

Defence Reform

An independent report into the structure and
management of the Ministry of Defence

June 2011

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June 2011

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Foreword by Lord Levene

THE LORD LEVENE OF PORTSOKEN K.B.E.



10 June 2011

The Rt Hon Dr Liam Fox MP
Secretary of State for Defence
Ministry of Defence
MoD Main Building
Whitehall
London SW1A 2HB

Dear Secretary of State

In August last year, you asked me to chair the Defence Reform Steering Group. You had assembled a wide range of talent to form the membership of the Group coming from a number of different backgrounds. Some had more experience than others of the MOD and its workings, but as is often the case those who had less experience were often able to bring new ideas to the table from which we benefited considerably.

The work load involved was heavy and demanding, but the members – of whom all but two were unpaid volunteers – worked tirelessly to complete the work, and were refreshingly forthright in expressing their opinions, even when it was clear that such opinions might prove unpopular. I would like to pay tribute to them and thank them for all that they did. As you might expect and indeed might have hoped, we did not all agree on every issue, but disagreements were handled both amicably and courteously.

I had explained at the outset that, based on my previous service in the Department, I felt sure that the heavy volume of support work could be effectively and intelligently handled by MOD staff both military and civilian, and that it should not prove necessary to engage any outside help. The MOD staff fully lived up to my expectations, not only absorbing and refining large volumes of data in a very timely fashion, but also handling with both fortitude and good humour some of the inevitable criticism which was at times directed at them. They equally deserve great credit for enabling us to complete our work.

The timetable which we agreed initially for the work was with the aim to complete it by the end of July. The fact that we were able to do so nearly two months early reflects great credit on all those who worked on it. I hope therefore that this might encourage the Department to carry through the implementation of those recommendations which you accept without the need of outside support.

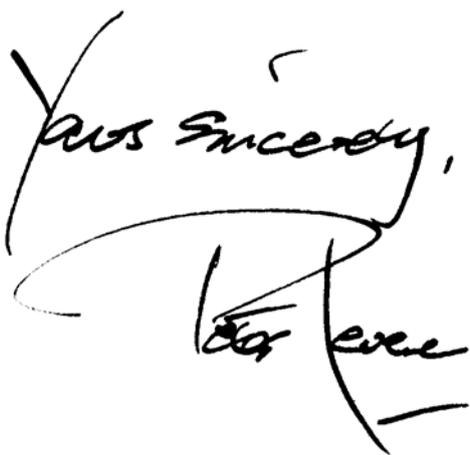
We have addressed some complex and sensitive issues that have potentially significant consequences for the Ministry of Defence and the Armed Forces. In some areas we debated whether our proposals went too far, for example in the balance of work between the Head Office and the Commands. In others we might have gone further, for example we considered whether our proposals for changes to the appointments procedures were radical enough or whether we should recommend a more joint approach to the management of senior personnel. We also recommend further work on the detailed role and responsibilities of the Joint Forces Command. Inevitably there have been some fine judgements. You will wish to consider whether we have struck the right balance.

You will also note that we have recommended that the Department should consider the appointment of the CDM as an Accounting Officer. Although not all of the members of the group feel strongly about this, I hope that you will give it serious consideration.

The difficulties which face you and your colleagues in managing UK Defence are substantial and will require clear decisions and determination to overcome. But the readiness of those whom we met both on the military and civilian sides of the Department to succeed, indicate to me that you have a very strong team who are totally committed to win.

My past experience in the Department left me with an understanding of the unique nature of the Ministry of Defence as a Government Department. The uniqueness comes from the fact that it consists of two parallel groups of servants of The Crown, both made up of able, talented and determined people. What I found was that when they combine together well they are able to achieve some pretty remarkable and successful results. However, what we used to call "creative tension", can sometimes lead to internal disputes with the two groups appearing to be at odds with each other and often under close public scrutiny.

I hope that in some small way this report, which has shown the two groups working together at their best, may reinforce the team spirit under which so much can be achieved and which is needed today more than ever.

