Delivering value for money and innovation in defence

Value for money and innovation in defence
Maximising opportunities from the defence estate

With Bernard Brown, Rt Hon Philip Hammond MP, Rt Hon Jim Murphy MP, Oliver Colvile MP, General the Lord Richard Dannatt, GCB CBE MC DL, Ian Ellis, Rt Hon Margaret Hodge MBE MP, Dr Roger Hood, Carola Hoyos, Jon Thompson

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## Programme

### 08.15 – 08.45 Registration and Breakfast

### 08.45 – 09.00 Welcome and Introduction
Andrew Haldenby, Director, *Reform*
Bernard Brown, Head of Defence, Security & Intelligence, KPMG

### 09.00 – 09.40 Keynote Speech
Rt Hon Philip Hammond MP, Secretary of State for Defence, will set out the Government’s position for achieving long term value and transformation in defence.
Chair – Andrew Haldenby, Director, *Reform*

### 09.40 – 10.30 Value for money and innovation in defence
This event will consider if the Government’s reforms offer providers the opportunity to transfer long term savings to the Ministry of Defence and how greater innovation can be facilitated in the delivery of services and equipment. It will explore how Defence, Equipment & Support (DE&S) is working with industry to ensure the effective and sustainable procurement of equipment and services, including the creation of a Government-owned, contractor operated (GoCo) entity.

General the Lord Richard Dannatt, GCB CBE MC DL, Chief of the General Staff 2006-2009
Jon Thompson, Permanent Under Secretary, Ministry of Defence
Dr Roger Hood QVRM TD DL, Strategic Intelligence Director & Defence Advisor, HP Defence (UK Public Sector)

Chair – Tara Majumdar, Researcher, *Reform*

### 10.30 – 10.55 Coffee

### 10.55 – 11.45 Maximising opportunities from the defence estate
This event will consider how the Defence Infrastructure Organisation is looking to achieve best value from the defence estate by procuring a Strategic Business Partner (SBP) to manage the MoD’s estate and related services. The panel will consider how strategic business partners can achieve efficiencies in the defence estate, including the implementation of innovative collaborations with other providers for the delivery and management of services.

Rt Hon Margaret Hodge MBE MP, Chair, Public Accounts Select Committee
Carola Hoyos, Defence Correspondent, *Financial Times*
Oliver Colvile MP, Vice-Chair, All Party Parliamentary Group for the Armed Forces
Ian Ellis, Chairman, Telereal Trillium

Chair – Kimberley Trewhitt, Researcher, *Reform*

### 11.45 – 12.25 Keynote speech
Rt Hon Jim Murphy MP, Shadow Secretary of State for Defence, will set out the Opposition position on achieving long term value and transformation in defence.
Chair – Andrew Haldenby, Director, *Reform*

### 12.25 – 12.30 Closing remarks
Andrew Haldenby, Director, *Reform* will sum up and close the event.

### 12.30 Close
“The only way to ensure, in the long term, the ability to project power, to protect our national security and to ensure that our troops have the equipment they need is to have a defence budget that is in balance. A strong, diverse economy and sound public finances are a prerequisite to being able to sustain the armed forces that our national security requires.”

Rt Hon Philip Hammond MP, Secretary of State for Defence, May 2012

The Ministry of Defence is implementing radical reform to control spending and put the defence budget on a sustainable footing. There is acceptance across the political spectrum that greater discipline is required in defence spending to effectively balance national security concerns with the reality of shrinking budgets. As with other public services such as the police, the Ministry of Defence is using spending pressures to transform the way services are structured and delivered.

Austerity has led to declining defence budgets across Europe and the NATO partners. Given the fiscal outlook across the developed nations this is unlikely to change in the near future. In Britain, over £4 billion of non-frontline savings are to be made over the Spending Review period. But to achieve value for money the Ministry of Defence must do more than adapt to reduced budgets. The National Audit Office and the Public Accounts Committee have previously called on the Ministry of Defence to improve governance and financial management. The continued squeeze on public finances means there is little room for costly processes that fail to deliver equipment and projects on time and on budget.

Progress has been made on improving financial performance and putting forward a realistic defence strategy that matches resources to the budget available. In May, the Secretary of State announced that the defence budget had been balanced for the first time in a decade. The Levene review, published in 2011 and accepted in full by the Government, clarified the responsibilities of senior leaders and put in place measures for a smaller but more strategically focussed head office. The Army 2020 vision will reduce the size of the regular army and strengthen the role of reservists based on operational needs. The Ministry of Defence has also begun to collaborate more closely with international partners and the private sector in the delivery of services. Different approaches are being trialled across the defence services, including proposals to introduce a Government-owned contractor-operator (GoCo) model in Defence Equipment & Support (DE&S), strategic business partnering in the Defence Infrastructure Organisation and commercial partnering in the Defence Business Services (DBS).

The opportunity is to implement this vision and maintain defence capabilities. Clearly some risks have to be avoided. The Ministry of Defence has set out a long term vision for transformation which will not be fully implemented until the early 2020s. In the past, the long lead times associated with defence programmes have led to spiralling costs and bureaucratic mismanagement. There is further uncertainty that the transformation programme will be thrown off course by the next Strategic Defence Spending Review that is expected to take place in 2015. Still, as the National Audit Office has identified, a new culture and behaviours would ensure the success of reform initiatives. Today’s conference will consider how the defence services can adapt to these challenges.
Delivering value for money and innovation in defence

### The key to defence transformation

**Rt Hon Philip Hammond MP**
**Secretary of State for Defence**

Two years on from the Strategic Defence and Security Review, we are now in the middle of one of the most complex change programmes taking place anywhere in the western world: change needed to prepare our armed forces for future security challenges, but needed also to ensure their sustainability.

It has been a process requiring tough decisions, cutting unaffordable capabilities and reducing the size of the armed forces and the Ministry of Defence civil service. But we’ve now achieved a balanced defence budget, eliminating the black hole left behind by Labour and creating an affordable equipment programme.

