



House of Commons  
Defence Committee

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# Cost of military operations: Spring Supplementary Estimate 2006–07

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**Tenth Report of Session 2006–07**

*Report, together with formal minutes and  
written evidence*

*Ordered by The House of Commons  
to be printed 6 March 2007*

## The Defence Committee

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Ministry of Defence and its associated public bodies.

### Current membership

Rt Hon James Arbuthnot MP (*Conservative, North East Hampshire*) (Chairman)  
Mr David S Borrow MP (*Labour, South Ribble*)  
Mr David Crausby MP (*Labour, Bolton North East*)  
Linda Gilroy MP (*Labour, Plymouth Sutton*)  
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The following Members were also Members of the Committee during the Parliament.

Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)  
Derek Conway MP (*Conservative, Old Bexley and Sidcup*)  
Mr Mark Lancaster MP (*Conservative, North East Milton Keynes*)  
Mr Desmond Swayne MP (*Conservative, New Forest West*)

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/defcom](http://www.parliament.uk/defcom).

### Committee staff

The current staff of the Committee are Philippa Helme (Clerk), Eliot Wilson (Second Clerk), Ian Rogers (Audit Adviser), Stephen Jones (Committee Specialist), Adrian Jenner (Inquiry Manager), Richard Dawson (Committee Assistant), Sheryl Dinsdale (Secretary) and Stewart McIlvenna (Senior Office Clerk).

### Contacts

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## Summary

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The Ministry of Defence's Spring Supplementary Estimate 2006–07 seeks additional provision of some £682 million. Of this, £429 million (63%) is for the additional costs of conflict prevention operations.

This report highlights the extent to which the forecast cost of operations in Iraq and Afghanistan for the year 2006–07 has increased since the Winter Supplementary Estimates: from £860 million to £1,002 million for Iraq and from £540 million to £770 million for Afghanistan. Part of this increase is explained by the fact that the new operational bonus and indirect resource costs were not included in the earlier estimates, as the MoD acknowledged at the time. If those elements are set aside, the MoD's forecast of the costs of this year's operations has risen by over 10% for Iraq and by almost a third for Afghanistan. We point out that the cost of operations in Iraq is forecast to exceed last year's outturn, despite the reduced number of UK Forces in that theatre, and call on the MoD to explain this.

We draw attention also to the forecast cost of peace-keeping operations in the Balkans, which the MoD expects to be £53 million in 2006–07.

We reiterate the view expressed in earlier reports that provision for all operations should be made in the MoD's Main Estimates, rather than left to Supplementary Estimates.

The report also outlines the changes in the maximum size of the Armed Forces set out in the Votes A for the financial year 2007–08. We call on the MoD to clarify how the maxima set out in the Votes A relate to the actual strengths of the Armed Forces.



# Report

## Background

1. The Spring Supplementary Estimates for the Financial Year 2006–07 were laid before the House of Commons on 20 February 2007.<sup>1</sup> The Ministry of Defence (MoD) is seeking a net increase in resources of £682.274 million—in cash terms a net increase of £550.331 million. Table 1 provides a breakdown of the requested increase in expenditure.

**Table 1: Changes in Resource and Capital Expenditure**

	£ million
<b>Resource Expenditure</b>	
Provision of Defence Capability (RfR1)	243.074
Conflict Prevention (RfR2)	340.200
War Pensions and Allowances (RfR3)	10.000
<b>Total Net Request for Resources</b>	<b>593.274</b>
<b>Capital Expenditure</b>	
Conflict Prevention (RfR2)	89.000
<b>Total Change</b>	<b>682.274</b>

Source: Ministry of Defence<sup>2</sup>

2. The requested increase in Request for Resources (RfR) 1 (Provision of Defence Capability) of £243.074 million is explained in the Department's Estimates Memorandum.<sup>3</sup> It includes £150 million of 'direct' (or 'near cash') resource expenditure to meet additional fuel and utilities costs in the Fleet command (£41 million), additional funding this year for a re-profiling of the Defence Logistics Organisation's 10-year Future Defence Supply Chain initiative (£14 million), and to accommodate several mostly small changes in the levels of Top Level Budget (TLB) holders' planned expenditure. It also includes a £58 million increase in 'indirect' resource expenditure, again spread across several TLBs to reflect their latest forecast outturns, and £42 million to accommodate the depreciation and cost-of-capital costs of Urgent Operational Requirements (UORs) for Iraq and Afghanistan (see paragraph 10 and 14 below).<sup>4</sup> On top of that, several TLBs' expenditure projections have also been increased by £115 million (resources) and £109 million (capital), but without changing the Estimates because these expenditure increases are covered by similar increases in off-setting receipts.<sup>5</sup>

1 HM Treasury, *Central Government Supply Estimates 2006–07 Spring Supplementary Estimates*, HC 293, February 2007

2 Ev 1, table 1

3 Ev 3–4, para 4

4 Ev 4, para 4.3

5 Ev 4, paras 4.7–4.9

3. The requested increase in RfR2 (Conflict Prevention) of £429.200 million is to fund the additional costs of conducting operations in Iraq, Afghanistan, the Balkans and elsewhere.<sup>6</sup> It is on this element of the Supplementary Estimate that this report focuses. **In our view, the term “conflict prevention” is confusing, as it appears to cover military operations of all kinds, from war-fighting to peace-keeping operations.**

### Approval of expenditure on operations

4. The MoD does not make provision for the additional cost of operations in the Main Estimates, on the ground that the unpredictable nature of operations makes it difficult to forecast their cost with accuracy at the beginning of the financial year.<sup>7</sup> This year, it presented estimated costs of the operations in Iraq and Afghanistan in the Winter Supplementary Estimates, presented to the House in November, instead of waiting for the Spring Supplementary Estimates as in the past. It warned, however, that certain cost elements were not included, and would be requested in the Spring Supplementary Estimates. Our report on the Winter Supplementary Estimate commended the MoD for bringing forward the presentation of estimates on the costs of operations in Iraq and Afghanistan, but restated our view that there should be provision for the cost of commenced operations in the Main Estimates.<sup>8</sup> **While we accept that it is difficult for the MoD to provide accurate estimates of the costs of operations at the beginning of the financial year, we cannot see how this can be a sufficient reason for making no forecast at all. We recommend that the MoD reflect the forecast costs of operations in Iraq and Afghanistan in its Main Estimates for 2007–08. The MoD could usefully include in its Estimates Memorandum (which we would intend to publish) an account of its planning assumptions for the costs of these operations.**

5. Estimates for the cost of operations in the Balkans and peace-keeping operations in the rest of the world are included in the Main Estimates for the Foreign and Commonwealth Office (FCO), and are transferred to the MoD in the Spring Supplementary Estimates. We have repeatedly recommended that provision for operations in the Balkans should in future be set out in the MoD’s Main Estimates.<sup>9</sup> The Government’s response to our report on the Winter Supplementary Estimate stated that the Government would reconsider this in the preparation of Main Estimates for 2007–08.<sup>10</sup> The withdrawal of most of the UK’s Forces in the Balkans, announced on 1 March 2007,<sup>11</sup> will reduce the financial significance of this element of the MoD’s estimates. Nevertheless, **we remain of the opinion that provision for all operations should be made in the MoD’s Main Estimates, rather than left to Supplementary Estimates.**