Yours Sincerely,


Executive Summary

1. The Defence Secretary launched Defence Reform in August 2010 as a fundamental review of how Defence is structured and managed. It is arguably the first such review since the 1980s. But many of the issues are not new, and have troubled similar reviews over the last century. How centralised or delegated to be? How joint Defence should be? Where the right balance between the military and civilians lies? Some present these issues as choices. We do not advocate such a choice. We believe that an effective MOD is one which builds on the strengths of the individual Services and the Civil Service, and does so within a single Defence framework that ensures the whole is more than the sum of its parts.
2. A key driver for this review has been the Department's over-extended programme, to which the existing departmental management structure and behaviours contributed. Many of our proposals are designed to help prevent the Department from getting into such a poor financial position in the future, and to put it in the position to make real savings. This is not a distraction from providing the military capability the country needs; it is an essential enabler to it. Ultimately, an over-heated programme simply leads to deeper and less coherent cuts.
3. We have made 53 recommendations in total, the key ones of which are to:
 - create a new and smaller Defence Board chaired by the Defence Secretary to strengthen top level decision making;
 - clarify the responsibilities of senior leaders, including the Permanent Secretary and the Chief of the Defence Staff, to strengthen individual accountability;
 - make the Head Office smaller and more strategic, to make high level balance of investment decisions, set strategic direction and a strong corporate framework, and hold to account;
 - focus the Service Chiefs on running their Service and empower them to perform their role effectively, with greater freedom to manage, as part of a much clearer framework of financial accountability and control;
 - strengthen financial and performance management throughout the Department to ensure that future plans are affordable and that everyone owns their share of responsibility for this;
 - create a 4 star-led Joint Forces Command, to strengthen the focus on joint enablers and on joint warfare development;
 - create single, coherent Defence Infrastructure and Defence Business Services organisations, to ensure enabling services are delivered efficiently, effectively and professionally;
 - manage and use senior military and civilian personnel more effectively, with people staying in post for longer, and more transparent and joint career management.

4. These recommendations are only the first step. It is the people in the organisation at all levels who will need to make it work. We therefore conclude with recommendations on implementation and behaviours. Implementation must be driven by Ministers and the senior leadership of the Department. They will need to lead by example by acting in the ways on which the success of the new model depends. Crucially, they must take the tough decisions needed to balance the books, without which this model, or any other, will fail.
5. Taken together, we believe these recommendations, will create a model for running Defence that ensures that the whole is more than the sum of its parts and which has affordability at its core. That is what is needed if we are to have an organisation that is effective and efficient in delivering one of the most important roles in Government.

Introduction

1. In undertaking this fundamental review of how the Ministry of Defence (MOD) is structured and managed, we have been mindful of the sensitivities that, inevitably, are involved in an exercise of this kind. Equally we have been conscious of the need to draw on the expertise that exists within the Department and outside. We have therefore consulted widely before reaching our conclusions. In so doing we have been struck by the level of support for our work. Many regard Defence Reform as a significant opportunity for the MOD. A number of reviews and reforms of the Defence organisation have been undertaken over the years but these have tended to focus on particular areas of Defence business rather than the operating model as a whole. Arguably, there has not been a 'root and branch' review of Defence organisation and management since the work which culminated in *The Central Organisation for Defence* White Paper of 1984, and the *New Management Strategy* which followed, when the institutional, financial and operational context was very different. Many of the individuals to whom we have spoken regard such a review as overdue.
2. In this work we deliberately started with a blank sheet of paper and considered what the fundamental building blocks of Defence are and how they should fit together. The resulting report provides the top level framework for Defence and a clear direction of travel for the detailed work that the Department will now need to conduct. It does not, and did not seek to, answer every question about how Defence works. That approach reflects our remit from the Defence Secretary.
3. For example, in line with our terms of reference, our work has focussed on the organisation of Defence itself, so the report only touches on the MOD's interaction with wider Government, including the National Security Council. We have concentrated on the way Defence is managed, rather than on the command of operations. We have sought to develop a cost-effective model for departmental management, which should enable the Department to make significant reductions in running costs and get greater value for money from its budget. In some areas we have identified specific savings measures, but that has not been our principal objective. To do so would have duplicated work the Department has been doing in the Strategic Defence and Security Review (SDSR) and since, to make the future programme affordable. Instead, our focus has been on designing a model which should help prevent the Department from falling back into such a parlous financial situation in the future. But we are also confident that the sum of our recommendations will result in and enable very substantial savings when implemented.
4. Whilst tackling problems in Defence acquisition must be a high priority, we regard Bernard Gray's appointment as the Chief of Defence Materiel (CDM) as key to reforming this area. We have focussed on the responsibilities, authorities and accountabilities of the Head Office, military users and Defence Equipment and Support (DE&S) - including the CDM himself - in the Department's model for delivering military capability and managing its finances, but we have not sought to duplicate the work Bernard Gray has set in hand on the future functions, structure and size of DE&S, and its relationship with industry. We understand that he will report to Ministers later in the year.
5. In addition, the findings of the review of how the Armed Forces undertake force generation that the Defence Secretary established late last year to run in parallel with Defence Reform will be reported separately.

