

To: Secretary of State
From: Lord Levene

Date: 13 November 2013

DEFENCE REFORM - SECOND ANNUAL REVIEW

In my report on Defence Reform, published in June 2011, I recommended that I should take stock of progress each year, for three years, and report my findings to you. Your predecessor agreed to report in turn to Parliament. I have now completed my second stocktake, and set out my findings below. As last year, my conclusions are mainly drawn from discussions with a range of senior stakeholders across Defence and from outside the Department, coupled with analysis of high-level evidence around a few key issues. Also, as in the past I have not examined the Defence and Equipment and Support (DE&S) area which is responsible for acquisition.

My basic conclusion from last year's stocktake was that an encouraging start had been made in implementing Defence Reform. This year there is clear evidence that much of this early promise has come to fruition, and that substantial progress has been achieved in implementing both the letter and, more importantly, the spirit of my original recommendations. Inevitably, as last year, there are areas where I have continuing concerns, the main one being not to lose the momentum for reform in April 2014 when the formal Defence Transformation programme comes to an end. This is particularly important in the area of behavioural change where it would be all too easy to regress; Defence as a whole must actively continue to push delegated decision-making to the appropriate level.

Rather than focus on individual recommendations, I structure my main conclusions and observations around the key themes in my original report.

1. A smaller more strategic Head Office

Over the last two years the MOD Head Office has reduced in size by some 500 posts (over 20%). It is also becoming more strategic in several ways. Its activities are increasingly framed by, and in support of, the new Defence Board, which you now chair, and which is providing clearer pan Defence leadership, direction and prioritisation than its predecessor. Led by the Board, there has been increased financial and planning delegation to the Top Level Budgets (TLBs) - see below. I also support the initiative to reduce bureaucracy, regulation and central constraints to a bare minimum - and ensure they are much more clearly articulated. But some things will always need strong central leadership, the delivery of Defence Reform being a case in point. I welcome the way MOD Head Office has approached this over the last two years. In view of the progress that has been made, it would be sensible that beyond April 2014 the current formal change programme should evolve into a lighter-touch mechanism, provided this is equally firm in overseeing and driving the changes that will not have fully embedded by then.

The Head Office is only part of the way through a complex long-term transformation. We need to make sure its old centralist tendencies do not reassert themselves during time of 'stress'. The Strategic Defence and Security Review and Comprehensive Spending Review, that will follow the next election, will inevitably be run on a centralised basis; but the challenge will be to do this in a managed way, drawing on the strengths and experience built up from delegation and in the TLBs, and that subsequently MOD returns to the original delegated intent. I also sense there is further to go in establishing Head Office as a single corporate entity with a clearly and commonly understood role, purpose and way of working, and in clarifying and bringing greater coherence and discipline to its disparate functions and authorities; I know that work is in hand on some of these issues. Finally, I remain concerned that there has not been a reduction in the number of Defence Ministers

to match that in the Head Office overall, although I recognise that this is not a decision for the MOD.

2. Delegation and empowerment to the TLBs

The central process, procedural and organisational changes needed to delegate capability planning and financial responsibility to the TLBs are in place, with further reforms scheduled by April 2014. Over 120 equipment capability planning staff have now transferred (and in most cases physically moved) from London to one of the four military Commands which now have this responsibility. More importantly, there seem to be universal support for the concept of greater empowerment and a shared top level determination to make it work effectively.

The key now is to sustain the drive towards less detailed involvement by Head Office, and to reinforce the direction of reform by identifying and resolving some of the lower level issues that might otherwise impede further progress. This requires further clarifying roles, relationships and mutual expectation, for example around the Strategic Programmes that Head Office continues to own, and in resolving potential disputes between TLBs. Head Office also needs to make more 'visible' change to its own behaviour, including if necessary at the top: there is evidence that senior offices still sometimes turn to Head Office colleagues for advice on matters that have been formally delegated to the Commands. The Service Chiefs too have a role to play by ensuring that they are visibly seen to be prioritising the running of their Command against other calls on their time. The Chief of the Air Staff has been able to adjust his diary to be able to reduce his time in MOD Main Building significantly.

3. Creation of Joint Forces Command (JFC)

Joint Force Command is now a reality, having achieved Full Operating Capability in April 2013. By virtue of being newly created, JFC is a lean and agile organisation, well suited for its role, and perhaps something of a model for other parts of Defence. JFC is already taking a clear lead on key technological 'enablers' that MOD struggled with under its previous business model, including Cyber and C4ISTAR¹; and it recognises that there are some significant challenges to come as it takes responsibility for the Defence Information Systems and Services delivery organisation. These in turn present challenges to Defence more widely: ensuring that the Services continue to provide JFC with people of appropriate quality at all ranks; considering whether more functions might be passed to JFC; and responding to the new balance-of-investment questions JFC is already starting to highlight.

