



House of Commons
Defence Committee

Ministry of Defence Main Estimates 2009–10

Ninth Report of Session 2008–09

*Report, together with formal minutes and
written evidence*

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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.

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Publications

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The current staff of the Committee are Mike Hennessy (Clerk), Richard Ward (Second Clerk), Karen Jackson (Audit Adviser), Sara Turnbull (Inquiry Manager), Richard Dawson (Senior Committee Assistant), Christine McGrane (Committee Assistant) and Miguel Boo Fraga (Committee Support Assistant).

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Our Scrutiny of the Estimates

1. The Treasury's Main Supply Estimates 2009–10 by which the Government requests resources from Parliament to meet its expenditure plans for the Financial Year ahead were laid before the House of Commons on Thursday 18 June.¹ The House will be asked to agree them on Thursday 2 July.

2. The Main Supply Estimates contain an Estimate for each Government department and, separately, for each public service pension scheme. Our focus this year, as in the past, is on the Ministry of Defence (MoD) departmental Main Estimate. The MoD has as usual provided us with a memorandum which explains key elements of the Estimate. This is attached to the Report.²

3. Shortly before the Main Estimates were laid, the Government sent us its response to our Report on the Spring Supplementary Estimate 2008–09. We have taken the opportunity in this Report to comment on important elements of this response. Further information was also sought from the MoD on both the Main Estimate and the response to that earlier Report. Both the Government response to our Report and the MoD's supplementary memorandum responding to our request for further information are attached to this Report.³

4. This year the Main Estimates were laid relatively late. There was also an unexpected delay of sixteen days between their intended laying date and the date on which they were finally laid. However, the date on which the House will be asked to agree the Main Estimates was not changed as a consequence of this delay. There is thus significantly less time this year in which thorough and detailed scrutiny can be carried out by departmental select committees and Reports to the House can be drafted and agreed—indeed, only the absolute minimum period permitted by the Standing Orders of the House of Commons. **We have commented before on the very tight schedule which committees such as ours have to adopt if they are to report on Supplementary Estimates before they are taken in the House.⁴ It is highly regrettable that this year such a very tight schedule should apply also to the Main Estimates. We expect the Government in its response to this Report to set out the reason for the delays and the actions it intends to take in future years to ensure such delays do not happen again.**

5. We are grateful to the MoD for replying so promptly to our request for further information supplementary to its response to our Spring Supplementary Estimate Report and its Estimates memorandum. We also wish to thank the Committee Office Scrutiny Unit for its help with regard to the particularly tight deadline to which we had to work in preparing this Report, and for its regular assistance in scrutinising the Estimates.

1 HM Treasury, *Central Government Supply Estimates 2009–10, Main Supply Estimates*, 18 July 2009, HC 514

2 Ev 1–10

3 Ev 11–14 and Ev 14–15 respectively

4 Defence Committee, Eighth Report of Session 2007–08, *Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08*, HC 400, paras 2 and 3

Ministry of Defence Request for Resources

6. The MoD's Main Estimate requests resources of £39.7 billion, with a net cash requirement of £37.7 billion. The MoD's Estimate is split between three Requests for Resources (RfR):

- RfR1—Provision of Defence Capability
- RfR2—Peace Keeping and Operations
- RfR3—War Pensions and Allowances

The headline figures are set out in the table below:

Table 1: The Ministry of Defence's Request for Resources (£million)

	2009–10 Provision	2008–09		2007–08 Outturn
		Final Provision	Forecast Outturn	
RfR1: Provision of Defence Capability	35,833	34,637	34,536	32,415
RfR2: Peace Keeping and Operations	2,872	3,468	3,326	2,196
RfR3: War Pensions and Allowances	1,024	1,015	1,014	1,014
Net resource requirement	39,729	39,120	38,876	35,625
Net cash requirement	37,746	35,552	36,106	32,787

Source: HM Treasury, *Main Supply Estimates 2009–10*, p 307

Provision of Defence Capability

7. RfR1 covers by far the largest proportion of requested resources: its ambit includes personnel, equipment and support costs for the Armed Forces (including, for example the nuclear warhead programme). The departmental Main Estimate breaks this down by Top Level Budget Holder (TLB). After a number of changes to the TLBs over recent years they have this year remained more or less the same as last year, excepting some name changes. If this remains the case, it will make comparisons easier than has been the case for the last few years. The RfR1 provision for 2009–10 is £2,412 million more than the RfR1 provision at the time of the 2008–09 Main Estimates. Of particular note is the resources expenditure in the Chief of Joint Operations TLB which has risen 17% from last year's Main Estimates provision, from £396 million to £464 million. Changes in other TLBs are less striking. **We request the MoD in response to this Report explain the reasons for the significant increase in resources allocated to the Chief of Joint Operations TLB.**

Peace Keeping and Operations

8. When we began our regular scrutiny of the MoD's Estimates after the 2005 General Election, forecast costs of operations for each Financial Year were first set down in the Spring Supplementary Estimate towards the end of that Financial Year. They would be

voted on by the House shortly after that Estimate was laid. During Financial Year 2006–07, we made the case for the House receiving earlier notice of operational costs each Financial Year and recommended that the MoD bring forward forecasts of operational costs at an earlier point in future Financial Years.⁵

9. In response, the MoD signalled its intention in future to bring forward operational costs to the House for agreement in its Winter Supplementary Estimate which is laid before the House some two to three months earlier than the Spring Supplementary Estimate each year.⁶ We welcomed this move but pressed for some indication to be given to the House at the time of the Main Estimates of what operational costs were expected to be.⁷ We acknowledged that such forecast costs were likely to change on account of the volatile and uncertain nature of operations, and that further sums would probably need to be sought at the time of the Supplementary Estimates later in the Financial Year. However, we were aware from information submitted to us by the MoD that the time-lag between MoD forecasts and their publication of forecast costs based upon them in the Supplementary Estimates was sometimes so great that earlier public notification of forecast costs to the House was desirable, notwithstanding the possibility of later changes to those costs.⁸

10. We were very pleased when, in its memorandum accompanying the MoD Main Estimates for 2008–09, the MoD presented a forecast cost for operations.⁹ In our Report on the 2008–09 Main Estimates we thanked the MoD and asked for this total to be broken down in future in the same way as the figures presented for operational costs in the MoD's Supplementary Estimates memorandum.¹⁰ In this year's Main Estimates, the MoD has done this for the first time.¹¹ Moreover, the MoD has included, again for the first time within the body of the Main Estimates, the formal request for operational resources under RfR2. These operational costs will of course continue to be resourced from the Reserve. **We welcome the MoD's willingness to share increasing amounts of information on operational costs with the House at this early stage in the Financial Year, and likewise for seeking formal approval from the House for these funds earlier than before. These are not insignificant steps in allowing our Committee and the House improved financial scrutiny.**

11. The MoD, in its memorandum accompanying the 2008–09 Main Estimates, included a forecast for operational costs for that Financial Year of “at least £2Bn...[to be] split between Afghanistan and Iraq”¹². In our Report on those Main Estimates we commended the MoD for this but pointed out that, while welcome, this information was not as detailed

5 Defence Committee, Fourth Report of Session 2005–06, *Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06*, HC 980, para 15

6 Defence Committee, Fifth Report of Session 2005–06, *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, paras 3 and 4

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

8 Defence Committee, Eleventh Report of Session 2007–08, *Ministry of Defence Main Estimates 2008–09*, HC 885, paras 17–27

9 *ibid.*, Ev 3, para 6.6

10 *ibid.*, para 15

11 Ev 4, Table 8

12 HC (2007–08) 885, Ev 3, para 4.4

as we had hoped.¹³ The information provided by the MoD in the 2009–10 Main Estimates memorandum is a great advance on what was provided last year. The Table (reproduced below) setting out forecast costs under RfR2 for 2009–10 breaks down an overall sum—such as given the previous year—into the same elements as feature in previous Supplementary Estimates memoranda. We are grateful to the MoD for this provision of more detailed information.

Table 2: Estimated cost of operations in Afghanistan and Iraq at Main Estimates 2009–10

Cost Type	Iraq £M	Afghanistan £M
Direct Resource DEL		
Civilian Personnel	9	16
Military Personnel	37	148
Stock/Other Consumption	189	480
Infrastructure Costs	69	216
Equipment Support Costs	231	485
Other Costs and Services	93	423
Income Foregone/ Generated (-)	1	-12
Total Direct Resource DEL	629	1,756
Indirect Resource DEL	165	258
Total Resource DEL	794	2,014
Capital DEL		
Capital Additions	83	1,481
Total Capital DEL	83	1,481
Total Estimated Costs	877	3,495

Source: Ev 4, Table 8

13 HC (2007–08) 885, paras 14, 15 and 17

12. In our Report on the 2008–09 Spring Supplementary Estimate, we noted that, at that late point in the Financial Year, the MoD was expecting to spend “over twice the amount it set down as a likely minimum for operational costs at the time of the last Main Estimate”. We expressed the hope that the 2009–10 forecasts would be more robust.¹⁴ We are pleased to note that the figure for expected operational costs in Afghanistan for 2009–10 set out in the memorandum accompanying the Main Estimates is not only usefully broken down but more precise and, importantly, greater in size than the figure of £3 billion which the Prime Minister announced to the House on 29 April 2009.¹⁵ The MoD has clearly not kept complacently to the sort of forecast outline minimum it placed within the memorandum accompanying the Main Estimates for the last Financial Year but has set out what we expect to be a more realistic and thus more robust figure.

13. Current forecasts suggest that the cost of operations in Iraq this Financial Year will be £877 million, and in Afghanistan £3,495 million, a total of some £4,372 million.¹⁶ We do not yet have an out-turn for Financial Year 2008–09 for those theatres, but on the basis of the latest forecast included in the Spring Supplementary Estimates (of £1,958 million and £2,559 million for Iraq and Afghanistan respectively—in total, £4,517 million),¹⁷ **these sums represent a decrease of 55.2% and an increase of 36.6% respectively against expected costs for Financial Year 2008–09. The overall reduction, adding together both theatres, is 3.2%. This is the first reduction in overall costs of operations in Iraq and Afghanistan since those operations began to be carried out in both theatres, although Supplementary Estimates this Year might negate that reduction.**

14. Resource expenditure on peacekeeping is down 17.2%, as against the forecast from the 2008–09 Spring Supplementary Estimate, from £3,400m to £2,800 million. Within this, the Iraq resource spend is down from £1679m to £794 million (-52%) and the Afghanistan resource spend is up from £1710m to £2014 million (+18%). Capital expenditure on peacekeeping is on the same basis up 38% from £1,128m to £1,564 million, of which the Iraq net capital spend is down from £273m to £83 million (-70%) and the Afghanistan net capital spend is up from £849m to £1481 million (+74%).