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6 RfR2 covers the net additional costs of operations: the costs that the MoD would have incurred regardless of the operation taking place, such as wages and salaries, are recorded against RfR1: see Ev 8, para 12

7 Defence Committee, Fifth Special Report of Session 2006–07, *Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06: Government Response to the Committee’s Fourth Report of Session 2005–06*, HC 1136, Appendix, para 4

8 Defence Committee, Third Report of Session 2006–07, *Costs of Operations in Iraq and Afghanistan: Winter Supplementary Estimate 2006–07*, HC 129, para 8

9 For example, HC (2006–07) 129, para 11

10 Defence Committee, Fourth Special Report of Session 2006–07, *Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2006–07: Government Response to the Committee’s Third Report of Session 2006–07*, HC 317

11 HC Deb, 1 March 2007, cols 1083–5

## Estimated costs of operations in Iraq

6. **At the Winter Supplementary Estimates, the MoD estimated that the cost of operations in Iraq in 2006–07 would be £860 million. The estimated cost has now risen to £1,002 million.**

7. At the Winter Supplementary Estimate, the MoD warned that the estimated cost did not include any contingency, and that it would be updated at the Spring Supplementary Estimates if required. It noted too that the estimate did not include the costs of the new operational bonus, announced in October 2006, nor indirect resource costs (notional or ‘non cash’ costs such as stock write-offs, increased provisions being made for likely future costs, depreciation and cost of capital charges). Our report on the Winter Supplementary Estimate concluded that the actual additional costs of operations were likely to exceed the amounts requested in the Winter Supplementary Estimate.<sup>12</sup>

8. **While it was expected that the Spring Supplementary Estimate would request additional funding for operations in Iraq, the scale of the increase is surprising.** If the indirect costs and the operational bonuses are discounted, the forecast resource costs have increased from £680 million at the Winter Supplementary Estimates to £757 million (£785 million total direct resource costs, less £28 million for the Iraq share of the operational bonus). **The cost of operations in Iraq in the current year appears to be over 10% higher than the MoD was expecting last November.**

9. Table 2 breaks down the estimated costs of operations in Iraq for the current year, and compares them with the outturn for the two previous years.

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12 HC (2006–07) 129, para 21

Table 2: Cost of operations in Iraq

Cost Type	Iraq Outturn 2004–05 £ m	Iraq Outturn 2005–06 £ m	Iraq Forecast 2006–07 £ m — as at Winter Supplementary Estimate	Iraq Forecast 2006–07 £ m — now	Increase / decrease since Winter Supplementary Estimate
<b>Resource – Direct</b>					
Military Personnel	116	80	55	111*	+ 56
Civilian Personnel	14	14	22	15	- 7
Stock / other consumption	156	219	191	212	+ 21
Infrastructure costs	88	82	106	89	- 17
Equipment support costs	198	220	189	214	+ 25
Other costs and services	110	111	112	139	+27
Net income foregone	2	10	5	5	-
<b>Total Direct Resource</b>	<b>684</b>	<b>736</b>	<b>680</b>	<b>785</b>	<b>+ 105</b>
Indirect Resource	63	62	-	22	+ 22
<b>Total Resource</b>	<b>747</b>	<b>798</b>	<b>680</b>	<b>807</b>	<b>+ 127</b>
<b>Capital</b>					
Capital Additions	163	160	180	195	+ 15
<b>Total Capital</b>	<b>163</b>	<b>160</b>	<b>180</b>	<b>195</b>	<b>+ 15</b>
<b>Grand Total</b>	<b>910</b>	<b>958</b>	<b>860</b>	<b>1,002</b>	<b>+ 142</b>

Source: Ministry of Defence<sup>13</sup>

\* includes £28 million cost of operational bonus

10. It appears from this breakdown that the change in the forecast costs for the current year since the Winter Supplementary Estimate is attributable to:

- a £56 million increase in the military personnel costs, only part of which (£28 million) is explained by the cost of the operational bonus. The MoD's supplementary

memorandum states that the change in forecast expenditure is not due to changes in force levels, which will be reflected in costs next year.<sup>14</sup>

- the inclusion of indirect resource costs, principally £22 million for the depreciation and cost-of-capital costs of UORs, the funds for which are transferred from RfR 1.
- increases in the forecast cost of stock and other consumption, equipment support costs, and other costs and services.
- a £15 million increase in capital additions, but a £17 million reduction in resource infrastructure running costs. The MoD's supplementary memorandum states that the reduction in infrastructure costs is because the building work on consolidating the UK base operations in Basra is taking longer than expected owing to the need to ensure the facilities incorporate adequate physical protection against the threat of attack by indirect fire.<sup>15</sup>

**11. It is striking that the cost of operations in Iraq in 2006–07 is now expected to exceed the outturn cost in 2005–06 by £44 million.** This may seem surprising, given that there has already been a significant drawdown in the UK's Forces there—most relevantly, a reduction from 8,500 to 7,200 at the end of May 2006.<sup>16</sup> We note that in 2005–06 the outturn was significantly less than the voted provision, and it may be that the actual costs this year will be lower than anticipated. **We call on the MoD to explain in its response to this report why it expects the costs of operations in Iraq to be greater this year than last.**

### Estimated costs of operations in Afghanistan

**12. At the Winter Supplementary Estimates, the MoD estimated that the cost of operations in Afghanistan in 2006–07 would be £540 million. The estimated cost has now risen to £770 million.**

13. Table 3 breaks down the estimated additional costs of operations in Afghanistan for the current year, and compares them with the outturn for the two previous years.

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14 Ev 10, para 3

15 *Ibid.*

16 *Ministry of Defence, Operations in Iraq: Key Facts & Figures*

Table 3: Cost of operations in Afghanistan

Cost Type	Afghanistan Outturn 2004–05 £ m	Afghanistan Outturn 2005–06 £ m	Afghanistan Forecast 2006–07 £ m — as at Winter Supplementary Estimate	Afghanistan Forecast 2006–07 £ m —now	Increase / decrease since Winter Supplementary Estimate
<b>Resource – Direct</b>					
Military Personnel	15	8	25	51*	+ 26
Civilian Personnel	1	2	7	3	- 4
Stock / other consumption	10	57	103	140	+ 37
Infrastructure costs	7	10	73	99	+ 26
Equipment support costs	7	24	81	122	+ 41
Other costs and services	20	38	67	77	+ 10
Net income foregone	(2)	8	4	4	-
<b>Total Direct Resource</b>	<b>58</b>	<b>147</b>	<b>360</b>	<b>496</b>	<b>+ 136</b>
Indirect Resource	-	1	-	20	+ 20
<b>Total Resource</b>	<b>58</b>	<b>148</b>	<b>360</b>	<b>516</b>	<b>+ 156</b>
<b>Capital</b>					
Capital Additions	9	51	180	254	+ 74
<b>Total Capital</b>	<b>9</b>	<b>51</b>	<b>180</b>	<b>254</b>	<b>+ 74</b>
<b>Grand Total</b>	<b>67</b>	<b>199</b>	<b>540</b>	<b>770</b>	<b>+ 230</b>