4. Stronger financial and performance management

There is clear evidence that MOD has become more business-like and finance-focussed over the last two years. A projected £38Bn budget excess has been eliminated: this is a remarkable achievement and shows how effective the management of the Department can be, especially when it has strong political leadership. New mechanisms are also in place to hold TLB holders and other senior responsibility holders formally to account against their business plan. This is welcome, but there appears to be little evidence of action being taken against individuals when this process highlights personal failure in management or leadership. This is not about finding 'scapegoats', and I accept that there are interdependencies in the conduct of Defence business that can complicate single-point accountability. But I think MOD has further to go to show that it can identify and deal with failure in the more robust way as most outside organisations.

¹ A nexus of technology-dependant 'enablers' to deliver battlefield success focussing mainly on the functions of Command, Control, Communications, Computing, Intelligence, Information, Surveillance, Target-Acquisition and Reconnaissance.

I would also reiterate the concern I highlighted in last years stocktake about Management Information (MI). It is absolutely critical for the effective management of Defence that MOD radically improves its MI and MI Systems, and in particular that it achieves a single Department-wide version of the financial truth. This was always going to take time to come to fruition, and some progress has been made over the last year. But much more is needed. For example, it remains unclear how far recent underspends on equipment and support programmes are due to swings, anticipated risks not arising, and/or slippage; I gather that work is in hand to address this. Overall, MI is an area that needs sustained drive and senior attention over the long term. The recent appointment of a three-star Chief Information Officer (CIO) with strong industry experience is a positive step. I will be looking very clearly for evidence of tangible improvement in MI in my next stocktake.

5. Acquisition, Infrastructure and Corporate Services

My original report looked forward to further work and development in all these areas, and there has been encouraging progress. In each case a central problem has been civil service policies that inhibit the ability to pay the market rate for challenging jobs, and to 'hire and fire' flexibly. In my view, the apparent rigidity of these policies is a major barrier to delivering value-for-money. But MOD has worked imaginatively to overcome them. In the field of internal Corporate Services, an innovative strategic partnering contract has been in place for over 18 months that has allowed private sector managers to be flexed in and out of the organisation according to need and performance. Similar solutions are being examined for Defence Infrastructure, though these might go further and outsource the function to a government-owned company: this seems a sensible approach given the expertise that the commercial market can readily bring in the property sphere.

In the field of acquisition, a long-running Materiel Strategy has been examining options for the future of DE&S as either a government-owned company or an 'enhanced' version of the existing business model (known as 'DE&S plus'). It needs to be brought quickly to a conclusion to end the current uncertainty and the very considerable demands it is placing on senior management time and effort across Defence. In my opinion, the quickest and most straightforward solution would seem to be via 'DE&S plus', and this needs to be developed to the very highest standards as a realistic option. But it is crucial that it also embraces the greatest possible employment and pay freedoms. I understand that a proposal to this effect is currently with the Treasury, and this has my strong support.

It remains my firm view that, whatever the outcome of the Materiel Strategy, it would improve financial management and top level accountability if CDM were made a formal Accounting Officer.

Not all acquisition is done in DE&S. In future, Cvber, C41STAR and related technical enabler programmes will be managed by JFC under the new Defence CIO. This area too needs access to improved project and management competence, and also to leading-edge technical skills. Again the key is greater employment and pay flexibility.

6. Personnel issues

A new Chief of Defence Personnel (CDP) has been appointed, charged with driving progress towards the Whole Force Concept (WFC), and there is a clear plan for achieving this by April 2015. I welcome this and the widespread support for the aims of the WFC: taking an integrated business-focussed view of the contribution and cost of regular, reserve, civil service and contractor personnel. In relation to the management of MOD civil servants, I hope early clarity can be brought to the respective roles of CDP and the recently created Head of Government HR.

I am also concerned that the Chiefs could feel inhibited from rebalancing between military and non-military staff because of a misplaced media-driven focus outside Defence on

maintaining the absolute size of their Service. Major changes in force sizes need to be recognised as a deliberate and hard-nosed rethink by the Services and the Department as a whole of how to improve fighting capability. The attention drawn to them by the popular press and others should not be allowed to distract from this. Special pleading is just that, and should be headed off robustly.

Having highlighted a concern in the last stocktake, there is now some evidence that longer tour lengths may be becoming more standard for senior military and civilian posts at two-star and above but this needs to become the norm. The challenge is to ensure that plans for longer postings are delivered in reality, and to ensure that the same thinking is extended to more junior posts also. I would also urge MOD to consider seriously the option of rewarding but retaining high quality individuals by promoting them in post.

7. Maintaining the momentum

Overall, MOD has done well in delivering progress on Defence Reform but I would again emphasise that a decision on the future of DE&S is needed urgently. As a result of the efforts described above, and a new readiness at the very top of Defence to take tough financial decisions and embrace radical change from within or from the centre of government, MOD is viewed as a more professional and responsible organisation, and no longer as an 'insular' Department within Whitehall.

That is a strong foundation on which to proceed with the next stage of Defence Reform. In next year's stocktake, I will be looking for evidence that the 'flame' of Defence Reform has been kept alive, that enduring behaviour change has been achieved and that senior leaders are actively planning the next step on this continuing journey. With your approval, I would like to make it a combined exercise both to review progress on the outstanding changes, and to help survey the horizon for what those next steps might be.

A handwritten signature in black ink, appearing to read 'Peter Caine', with a large, sweeping flourish above the name.