-line commands have saved money by using civilians to fill some posts rather than employing military personnel where it is appropriate to do so. However, they acknowledged that this increases civilian numbers, which conflicts with the Department's headcount target.

**Figure 9**

Assessment of the effectiveness of mitigations for pinch-points, October 2018

The Ministry of Defence has not assessed the effectiveness of its mitigations for 24 pinch-points



**Notes**

- 1 This figure summarises defence organisations' self-assessments of the effectiveness of pinch-point reduction plans.
- 2 The pinch-points in this figure correspond to the pinch-points in Figure 7 with an impact today.

Source: National Audit Office analysis of Ministry of Defence data

# Part Three

## Progress in reducing the civilian workforce

**3.1** Between 2010 and 2015, the Ministry of Defence (the Department) reduced its civilian headcount by 32%. In 2015, it agreed a target to reduce its civilian workforce further by almost 30% by 2020. This part examines the Department's approach; its progress towards achieving this latest target; and the validity of its claimed financial savings.

### **Reductions in civilian headcount – 2010 to 2015**

**3.2** In 2010, as part of its Strategic Defence and Security Review (SDSR) commitments, the Department agreed to reduce its civilian workforce by 25,000 by 2015, a drop of 29%. The Department achieved this target, reducing headcount by 27,700 to 58,200 by April 2015. It did so by carrying out a series of centrally driven programmes. In particular:

- 23,350 civilians left under two voluntary exit schemes;
- 4,550 civilians were removed from the Department's headcount because of changes to organisational structures: by privatising the Defence Support Group and part of the Royal Air Force's catering and leisure functions; and by transferring the Met Office to the Department for Business, Innovation & Skills; and
- employing 3,100 fewer local civilians as the Army withdrew from Germany.

**3.3** The Department reduced its civilian personnel while continuing to deliver its core functions, but without introducing more efficient ways of working. It had no clear view of the impact of these cuts nor the skills it had lost, apart from specialist roles that were protected from voluntary exit schemes. Transferring activities to other government departments or paying private sector companies to carry them out means the government continues to incur the cost of these services

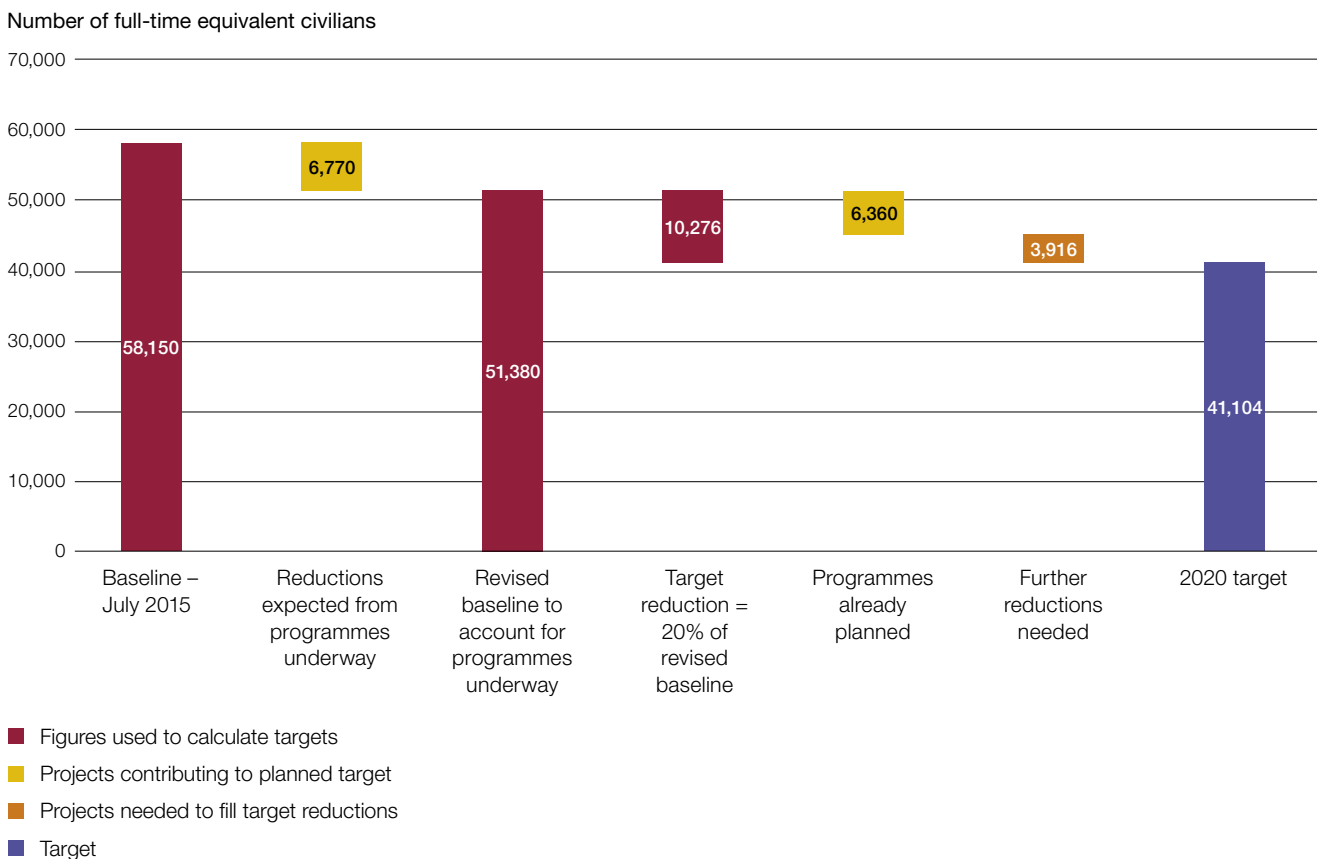
### **Civilian headcount target – 2015 to 2020**

**3.4** In April 2015, the government's political ambition was to reduce the whole civil service by 20%. The Cabinet Office, HM Treasury and the Department discussed how defence would contribute to this aim before agreeing the SDSR in November 2015.

