

CIVILIANS IN DEFENCE

INTERIM REPORT

1. In December last year, I was asked by the Secretary of State for Defence to conduct a review of the civil servants currently working in the Ministry of Defence (MoD). This followed the announcement by the Chancellor in the pre-Budget report. My task was to help the Department shape the total civilian workforce and provide strategic options for reducing the cost of that workforce in the future. My Terms of Reference are at Annex A.
2. Very simply, I am interpreting my task as to examine the work currently carried out by civil servants in Defence and to see whether that work needs to be done at all; whether it needs to be done in the Civil Service; and whether there are ways of doing that work more efficiently. This is against the background of the acute financial pressures being faced by the Department, and indeed by the Government as a whole. I see my challenge as helping to lift those pressures by suggesting ways in which the cost of the Defence Civil Service might sensibly be reduced.
3. I have approached this work with no preconceived notions as to whether MoD should employ more or fewer civilians. Indeed, because I have also been asked to consider the distribution of tasks between military and civilian personnel, the work may in some areas lead to more civilians being employed in order to free up scarce and more expensive front-line resources. My interest is not just numbers but efficiency, value for money, and effective services.
4. This is my interim report, offered after some eight weeks' work. During that time, I have drawn on my current and previous experience in both the public and private sectors, including my time as a member of the RAF Strike Command Board (subsequently Air Command); I have had a variety of conversations with senior staff in the Ministry of Defence, with several of its business units, with the Trades Unions, and with others; and, most importantly, the excellent team supporting me led by John Pitt-Brooke along with David Howard, James Franklin, Caroline Robson and Irene Bayliss has, under my direction, consulted widely across the Department.
5. This activity has allowed the team and myself to develop a methodology for future work. This report therefore sets out the context for this work, the outlines of a plan, and the approach we have developed for the next phase which will lead up to our final report, presently envisaged as being delivered at the end of May.

The size and shape of the Civil Service in MoD

6. There are currently some 86,000 civil servants in the Ministry of Defence. They cost £2.7 billion, about 9 per cent of the Defence budget. All of these civil servants are civilians employed directly by the Department. They play vital roles in the development of defence policy and the support of the armed forces, and of course, the armed forces could not exist in any meaningful way without them. But they are far from being a homogenous group: in fact they carry out a multitude of different tasks, and are grouped and administered in different ways. These tasks are to some extent separate – there is only limited interchangeability between the individuals in them, and separate considerations often apply to each group. Many people feel loyalty to their particular group rather than some broader concept of the “MoD Civil Service”.
7. The number of civil servants has fallen sharply in recent years, a drop of some 50,000 since 1997 (over 35%) as a result of widespread re-organisation, relocation, contractorisation and efficiency. This drop is sharper than the fall in the numbers of the armed forces themselves. And there is more to come. Efficiency programmes already planned and being delivered, and further challenges factored into the Department’s planning process, will lead to further reductions in the next few years, with the total likely to fall to below 80,000 by 2014. I still have to investigate whether the way these challenges will be met has been fully thought through.
8. It is possible to sub-divide the 86,000 in many ways. For example, sub-divided into the TLBs (Top Level Budgets) in which they work, as shown in the table at Annex B which also shows those employed on corporate functions. But for the purposes of this work, it is most useful to consider them by the business they deliver as part of the overall defence effort. The table at Annex C shows how this might be done, with the total separated into the businesses concerned. By doing this it is possible to assess each of these businesses against established criteria to determine whether the work should remain where it is, or should be reorganised, or should be combined with some other business in the public or private sectors.
9. This all looks neat and tidy but in truth it is far more confused than it seems. It is already apparent from the work we have done to date that the civilians in MoD are not all brigaded into defined areas of activity with simple and clear management. People doing the same type of work in different places are not always organised in the same way or are members of the same organisation.

10. Of course, moving to rationalise these structures will surface issues of identity and loyalty, and I will need to understand the implications of this before recommending changes.

