



National Audit Office

DEPARTMENTAL OVERVIEW 2019

MINISTRY OF DEFENCE

OCTOBER 2019

MINISTRY OF DEFENCE

This overview summarises the work of the Ministry of Defence including what it does, how much it spends, recent and planned changes, and what to look out for across its main business areas and services.

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The National Audit Office (NAO) helps Parliament hold government to account for the way it spends public money. It is independent of government and the civil service. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether government is delivering value for money on behalf of the public, concluding on whether resources have been used efficiently, effectively and with economy. The NAO identifies ways that government can make better use of public money to improve people's lives. It measures this impact annually. In 2018 the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £539 million.

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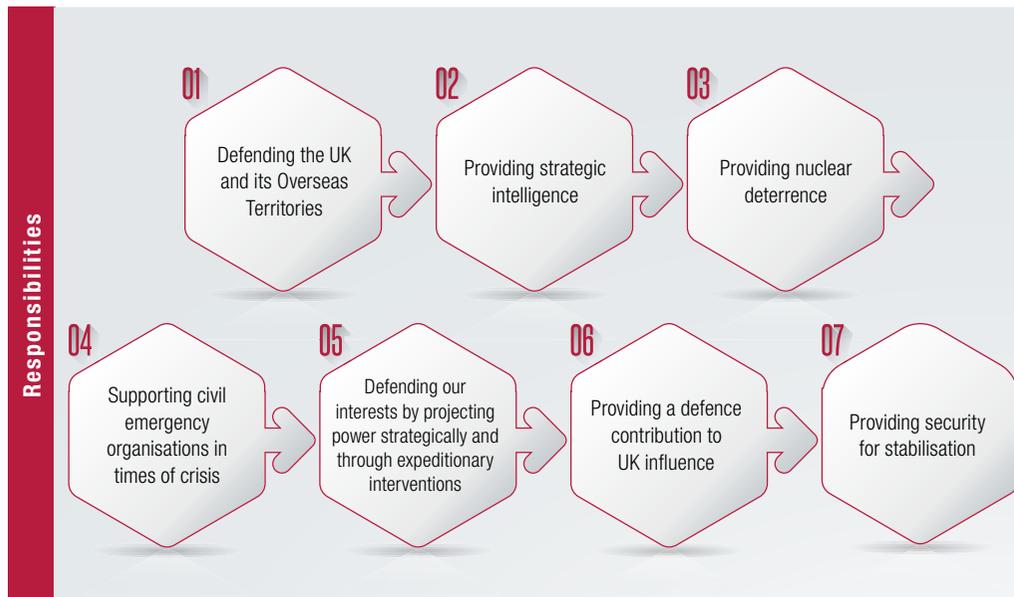
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About the Department

The Ministry of Defence (the Department) is both a Department of State and a military headquarters. It is responsible for providing the military capability necessary to deliver the government’s objectives and define future military requirements. Its main purpose is to deliver, alongside other government departments, security for citizens of the UK and the Overseas Territories by defending them, including against terrorism, and to act as a force for good by strengthening international peace and stability.



Source: Ministry of Defence Single Departmental Plan and Strategic Asset Management Plan

Long-term strategic direction

The Department undertakes Strategic Defence and Security Reviews (SDSR), most recently in 2015, to set policy for the next five years. In 2017, the government launched a National Security Capability Review (NSCR) to support the implementation of the SDSR.

Following the conclusion of the NSCR, the Department undertook the Modernising Defence Programme during 2018 to plan how to respond to the changing international security context and to deliver better military capability and value for money. The Department published interim headline findings in July 2018, and in December 2018 announced a final update. This concluded that the Department had “established a set of policy approaches and capability investments that will help us keep on track to deliver the right UK Defence for the coming decade”.

This work identified three broad priorities, which the Department has stated are to:

- mobilise to make the most of existing capabilities;
- modernise to embrace new technologies to assure its competitive position; and
- transform to radically improve the way it does business.

Spending Round

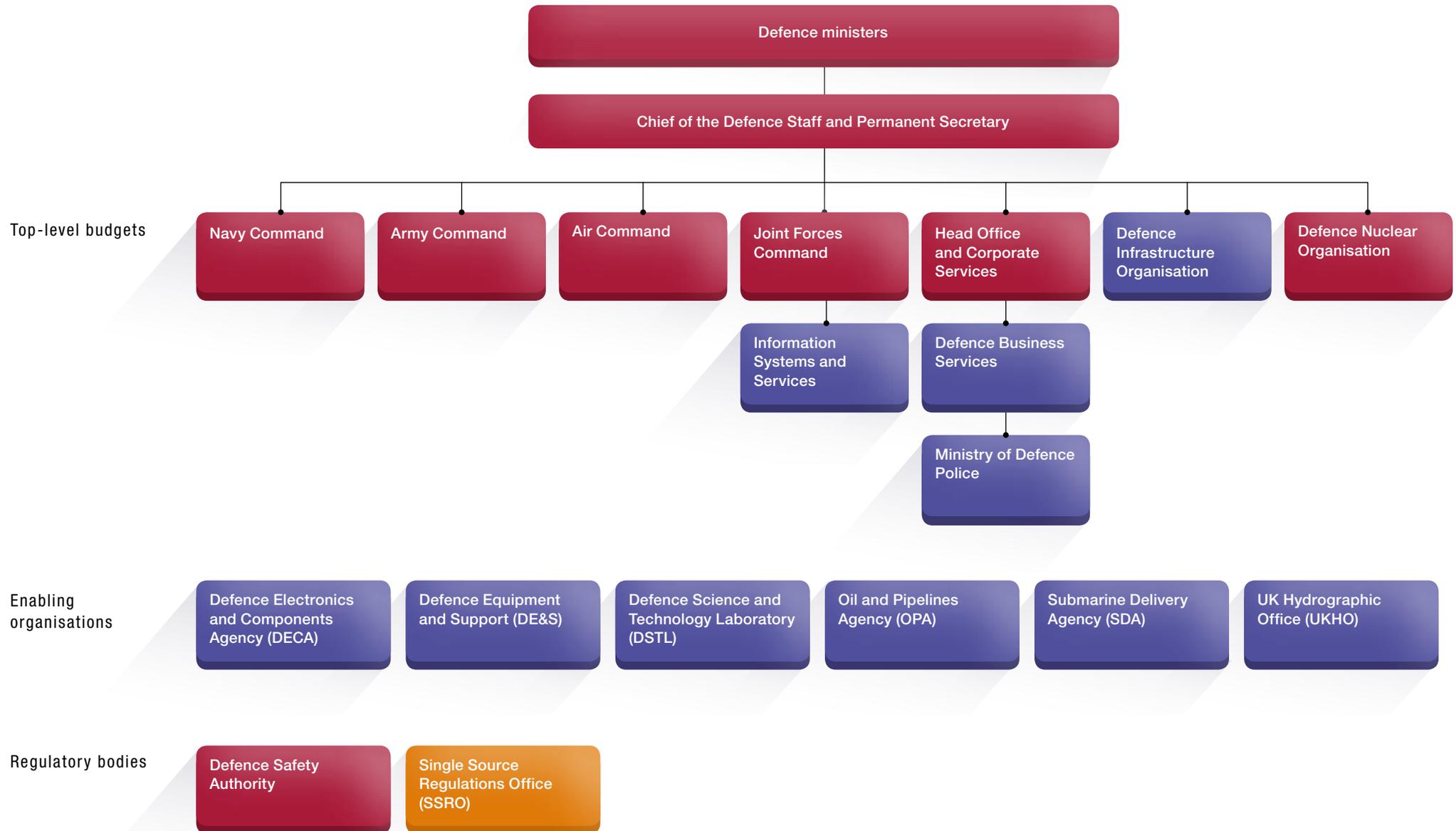
The 2019 Spending Round announced £2.2 billion of additional funding for the Department in 2019-20 and 2020-21, including £700 million for increased employer pensions contributions, and £1.5 billion on new and priority capability programmes.

Focus of National Audit Office work

Over the past year our work has focused on whether the Department’s plans are affordable; how it plans to deliver major programmes and manage its commercial relationships; and whether it has the right skills among both military and civilian personnel to deliver its objectives. We have also examined a number of key contracts – for army recruitment, submarine defueling and dismantling, and military flying training.

How the Department is structured

The Department is organised into seven top-level budgets, a portfolio of enabling organisations and regulatory bodies:



Where the Department spends its money

In 2018-19, spending by the Department was £38.1 billion. This total is made up of both cash resource delegated expenditure limits and capital delegated expenditure limits. Delegated expenditure limits represent the government budget allocated to the Department for the year. This expenditure consists of spend on civilian and military staff, infrastructure, equipment support costs and investment in military equipment.

The total does not include: adjustments to the accounts, such as the impact of changes to the HM Treasury discount rate on the valuation of nuclear decommissioning provisions; non-cash depreciation and impairment of non-current assets; and adjustments to correct errors in prior-period balances. In 2018-19 the net effect of these movements was £0.02 billion.

Spending across major business areas

Capital expenditure and equipment support

The Department spent £10.3 billion on capital items, including equipment, and £6.8 billion on equipment support (45% of total defence spending).

The Department's forecast costs for its equipment plan exceed budgets by £7 billion over the next 10 years, although in some scenarios costs could increase further (see [page 15](#)).

People

The Department spent £12.6 billion¹ (33% of total defence spending) on personnel, of which £9.9 billion was for service personnel.