6. The key issues we raise in the report will be familiar to seasoned observers of the MOD. We have examined many of the same basic organisational questions that Defence has faced since before the creation of a unified department in 1964, and which are also common to Defence organisations overseas. In responding to these questions and to Defence's current challenges, we have developed a model which:
- increases real accountability for delivering Defence outputs within the agreed financial envelope;
 - creates a stronger centre, with a new Board that is better able to take difficult resource allocation decisions and monitor the delivery of outputs;
 - provides a simpler framework that sets out clearly which decisions are best taken in the Head Office and which are best taken in the rest of Defence, but in all cases makes senior individuals responsible for them, gives them the means and incentives to deliver, and holds them robustly to account;
 - establishes much tighter financial management processes to ensure that the need for affordability is recognised and owned at all levels across the Department and the Board has the increased visibility and assurance necessary to ensure financial control, but ends micro-management;
 - balances the strengths of the single Services with the need to build on the joint approach and disentangles Head Office and joint activity through the establishment of a separate Joint Forces Command; and,
 - brings transparency, standardisation and professionalisation to enabling processes, both to enable efficiency and to move towards filling posts with the right individuals, with the right skills, for the right length of time.
7. We wanted to expand here on two particular issues. First, the role of the three single Services. We are in no doubt that they are the rocks on which Defence is built, and important national institutions in their own right. But we believe equally strongly that Defence must continue to take the opportunity a joint approach can offer to enhance operational effectiveness and administrative efficiency. These aims are not contradictory. In our view the Department can deliver a more efficient and effective corporate approach without diluting the strengths of the three Services. Our recommendations will be unwelcome to some. But change is needed, and we are in no doubt that an increasingly unified Defence organisation can be better than the sum of its individual parts provided the Department is clear who is responsible for what; empowers those individuals accordingly; and, above all, robustly holds them to account for their performance.
8. Secondly, there has also been much discussion about whether the model should be centralised or delegated. We do not advocate such a choice. The model we propose involves a strong Head Office to provide strategic direction, make the major balance of investment decisions, set a clear control framework and hold its delivery units to account, and delivery units which have the levers they need to run their business in line with that strategic direction and their budgets. Within that overarching corporate framework, some decisions are best made centrally and others should be devolved, some services are best provided corporately, others are best performed in the delivery units. Each needs to be worked through on its own merits, and this is what we have done.
9. A few points on implementation. First, the recommendations are a package, with mutually reinforcing checks and balances, and must be considered as such. Secondly, if the Defence Secretary agrees the recommendations, we believe that implementation should

start promptly, be properly planned, and proceed at pace; otherwise it will not happen. Thirdly, implementation will need to be properly resourced and policed, to avoid the intent being diluted or deflected. Fourthly, the hardest part of any reform such as this is effecting the changes to behaviour necessary to realise the organisational and process improvements; they will need strong leadership and particular focus in implementation.

10. Finally, no organisational model can work unless its senior leadership takes the tough decisions that reconcile ambition with reality. Some of the perceived problems of the current model are simply symptoms of the friction caused by the lack of such decisions in the past. We have not identified a silver bullet to the financial challenges that Defence faces today. Resolving them means some unavoidably tough choices about priorities. We believe our proposals should provide a better framework to make those decisions. But they will still need to be made. If they are not, this model will fail too.
11. We are conscious that we have undertaken this work against a backdrop of intensive operations in Afghanistan and, lately, in Libya, where our Servicemen and women are doing extraordinary things day in day out. This has served to emphasise the importance of our task. We are in no doubt that the proposals set out in this report provide for a department that will be better placed to serve the Defence Secretary and his successors, and to direct and support those men and women on the front line, now and in the future.

Part 1: Background and approach

- 1.1 This section sets out the background to the review, its aims, the approach we have taken, the key issues we have addressed, and the structure of this report.

Background

- 1.2 For Defence, the key objectives of the Strategic Defence and Security Review (SDSR) in 2010 were to determine the Armed Forces which the UK will need over the next decade and beyond to meet the most likely future threats; and to bring the over-extended Defence programme back into line with resources in the short-term and for the future. However, the Defence Secretary's view was that the SDSR alone would not be enough to resolve the problems facing Defence. His assessment was that the existing departmental management structure was demonstrably not working well, and had contributed to the Department's financial crisis. Therefore, on 13 August 2010, he launched a full and fundamental review of the way Defence is run: Defence Reform.
- 1.3 The Defence Secretary established our steering group, chaired by Lord Levene, drawn primarily from outside the MOD, to direct and oversee the review. This reflected his view that a challenge to in-house thinking was necessary and that experience of other major organisational reform across the public and private sectors would be useful. The 2nd Permanent Secretary (2nd PUS) and Vice Chief of the Defence Staff (VCDS) sat on the steering group to provide defence expertise and a departmental perspective. The full membership and terms of reference of the steering group are set out at Annex A. The detailed work in support of the review has been led by a small team of MOD civil servants and military officers.