Source: Ministry of Defence<sup>17</sup>

\* includes £22 million cost of operational bonus

14. It appears from this breakdown that the change in the forecast costs for the current year since the Winter Supplementary Estimate is attributable to:

- a £26 million increase in the military personnel costs, most of which (£22 million) is explained by the cost of the operational bonus. The MoD's supplementary memorandum states that the change in forecast expenditure is not due to changes in force levels, which will be reflected in costs next year.<sup>18</sup>
- the inclusion of indirect resource costs for UORs' depreciation and cost of capital.
- A £37 million increase in the forecast cost of stock and other consumption. The MoD's supplementary memorandum states that this is primarily due to increased ammunition and catering costs, and reflects the tempo of operations in Helmand Province.<sup>19</sup>
- a £41 million increase in equipment support costs, and a £10 million increase in other costs and services. The MoD's supplementary memorandum states that the increase in equipment support cost is due to the increased number of approved UORs and repair of equipment.<sup>20</sup>
- an increase of £74 million in capital additions, and an increase of £26 million in resource infrastructure costs. The MoD's supplementary memorandum states that the increase in infrastructure costs is due to additional planned building activity, for example the construction of a new runway at Camp Bastion.<sup>21</sup>

15. If the indirect costs and the cost of the operational bonus are discounted, the forecast resource costs have increased from £360 million at the Winter Supplementary Estimates to £474 million (£496 million total direct resource costs, less £22 million for the Afghanistan share of the operational bonus). **The cost of operations in Afghanistan in the current year appears to be almost a third higher than the MoD was expecting last November.**

### Estimated costs of operations in the Balkans

16. **The Spring Supplementary Estimate shows that the expected cost of operations in the Balkans in 2006–07 is £53 million.**

17. Table 4 breaks down the estimated costs of operations in the Balkans for the current year, and compares them with the outturn for the two previous years.

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18 Ev 10, para 3

19 Ev 9, para 3

20 *Ibid.*

21 *Ibid.*

Table 4: Cost of operations in the Balkans

Cost Type	Balkans Outturn 2004–05 £ m	Balkans Outturn 2005–06 £ m	Balkans Forecast 2006–07 £ m
<b>Resource – Direct</b>			
Military Personnel	16	12	12*
Civilian Personnel	8	5	5
Stock / other consumption	8	9	13
Infrastructure costs	16	13	12
Equipment support costs	4	8	6
Other costs and services	32	12	14
Net income foregone	(9)	2	(9)
<b>Total Direct Resource</b>	<b>75</b>	<b>61</b>	<b>53</b>
Indirect Resource	10	2	0
<b>Total Resource</b>	<b>85</b>	<b>63</b>	<b>53</b>
<b>Capital</b>			
Capital Additions	3	-	-
Net Book Value of fixed asset disposals	(1)	-	-
<b>Total Capital</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Grand Total</b>	<b>87</b>	<b>63</b>	<b>53</b>

Source: Ministry of Defence<sup>22</sup>

\* includes £3 million cost of operational bonus

## Estimated costs of operations in other theatres

18. The Spring Supplementary Estimate also requests £4.2 million for the MoD's Conflict Prevention work in other theatres. As for the additional cost of operations in the Balkans, this additional £4.2 million was included in the FCO's Main Estimates and is now transferred to the MoD.<sup>23</sup> **We recommend that the MoD clarify in its response to this report in which other theatres it has been carrying out conflict prevention operations during 2006–07.**

## Votes A

19. The Votes A for the financial year 2007–08 were laid before the House on the same day as the Spring Supplementary Estimates.<sup>24</sup> The Votes A provide the mechanism by which Parliament exercises control over the maximum number of personnel in the Armed Forces. Motions to approve the maximum numbers for each Service, set out in the Votes A, will be put to the House after the debate on the Spring Supplementary Estimates.<sup>25</sup>

20. The Votes A for 2007–08 show a continuing reduction in the maximum size of the Regular Armed Forces, reflecting the gradual downsizing announced in the Government's 2004 *Future Capabilities* White Paper.<sup>26</sup> The reduction is most marked for the Royal Air Force, for which the maximum is to reduce by 7.2%, from 52,110 to 48,360. The maximum for the Royal Navy is to remain static at 34,070, but there is to be a 2.4% increase in the Royal Marines from 7,980 to 8,170. The Army maximum is to reduce by 0.9%, from 126,945 to 125,785, though the maximum for Army officers is to increase by 145. These changes are summarised in Table 5 below.

**Table 5: Maximum number of the Regular Armed Forces**

Service	2005–06	2006–07	2007–08	Percentage change 2006–07 to 2007–08
<b>Royal Navy</b>	36,200	34,070	34,070	0%
<b>Royal Marines</b>	7,980	7,980	8,170	+ 2.4%
<b>Army*</b>	128,945	126,945	125,785	- 0.9%
<b>Royal Air Force</b>	56,140	52,110	48,360	- 7.2%
<b>Total</b>	<b>229,265</b>	<b>221,105</b>	<b>216,385</b>	<b>- 2.1%</b>

Source: MoD Votes A 2007–08 and 2006–07<sup>27</sup>

\* Includes figures for Commonwealth, Colonial, etc. troops abroad and Gurkhas

23 Ev 4, para 5.1 and Ev 5, table 5

24 *Ministry of Defence Votes A 2007–08*, HC 280

25 Under Standing Order No. 55 (1) and (3), the question on any outstanding vote relating to numbers for defence services is put at the conclusion of the Spring Estimates Day, without debate.

26 *Delivering Security in a Changing World: Future Capabilities*, Cm 6269, July 2004, para 3.6

27 HC (2006–07) 280 and HC (2005–06) 869

21. The MoD's supplementary memorandum states that the increase in the Royal Marines Officers maximum from 880 to 930 and Other Ranks maximum from 7,100 to 7,240 is largely as a result of the creation of the Special Forces Support Group. It states that the 0.9% increase in the maximum of Army Officers, from 16,235 to 16,380 is required because mid-ranked Army Officers are currently required in higher numbers than previously expected to staff operational headquarters units.<sup>28</sup>

22. The MoD's supplementary memorandum emphasises that the

Votes A represent the uppermost limits of personnel retained for service in the Armed Forces. It neither predicts actual strengths nor acts as a control over numbers employed in the Services.<sup>29</sup>

We note that the Votes A maxima are considerably higher than the total figures for the UK Regular Forces set out in the MoD's Annual Report and Accounts,<sup>30</sup> and that they contain a large element for contingency. **We recommend that the MoD clarify in its response to this report what it sees as the purpose of the Votes A, and how the maxima stated relate to the actual strengths of the Armed Forces.**