15. The reduction in costs for Iraq is of course largely a result of the drawdown of UK forces. Continuing costs in this theatre reflect specific drawdown costs and the costs for the main UK military presence in the first part of the Financial Year and for the remaining, much smaller, elements for the rest of the Year, the majority of UK Forces leaving Iraq by the end of July 2009. The MoD memorandum is helpful about the grounds for the increase in Afghanistan costs:

“Operations in Afghanistan include the additional security costs required for the local elections, and the costs of around 200 personnel providing counter improvised explosive device (IED) expertise. Capital costs for Afghanistan include Urgent Operational Requirements (UORs) such as further force protection (e.g. tactical support vehicles and surveillance equipment), and ongoing further modifications to

14 Defence Committee, Fourth Report of Session 2008–09, *Spring Supplementary Estimate 2008–09*, HC 301, para 7

15 Ev 12, response to recommendation 6

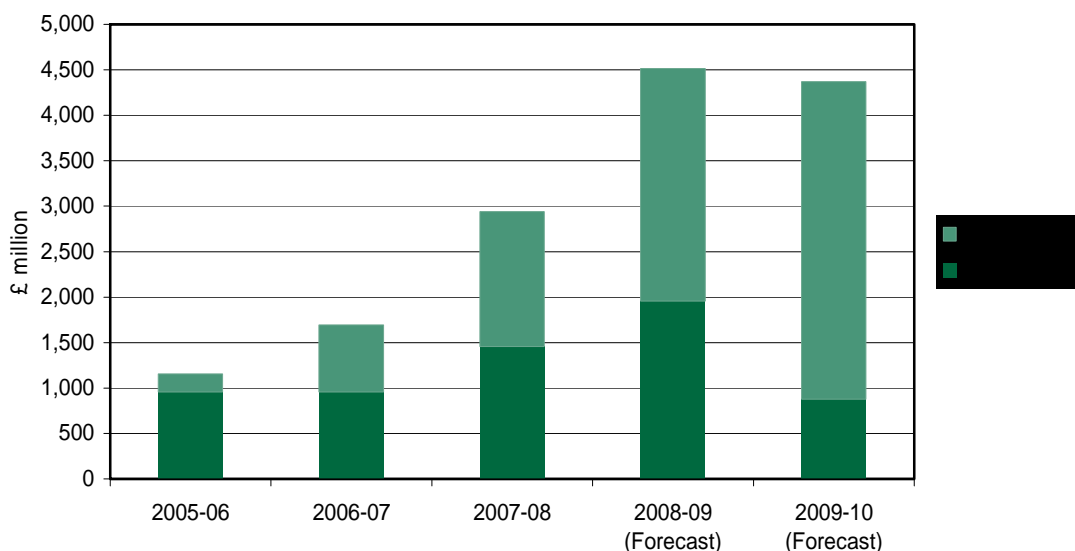
16 Ev 4, Table 8

17 HC (2008–09) 301, p 9, Table 2

military equipment for use in the operational environment (e.g. further adaptations to Tornado aircraft and Lynx and Merlin helicopters). UORs by their very nature reveal a capability gap in a specific operational environment and are therefore sensitive. We therefore cannot provide precise details. There is also an additional capital provision for increased airfield and associated support infrastructure in Afghanistan.”¹⁸

16. As this will be our last opportunity in this Parliament to scrutinise the MoD’s Main Estimates, we have taken the opportunity to put side by side the costs of operations in Iraq and in Afghanistan for each Financial Year since we began our scrutiny of these costs in 2005. We have set these out below for Iraq, for Afghanistan, and then for both theatres combined. These tables help provide a sense of the scale of these operations in the last five years, of the changes in the scale of the component costs and of their overall trajectory.

Figure 1: Overall cost of operations, Iraq and Afghanistan, 2005–06 to 2009–10



Source: previous Defence Committee Reports and Ev 4, Table 8

Table 3: Iraq: cost of operations, 2005–06 to 2009–10 (£ million)

Cost Type	Iraq outturn 2005–06	Iraq outturn 2006–07	Iraq outturn 2007–08	Iraq forecast 2008–09 (Spring)	Iraq forecast 2009–10 (Main)
Resource – Direct					
Military personnel	80	100	98	116	37
Civilian personnel	14	15	14	18	9
Stock/other consumption	219	218	237	240	189
Infrastructure Costs	81	83	130	150	69
Equipment support costs	220	206	278	356	231
Other costs and services	111	137	162	175	93
Income foregone / (generated)	10	5	4	(1)	1
Indirect Resource	62	23	131	625	165
Total (Resource)	797	787	1054	1679	794
Capital Additions	160	169	403	279	83
TOTAL	957	956	1,457	1,958	877

Source: previous Defence Committee Reports and Ev 4, Table 8

Table 4: Afghanistan: cost of operations, 2005–06 to 2009–10 (£ million)

Cost Type	Afghan outturn 2005–06	Afghan outturn 2006–07	Afghan outturn 2007–08	Afghan forecast 2008–09 (Spring)	Afghan forecast 2009–10 (Main)
Resource – Direct					
Military personnel	8	50	85	73	148
Civilian personnel	2	4	9	12	16
Stock/other consumption	57	164	301	521	480
Infrastructure Costs	11	101	149	167	216
Equipment support costs	24	112	200	422	485
Other costs and services	37	89	160	305	423
Income foregone / (generated)	8	(2)	(11)	(15)	(12)
Indirect Resource	1	42	156	225	258
Total (Resource)	148	560	1,049	1,710	2014
Capital Additions	51	178	433	849	1,481
TOTAL	199	738	1,482	2,559	3,495

Source: previous Defence Committee Reports and Ev 4, Table 8

Table 5: Iraq and Afghanistan: cost of operations, 2005–06 to 2009–10 (£ million)

Cost Type	Iraq /Afghanistan outturn 2005–06	Iraq /Afghanistan outturn 2006–07	Iraq /Afghanistan outturn 2007–08	Iraq /Afghanistan forecast 2008–09 (Spring)	Iraq /Afghanistan forecast 2009–10 (Main)
Resource – Direct					
Military personnel	88	150	183	189	185
Civilian personnel	16	19	23	30	25
Stock/other consumption	276	382	538	761	669
Infrastructure Costs	92	184	279	317	285
Equipment support costs	244	318	478	778	716
Other costs and services	148	226	322	480	516
Income foregone / (generated)	18	3	(7)	(16)	(11)
Indirect Resource	63	65	287	850	423
Total (Resource)	945	1,347	2,103	3,389	2,808
Capital Additions	211	347	836	1128	1564
TOTAL	1,156	1,694	2,939	4,517	4,372

Source: previous Defence Committee reports and Ev 4, Table 8

Drawdown in Iraq

17. Given that most UK forces will have withdrawn from Iraq by the end of July 2009, four months into the Financial Year, it is perhaps not surprising that the estimated costs of £877 million for this Financial Year are under half of the amount forecast for the whole of the preceding twelve months. Clearly there were always going to be specific costs relating to drawdown which would be additional to the general operational costs for UK forces for the first part of 2009 during which the main bulk of UK forces remained in Iraq. The Spring Supplementary Estimate for 2008–09 included an additional £455 million to cover some of these specific drawdown costs within that Financial Year.¹⁹ The Government response to

19 HC (2008–09) 301, paras 8 and 9

our Report on those Estimates, however, fails to set out to what extent this allocation was used during the Financial Year.²⁰ An additional request for this information has also been met by the statement that the figures cannot be given as they are “still subject to final audit confirmation” and that “work is ongoing to ascertain the final impairment costs of fighting equipment deployed in Iraq”.²¹ The supplementary memorandum from the MoD does however say that “the provisional Indirect DEL out-turn for 2008–09 suggests a lower figure” than £455 million.²²

18. The Government response to our Report on the 2008–09 Spring Supplementary Estimate did however set out in some detail expected drawdown costs for Iraq for 2009–10. Component parts of these costs will be:

- £13 million for hire service contracts to replace equipment returned to the UK;
- £97 million for mechanical handling equipment (e.g. cranes) and other equipment support costs;
- £21 million infrastructure, accommodation and other costs of withdrawal;
- £56 million for transport (through Defence Supply Chain Operations Movement and Vehicles Group; and
- (£10 million) stock return from theatre.²³

19. These component costs aggregate to £177 million. Consequently, the remaining £700 million cost for 2009–10 is to cover the presence of the main UK force in Iraq until its withdrawal by the end of July 2009 (for four months of the Financial Year) and the smaller force of some 400 personnel whose role in Iraq will be maintained for the rest of the Financial Year. However, the sum of £700 million is nearly half the cost of maintaining the full UK force in Iraq for the previous twelve months (excluding the extra £455 million drawdown contingency). **We expect the MoD, in its response to this Report, to set out more clearly why the cost of operations in Iraq in Financial Year 2009–10 is still so relatively significant when for most of that Year only approximately 400 UK personnel will remain in theatre.**

20. Given that drawdown cost for Iraq for 2009–10, set at £177 million, is significantly lower than the contingency set aside for 2008–09, most of the drawdown cost for Op TELC as a whole clearly fell within that earlier year. It is therefore frustrating that the response to our request for a breakdown of drawdown costs for 2008–09 has twice met with no substantive response. This is unsatisfactory. **We expect the MoD in its response to this Report, or within its Annual Report and Accounts to set out clearly, comprehensively and in appropriate detail the specific drawdown costs in Iraq for Financial Year 2008–09. If these costs significantly exceed or fall under the £455 million allocated for the purpose, we also expect the MoD to explain why this is so.**

20 Ev 12, response to recommendation 7

21 Ev 15, response to question 5

22 *ibid.*

23 Ev 13, response to recommendation 8

21. A Departmental Minute laid before the House on the same day that we received the Government response to our Report on the 2008–09 Spring Supplementary Estimate provides an insight into some of the drawdown costs of Iraq. This Minute concerns the gifting to US forces infrastructure consisting of four dining facilities and four other incomplete structures (three accommodation units and a hospital unit). This infrastructure (which will in turn be passed on to the Iraqi Government) is valued at some £96.476 million in total—some £45.399 million for the dining facilities and some £50.620 million for the incomplete structures. (The total also includes a small sum of £456,886 to cover the contents of the completed buildings.)²⁴ Their cost of construction fell in Financial Years 2007–08 and 2008–09, some £61 million in the former and some £35 million in the latter, under RfR2 in each year.²⁵

22. This Minute, and the related letter from the then Secretary of State for Defence, the Rt Hon John Hutton MP, to Edward Leigh MP, the Chairman of the Committee of Public Accounts, reveals that the £96.476 million loss of these buildings will need to be covered in this year's Estimates. As there is no evidence that it has been covered in the Main Estimates as laid on 18 June, it will presumably be covered at the time of the Winter Supplementary Estimates. It seems odd that the Government did not make reference to this information in its response to our Report or in the memorandum accompanying the Main Estimates. Indeed, the drawdown costs for Iraq set out in the Government response for this Financial Year are entirely silent on this loss. **We expect the MoD to set out for us when the costs of the loss represented by the gifting of infrastructure to US forces in Iraq will be accounted for, and when the House will formally be asked to vote monies as a consequence. We also request an explanation of why this drawdown cost does not feature in the broken down costs set out in the Government response to our last Report on the Spring Supplementary Estimates.**

Urgent Operational Requirements

23. In our Report last year on the 2008–09 Main Estimates we expressed some concern at the future impact on the MoD's main Budget of the substantial sum expected to be spent on Urgent Operational Requirements (UORs) in that Financial Year.²⁶ At the time of those Main Estimates, the MoD expected the cost of UORs in 2008–09 to amount to £1.065 billion. By the time of the Winter Supplementary Estimates this figure had been refined to £1.063 billion²⁷—and by the time of the Spring Supplementary Estimate it had fallen very slightly to £1.054 billion.²⁸ The formal outturn cost on UORs for that Year is yet to be made available to us.²⁹ We accept the assurances of the MoD in the Government response attached to this Report that the cost will not go beyond the £1.065 billion originally cited, not least because 50% of any sums spent on UORs beyond this limit would fall partly on the MoD main Budget for 2010–2011, in line with the agreement between the Treasury