Aims and scope of Defence Reform

- 1.4 The terms of reference set out our aim as being to:

conduct a fundamental review of how the MOD is structured and managed, in order to design a model for departmental management which is simpler and more cost-effective, with clear allocation of responsibility, authority and accountability.
- 1.5 In answering this remit, we have produced what we believe to be a coherent package of proposals covering the major areas of Defence. Taken together, as they should be, they provide for a new high level operating model for Defence. We have deliberately tried to avoid being overly detailed and prescriptive. It has not been our intention to produce a detailed blueprint for the whole of the Defence organisation. Senior leaders across Defence must take ownership of these proposals themselves and work through the detailed practical implications.

Approach

- 1.6 We consulted widely to understand the challenges Defence faces and in developing our response to them. A summary of those outside the Department we consulted is at Annex B. We are very grateful to everyone who gave us their time.
- 1.7 We started by considering the purpose of the MOD, on the basis that form should follow function. We looked at how the organisation of the MOD has developed over the past century and why. We then analysed the strengths and weaknesses of the current model, the problems it faces and their underlying causes. We also looked at what lessons could be drawn from other organisations within the Defence, public and private sectors. We then developed a range of options to address the problems and best deliver the Department's purpose, before deciding on the recommendations that follow. Finally, we looked at the lessons to be learned from past efforts to reform the MOD, and have drawn on those lessons in our recommendations on implementation.
- 1.8 On the MOD's purpose, our starting points were the Government's *National Security Strategy*, *Strategic Defence and Security Review* and *Comprehensive Spending Review*, all published in October 2010, shortly after our review started. Between them, they set out the basic purpose of Defence, the military tasks the Government may ask the Armed Forces to undertake, and the financial envelope within which Defence must work.

Key issues in Defence organisation and management

- 1.9 We looked at how the organisation of Defence in the UK has developed over the last century. As we set out in the Introduction, many of the issues dealt with by our predecessors are familiar today, most notably the question of how best to manage the Services within a single Defence framework. Within that, recurring issues over the years have been:
 - how far Defence management should be centralised or delegated, and in particular, the relationship between the centre of the Department, the single Services and other delivery business units;
 - how far – and where – the delivery of military and supporting capabilities should be done on a single or tri-Service / 'joint' basis;
 - the balance between ministerial / civilian and military roles and authority;
 - how to ensure clear lines of responsibility and accountability given the complex, interconnected nature of Defence activity and outputs;
 - the challenge of reconciling ambition with resource; and,
 - how far enabling functions should be delivered in-house or by other parts of the public sector or private sector.
- 1.10 Our benchmarking with other organisations confirmed that any large, complex organisation must manage many of these issues, although some have a particular Defence flavour and are also common to Defence organisations overseas. Organisations have

responded in a variety of ways: it was clear that there is no single perfect answer for all circumstances.

- 1.11 In the UK, these questions lay behind the formation of a Committee of Imperial Defence in 1904 to organise Britain's defence and military preparations. They have vexed Government ever since, through the Churchill reforms after the Second World War, the Mountbatten and Ismay / Jacob proposals that led to the creation of the unified MOD in 1964, the Heseltine reforms of the mid 1980s and the *New Management Strategy* that followed, and the various reforms of the 1990s and 2000s.
- 1.12 We have been very conscious of this history, and have drawn two conclusions from it. First, the historic record shows there is no single right answer. Our predecessors found the solution that worked for their time. Our successors will no doubt face many of the same questions in the future. We have sought to find the right solution for the particular set of challenges faced by Defence today; and also to recognise that those challenges will change, and the model needs to be lean and agile such that it can continually improve and adapt to changing circumstances.
- 1.13 Secondly, the success or failure of any model depends on the people within the organisation – and particularly its leaders. We are conscious that people, cultural and behavioural issues are as important, if not more important, than structures. This is reflected in the prominence of 'people' issues throughout the report, and in particular our recommendation that the Department should afford greater priority to managing human capability as a strategic resource. More fundamentally, it lies behind many of the recommendations on structures and processes, where we have sought to design a model that builds on the strong cultures and loyalties within Defence and that gets the right incentives and behaviours in the right places. But the model is only the start. It is the people in the organisation, at all levels, who will need to make it work.
- 1.14 In looking at how the organisation currently works, we found that it was complex and difficult to understand, partly by necessity, but also partly by design. We believe this complexity is both a symptom and a cause of the current problems. In our work we have sought wherever possible to simplify. To that end, we developed our own understanding of the core functions of Defence, to determine how best the organisation should align with them. We believe these functions to be to 'direct', 'develop and generate', 'acquire', 'operate', 'enable' and 'account'. We have tried to be clear about who is responsible for each. This is set out in more detail in Part 3.
- 1.15 Finally, though we are clear that the way Defence is structured and managed needs to change, we have been conscious of the lessons set out in Mr Charles Haddon-Cave QC's *Nimrod Review* report of 2009. The Department has legal and health and safety obligations it must meet. Major change has risks; so we set ourselves a high hurdle before recommending any. Those risks will then need to be managed carefully in implementation.