## Conclusion

**23. The House of Commons will be asked to approve the Spring Supplementary Estimates, and the Votes A, on Monday 12 March. While we think it important to bring to the House's attention the increasing cost of operations in Iraq and Afghanistan, we believe it to be essential that these operations be adequately funded. We therefore recommend that the House approve the request for resources set out in the MoD's Spring Supplementary Estimate.**

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28 Ev 10, para 4

29 *Ibid.*

30 HC (2005–06) 1394, p 137, table 17

## Conclusions and recommendations

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1. In our view, the term “conflict prevention” is confusing, as it appears to cover military operations of all kinds, from war-fighting to peace-keeping operations. (Paragraph 3)
2. While we accept that it is difficult for the MoD to provide accurate estimates of the costs of operations at the beginning of the financial year, we cannot see how this can be a sufficient reason for making no forecast at all. We recommend that the MoD reflect the forecast costs of operations in Iraq and Afghanistan in its Main Estimates for 2007–08. The MoD could usefully include in its Estimates Memorandum (which we would intend to publish) an account of its planning assumptions for the costs of these operations. (Paragraph 4)
3. We remain of the opinion that provision for all operations should be made in the MoD’s Main Estimates, rather than left to Supplementary Estimates. (Paragraph 5)
4. At the Winter Supplementary Estimates, the MoD estimated that the cost of operations in Iraq in 2006–07 would be £860 million. The estimated cost has now risen to £1,002 million. (Paragraph 6)
5. While it was expected that the Spring Supplementary Estimate would request additional funding for operations in Iraq, the scale of the increase is surprising... The cost of operations in Iraq in the current year appears to be over 10% higher than the MoD was expecting last November. (Paragraph 8)
6. It is striking that the cost of operations in Iraq in 2006–07 is now expected to exceed the outturn cost in 2005–06 by £44 million... We call on the MoD to explain in its response to this report why it expects the costs of operations in Iraq to be greater this year than last. (Paragraph 11)
7. At the Winter Supplementary Estimates, the MoD estimated that the cost of operations in Afghanistan in 2006–07 would be £540 million. The estimated cost has now risen to £770 million. (Paragraph 12)
8. The cost of operations in Afghanistan in the current year appears to be almost a third higher than the MoD was expecting last November. (Paragraph 15)
9. The Spring Supplementary Estimate shows that the expected cost of operations in the Balkans in 2006–07 is £53 million. (Paragraph 16)
10. We recommend that the MoD clarify in its response to this report in which other theatres it has been carrying out conflict prevention operations during 2006–07. (Paragraph 18)
11. We recommend that the MoD clarify in its response to this report what it sees as the purpose of the Votes A, and how the maxima stated relate to the actual strengths of the Armed Forces. (Paragraph 22)

12. The House of Commons will be asked to approve the Spring Supplementary Estimates, and the Votes A, on Monday 12 March. While we think it important to bring to the House's attention the increasing cost of operations in Iraq and Afghanistan, we believe it to be essential that these operations be adequately funded. We therefore recommend that the House approve the request for resources set out in the MoD's Spring Supplementary Estimate. (Paragraph 23)

## List of abbreviations

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FCO	Foreign and Commonwealth Office
MoD	Ministry of Defence
RfR	Request for Resources
TLB	Top Level Budget
UOR	Urgent Operational Requirement

## Formal minutes

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**Tuesday 6 March 2007**

Members present:

Mr James Arbuthnot, in the Chair

Mr David Crausby	Mr Bernard Jenkin
Linda Gilroy	Mr Brian Jenkins
Mr David Hamilton	Mr Kevan Jones
Mr Mike Hancock	Robert Key
Mr Dai Havard	Willie Rennie

### ***Cost of military operations: Spring Supplementary Estimate 2006–07***

The Committee considered this matter.

Draft Report (Cost of military operations: Spring Supplementary Estimate 2006–07), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 23 agreed to.

Annexes (Summary and List of Abbreviations) agreed to.

Several papers were ordered to be appended to the Report.

*Resolved*, That the Report be the Tenth Report of the Committee to the House.

*Ordered*, That the Chairman make the report to the House.

[Adjourned till Tuesday 13 March at 9.15 am]

## List of written evidence

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- |   |  |      |
|---|--|------|
| 1 | Estimates memorandum from the Ministry of Defence: Ministry of Defence<br>Spring Supplementary Estimate 2006–07                      | Ev 1 |
| 2 | Estimates memorandum from the Ministry of Defence: Armed Forces Retired<br>Pay, Pensions, etc, Spring Supplementary Estimate 2006–07 | Ev 8 |
| 3 | Further memorandum from the Ministry of Defence  | Ev 9 |

# Defence Committee Reports in this Parliament

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## Session 2005–06

First Report	Armed Forces Bill	HC 747 ( <i>HC 1021</i> )
Second Report	Future Carrier and Joint Combat Aircraft Programmes	HC 554 ( <i>HC 926</i> )
Third Report	Delivering Front Line Capability to the RAF	HC 557 ( <i>HC 1000</i> )
Fourth Report	Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06	HC 980 ( <i>HC 1136</i> )
Fifth Report	The UK deployment to Afghanistan	HC 558 ( <i>HC 1211</i> )
Sixth Report	Ministry of Defence Annual Report and Accounts 2004–05	HC 822 ( <i>HC 1293</i> )
Seventh Report	The Defence Industrial Strategy	HC 824 ( <i>HC 1488</i> )
Eighth Report	The Future of the UK's Strategic Nuclear Deterrent: the Strategic Context	HC 986 ( <i>HC 1558</i> )
Ninth Report	Ministry of Defence Main Estimates 2006–07	HC 1366 ( <i>HC 1601</i> )
Tenth Report	The work of the Met Office	HC 823 ( <i>HC 1602</i> )
Eleventh Report	Educating Service Children	HC 1054 ( <i>HC 58</i> )
Twelfth Report	Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny	HC 873 ( <i>Cm 6954</i> )
Thirteenth Report	UK Operations in Iraq	HC 1241 ( <i>HC 1603</i> )
Fourteenth Report	Armed Forces Bill: proposal for a Service Complaints Commissioner	HC 1711 ( <i>HC 180</i> )

## Session 2006–07

First Report	Defence Procurement 2006	HC 56 ( <i>HC 318</i> )
Second Report	Ministry of Defence Annual Report and Accounts 2005–06	HC 57 ( <i>HC 376</i> )
Third Report	Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2006–07	HC 129 ( <i>HC 317</i> )
Fourth Report	The Future of the UK's Strategic Nuclear Deterrent: the Manufacturing and Skills Base	HC 59 ( <i>HC 304</i> )
Fifth Report	The work of the Committee in 2005 and 2006	HC 233 ( <i>HC 344</i> )
Sixth Report	The Defence Industrial Strategy: update	HC 177
Seventh Report	The Army's requirement for armoured vehicles: the FRES programme	HC 159
Eighth Report	The work of the Defence Science and Technology Laboratory and the funding of defence research	HC 84
Ninth Report	The Future of the UK's Strategic Nuclear Deterrent: the White Paper	HC 225-I and -II

# Written evidence

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## Memorandum from the Ministry of Defence

### MINISTRY OF DEFENCE SPRING SUPPLEMENTARY ESTIMATE 2006–07 ESTIMATES MEMORANDUM

#### 1. INTRODUCTION

1.1 This Memorandum covers the Spring Supplementary Estimate for the Ministry of Defence (MoD). The Department's spending plans for 2006–07 are based upon the outcome of the Government's Spending Review 2004, which was published in the Government's Expenditure Plans 2006–07 to 2007–08 (Cm 6822). This Estimates Memorandum should be read in conjunction with the Spring Supplementary Estimate and the Department's Main Estimate and Winter Supplementary Estimate.