24 Ev 16 and 17

25 Ev 14, response to question 1

26 HC (2007–08) 885, para 14

27 Defence Committee, First Report of Session 2008–09, *Winter Supplementary Estimates 2008–09*, HC 52, para 17

28 HC (2008–09) 301, para 15

29 Ev 13, response to recommendation 10

and the MoD announced to the House by the then Secretary of State, the Rt Hon Des Browne MP, on 12 November 2007.³⁰

24. In the memorandum accompanying the MoD Main Estimates for 2009–10, the MoD helpfully broke down UOR costs for each theatre and by resource and capital. This is set out in the Table below:

Table 6: Forecast UOR expenditure breakdown in 2008–09

Type of Cost	Iraq £M	Afghanistan £M	Total UOR £M
Resource	116	128	244
Capital	147	663	810
Total	263	791	1,054

Source: Ev 13

The MoD also pointed out in that memorandum that the additional capital request in the Spring Supplementary Estimate included new UOR costs of £13 million for Iraq and a combination of £17 million new costs, some forecast UOR reductions of £18 million and £53 million for the Protected Mobility UOR package for Afghanistan.³¹ That this additional UOR cost of £65 million is likely still to permit the total UOR cost in the outturn to come in lower than the total set at the time of the Winter Supplementary Estimate presumably means that there were other savings earlier in the Year or that the original forecast was generous. **We would be grateful for confirmation of UOR costs for 2008–09, accompanied by a note explaining the changes to the composition of these costs over the period concerned.**

25. We note that the MoD in its response to our earlier Report and in the later supplementary memorandum also points out that the estimate for UORs in Financial Year 2009–10, as agreed with HM Treasury, is £635 million, considerably less than for the previous Financial Year. Any UOR costs over and above this agreed sum of £635 million will fall in full on the Defence budget in Financial Year 2011–12.³² **We would be grateful for an explanation of why UOR costs beyond the limit agreed between the Treasury and the MoD are now to fall in full upon the MoD two Financial Years later: this seems to go against the agreement announced to the House by the then Secretary of State, the Rt Hon Des Browne MP, in November 2007, which stated that such costs would be split 50:50 between the Treasury and the MoD.** One reason for the reduction in UOR costs is that the Protected Mobility Package (PMP) for 2009–10 will not be taken as part of the UOR spend as it was in 2008–09. (Arrangements for 2010–11 are not yet settled.) While £53 million of the PMP was covered by the total UOR estimate last Financial Year, the £424 million of Treasury contribution to this Financial Year's PMP costs is being dealt with

30 HC Deb, 12 November 2007, col 500

31 Ev 13, response to recommendation 9

32 *ibid.*, response to recommendation 10

separately, out with the UOR allocation.³³ However, even taking into account the amount of PMP costs within UOR costs last year, UOR costs this year will still be below non-PMP UOR costs for Afghanistan last year. **We request the MoD, in its response to this Report, to break down the projected 2009–10 £635 million UOR costs in the same way as it did for 2008–09, by theatre and by capital or resource type. We are concerned that this limit on UOR costs may be an indication that the key ingredients of UORs, namely that they are required, urgently, for operational reasons, may be seen taking second place to cost considerations. We also request the MoD to give an explanation of why UOR costs are expected to be so much less than for the previous Financial Year.**

26. The supplementary memorandum from the MoD attached to this Report helpfully sets out that while the Treasury is providing £500 million for this PMP over three Financial Years (£53 million in 2008–09, £424 million in 2009–10 and £23 million in 2010–11) it is not clear yet what the costs to the MoD will be and when they will fall. The estimate given in the Government response to our Report on Defence Equipment 2009 (received on 27 April) suggested that the total cost of the PMP would be £680 million, £180 million thus falling to be paid for by the MoD.³⁴ This overall sum has already risen by 9.7% since the original estimate. As the £500 million Treasury contribution is already set and not subject to change, the MoD will have to carry 100% of any continuing increase in costs for the PMP. **We are concerned that there might still be significant increases in the cost of the Protected Mobility Package, all of which will fall to be paid in full by the MoD. We request the MoD in its response to this Report set out its latest assessment of the cost to it of this Package, when this cost is likely to fall, and when the House will formally be notified of this cost.**

Conclusion

27. **We recommend that the House of Commons approve the MoD's Main Estimates, and have identified no issues which require a debate before it does so. The House should note that for the first time these Estimates contain a formal request for resources for operations in Iraq and Afghanistan which means that, while they cannot directly be compared to previous Main Estimates, they do represent a more realistic assessment of operational costs and of monies for which the MoD is responsible for the whole Financial Year.**

33 Ev 13, response to recommendation 10, and Ev 15, response to question 6

34 Defence Committee, First Special Report of Session 2008–09, *Defence Equipment 2009: Government response to the Committee's Third Report of Session 2008–09*, HC 491, p 5, response to recommendation 7

Conclusions and recommendations

1. We have commented before on the very tight schedule which committees such as ours have to adopt if they are to report on Supplementary Estimates before they are taken in the House. It is highly regrettable that this year such a very tight schedule should apply also to the Main Estimates. We expect the Government in its response to this Report to set out the reason for the delays and the actions it intends to take in future years to ensure such delays do not happen again. (Paragraph 4)
2. We request the MoD in response to this Report explain the reasons for the significant increase in resources allocated to the Chief of Joint Operations TLB. (Paragraph 7)
3. We welcome the MoD's willingness to share increasing amounts of information on operational costs with the House at this early stage in the Financial Year, and likewise for seeking formal approval from the House for these funds earlier than before. These are not insignificant steps in allowing our Committee and the House improved financial scrutiny. (Paragraph 10)
4. Current forecasts suggest that the cost of operations in Iraq this Financial Year will be £877 million, and in Afghanistan £3,495 million, a total of some £4,372 million. These sums represent a decrease of 55.2% and an increase of 36.6% respectively against expected costs for Financial Year 2008–09. The overall reduction, adding together both theatres, is 3.2%. This is the first reduction in overall costs of operations in Iraq and Afghanistan since those operations began to be carried out in both theatres, although Supplementary Estimates this Year might negate that reduction. (Paragraph 13)
5. We expect the MoD, in its response to this Report, to set out more clearly why the cost of operations in Iraq in Financial Year 2009–10 is still so relatively significant when for most of that Year only approximately 400 UK personnel will remain in theatre. (Paragraph 19)
6. We expect the MoD in its response to this Report, or within its Annual Report and Accounts to set out clearly, comprehensively and in appropriate detail the specific drawdown costs in Iraq for Financial Year 2008–09. If these costs significantly exceed or fall under the £455 million allocated for the purpose, we also expect the MoD to explain why this is so. (Paragraph 20)
7. We expect the MoD to set out for us when the costs of the loss represented by the gifting of infrastructure to US forces in Iraq will be accounted for, and when the House will formally be asked to vote monies as a consequence. We also request an explanation of why this drawdown cost does not feature in the broken down costs set out in the Government response to our last Report on the Spring Supplementary Estimates. (Paragraph 22)
8. We would be grateful for confirmation of Urgent Operational Requirement (UOR) costs for 2008–09, accompanied by a note explaining the changes to the composition of these costs over the period concerned. (Paragraph 24)

9. We would be grateful for an explanation of why UOR costs beyond the limit agreed between the Treasury and the MoD are now to fall in full upon the MoD two Financial Years later: this seems to go against the agreement announced to the House by the then Secretary of State, the Rt Hon Des Browne MP, in November 2007, which stated that such costs would be split 50:50 between the Treasury and the MoD. (Paragraph 25)
10. We request the MoD, in its response to this Report, to break down the projected 2009–10 £635 million UOR costs in the same way as it did for 2008–09, by theatre and by capital or resource type. We are concerned that this limit on UOR costs may be an indication that the key ingredients of UORs, namely that they are required, urgently, for operational reasons, may be seen taking second place to cost considerations. We also request the MoD to give an explanation of why UOR costs are expected to be so much less than for the previous Financial Year. (Paragraph 25)
11. We are concerned that there might still be significant increases in the cost of the Protected Mobility Package, all of which will fall to be paid in full by the MoD. We request the MoD in its response to this Report set out its latest assessment of the cost to it of this Package, when this cost is likely to fall, and when the House will formally be notified of this cost. (Paragraph 26)
12. We recommend that the House of Commons approve the MoD's Main Estimates, and have identified no issues which require a debate before it does so. The House should note that for the first time these Estimates contain a formal request for resources for operations in Iraq and Afghanistan which means that, while they cannot directly be compared to previous Main Estimates, they do represent a more realistic assessment of operational costs and of monies for which the MoD is responsible for the whole Financial Year. (Paragraph 27)

Formal minutes

Tuesday 30 June 2009

Members present:

Mr James Arbuthnot, in the Chair

Mr David Crausby

Mr David Hamilton

Mr Mike Hancock

Mr Dai Havard

Mr Brian Jenkins

Robert Key

Mr Richard Younger-Ross

Draft Report (*Ministry of Defence Main Estimates 2009–10*), 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 27 read and agreed to.

Resolved, That the Report be the Ninth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 7 July at 10.00 am

List of written evidence

1	Ministry of Defence Main Estimates 2009–10	Ev 1
2	Armed Forces Retired Pay and Pensions Main Estimate 2009–10	Ev 9
3	Government response to the Committee’s Fourth Report of Session 2008–09: Spring Supplementary Estimate 2008–09 (HC 301)	Ev 11
4	Supplementary Memorandum from the Ministry of Defence	Ev 14
5	Departmental Minute regarding the gift of UK permanent structures within south east Iraq to the US Armed Forces	Ev 16
6	Correspondence between the MoD and the Chairman of the Committee on Public concerning the Gifting of Infrastructure in Iraq	Ev 17

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2008–09

First Report	Winter Supplementary Estimates 2008–09	HC 52 ^A
Second Report	The work of the Committee 2007–08	HC 106
Third Report	Defence Equipment 2009	HC 107 (HC 491)
Fourth Report	Spring Supplementary Estimate 2008–09	HC 301
Fifth Report	Ministry of Defence Annual Report and Accounts 2007–08	HC 214 (HC 534)
Sixth Report	The UK's Defence contribution to the UK's national security and resilience	HC 121
Seventh Report	Defence Support Group	HC 120
Eighth Report	Service Complaints Commissioner for the Armed Forces: the first year	HC 277

^A Government response published as Memorandum in the Committee's Fourth Report (HC 301)