Structure of report

- 1.16 The remainder of the report is structured as follows:
 - Part 2 summarises the main organisational problems of the current model and what we believe has caused them, as well as the strengths we have sought to preserve and build on;

- Part 3 sets out the core functions we believe Defence needs to perform and summarises the overall model we propose to perform those functions;
- Parts 4 – 13 set out the detail of these recommendations, together with their supporting logic; and,
- Part 14 sets out some consideration of and recommendations on how Defence Reform should be implemented.

Part 2: Understanding the problem

- 2.1 This section sets out a summary of the main problems of the current model and what we believe has caused them, as well as the strengths we have sought to preserve and build on.
- 2.2 Our analysis built on past reviews of Defence, international and other public and private sector comparators, discussions with senior military and civilian personnel, and detailed studies we have led or which have been undertaken by senior departmental experts on our behalf.

Key problems

- 2.3 Clearly, each of the main organisations, functions and processes in Defence will face its own particular challenges, but our analysis has identified a number of problems arising from a range of causes:
 - an inability to take tough, timely decisions in the Defence interest, particularly those necessary to ensure financial control and an affordable Defence programme, reflecting:
 - the political pain of taking such decisions and the lack of immediate consequences of deferring them;
 - the ‘conspiracy of optimism’ between industry, the military, officials and Ministers;
 - an institutional focus on short-term affordability at the expense of longer-term planning;
 - a lack of clarity over who is responsible and accountable for taking decisions and an emphasis instead on reaching decisions by consensus in committees to achieve coherence across Defence, which can let the best be the enemy of the good;
 - weaknesses in the management information and evidence-based analysis that supports decision-making, which can allow advocacy to have greater weight in decision-making than it should;
 - that finance, and the need for affordability, are not regarded as sufficiently important throughout the organisation; and,
 - insufficient skills in key areas and a lack of financial rigour throughout the organisation.
 - weaknesses in the Department’s ability to think strategically, and to contribute coherently and effectively to the Government’s strategies for influence overseas, and over the balance between policy and military advice in relation to strategy and operations, reflecting:

- the absence of a shared understanding of the roles and responsibilities of the Department of State and Strategic Military Headquarters within Head Office in relation to political / military strategies and the conduct of operations; and,
 - shortcomings in the skills and training of Service personnel and civilians performing these functions.
- delivery arms which are disempowered and have their inputs micro-managed by the Head Office, but are not held to account for their outputs, reflecting:
 - the challenges of managing an overheated Defence programme;
 - a corporate framework of delegated responsibilities and authorities which has evolved organically and unsystematically over time, rather than by deliberate design;
 - on the part of the Services, insufficient influence over some of the key elements of military capability;
 - a lack of transparent, trusted and shared management information which prevents proper assurance and encourages micro management; and,
 - a lack of the right structures and processes, and the will to hold delivery arms rigorously to account.
- concerns over the profile and priority given to joint enabling military capabilities within Defence, reflecting:
 - the tendency of the single Services to favour capabilities they consider to be core to their outputs, particularly in resource allocation decisions; and,
 - the fragmented way in which joint capabilities are currently organised and managed, a legacy of the joint approach having developed on a case-by- case basis over time, rather than on the basis of an overall vision or design.
- continuing inefficiency in the current model, reflecting:
 - a predisposition to over-complicate, partly to satisfy a range of stakeholders;
 - a culture of re-inventing the wheel and developing bespoke solutions, rather than standardising;
 - some fragmented structures and processes, with too many interfaces and similar functions performed in several organisations; and,
 - duplication and man-marking because of a lack of trust across the organisation.
- concerns over whether Defence makes the most effective use of Service and civilian manpower, reflecting:
 - a tendency to use Service personnel to fill roles that could more cost effectively be filled by civil servants or contractors;
 - perceived flaws in the career management, promotion and appointing systems, including the perception that these incentivise single Service officers in certain areas to put the interests of their Service over Defence as a whole;
 - a lack of professional skills in key areas; and,
 - a culture where people move too quickly from one post to another.