1.2 The Introduction to the Estimate lists the changes being made since the Winter Supplementary Estimate. This is shown by Request for Resources (RfR<sup>1</sup>), and the section number shown in brackets after the detail for each change is a reference to the line(s) that are affected by the change in Part II of the Estimate.

1.3 There is a separate Estimates Memorandum for the Spring Supplementary Estimate for the Armed Forces Retired Pay, Pensions vote.

#### 2. SUMMARY OF RESOURCES SOUGHT IN THE ESTIMATE

2.1 The Introduction to the Estimate shows a net increase in resources of £593 million from £34,231 million at Winter Supplementary Estimates to £34,824 million. There is an increase in RfR1 (Provision of Defence Capability) resources of £243 million, which is primarily due to the drawdown of part of the Departmental Unallocated Provision (DUP) of Indirect Resource DEL (IRDEL). Further detail is provided at Para 4. There is a net increase in RfR2 (Conflict Prevention) resources of £340.2 million, which is additional funding for Iraq, Afghanistan, the Balkans and Global Rest of the World conflict prevention pools. Further detail is provided at Para 5. There is a net increase in RfR3 (War Pensions, allowances, etc) resources of £10 million, to cover additional expenditure. Further detail is provided at Para 7. Changes in capital relate to RfR2, where additional funding is requested of £89 million for operations in Iraq and Afghanistan. The changes are summarised in the following tables:

**Table 1**

#### CHANGES IN RESOURCE AND CAPITAL EXPENDITURE

	<i>£ million</i>
<b>Resource Expenditure</b>	
Provision of Defence Capability (RfR1)	243.074
Conflict Prevention (RfR2)	340.200
War Pensions and Allowances (RfR3)	10.000
<b>Total Net Request for Resources</b>	<b>593.274</b>
<b>Capital Expenditure</b>	
Conflict Prevention (RfR2)	89.000
<b>Total Change</b>	<b>682.274</b>

2.2 The total change in the Estimate is £682 million which gives an additional net cash requirement of £550 million. The cash requirement is analysed in the following table and a reconciliation between the changes in the Estimate and the net cash requirement is shown in Part II of the Estimate, "Resource to Cash Reconciliation".

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<sup>1</sup> For detail on the different Requests for Resources, see Annex 1.

Table 2

## CHANGE IN CASH REQUIREMENT

	<i>£ million</i>
Near Cash in Resource DEL	450.530
Cash in Capital DEL	89.000
Non Budget (Grants)	0.801
Near Cash in Annually Managed Expenditure (AME)	10.000
<b>Net Cash Requirement</b>	<b>550.331</b>

2.3 The most significant changes to the Defence Expenditure Limits (DEL) are:

- net transfers in of £59.530 million from other Government departments under RfR1 and RfR2 (see Table 4), which includes funding for the Balkans and Global Rest of World Conflict Prevention Pool (funded by transfers in from the Foreign & Commonwealth Office);
- increase in RfR2 by £241 million Resource DEL and £89 million Capital DEL to reflect the forecast costs of peace-keeping in Iraq and Afghanistan;
- transfer of £150 million from Indirect Resource DEL to Direct Resource DEL (See Para 4.2) and transfer £42 million of Indirect Resource DEL from RfR1 to RfR2 to cover the cost of capital and depreciation costs (See Para 4.3);
- draw down of £250 million from the Department's (Unvoted) Unallocated Resource Provision to cover the shortfall in the provision as a result of the transfers above, and to reflect the increased (Voted) Indirect Resource DEL forecast of outturn for RfR1. This does not represent a substantive change in business.

2.4 There are also additions to costs falling outside of the DEL of £10 million to the RfR3 War Pensions Benefits Programme costs; nuclear provision costs of £31.943 million; and £0.801 million for Non Budget costs.

### 3. DETAILED EXPLANATION OF CHANGES

3.1 Part I of the Estimate summarises the changes described above and provides detail about the costs included in each RfR.

3.2 Part II of the Estimate shows the changes proposed in the Estimate, by Top Level Budget Holder (TLB). This shows the present net position (the position at Winter Supplementary Estimates), the changes in the position, and the new net provision (Spring Supplementary Estimates). Again this is set out by Request for Resources. The transfers and other changes outlined in the Introduction to the Estimate are analysed in this section of the Memorandum.

3.3 The table below shows how the Spring Supplementary Estimate is compiled, identifying changes since 2006–07 Winter Supplementary Estimates.

Table 3

## CHANGES TO RESOURCES AND CAPITAL AT SPRING SUPPLEMENTARY ESTIMATES

<i>£ million</i>	<i>Direct R DEL</i>	<i>Indirect R DEL</i>	<i>Total R DEL</i>	<i>AME</i>	<i>Non budget Near cash</i>	<i>Total Net Resources</i>	<i>Capital DEL</i>	<i>Capital AME</i>	<i>Total Net Capital</i>
[1]	1	2	3	4	5	6	7	8	9
RfR1 Provision at Winter Supplementary Estimates	21,360.5	10,555.0	31,915.5	178.1	12.4	32,106.0	6,998.0	-7.0	6,991.0
Transfers In	3.1		3.1			3.1			
Transfers Out	-0.7		-0.7			-0.7			
Switch from Indirect to Direct R DEL	150.0	-150.0	0.0			0.0			
Switch Indirect R Del from RfR1 to RfR2		-42.0	-42.0			-42.0			
Departmental Unallocated Provision		250.0	250.0			250.0			

<i>£ million</i>	<i>Direct R DEL</i>	<i>Indirect R DEL</i>	<i>Total R DEL</i>	<i>AME</i>	<i>Non budget Near cash</i>	<i>Total Net Resources</i>	<i>Capital DEL</i>	<i>Capital AME</i>	<i>Total Net Capital</i>
Additional Provision				31.9	0.8	32.7			
<b>RfR1 at Spring Supplementary Estimates</b>	<b>21,512.9</b>	<b>10,613.0</b>	<b>32,125.9</b>	<b>210.0</b>	<b>13.2</b>	<b>32,349.1</b>	<b>6,998.0</b>	<b>-7.0</b>	<b>6,991.0</b>
RfR2 Provision at Winter Supplementary Estimates	1,087.3	0.0	1,087.3			1,087.3	360.0		360.0
Additional Provision	241.0		241.0			241.0	89.0		89.0
Transfers In	57.2		57.2			57.2			
Switch Indirect R Del from RfR1 to RfR2		42.0	42.0			42.0			
<b>RfR2 at Spring Supplementary Estimates</b>	<b>1,385.5</b>	<b>42.0</b>	<b>1,427.5</b>			<b>1,427.5</b>	<b>449.0</b>		<b>449.0</b>
RfR3 Provision at Winter Supplementary Estimates				1,037.7		1,037.7			
Additional Provision				10.0		10.0			
<b>RfR3 at Spring Supplementary Estimates</b>				<b>1,047.7</b>		<b>1,047.7</b>			
<b>Spring Supplementary Estimates Total<sup>2</sup></b>	<b>22,898.4</b>	<b>10,655.0</b>	<b>33,553.4</b>	<b>1,257.7</b>	<b>13.2</b>	<b>34,824.3</b>	<b>7,447.0</b>	<b>-7.0</b>	<b>7,440.0</b>

[1] Definitions of the column headings are shown at Annex 1.

