



House of Commons  
Defence Committee

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**Ministry of Defence  
Main Estimates 2008–09:  
Government response to  
the Committee's  
Eleventh Report of  
Session 2007–08**

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**Ninth Special Report of Session 2007–08**

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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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### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

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

### Committee staff

The current staff of the Committee are Mike Hennessy (Clerk), Eliot Wilson (Second Clerk), Ian Rogers (Audit Adviser), Lis McCracken (Inquiry Manager), Richard Dawson (Committee Assistant), Christine McGrane (Secretary) and Stewart McIlvenna (Senior Office Clerk).

### Contacts

All correspondence should be addressed to the Clerk of the Defence Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5745; the Committee's email address is [defcom@parliament.uk](mailto:defcom@parliament.uk). Media inquiries should be addressed to Alex Paterson on 020 7219 1589.

# Ninth Special Report

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The Defence Committee published its Tenth Report of Session 2007–08 on *Ministry of Defence Main Estimates 2008-09* on 7 July 2008, as House of Commons Paper HC 885. The Government's response to this Report was received on 1 October 2008. This is appended below.

## Government response

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The Government welcomes the Committee's report (published on 7 July 2008) on the Ministry of Defence Main Estimates 2008-09, which also included the Government response to the HCDC report on the 2007-08 Spring Supplementary Estimate. The Main Estimate sought Parliamentary approval for the MoD's core budget for 2008-09. The Estimate did not include a request for the costs of operations in Iraq and Afghanistan, which the Department will seek later in the year, in the Supplementary Estimates round. However, an initial request for Balkans costs was included in our Main Estimate. We also outline a provisional forecast for costs in Afghanistan and Iraq in our Main Estimates Memorandum. The Government's response to the conclusions and recommendations contained in the Committee's report is set out below.

**1. (Recommendation 1) We intend to continue this regular series of Reports on the Estimates throughout the rest of this Parliament, in the context of what the Liaison Committee has described as inadequate financial scrutiny by the House. We aim to improve the clarity, detail and timeousness of the financial information provided by the MoD to the House and to the country at large. We understand that sometimes this information will be most appropriately presented in memoranda rather than in the body of the Estimates themselves, and we commend the MoD for the way in which it has constructively engaged with us in discussions about the content of these memoranda. (Paragraph 4)**

The Department places great importance on continuing to work with the Select Committee to improve further the financial information it provides to the House and the public.

**2. (Recommendation 2) RfR1 also shows that spending by Land Command TLB is expected to increase significantly in 2008-09 compared to last year, while the Defence Equipment and Support (DE&S) TLB expenditure is expected to reduce significantly. We call on the MoD to explain the reasons for these changes. (Paragraph 6)**

The 2008-09 Main Estimate request for resources for Land Command<sup>1</sup> contains the expenditure for the former Adjutant General (AG) TLB, which was shown as a separate sub head in 2007-08. The combined Land and AG 2007-08 Main Estimate figures are: £6,544 million Resource DEL (RDEL) and £268 million Capital DEL (CDEL) compared with the 2008-09 Main Estimate figures for Land Forces of £6,463 million RDEL and £261 million CDEL.

The DE&S 2007-08 Main Estimates RDEL was £15,687 million and CDEL £7,156 million; for the 2008-09 Main Estimates it is £14,666 million for RDEL and £7,311 million for CDEL. The apparent decrease in RDEL is because of the transfer of £1,360 million into the new single Administration Budget sub head.

**3. (Recommendation 3) The MoD ought to ensure consistency in the headings used, and should amend the ambit of RfR2 to make clear reference to military operations**

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<sup>1</sup> The Main Estimate should have referred to Land Forces as the correct name of the new combined TLB. This sub head will be re-named in the 2008-09 Winter Supplementary Estimate.

being undertaken, if not specifically citing Iraq and Afghanistan operations then at least recognising the true nature of some operations. Our suggestion would be to add “war fighting and other military operations” to the list. (Paragraph 8)

The MoD will ensure consistency in the headings used in future. The Department is considering how the ambit could be changed to make it more informative in time for the 2008-09 Winter Supplementary Estimates.