The structural and behavioural factors that contributed to the budget problems are being tackled. The Equipment Plan is being managed with a new financial discipline, building in proper contingency and focusing on long-term value. Commercial skills are being introduced to support the acquisition process.

To embed reform, the new management structure recommended by Lord Levene is being put in place, creating a leaner, more strategic head office and pushing authority and accountability down the command chain to encourage innovation and budgetary responsibility.

As this reform progresses, we must also focus on the people who deliver defence because we rely on them to produce our battle-winning edge. Many will feel they’ve taken a pounding over the last couple of years. We need to provide them with more certainty about their future and more stability for their families.

There is no identikit soldier, sailor or airman. Each is an individual, with different needs at different points in their careers. We need to make sure the package we offer is rewarding and can be tailored to reflect the different circumstances of individuals, while keeping the requirements of defence foremost. So we are accelerating work on the New Employment Model, updating service terms and conditions to better reflect the complexity of modern family life. It will be designed not only to deliver value for money, but to get the best out of the people who are at the heart of defence.

Balancing the budget is crucially important, but it is not an end in itself. It’s a means to enable us to deliver, sustainably, the defence of this country. And the key to doing that is the people that make up Defence.

**Rt Hon Philip Hammond MP is the Secretary of State for Defence**

### Value for money and innovation in defence

**Jon Thompson**
**Transformation at the Ministry of Defence**

Transforming the Ministry of Defence is critical to the delivery of the defence capabilities we need now and in the future. We must ensure that the Ministry of Defence is a professional, hard headed organisation tackling the problems we face. Our challenges in procurement have been well documented and we have a plan to improve our performance, but we must translate that drive for transformation in everything we do to support and enable the front line. How we do logistics, information systems, manage our property, handle our finances and so on are critical organisational enablers that we must continue to change and improve. To do so means we have to bring in the capability and capacity we need to tackle the challenges, the best of the private sector and the best of the public services, a blend of expertise necessary to be a world class defence organisation.

The new Defence Board, chaired by the Secretary of State, has made some important and bold steps forward. Finally balancing strategic ambition with resources was a major step, as was the work on establishing the Defence Infrastructure Organisation, the search for a strategic partner on information systems, the exploration of a partner on logistics and the Materiel Strategy. These are moves to explore ways of working that would not have been considered with such importance in the past. The fiscal situation is clearly a major driver, but, even so, right sizing the estate to release funds for front line activity has to be the right thing to do.

These changes, coupled with implementing Lord Levene’s reforms in the way we work – the internal mechanics of the Ministry of Defence – are making a difference. But we should not underestimate how much further we have to go. Delegating financial responsibility is a big decision to be fully worked through, as are the next steps on infrastructure and Defence Equipment and Support. Perhaps most challenging of all is how we change the culture of the Ministry of Defence into one where people are the leaders we want, who think defence-wide and consistently seek to do it better.

**Jon Thompson is Permanent Secretary at the Ministry of Defence**
Delivering value for money and innovation in defence

Maximising opportunities from the defence estate

Dr Roger Hood QVRM TD DL
New challenges in procurement

The battlefield is renowned as bringing forth innovation and risk-taking driven by necessity. Within the last two decades we have seen operational requirements drive innovation in technology but procurement processes are still largely stuck in a Cold War mindset, when threats were static and capability in a Cold War mindset, when threats were static and capability was bought and measured in quantity. It was a time of cautious, process constrained, procurement and for a large part the defence industry has to work within this legacy. But today’s economic pressures need to be felt as keenly as threats on the battlefield. Taxpayers and service personnel alike need to benefit from a department focused on achieving greater value for money.

So within industry we welcome any changes that release the shackles and foster an environment akin to the commercial markets in which our other customers operate. Businesses make quick, considered, rational decisions that improve the competitive position of their organisations, whether they are a national or global retailer, bank, management consultancy or aircraft manufacturer. Each one demands innovation and value for money.

Their suppliers have to deliver these attributes, in addition to an excellent service based on continual improvements throughout the life of the contract. In the case of HP, the delivery of information technology services can span several years or decades. To do this we need to remain ahead of the competition in value for money and innovative delivery, responsiveness, commercial terms and pricing. The mature IT services market in the UK is swift to act if an advantage can be gained by switching suppliers.

The UK and its Ministry of Defence need this same edge to win in the global markets and be competitively superior to an adversary. Today that enemy may be using information rather than bullets as a weapon. An overly generous Treasury does nothing to sharpen the competitive edge of the Ministry of Defence, so there is much to be gained by a new approach that demands value for money. That itself will drive innovation. Industry will seek to provide equipment and services that are proven to work, exist in their inventories and are used by the wider customer base. The Ministry of Defence’s edge will be gained by its agility, its selection and training of its people, its exploitation of specialist skills (often found and honed in industry), and its joint and coalition doctrine. Encouraging the export of the equipment selected by the Ministry of Defence can improve not only its value for money, but also the interoperability for coalition operations.

Dr Roger Hood QVRM TD DL is Strategic Intelligence Director and Defence Adviser at HP

Rt Hon Margaret Hodge MBE MP
A robust vision for the defence estate

If the Department is to maximise opportunities from the defence estate it must overcome strategic, cultural and information weaknesses. These weaknesses could seriously undermine the Department’s estates reform plans whether they are managed in-house or outsourced. The Department cannot outsource the vital, and potentially painful, decisions it needs to take on estates. The scale of this challenge is vast but so too are the opportunities.

With an estate worth at least £20 billion, the Department must adapt to the changing landscape and rapidly develop a robust vision to manage its estate economically, efficiently and effectively. In setting out its ambitious reform programme, the Department recognises the scale of the challenge it faces to realise savings and balance its budget. The Department plans a 29,000 (34 per cent) reduction in civilian personnel and a 25,000 (14 per cent) reduction in military personnel by 2015. In the past, however, the Department has been slow to bring its estates strategy in line with its changing requirements. In the 10 years to 2010, the Department reduced personnel by 13.4 per cent but only reduced its estate by 4.3 per cent.