**3.5** At that time, the Department was carrying out projects that it expected would reduce its civilian headcount, such as withdrawing the Army from Germany and outsourcing its logistics to Leidos. The Cabinet Office removed these expected reductions from the Department’s baseline for civilian personnel before applying its 20% reduction target. The 2015 SDSR therefore committed the Department to reducing its civilian workforce by 17,000 to 41,000 by 2020, which equates to a reduction of approximately 30% (**Figure 10**).

**Figure 10**  
Basis of the 2015 civilian headcount reduction target

Ministry of Defence assumed existing or planned programmes would provide most of the headcount reductions



Source: National Audit Office analysis of Ministry of Defence data

**3.6** The Department assessed that existing and planned programmes could provide up to 13,100 of the required reductions (77%), including its plan to outsource some of its facilities management, guarding and fire services. The Department had already accounted for these reductions, which reduced its five-year budget by £495 million. It needed to find a further decrease of around 4,000 civilians from new initiatives to meet its headcount target set by Cabinet Office and HM Treasury. The extra reductions translated to a financial target of £310 million, which the Department committed to achieving by 2020. The Department tried, unsuccessfully, to exclude some front-line commands and other delivery organisations (defence organisations) from its target. It highlighted to HM Treasury and Cabinet Office that reducing headcount by an additional 4,000 people would require considerable work, and that the risk of failing to achieve this was high.

**3.7** At the time it was negotiating the headcount target with the Cabinet Office and HM Treasury, the Department did not have an adequate understanding of its civilian workforce. It lacked good-quality management information on the roles performed by civilian personnel across defence organisations, whether these roles were consistent and the impact of previous cuts. It did not have a clear view of what civilians did or whether they were being used effectively within the delegated model. As a result, the Department was not able to robustly defend the size and shape of its workforce. It could not justify how many civilians it needed, provide a longer-term view on changing skill requirements or identify where efficiency savings might come from.

**3.8** The Department was also concerned that further reductions would reduce its capability, although again it could not provide evidence to support this risk. Our 2012 report on the defence workforce warned that the Department would not be able to target its voluntary exit schemes to avoid losing the skills it most needed.<sup>18</sup> Despite these concerns, the Department did not assess how the cuts had affected its capability, particularly the 23,350 civilians who left as part of the voluntary exit schemes.

### The Department's approach

**3.9** In 2016, the Chief of Defence People (CDP) was appointed senior responsible owner for the civilian headcount target and was tasked with achieving the reductions through centralisation, regionalisation and digitalisation. He set up the Future Defence Civilian Programme (the Programme) to meet the 30% reduction target. The Department originally planned to delegate targets to defence organisations but decided against this. These bodies were already responsible for the ongoing projects that were expected to provide most of the headcount reductions.

**3.10** The Programme team had poor-quality management information on how defence organisations were using civilian personnel. It therefore worked with these organisations to develop a clearer understanding of the use of civilians and identify ongoing change projects that would affect headcount. They found that the defence organisations had 44 projects affecting their civilian personnel.

<sup>18</sup> Comptroller and Auditor General, *Managing change in the Defence workforce*, Session 2010–2012, HC 1791, National Audit Office, February 2012.



**3.11** In 2016, Head Office carried out a business improvement review. This concluded that the Department needed to change fundamentally the way it worked to achieve significant headcount reductions. It identified scope to remove duplication in working practices and achieve economies of scale by bringing together common activities, simplifying policy, exploiting opportunities to use digital technology and introducing alternative delivery models. The Department also needed to change behaviours, including challenging the sense of entitlement to services in the Armed Forces, such as access to a driver. The review highlighted inconsistent and inefficient working practices, including:

- a lack of understanding of the functions carried out by support staff, a lack of defined processes and differing approaches across sites;
- inconsistent approaches to inventory management, because of inadequate technology to support processes and inadequate management information;
- varied delivery models for drivers across defence organisations, despite similar needs and proximity of some sites; and
- inconsistent approaches to security across the Department's estate, because of varying interpretations of policy and poor management information.

**3.12** In February 2017, the Programme team commissioned another review of the scope for efficiencies. This review identified the potential to remove 4,900 to 7,300 posts in the Department's driving, storekeeping and warehousing, and administrative support functions, principally through outsourcing. The Department began to scope these projects and expected to reduce headcount between 2019 and 2021. But, by May 2017, the Department had still not reviewed half of its civilian workforce to assess the potential for more efficient working practices.

**3.13** By August 2017, the Department recognised that it still needed a more comprehensive understanding of its workforce to establish its use of support functions across the defence organisations. It sought to cleanse its civilian workforce data and carried out a baselining exercise to understand the activities and functions its support staff were performing. As a result, the Department concluded that 40% of civil servants were carrying out activities that could be made more efficient through digital technology. It launched three initiatives focusing on: the military human resources system; implementing a digital workplace; and improving management information to support decision-making. Because of limitations in its data, the Department could not accurately quantify potential financial savings, but it estimated that these initiatives could reduce headcount by up to 5,000 and save between £175 million and £600 million each year.

## The Department's progress in meeting the target

**3.14** In 2016 and early 2017, the Department updated the Cabinet Office on its progress. It was committed to achieving the 30% headcount reduction and £310 million financial savings. However, the Department warned that achieving these targets would be challenging and might not result in value for money. It said that the targets could lead to perverse behaviour, for example, driving defence organisations to replace civilians with more expensive military personnel or spending more on private sector support rather than bringing civilian jobs in-house. It also highlighted that reducing the number of civilian personnel might not result in an optimally sized workforce and that uncertainty about the timing of the 30% headcount reduction was destabilising its civilian workforce.