Session 2007–08

First Report	UK land operations in Iraq 2007	HC 110 (HC 352)
Second Report	Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2007–08	HC 138 ^A
Third Report	UK/US Defence Trade Cooperation Treaty	HC 107 (HC 375)
Fourth Report	The Iran hostages incident: the lessons learned	HC 181 (HC 399)
Fifth Report	Ministry of Defence Annual Report and Accounts 2006–07	HC 61 (HC 468)
Sixth Report	The work of the Committee in 2007	HC 274
Seventh Report	Medical care for the Armed Forces	HC 327 (HC 500)
Eighth Report	Operational costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08	HC 400 ^B
Ninth Report	The future of NATO and European defence	HC 111 (HC 660)
Tenth Report	Defence Equipment 2008	HC 295 (HC 555)
Eleventh Report	Ministry of Defence Main Estimates 2008–09	HC 885 (HC 1072)
Twelfth Report	Scrutiny of Arms Export controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
Thirteen Report	The contribution of Unmanned Aerial Vehicles to ISTAR capability	HC 535 (HC 1087)
Fourteenth Report	Recruiting and retaining Armed Forces personnel	HC 424 (HC 1074)
Fifteenth Report	UK operations in Iraq and the Gulf	HC 982 (HC 1073)

^A Government response published as Memorandum in the Committee's Eighth Report (HC 400)

^B Government response published as Memorandum in the Committee's Eleventh Report (HC 885)

Session 2006–07

First Report	Defence Procurement 2006	HC 56 (HC 318)
Second Report	Ministry of Defence Annual Report and Accounts 2005–06	HC 57 (HC 376)
Third Report	Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2006–07	HC 129 (HC 317)
Fourth Report	The Future of the UK's Strategic Nuclear Deterrent: the Manufacturing and Skills Base	HC 59 (HC 304)
Fifth Report	The work of the Committee in 2005 and 2006	HC 233 (HC 344)
Sixth Report	The Defence Industrial Strategy: update	HC 177 (HC 481)
Seventh Report	The Army's requirement for armoured vehicles: the FRES programme	HC 159 (HC 511)
Eighth Report	The work of the Defence Science and Technology Laboratory and the funding of defence research	HC 84 (HC 512)
Ninth Report	The Future of the UK's Strategic Nuclear Deterrent: the White Paper	HC 225–I and –II (HC 551)
Tenth Report	Cost of military operations: Spring Supplementary Estimate 2006–07	HC 379 (HC 558)
Eleventh Report	Strategic Lift	HC 462 (HC1025)
Twelfth Report	Ministry of Defence Main Estimates 2007–08	HC 835 (HC 1026)
Thirteenth Report	UK operations in Afghanistan	HC 408 (HC 1024)
Fourteenth Report	Strategic Export Controls: 2007 Review	HC 117 (Cm 7260)
Fifteenth Report	The work of Defence Estates	HC 535 (HC 109)

Session 2005–06

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

Written evidence

Memorandum from the Ministry of Defence on the Ministry of Defence Main Estimates 2009–10

1. INTRODUCTION:

1.1 This Memorandum covers the Main Estimate for the Ministry of Defence (MOD). The Department's spending plans for 2009–10 are based upon the outcome of the Government's 2007 Pre-Budget Report and Comprehensive Spending Review (CSR 2007 CM 7227), published in October 2007. The key features of the settlement for Defence are:

- An increase in the Defence Budget to £35.3 billion in 2009–10 in Total DEL.
- Continued commitment to make savings against the Department's overheads, including a 5% year-on-year saving in our administrative overhead, which was separately identified in our 2008–09 budget for the first time, including a 25% reduction in our Head Office staff numbers. The Department's target of annual net cash-releasing savings is now £3.15 billion by 2010–11.
- Continued investment in improving accommodation for our people and families, including £50 million brought forward this year for service accommodation improvement as announced by the Chancellor in his Budget Speech.
- The net additional costs of military operations will continue to be met on top of the core defence budget from the Reserve. Provision is being requested in the Main Estimates for the first time.

1.2 This Estimates Memorandum should be read in conjunction with the Department's Main Estimate. The Introduction to the Estimate explains some of the changes that have taken place since the 2008–09 Estimates, together with the total for each of the Requests for Resources (RfR).¹ There are no contingencies funded in this Estimate. Contingent liabilities are reported as a separate table in the Estimate.

1.3 There is a separate Estimates Memorandum for the Armed Forces Retired Pay, Pensions Vote 2009–10 Main Estimate.

2. SUMMARY OF RESOURCES SOUGHT IN THE ESTIMATE:

2.1 Part I of the Estimate sets out the new resource and cash requirements for the Department for the year ending 31 March 2010. The resources requested are set out in Tables 1—3 below.

Table 1
SUMMARY OF RESOURCE EXPENDITURE

<i>Resource Expenditure</i>	<i>£ M</i>
Provision of Defence Capability (RfR1)	35,832.815
Peace Keeping and Operations (RfR2)	2,872.089
War Pensions and Allowances (RfR3)	1,023.706
Total Net Request for Resources	39,728.610

Table 2
SUMMARY OF CAPITAL EXPENDITURE

<i>Capital Expenditure</i>	<i>£ M</i>
Provision of Defence Capability (RfR1)	7,614.127
Peace Keeping and Operations (RfR2)	1,564.640
Total Net Request for Capital	9,178.767

Table 3
SUMMARY OF NET CASH REQUIREMENT

<i>Net Cash Requirement</i>	<i>£ M</i>
Near Cash in Resource DEL	26,336.599
Near Cash in Capital DEL	9,119.789
Near Cash in AME	1,024.124
Accruals to cash adjustments	1,187.306
Non Budget (Resource + Capital)	78.346
Net Cash Requirement	37,746.164

¹ For detail on the different Requests for Resources, See Annex 1

2.2 The difference between the net request for resources and the net cash requirement arises from a range of technical accounting adjustments, set out in detail in Part II of the Estimate (“Resource to Cash Reconciliation”).

3.COMPOSITION OF THE MAIN ESTIMATES:

3.1 *Transfer of £600 million Budgetary Flexibility from Capital DEL (SUME) to Resource DEL*

3.1 Spending on Single Use Military Equipment (SUME) is classified in the National Accounts as resource rather than capital expenditure. Under the terms of the Comprehensive Spending Review (CSR), MOD has been permitted to transfer elements of its budget from SUME to near-cash resource DEL. For 2007–08 the transfer amounted to some £400 million. In 2008–09 a transfer of £1 billion was made in the Winter Supplementary Estimate. Our 2008–09 Winter Supplementary Estimate pointed out that a further transfer would likely be sought in the course of 2009–10 (Ev4, Para 4.4 HC52). We have been able to set this out at Main Estimates, following the conclusion of the Planning Round. The reallocation of £600 million from Single Use Military Equipment (SUME) Capital DEL to near cash Resource DEL is sought in the 2009–10 Main Estimate. A further request may be made in our Supplementary Estimates.

3.2 *Non-Departmental Public Bodies*

Non-Departmental Public Bodies (NDPBs) are now reported on a net basis, which means that grants have been moved from DEL to Non Budget (See Annex 1).

3.3 *Transfers between Government Departments*

Transfers to and from Other Government Departments are shown in Tables 4 and 5 respectively; these include some transfers where funding has been agreed for more than one year, and are a continuation of transfers made in last year’s Supplementary Estimates.

Table 4

TRANSFERS TO MOD FROM OTHER GOVERNMENT DEPARTMENTS IN RfR1/RfR2

<i>Exporting Department</i>	<i>RfR</i>	<i>£M</i>	<i>Purpose</i>
Security & Intelligence Services Agency	1	42.500	Contribution to MOD guard services provided to GCHQ.
Department for International Development	2	20.000	Contribution to the Joint Pools Programmed Expenditure.
Total		62.500	

Table 5

TRANSFERS FROM MOD TO OTHER GOVERNMENT DEPARTMENTS IN RFR1/2

<i>Importing Department</i>	<i>RfR</i>	<i>£M</i>	<i>Purpose</i>
Foreign and Commonwealth Office	1	−0.500	The Royal Travel Grant in Aid Budget has been transferred from the MOD to the Department of Transport, No.10, and FCO.
Department of Transport	1	−0.500	The Royal Travel Grant in Aid Budget has been transferred from the MOD to the Department of Transport, No.10, and FCO.
Cabinet Office	1	−0.500	The Royal Travel Grant in Aid Budget has been transferred from the MOD to the Department of Transport, No.10, and FCO.
Department of Innovation, Universities and Skills	1	−0.235	MOD contribution to the new skills strategy
Ministry of Justice	1	−0.050	Centralisation of Tribunals
Department for Business Enterprise and Regulatory Reform	1	−1.325	MOD share of the management costs of transferred nuclear liabilities.
Department for Business Enterprise and Regulatory Reform	1	−4.000	MOD Contribution to the Chemical and Nuclear Weapons Disposal Pool.

<i>Importing Department</i>	<i>RfR</i>	<i>£M</i>	<i>Purpose</i>
Department for Culture, Media & Sports	1	-0.156	Contribution to Pattern Room (Leeds Armoury) running costs.
Cabinet Office	1	-0.040	Transfer for contribution to the Government's Secure Zone Fund costs.
HM Treasury	1	-0.045	Transfer to the Centre of Expertise for Sustainable Procurement administration costs—a pan-Government initiative
Foreign & Commonwealth Office	2	-28.000	Stabilisation Aid Fund activities undertaken by FCO.
Total		-35.351	

3.4 Non Voted items

Changes under RFR1 include “non-voted” items. These are items that form part of the Department’s budget but are not voted by Parliament. These are set out in Table 6 below.

Table 6
COMPOSITION OF RESOURCE NON VOTED EXPENDITURE

<i>Category</i>	<i>£M</i>	<i>Classification</i>	<i>Notes</i>
Non Nuclear Cash Release of Provisions (Payment)	211.000	Near Cash in RDEL	This entry offsets within DEL giving no overall impact on total DEL.
Non Nuclear Cash Release of Provisions (creation)	(211.000)	Non Cash in RDEL	This entry offsets within DEL giving no overall impact on total DEL.
Nuclear cash release of provisions	48.862		See Note A.
Depreciation on Public Corporations	9.520	Non Cash	See Note B.
Net Running costs of NDPBs	132.083		See Note C.
Total	190.465		

Notes:

- A. The cash release of nuclear provisions relate to payments for the decommissioning of nuclear facilities and sites, including submarines. The provisions were created in previous years, and payments will be made this year.
- B. Depreciation costs for Public Corporations eg trading funds.
- C. The running costs of NDPBs eg Royal Hospital Chelsea (RHC) excludes the income from Grants issued by the MOD and therefore shows the costs to public funds.

3.5 Fiscal Capital Request of £50 million

As the Chancellor announced in his Budget Speech £50 million has been made available to improve service accommodation this year.

3.6 £81 million Adjustment to MOD Capital Allocation

In line with standard practice, MOD’s budget has been reduced to reflect a forecast overspend in 2008–09. This was driven by higher capital expenditure, primarily because of the lower than anticipated receipts arising from the disposal of MOD land and property. Because of the tight current fiscal situation the Treasury have correspondingly reduced our 2009–10 core capital budget. We will be able to reclaim any excess reduction should our final audited 2008–09 outturn prove to be lower.