Our Approach

11. Our review is not the first of its kind. We have been struck at just how much effort has already been put into these kind of examinations. It is fair to say that there is hardly a civil servant in the 86,000 who has not been the subject of one or more studies in recent years, into for example whether contractorisation is appropriate, whether reorganisation could lead to greater efficiency, what are the arguments for relocation, and so on. We have read many of these studies, and have noted that some have indeed led to significant changes but that others have been rejected or watered down at the decision making stage, the most recent example concerning proposals around the organisation of certain corporate delivery functions.

12. It is interesting to speculate why so much activity has led to fewer changes than might be thought desirable. No doubt, the administrative complexity of MoD is one answer; another may be concerns about the implications of any change on operational effectiveness. There is also a rapid turnover of senior management: it may sometimes have seemed easier to give up than wade through the treacle that seems to surround many of these issues.

13. My team and I are hoping to have more impact than some of these previous studies. The difference between these studies and the approach we are taking is that:

- i. We are looking at this as a whole and not just at an individual element; looking at each element in a systematic way that could lead to the identification of cross-cutting synergies, something that would not be possible through single examinations of separate businesses;
- ii. We are doing this against a background of acute financial pressure which will itself drive the need to make change; and
- iii. We intend to make recommendations that will help the Department to create a framework which, over a period of years, will bring about significant and lasting change.

14. The approach we are taking is to set out a series of Principles which, once agreed, can be applied to the separate areas of civilian activity within MoD. This will allow us to make judgements on whether that activity needs to be carried out within MoD or within the Civil Service at all; whether there are other ways of discharging the same work more efficiently by combining functions or through other organisational change; and whether the work is being managed within structures designed to deliver the work in the most efficient way. As part of this process, where military personnel are carrying out activities that on the face of it should be being done by civilians, we will ask why.

15. Because these Principles will pervade all that the Review Team and I will do going forward, I would like to know whether they command general acceptance at the Defence Board before we move on to the next stage of our work.

16. The principles we intend to apply are as follows:

- i. The Ministry of Defence is a Department of State which contains the senior military headquarters of the United Kingdom. It formulates defence policy in support of the Government, provides Armed Forces to deliver that policy, and makes it possible for the Government to direct and equip those Armed Forces. Anything it does other than that must be critically examined.
- ii. The Ministry of Defence should carry out its responsibilities as efficiently and effectively as possible and should be sized and structured appropriately to do so. This structure should be agile enough to ensure the appropriate level of responsiveness to emerging issues.
- iii. Some of the responsibilities exercised by the Ministry of Defence must be carried out by its own directly-employed people – either the armed forces or civil servants. Putting operational activities aside, these responsibilities cover, for example, providing direct advice to Ministers and Parliament, making major decisions on the expenditure of public money, acting as an “intelligent customer” in the interface with industry, or acting in some international role where other governments would expect to be talking to Crown Servants in the UK. Within these areas, some jobs can only be carried out by the armed forces and some can only be carried out by civil servants, but other jobs can be done by either group.
- iv. Where it is possible for work to be done by either the armed forces or the civil service, the balance should be determined pragmatically, but the most cost effective solution

should be chosen unless there is a specific reason not to do so. Such reasons should be made explicit.

- v. Where it is not necessary for people directly employed by the MoD to do the work, value for money should determine who does it.

- vi. The nature of the Ministry of Defence sometimes requires civilian personnel to be embedded in subordinate headquarters. Where these personnel carry out a corporate function they should be managed from a central focus responsible for the function so that efficiencies can be maximised and so that civilian manpower within the function can be deployed to best effect.

- vii. Business support activities across the MoD should be organised into corporate structures, so that appropriate governance arrangements can be put into place, management can be made as effective as possible, and up to date systems and technologies can be utilised. These business services should be controlled centrally.

- viii. Where it would add to the efficiency of MoD's business, support activities should be exposed to alternative supply models, including the involvement of the private sector where appropriate. The opportunities to exploit synergies across government should also be considered.

- ix. The Ministry of Defence should ensure that it has organised its functions as efficiently and effectively as it can before it embarks on any contractorisation process – contractorisation should not be used to create synergies within external providers which should have been captured centrally before the outsourcing took place.

- x. If legislation is needed to effect any of the above it should be sought.

- xi. Powerful executive management, a change function, and continuing external challenge will be needed if progress is to be made.