**4. (Recommendation 4) The MoD has provided a figure of £16.875 million for the cost of Balkan operations in 2008–09 in this year's Main Estimates. This figure represents 75% of forecast costs (Paragraph 9).**

**5. (Recommendation 5) The MoD expects costs for Balkan operations to amount to some £22.5 million. Even if this turns out not to be an underestimate, the MoD will have to return to the House to seek further funds at the time of one or both Supplementary Estimates. It seems a little odd for the MoD therefore to claim only that it may have to do so. Unless the Balkans forecast cost is highly conjectural or overstated (neither of which it ought to be) then the MoD should state more openly that it expects to come back to the House later in the financial year for supplementary funds. (Paragraph 10)**

This request for funds at Main Estimates reflects a prudent approach agreed between Government Departments. Any further request for funds will be handled in the Supplementary Estimate round. The volatility of operations in the Balkans, including the possibility of deploying the Over the Horizon Reserve Force (ORF), was the reason for the use of the word *may*.

**6. (Recommendation 6) Readers of the Estimates would be assisted if the Main Estimates separately identified Balkans costs (and Iraq and Afghanistan costs) and explicitly stated that the costs were 75% of the forecast full-year figure. (Paragraph 11)**

The Department shares the Committee's desire to make its Estimates as informative as it can, and is investigating the implications of the HCDC proposal to enhance granularity of the operations costs breakdown. The Estimates Memorandum does, of course, provide a full break down of costs by operation.

**7. (Recommendation 7) In response to our most recent Report on the Spring Supplementary Estimates, those for 2007–08, the Government in addition offered to include a forecast for the cost of operations in Iraq and Afghanistan in the memorandum accompanying this financial year's Main Estimate. The MoD's “initial estimate of operations is that there will be a net additional cost of at least £2Bn...[to be] split between Afghanistan and Iraq”. Furthermore, the MoD has also given in this memorandum its current estimate for Urgent Operational Requirements (UOR) expenditure within that figure of £2Bn, amounting to some £1,065Bn. We call on the MoD to explain the implications of such UOR expenditure on its future capital and resource budgets. These are both very welcome developments for which the MoD must be commended. (Paragraph 14)**

The Department will continue to provide the Armed Forces with the equipment and materiel they need for operations. The UOR expenditure will be scored against peace-

keeping and operations (RfR2) and claimed against the Treasury Reserve as usual. There will be no impact on the Department's core (RfR1) budget for 2008-09. If the figure of £1.065Bn is exceeded, the Defence budget will bear half the cost of the excess in 2010/11 under the arrangements agreed in the 2007 Comprehensive Spending Review.

**8. (Recommendation 8) Provisional forecasts for each theatre in the same table form as provided to us in the memoranda accompanying the Winter and Spring Supplementary Estimate could be made available each year in the memorandum accompanying the Main Estimate. The forecast overall figure for UORs could also be provisionally broken down in the same way as it is in the MoD's Annual Report and Accounts. In our Report on the Spring Supplementary Estimate we expressed a desire to see the "working assumptions" underlying the forecast figures for Iraq and Afghanistan as early as possible in each financial year. The information provided by the MoD this year with the Main Estimates, however welcome, fails to achieve this. (Paragraph 15)**

The MoD will request resources for peace-keeping and operations in its 2009/10 Main Estimates, as recommended in previous reports by the Committee. The accompanying Estimates Memorandum will provide the same table form as provided in the Winter and Spring Supplementary Estimates. The forecast figure for UORs will be broken down in the same format as the Department's Annual Report and Accounts. We will provide as much detail as we can on the assumptions underlying the forecast without compromising operational security.

**9. (Recommendation 9) We acknowledge the difficulties the MoD faces in assessing and forecasting indirect resource costs, and commend the Ministry for working with the National Audit Office to ensure that future indirect resource cost forecasts will be more accurate. We do however find it hard to believe that a failure properly to cost the use of Hellfire missiles and the damage to, and loss of, equipment in theatre could lead to such a considerable underestimate of cost as occurred in 2006-07. (Paragraph 16)**

The Department will continue to refine its reporting and forecasting of indirect resource costs, which the Committee has acknowledged is challenging.