4. REQUEST FOR RESOURCES 2 (RFR2):

4.1 The MOD’s total request for the costs of operations and peace-keeping is set out in table 7.

Table 7
SUMMARY COST OF OPERATIONS AND PEACEKEEPING AT 2009–10 MAIN ESTIMATES

<i>Operation</i>	<i>Direct Resource DEL £M</i>	<i>Indirect Resource DEL £M</i>	<i>Capital DEL £M</i>	<i>Total ME request 2009–10£M</i>	<i>Total SSE request 2008–09£M</i>
Iraq	629	165	83	877	1,958
Afghanistan	1,756	258	1,481	3,495	2,559

<i>Operation</i>	<i>Direct Resource DEL £M</i>	<i>Indirect Resource DEL £M</i>	<i>Capital DEL £M</i>	<i>Total ME request 2009–10£M</i>	<i>Total SSE request 2008–09£M</i>
Conflict Prevention Pool ⁽²⁾	65	0	0	65	78
Total	2,450	423	1,564	4,437	4,595

Notes:

- (1) Provision for the Balkans will be separately identified in the Supplementary Estimates when any drawdown plan is clearer.
- (2) This includes the Stabilisation Aid Fund. Overall responsibility for the SAF administration is currently being re-negotiated between Government Departments, and the final agreement will be reflected in the Supplementary Estimates.

4.2 Operations in Iraq and Afghanistan

For the first time the MOD is requesting funding for operations in Iraq and Afghanistan in Main Estimates. The breakdown of the request is set out in Table 8 below. As usual the request is funded from the Reserve. Further requests for funds may be required in the Supplementary Estimates.

4.3 Iraq

Operational costs in Iraq reflect the planned withdrawal of UK Forces over the first four months of the financial year, including the drawdown costs set out in the Government response to Select Committee's report on the 2008–09 Spring Supplementary Estimates. These forces will have successfully completed their tasks by the end of May 2009 and will then leave Iraq by the end of July. In 2009, we will move to a broad-based bilateral relationship with close co-operation in a range of areas: economic, cultural, commercial, educational, and defence.

4.4 Afghanistan

Operations in Afghanistan include the additional security costs required for the local elections, and the costs of around 200 personnel providing counter improvised explosive device (IED) expertise. Capital costs for Afghanistan include Urgent Operational Requirements (UORs) such as further force protection (eg tactical support vehicles and surveillance equipment), and ongoing further modifications to military equipment for use in the operational environment (eg further adaptations to Tornado aircraft and Lynx and Merlin helicopters). UORs by their very nature reveal a capability gap in a specific operational environment and are therefore sensitive. We therefore cannot provide precise details. There is also an additional capital provision for increased airfield and associated support infrastructure in Afghanistan.

Table 8

THE ESTIMATED COST OF OPERATIONS IN AFGHANISTAN AND IRAQ AT MAIN ESTIMATES 2009–10

<i>Cost Type</i>	<i>Iraq £M</i>	<i>Afghanistan £M</i>
Direct Resource DEL		
Civilian Personnel	9	16
Military Personnel	37	148
Stock/Other Consumption	189	480
Infrastructure Costs	69	216
Equipment Support Costs	231	485
Other Costs and Services	93	423
Income Foregone/Generated (–)	1	–12
Total Direct Resource DEL	629	1,756
Indirect Resource DEL	165	258
Total Resource DEL	794	2,014
Capital DEL		
Capital Additions	83	1,481
Total Capital DEL	83	1,481
Total Estimated Costs	877	3,495

4.5 Balkans Funding

Balkans funding will be requested in the Supplementary Estimates once any planned drawdown arrangements have been finalised.

4.6 *Conflict Prevention Pool*

The Department holds joint funding pools with the Department for International Development (DfID) and the FCO. These are designed to deliver improved UK and international support in conflict prevention by addressing long term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction combined to form a single Programme Pool, funded at Main Estimates by a transfer from DfID of £20 million.

4.7 *Stabilisation Aid Funding (SAF)*

This ring-fenced fund was established last year (2008) to fund stabilisation and reconstruction activities, eligible as Official Development Assistance (ODA) in “hot” conflict zones, mainly in Iraq and Afghanistan. 3% of the Fund is intended to support the continuation of contractually committed programmes in Iraq and Afghanistan, previously funded from the Conflict Prevention Pool, while the remainder aims to support new projects in these areas. The fund was profiled £73/£73/£123 million over the three years of the CSR 07. We have transferred £28 million of this fund to the FCO at Main Estimates to continue to support these activities. Overall responsibility for the SAF administration is currently being re-negotiated between Government Departments, and the final agreement will be reflected in the Supplementary Estimates.

5. REQUEST FOR RESOURCES 3 (RFR3):

5.1 The Department is seeking £1,024 million for War Pensions & Benefits, all of which is Annually Managed Expenditure (AME). The scheme was closed to new claimants from 5 April 2005 with the introduction of the Armed Forces Compensation Scheme. Costs for the new scheme are accounted for under the separate vote for the Armed Forces Pension Scheme Estimate.

6. SUMMARY ESTIMATES COMPOSITION:

6.1 Table 9 summarises the composition of the Estimate, including changes since the CSR 07 Settlement, but excluding AME and Non-Budget expenditure.

Table 9
DETAIL OF CHANGES TO THE 2009–10 MAIN ESTIMATE SINCE PUBLICATION OF CM 7277—YEAR 2

<i>All-EM</i>	<i>Direct R DEL</i>	<i>Indirect R DEL</i>	<i>Total R DEL</i>	<i>Resource AME</i>	<i>Non-Budget</i>	<i>Total Net Resource</i>	<i>Capital DEL</i>	<i>Capital AME</i>	<i>Capital Non-Budget</i>	<i>Total Net Capital</i>
[1]	1	2	3	4	5	7	8	9	10	11
CSR figures Cm 7277 Yr2 (DEL ONLY)	23,734.0	11,431.0	35,165.0	124.4	136.6	35,426.0	8,187.0	56.8	2.1	8,245.9
Transfers in	42.5		42.5			42.5				0.0
Transfers out	-7.4		-7.4			-7.4	0.0			0.0
Stabilisation Fund re-allocation to RfR2	-73.0		-73.0			-73.0				0.0
MOG Changes	-13.7		-13.7			-13.7				0.0
Flex Capital to Resource.	600.0		600.0			600.0	-600.0			-600.0
Additional Grants to Museums	-3.3		-3.3		3.3					
Adjustment for excess Capital Expenditure in 2008–09							-81.0			-81.0
Additional service Accommodation							50.0			50.0
Total	24,279.1	11,431.0	35,710.1	124.4	139.9	35,974.4	7,556.0	56.8	2.1	7,614.9
Less Non-voted items										
Non Nuclear Cash Release	211.0	-211.0	0.0			0.0				0.0
Nuclear Cash Release	48.9		48.9	-48.9		0				0.0
NDPB Costs	132.1	9.5	141.6			141.6	0.9			0.9
RfR1 Total	23,887.1	11,632.5	35,519.6	173.3	139.9	35,832.9	7,555.1	56.8	2.1	7,614.0
Stabilisation Fund	73.0		73.0			73.0				
Transfers In	20.0		20.0			20.0				
Transfers Out	-28.0		-28.0			-28.0				
Reserve Bid	2,384.3	422.7	2,807.0			2,807.0	1,564.6			1,564.6
RfR2 Provision	2,449.3	422.7	2,872.0			2,872.0	1,564.6			1,564.6
RfR3 Provision			0.0	1,023.7		1,023.7				0.0
Total RfRs	26,336.4	12,055.2	38,391.6	1,197.0	139.9	39,728.6	9,119.7	56.8	2.1	9,178.6

Notes:

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

[2] Minimal differences may occur due to roundings

7. SUPPLEMENTARY ESTIMATES:

7.1 We anticipate that a number of items will change between Main and Supplementary Estimates:

- Any End of Year Flexibility (and prior year adjustments) will be sought in the Supplementary Estimates, following publication of HM Treasury's Public Expenditure Outturn White Paper (PEOWP).
- A Request for additional funding for continuing operations in Afghanistan, and funding for the Balkans (under RfR2) may be required.
- The reallocation of the Stabilisation Aid Fund.
- The Department may need to reflect any further changes in the value of its land and property resulting from new market conditions.
- Further International Financial Reporting Standards (IFRS) changes are anticipated in the Supplementary Estimates as part of the Clearer Line of Sight Treasury incentive to simplify financial reporting.

8. THE DEPARTMENT'S PUBLIC SERVICE AGREEMENTS & STRATEGIC OBJECTIVES:

8.1 As set out in the 2007 Pre-Budget Report and Comprehensive Spending Review (Cm 7227), the Ministry of Defence will contribute over the CSR 07 period to the delivery of the cross-Governmental Public Service Agreements to reduce the impact of global and regional conflict and to reduce the risk to the UK and its interests overseas from international terrorism. These are underpinned by the three Departmental Strategic Objectives (DSO) to achieve success in the military tasks we undertake at home and abroad, be ready to respond to the tasks that might arise, and build for the future. The Department formally reports performance against its targets to Parliament in the Autumn and in the Annual Report and Accounts, and these reports are also published on the Department's website (www.mod.uk).

9. DEPARTMENTAL EXPENDITURE LIMIT (DEL):

9.1 Table 10 shows the DEL from 2006–07 to 2009–10 for all RfRs. The figures are for Voted DEL. Further detail of this is shown in the Notes to the Estimate.

Table 10
THE VOTED DEPARTMENTAL EXPENDITURE LIMIT FOR 2006–07 TO 2009–10

<i>DEL</i>	<i>2006–07</i> <i>Outturn £M</i>	<i>2007–08</i> <i>Outturn £M</i>	<i>2008–09</i> <i>Main Estimate</i> <i>£M</i>	<i>2008–09</i> <i>Spring</i> <i>Supplementary</i> <i>Estimate £M*</i>	<i>2009–10</i> <i>Main Estimate</i> <i>£M*</i>
Resource DEL	33,453.021	35,632.209	33,567.283	37,891.603	38,391.716
Capital DEL	7,184.245	7,944.279	7,870.045	8,312.045	9,119.789
Depreciation	–5,828.509	–6,291.892	–7,408.960	–8,237.825	–8,273.962
Total DEL	34,808.757	37,284.596	34,028.368	37,965.823	39,237.543

* Includes RfR2 provision for operations in Iraq & Afghanistan.

10. DEL END YEAR FLEXIBILITY:

10.1 The requirement for End of Year Flexibility (EYF) will be assessed following the publication of the Treasury's Provisional Expenditure Outturn White Paper (PEOWP) later this year.

11. ADMINISTRATION COSTS LIMIT:

11.1 An Administration Cost Limit Budget was introduced last year. This is identified as a separate sub head in the Estimate.

12. PROVISIONS AND CONTINGENT LIABILITIES:

12.1 Provisions for liabilities and charges are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations. Provisions are generally charged to the Operating Cost Statement (OCS). We have included provisions in DEL and in AME for nuclear provisions and some pension payments for personnel employed overseas (who are not part of either the UK Civil Service or the Armed Forces).

12.2 MoD's provisions cover legal claims, civilian early departure costs, environmental costs, restructuring and nuclear decommissioning and restoration costs. Details of the Department's Contingent Liabilities are set out in a separate table in the published Main Estimate.

13. MACHINERY OF GOVERNMENT CHANGES:

13.1 A Machinery of Government (MOG) change is made when the responsibility for a service transfers from one Government Department to another. The most recent MOG was the transfer of responsibility for the Defence Export Services Organisation (DESO) to the estimates for the Department for Business Enterprise and regulatory Reform (DBERR), UK Trade and Investment (UKTI), and the Foreign and Commonwealth Office (FCO) effective from 1 April 2008.