Key strengths

- 2.4 On the other hand, it is equally clear that some aspects of Defence work well and are widely respected. Since the 1998 Strategic Defence Review the MOD and Armed Forces have achieved a great deal in difficult circumstances. While sustaining the highest level of operational activity since the Second World War, the MOD has delivered at least £5 billion of efficiencies since 2004, reducing the civilian workforce by 45,000 and the Armed Forces by 22,000.
- 2.5 Our engagement with senior representatives of other ministries of defence was very useful in this regard. It both highlighted aspects of the way the UK MOD is run which allies view positively and are looking to adopt in their own organisations and also produced some interesting ideas and lessons which we considered in the UK context.
- 2.6 Drawing on this and our own analysis, we concluded that the MOD's particular strengths include:
- the level of integration between MOD civilians and Service personnel across the organisation, including in Head Office;
 - a new joint generation of officers who have primarily trained and operated in a joint environment, and have a more joint outlook than their predecessors;
 - its focus on delivering Defence outputs, including in very challenging operational and financial circumstances, drawing on very strong single Service loyalties and high levels of commitment to the organisation amongst civilian staff; and,
 - the model for conducting operations overseas, centred on the Permanent Joint Headquarters (PJHQ), which is widely admired internationally.

Conclusion

- 2.7 Overall, our analysis and consultation has highlighted that there is a good deal of agreement within the Department over the flaws in the way Defence is currently structured and managed, and, encouragingly, an appetite for constructive reform. We have therefore not held back from recommending bold proposals where we judge them to be both necessary and viable, and where they clear the high hurdle for major change we touched on in paragraph 1.15.

Part 3: Functions of Defence and organisational framework

3.1 This section sets out the core functions we concluded MOD needs to perform and summarises the overall model we propose to discharge those functions.

Core functions of Defence

3.2 To meet its basic purpose of defending the UK and its Overseas Territories, citizens and interests, Defence must discharge a number of core functions within an agreed financial envelope. At present, these are articulated in a number of different ways in different MOD documents. We have developed a consolidated and revised summary of the functions which is clearer, improves understanding and provides a better framework for organisational improvement. In our view, the core functions of Defence are to:

- **Direct** - understand the strategic context, make Defence policy and strategy, define and resource the necessary military capability and strategically direct operations and Defence Diplomacy;
- **Generate and Develop** – generate force elements to meet current operations and potential military tasks and develop the future force; a key enabler of which is to:
- **Acquire** – procure and support the equipment, systems and commodities needed in the short and long term;
- **Enable** – enable the other functions by performing or commissioning supporting services, such as infrastructure, corporate services and science and technology;
- **Operate** - use military capability on operations and other military tasks, as directed by Government; and,
- **Account** - manage, control and account for the resources voted by Parliament, and report on Defence activities to Parliament and the public.

3.3 Any effective operating model for Defence must set out clearly who is responsible for each of these functions, give them the authority and resources to discharge them and set out how they relate to each other and how they will be held to account for their performance. Doing so would significantly simplify the current position.

3.4 The model we propose is informed by our view that responsibility and accountability are not sufficiently aligned in the current model. In it, the Head Office delegates budgets to the single Services but continues to manage the tactical detail of how these are spent, including at Defence Board level. This micro-management makes it hard for the Head Office to hold the Top Level Budget (TLB) holders to account, and has come at the cost of the Head Office prioritising and sequencing activity at the strategic level, and translating those decisions into the financial programme.

3.5 Furthermore, the single Services do not have all the levers they require to deliver what is asked of them. Most notably, budgetary responsibility for planning new equipment

is not delegated to the Services but is managed by the 'capability sponsor' within the Head Office. While the single Services have a powerful voice within this team and are in effect responsible for setting many of the requirements, they do not own the resource implications of the demands they make. There is no incentive on, or effective mechanisms for, them to balance between their demands for equipment capability or against the areas of spend currently delegated to them (including manpower and training).

- 3.6 We therefore propose to establish a stronger and more strategic but considerably smaller Head Office responsible, among other things, for making strategic balance of investment decisions, to align accountability and authority in the Commands, and to strengthen financial management throughout the system. This should provide the basis for better, more coherent planning, a greater responsibility throughout the system to focus on affordability, and more scope to achieve it. It will also create a more robust framework for delivering scrutiny and assurance and therefore holding to account. In our model the core functions will then be carried out as set out below.