Defence capability

Other key areas of spend include £4.3 billion on infrastructure, £1.7 billion on administration, and £1.2 billion on inventory consumption.

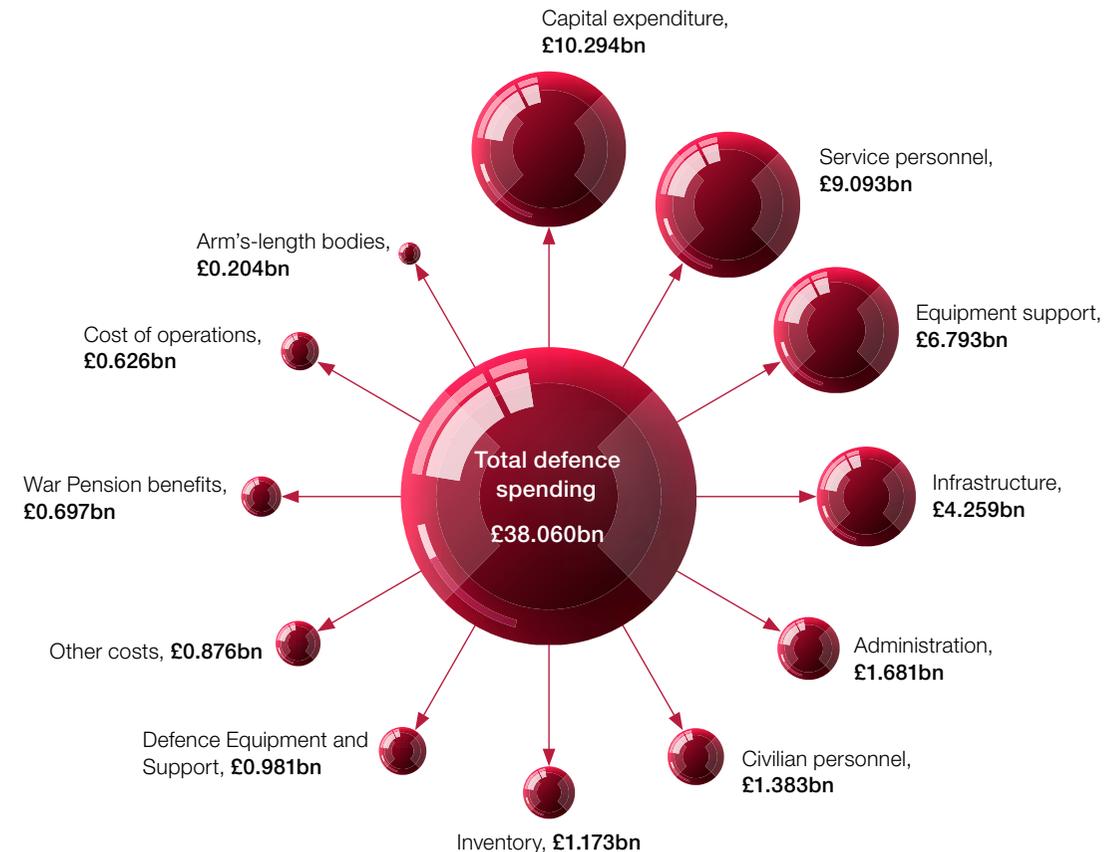
Operations

The cost of operations and peacekeeping in 2018-19 was £0.6 billion.

Note

¹ The £12.6 billion figure does not reconcile directly to personnel spend in the diagram opposite, as a number of other categories contain personnel spend, including Defence Equipment & Support and other arm's-length bodies.

Breakdown of total defence spending, 2018-19



Notes

- Total defence spending is non-ringfenced cash resource Departmental Expenditure Limits (DEL) and capital DEL plus the cost of operations. Non-ringfenced cash resource DEL refers to cash available to the Department for spending on Defence capability. It excludes depreciation and impairment costs, which are included in ringfenced DEL.
- Administration includes all administration costs relating to other costs and services, cash release of provisions and cost of military and civilian personnel who perform an administrative role.
- Other costs includes other costs and services, receipts and other income, cash release of provisions and research and development costs related to provision of Defence capability.
- Capital expenditure includes capital expenditure related to operations.

Source: Ministry of Defence, *Annual Report and Accounts 2018-19*

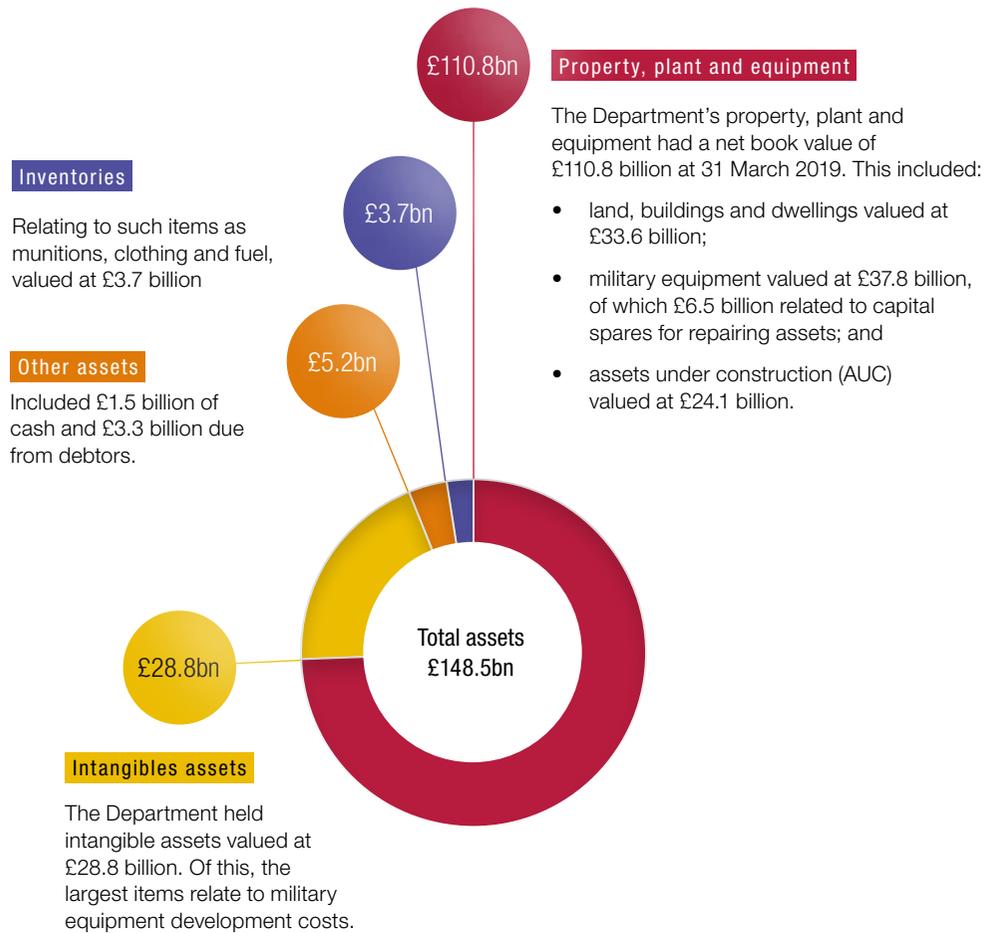
The Department's assets and liabilities

The Department's financial position

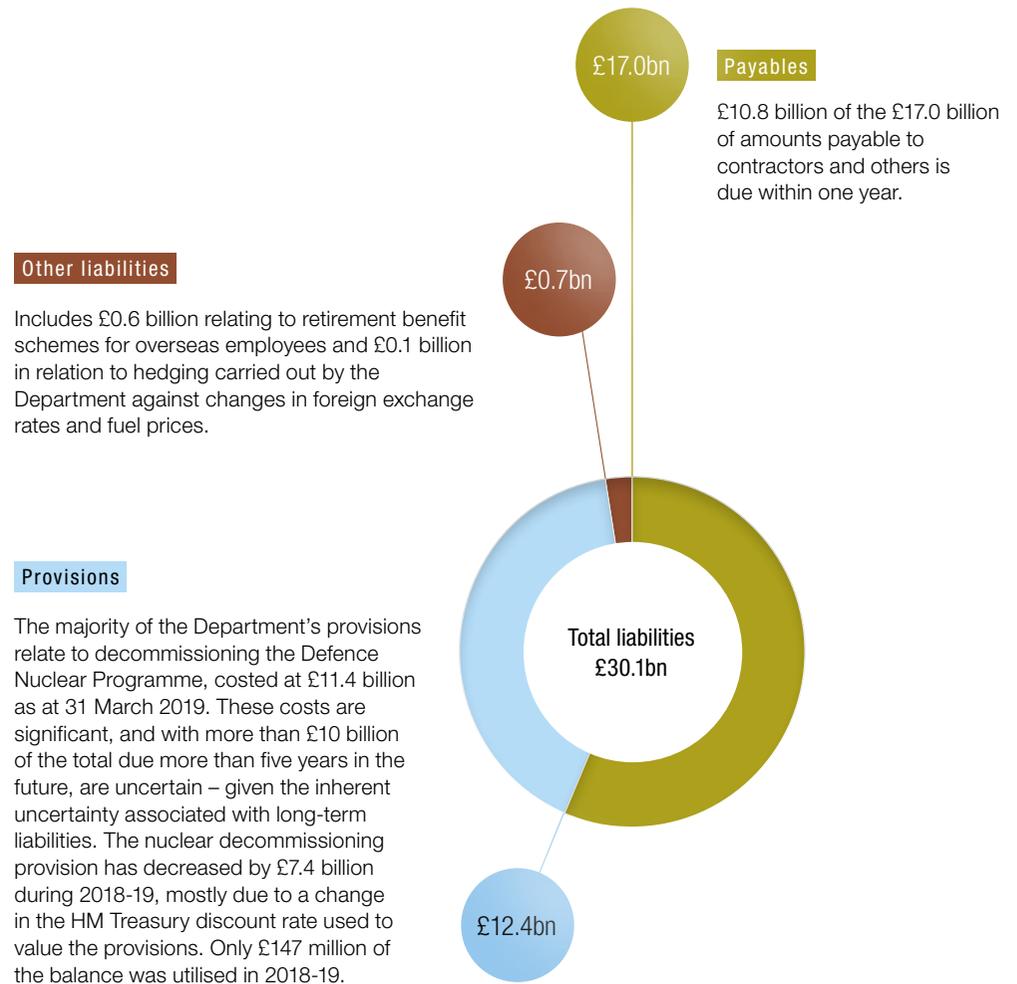
The following diagrams show the key components of the Department's Statement of Financial Position (balance sheet). They show the assets of the Department (the resources it owns and controls in furtherance of its objectives) and its liabilities and obligations. Together these show the economic position of the Department, its financial stability and the potential risks that it must manage.