**3.15** Taking account of these identified risks, the Department began discussions with HM Treasury and Cabinet Office to try to remove the 30% headcount reduction target. It proposed that it would instead focus on achieving the associated target of saving £310 million from civilian reductions and on developing its new business modernisation programme. In July 2018, the CDP recommended that the Programme should be closed. The Permanent Secretary of the Ministry of Defence decided against this as there was no agreement to remove the 30% headcount reduction target. He advised the CDP to develop an approach to people transformation as part of the Department's wider business modernisation work (Part Four).

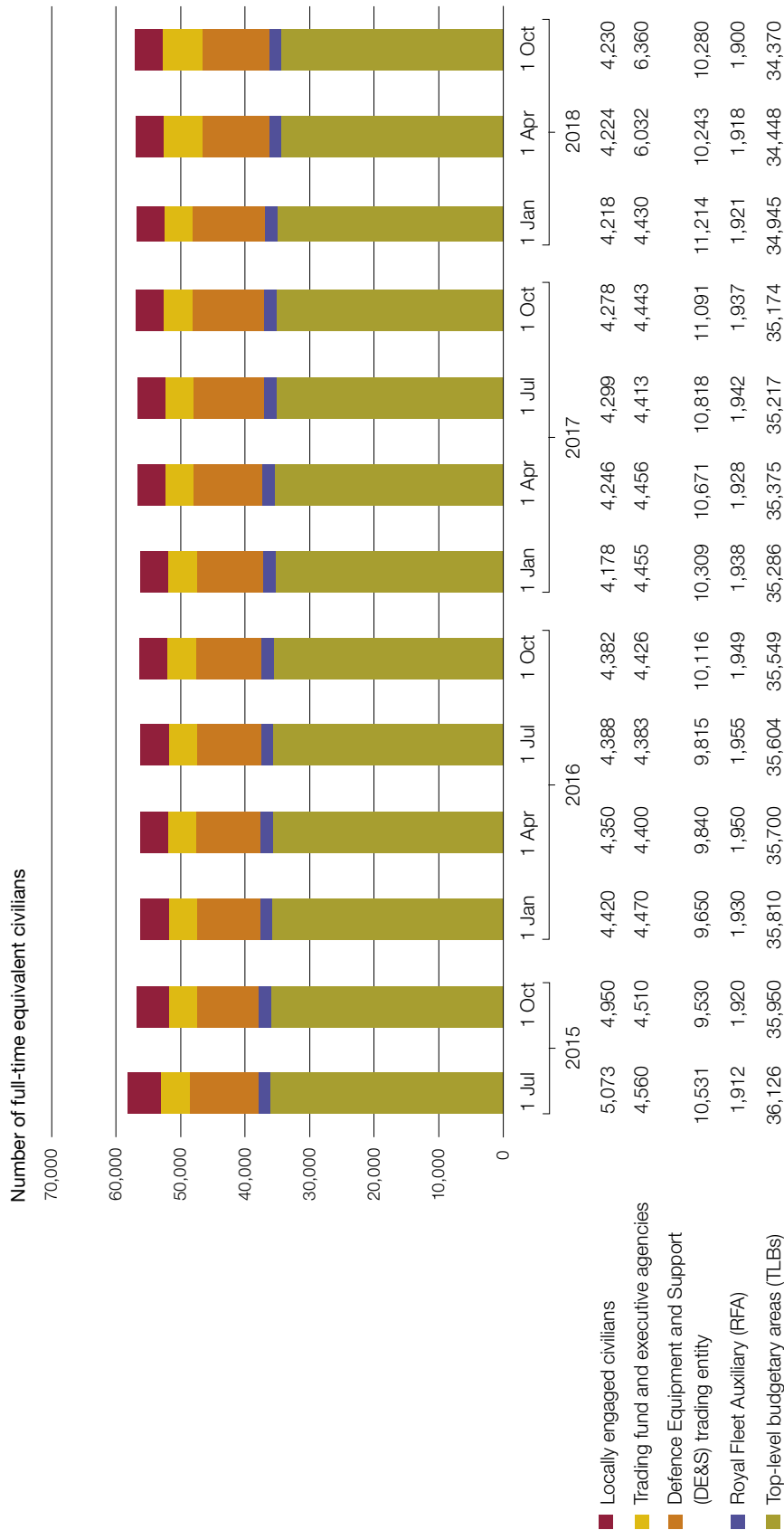
**3.16** As at October 2018, the Department had 57,100 civilian personnel, an aggregate reduction of 1,100 full-time equivalents since July 2015 (2%).<sup>19</sup> The number of civilians fell between July and October 2015 when the Department outsourced part of its logistics to Leidos (**Figure 11**). Since October 2017, the number of civilians has increased by 220. Several factors have contributed to the Department's failure to deliver its headcount target, including the following:

- The Department postponed some projects that were expected to reduce headcount. Defence organisations also reversed some decisions to outsource functions, such as its guard service, due to commercial considerations, such as value for money.
- Other projects did not provide the headcount reductions expected because the Department's assumptions were over-optimistic. In October 2016 the Department expected to reduce civilian headcount by 7,980 by 2020. In October 2017, it reduced this forecast to 4,370.
- There was no incentive for defence organisations to reduce headcount. Defence organisations were not working towards the Department's headcount target and many were recruiting staff.
- There were conflicting workforce targets. In the 2015 SDSR, the Department committed to reducing its civilian workforce at the same time as increasing military personnel. But the Department also needed to make significant savings, and as military personnel cost more than civilians at the same grade, defence organisations were incentivised to turn military roles into civilian ones, rather than meet the headcount targets.