Proposed operating model

- 3.7 The **direct** function should be led by Ministers, through the Permanent Secretary (PUS) and the Chief of the Defence Staff (CDS), supported by a smaller, integrated civilian-military Head Office. They should discharge this function primarily through a smaller Defence Board, chaired by the Defence Secretary, which focuses on taking tough prioritisation decisions. As part of the quinquennial SDSR, they should set strategic direction on the military capabilities the country needs and on the types of operations the Armed Forces should undertake, and provide the overall corporate framework.
- 3.8 The Royal Navy, Army, and Royal Air Force remain the fundamental building blocks of Defence. The Service Chiefs should be responsible for **generating and developing** their Service in line with that strategic direction and within the budget set. We believe that the Service Chiefs cannot be held wholly accountable for delivering military capability if they are not given more control over the levers they need to do so. We are therefore recommending that the Command TLBs should be made accountable, through the Chiefs, for planned and in-service equipment and support across all years within a clear control framework. This represents a significant shift. Furthermore, we recommend that the Chiefs should be given greater freedom, within this framework, to prioritise within their budgets. Each Command would balance spend between different capability areas (including between manpower, equipment and training), to propose a detailed and affordable plan which delivered the outputs required of it by Head Office. Following approval of the Command Plans they would set the equipment requirement and budget for DE&S. They would provide force elements as required to the Permanent Joint Headquarters (PJHQ).
- 3.9 Some enabling military capabilities are best delivered jointly. To provide a more effective vehicle for organising, commanding and championing some of these capabilities, we propose setting up a Joint Forces Command (JFC) to:
- generate and develop certain joint enabling capabilities;
 - take ownership of crucial operational enablers such as Defence intelligence assets to ensure that cross-cutting capabilities are properly prioritised and resourced, alongside single Service core capabilities; and,

- champion and integrate enablers remaining within the single Services.

3.10 The Chief of Defence Materiel and DE&S would be responsible for **acquiring**, (procuring and supporting) equipment, systems and commodities, in line with the requirement and budget set by the three single Services and the JFC. DE&S will provide robust costing for the Commands on the equipment and support elements of their Command Plans, and confirm that they are deliverable. CDM should therefore be held to account by Command TLB customers for delivering their requirements to time and within budget, as well as quarterly by PUS for the delivery of agreed equipment and support outputs and the efficient and effective management of DE&S.

3.11 The 2nd PUS should oversee the **enable** function, including science and technology and the corporate enabling functions performed by the new Defence Business Services organisation (DBS) and Defence Infrastructure Organisation (DIO), which will deliver services more efficiently, more professionally and on a pan-Defence basis, rather than several times over in the TLBs.

3.12 Under the direction of Ministers and CDS, the **operate** function is centred on the PJHQ, which exercises operational command of forces generated by the single Services and JFC when they are deployed on joint military operations overseas. In principle, and to simplify roles, PJHQ should be responsible for all military operations. The Department should consider whether those operations not currently run by PJHQ should transfer to it. PJHQ would sit as part of the JFC, although on operational matters the Chief of Joint Operations would continue to report directly to CDS.

3.13 As departmental Accounting Officer, PUS also heads the **account** function, covering the full range of Defence activities and expenditure. The PUS is personally accountable to Parliament for the proper use of the resources voted to Defence, and in this task is supported by the Director General Finance and also the commercial and scrutiny functions. We recommend the Department consider whether making the CDM an Additional Accounting Officer for expenditure on equipment and support would usefully further strengthen his authority, in a way that would support, not undermine, the PUS's overall responsibility for the Department. The PUS also supports Ministers in reporting on Defence activities to Parliament, and in answering parliamentary questions, freedom of information requests, public correspondence and media enquires.