2018-19 Departmental asset and liability breakdown

Assets



Liabilities



Major developments in 2018-19

Major developments and programmes

Strategic developments

Autumn Statement 2018

In the Autumn Statement of 2018, the government announced a further £1 billion funding for the Ministry of Defence. The Department has ringfenced £160 million to create a Transformation Fund and expects to increase this funding in the next five-yearly Strategic Defence and Security Review, which is due in 2020.

Modernising Defence Programme

The Modernising Defence Programme, which concluded in December 2018, set out, in broad terms, the work being done to mobilise the armed forces and modernise them through the delivery of Joint Force 2025. It had a more modest scope than originally indicated by the Department. It did not include a refreshed operating model, clarity on the future civilian workforce, or a strategy to make the Equipment Plan affordable, as previously indicated by the Department. The Programme has, however, led to the establishment of a wide-ranging transformation portfolio covering people, support, digital and IT, and acquisition.

Single Departmental Plan

In its Single Departmental Plan, updated in June 2019, the Department said it would transform the way it does business in the future by:

- delivering savings and efficiencies across Defence by implementing the new portfolio approach to transformation;
- ensuring that the Defence programme is balanced, affordable and cost-effective;
- delivering a modernised and reformed Department of State by developing an improved defence operating model that is fit for today and in the future;
- spending £178 billion on Defence Equipment and Support over 10 years and providing annual reporting and assurance of the Defence Equipment Programme;
- working to ensure that public appointments made by Defence contribute to realising the ambition that by 2022, 50% of all public appointees are female and 14% of all public appointments made are from ethnic minorities; and
- contributing to 'greening' government and construction strategy objectives.

In the 2019 Spending Review the Government announced that it was increasing funding by £2.2 billion in Defence over this year and next.

Major developments in 2018-19

Major developments and programmes *continued*

Defence projects and programmes in the Government Major Projects Portfolio

The Department has 35 projects in the Government Major Projects Portfolio, the largest number for any department and more than one-quarter of the total portfolio. Twelve are rated higher risk ('red' or 'amber-red') and three lower risk ('green' or 'amber-green').

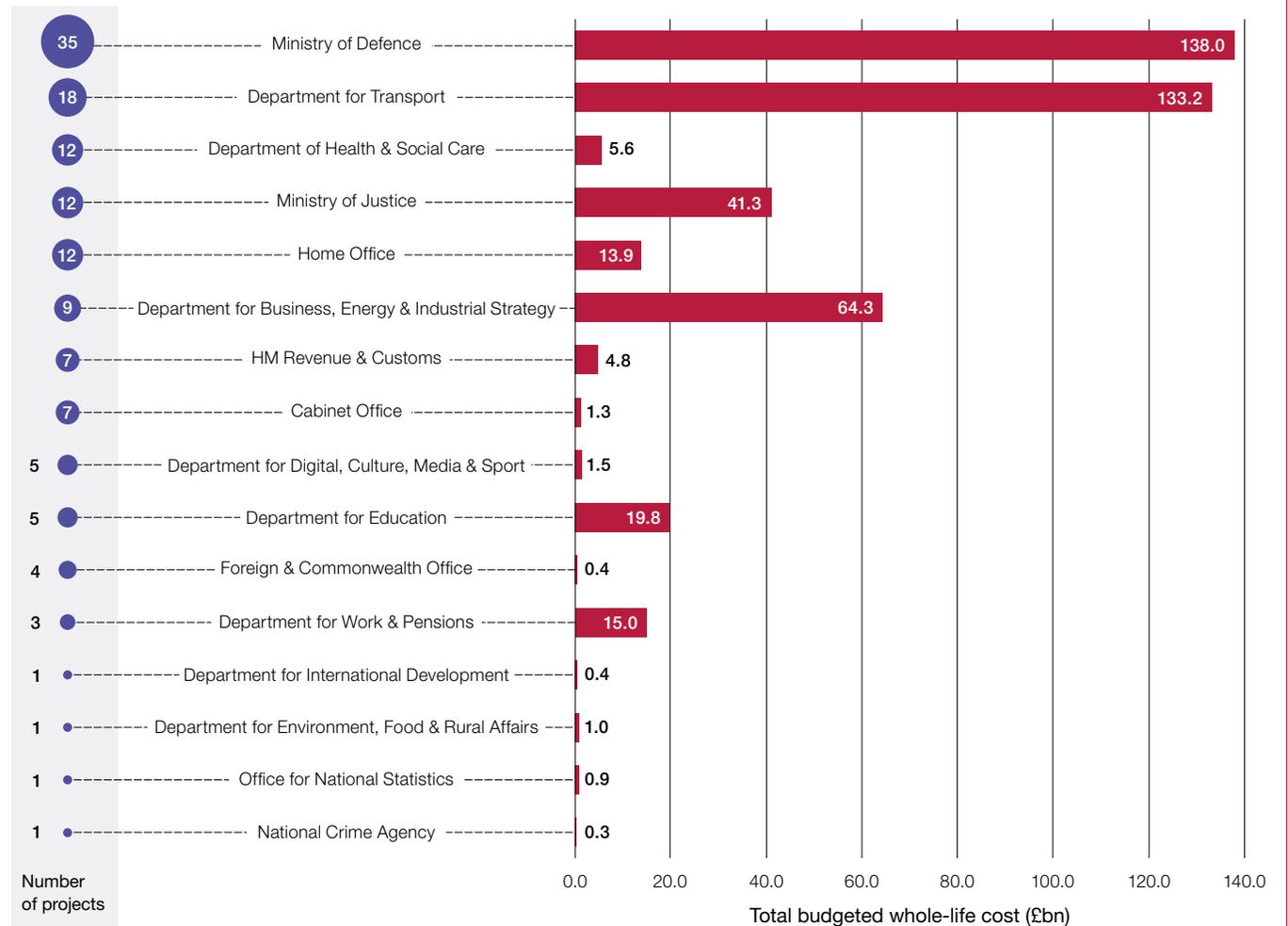


In October 2018, our report on *Projects leaving the Government Major Projects Portfolio* highlighted that projects to deliver 'military capability' were the second largest category both in terms of number and costs, and that they are some of the longest-standing.

We also highlighted that there was a lack of transparency as to why projects join or leave the portfolio. In the case of the Department's civilian workforce programme, it was impossible to find out whether the intended benefits had been delivered. We also found that Defence capability projects do not typically report monetised benefits, so it is more difficult to determine whether or not the project has succeeded.

Government Major Projects Portfolio summary by department – project number and whole-life cost

The Ministry of Defence has the largest number of projects in the portfolio



Source: Infrastructure & Projects Authority, *Annual Report on Major Projects 2018-19*

Major developments in 2018-19

MoD approaches to procurement of projects and programmes

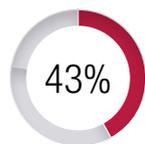
Use of competition

The Department's expenditure with industry represents more than 40% of all UK government procurement spend. The government's approach to Defence procurement was set out in its 2012 white paper *National Security through Technology*, which stated that:



... wherever possible, we will seek to fulfil the UK's defence and security requirements through open competition in the domestic and global market, buying off-the-shelf where appropriate."

The Department spent £24.8 billion on all contracts in 2018-19, of which £10.7 billion were competitive (43%), £8.6 billion non-competitive (35%), and £5.5 billion (22%) where the Department did not record whether or not the expenditure was competitive. Of the major projects reported on in the Department's 2018 Equipment Plan (see following pages), five of 27 were let competitively, partly due to the desire to maintain the ability to generate key capabilities at sites within the UK.



£10.7bn
Competitive



£8.6bn
Non-competitive



£5.5bn
Not recorded

Prosperity agenda

In the 2015 Strategic Defence and Security Review, the Department formally included within its objectives the promotion of prosperity, promising to contribute to the UK's economic security. During 2018-19, the Department developed this further by publishing:

- *Growing the Contribution of Defence to UK Prosperity* by Philip Dunne MP (July 2018). This review highlighted the contributions made by Defence to UK national life, economic growth, people, ideas and place. In addition, it made a number of recommendations for the Secretary of State to improve the agility of Defence to procure the capability it needs and to meet future challenges.
- *Combat Air strategy* (July 2018). This is intended to enable the UK to reap the economic, international and strategic benefits of a major role in a future Combat Air acquisition programme.