Reducing the size of the defence estate will require the Forces to work together. The Department responded positively to the Public Accounts Select Committee’s recommendations with the creation of the Defence Infrastructure Organisation, but this is only the first step towards achieving efficiencies from the estate.

Rt Hon Margaret Hodge MBE MP is Chair of the Public Accounts Select Committee

Carola Hoyos
Building transparency and accountability

Any vestiges of doubt over the importance to Britain of wise defence procurement should have been erased when General Sir David Richards named the economy as the single biggest strategic risk facing the nation whose military he leads.

But the decline in public funds available for military personnel, support and equipment should not simply be seen as a threat. It also presents the UK with an important opportunity.

Now is the time for leaders to come up with a sustained military strategy and foreign policy the Treasury can afford. And while they consider how best to accept the new diminished ability of the country to project its might overseas, I shall focus on what
must be done to ensure such a strategy can be implemented.

The economic downturn is the UK’s chance to end its sorry, decades-long track record of ill-advised purchases; its tendency to gold-plate; the too-frequent occurrence of costly changes in direction part way through the purchasing process; and the lackadaisical way military expenditure is monitored.

Eradicating the Ministry of Defence’s £38 billion budget overhang and ending disastrous programmes such as Nimrod are but the beginning.

Fundamentally unsexy challenges, such as replacing the department’s decades-old computer network and ensuring a hierarchy that builds in significant consequences for getting things wrong, are crucial to achieving any lasting changes. How else will the military be able to decide what to keep and what to trash as it begins the gargantuan and expensive task of hauling back the thousands of tonnes of kit from Afghanistan? How else will it ensure the quality of the support services it procuring equipment that is sometimes paying more up front to trash as it begins the gargantuan and expensive task of hauling back the thousands of tonnes of kit from Afghanistan? How else will it ensure the quality of the support services it procuring equipment that is sometimes paying more up front to trash as it begins the gargantuan and expensive task of hauling back the thousands of tonnes of kit from Afghanistan?

As a journalist trying to understand the way taxpayers’ money is spent by the defence department, I find myself dismayed by the lack of transparency and accountability here in the UK.

The US system, whereby Congress holds the military’s purse strings, may be flawed with every defence contractor throwing around its considerable political weight by ensuring it has a factory in each state. But it at least leads to some more transparency and debate. Every day the Department of Defence publishes on its website contracts valued at more than $5 million. Here in the UK, where contracts in theory are made public, the reality is that most of the information is either not there, or the systems is so obtuse that it is impossible to find and put in any coherent order.

Such obfuscation is made worse by the lack of the kind of sharp debate over military spending that happens on Capitol Hill, among DC think tanks and within the Government Accountability Office.

Every now and again a UK newspaper will come up with a headline grabbing story, such as the £20 light bulb. But by now everyone expects the Ministry of Defence to waste money so the issue is often yawned at by politicians and readers alike.

Margaret Hodge can complain until she runs out of breath warning of the consequence of hasty decisions, such as the SDSR’s shift to F-35 C, and the attitude of those in power will remain: “We can’t tell you the details; just trust us.”

The issue comes back to one of responsibility and consequence, until those are firmly in place, with the help of a good dose of extra transparency, taxpayers’ money will continue to be wasted; the lives of soldiers, sailors and airman put at risk; and the ability of the UK to defend itself and its interests diminished.

Carola Hoyos is Defence Correspondent at The Financial Times.

Oliver Colville MP Engaging local communities in the future of defence

The Government continues to have real challenges in sorting out the UK’s public finances as it strives to reduce the structural deficit. Having inherited a £38 billion black hole in the defence budget the Secretary of State Philip Hammond remains under pressure to convince the Treasury that the Ministry of Defence is bearing down on costs, is making the defence budget sweet and that its resources are focused on providing our troops with appropriate living conditions and the equipment they need to defend British interests.

I am afraid that the current national government departmental structure still has a silo mentality; it seems that there is still a lack of joined up government and turf wars still rage across departments. Many local councils have learnt that limited budgets mean they have to work across geographical boundaries; they are amalgamating their back room staff such as planning and human resources.

Representing a naval garrison city, the Ministry of Defence is a significant land owner. Until recently, the Royal Navy, with a transient population, did not see itself as part of the wider community.

HMS Drake’s new Commodore has a specific remit to engage in an outreach programme. It is very different from the 1920s when my grandfather was the first Lieutenant of Devonport’s naval barracks and the Royal Navy was very isolated from the local community. Today the Navy is engaging with stakeholders – such as the local university, business groups and the City council.

Devonport based Flag Officer Sea Training is considering inviting the President of the local Students’ Union to take part in a “Thursday War” – a weekly training exercise where warships undertake a mock war off the south coast. Hopefully, this will give her a better understanding of the Royal Navy.

But the Ministry of Defence and other government agencies and bodies must go further. They need to explore how local communities can make better use of publicly owned assets like sporting facilities or jointly commissioning well stocked libraries.

In short publicly owned assets need to be available to all communities – not just for private use. In the words of Nelson’s Navy – “Engage this day!”

Oliver Colville MP is Vice-Chair of the All Party Parliamentary Group for the Armed Forces.
The transformation of the Ministry of Defence has wide-ranging implications, not least with regard to the future of the £23 billion defence estate. The Strategic Defence and Security Review led to a clear articulation of the future needs of the Armed Forces. Strong financial controls were introduced and a single organisation, the Defence Infrastructure Organisation (DIO), was formed to manage the military estate and infrastructure. These changes have created a unique opportunity to rationalise the defence portfolio, release funds for frontline services, and ensure that the future estate is fully able to serve the needs of our armed forces and their families.

The intended changes in the size and composition of our military means the size and shape of the estate needs to be different in the future. Bases and homes will be required in different locations. Troops relocating from Germany will need to be provided with quality accommodation at less cost to government. Growing reservist numbers will have different training requirements.