<sup>19</sup> Some defence organisations have reduced civilian numbers by a larger percentage. For example, the Army has reduced numbers by 12% (1,260 staff), and Air Force by 13% (670 staff).

**Figure 11**  
Civilian workforce by organisation, 2015 to 2018

There has been little change in the size of Ministry of Defence's civilian workforce since 2015



**Note**

1 Civilian workforce figures are measured on a full-time equivalent basis and taken from the Ministry of Defence's statistics publications.

Source: National Audit Office analysis of publicly available Ministry of Defence statistics

## The Department's claimed workforce savings

**3.17** The 2010 civilian headcount reduction target was part of a series of measures to reduce the Department's running costs. Civilian staff cost savings were expected to contribute £1.4 billion of planned efficiencies of £9.7 billion. The Department did not, however, track savings in an auditable way.<sup>20</sup> Similarly, when tracking its progress towards the 2015 SDSR target, the Future Defence Civilian Programme concluded that it was impossible to reconcile changes in headcount with changes in civilian staff costs.

**3.18** In autumn 2017, as part of its negotiation to remove the 30% headcount target, the Department conducted an exploratory exercise to demonstrate to HM Treasury and the Cabinet Office that it could deliver the associated savings target of £310 million. It proposed a new methodology for estimating savings from workforce projects, based on net efficiency savings rather than gross cost reductions.

**3.19** The Department's methodology differed from the intention of the £310 million savings target, which was based on introducing new projects to reduce civilian headcount (paragraph 3.6). We found that £288 million of its claimed savings came from projects already under way or planned at the time the target was agreed. These should not have been counted against the savings target, as they had already been deducted from departmental budgets. In addition, the calculation:

- did not reflect headcount increases in defence organisations that were recruiting and was not, therefore, based on total civilian personnel numbers;
- used an average headcount cost for the reductions that were included, because the link between people and actual costs was inadequate; and
- included £19 million from future projects – which did count towards the £310 million target – but, at this stage, the scope of these projects was uncertain and included measures with unvalidated assumptions, such as that the Department would reduce the number of drivers by around 70%.

**3.20** In January 2018, based on its proposed new methodology, the Department wrote to the Cabinet Office to confirm its commitment to achieving net savings of £310 million from the civilian pay bill by 2020. HM Treasury and the Cabinet Office did not challenge the Department's revised methodology. They relied on the Department to provide accurate information and did not seek any further supporting evidence on the calculations to provide assurance the savings were real, eligible and sustainable. Our recent report on the government's planning and spending framework highlighted the problem of over-optimism. We also found that the Cabinet Office and HM Treasury could have done more to challenge departments' costings.<sup>21</sup>

20 Comptroller and Auditor General, *Strategic Financial Management in the Ministry of Defence*, Session 2015-16, HC 268, National Audit Office, July 2015.

21 Comptroller and Auditor General, *Improving government's planning and spending framework*, Session 2017-2019, HC 1679, National Audit Office, November 2018.

**3.21** In 2018, the Department commissioned a management consultancy to review its wider departmental efficiency programme. In May 2018, the review identified that:

- potential efficiency measures were based on insufficient or inaccurate evidence, and on the assumption that 100% of savings would be achieved;
- there was a lack of change management capacity at the centre of the Department to carry out changes and an absence of clear financial and non-financial baselines; and
- defence organisations were not given incentives to implement efficiency savings because efficiency was not regarded as an enabler; this meant there was no alignment between the priorities of Head Office and the defence organisations.

**3.22** In June 2018, the Permanent Secretary of the Ministry of Defence assured the Committee of Public Accounts that the Department was on track to meet its financial target.<sup>22</sup> In February 2019, the Department wrote to the Committee to correct the public record and acknowledge that it would not achieve its target of saving £310 million by 2020. It explained that his previous assurance was based on its May 2018 external review, which had identified potential opportunities for efficiencies, such as automating administrative processes. At this time, the suggested ideas were speculative and the Department is now seeking to pursue them as part of the wider transformation programme over the next 10 years.