In April 2019, the Department launched *Defence Industry Vision 2025* setting out how government and industry can work together to improve the productivity of the UK Defence sector and ensure the armed forces obtain the capabilities they need in the future.

The procurement route pursued by the Department for major projects/programmes announced since April 2018 is set out in the table below.

Major projects/programmes	Procurement route	Estimated contract value
Type 31e frigates	Competition (under way)	£1.25 billion (excluding equipment provided by government)
RFA Fleet Solid Support ships	Competition (under way)	Not yet known
Boeing E-7 Wedgetail airborne early warning aircraft	Single source from US firm	\$1.98 billion
Boxer 8x8 Mechanised Infantry Vehicle	Single source from German/Dutch consortium through European inter-governmental agency	£4.4 billion
H-47 Chinook helicopters (Extended Range)	Single source through US government	\$3.5 billion

Source: Ministry of Defence and defence industry press releases

Major developments in 2018-19

Major equipment programmes in the 2018 Equipment Plan

The following table shows the major equipment programmes included in the Department's 2018 Equipment Plan (published October 2018).

Known timetable slippages and cost overruns are highlighted in red:

Project	Description	Lead contractor	Procurement route	Expected cost at approval (£m)	Forecast cost (£m)	Expected in-service date at approval	Forecast in-service date in Plan
Ajax	Armoured fighting vehicle	General Dynamics UK, subsidiary of US firm	Competitive	5,479	5,454	Jul 2020	Jan 2020
Apache Capability Sustainment Programme	Sustainment of attack helicopter	Boeing, US firm	Single source through US government	1,778	1,646	Apr 2022	Apr 2022
Brimstone Capability Sustainment Programme	Sustainment programme of air to ground missile	MBDA, France/UK/Italy joint venture	Single source	521	519	Oct 2022	Oct 2022
Future Anti-Surface Guided Weapon (Heavy)	Air to ground missile	MBDA, France/UK/Italy joint venture	Single source	392	360	Oct 2020	Oct 2020
Future Anti Surface Guided Weapon (Light)	Air to ground missile	Thales Air Defence Limited, UK subsidiary of French firm	Single source	311	294	Oct 2020	Oct 2020
Sea Ceptor on Type 23 Frigate	Integration of missile onto ship	MBDA, France/UK/Italy joint venture	Single source	850	851	Nov 2016	May 2018
Sea Ceptor on Type 26 Frigate	Integration of missile onto ship	MBDA, France/UK/Italy joint venture	Single source	130	128	Dec 2019	Dec 2019
ASRAAM Sustainment (Main Gate 1)	Upgrade of air-to-air missile	MBDA, France/UK/Italy joint venture	Single source	415	410	Nov 2018	Nov 2018
ASRAAM Sustainment (Main Gate 2)	Upgrade of air-to-air missile	MBDA, France/UK/Italy joint venture	Single source	246	240	Aug 2022	Aug 2022
SPEAR Capability 3	Air to ground missile	MBDA, France/UK/Italy joint venture	Single source	473	472	No date yet approved	
Lightning II	Fighter/attack aircraft	Lockheed Martin, US firm	Single source	8,948	8,359	Dec 2018	Dec 2018
Marshall	Air traffic control system	Aquila ATMS Ltd, joint venture between UK firm and UK subsidiary of French firm	Competitive	1,890	1,890	Feb 2017	Jun 2019
Meteor integration onto Lightning II	Integration of missile onto aircraft	MBDA, France/UK/Italy joint venture	Single source	80	75	No date yet approved	
Protector	Unmanned aircraft	General Atomics Aeronautical Systems Inc., US firm	Single source (some elements procured through US Government)	704	982	Jul 2021	Jul 2023
Queen Elizabeth Class aircraft carriers	Aircraft carrier	Aircraft Carrier Alliance (UK, including subsidiaries of overseas firms)	Single source	3,541	6,251	Jul 2015	Feb 2018
Tide class tankers	Naval logistics support	DSME, Republic of Korea firm	Competitive	596	550	Oct 2016	Dec 2017

Major developments in 2018-19

Major equipment programmes in the 2018 Equipment Plan *continued*

Project	Description	Lead contractor	Procurement route	Expected cost at approval (£m)	Forecast cost (£m)	Expected in-service date at approval	Forecast in-service date in Plan
Type 26 frigates	Global combat ship	BAES, UK firm	Single source	4,346	4,242	Oct 2027	Oct 2027
Warrior Capability Sustainment Programme	Infantry fighting vehicle	Lockheed Martin UK, subsidiary of US firm	Competitive	1,319	1,550	Nov 2018	Mar 2023
Astute (boats 4-7)	Attack submarine	BAES, UK firm	Single source	5,859	6,896	Aug 2015	Aug 2019
Core production capability	Nuclear core manufacturing facility	Rolls Royce Power Engineering, UK firm	Single source	1,385	1,667	Jun 2026	Oct 2025
Dreadnought	Ballistic submarine	BAES, UK firm	Single source (some elements procured through US government)	8,051	8,051	Date withheld	
New style of IT (deployed)	Information capability for the front line	ATLAS consortium	Single source (contract extension)	166	144	Mar 2018	Sep 2018
P-8A Poseidon	Maritime patrol aircraft	Boeing, US firm	Single source through US Government	2,392	2,207	Apr 2020	Apr 2020
Sky Sabre	Ground based air defence system	Rafael, Israeli firm	Competitive	618	595	Mar 2020	Nov 2020
Typhoon: Meteor integration	Integration of beyond visual range air-to-air missile	Eurofighter consortium (UK and overseas)	Single source	130	107	Jun 2018	Jun 2018
Typhoon: Storm Shadow integration	Integration of deep strike missile	Eurofighter consortium (UK and overseas)	Single source	172	114	Aug 2018	Aug 2018
Typhoon: Brimstone 2 integration	Integration of precision attack missile	Eurofighter consortium (UK and overseas)	Single source	186	204	Dec 2018	Dec 2018

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Summary of current cost and time variations on major projects and programmes (above) by type of procurement		Average estimated cost overrun/ (saving) against approval (£m)	Average estimated delay against approval (months)
	Single source from UK firms or subsidiaries, alone or with others (18 projects)	210	5
	Single source through US government or overseas firms (4 projects)	(157)	6
	Competitive (5 projects)	27	19

Exiting the European Union

In October 2019 the United Kingdom (UK) is set to leave the European Union (EU). This is not expected to affect many of the UK's multinational and bilateral defence arrangements, but has other implications.

Things that will not change:

Permanent seat on the United Nations Security Council.

Relationships with NATO and roles in its missions, such as NATO's Enhanced Forward Presence and Response Force.

Commitment to European defence and security.

Intergovernmental arrangements, for example defence intelligence sharing.

Things that may change:

Membership of the European Defence Agency (a Council of the European Union intergovernmental agency)

Participation in EU Common Security and Defence operations and missions.

Participation in EU programmes, for example defence research funding.

HM Treasury has allocated the Department £12 million in 2019-20 for work on EU Exit.

The Department has 13 active workstreams relating to leaving the EU. These cover defence cooperation, defence sector issues including procurement, overseas bases and people overseas. Specific examples include planning the UK's post-EU Exit relationship with the EU's Common Security and Defence policy, and future European Defence Agency cooperation.

Work in preparation for EU Exit

The Department assigned 257 civil servants to other government departments in preparation for the UK to leave the EU, as well as 61 internally to work on EU Exit within the Department. By 23 May 2019, all but 10 of these had returned from these roles. On 23 May, the Department published *The defence sector and preparing for EU exit*, which included guidelines on importing and exporting, employees, regulations, data, trade associations and operating in the EU.

Other work under way within the Department:

- As part of the development of a Defence People Strategy, an assessment of the Department's ability to compete in markets for more specialist skills in light of the UK's planned exit from the EU.

- A significant amount of coordinated work undertaken to understand and plan for the impact of EU Exit and to mitigate risks with UK strategic suppliers and the extended supply chain.
- The Department's Executive Committee's consideration of contingency planning for EU Exit, including: cross-government requirements of the Defence estate; allocation of service personnel and civil servants to support no-deal planning; and implementation.

The Defence Board expects to be considering EU Exit matters as part of its work in the coming year.

Managing public money

Expenditure

The government has committed to increase the defence budget by 0.5% above inflation annually during this Parliament, but this budget continues to be under pressure.

The diagram opposite shows the Department's spend against its delegated expenditure limits (government budget allocated to the Department for the year). In addition to the outturn of £38.1 billion as reported on page 5, this diagram also includes £6.8 billion of non-cash costs such as depreciation and impairment of non-current assets.