[2] Minimal differences may occur due to roundings.

#### 4. RfR1 PROVISION OF DEFENCE CAPABILITY—EXPLANATION OF CHANGES

##### *Transfers In/Out*

4.1 The Estimate includes three transfers in from Other Government Departments and one transfer out, which are detailed in Table 4.

**Table 4**

#### TRANSFERS BETWEEN MOD AND OTHER GOVERNMENT DEPARTMENTS

	<i>RfR</i>	<i>£ million</i>	<i>Purpose</i>
<b>Transfers out</b>			
Cabinet Office	1	(0.750)	For the expansion and capability of the Security and Intelligence Agencies.
<b>Transfers In</b>			
Department of Culture, Media and Sport	1	3.080	Contribution to the National Meteorological Programme and Severe Weather Warning Service.
Foreign and Commonwealth Office	2	4.200	Contribution to the Global Rest of the World Conflict Prevention Pool costs.
Foreign and Commonwealth Office	2	53.000	Contribution to the Balkans Conflict Prevention Pool costs.
<b>Total Net Transfers</b>		<b>59.530</b>	

*Transfer from Indirect Resource DEL to Direct Resource DEL—£150 million*

4.2 HM Treasury have agreed the transfer of £150 million from non-cash to near-cash. This has enabled the Department to accommodate some minor provisions of TLBs planned programmes that otherwise might have led to the Department reining back on other elements of spend. This additional Resource DEL (some 0.7% of Direct Resource DEL), has enabled the Department to maintain its originally planned programme, despite changes at the margins of a significant number of individual programmes. Examples of how this additional near cash has been used are:

- Additional funding for the Defence Logistics Organisation (DLO) to expedite early elements of the Future Defence Supply Chain initiative (FDSCi) in-year and gain benefits. The FDSCi aims to improve the use of working capital within the support area through the use of high-specification logistics processes which includes stock tracking, computerised stores depots (which require less space) and depletion/deletion of under-utilised stock lines. Fuel and utility price increases, and a range of other minor pressures have required the Department to increase the budgets of the Fleet and Centre TLBs in order to maintain their planned programmes.

*Transfer of Indirect Resource from RfR1 to RfR2—£42 million*

4.3 As in previous years the Department has transferred £42 million Indirect Resource DEL from RfR1 to RfR2 to cover cost of capital and depreciation charges associated with fixed assets purchased under Urgent Operational Requirement arrangements. These are continuing non-cash charges associated with holding these assets for as long as they are required. The cash procurement and running costs of this equipment, while being used on operations, are met from the Treasury's Reserve.

*Draw Down of the Department Unallocated Provision—£250 million*

4.4 Following the transfers described in paragraphs 4.2 and 4.3, the latest forecasts of Indirect Resource spend from TLB Holders indicated that the Department would need to draw down £250 million from the £470 million available in the non-voted provision to ensure that sufficient resources were available for the current year.

*Increases in Non Budget Items*

4.5 A review of Grants in Aid to the Royal Hospital Chelsea and repayments to the National Loans Fund have resulted in an increase in Non Budget Estimate of £0.8 million.

*Increases in AME Items*

4.6 There has been an increase in the provisions required for a number of projects relating to the nuclear programme for example, revised forecasts associated with storage of nuclear submarines awaiting disposal.

*Neutral Transfers*

4.7 The changes under these sub-headings reflect alterations to TLB allocations of Resource and Capital funding to bring the allocations into line with responsibility transfers between TLBs, and other adjustments to reflect the defence outputs planned since the start of the year, but which require funding adjustments to deliver as the year progresses. These comprise a number of individual changes; an example of this is the transfer of new-in-service equipment from the Defence Procurement Agency (DPA) to the Defence Logistics Organisation. These changes do not represent substantive adjustments to our planned outputs.

4.8 The MoD fixed asset management project which is part of the Defence Resource Management Programme has led to centralisation of fixed asset management under four single balance sheet owners (SBSOs) Defence Estates (DE), Defence Logistics Organisation, Defence Procurement Agency and the Defence Communications Services Agency (DCSA), which is part of the DLO. Some budget re-allocations were made in the Winter Supplementary Estimates to reflect the change of budgetary responsibility, and further adjustments have been made in this Estimate.

4.9 The Operating and Non-Operating Appropriations in Aid forecasts are subject to continual review, and the changes to the Estimate reflect the latest estimate of outturn for each TLB.

## 5. REQUEST FOR RESOURCES 2

*Conflict Prevention*

5.1 The Spring Supplementary Estimate requests an additional £142 million for peace-keeping operations in Iraq; £230 million for peace-keeping costs for operations in Afghanistan; £53 million for Balkans Programme costs; and £4.2 million for Other Global Pool Programme costs. This is summarised in Table 5 below, with a more detailed analysis is shown in Table 6. The Department has not included a contingency in this Estimate.

**Table 5****SUMMARY CONFLICT PREVENTION CLAIM AT 2006–07 SSE**

<i>Operation</i>	<i>Direct Resource DEL £ million</i>	<i>Indirect Resource DEL £ million</i>	<i>Capital DEL £ million</i>	<i>Total SSE claim 2006–07 £ million</i>
Iraq	105	21	15	<b>142</b>
Afghanistan	136	20	74	<b>230</b>
Programme Expenditure				
Balkans	53	0	0	<b>53</b>
Global Pool	4	0	0	<b>4</b>
<b>Total</b>	<b>298</b>	<b>42</b>	<b>89</b>	<b>429</b>

*Operational Allowance*

5.2 The Spring Supplementary Estimate now includes the estimated costs of £59 million for the tax-free bonus to military personnel on designated operational deployments, which was announced by the Secretary of State for Defence on 10 October 2006. The forecast costs are included in Military Personnel costs in Table 6.

*Conflict Prevention Pool costs—£ 57.200 million*

5.3 This element of RfR2 covers the Programme Costs relating to MoD activities in the Balkans (£53 million) and the Global Pool (£4.2 million). This expenditure is covered by budgetary transfers from the Foreign and Commonwealth Office, as shown in the transfer section, and the costs of the Balkans are shown in detail in Table 6.