Annex 1

A: DEFINITION OF TERMS:

1. *Direct Resource Departmental Expenditure Limits (RDEL):*

This is a control on current expenditure which covers, for example, pay, purchase of goods and services, net of receipts, within the resource budget. It excludes 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 Departmental Expenditure Limit (IRDEL):*

This control 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. *Administration Costs Limit:*

Administration cost controls, which form separate control limits on an income basis within DEL, cover departments’ current expenditure on staff, accommodation and other services used in the administration of central government and the direct delivery of services. The primary aim of administration costs control is to promote economical and efficient administration and service delivery in central government. This is largely achieved by containing gross administrative costs.

4. *Total Resource DEL:*

This is the sum of Direct and Indirect Resource DEL.

5. *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.

6. *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.

7. *Total Net Resource:*

This is the sum of items 1 to 6.

8. *Capital Departmental Expenditure Limit (CDEL):*

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

9. *Capital Annually Managed Expenditure:*

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

10. *Capital 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.

11. *Total Net Capital:*

This is the sum of items 8 to 10.

12. *Total Near Cash:*

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

13. *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.

14. *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.

15. *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.

16. *CSR 2007:*

Comprehensive Spending Review 2007 (Cm 7227).

17. *Total DEL:*

This is the sum of Resource DEL and Capital DEL less the costs of depreciation. This is used as depreciation is included as part of Resource DEL and, since Capital DEL includes capital spending, the inclusion of depreciation would lead to double counting.

Annex 2**B: LIST OF ABBREVIATIONS USED IN THE ESTIMATE**

AME	Annually Managed Expenditure
CSR	Comprehensive Spending Review
DCSA	Defence Communications Services Agency
DE	Defence Estates
DE&S	Defence Equipment and Support
DEL	Departmental Expenditure Limits
DUP	Departmental Unallocated Provision
EYF	End Year Flexibility
FCO	Foreign and Commonwealth Office
GEP	Government's Expenditure Plans
HMT	Her Majesty's Treasury
MOD	Ministry of Defence
MOG	Machinery of Government
NAO	National Audit Office
NLF	National Loans Fund
OCS	Operating Cost Statement
ONS	Office of National Statistics
PEOWP	Provisional Expenditure Outturn White Paper
RfR	Request for Resources
RDEL	Resource Departmental Expenditure Limit
RHC	Royal Hospital Chelsea
SAF	Stabilisation Aid Fund
SE	Supplementary Estimates
TLB	Top Level Budget holder
UK	United Kingdom
UOR	Urgent Operational Requirement

Armed Forces Retired Pay and Pensions Main Estimate 2009–10
INTRODUCTION

1. This Memorandum covers the Estimate for the Armed Forces Retired Pay and Pensions for 2009–10. The Scheme's spending plans for this financial year are based on the expected take up of pensions of retired Service personnel. The Estimate covers only the payment of pensions. The costs of administering the Scheme fall to the MOD Main Estimate.

2. The employer's charge to the pension scheme is met by payment of a Superannuation Contribution Adjusted for Past Experience (SCAPE), calculated as a percentage of military pay based on rank. The SCAPE contribution made by the MOD partially funds the payments made by the Armed Forces Pension Scheme (AFPS) in year. Funding from the Consolidated Fund is required to meet the difference between the payments to pensioners and the amounts receivable from MOD. In addition, funding is required to finance movements in working capital including increases or decreases in bank balances.

3. The AFPS is a demand-led service and is therefore Annually Managed Expenditure (AME); as a result there is no Spending Review settlement to base the Estimate upon. However, plans data for the 2008–09 financial was published in the Government Expenditure Plan 2008–09 (Section IV of the Defence Plan 2008 to 2012 (Cm 7385)). This has been updated to take account of any changes since July 2008. This is shown in Table 1.

4. This Estimates Memorandum should be read in conjunction with the Main Estimates.

SUMMARY OF RESOURCES SOUGHT IN THE ESTIMATE

5. The AFPS Main Estimate requests provision of:

- (a) Net resources within Request for Resources—£5,700 million
- (b) Net Cash Requirement—£1,996 million

Table 1

DETAIL OF CHANGES TO THE ESTIMATE SINCE PUBLICATION OF CM 7385

<i>Movement in provision</i>	<i>Total AME £m</i>
GEP figures	5,869.365
Decrease in current service cost	-256.139
Increase in interest on scheme liability	+269.307
Other changes	-182.218
Total Estimate	5,700.315

DETAILED EXPLANATION OF THE CHANGES

6. The calculation of current service cost and interest on scheme liability is affected by:

- (a) The discount rate—this has changed from 2.5% real to 3.2% real effective from 31 March 2009.
- (b) Interest rate of scheme liabilities has risen from 5.32% to 6.04%.

The overall affect of these adjustments results in an increase in both the pension scheme interest charge and the current service cost (payments from the scheme).

7. A decrease of £256 million current service cost is due to the discount rate change and the associated change to the factor agreed by the Government Actuary's Department.

8. The change in the interest rate has also resulted in an increase of £269 million for interest on scheme liability from that originally anticipated. This is a non-cash charge, similar to the cost of capital charge in the Department's Main Estimate.

9. Other changes have decreased the resource requirement by net £182 million. This is mainly due to higher SCAPE receipts than previously anticipated (£186 million).

Table 2

COMPARATIVES WITH PREVIOUS YEARS

	<i>2008–09</i>	<i>2007–08</i>	<i>2006–07</i>	<i>2005–06</i>
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
Main Estimate (inc SSE)	5,869.367	5,595.637	4,588.662	4,458.545
Outturn	n/a	5,474.562	4,398.961	4,341.400
Difference		121.075	189.701	117.145

Table 3

AVERAGE NUMBER OF PENSIONERS IN SCHEME

<i>Year</i>	<i>Number of pensioners in payment as at 1 April</i>
2008	390,249
2007	383,021
2006	350,421
2005	345,006

Further Memorandum from the Ministry of Defence

GOVERNMENT RESPONSE TO THE HOUSE OF COMMONS DEFENCE COMMITTEE REPORT ON SPRING SUPPLEMENTARY ESTIMATES 2008–09 (HC 301)

The Government welcomes the Committee's report on the Ministry of Defence Spring Supplementary Estimates 2008–09, published on 9 March 2009, as HC301. The Government's response to the conclusions and recommendations, which were contained in the Committee's Report, is set out below.

1. *The Ministry of Defence is seeking a net increase in resources and capital of £1,297 million—in cash terms a net increase of £627 million. This is the additional sum of money required by the MOD to fund its activity over and above the sums already voted in the Main and Winter Supplementary Estimates. (Paragraph 1)*

As the Committee have observed this is a significant amount of money, but it is needed. The major elements of the net cash increase request in the Spring Supplementary Estimates are: the MOD's End Year Flexibility of £45 million resource budget and £214 million capital budget; an extra £50 million capital budget as a contribution from the sale of the Department's electro-magnetic spectrum; and a request for further peace-keeping and operations funds of £237 million resource budget and £65 million capital budget.

Details of the MOD's RfR1 and RfR2 requests are broken down in the 2008–09 Spring Supplementary Estimates Memorandum.

2. *We expect the Ministry of Defence, in its response to this Report, to set out in more detail the nature of the resource pressures within Defence Equipment and Support, and the reasons for that organisation's revised lower forecast. We would also be grateful for a note setting out the nature of the losses from Defence Estates for which these additional requests compensate, and an explanation of whether these losses are expected to recur in the next Financial Year. (Paragraph 3)*

The principal resource pressure in Defence Equipment & Support (DE&S) was the impact of currency exchange resulting from a weaker Pound sterling. This impacted, in particular, on purchase costs for fuel, which have been ameliorated to some extent by the fall in oil prices in the second half of the 2008–09 financial year.

The lower forecast by DE&S for the value of certain assets resulted from an overly pessimistic valuation of Single Use Military Equipment (SUME) fixed assets held by DE&S earlier in the financial year, which has now been revised. The accounting treatment to record the lower impaired value effectively reduces impairment costs, which are scored to Annually Managed Expenditure.

The additional request for resources in Defence Estates is due to the current economic outlook and the impact that this has had on valuation of the land and building holdings of the Department which total some £20 billion in value. A large element of the additional request has arisen on assets surplus to defence requirements that are held at market value pending sale in the current and future financial years. The downturn has resulted in reduced prices of surplus residential housing stock; and lower development land values of MOD "brown field" sites which has arisen due to the unwillingness and inability of developers to raise finance to acquire land. This has been evidenced during the year, with lower than previously planned disposal receipts from both lower prices achieved for individual asset disposals or the disposal of sites delayed to future years.

Other elements to the request include:

- the Department's holding of houses, mostly in Northern Ireland and Scotland, where the values are entirely driven by the residential housing market;
- the downward valuation of land holdings, where the values are not based on the alternative agricultural use value; and
- the value of buildings determined by reference to building indices.

Whilst the MOD has included within its estimates all currently known impairments, any further losses will depend on any worsening of the current financial climate and its impact on both land values and building indices in the future. Further losses of this nature cannot, therefore, be ruled out.

3. *In total, the MOD will have sought an extra £4,517 million for operations in 2008–09, far beyond the estimate of "at least £2 billion" set out in the Main Estimates at the beginning of the Financial Year. (Paragraph 4)*

The £2 billion figure announced by the Chancellor in his Budget speech last year was a near cash minimum figure for operations in Iraq and Afghanistan, which we stated may increase in the Supplementary rounds.

This figure did not include non cash costs of some £850 million, which includes the estimated draw down costs in Iraq, which we could not be aware of when the 2008–09 Main Estimates were compiled.

4. *We reiterate our belief that the amount of time committees currently have to analyse the Supplementary Estimates properly, to seek further information where necessary on any areas of particular interest, concern or uncertainty, and then to consider a draft Report, agree it and publish it before the debate and decision on those Estimates in the House is insufficient. (Paragraph 5)*

The Government's position was set out in its responses to the Select Committee's observations on this subject in both the 2008–09 Main Estimate and the 2008–09 Winter Supplementary Estimate.

5. *We request a note from the Ministry of Defence setting out the exact position with regard to the likely eventual benefit for the MOD budget. (Paragraph 6)*

The MOD has the largest holdings (around 30%) of the radio frequency electromagnetic spectrum (spectrum) within the UK public sector. Much of this is already shared with other Government Departments, agencies and the commercial sector. Overall public sector holdings were reviewed by Professor Cave in 2005, who recommended that Departments should exploit unused spectrum, acquire new spectrum through the "market" in all but exceptional cases, and that fees payable to Ofcom for spectrum holdings should reflect the full opportunity cost of holding the asset, based on market value.

The MOD is fully committed to spectrum release and has published a strategic plan for Defence spectrum management, including details of its plans for future release of Defence spectrum. The strategy will help to promote the optimal use of spectrum in the future and is consistent with and supportive of the Government's aims for spectrum and the market, with the potential to deliver substantial benefits to UK citizens and consumers while continuing to serve the operational needs of the armed forces. However, the level of receipts from the release programme remains uncertain and it is therefore not possible to quantify with certainty the likely longer term benefits to the Department.