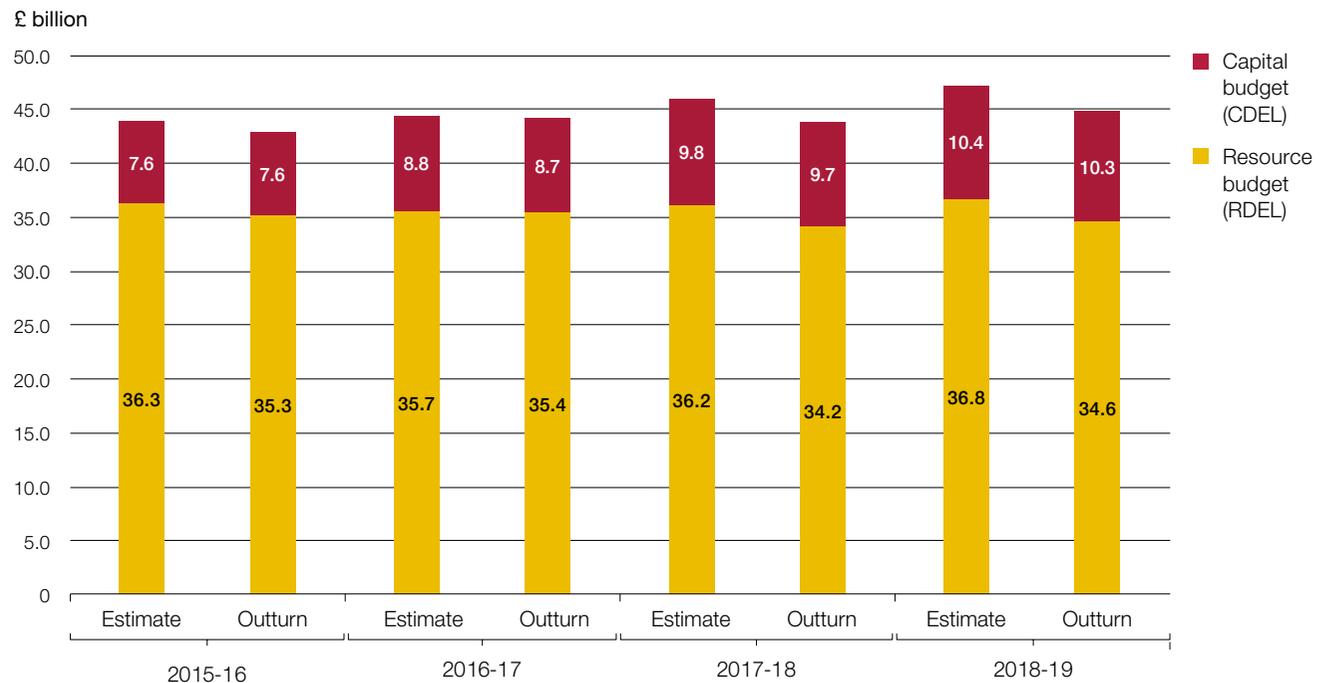
The Department's outturn was £2.2 billion, or 5.9%, below its total resource budget (RDEL). The majority of this variance was non-cash and arose partly because the Department did not write-down the value of as many assets as it originally proposed. The variance between estimate and outturn on non-ringfenced cash expenditure was £22 million against a budget of £27.2 billion, or 0.1%.

The Department has spent on, or close to, its capital budget (CDEL) in each of the past four years, outturn in 2018-19 being £10.3 billion against a budget of £10.4 billion. The Department would be vulnerable if the outturn cost of planned equipment exceeded budgets over the lifetime of projects, and the value of sterling continues to decline.

Prior-period adjustment

As part of its ongoing Financial Management Improvement Plan, the Department conducted a number of reviews designed to improve the quality of its financial reporting, taking the opportunity to correct a number of historical omissions which were previously assessed as immaterial both individually and in aggregate. This resulted in adjustments to the value of raw materials and consumables, tangible and intangible non-current assets, and nuclear decommissioning and other provisions. The 2018-19 outturn includes £1.1 billion in relation to non-budget costs that arose from these adjustments.

Ministry of Defence outturn against supplementary estimates 2015-16 to 2018-19



Note

1 Total defence spending is made up of £27.8 billion non-ringfenced cash RDEL and £10.3 billion CDEL. Total RDEL outturn is made up of the £27.8 billion plus £6.8 billion ringfenced non-cash resource DEL.

Source: Ministry of Defence, *Annual Report and Accounts 2018-19*

The Department's accounts have been qualified for the past 10 years

In 2018-19 the Comptroller and Auditor General qualified his opinion on the Department's accounts for a tenth year in succession. This was because the Department has not established whether contracts that contain lease-type arrangements constitute finance leases. As a result, a material value of leased assets and liabilities were omitted from the accounts.

A new leasing standard, IFRS 16, will become effective from 1 April 2020. The Department is in the process of preparing for this new standard, and in doing so will need to consider the wider implications of the standard on the full range of its activities, including the potential impact on the accounts qualification. It will need to commit sufficient resources to enable it to manage and report lease data and will need to work with its suppliers to obtain better contractual information supporting the utilisation of assets.

Managing public money

Risks to managing public money

The table below describes recent developments in some of the Department's main categories of risk, as identified in the Department's Governance Statement.

Risks	Key themes and recent developments
Workforce and skills	<p>The Department is:</p> <ul style="list-style-type: none"> • facing significant challenges in recruiting and retaining personnel in areas such as engineering, commercial, project management, cyber and information; • developing a Defence People Strategy and a People Transformation Programme to cover civilian and military personnel, close skills gaps, secure new skills and build resilience; • modernising the 'offer' for military personnel, with more flexible accommodation, better work/life balance and more inclusive system; • addressing recommendations from recent NAO reports, including resolving critical skills pinch points, better use of data and collaborative working; and • introducing new routes to anonymously report inappropriate behaviour and setting up a centralised body to set policy and measure performance.
Business and financial planning	<p>Finding a sustainable, long-term balance between the available budget and the cost of the programme remains challenging. The Department says it has improved transparency of the budget-setting process and discussions between Head Office and top-level budget holders, supported by regular information sharing.</p>
Commercial capability and governance	<p>There is still a shortage of professional commercial staff, although the Department is reducing this by investing in commercial leadership and introducing a skills allowance to encourage recruitment and retention of professionals. The Department is also delivering training for its commercial function and beyond.</p>
Strategic suppliers and the supply chain	<p>The Department monitors supply chain fragility, including by understanding its indirect suppliers and planning for EU Exit. The Department has restructured the Defence Supplier Forum, appointed a commercial director, supply chain and established a programme management office in its strategic supplier management.</p>
Contingent liabilities	<p>In 2017 and 2018 the Department found that it had failed to follow reporting procedures to notify Parliament of contingent liabilities when agreeing contracts. This year it has delivered training to 1,300 staff to ensure that they understand the requirements, together with new internal guidance. The work is ongoing.</p>
Estates	<p>The fabric of the built estate continues to decline, except where infrastructure assets are included in programmes or Private Finance Initiatives. The Department is investing £1.5 billion over five years to deliver a smaller, more modern and capability-focused built estate. Infrastructure expenditure has now been fully delegated to the top-level budget holders (for example, the Commands), supported by the Defence Infrastructure Organisation and a newly established Infrastructure Function.</p>
Safety	<p>Defence activities are often inherently dangerous. Risk owners take responsibility for safety and the Defence Safety Authority provides assurance of compliance with appropriate policies and regulations. The Department has established a new director role and committee to provide a pan-Defence forum for safety performance, risks and issues.</p>
Management information	<p>The lack of quality management information remains a significant control risk, with a number of fragile legacy systems in place. A digital and information technology transformation programme was launched in February 2019, and a Centre of Expertise for Data, Analytics and Artificial Intelligence is being established in autumn 2019.</p>
Business resilience	<p>A new security and resilience governance structure has been introduced, and good progress improving resilience means this is no longer a significant control risk.</p>
Cyber risk	<p>The Department continues to strengthen its cyber resilience to ensure it has the right balance of protection and collaboration in place to support modern working practices. It is focusing on behavioural change, the supply chain, addressing obsolescence, network resilience, responding to external changes and protecting core networks.</p>
UK security vetting	<p>A recovery plan remains in place to improve Developed Vetting clearance timelines. The vetting service is due to transition to Cabinet Office by April 2020.</p>
Physical security of assets	<p>Operators, top-level budget holders and the Defence Authority for Security provide three tiers of security assurance arrangements. Capacity to provide this assurance for the Department's most critical assets is increasing, alongside improvements to security governance and performance assessment arrangements.</p>

Affordability of the Department's Equipment Plan

Unaffordable equipment procurement programme



The Equipment Plan is the Department's annually updated plan for the next 10 years to deliver and support equipment to the armed forces. In our November 2018 annual update on the affordability of the Plan, which covers the period from 2018 to 2028, we continued to conclude that the Plan is unaffordable. Forecast costs exceeded budgets by £7 billion over the next 10 years, although in some scenarios costs could increase further.

The Department recognises that continued unaffordability of the Plan is not sustainable, is improving its understanding of affordability risks, and has now presented the nature and scale of the challenges it faces more clearly. We are not yet fully confident in the robustness of some of its underlying assumptions, or that it has undertaken

the necessary analysis. To date it has not made the necessary decisions to make the Plan affordable.