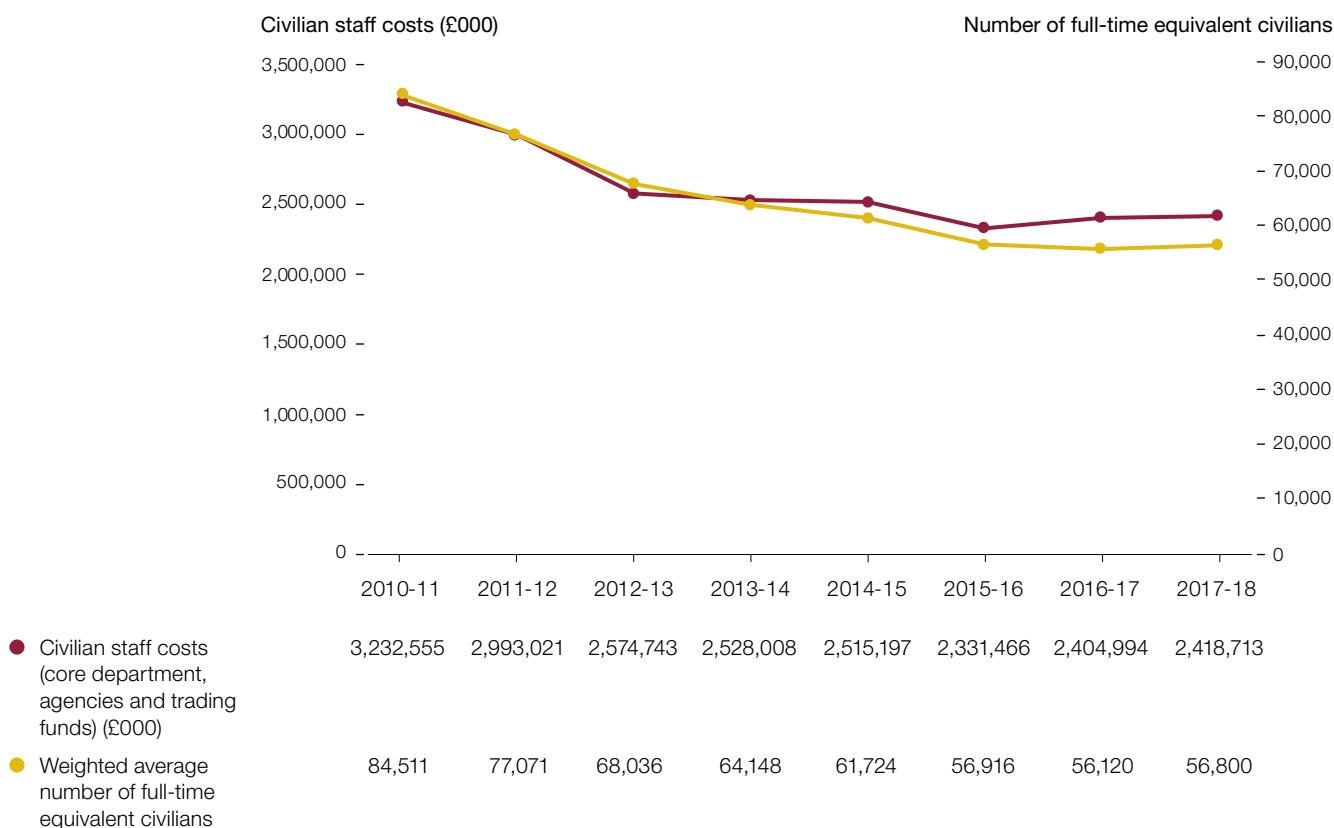
**3.23** The Department does not have a clear view of its entire civilian workforce costs. In its annual report, it includes civilian staff costs for the core top level budgets and agencies, but excludes its trading funds. By adding the costs for these organisations, we calculated that the Department's total civilian staff costs fell from £3.2 billion in 2010-11 to £2.3 billion in 2015-16. Since then, civilian staff costs have increased by £87 million (**Figure 12** overleaf). Core Department staff costs are forecast to continue to rise in 2018-19.

<sup>22</sup> Committee of Public Accounts, Oral evidence: *Skill Shortages in the Armed Forces*, HC 1027, 4 June 2018, Question 144.

### Figure 12

#### Civilian headcount and staff costs, 2010 to 2018

Ministry of Defence reduced its civilian staff costs from £3.2 billion in 2010 to £2.4 billion in 2018



**Notes**

- 1 Civilian staff costs are based on the Ministry of Defence annual report and accounts. We have also included the UK Hydrographic Office in all years, Defence Science and Technology Laboratory until 2016-17 (it was included in Ministry of Defence accounts from 1 April 2017), Defence Support Group until 2014-15 and Meteorological Office until 2010-11.
- 2 Civilian staff numbers are a weighted average for the financial year, as reported in the Department’s accounts.
- 3 Total staff costs as published in the accounts differ slightly, as they include costs of agency staff. We have excluded these costs for consistency.

Source: National Audit Office analysis of publicly available accounts for the Ministry of Defence and its trading funds

# Part Four

## New workforce initiatives

**4.1** This part provides an overview of the Ministry of Defence's (the Department's) new approach to modernising its business and reforming its workforce. Drawing on our previous reviews of government transformation programmes, we assessed whether the Department was establishing the necessary arrangements to introduce the reforms.

### Previous workforce reviews

**4.2** The Department has been considering the potential to reform its civilian workforce for many years, commissioning five reviews on its civilian functions since 2010 (**Figure 13** overleaf). These have reached similar conclusions about:

- limitations in workforce data, which have prevented a detailed, systematic assessment of working practices and the scope for savings;
- inefficient and inconsistent working practices across front-line commands and other delivery organisations (the defence organisations); and
- the areas in which there was scope to reduce the civilian headcount and achieve financial savings.

**4.3** The Department initially identified the potential for savings in its civilian support functions before 2010.<sup>23</sup> The Grimstone Review was commissioned to provide options for reducing the cost of the civilian workforce.<sup>24</sup> It identified duplicate corporate support functions across defence organisations and recommended centralising these teams. The Department commissioned further reviews in 2011 and 2015, which identified the potential to reorganise up to 9,000 administrative posts. Despite being aware of the potential for efficiencies since 2010, the Department has not yet improved its working practices in these areas.

**4.4** The Department still lacks a comprehensive understanding of its civilian workforce three years after it agreed the civilian headcount target. It has recognised that some of its business processes are costly and inefficient because of complex and unnecessary policies, its outdated technology and inefficient use of its whole force. In 2017, it had begun to design projects to modernise its driving and warehousing functions but, as at October 2018, these had not progressed beyond the planning stages.

<sup>23</sup> The 2010 review also highlighted other reviews of the civilian workforce in preceding years.