The scale and complexity involved in delivering transformation of an estate that makes up around 1 per cent of the UK land mass should not be underestimated, nor should the scale of the opportunity in terms of savings, capital receipts and delivering the Military Covenant. The Ministry of Defence recognises this, and the DIO has set out its intention to procure a private sector Strategic Business Partner (SBP) to help drive the transformation required.

A SBP would provide valuable additional resources, market expertise, investment capital and innovation that is vital at this crucial juncture. The arrangement would be on an incentivised basis – if change were not delivered, the private sector partner would not be rewarded.

The strength and security of our future military must be underpinned through the provision of quality homes, a solid training estate and a good quality work environment. At a time when fundamental change is needed and results are required quickly, the private sector can play an important role.

Ian Ellis is Chairman of Telereal Trillium

Labour’s approach to defence spending will be based on two principles: realism and reform. At a time of global flux and lower growth, the debate over value for money in defence is more important than ever.

As a result of the global financial crash, successive administrations’ weaknesses on procurement and this Government’s failure to stimulate domestic growth, defence spending will have to rise over the long-term at a lower rate than previously. Budgetary constraint is unavoidable and our ambitions must be met through new solutions.

National security is dependent on economic stability, and vice versa. What is needed is careful deficit reduction plus far reaching, strategic reform to meet the challenges posed by a transformative security landscape. We reject the false choice between savings and strategy.

We have initially identified savings in defence through efficiencies and reducing areas of the equipment programme. But we would go further to instil a new discipline in defence spending, ensuring that there is not an imbalance between the bottom line and the order book. Increased expenditure would be covered across the rolling ten year budget cycle, either through additional resources from Her Majesty’s Treasury or savings made in the Ministry of Defence budget. We would also ask the National Audit Office to report on the outcome of each annual Planning Round at its conclusion, in order to ensure that the Core Equipment Programme remains affordable, sustainable and deliverable, which the Defence Secretary would present to Parliament.

Such an approach must be coupled with industrial and procurement reform to support a UK based defence industry that is efficient and effective, supporting the frontline with advanced equipment when and where it is needed. We want to give industry greater certainty about which capabilities will be UK based as well as instil a ‘culture of consequences’ with tougher targets on time and cost for industry. We must also reform the Ministry of Defence to professionalise procurement and increase the accountability of Defence Equipment and Support.

Rt Hon Jim Murphy MP is the Shadow Secretary for Defence
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Keynote speech
Rt Hon Philip Hammond MP, Secretary of State for Defence

Rt Hon Philip Hammond MP, Secretary of State for Defence

“Our armed forces exist to protect our country and to provide the ultimate guarantee of its security and its independence, and this must be the first duty of government. Everything we do in defence is directed at supporting that objective. This is one of the most fiendishly complex tasks of government, and one of the most expensive. With resources as tight as they are the obligation to deliver value for money is paramount. Making sure that every pound of taxpayers’ money spent on defence has a tangible impact on delivering capability to the front line and on the security of the nation – in other words, enhancing the efficiency of defence delivery.”

“The 2010 Strategic Defence and Security Review (SDSR) kick-started one of the biggest change programmes anywhere in the western world – a change programme essential to ensuring that our armed forces can continue to defend our country, protect our interests, and project our values abroad in the face of a complex range of threats in a rapidly-changing environment.”

With resources as tight as they are the obligation to deliver value for money is paramount. Making sure that every pound of taxpayers’ money spent on defence has a tangible impact on delivering capability to the front line and on the security of the nation.”

“Lord Levene’s Defence Reform Review set out clearly what the problems were: a focus on short-term affordability at the expense of long-term value for money and a lack of financial rigour throughout. A head office that was trying to micro-manage from the centre disempowering the people who actually deliver in the service commands. Confusion over who was accountable for what. Few levers for those who wanted to innovate and change behaviour. An over-complicated and fragmented structure, and an unbalanced relationship between the department and its suppliers with poorly aligned incentives driving sometimes perverse behaviours. Getting these problems resolved is every bit as important as eliminating the inherited black hole in the budget if we are to deliver sustainable long-term change.”

“So we’ve started to see the benefits of change, but if we want them to be sustained we need to ensure that the changes we’re making in how defence is managed become engrained with its culture so that budgetary discipline becomes the supporting foundation of everything we do. Sustainability must be considered in every decision, building in a focus on value for money, changing structures and incentives to change behaviours, encouraging innovation to improve delivery and locking in the significant reductions in running costs we’re achieving by making the organisation more efficient.”

“We are pushing authority and accountability down the chain of command, giving top level budget holders the freedoms and the incentives they need to drive efficiencies and improve delivery in their organisations. The head office is becoming smaller, on course to shrink by 25 per cent by 2014. The newly-constituted Defence Board, which I chair, has been meeting regularly over the last year providing strategic direction to the organisation. The delegated operating arrangements for service commands will go live in April 2013 including for the new Joint Forces Command which was stood up in April of this year.”

“Each service is doing detailed work on its own operating model, identifying which activities are to be modified or stopped and where to prioritise resources. The bottom line is that they will have much greater control over planning for future capability requirement, deciding where to concentrate resources to provide maximum effect and taking responsibility for living within the means provided, but with the freedom to innovate and establish better ways of doing things.”

“The second thing we’re doing is bringing in private sector skills where we judge it necessary to help change behaviours and drive efficiencies. Defence Business Services (DBS) has been set up in a partnership with Serco, who are providing the external management team to transform the organisation into a lean and effective shared services centre, building on best practice outside the public sector.”

“The Defence Infrastructure Organisation (DIO) is now in the process of recruiting a strategic partner to help transform its business. And, perhaps most significantly, the work to overhaul procurement, the material strategy, is developing fast.”