The Department's CSR 07 settlement established the financial arrangements for the retention and release of the Department's spectrum holdings in the period from FY 09/10 to 10/11 and allowed retention of receipts from sale or lease of up to a limit of £500 million across the three year period (consisting of up to the first £200 million of the receipts, and then a further 20% of receipts up to a combined total of £500 million). Owing to uncertainty over both the possible scale and timing of any receipts, HMT agreed that MOD could draw down, on a one off basis, up to £50 million from the Reserve in FY 08/09, repayable in FY 10/11.

The release of spectrum by the MOD is without precedent in the public sector. It was, therefore, always acknowledged that the Department's initial internal forecasts of the timing and value were likely to vary as more detailed work was undertaken, including on the Department's holdings, whether elements could be released, and the timing of any potential receipts. More generally, it remains difficult to place a value on any particular part of the spectrum as only a very limited amount of historical market data is available. Our latest internal planning assumption is that receipts in the CSR period are likely to be in the order of £59 million, which will be used to cover the repayment of the FT 08/09 drawdown and any increases in Ofcom charges.

6. *We are fully aware of the volatility of operational costs for both Iraq and Afghanistan and appreciate the MOD's efforts in providing the House of Commons and ourselves with as accurate a forecast of such costs as it can. Given that the MOD, when its Spring Supplementary Estimate goes before the House of Commons for approval, will have sought over twice the amount it set down as a likely minimum for operational costs at the time of the last Main Estimate, we hope that the next forecast in 2009–10 will prove more robust an assessment of operational costs and closer to the eventual out-turn. (Paragraph 7)*

The Department is continually striving to increase the robustness and accuracy of its operations cost forecasts.

The Prime Minister outlined in his statement to the House on 29 April that the costs of operations in Afghanistan will be in the region of £3 billion. Greater detail of expected costs in both Afghanistan and Iraq will be provided the 2009–10 Main Estimate, which include our full request for peace-keeping and operations costs for the first time. As usual, the Department may ask for additional funds in the Supplementary Estimate round.

7. *We expect in response to this Report a note setting out in detail what the very substantial contingency in the Spring Supplementary Estimate for the Iraq drawdown is particularly intended or expected to cover. (Paragraph 9)*

The very tight Spring Supplementary Estimate publication timetable meant that although we could reflect the planned draw down in Iraq, we were obliged to include a substantial contingency for indirect costs. In large part this reflected the need to recognise any asset impairment costs as soon as possible ie in 2008–09 because of accounting conventions.

This contingency covers the potential non-cash costs of depreciation, write-offs and gifting of equipment and other capital assets such as buildings. Firm decisions as to which items of equipment it is cost-effective to bring back to the UK and what should be left behind are still being made. However, on current plans, no military hardware will be left in Iraq, but certain infrastructure, in particular at the Basra air station, will remain in place

The Department is still ascertaining the final Iraq draw down costs that will be scored in the 2008–09 final accounts. Costs will be calculated based on past experience of drawdown on operations, scaled appropriately to Iraq levels. These include write off/depreciation of: equipment, infrastructure, IT, general stores, utilities, and accommodation.

8. *We would expect the response to this Report to set out the extent to which the cost of the drawdown (as opposed to the cost of the continued, albeit reduced, presence in Iraq) will continue into Financial Year 2009–10, and what the magnitude of any continuing cost of drawdown will be in that new Financial Year. (Paragraph 10)*

The near cash Iraq draw down figures (as opposed to the continued reduced presence costs) that will be incorporated in the 2009–10 Main Estimate request are forecast to be:

- £13 million for hire service contracts to replace equipment returned to UK;
- £97 million for mechanical handling equipment (eg cranes) and other equipment support costs
- £21 million Infrastructure, accommodation, and other costs of withdrawal;
- £56 million for transport (through Defence Supply Chain Operations Movement and Vehicles Group); and
- (£10 million) stock return from theatre.

9. *The MOD points out that it now expects UOR expenditure to be no more than £1.054 billion in this Financial Year, £9 million less than expected at the time of the Winter Supplementary Estimate and £11 million short of the limit agreed with the Treasury. Consequently, the MOD does not “anticipate any impact on the MOD’s 2010–11 budget or equipment programme” from expenditure on UORs in this Financial Year. We welcome this reassurance. We would welcome clarification from the MOD as to the exact make-up of the £1.054 billion UOR cost figure and how the forecast cost has reduced at the same time that another £65 million is sought. (Paragraph 15)*

The Government reiterates its WSE response, that Urgent Operational Requirements (UORs) by their very nature reveal a capability gap and are therefore sensitive. The MOD Spring Supplementary Estimate set out examples of UOR spend (para 5.2 Written evidence HC 301).

The UOR expenditure figure of £1,054 million quoted in the Government’s response to the Committee’s report on the MOD 2008–09 WSE comprises both capital and resource (UOR resource initial support and installation costs) expenditure. The make up is set out in the table below:

<i>Type of Cost</i>	<i>Iraq £M</i>	<i>Afghanistan £M</i>	<i>Total UOR £M</i>
Resource	116	128	244
Capital	147	663	810
Total	263	791	1,054

Table of forecast UOR expenditure breakdown in 2008–09

Requests for capital resource under RfR2 are mainly for UORs (SUME), but there are other types of capital expenditure eg fiscal expenditure on hardened concrete shelter accommodation in Iraq.

Our request for additional capital expenditure in the SSE comprised £23 million for Iraq (fiscal tier 3 of £10 million and UORs of £13 million); and £42 million for Afghanistan (£17 million new planned UORs, £53 million Protected Mobility UOR package and UOR forecast reductions). These elements are included in the table above.

10. *We would welcome a categorical restatement that any cost in excess of the limit agreed for UORs between the Department and the Treasury will fall in part on the MOD in Financial Year 2010–11 and not before, the Department bearing half of the excess cost. We would also welcome some indication of expected UOR costs in 2009–10, notification of the agreed UOR limit for that year, and an explanation of how the cost of the Protected Mobility Package announced on 29 October 2008 falls within this year’s and next year’s UOR limit. We remain concerned about the potential impact in the future of UORs on the MOD’s core budget and we will return to this subject in an inquiry later this year. (Paragraph 16)*

We can confirm that, as part of the financial arrangements for the 2008–09 Financial Year (FY), it was agreed that HM Treasury would cover all costs in-year, with the MOD repaying 50% of any excess above the Estimate in FY 2010–11 (and not before). Although final figures for FY 2008–09 are not yet available, we forecast that the final outturn for 2008–09 will be below the Spring Supplementary request. As a result the MOD will not be required to bear any cost of UORs from FY 2008–09 in FY2010–11.

The estimate for UORs in FY 2009–10, as agreed with HM Treasury, is £635 million. The costs for all UORs will be met in-year from the Reserve. Any excess UOR spend over the estimate of £635 million will be repaid in full from the Defence budget in two years time. (FY 2011–12).

Spend on the Protected Mobility package is split across three financial years: 2008–09, 2009–10, and 2010–11. In FY 2008–09, HM Treasury's contribution (£53 million) towards the package was counted towards the FY's UOR estimate. For FY 2009–10, HM Treasury's contribution (£424 million) towards the Protected Mobility package is being treated separately from the UOR estimate of £635 million. For FY 2010–11 the annual estimate has not yet been negotiated.

11. *We are pleased to note that, setting aside the extra £500 million in Indirect Resource costs, over 90% of which is for the drawdown in Iraq, the margin of change between the Winter and Spring Supplementary Estimates has not been as great as it has been in the past. We commend the MOD for undertaking what is clearly an increasingly robust analysis of forecast costs throughout the Financial Year. (Paragraph 17)*

The MOD is always striving to increase the robustness and accuracy of its operations costs forecasts and welcomes the comment by the Committee.

12. *We recommend that the House of Commons approve the request for resources set out in the MOD's Spring Supplementary Estimate. The £1,297 million, in large part requested to meet the forecast additional cost of operations in Iraq and Afghanistan during this Financial Year (including contingency provision for drawdown in the former theatre), represents a significant sum of public money, but we believe that the task our Armed Forces are carrying out is one that requires such a significant resource—especially in terms of new equipment and force protection, both so essential to their mission abroad. (Paragraph 18)*

The Department is grateful for the Select Committee's continued support.

Ministry of Defence

8 May 2009

Supplementary Memorandum from the Ministry of Defence

ANSWERS TO THE HOUSE OF COMMONS SELECT COMMITTEE'S MOD ESTIMATES—RELATED QUESTIONS

Set out below are the MOD responses to the questions raised in the Select Committee's letter dated 11 June regarding:

1. The Government response to the HCDC report on the 2008-09 Spring Supplementary Estimate;
2. The Departmental Minute of 8 May 2009 (dealing with the gifting of infrastructure in Iraq);
3. The 2009–10 Main Estimates.

1. *Can the MOD confirm in which FY, 2008–09 or 2009–10, the costs of £96.476 million, set out in the Departmental Minute of 8 May 2009 (for the gifting of infrastructure in Iraq), fall?*

This represents the whole cost of the project; Tranche 1 (4 dining halls); and Tranche 2 (accommodation and hospital). £61.270 million of the costs fall in FY 2008–09 with £34.749 million falling in FY 2007–08 and the remaining £0.457 million relating to Disposal Sales Agency's (DSA) valuation for the contents of the dining facility areas, such as walk in refrigerator units and food preparation areas. As the buildings came on line at different times and this was a DSA valuation we are not able to split this £0.457 million into different financial years.

2. *Can the MOD confirm when the business case for the accommodation units and the hospital in Iraq referred to in the Departmental Minute of 8 May was submitted to HM Treasury and approved? Can the MOD also confirm what the costs cited within that business case were?*

Following approval of the Business Case for Tranche 2 (3 accommodation blocks and hospital), the Secretary of State wrote to the Chief Secretary in December 2007 seeking Treasury approval for Reserve funding of £64.563 million. The Chief Secretary replied, approving the build, on 18 December 2007.

3. *Can the MOD set out a more comprehensive breakdown of those costs touched upon in the Departmental Minute and explain why those costs, for dining facilities, accommodation units and a hospital, the latter two incomplete, were so high?*

Since the site was under continued rocket attack, time was of the essence. Delay could have cost lives. Extensive threat analysis concluded that a clear risk of a mass casualty event existed. This analysis identified a need to rapidly deliver protection for the deployed force in areas which were particularly at risk from such attacks. These were areas where large numbers of personnel congregate, such as during dining periods, sleeping accommodation, and bringing the Role 2 (enhanced) hospital under cover. The approximate unit cost of the buildings was £10 million each, of which £4 million was for the major reinforced concrete plinth on which the building stands. The Tier 3 protected structure programme build delivered football pitch size hardened buildings capable of defending against rocket attack. The technical specification, and performance against ballistic weapons, is classified. These buildings form the final line of various layers of defensive measures fielded at the Command Operating Base .

4. *Can the MOD provide an assessment to the Committee of the stage of completion achieved in the construction of the accommodation units and the hospital to be gifted in Iraq?*

The initial four dining facilities were completed to their full intended operating capability. The remaining buildings were constructed to a waterproof and weather-tight standard before handover to US Forces for reconfiguration to alternative uses. The modular hospital and accommodation units which were intended to be incorporated into the structures were held in Kuwait when UK intentions at the operating base became clear. These assets have now been reassigned to OP HERRICK and are awaiting shipment to support other operational requirements.