*Transfer of Indirect Resource DEL from RfR1 to RfR2—£42 million*

5.4 As noted in Para 4.3 the Department has transferred £42 million Indirect Resource DEL from RfR1 to RfR2 to cover cost of capital and depreciation charges.

5.5 The forecast cost of operations for 2006–07 is shown in Table 6.

**Table 6****THE FORECAST COST OF OPERATIONS IN 2006–07**

<i>Cost Type</i>	<i>Iraq £ million</i>	<i>Afghanistan £ million</i>	<i>Balkans £ million</i>
<b>Direct Resource DEL</b>			
Civilian Personnel	15	3	5
Military Personnel	111	51	12
Stock/Other Consumption	212	140	13
Infrastructure Costs	89	99	12
Equipment Support Costs	214	122	6
Other Costs and Services	139	77	14
Income Foregone	10	6	2
Income Generated	(5)	(2)	(11)
<b>Total Direct Resource DEL</b>	<b>785</b>	<b>496</b>	<b>53</b>
Indirect Resource DEL	22	20	0
<b>Total Resource DEL</b>	<b>807</b>	<b>516</b>	<b>53</b>
<b>Capital DEL</b>			
Capital Additions	195	254	0
<b>Total Capital DEL</b>	<b>195</b>	<b>254</b>	<b>0</b>
<b>Total Cost</b>	<b>1,002</b>	<b>770</b>	<b>53</b>

5.6 The total conflict prevention claim for 2006–07 is set out in Table 7. The Department will report outturn against this in the Annual Report and Accounts.

Table 7

## TOTAL CONFLICT PREVENTION CLAIM FOR 2006–07

<i>Operation</i>	<i>Direct Resource DEL £ million</i>	<i>Indirect Resource DEL £ million</i>	<i>Capital DEL £ million</i>	<i>Total Forecast 2006–07 £ million</i>	<i>Total Outturn 2005–06 £ million</i>
Iraq	785	22	195	<b>1,002</b>	958
Afghanistan	496	20	254	<b>770</b>	199
Programme Expenditure					
Balkans	53	0	0	<b>53</b>	63
Global Pool	20	0	0	<b>20</b>	11
African Pool	31	0	0	<b>31</b>	36
<b>Total</b>	<b>1,385</b>	<b>42</b>	<b>449</b>	<b>1,876</b>	<b>1,267</b>

## 6. END YEAR FLEXIBILITY

6.1 The Department took up its Direct DEL End Year Flexibility (EYF) at Winter Supplementary Estimates.

## 7. RfR3 WAR PENSION BENEFIT

7.1 RfR3 has increased by £10 million on Annually Managed Expenditure (AME) for War Pensions Benefits Programme costs to reflect the latest forecasts received from the Veterans Agency.

## 8. THE DEPARTMENTAL EXPENDITURE LIMIT (DEL)

8.1 The following table shows the DEL from 2003–04 to 2006–07 for all RfRs. The Total DEL is calculated by adding Resource DEL, Capital DEL and deducting depreciation, which forms part of Resource DEL. Depreciation is excluded from Total DEL; including this as well as Capital DEL would be double counting. The figures are for voted and Non voted DEL; the Non voted figure for 2006–07 is £331.294 million net of depreciation, and this is shown in more detail in the Notes to the Estimate.

Table 8

## CHANGES TO MoD DIRECT EXPENDITURE LIMITS

	<i>2003–04 SSE £ million</i>	<i>2004–05 SSE £ million</i>	<i>2005–06 SSE £ million</i>	<i>2006–07 ME £ million</i>	<i>2006–07 WSE £ million</i>	<i>2006–07 SSE £ million</i>
Resource DEL	32,315	32,831	33,727	32,643	33,803	34,104
Capital DEL	6,421	6,662	6,798	6,926	7,359	7,448
Depreciation	–7,437	–8,049	–8,168	–7,551	–7,551	–7,401
<b>Total DEL</b>	<b>31,299</b>	<b>31,444</b>	<b>32,357</b>	<b>32,018</b>	<b>33,611</b>	<b>34,151</b>

## 9. ADMINISTRATION COSTS LIMIT

9.1 The Department is not currently subject to an Administration Costs Limit.

## 10. PROVISIONS AND CONTINGENT LIABILITIES

10.1 There are increased provisions of £31 million to cover the latest forecasts for nuclear provisions (AME).

## 11. MACHINERY OF GOVERNMENT CHANGES

11.1 There are no Machinery of Government changes in this Estimate.

## 12. NET ADDITIONAL CASH REQUIREMENT

12.1 The Net Cash impact for the Spring Supplementary Estimate is an increased requirement of £550 million, of which £539 million relates to DEL (£450 million Resource DEL and £89 million Capital DEL); £10 million relates to War Pensions and Allowances AME; and £1 million relates to Non Budget (Grants).

## 13. VOTES A

13.1 We will be laying the 2007–08 Votes A Annual Estimate alongside this 2006–07 Spring Supplementary Estimate. This will be published as HC280.

*20 February 2007*

## ANNEX

### A. DEFINITION OF TERMS

#### 1. DIRECT RESOURCE DEPARTMENTAL EXPENDITURE LIMITS (RDEL)

This is a control aggregate within the resource budget. It excludes the non-cash items such as depreciation, cost of capital and movement in provisions. Direct Resource DEL is also known as ‘near cash in the resource budget’.

#### 2. INDIRECT RESOURCE DEL (IRDEL)

This covers items such as depreciation, cost of capital charges, movement in provisions, and the notional auditors’ fees for the National Audit Office (NAO). This is also known as non-cash.

#### 3. TOTAL RESOURCE DEL

This is the sum of Direct and Indirect Resource DEL.

#### 4. ANNUALLY MANAGED EXPENDITURE (AME)

Annually Managed Expenditure (AME) includes Programmes that are demand-led, such as War Pensions (RfR3) and exceptionally volatile items that cannot be controlled by the Department. AME also includes Programmes that are so large that the Department could not be expected to absorb the effects of volatility within them, such as cash release of nuclear provisions.

#### 5. NON-BUDGET

Items of expenditure which are included in the Estimate, but are outside of DEL and AME. This is a Parliamentary control but not a Treasury control.

#### 6. TOTAL NET RESOURCES

This is the net of items 1 to 5.

#### 7. CAPITAL DEPARTMENTAL EXPENDITURE LIMIT (CDEL)

This is for new investment, including Capital additions, disposals, and the capital repayment of loans.

#### 8. CAPITAL AME

Includes the capital element of the loan repayments for self- financing public corporations, such as QinetiQ.

#### 9. TOTAL NET CAPITAL

This is the sum of the above capital items.

#### 10. TOTAL NEAR CASH

This is the total accrued expenditure spend and is the sum of Direct RDEL and Capital DEL.

## 11. REQUEST FOR RESOURCES 1

Provision of Defence Capability, provides for expenditure primarily to meet the Ministry of Defence's operational support and logistics services costs and the costs of providing the equipment capability required by defence policy.