In 2006/7, the audited accounts showed an outturn of £69M in indirect resources, which exceeded our Parliamentary request for resources by some £21million. The reasons for this overspend included the use of more Hellfire missiles in Afghanistan than had been forecast at the time the Department submitted Supplementary Estimates, and increased depreciation charges for some military equipment damaged or destroyed on operations. The 2007/8 outturn of £424M is a much more robust figure than the £69M reported for 2006/7, but the increase from 2006/7 to 2007/8 is a consequence of a far wider variety of factors than those which were responsible for the 2006/7 overspend. It reflects improved processes for capturing costs such as cost of capital, stock write offs and the creation of provisions along with increased equipment depreciation.

**10. (Recommendation 10) For the first time in the MoD Main Estimates, and in the memoranda accompanying them, we have forecasts for operational costs in Iraq and Afghanistan, an estimate of UOR costs, and a formal request for a stated proportion of expected Balkan operational costs. It remains to be seen how robust these figures will**

**prove when it comes to the Supplementary Estimates and the final outturn for the financial year. (Paragraph 17)**

The Department always strives to present robust and timely forecasts. Peace-keeping and operations costs are volatile, and estimates do change during the year.

**11. (Recommendation 11) We are concerned about the robustness of forecasts and estimates we are offered during the financial yearly cycle. We continue to call for these forecasts and estimates because we believe the MoD can and ought to provide as early a sight as possible of what it believes operations are likely to cost in the financial year. Nonetheless, it has to be asked whether the MoD is doing enough to provide robust cost forecasts to the House, robust not just in terms of stating as accurately as possible expected costs, but is doing so in a timely fashion, using information that is up-to-date. (Paragraph 19)**

**12. (Recommendation 12) In the last financial year, the estimate for the full-year cost of operations in both Iraq and Afghanistan increased between the Winter (November 2007) and Spring (February 2008) Supplementary Estimates by approximately 50%. The cost of Balkan operations likewise shifted from a £20 million forecast in November to an expected cost of £31 million by February, again an increase of c50%. We cannot however agree with the MoD that the scale of this increase between two fixed points only a few months apart within a financial year is solely down to the inevitable volatility of military operations. (Paragraph 21)**

The Department is continuing to increase the robustness and accuracy of its forecast cost of operations in a timely fashion. A workshop was held in August 2008 with the major Top Level Budgets to discuss some of the issues raised by the Committee, and the NAO 2007-08 audit. Additional scrutiny will also be undertaken in preparation for the Defence Board quarterly reviews, and for the operational costing forecasts used for the Winter and Spring Supplementary Estimates. We expect the Winter Supplementary Estimate for RfR2 in 2008/9 to be more accurate than it was in 2007/8 subject, of course, to subsequent changes in operational policy.

The revised Balkans costs in our Spring Supplementary Estimates reflected the possibility of deploying the Over the Horizon Reserve Force (ORF) in 2007-8. In the event, the ORF was not, in fact, deployed in 2007-08. If the ORF had been deployed, and we had not requested additional funds in our Estimate, we would have run the risk of an excess vote and accounts qualification for breach of our Estimate.

**13. (Recommendation 13) The Winter Supplementary Estimate forecast of costs, for both Iraq and Afghanistan, was effectively four months out-of-date when the House saw it; and five months out-of-date when it voted to approve the funds in question. The Spring Supplementary Estimate, laid in February, approved by the House in March, was based upon a marginally more timely forecast produced in the MoD at the end of November, some two-and-a-half months before laying, and three-and-a-half before the House voted to approve the funds in question. (Paragraph 23)**

**14. (Recommendation 14) Given how out-of-date both forecasts were when the House first saw them, the statement by the MoD in response to our supplementary questions appears questionable: “the forecast in the Winter Supplementary Estimate represented**



the best estimate of the likely costs of Iraq and Afghanistan when the Estimate was submitted". This suggests that there was no available forecast between July and October that could better inform the figures to be laid before the House in November, or that the procedures involved are so cumbersome that any forecast in this period would have been too late to inform the Winter Supplementary Estimate. Either way, this is unsatisfactory. It is one thing to say that estimates vary because of the volatility of operations, and another to say that a late July decision to increase manpower in one theatre came too late to inform figures placed before the House in November, some three-and-a half months later. (Paragraph 24)

We have put in place processes to reflect the latest available figures in our Winter and Spring Supplementaries, although the procedures for collating Estimates across Government for presentation to Parliament inevitably necessitates some time lag between the availability of the raw forecast and the publication of the Estimate.