“We’re setting out to create a proper interface between the Defence Equipment and Support (DE&S) organisation and the defence customers it serves, enabling it in turn to be a more effective customer for its suppliers. We are testing right now the value for money case for a government-owned, contractor-operated – or ‘GOCO’ – entity. The final decision on the precise structure will be made in due course but the bottom line is that the reformed DE&S, supported by a strategic partner, will be better by design at negotiating and managing contracts for the benefit of the taxpayer, with the private sector partner injecting key disciplines, processes, skills and management freedoms into MoD’s procurement activity.”

“Our people in defence are our biggest asset – all of them – the men and women of our armed, forces, regulars and reserves,
the civilians who support them and the people who work in the industries which supply them. One of my big learning curves over the last year has been understanding the unique nature of what the military calls “the moral component” of defence - what it is that provides the will to fight and the determination to win, what it is that allows us to recruit some of the best people the country can provide to preserve the unique attributes of our armed forces, what gives us our edge over other countries, many of whom have larger armed forces and similar equipment to us, but very few of which can come close to matching our military capabilities.”

"It's been 40 years since the current package of terms and conditions was last fully updated. In the meantime it's been adapted and modified on an ad hoc basis so that now it is costly, complex, impenetrable and inflexible. In many ways it fails to meet the requirements of today's service personnel or to reflect the needs of modern family life. So we need to modernise the offer we make to our people.”

“We need to reflect the changes in social, demographic and economic conditions in our society and the complexities of modern life. There is no identikit soldier, sailor or airman. The package needs to be affordable and sustainable in the long term, attractive to service personnel and fair to the taxpayer. We call this project the New Employment Model, or NEM.”

“Accommodation lies at the heart of this challenge. The majority of our regular service personnel rely on publicly-provided accommodation because the job currently demands a very high degree of mobility. In a 22-year career, as currently structured, a typical service person could expect to be asked to move ten or more times. We want to offer more stability and, in doing so, make it possible for families to set down roots as civilian families do, greatly reducing the need for family moves, enabling the children of service personnel to be settled in one area and to avoid frequent changes of schools, and making it easier for partners of service personnel to find work.”

“Currently, home ownership rates among current and former members of the armed forces are comparatively low, suggesting an element of systematic disadvantage. So alongside a steady improvement in the quality of service accommodation, we want to increase access to home ownership for service personnel, providing realistic lifestyle choices to our people.”

“There are a number of ways in which this could be achieved. The stark fact is that people in the armed forces with a generous non-contributory pension scheme are accumulating significant wealth during their service, but without them being able to access it to facilitate house purchase. The challenge we've set ourselves is to explore models that would allow our people either to directly access some of that accumulating wealth or to use it to collateralise mortgage borrowing, supporting forces' home ownership and removing an important element of disadvantage service people face relative to their civilian counterparts. This would not, of course, remove the need for service accommodation. Especially for younger, single service people this will often be the right choice or, indeed, the only one. The armed forces will continue to provide subsidised accommodation for those who require it.”

“The real long-term challenge is to change behaviours, align incentives and shift the culture so that the resource discipline that we’ve imposed feeds through into sustainable bottom-up efficiency gain, not reduction in output.”

“There is a question around coherence with the delegation of capability planning to the four military commands. But making military basing more settled will be a big step forward, but I also recognise that some bases, by necessity, are in relatively remote locations with limited employment opportunities for partners. One of the areas I want to explore urgently during 2013 is how we can use parts of the military estate to stimulate local economic growth and employment generation around garrisons by providing incentives for business relocation to land that we hold.”

“The real long-term challenge is to change behaviours, align incentives and shift the culture so that the resource discipline that we’ve imposed feeds through into sustainable bottom-up efficiency gain, not reduction in output. To do that requires a motivated and engaged workforce – one that recognises the challenges we are facing, shares our vision for the future of defence, understands the plan for delivering it and feels a valued part of that plan.”
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Value for money and innovation in defence


“The recent move to decentralise decision making within the Ministry of Defence does produce the opportunity to realign authority with responsibility. With decisions being taken closer to where they’re going to affect people and affect outcomes I think they will constitute better value for money. The new Defence Board, chaired by the Secretary of State, is a move in the right direction to get good, sensible strategic decision making at the highest level. I think the Armed Forces Committee, chaired by the Chief of the Defence Staff, enables the services to have a proper voice within a forum in which they can be heard.”

“The second point is the involvement of the private sector. Having spent 40 years in the public sector myself and the last three more in the private sector and certainly in the charitable sector, it is when all three sectors work together that we get potentially the best outcomes and the biggest dividends. I’m encouraged that the Ministry of Defence is looking increasing into the private sector, not just on equipment procurement issues, but right across the piece, particularly in terms of infrastructure.”

It is when all three sectors work together that we get potentially the best outcomes and the biggest dividends.”

“My third point is about the balanced budget and balancing the budget does carry risk. I think we have to recognise that. To balance the budget we have had to make savings. Difficult decisions have had to be taken, and the consequence of some of those decisions is indeed to produce risk. In big handful terms it seems to me that equipment has been prioritised over people. That is probably explicable and understandable but may carry some risk.”

Jon Thompson, Permanent Under Secretary, Ministry of Defence

“I’m the Permanent Secretary, as you know. I started on 1 September, and before that I was Director General of Finance so, if you like, I’m the architect of the financial plan that delivered the balanced budget. By ‘balance’ what we mean is that there is an SDSR that sets out a strategy for the MoD to deliver and that we can live within the means that are allocated to us by the Government. That’s the balance, the balance between strategy and resources.”

The equipment plan that existed in 2010 had 400 items on, all of which were regarded as having equal priority- no organisation would actually approach the allocation of its capital investment in that way.”

“When I became Finance Director in 2009 there was no sense of balance between what were we strategically trying to achieve and the resources that we had. We now absolutely believe that we can deliver Future Force 2020 which is set out in the SDSR within the resources allocated to us over the 10 years.”

“Somewhat unbelievably, if you like, the equipment plan that existed in 2010 had 400 items on, all of which were regarded as having equal priority — no organisation would actually approach the allocation of its capital investment in that way.