<sup>24</sup> G Grimstone, *Civilians in Defence*, June 2010, available at: [www.gov.uk/government/publications/grimstone-reports](http://www.gov.uk/government/publications/grimstone-reports)

**Figure 13**

## Ministry of Defence's reviews of civilian personnel functions since 2010

**Ministry of Defence's reviews have reached similar conclusions on the scope for efficiencies**

Name	Findings	Implementation
Civilians in Defence (Sir Gerry Grimstone) (2010)	Central corporate support function would reduce duplication of human resources, finance, vetting and information posts.	Defence Business Services formed in April 2011 after Levene reforms.
	A new business model would strengthen the guarding function.	Not implemented.
	Defence estate should be managed centrally, with defence organisations as tenants.	Defence Infrastructure Organisation formed in April 2011 after Levene reforms.
Admin support staff across the Department (2011)	Need to understand what the 9,000 'admin support' staff do and reorganise them.	Not implemented.
	Improve information systems and technology to reduce need for support staff.	Not implemented.
Sustainable employment model (2015)	Identified opportunities to redistribute workforce costs through outsourcing, common services or reducing services. More detail was needed on what the staff in 'admin support' category do.	No recommendations yet implemented.
Business Improvement Review (2016)	Lack of understanding of the functions and roles of the civilian workforce. No civilian workforce strategy or long-term vision.	Civilian workforce plan (March 2017).
	Civilian workforce should be segmented based on whether roles are best performed in Head Office.	Not implemented.
Defence services value-for-money study (2017)	A wide range of activities performed by 7,550 admin support posts are poorly defined or understood. Potential reductions: <ul style="list-style-type: none"> <li>● 600 to 700 driving posts by March 2019;</li> <li>● 3,100 to 5,200 admin support posts by March 2020; and</li> <li>● 1,200 to 1,400 warehousing posts by March 2021.</li> </ul>	Not yet implemented, now taken forward by business modernisation initiatives.

Source: National Audit Office analysis of Ministry of Defence data



## Implementing the new transformation programme

**4.5** In late 2017, the Department established a new business modernisation programme, drawing on the design principles developed in the Future Defence Civilian Programme. It aimed to identify practical ways of achieving financial savings and reducing its headcount. It considered how to run its business more efficiently and, from this, develop a sustainable organisational structure and workforce, based on consistent business functions and processes. The Department aims to reduce costs by removing unnecessary policy requirements, making better use of digital technology and adopting a ‘whole force’ approach to workforce design.

**4.6** In December 2017, the Department appointed a new chief operating officer (COO) to take senior responsibility for delivering efficiencies across the Department. With the help of a consultancy, it identified a £12 billion shortfall in savings across all defence activities in the 10 years to 2028. The COO commissioned three further management consultancies to help develop the Department’s approach to change and efficiency, including how to make greater use of technology. In 2018 the Department spent £12 million on this work.

### Progress as at December 2018

**4.7** The Department has evolved its business modernisation programme into a wider transformation portfolio, focusing on support, people, technology, acquisition and infrastructure. It plans to develop proposals to transform each of these areas, and has set up governance arrangements to oversee the changes. Its very early estimates suggest the potential to reduce annual costs by up to £3 billion by 2028.

**4.8** The Department is also introducing the government’s functional leadership model, which it believes will bolster the transformation portfolio. It identified scope to strengthen its capabilities and rationalise its approach across 10 core functions.<sup>25</sup> Currently, these functions are fragmented across the defence organisations, leading to inconsistent approaches and limited opportunities for people to develop their skills.

**4.9** As at December 2018, the functional leadership initiatives were at an early stage. The Department had approved the business cases for the finance and commercial functions but was still scoping other initiatives and establishing what funding is available. It expects the functional leadership model to start delivering savings from 2019-20 as part of the wider transformation portfolio to help address the Department’s £12 billion shortfall in savings over the next 10 years. It has not yet developed all of these initiatives to estimate how much the functional leadership model might save in total.

<sup>25</sup> The Department is developing a functional leadership for commercial, communications, corporate finance, digital, finance, human resources, Internal Audit, legal, project delivery and property.

## Implementation challenges

**4.10** The Department's plans to implement its business modernisation programme and the functional leadership agenda together represent a large and complex change programme. Our review shows that the Department's progress in reforming its civilian workforce since 2010 has been hindered by:

- the absence of good-quality management information to assess the potential for efficiencies, understand the potential consequences of headcount reductions and quantify the level of financial savings;
- a lack of clarity over Head Office's role and responsibilities, with limited powers to influence defence organisations;
- defence organisations not being held to account for carrying out their own projects and reforming their workforces;
- a lack of specialist resources and continuity in Head Office, meaning previous reviews of the civilian workforce were overlooked or repeated; and
- the separate management of civilian and military personnel and conflicting targets during 2015–2020.

**4.11** We have reviewed the implementation of change programmes across government and published guidance in 2018.<sup>26</sup> We reviewed the Department's approach against the principles critical to introducing change programmes and found:

- **Vision.** The senior leadership team has set out its vision for the programme but has not yet communicated it across its civilian workforce, setting out the problems it is addressing or being clear about its objectives.
- **Strategy.** The Department has taken a structured approach, dividing the programme into five sub-portfolios and setting implementation milestones for each. It is developing business cases for each portfolio although the plans are at an early stage. Our mapping of the Department's workforce-related programmes shows the scale of the proposals (**Figure 14** on pages 42 and 43). It now faces the challenge of understanding the dependencies and overlaps between these initiatives.