17. I believe that if we apply these Principles rigorously to every element of the Civil Service within the Department, this will lead us to new structures that would allow us to re-cast the Departmental Civil Service in a radical way.

Next Steps

18. If our Principles are accepted, I intend that the Review Team, under my direction, will begin the task of examining the various functional groupings within the MoD to decide how these principles apply to them, and then to make recommendations. We shall do this through a mixture of interviews, discussions, reading of past papers, and visits.
19. We do not wish at this stage to pre-empt the conclusions of the next stage of our work but we can already offer a number of observations, as follows:
 - i. Whilst there are some jobs that must be done within the MoD Civil Service, it would appear that there are also large areas that could be considered for different means of delivery. We need to think clearly about the proper delineation of those roles that must be done by civil servants and the need to ensure that we generate and retain people of the appropriate calibre to discharge these responsibilities;
 - ii. The recent history of contractorisation has led to a position where some functions which might be regarded as close to the heart of Defence business have been outsourced; but other more peripheral areas have not. There is also inconsistency between how different functions are handled in different TLBs. These decisions have largely been taken piecemeal – looked at as a whole, there is no overriding rationale to explain where we have ended up. We might have missed some opportunities to capture synergies for ourselves by outsourcing in this way;
 - iii. The present departmental construct involving empowered TLBs exercising considerable delegated authorities leads to duplication of effort in a number of corporate functions, and it does appear that efficiencies could be created by adjusting the balance between TLB authority and central authority in these areas. For the avoidance of doubt, I completely support the proper autonomy of TLBs where it is required to deliver operational effectiveness; it is the variety of non-operational and administrative add-ons that concern me. I also share the concerns of many within Defence at the over elaborate budgetary structures in some areas of the Department. All of this needs to be looked at further;
 - iv. A number of the business support functions would, on the face of it, benefit from being grouped together, and centrally managed in a way which would allow business experience and operational efficiencies to be maximised. The organisational structure within which these business services operate needs to be looked at. I

believe that corporatisation – carrying out these activities within a company structure – could well have advantages in terms of flexibility of operation, governance, transparency and accountability. It might also be advantageous to consider bringing in some private sector capital and expertise but we need to think about that further. The potential for some cross-Departmental activity across Whitehall also needs to be examined;

- v. Certain areas of the Department appear to be well set up for this kind of change, but others still require broader organisational adjustment. In particular the property management area, and the relationship between Defence Estates and the TLBs, needs to be re-thought. This is an area where there are close parallels to be examined within the private sector. There appears to be scope for efficiencies here not just in the management of the estate but also in increasing our ability to identify the best way to rationalise it;
- vi. Some areas within the Department are free standing and appear not to be covered by those core functions that must be done within the MoD Civil Service. For such areas the case for change must be examined. Where analysis of these areas suggests that change might provide value for money this should be implemented with vigour;
- vii. The processes for making shifts across the military / civilian / contractor spectrum are rigid, bureaucratic and a disincentive to making changes. The rules relating to civilianisation are particularly inflexible and we shall consider this further. We would only say at this stage that in some areas currently “civilianisation” is little more than a word. We do not see much evidence in many places of judgements being taken, job by job, on whether within Defence a job should be carried out by military or civilian. I hope that the parallel work going on under the direction of Rear Admiral Richards will open out this issue, as it seems to me that there is considerable scope for further efficiencies by the transfer of tasks from uniform to civilian – be that a Civil Servant or a contractor.
- viii. There is a need to strengthen the corporate identity of civil servants working within the MoD. Some civilians who act directly in support of the Armed Forces are fully integrated into the unit they support; I acknowledge the strong sense of commitment and loyalty this brings. But I believe that others discharging corporate functions also need and deserve their own corporate identity. It is this identity, properly applied, which could help create a Civilian Force as something to be considered in its own right, alongside the Armed Forces. If we think of our civilians in this way, it is

possible to conceive how reorganisations might lead not just to greater efficiencies but also to better services.

ix. The reputation of the service provided by civil servants within the Department is of course part and parcel of this. Centrally managed services often seem to have a poor reputation for service delivery. And this must be frustrating for those directly concerned. The possible new models outlined above should lead to better service delivery which will lead in turn to a greater sense of self esteem for those in delivery functions. Better coherence and more effective functional management within the MoD Civil Service, coupled with explaining exactly what its members do, should also help to tackle the undeservedly low regard in which MoD civil servants are sometimes held.