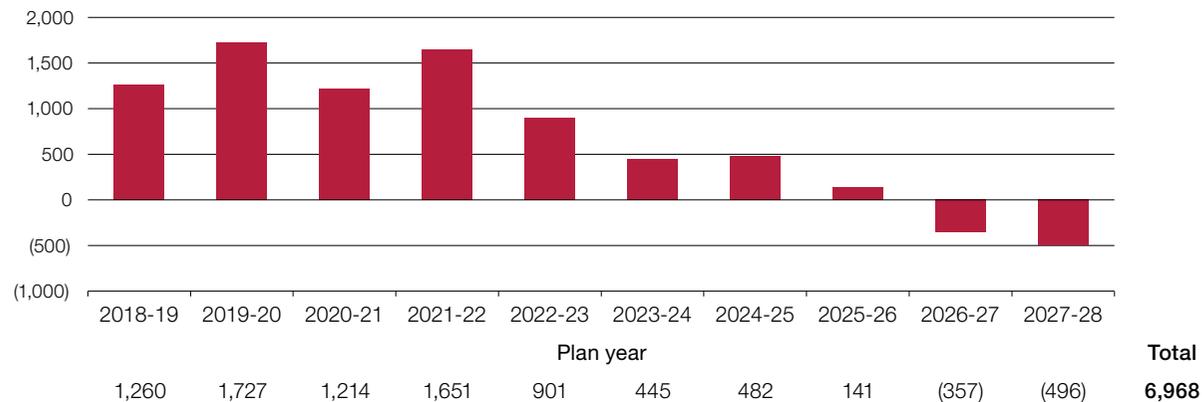
Since 84% of the affordability challenge fell in the next four years from April 2018, the Department needs to make decisions now. During the current period of uncertainty, the Department has resorted to short-term decision-making, increasing the longer-term risks to value for money and the likelihood of returning to past poor practices.

Our next report on the Department's Equipment Plan in Autumn 2019 will present an updated affordability assessment for the ten years from 2019 onwards.

The Ministry of Defence's (the Department's) assessment of its most likely affordability gap, 2018 to 2028

The Department has identified a £7.0 billion gap between its equipment and support programme budget and forecast costs that it needs to address in the next 10 years

Forecast costs in excess of budget (£m)



Source: Ministry of Defence

Consequences of affordability pressures



An example of the impact of affordability pressures on the Department's budget is shown by the submarine dismantling programme. Our April 2019 investigation found that the Department has not yet disposed of any of the 20 submarines it has decommissioned since 1980. The Department recognises that, although in the past it deferred dismantling submarines on affordability grounds, this is no longer acceptable on safety and reputational grounds.

The Department's affordability decisions have had broader impacts across defueling and dismantling:

- Defueling:** The Department has not defueled a nuclear submarine since 2004 and now stores nine fuelled submarines. In 2016, it delayed infrastructure upgrades to defer £19 million of spending. This contributed to the Department not being able to complete the facilities needed to start defueling as planned. It is currently negotiating with Babcock to complete the work and the Department expects to pay more than initially forecast for the facilities.
- Dismantling:** In 2016-17, the Department also delayed submarine dismantling to stay within its available budget. This decision deferred £10 million of expected spending to 2020-21. As a result, the Department has contracted for dismantling boat by boat and stage by stage.

Accounting Officer scrutiny of challenges to major programmes in 2018-19

Accounting Officers (AOs) scrutinise significant plans to start or vary major projects, and subsequently assess whether they meet the standards set out in HM Treasury's guide to *Managing Public Money*.

In response to our recommendations in the 2016 report, *Accountability to Parliament for taxpayers' money*, designed to encourage AOs to provide positive assurance about regularity, propriety, feasibility and value for money ahead of key implementation decisions, the government committed to making available a summary of key points from the AO's assessments. The Department's six AO assessments to date are set out below:

UK/France Teutates programme



Background

In November 2010, the UK and France stated their intent to collaborate in respect of nuclear weapons and stockpile technology. This included jointly constructing, funding and operating a joint capability, known as TEUTATES. This consists of a new hydrodynamics facility in France and a technology development centre and interim firing point in Aldermaston, UK.

Significant funds have already been spent on the programme and, under the terms of the agreement, the UK would be liable for its share of the costs for the 10 years following any early withdrawal.

Warrior Capability Sustainment Project (WCSP)



A key part of the Department's Armoured Infantry 2026 Programme, the WCSP will upgrade the current Warrior Infantry Fighting Vehicle to address a range of shortcomings in its operations, and extend service life beyond 2040.

Since approval, costs have increased by £227 million, and current estimates calculate a delay to the project of at least three and a half years. Delays and issues with the demonstration phase led to a major contract re-negotiation with Lockheed Martin and changes to the Department's contract management approach.

Watchkeeper



To fill a gap in its Intelligence, Surveillance and Reconnaissance capability, the Department chose the Watchkeeper unmanned air system to provide all-weather intelligence to Army commanders.

At the time of the assessment, Watchkeeper had completed operational field trials. However, trials were suspended between March and June 2017 following a crash. This meant that Watchkeeper did not achieve Full Operating Capability 1 as planned in November 2017 due to a failure to achieve 'Type Certification' and 'release to service'.

Accounting Officer conclusion

- DEC**
2013

Programme approved by Department, with acknowledgement that costing information was immature.
- MAR**
2018

HM Treasury and the Department approve cost increases.
- JAN**
2019

AO assesses that TEUTATES remains a satisfactory use of public resources, affordable within the context of the Nuclear Warhead Capability Sustainment Programme, and is a key part of the nuclear warhead programme, although delivery will be challenging.
- JUN**
2011

Demonstration and manufacture phases approved at a cost of £1.3 billion, with an in-service date of March 2020.
- JAN**
2019

The AO assesses that the WCSP remains a satisfactory use of resources, and in principle the best value-for-money option available, subject to successful trials and the outcome of commercial negotiations during 2019. AO assessment considered the forecast three and a half year delay and £227 million cost increase.
- EARLY**
2020

Early 2020 – Likely submission date for approval to commit to manufacture if trials successful.
- JUL**
2005

Original approval by Department.
- JUN**
2014

Programme re-approved by Department with new cost and time parameters.
- JAN**
2018

AO assessed that Watchkeeper had the potential to achieve value-for-money benefits and remained a satisfactory use of resources.
- NOV**
2018

Watchkeeper achieves Full Operating Capability 2. Notification of 'release to service' is awaited.

Accounting Officer scrutiny of challenges to major programmes in 2018-19 *continued*

Fleet Solid Support programme

Background

The Fleet Solid Support programme will deliver the ships to provide the food, stores and ammunition that is required for Maritime Task Groups and Joint Forces to operate. It is a key part of the Carrier Enabled Power Projection concept.

It is now in its four-year assessment phase. The Department is holding a competition for the design and manufacture contract.

Future Maritime Support programme



The Future Maritime Support Programme will design and deliver the contracts for in-service support of:

- complex warships
- submarines
- naval base services.

The programme aims to transform services for the Royal Navy and reduce costs.

Clyde Infrastructure Programme

The Clyde Infrastructure Programme coordinates the delivery of multiple infrastructure projects to build new or updated facilities at HMNB Clyde (Faslane and Coulport), while ensuring the naval base can concurrently support Continuous at Sea Deterrence.

There are 14 active projects (totalling £1.6 billion over 15 years) within the programme, each approved separately, including:

- accommodation
- security measures
- training facilities
- maintenance of existing nuclear support facilities to support the Dreadnought class.

Accounting Officer conclusion

APR 2016 Initial approval, commenced four-year assessment phase.

JUN 2019 AO assessment concludes that the programme complies with regularity and propriety standards and that it planned to achieve a deliverable value-for-money outcome through market engagement prior to competition. The international competition is being conducted in accordance with Defence and Public Security Contracts Regulations 2011.

2020 Expected main investment approval and contract award for the design and manufacture prime contract.

APR 2018 Initial approval to develop the commercial and procurement strategies, check the requirements and agree the changes.

JUL 2019 AO assessment concludes that the programme complies with regularity and propriety standards, that it would achieve a deliverable value-for-money outcome by improving performance by suppliers and reducing fixed costs.

The assessment warned that the timeframe is tight and the programme may need to be re-baselined because of the volume of changes and commercial activity.

SEP 2019 Expected main investment approval.

NOV 2019 Expected contract award.

JUL 2019 AO assessment concludes that the programme complies with regularity and propriety standards, that it would achieve value for money by contracting a significant volume of activity through competition. The programme was assessed as deliverable, but the refit of existing operational facilities would be more challenging.

MAR 2020 Expected delivery of surveillance and intruder detection security systems.

JUN 2020 Expected delivery of nuclear support hub.

MAR 2021 Expected delivery of jetty and facility security systems.

Commercial relationships

The Department's expenditure with industry represents more than 40% of all UK government procurement spend, totalling £24.8 billion on all contracts in 2018-19. Our work this year has included investigations into two contracts where the outsourcing of personnel-related services has not yielded the intended benefits.

The Department's partnership with Capita to recruit military personnel



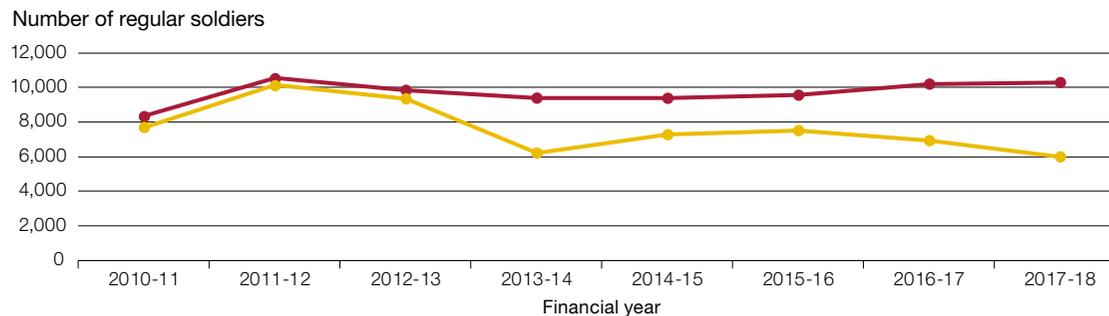
In 2012, the Army signed a £495 million contract with Capita Business Services Ltd, as part of a 10-year £1.36 billion programme to reform its approach to recruiting military personnel. Capita has missed the Army's annual targets for recruiting new soldiers and officers every year since 2013. Capita missed the Army's annual target for regular soldiers by an average of 30%, compared with 4% in the two years preceding the contract. Meanwhile, the contract value has risen to £677 million.