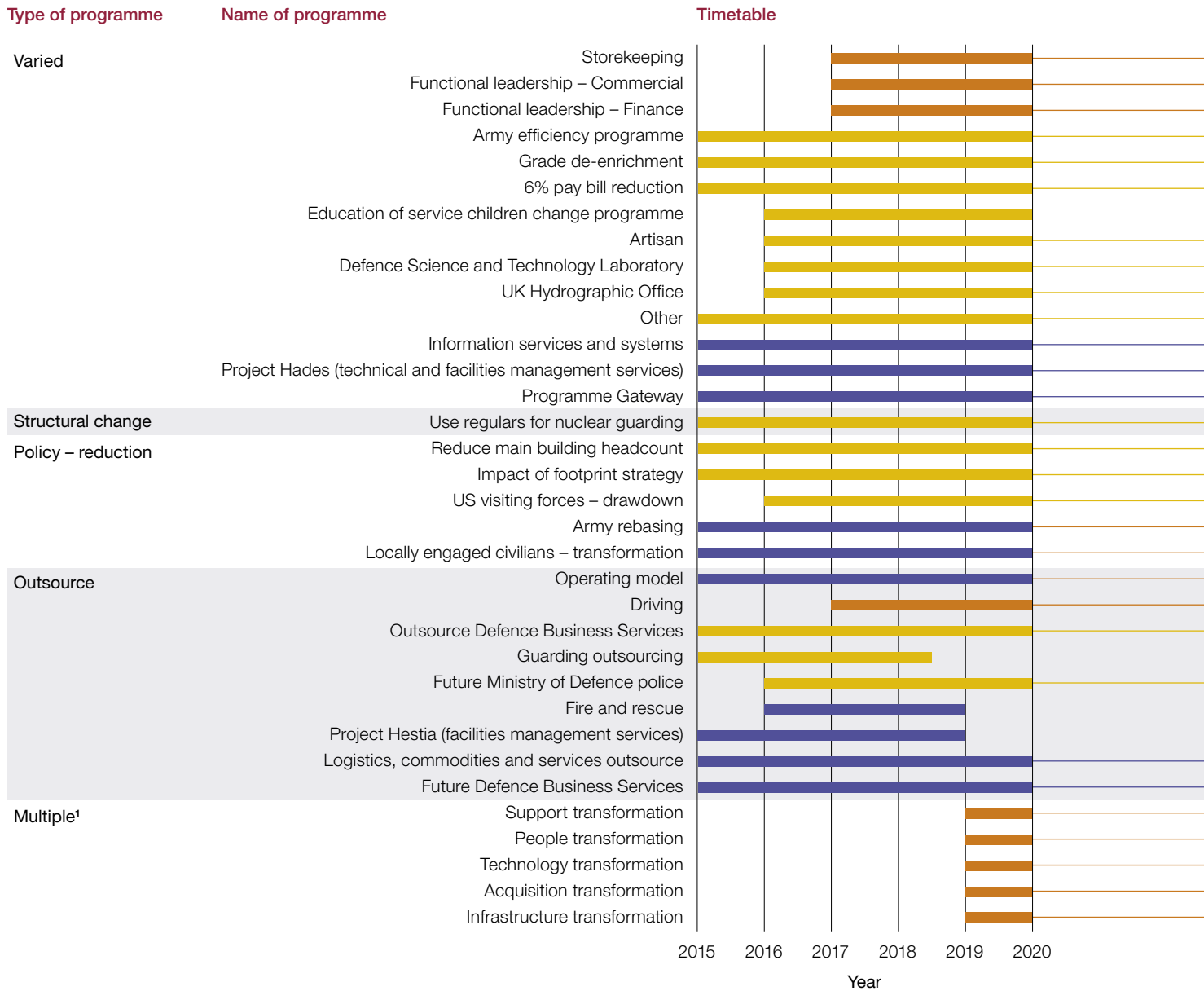
<sup>26</sup> National Audit Office, *Transformation guidance for audit committees*, May 2008.

- **Governance.** The Department has strengthened its leadership and governance arrangements to manage the programme and support decision-making. It has recruited a COO, created a new Transformation Board and invested more resources in its central transformation team. It has established sub-portfolios and will hold the senior responsible owners to account. There will be a risk to delivery if the Department does not ensure continuity in its senior personnel.
- **Data.** The Department recognises the importance of management information but has not yet developed sufficient data or monitoring arrangements to track its progress and measure the impact of changes, including financial savings and non-financial indicators.

**4.12** The Department's change programme is at an early stage of development and the scale of change depends on the availability of funding, for example to invest in new technology and automation. The Department intends to use some of the £1 billion funding allocated in the 2018 Autumn Budget during 2019-20. It will also decide whether to bid for additional funding as part of the 2019 Spending Review process.

**Figure 14**  
Change programmes affecting the civilian workforce

Ministry of Defence is undertaking many programmes relating to its civilian workforce



- Post-2015 programme
- Strategic Defence Security Review 2015 forecast programme
- Pre-existing programme at the time of the 2015 Strategic Defence Security Review

**Notes**

- 1 The Ministry of Defence does not know when the five transformation programmes will start but does not plan to start them at the same time. Support and technology transformation are planned to start in 2019.
- 2 The most recent data is available for most of the change programmes were from December 2017.



# Appendix One

## Our audit approach

**1** This study examined the Ministry of Defence's (the Department's) approach to developing the capabilities it needs from its civilian workforce to meet its current and future defence objectives, while meeting the workforce commitments set out in the Strategic Defence and Security Review 2015. We examined the Department's approaches to:

- introducing strategic workforce planning;
- reducing the civilian workforce since 2010; and
- modernising the workforce.