## 12. REQUEST FOR RESOURCES 2

Conflict Prevention provides primarily for the additional costs of operations. These are the net additional costs incurred: the costs that the Department would have incurred regardless of the operation taking place, such as wages and salaries are recorded against RfR1.

## 13. REQUEST FOR RESOURCES 3

War Pensions and Allowances, etc. provides primarily for the payments of pensions and allowances for disablement or death arising out of war or service in the Armed Forces after 2 September 1939, and associated non-cash items.

## B. LIST OF ABBREVIATIONS USED IN THE ESTIMATE

AME	Annually Managed Expenditure
DCSA	Defence Communications Services Agency
DE	Defence Estates
DLO	Defence Logistics Organisation
DPA	Defence Procurement Agency
DUP	Departmental Unallocated Provision
EYF	End Year Flexibility
FCO	Foreign and Commonwealth Office
FDSCi	Future Defence Supply Chain initiative
MoD	Ministry of Defence
NAO	National Audit Office
RfR	Request for Resources
SBSO	Single Balance Sheet Owner
SSE	Spring Supplementary Estimates
UK	United Kingdom
WSE	Winter Supplementary Estimates

**Memorandum from the Ministry of Defence**

**ARMED FORCES RETIRED PAY, PENSIONS, ETC  
SPRING SUPPLEMENTARY ESTIMATE 2006–07  
ESTIMATES MEMORANDUM**

## REQUEST FOR RESOURCES 1—ARMED FORCES RETIRED PAY, PENSIONS, ETC

1. *Summary of Changes sought in the Spring Supplementary Estimate*

The main reason for the Armed Forces retired Pay and Pensions Estimate is to request an additional net cash requirement of £20 million.

2. *Detailed Explanation of the Change and Allocation*

The increase in net cash requirement of £20 million is to meet commitments for payment of pensions and lump sum benefits to Service personnel and dependants. There are also small, and offsetting, changes to Grants and Appropriations in Aid of £2.6 million to reflect the latest forecast of outturn.

3. *Changes to Cash Requirement Allocation*

There is an increase in the net cash requirement of £20 million as a result of this change.

20 February 2007

### Further memorandum from the Ministry of Defence

Set out below are the Department's responses to the Select Committee questions arising from the Spring Supplementary Estimate and the Department's Estimates Memorandum.

#### 1. PSA TARGETS

**The Memorandum, however, like its Winter Estimates predecessor, does not address the impact of the changes being sought on PSA targets—a key requirement of the Memorandum, which was recommended in Scrutiny Unit guidance and is a Treasury requirement.**

##### *Response*

The changes being sought at the Spring Supplementary Estimates have no direct impact on PSA targets. If any changes proposed as part of the Estimates process have an impact on PSA targets we would ensure that this is drawn to the Committee's attention in the Department's Estimates memorandum.

#### 2. DIRECT DEL

**Details of the amount of additional RfR-1 Direct DEL being provided for each of the items listed in paragraph 4.2 of the Memorandum:**

- **for the DLO's Future Defence Supply Chain initiative;**
- **for Fleet's additional fuel and utility costs and a range of other minor pressures;**
- **for Centre's additional fuel and utility costs and a range of other minor pressures;**
- **to what extent do additional costs of the FDSCi in 2006–07 represent higher overall costs of the initiative and to what extent do they represent any bringing forward of the timing of that programme?**

##### *Response*

There has been a large number of small changes (both increases and decreases) to planned spending of the Top Level Budgets (TLBs). As stated in the Estimates Memorandum, the details provided were some illustrative larger examples of increases from the greater number of separate and individual movements. It is not possible to provide full details of all such movements since the TLBs manage their budgets on a net basis.

The FDSCi programme remains on track to deliver benefits of £441 million over the next 10 years. The programme's overall costs have not increased nor has the programme accelerated. The additional £14 million in 2006–07 represented a reprofiling of planned expenditure to reflect revised project estimate of in-year spend. Some £41 million of additional resources were allocated to FLEET to cover fuel and utilities costs. Additional funds provided to the Central TLB are to cover additional spend on a number of items including the Joint Personnel Administration project, the Rhine and European Support Group, Project Collins (which is addressing incorrectly paid pensions), the Defence Industrial Strategy, the Defence Training Review and support to media operations. Numerous other smaller changes have been made within other TLBs.

#### 3. CONFLICT PREVENTION

**The expected full-year costs of 'Conflict Prevention' operations has grown significantly between the Winter and Spring Estimates, particularly for Afghanistan. The main areas of expenditure in that theatre which you now expect to be higher are for 'stock/other consumption', 'infrastructure costs' (for Afghanistan) and 'equipment support costs' [Memorandum table-6]. The Committee would like a note providing more detail on the nature of these increases in costs and the reasons for the increases, and the reason for the decrease in the estimated infrastructure costs for Iraq. It would also find it helpful to know (a) how the costs of the operational bonus are apportioned between theatres, and (b) to what extent the overall increase in the estimated costs for these operations are caused by, first, changes in the anticipated pace of drawdown in Iraq and, secondly, by changes in the number of Service personnel and equipments being deployed to Afghanistan.**

##### *Response*

##### Afghanistan

The increase in the estimated costs for Afghanistan reflects the tempo of operations in Helmand Province. The increase in Stock Consumption is primarily due to increased ammunition and catering costs. The increase in Infrastructure Costs is due to additional planned building activity, for example the construction of a new runway at Camp Bastion. The increase in Equipment Support cost is due to the increased number of approved Urgent Operational Requirements (UORs) and repair of equipment.

## Iraq

The Winter Supplementary Estimate for Infrastructure costs in Iraq was based on consolidating the UK base operations in Basra which entailed extensive building work. The building work is taking longer than initially expected due to the need to ensure the new facilities incorporate adequate physical protection against the threat of attack by indirect fire. As a result, some expenditure will occur in 2007–08.

The changes in forecast expenditure in Afghanistan and Iraq are not due to changes in force levels in the two theatres, which will be reflected in costs next financial year.

## Operational Allowance

A total of £53 million was included in the RFR2 Spring Supplementary Estimates for the new Operational Allowance. This is broken down by operation as follows:

Iraq	£28 million
Afghanistan	£22 million
Balkans	£3 million
Total	£53 million

## 4. VOTES A

**The Committee would like a note explaining the reasons for the increase in the maximum number of Royal Marines (officers, and men and women) and of Army officers provided for in the Votes A 2007–08.**

### *Response*

Votes A represents the uppermost limits of personnel retained for service in the Armed Forces. It neither predicts actual strengths nor acts as a control over numbers employed in the Services.

We have asked for an increase in the Royal Marines Officers maximum from 880 to 930 and Other Ranks maximum from 7,100 to 7,240, largely as a result of the creation of the Special Forces Support Group.

We have asked for an increase of 0.9% in the voted maximum of Army Officers, from 16,235 to 16,380, as mid-ranked Army Officers are currently required in higher numbers than previously expected to staff operational headquarters units.

5 March 2007

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