One of the great things which reform has done is introduce the Armed Forces Committee, run by the Chief of the Defence Staff with the Vice-Chief and the four service-led budget holders — the Army, the Navy, the Air Force and the Joint Forces – and they prioritised the investment, giving it some sense of these things are more important than those. And that’s an incredibly important thing for us to do: get military colleagues to prioritise the investment, be hard-headed about the choices that we have in order to deliver the battle-winning armed forces.”

“There is a question around coherence with the delegation of capability planning to the four military commands. But the Deputy Chief of Defence Staff for military capability will be the coherence authority. So the proposal is that you get four plans from each of the four military commands. That individual assesses whether those plans are coherent, and then advises the Armed Forces Committee, which is the collective of the chiefs, about any incoherence between those plans with the view that the Armed Forces Committee can then advise about how they could be made more coherent if there are any significant issues.”
“As an organisation, we need to be much more professional about what we’re doing, and maximise the outputs that we can. Therefore where we’d absolutely see the involvement of private sector colleagues is in enabling services and in support services. The deal that we did with Serco and Accenture on corporate shared services is very innovative for us. They take over the running of the organisation, and they are rewarded entirely on how much they save us. They have to produce the outputs, but the reward is entirely on the basis of sharing of savings made.”

“Now we think that’s an innovative way of doing it. We’re now in the market for at least six other similar kinds of arrangements. We think we’ve developed a new model. It has the support of the centre of the Government, and we’ll be pushing further into logistics and information systems, into infrastructure. So we’re doing an awful lot.”

Dr Roger Hood QVRM TD DL, Strategic Intelligence Director & Defence Advisor, HP Defence (UK Public Sector)

“Historically the MoD and its predecessors have been one of the most innovative departments of government. But until now the only Secretary of State to cancel the open cheque for the department, for industry, for politicians, is Philip Hammond. It provides both the impetus and urgency to deliver value for money and spend that extremely wisely because it is a known and fixed MoD budget.”

Procurement and operational success for the armed forces will be good for business as a precursor to more UK exports.”

“We propose the best way to achieve cost-effective capability of the MoD is to adopt a universal mindset of using the capability and not owning it. Adopting and using capability philosophy will often infer that a technology, a service, or equipment already exists and is available off the shelf – or, more likely, it is likely to exist within industry, within commerce, other parts of government or within the inventories of our future coalition partners. By contracting others who will own it and provide it, we have the full knowledge that it will be available when required and can be changed easily to meet the different conditions that will face our armed forces in the future.”

“All parties have the same goal and share the same playing field, resulting in an outcome which is good for industry, for the armed forces, for government, for the MoD and for the country. Procurement and operational success for the armed forces will be good for business as a precursor to more UK exports. It will create a new and enlarged open market for defence capability, which is supported throughout its life and will be promoted to our UK-friendly nations.”

“The whole culture of the defence enterprise has to be stimulated to embrace and applaud value for money as it will genuinely benefit all parts of the enterprise. Conversely, where value is destroyed, this has to be penalised – when, for instance, new ideas and practices are blocked, unnecessary bureaucracy delays progress, planned programmes are cut prematurely, thereby hiking the cost for the individual capability, or export efforts are obstructed.”
Maximising opportunities from the defence estate

Rt Hon Margaret Hodge MBE MP
Chair, Public Accounts Select Committee

“I’ve observed the Ministry of Defence over the last two and a half years from the work I’ve been doing as Chair of Public Accounts Committee. What I’m going to say is rather tough, but I hope that it’s taken in good spirit because the record as we see it is pretty abysmal. Some of the underlying and endemic problems that we come across have got to be resolved from my point of view if any part of the MoD’s business is to become more efficient and give the taxpayer better value for money.”

“They’re always trying to get a quart into a pint pot, and end up not getting more for less, but less for more.”

“I remember for one afternoon where in a couple of hours we’d identified £8 billion worth of taxpayers’ money which had literally been torn up – pound notes of schemes that had suffered from delay or actually had been abandoned. And I think there’s a culture in the department of over-optimism which you’ll find in relation to the defence estate and a failure to plan realistically. What they’re always trying to do is to try and get a quart into a pint pot, and end up not getting more for less, but less for more.”

“The Public Accounts Committee has done 25 reports on this about late deliveries and missed targets. In our most recent report we still found that 40 per cent of deliveries arrived over a month late, the wrong thing gets to the wrong place, they don’t know what they’ve got, they don’t know where it is, and they take too much by plane, which is more expensive than taking it over land.”

“What are the underlying challenges which are really important for the topic today? You never have the same person in post long enough to be both accountable and responsible for seeing a project through from start to finish. I think that’s one thing. I think in the MoD there is too much competition between the services. I certainly see that on defence procurement, and I also think that there is too great a tension between the military and the Civil Service. All those tensions mean you don’t have a unified strategy, a unified sense of purpose and clear management structures.”

“When you look at the estate itself, the defence estate is 1.5 per cent of the UK land mass. It is massive. Its value is over £20 billion, and it costs us nearly £3 billion a year to run. In the 10 years between 1998 and 2008, the estate was reduced by 4.3 per cent. We got £3.4 billion in receipts – which as taxpayers we’re pleased about – but over the same period staffing in the whole of the MoD empire went down by 13 per cent, so they didn’t reduce the estate by an amount which met their reduction in staffing.”

“They don’t ask the right questions. They don’t ask how heavily something is used, they just ask: is it in operation? Is it a well used bit of the estate? They don’t think about the operational importance. They don’t think about the potential of capital receipts back to the taxpayer. They don’t take into consideration the running costs. And they don’t think about the condition of the estate. They’re very simple questions that lots of you, here as experts, I have absolutely no doubt would ask. We also know in all that there’s a lot of dissatisfaction with particularly the accommodation for service families, for servicemen and women and their families.”