20. As we say, these are only tentative conclusions at this stage, and we shall test them thoroughly. As our work progresses we will set out in more detail what a future model might look like, and give some indication of the implications for the number of Civil Service jobs and likely future savings. At this stage, it is neither possible nor appropriate to offer any hard and fast predictions about what these will be: save to say that by the time we come to writing our final report, I expect to be in a position to recommend significant changes to the status quo.

21. But any changes will have to be driven through, and for that to happen we shall have to address not just issues of structure but also the overall capability of the Department to implement such a programme. Transformation activities of the type we may be envisaging will require strong executive management, energy, determination, and joined-up thinking if we are to get anywhere. I shall be addressing these implementation issues in my final report.

22. I am, of course, happy to discuss and debate any aspect of this interim report.

GERRY GRIMSTONE

19 March 2010

TORS FOR INDEPENDENT REVIEW OF CIVILIANS IN DEFENCE

Background

1. The overall size of our civilian workforce has been continually reducing over the past 12 years, by some 30%, to our current number of 86,200, and is due to reduce to some 81,000 by the end of 10/11. Given the current economic climate, the pressures on the Defence budget, and the need to make every pound count for the front line, we have assumed in our forward plans that this trend will continue.
2. We intend to approach this challenge coherently and strategically, ensuring we understand the risks and benefits involved. We have therefore commissioned this independent review to help the Department shape the total civilian workforce and provide strategic options for reducing the workforce in the future. That workforce will need to be effective in support of the requirements of both the Department of State and the Armed Forces; it will need to provide rewarding careers and a sustainable career structure; and it will need to do this as efficiently as possible. This review will be an important input to the Strategic Defence Review.

Aim

3. To review the use of civilians in Defence, as an input to the forthcoming Strategic Defence Review, and in particular:
 - the use of civilians in Defence, including the distribution of tasks between military and civilian personnel and the scope for further efficiencies;
 - how planned reductions in the number of civilians can most efficiently be achieved; the scope for further such reductions; and the savings which could be expected as a result.

Scope

4. The review will consider:
 - The scope for civilianisation of non front line military posts;
 - The scope for sourcing functions from other providers (public, private or third sector), and for minimising use of agency staff or consultants, where such measures might provide better value for money;
 - Whether there are any functions or activities we should stop doing or do less of;
 - Whether we need to increase or protect staff numbers in any areas of high pressure or importance;
 - How the planned drawdown in civilian staff should best be managed, consistent with civil service protocols on managing surplus staff;
 - Areas where services are already supplied by a third party to identify any strong synergies between functions and potential supply options for the future; and

- The associated impact of any measures on the department's level of strategic risk and how they will be mitigated.

5. The following will not be the responsibility of the review:

- How the single Services generate force elements at readiness and the associated manpower requirement (which is being considered by the VFM study into Making Best Use of Service Personnel);
- The department's top level structure and governance (which is being considered by a separate review of how we organise and manage Defence); and
- The pay, expenses and allowances of MOD civil servants (which is being covered separately).

Deliverables and timescales

6. The review should set out the roles civil servants currently play in Defence, including their number, professions, grades and cost, and, in broad terms, how that has changed since the early 1990s. This should include the range and nature of functions already procured from other sources, public, private or third sector.

7. The review should set out, as an input to the Defence Review, strategic options or recommendations for further work on how civilians could be better used in Defence (including the balance between military and civilian posts), on how planned reductions in the number of civilians can most efficiently be achieved, on the scope for further such reductions, and on the costs and benefits which could be expected as a result, including identifying where headcount reductions might result in increased costs to defence.

8. The Review should produce an interim report by 31 March 2010 and a final report by 31 May 2010.

Dependencies

9. The review must be coordinated closely with related work, including the VFM study into 'Making Best Use of Service Personnel', the review of the organisation and management of Defence, and the cross Whitehall work on Smarter Government to reduce the size of the senior civil service. In particular, it will keep closely in touch with each of these studies, on civilianisation, the core business of Defence, and the opportunities for reducing senior management layers respectively. It will also need to be co-ordinated with the Defence Support Review and the broader Civil Service reform agenda.