There are a number of reasons for this poor performance. These include that: neither the Army nor Capita tested changes to the recruitment approach prior to their introduction; Capita under-estimated the complexity of the Army's requirements, contributing to the online recruitment system being launched 52 months later than originally planned; and the Army's management of the programme has limited its ability to refine the process.

In December 2018, the Army and Capita believed that the new online recruitment system, recent changes to their engagement with applicants, and their revised programme management would help improve performance.

Regular soldiers – performance against Army recruitment targets, 2010-11 to 2017-18

Capita has not met its targets for recruiting regular soldiers in any year



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
● Requirement	8,347	10,532	9,833	9,382	9,369	9,552	10,203	10,281
● Actual	7,698	10,143	9,358	6,198	7,265	7,491	6,921	5,981

Notes

- 1 Excludes Gurkhas, re-joiners, Commonwealth and Full-Time Reserve Service.
- 2 Requirement is set by the Army.

Source: National Audit Office analysis of Ministry of Defence data

The Department's contract to provide military flying training



The Department currently provides the second phase of its military flying training (core flying training) through a range of providers. They include Ascent Flight Training (Management) Limited (hereafter Ascent) as the principal partner with whom the Department contracted in 2008 to design, introduce and then provide a new Phase 2 training system. This became known as the Military Flying Training System (MFTS). As at 31 March 2019, Ascent had received £514 million from the Department for introducing MFTS and starting to deliver courses.

In 2015, we reported that the MFTS was delayed by nearly six years following, in part, the Department decreasing its aircrew requirement. The Department and Ascent now have in place most of the training components required for the MFTS to fully operate by April 2020, a further three months later than planned in 2015. Historical delays introducing the MFTS meant Ascent did not initially receive £15 million where training components were not in place, with the Department liable for paying Ascent £10 million of this.

As at 31 March 2019, 44 out of the 369 planned MFTS courses had been cancelled due to Ascent or the Department failing to fulfil their responsibilities. Neither could easily provide a full list of delayed courses with underlying reasons. Of the 44 cancelled courses, 28 related to the Department not fulfilling responsibilities, such as through providing insufficient air traffic controllers or when runways were being refurbished.

Reforming the civilian workforce

The Ministry of Defence's (the Department's) workforce consists of military personnel, civilian personnel and contractors. In October 2018, the Department employed 192,100 military personnel and 57,100 civilians. In 2018-19, the Department spent £2.6 billion on its civilian workforce; 21% of its expenditure on personnel and 7% of its total spending of £38.1 billion.

Civilian workforce overview

Civilian staff support ministers, manage the Department's administrative functions and help ensure the armed forces are ready for operations. Civilians carry out a wide range of roles including as policy staff, analysts, doctors, cartographers and nuclear physicists. The civilian workforce is located across 570 sites throughout the United Kingdom and overseas. Many sites employ small numbers of civilians.

The Department has reduced the size of its 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 civilian workforce by 27,700 (32%), from 85,900 to 58,200.

Recruitment

Military personnel

192,100

Civilian personnel

57,100

7% MoD total expenditure

£2.6bn

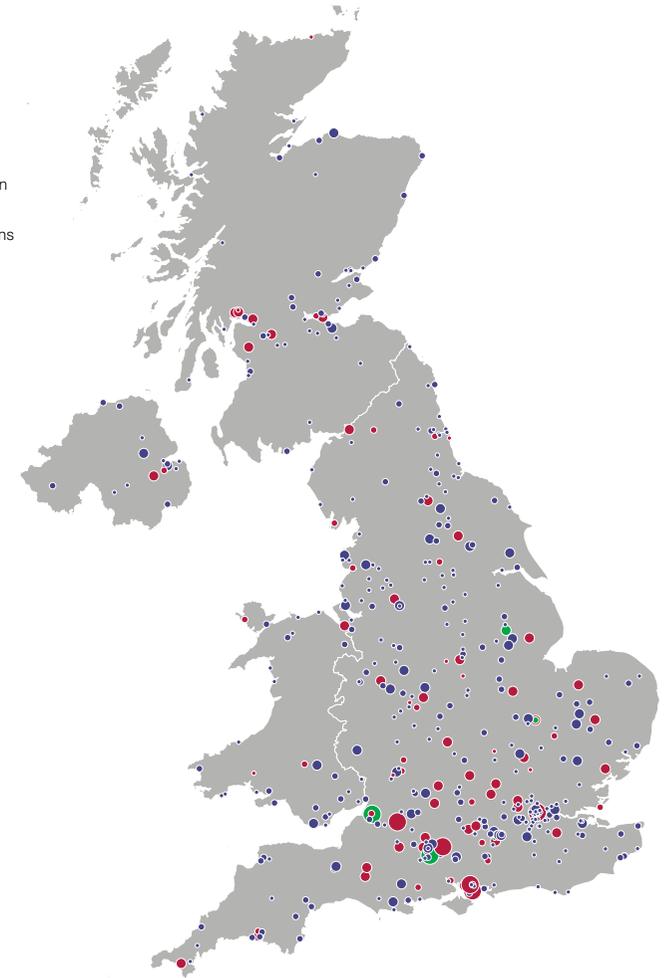
Distribution of the Ministry of Defence's (the Department's) civilian workforce in the United Kingdom

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

Size of site by headcount

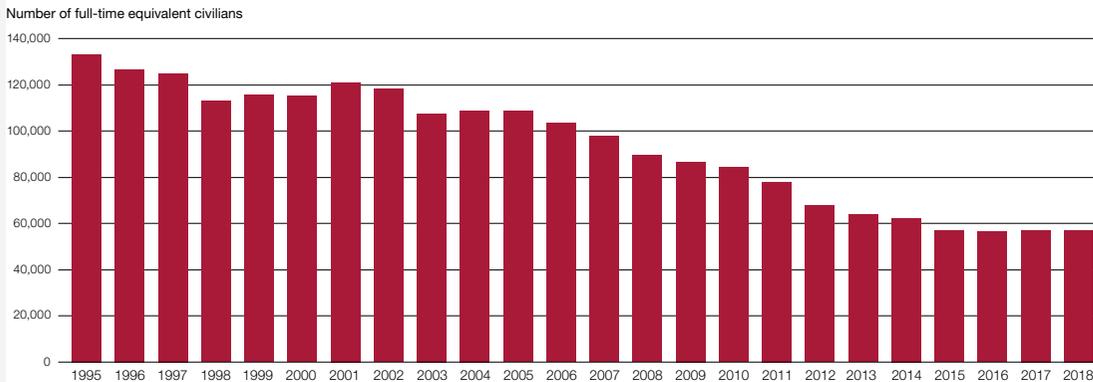
- More than 1,000 staff
- Less than 1,000 staff
- Less than 100 staff
- Less than 10 staff

- One Defence organisation at site
- Two Defence organisations at site
- Three or more Defence organisations at site



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

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

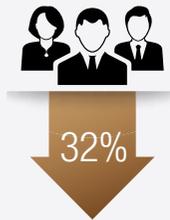
Reforming the civilian workforce *continued*

In our March 2019 report on *Reforming the civilian workforce* we found that, 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 has created some of the conditions needed to make improvement possible, for example by appointing a Chief Operating Officer to lead a new approach to transformation and setting aside funds for investment in new technology. But the Department understands that it faces a significant challenge if it is to introduce more efficient working practices across its business.

Headcount targets

Between 2010 and 2015, the Department cut its civilian workforce by 32%, mainly using voluntary exit schemes. The Department continued to deliver its core functions but could not demonstrate whether the staff reductions had led to more efficient ways of working.