“The MoD needs unified vision. It needs strong, consistent and united leadership. It needs proper authority from the Permanent Secretary, and clear responsibilities and accountability for delivery.”

“I finally want to say a little bit about privatisation. I think it’s about clarity in the contract between both the client and the contractor. We get that wrong, we try to gold plate too often. There are never strong enough penalty clauses to act as an incentive for the contractor to deliver. So this isn’t an ideological thing. It’s a real pragmatic thing.”
Delivering value for money and innovation in defence

Oliver Colvile MP  
Vice-Chair, All Party Parliamentary Group for the Armed Forces

“I have one criticism about the whole way in which government works. I find it very difficult to get one department to work with another. When you’ve got three – or I would actually argue four – different services within the Ministry of Defence all competing for resources and thinking that they are priority, it is very difficult to try and make sure all of that happens. I’m therefore very, very keen to make sure that we have greater access by the local community to use some of those facilities.”

“We’ve got to bring the troops back from Germany. That’s going to be quite an expensive job to do. I’m told by a former Second Sea Lord that that’s going to cost about £30,000 per family to do. And it is how that is all going to be managed, and whereabouts those are going to be placed.”

“It is interesting that whilst local authorities have been under pressure to deliver family accommodation which is going to meet the decent home standard, the MoD isn’t under pressure to do that.”

The priority for the Government is to make sure that we make assets sweat much more, that we make sure that there is a mechanism by which land can be brought into use, and it can actually have the community having much greater use of the whole place as well.”

“Ian Ellis  
Chairman, Telereal Trillium

“Let’s start with a fit-for-purpose estate. The Defense Infrastructure Organisation (DIO) is also going through a major business change. We’ve been through business change with corporates, with departments – nothing of the size of MoD. For the first time there’s some real focus in terms of where will these army units be, where will the navy be, where will the air force be? That’s been a big hard battle with the customer to make sure people agree on the priorities. We now know what we need to do in terms of major clusters, a real chance to rationalise the estate in those major clusters.”

“I’m very encouraged and I think the strategic business partner model is the new one. It’s a testing one, but I think it could drive the right behaviours for all involved and deliver what the military needs.”

“Also bringing back the troops from Germany. And it’s not only 15,000 troops: it’s also their families, which more than doubles that number. We heard earlier from Philip Hammond that he thinks the first tranche is going to happen in 2015, and then in 2020. But let’s not underestimate the scale of it. It’s an Olympic type project to make sure the right buildings are in the right place, and people move at the right time. You need that sort of mobilisation. I think the question is: is that capability and capacity available in the MoD? Even if it has a plan, does it have the ability to deliver it?”

“Culture has been touched upon. It’s absolutely important that we maintain the military ethos that has made our fighting forces so effective. We also have MoD civil servants, and we need to change pay to bring the private sector in.”

“What is the new model we’ve talked about? It’s a strategic business partner. It’s not outsourcing. It’s not selling the assets. Literally, you split the existing DIO into a governance authority which is very much MoD and military orientated, to understand the customer needs. But the bulk of the existing DIO goes into a delivery organisation: that’s where the strategic business partner sits alongside.”

“You keep the skills in there in terms of the estate skills. You keep the military ethos and understanding. DIO has done a lot of work on actually understanding the customer requirements. They put in place a team of people that talk to the customer, who understand what they want. You can bring in capital to enable these things to happen in the private sector. But it’s all done in the context of only getting paid if you perform. It’s not a
massive consultancy contract. It’s not you come in and say you can do it and then you don’t. You put your money where your mouth is and you drive that performance.”

“I actually think for the first time ever we can see the planets in alignment. You have a political will to make these exchanges. You certainly have a strategic military requirement in terms of you need to bring the troops back, you need to consolidate them on sites, you need to make sure families can live close to their barracks.”

“That will support all those military covenant objectives that people talked about earlier, and it will actually be at a lower cost, which hits the financial imperative, and it will all be done within that envelope. So I’m very encouraged and I think the strategic business partner model is the new one. It’s a testing one, but think it could drive the right behaviours for all involved and deliver what the military needs.”

Carola Hoyos
Defence Correspondent,
Financial Times

“The three issues I’d like to talk about today are morale, accountability and transparency. You’ll recognise that I have a bee in my bonnet about the transparency issue.”

“I think there needs to be a real discussion about how much transparency you’re going to give, not just for people like me, but for the Public Accounts Committee and very importantly for the people you employ who are under incredible strain and feel a great level of insecurity, and where morale is really very low.”

“I’m all for bringing in the private sector. But having looked at areas where the private sector has been brought in, I think sometimes it’s brought in in abdication of responsibility: ‘oh, we can’t do this, so let’s get the private sector in.’ And it really only works to bring the private sector in once you’ve got your own house in order because fundamentally responsibility stays your own.”

“You must make sure that you bring in the private sector under terms that make sense because the private sector works for investors, and you’re working for the military, and you are working for the taxpayer. Those are fundamentally different lords of the manor you have.”

“I do think that a discussion has to be had here about what role transparency can play in helping us make the decisions going forward. When the decision was made to change the variant of the Joint Strike Fighter and then the Government decided actually ‘maybe that wasn’t such a smart idea, this is going to cost a little more’, I called up the MoD and said: ‘well, how much money have you spent on reversing this decision?’ And the answer was ‘none.’ And I said, ‘really, none?’ And so I thought, ‘well, let me go and find out. I should be able to figure out whether some contracts have been given on this.’ So I looked it up and there was no way to figure this out. No way to figure out whether any money had been spent. There is a kneejerk reaction to transparency that it’s a bad idea. But you know what? It’s time.”

“I think there needs to be a real discussion about how much transparency you’re going to give, not just for people like me, but for the Public Accounts Committee and very importantly for the people you employ who are under incredible strain.”