Governance and study team

10. The review will be led by Gerry Grimstone. He will be supported by a MOD team. He will report to the Permanent Secretary and through him to the Defence Secretary. The day to day interaction with Gerry Grimstone will be through Jon Thompson, DG Finance.

TU Consultation

11. The Trade Unions will be consulted on the terms of reference and throughout the review.

Annex B
Civilians in Defence Interim Report
19 March 2010

MOD CIVILIANS IN DEFENCE BY TOP LEVEL BUDGET

Defence Budgetary Areas	FTE ¹					
Top Level Budgets	Total	Finance	HR ²	Commercial	Estates	Other
Central TLB	16,600	830	1,000	190	360	14,180
Defence Equipment and Support	16,700	1,110	240	1,110	150	14,120
Science Innovation and Technology	400	20	10	10	0	300
Fleet ³	4,600	90	50	20	100	4,360
LAND Forces	16,500	630	240	130	1,370	14,100
Air Command ⁴	8,600	470	140	90	1,350	6,470
CJO	300	50	20	20	10	170
Defence Estates	2,700	110	20	150	1,160	1,230
Unallocated	100	20	~	10	~	100
Top Level Budget Sub Total	64,400	3,320	1,730	1,740	4,510	55,050
Trading Funds						
Defence Scientific and Technology Laboratories	3,500	Information on Job Family groupings is not held for the Trading Funds				
Met Office	1,900					
Hydrographic Office	1,000					
Defence Support Group	3,400					
Other						
Locally Engaged Civilians ⁵	10,500	Information on Job Family groupings is not held for these groups				
Total⁶	86,600					

¹ Figures are indicative as drawn from several data sources but broadly equitable to April 09.

² The HR Job Family includes both Military and Civilian HR.

³ Total includes 2,300 Royal Fleet Auxiliary personnel

⁴ Total includes 1,600 personnel supporting United States Visiting Forces.

⁵ There are four principal locations: Germany (5,600), Cyprus (1,400), Afghanistan (800) and Gibraltar (700)

⁶ Total figures are rounded to the nearest hundred, Job Family figures are rounded to the nearest ten and sub-totals have been rounded separately and so may not equal the sum of their rounded parts.

MOD CIVILIANS IN DEFENCE BY BUSINESS AREA

Organisation / Functional Grouping	FTE ⁷
TRADING FUNDS	
Hydrographic Office	1,000
Met Office	1,900
Defence Scientific and Technology laboratories	3,500
Defence Support Group	3,400
MOD BUSINESS AREAS	
Head Office	1,600
People Pay and Pensions Agency	1,000
Defence Vetting Agency	500
Defence Intelligence Service	1,600
Service Personnel & Veterans Agency	900
Financial Management Shared Services	800
Ministry of Defence Police and Guarding	7,500
Defence Academy	400
Science Innovation and Technology	400
Army Recruiting and Training Division	3,400
Fire and Rescue Service	1,100
Service Children's Education	1,100
Army Personnel Centre	600
Army Primary Healthcare Services	800
RFA	2,300
United States Visiting Forces	1,600
DE&S	
Defence Storage and Distribution Agency	3,100
Joint Support Chain - Other	1,700
3 x Naval Bases	1,200
Corporate Services	4,100
Integrated Project Teams	6,100
DE&S Other	500
Front Line Commands (LAND, AIR, FLEET, PJHQ)	
Corporate Support ⁸	1,900
Administrative Support	7,500
Estates	2,800
Driving	1,100
Storekeeping	1,400
Front line Commands - Other Functions	4,400
Defence Estates	
Defence Estates	2,800
Other	
Locally Employed Civilians	10,500
Miscellaneous	2,100
TOTAL	86,600⁹

⁷ Figures are indicative as drawn from several data sources but broadly equitable to April 09.

⁸ Corporate Support includes personnel employed in HR (Service and Civilian), Finance and Commercial

⁹ Figures are rounded to the nearest hundred, sub-totals have been rounded separately and so may not equal the sum of their rounded parts.