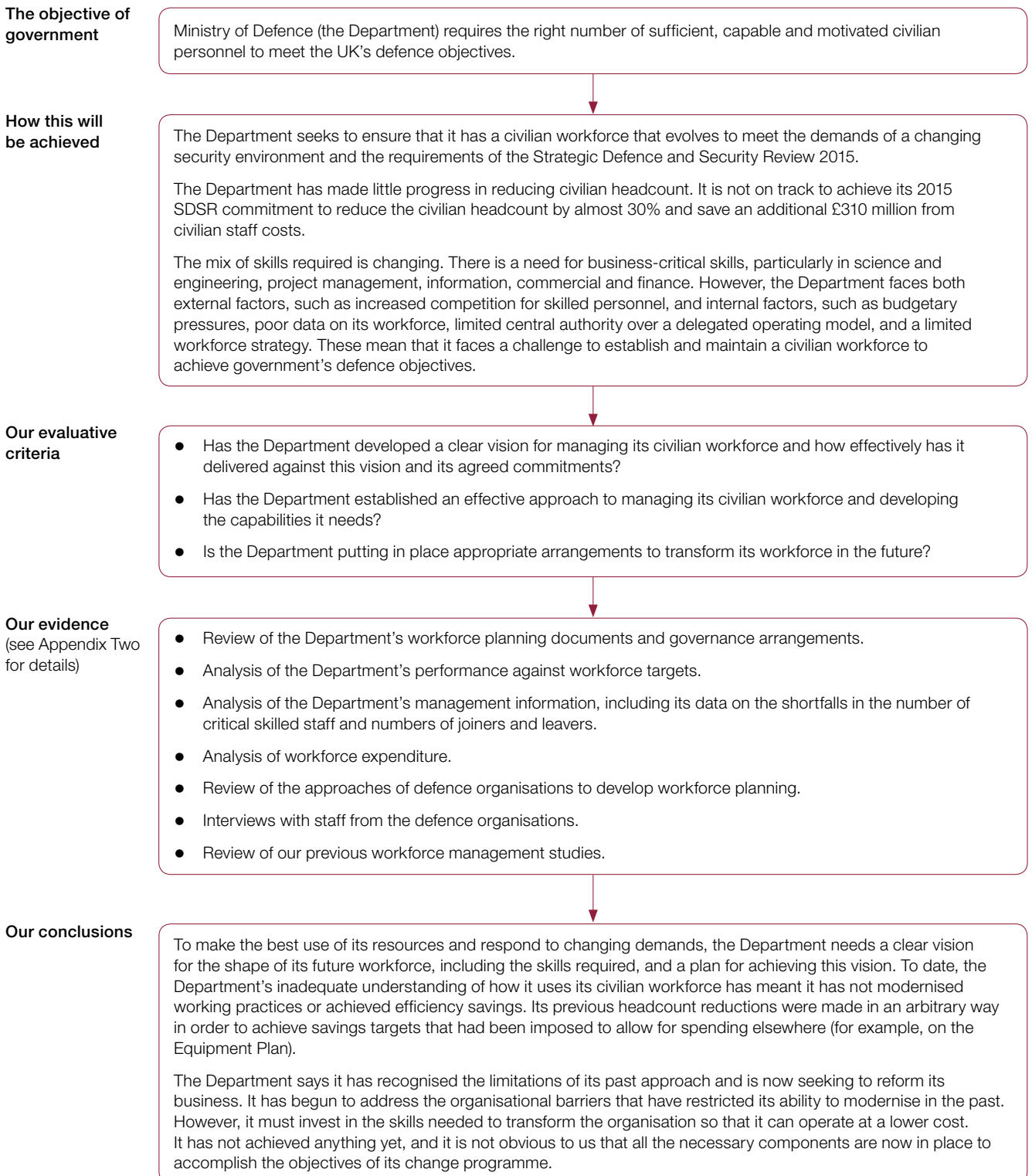
**2** We drew on our previous reports on workforce management to determine good practice when reviewing the Department's approach, particularly our report on ensuring sufficient skilled military personnel.<sup>27</sup> We also drew on the Chartered Institute of Personnel and Development's workforce planning guidance.

**3** Our audit approach is summarised in **Figure 15**. Our evidence base is described in Appendix Two.

<sup>27</sup> Comptroller and Auditor General, *Ensuring sufficient skilled military personnel*, Session 2017–2019, HC 947, National Audit Office, April 2018.

## Figure 15

### Our audit approach



# Appendix Two

## Our evidence base

**1** Our independent conclusions on whether the Ministry of Defence (the Department) has established effective arrangements to manage its civilian workforce were reached following our analysis of evidence collected between August and December 2018.

**2 In considering the Department's approach to establishing its workforce requirements, we:**

- reviewed the Department's strategic planning documents, particularly the 2015 Strategic Defence and Security Review, which describe the Department's assessment of its future needs; its objectives over the following decade; and the equipment and workforce it requires to meet these objectives;
- held semi-structured interviews with the Department's staff and reviewed internal planning documents to determine the process by which government and the Department set budgets and identified workforce needs, including the basis on which headcount targets were set; and
- analysed the Department's published workforce data to assess its performance against workforce targets. This included performance against headcount and savings targets. We also reviewed the data to provide time-series data on the number of civilian staff compared with its target, and annual inflow and outflow rates.

**3 In considering the Department's understanding of its capability gaps, we:**

- analysed the Department's internal data on shortages in the civilian workforce that have a detrimental impact on operational effectiveness and the sustainability of the trade group. This included quantitative breakdowns of the level of shortages by trade; the consequences of shortfalls; and the Department's mitigating actions;
- reviewed the Department's research on external factors, such as economic conditions, which can affect its ability to recruit and retain personnel;
- reviewed the results of the Department's civil service people survey, which includes workforce-related data, such as views on pay and benefits; and
- reviewed how the Commands – the Navy, Army, Royal Air Force and Joint Forces Command – monitored the impact of shortfalls and their approach to managing the consequences. This included reviews of classified documents.



**4 In considering the Department's current approach to developing the capability it needs, we:**

- reviewed the Department's documents that set out its governance arrangements and approach to managing its workforce. We reviewed its arrangements against the main principles of workforce management, drawing on guidance from the Chartered Institute of Personnel and Development and previous National Audit Office reports;
- conducted semi-structured interviews with senior personnel within Head Office, as well as staff within defence organisations who are responsible for managing the regular workforce;
- analysed the Department's financial data on workforce expenditure, including its management information on defence organisations' use of workforce-related budgets; and
- reviewed our previous value-for-money reports to identify examples of how the Department's initiatives and cost-saving measures have affected its ability to recruit, train and retain personnel.

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National Audit Office

Design and Production by NAO External Relations  
DP Ref: 004977-001

£10.00

ISBN 978-1-78604-244-6



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