“Since all the announcements that have been made, but show me the detail, show me the money, show the taxpayer the money, show your customers the military money. And most importantly, show your employees that this is working because unless you do they’re not going to be willing to take the kind of risks, and they’re going to continue to cover their backsides.”
“My argument today is that value for money and prioritising affordability in defence should not just be viewed as a response to recent fiscal events but rather should be essential components of a sustainable and deliverable defence posture. I also want to argue that affordability alone is not enough, and that in defence a drive for advanced armed forces maximising high skills, technology and international partnering is also vital.”

“Our independent review on defence procurement looked at ways to deliver programmes on time and to cost, and will provide the basis of our thinking in defence industrial policy. Our wider shadow defence review is analysing the threat environment in the key capability fields for a future core equipment programme. This will lead to a much more detailed look at force structures as well.”

“External threats exist in a volatile financial climate, in which defence spending is set to increase over the medium term, at a lower rate than it did during the last government’s period in office. But the ambition that we have for our forces is an extension of the ambition that we have for our country. But we realise it must obviously be affordable. And that means we’re going to have to do things differently in the future. I believe that while of course some mistakes were made, the previous Government’s record in defence is strong, and I am proud that we increased the defence budget by 10 per cent in real terms during our time in office. The equipment program was upgraded and modernised. Welfare for our forces community was greatly enhanced.”

In short, budgetary restraint is unavoidable even if you believe it to be undesirable.”

“Despite all the investment and improvements during our time in office some of the procurement problems which plague successive administrations were not sufficiently tackled. In short, budgetary restraint is unavoidable even if you believe it to be undesirable.”

“Skills must be a strategic capability. We need highly trained service personnel able to use higher technology platforms, reservists using niche civilian skills in a military context, advanced special forces, a high skilled broad-based defence industry and expertise throughout the acquisition process that we do not have in all instances at the moment.”

“There must be a greater focus on international alliance building. Shared threats and financial challenges demand that we pool resource and expertise. The UK-France accord may lay the ground for a landscape of multiple discrete bilateral or regional arrangements between ourselves and other European nations. But more widely NATO is the primary military grouping through which action will be taken, and Europe’s focus should be on greater deployability and burden sharing within the alliance.”

“There are of course real worries over the capability gaps following the Defence review, notably in surveillance and carrier strike. The impact of civilian and military skill shortages is unclear. Planning assumptions now rely on an increase in reservists, yet plans are undeveloped at best as to how we get that reservist force to the level that we all wish. And only half of the MoD budget is claimed to be balanced, yet we have seen no evidence that this is yet the case.”

“I want to talk about Labour’s approach now and in the future. We will combine savings and strategy to match the needs of the frontline for those at the bottom line. Firstly, we are open about fiscal restraint and the choices that that necessitates. Secondly, a future SDSR would take a zero based approach, ensuring that every penny is accounted for through that process. Thirdly, we want to instil a new discipline in defence spending, ending the habit of pushing to the right, and I’ll set out some of the plans about how we wish to do that. Fourthly, we want increased real-time scrutiny of 10-year budgets with increased accountability. Fifth, we would reform procurement practice so more projects are delivered to time and cost. And lastly, we will work with industry to design a fresh defence industrial strategy which supports the sovereign capabilities and, crucially, exportability.”

“But Labour cannot make commitments now as to which cuts in defence spending, if any, we would be in a position to reverse. Some decisions we simply couldn’t reverse – for example, the loss of Nimrod. Some cuts we wouldn’t want to reverse because we agree with them, which is why the shadow defence team has been clear about where we would make multi-billion pound savings if in government, including a reform of the MoD structures and personnel, the equipment programme, selling assets, and reform of the Army’s non-deployable regional structure.”

“We would go much further than that as well with a new discipline. We support the principle of a 10-year defence budget, with inbuilt contingency being verified by the National Audit Office. Because this would reach across two Parliaments for ten years, some may think that this comes close to one government seeking to bind its successor. This isn’t the case. A new government, a different government, would of course be free to alter the budget. But what I hope would be more likely to happen is that in formulating a decade long budget a sense of bi-partisanship would be encouraged with both government and opposition entering into the process.”
Delivering value for money and innovation in defence

“Labour would introduce a new discipline in defence spending and would abide by the principle that any increase in cost and expenditure resulting from decisions made in a planning round would have to be accounted for across this rolling 10-year MoD budget cycle, either through savings or increased revenues. So by challenging the MoD’s habit of pushing to the right, which has plagued all parties in government, as a short-term fix for in-year savings we would help to prevent against imbalances between the bottom line and the order book.”

“Our aim in defence policy is advanced forces supported by an advanced equipment programme able to help the UK defend our interest and ideas around the world. And the foundation of that is affordable defence finance. That is our goal.”

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“Under our plan the National Audit Office would report on the outcome of each planning round and judge whether the Core Equipment Programme remained either or both affordable and deliverable.”

“I want to change the structures, increase accountability and real-time reporting with a right of reply for the MoD, which will allow those with ownership of decisions to explain their actions. We hope that this will both increase openness and end what we have at the moment which is a retrospective blame game which can be corrosive to trust, policymaking, and risk.”

“This enhanced financial rigour would be coupled with an embrace of many of the Levene proposals. We support, for example, empowering the service chiefs to run the services with greater freedom and a focus on financial accountability, just as we must ensure enabling services such as the DIO are delivered efficiently and professionally.”

“We believe the Government could be more explicit in the capabilities it intends to purchase off the shelf and those it regards as sovereign.”

“When an effective market exists, competition is of course the best procurement policy. It is right that we explore how certain value-for-money tests could include wider employment, industrial or economic factors – something the MoD has previously rejected. Defence decision making could be made more transparent through the MoD publishing cost-benefit analysis which provided the basis for awarding contracts, while respecting commercial and security sensitivities. This would also add greater accountability to the senior Civil Service.”

“There has been a long-running debate over reform of the DE&S, and we have practical reservations about the GOCO model, in particular over accountability to Parliament and the length of contracts being at odds with the lifecycle of equipment programs. But we do support integrating private sector expertise in policymaking, as I think you already well know.”

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