**15. (Recommendation 15) According to the Government response to our Report on the 2007–08 Spring Supplementary Estimate and the answers to the questions we asked the MoD concerning that response, the drawdown of UK forces in Iraq was decided before the end of July 2007, although it was only announced to the House in October 2007. Thus the Winter Supplementary Estimate forecast of costs was based upon knowledge of the drawdown. We are further told that the higher Spring Supplementary Estimate figures (made public in February 2008) were based upon end of November 2007 forecasts, produced fewer than ten weeks after this announcement to the House. This increase in costs thus predates the assessments of the military situation in Iraq made in the first quarter of 2008 that led to the decision to postpone the drawdown. (Paragraph 25)**

As we said in our Main Estimate supplementary memorandum in response to further HCDC questions: "The estimates for the cost of operations in Iraq for Winter Supplementary Estimate were based on end of July forecasts; those for the Spring Supplementary Estimate were based on end of November forecasts. The Department must base its requests for resources at Supplementary Estimates on as robust forecast data as it can. Inevitably, there is also a degree of time lag between receiving accurate forecasts from our TLBs and incorporating them in our Supplementary Estimates."

On the question of the increase in costs predating the decision to postpone the drawdown, we based the Spring Supplementary Estimate on a prudent assessment of spending patterns and plans that were evident at the time. In particular, the increase reflected capital spending plans for urgent operational requirements for force protection measures and equipment support costs that were not materially affected by the drawdown assumptions.

The Department is, however, determined to improve the accuracy and timeliness of its Operational cost forecasting and has put in place process changes for the current financial year to ensure that the Winter Supplementary Estimate provides the latest (at the end of August) information on projected outturn and actual expenditure.

**16. (Recommendation 16) No proper relation seems to exist between operational decisions, political announcements, and financial scrutiny. This simply cannot be**



**satisfactory. It is essential that the House has available to it accurate and up to date forecasts before it is asked to vote on the Defence Estimates. (Paragraph 26)**

The Department does not agree with the Committee's suggestion that there is no coordination between operational decisions, political announcements and financial scrutiny. Our operational policy/PJHQ staffs engage with the resources and plans staff to try to ensure a shared understanding of future plans and requirements, as the basis for costings that are as robust as possible.

To the extent possible, realism is built into our Estimates requests, based on known future changes to the forces deployed on operations and the nature of the operations being planned, resulting from political announcements.

We take the Committee's concerns very seriously. We have instigated new procedures to provide more rigorous scrutiny of forecasts.

**17. (Recommendation 17) It is essential that the MoD should provide late each calendar year the forecasts generated at that time which were subsequently used to inform the Spring Supplementary Estimate. This would allow any increase in funds likely to be sought formally from the House the following March to be flagged up well in advance. We also consider that the House should see at as early a stage as possible the forecasts generated in the summer upon which the Winter Supplementary Estimate is founded. (Paragraph 27)**

The Department stated in its supplementary memorandum dated 5 June 2008 (in the response to question 5) that a further forecast could be provided to the Committee between Supplementaries if the Committee would find that helpful (Ev 15 of HC 885).

**18. (Recommendation 18) We recommend that the House of Commons approve the MoD's Main Estimate and have identified no issues which require a debate before it does so. But the House should continue to be aware that, because of the omission of the costs of military operations in Iraq and Afghanistan, the Main Estimates greatly underestimate the total expected cost of the MoD's activities in 2008–09. (Paragraph 28)**

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

For 2009-10 the Department will formally request funding for operations and peace-keeping in Main Estimates for the first time. This request for funding will be updated as usual in the Supplementary Estimate rounds, reflecting the volatility of operations. We will provide as much detail as we can without compromising operational security.