5. *Can the MOD provide a breakdown of drawdown costs for Iraq in Financial Year 2008–09, showing the extent to which the extra £455 million allocated in the Spring Supplementary Estimate has been used, and if so, on what?*

The Department requested a contingency of £455 million in anticipation of the draw down costs of Iraq to cover potential non cash costs of depreciation, write-offs, and gifting of equipment and other capital assets. The provisional Indirect DEL outturn for 2008–09 indicates a lower figure. However, these figures are still subject to final audit confirmation. Work is ongoing to ascertain the final impairment costs of fighting equipment deployed in Iraq.

6. *Can the MOD explain the reason for the decision for Protected Mobility Package costs to be classed as UOR costs in FY 2008–09 but to be not so classified in 2009–10? Can the MOD yet set out what category these costs will fall in for 2010–11? Can the MOD set out what the MOD's contribution to the PMM is expected to be in FYs 2008–09, 2009–10 and 2010–11?*

The Protected Mobility Package, announced on 29 October 2008, will deliver nearly 700 vehicles urgently required for operations in Afghanistan. HM Treasury has agreed to provide £500 million of funding over three financial years, and their contribution is programmed to be £53 million in FY 2008–09, £424 million in FY2009–10 and £23 million in FY2010–11. The MOD will fund the remainder; the spend figures will vary over the course of delivery of the programme because of cost growth and exchange rate variance, and therefore it is not possible to give the exact costs or MOD contribution at this stage. While this package will deliver crucial and urgent capability for current operations in Afghanistan, it is also relevant to the MOD's longer-term equipment plans, so it is appropriate that the MOD should contribute towards the package.

The Protected Mobility Package was agreed between MOD and HM Treasury in the middle of the financial year 2008–09, and the in-year spend was counted towards that year's UOR estimate to reflect delivery of the theatre specific aspects of the package. As financial years 2009–10 and 2010–11 were still some way off at the time that the package was agreed, and because elements of the package have utility for long-term Defence requirements, the costs for those two financial years are being dealt with separately from the UOR estimates.

7. *The reduction in administration spending between years is 2.5% (RFRI, Section M) compared to the 5% year on year savings set in the Spending Review for departments (see paragraph 1.1 of explanatory memorandum). What progress has been made in administrative efficiencies and reductions in back office/admin staff and is MOD on target to achieve the 5% savings required?*

The MOD is required to reduce expenditure on administrative costs by 5% per annum in real terms. There is a 5% reduction between 2008–09 and 2009–10, once inflation (at 2.7%) has been taken into account. Significant change programmes are in place to deliver the required savings—most notably the Streamlining reductions in Head Office, and the PACE programme in the Defence Equipment and Support organisation. On current plans, the savings targets are forecast to be achieved.

8. *Last year the AME budget for Defence Equipment and Support (RFRI, Section O) was negative (-£114 million) although it is not clear why. This year a budget of £27 million is sought. This may be a technical, accounting, change but could the MOD explain what has changed?*

The AME credit scored against the Defence Equipment and Support organisation in 2008–09 related to a reduced cost of capital charge accounting adjustment. This adjustment resulted from lower total nuclear provisions than originally provided for in previous years, following a review of the level of nuclear provisions. The level of the creation of new nuclear provisions in 2009–10 is broadly in line with previous years.

9. *In 2008–09 there was a provisional overspend on the net capital budget of £81 million, due to lower than forecast capital receipts (exp memo paragraph 3.6). As a result, HM Treasury are deducting this from the 2009–10 capital budget. Are MOD budgets for 2009–10 and beyond being adjusted for anticipated receipts shortfalls as a result of the downturn in the property market? What impact will this have on spending plans?*

The level of receipts anticipated from the disposal of the MOD estate is reviewed during the planning round. The figure for 2009–10 was revised downward by £70 million in the 2009 planning round to reflect an expected reduction in the volume of the estate sold. The potential effect from 2010–11 onward will be considered in the 2010 planning round.

10. Overall, capital (DEL) spending is still budgeted to rise by 9.7%, from £8,313 million to £9,121 million (+9.7%) (comparison of DEL tables in Main Estimates 2009–10 and Spring Estimates 2008–09). Around half of this appears to be going on Urgent Operational Requirements in Afghanistan. What are the main components of the increases in RfR1 (Provision of Defence Capability) and what are these designed to achieve?

RFR1 CDEL expenditure increased from £7,687 million in Spring Estimates 2008–09 to £7,861 million in Main Estimates 2009–10 (as shown in the table below). This represents an increase of £174 million (around 2¼%), broadly in line with the Defence budget. The additional resource has been allocated across the MOD's entire capital investment programme, primarily to equipment and support.

	2008–09 £M	2009–10 £M
RFR1	7,687	7,861
RFR2	1,128	1,565
Non-operating A-in-A	– 501	– 305
Total	£8,314M	£9,121M

11. The comment at Paragraph 4.5 of the explanatory memorandum suggests that expenditure is expected for the Balkans but has not been included in the Main Estimate. If it is known that some expenditure will be incurred, why is no Balkans funding included in the Main Estimate, particularly as last year Balkans funding was included in the Main Estimate?

As we stated in our 2009–10 Main Estimates Memorandum, Balkans funding will be requested in the Supplementary Estimates once any planned drawdown arrangements have been finalized. We wish to be in the position only to ask Parliament to vote on a request for resources which is sufficiently robust.

12. Are there any significant increases to provisions (for liabilities) being made in the Main Estimate? (paragraph 12 of the explanatory memorandum)

There are no significant increases to the planned creation of provisions in the 2009–10 Main Estimates. Any subsequent change in the level of provisions will be reflected in the Supplementary Estimate round.

24 June 2009

DEPARTMENTAL MINUTE REGARDING THE GIFT OF UK PERMANENT STRUCTURES WITHIN SOUTH EAST IRAQ TO THE US ARMED FORCES

It is the normal practice, when a Government department proposes to make a gift of a value exceeding £250,000, for the department concerned to present to the House of Commons a Minute giving particulars of the gift and explaining the circumstances; and to refrain from making the gift until fourteen Parliamentary sitting days after the issue of the Minute, except in cases of special urgency.

The gift in question is to the US Armed Forces and consists of four permanent protected structures currently used as UK dining facilities located within the Contingency Operating Base (COB), Basra. The COB has been occupied by the UK Armed Forces since May 2003 as part of Operation TELIC. The UK's planned transition within Iraq will see our Armed Forces, during the early part of 2009, hand over responsibility for the military operation within Multi-National Division (South East) to the US. In order to enable this transition the UK Armed Forces will be required to vacate the COB to allow a US Brigade Unit under the command of HQ 10th Mountain Division to infill.

In accordance with Departmental Gifting policy, the MOD Disposal Services Authority (DSA) and Defence Estate Land Agent (DLA) have provided asset valuations. DSA have valued the contents (non-fixed assets) of all four permanent dining facilities at £456,885. The contents comprise sinks, walk-in refrigeration units, food preparation areas, catering equipment and furnishings. The permanent structures have been given a zero value by the DLA as they sit on Iraqi soil and cannot be sold on the open market. UK investment over financial years 07/08, 08/09 is £45.399 million, which through impairment (a technical write down in value) is reduced to a nominal sum of £1. The US intention is to use the four permanent structures as dining facilities, although should this change the MOD will instruct DSA to sell the removable contents from each. The structures and their contents will eventually transfer to Iraq when the US Armed Forces no longer have a use for them. In total, the gift is worth £456,886.

Although not a gift, an additional four incomplete structures have been handed over to the US Armed Forces, which will eventually transfer to Iraqi control. The total value of these structures was £50.620 million, which has been treated as a constructive loss. The combined value, therefore, of all buildings and contents is £96.476 million—£45.399 million (hardened structures gifted, impaired to £1), £0.457 million (the gifted contents) plus £50.620 million (the constructive loss on the incomplete structures).

The Treasury has approved the proposal in principle. If, during the period of fourteen parliamentary sitting days beginning on the date on which this Minute was laid before the House of Commons, a Member signifies an objection by giving notice of a Parliamentary Question or of a Motion relating to the Minute, or by otherwise raising the matter in the House, final approval of the gift will be withheld pending an examination of the objection.

8 May 2009

**Correspondence between the MoD and the Chairman of the Committee on Public Accounts,
concerning the Gifting of Infrastructure in Iraq**

DRAWDOWN IN IRAQ: GIFTING

I am writing to give you more background information on a Departmental Minute which I plan to submit to the House regarding gifting related to the drawdown of military activities in Iraq.

The gift concerns the permanent protected structures erected in Iraq during 2008, which will no longer be required by UK forces post UK drawdown. HM Treasury are content with my Department's proposals.

During 2007, UK forces were subjected to high levels of Indirect Fire (IDF) into the Contingency Operating Base (COB) in Basra, Iraq. UK personnel were living and working in close proximity in areas vulnerable to rocket attack and the intelligence and risk assessments at the time were that there was a high risk of a mass casualty situation. In response to these assessments, the most vulnerable areas were assessed as the dining facilities, accommodation areas and the field hospital.

In June 2007, a business case was submitted to HM Treasury, and approved, for four permanent protected dining facilities (DFACs) at a cost of £45.399 million. A second case was submitted for three accommodation units and a hospital. During 2008 the four DFACs were completed and in use and the accommodation units and hospital were in process of being built.

Following the drawdown of UK forces in Iraq, the permanent protected structures will no longer be required for use by the UK. The buildings sit on Iraqi soil and cannot be sold or moved. As they are of no further use to the UK we would not wish to remain responsible for them. This has resulted in only one feasible course of action, namely for the four DFACs to be passed to the US for their use as they move into the COB to continue the coalition mission.

Both the UK and US government's separate agreements with the Government of Iraq, which were signed in December 2008, contain a clause which passed all fixed infrastructure to the Government of Iraq on the departure of UK or US forces. Therefore, although the initial gifting proposal is to the US, these buildings will ultimately pass to the Government of Iraq.

Because the buildings are on Iraqi soil cannot be sold, Defence Estates and the Disposal Services Authority have advised they have no material value to the UK and have provided a nominal valuation of £1. The value of the buildings will therefore be written down in the Department's accounts to this figure. Immoveable fixtures and fittings in the buildings have been valued at £456.885. The Departmental Minute therefore proposes a gift to the US totalling £456.886 made up of the nominal valuation of the buildings and the value of the fixtures and fittings. It is recognised however that the full impairment to the department is £45.856 million, which is the cost of construction plus the cost of fixtures and fittings.

The accommodation units and hospital buildings were not completed and, when it became clear that the buildings would no longer be required by UK forces, we decided not to fit the buildings out. As a result, and on HM Treasury advice, we will be treating the loss incurred as a constructive loss of £50.620 million in the MoD accounts.

The combined value, therefore, of all buildings and contents handed over, initially to the US Armed Forces, is £96.476 million—comprising £45.399 million (hardened structures gifted, impaired to £1), £0.457 million (the gifted contents) plus £50.620 million (the constructive loss on the incomplete structures).

The NAO have been made aware of this information for the purposes of their audit.

I am copying this letter to James Arbuthnot.

John Hutton