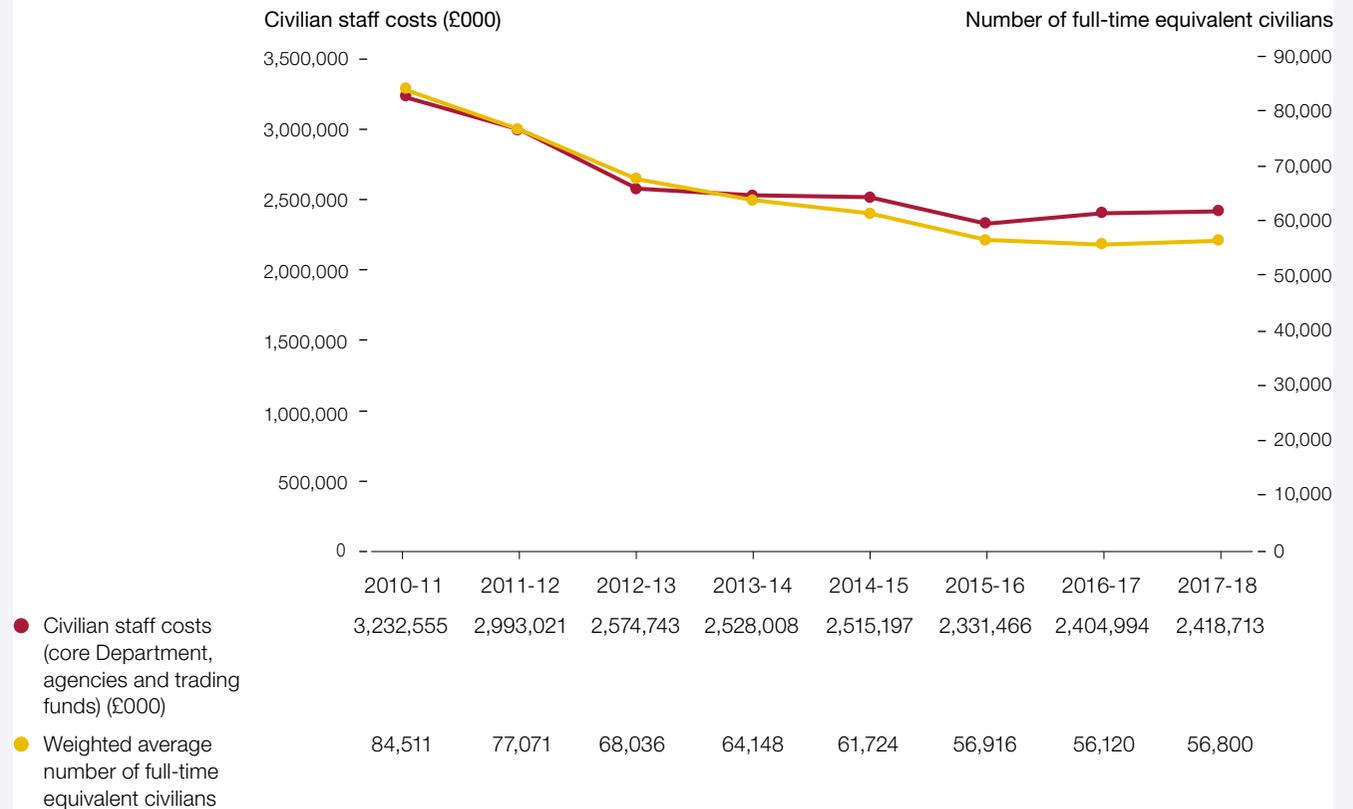


In 2015, as part of the government's Strategic Defence and Security Review, the Department agreed to cut its civilian workforce further by almost 30% by 2020, to 41,000. It also agreed to deliver additional financial savings of £310 million. The Department did not, however, have a sufficient understanding of the use of its civilian workforce to establish a coherent plan for meeting these targets.

In 2017, the Department recognised that it had to reform working practices in order to achieve sustainable staff reductions. But by October 2018, the Department had made little progress in reducing civilian headcount and in February 2019, it acknowledged that it would also not meet the associated financial savings target.

Civilian headcount and staff costs, 2010 to 2018

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



Notes

- 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.
- Civilian staff numbers are a weighted average for the financial year, as reported in the Department's accounts.
- 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

Reforming the civilian workforce *continued*

Skills gaps and poor management information



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.

Our report found that the Department’s Head Office has not had sufficient oversight of civilian workforce planning across the Defence organisations. It has also had limited power to tackle strategic workforce issues.

Defence organisations’ approaches to workforce planning have been hampered by poor management information and a lack of joint working. As a result, the Department has failed to identify potential efficiencies across its business.

The Department has skills gaps in its civilian workforce. In October 2018, there were 57 roles across 12 job categories where the Department did not have the number of skilled staff it needs (it calls these ‘pinch-points’). It had a shortfall of 1,650 civilian personnel in these roles. The Department does not, however, have clear plans to close its skills gaps in the next five years.

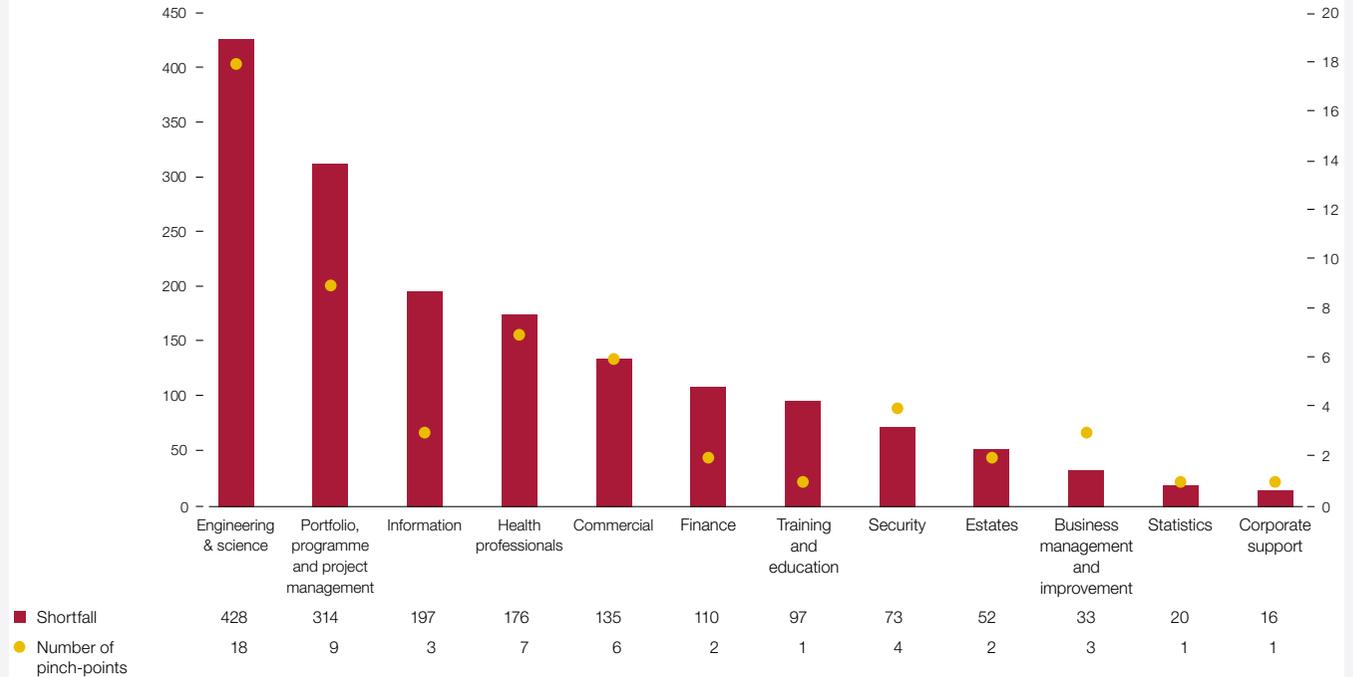
Defence organisations have typically focused more on meeting short-term demands, rather than assessing longer-term capability requirements.

Civilian workforce pinch-points, October 2018

The highest number of pinch-points are for engineers and scientists

Shortfall of full-time equivalent civilians

Number of pinch-points



Notes

- 1 Shortfall denotes the number of staff below the business requirement.
- 2 Pinch-points denote the number of job roles where there are skills shortages.
- 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

What to look out for

01

Spending Review and the Equipment Plan

Spending Round 2019 has now set out the government's spending plans for 2019-20 and 2020-21. Longer-term funding decisions will be as part of a multi-year Spending Review in 2020.

The Department informed the Committee of Public Accounts in July 2019 that it had allocated an additional £451 million of funding for **nuclear and anti-submarine warfare capabilities** in 2019-20.

The Department will continue to provide its annual update to Parliament on the Dreadnought Programme and other related nuclear programmes.



02

Defence people

The Department plans to develop and implement a **Defence People Strategy** from autumn 2019, which will drive a ten-year People Transformation Programme for its whole workforce, make it easier for talented people to progress, enhance the financial and non-financial offer to improve recruitment and retention (including recovering critical skills shortfalls), increase the capacity of the People Function, and strengthen the Department's approach to diversity and inclusion.

Reforms have been introduced to the **Army recruitment process** in the past two years, including the launch of the Army Personnel Campaign, a new online system, and the establishment of the Personnel Campaign Board. The Department will be looking for these and other changes to lead to improvement in the levels of recruitment during 2020.



03

Equipment entering service

In the Department's 2018 Equipment Plan:

- the date for the **Ajax armoured fighting vehicle** to enter service was brought forward six months to January 2020; and
- the (joint) date for **Astute submarines 4-7** to enter service moved back a further seven months to August 2019.

The first **British Poseidon maritime patrol aircraft** is due to arrive in the UK in early spring 2020.

The second **new aircraft carrier, HMS Prince of Wales**, is due to be accepted by the Royal Navy by the end of 2019.



04

Defence estate

The Department announced its **new accommodation model** for service personnel in the 2015 Strategic Defence and Security Review. The new Future Accommodation Model is designed to give service personnel more choice of accommodation.

The first pilot of the **Future Accommodation Model**, intended to provide more choice and flexibility in service accommodation, is due to begin in September 2019, with two more to follow in 2020.

As part of the **Defence Estate Optimisation Programme**, the process of drawdown, closure and disposal will begin at the following locations during 2020: Prince William of Gloucester Barracks, Lincolnshire; Venning Barracks, Shropshire; and RAF Henlow, Bedfordshire.