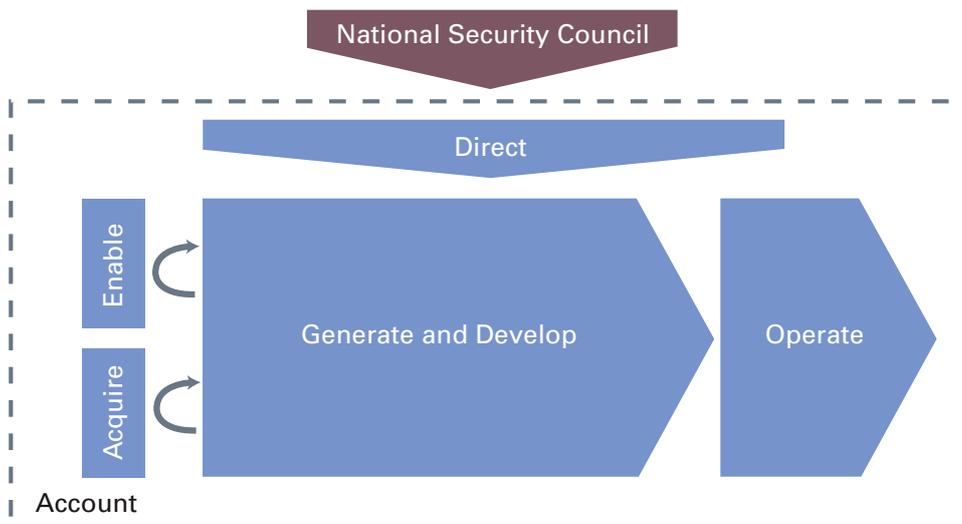


Figure 1 – Core functions in Defence

- 3.14 The model depends on a strong corporate framework of financial management, performance management and people management. Financial and performance management should be strengthened throughout the Department, in terms of skills, systems and culture. A new appointments sub-committee of the Defence Board will oversee the introduction of a new career management model for very senior personnel, focused on getting the right people, with the right skills, into the key posts and keeping them there for longer. This strengthened corporate framework is a critical counterpart to the devolution of more responsibility to the TLBs. It must not translate into micro management.
- 3.15 The organisational framework and the key interactions between the organisations are shown in the diagram at Annex D. The responsibilities and accountabilities of the top posts are shown at Annex E.
- 3.16 Parts 4 to 13 provide further detail on these core judgements, the specific proposals that flow from them, and the logic behind those proposals. A full list of the recommendations is set out at Annex C.
- 3.17 The design of the future Defence operating model only takes the Department part of the way towards the organisation it needs. How our proposals are implemented, and how change is led will be crucial. As Annex G sets out, the Department's record on implementing major reforms is mixed; it has tended to water down recommendations, or to ignore more radical proposals. It is therefore crucial that the further work the Department must undertake to develop and implement our package of proposals is coordinated and driven from the very top. Our specific recommendations on how to ensure this happens in the way we intend are set out in Part 14 of this report.

Part 4: Top-level decision making in Defence

Key recommendation 1. Strengthened top-level decision-making should be centred on a new and smaller Defence Board chaired by the Defence Secretary, with another Minister, the PUS, CDS, DG Finance, Chief of Defence Materiel and three Non-Executive Directors as members, responsible for providing strategic direction to the Department and holding it to account. The Department should place an emphasis on individual executive accountability, with the formal committee structure reduced and simplified.

- a. The new Defence Board should be the primary decision-making body for non operational matters. It should meet ten times a year. It should subsume the functions of the current Defence Board.
- b. Formal sub-committees to the new Defence Board should be established to conduct investment approvals (Investment Approvals Committee), audit (Defence Audit Committee) and to oversee the career management system for senior civilians and military officers (Appointments Committee).

4.1 This section sets out the changes we are proposing to the top level decision-making mechanisms, and particularly to the Defence Board and other senior committees.

The Defence Board

4.2 Under the current model, the departmental machinery for top-level decision-making and direction is based around the Defence Secretary (who periodically convenes groups of senior officials to advise him); the Defence Board, the senior non-Ministerial executive body, chaired by PUS; and the Chiefs of Staff (COS) Committee, through which CDS obtains the collective military advice of the Service Chiefs, including on the conduct of military operations.

4.3 Leaving aside operational decision-making, and the establishment last year of the National Security Council, we believe that there is considerable scope for improving the effectiveness of this departmental machinery. Although identified as a weakness in previous reviews of Defence organisation, Ministers are still involved in the decision-making process at too late a stage, and in an ad hoc way. This is not a flaw unique to Defence; the Cabinet Office's recent instructions to all Departments on establishing main boards under the chairmanship of a lead Minister are in part designed to address the same basic issue. Below Ministerial level, the Defence Board is widely regarded as ill-constituted to take tough, timely decisions in the Defence interest. More generally our analysis suggests that the Department does too much business by committee in a way that confuses accountability, results in slow and lowest common denominator decisions, and generates unnecessary work.

4.4 To address these issues, we recommend a strengthened model for top-level decision-making and direction centred on a **new Defence Board**, based around the Defence

Secretary, who would chair and remain individually accountable for decisions, and the PUS and CDS. To ensure the Board is as effective a body for governing Defence as possible, we advise that the Board should be slimmed down, but still able to cover the range of Defence activity and the key challenges the Department is facing. We recommend a membership of:

- Defence Secretary (Chair);
- An additional Minister;
- Permanent Secretary;
- Chief of the Defence Staff;
- Director General Finance - reflecting his role as the principal financial adviser;
- Chief of Defence Materiel - reflecting his responsibility for a major part of the Department's business, and the immediate priority of ensuring that the equipment and support programme is affordable and deliverable; and,
- Three Non-Executive Directors (NED), one of whom would act as the lead NED (as defined in Cabinet Office guidance), one of whom would chair the departmental Audit Committee under the Board and a third who would chair the Appointments Committee.

4.5 To genuinely govern Defence, the new Board would need to meet frequently (ten times a year), and cover the departmental strategy and business plan; financial management, including the allocation of resources, financial controls and risk; the approval of major investment proposals, and periodic performance monitoring. The new Board would not cover policy or operations, and although it could call senior leaders to account this would not obviate the need for PUS as Accounting Officer to hold TLB holders to account. In effect, the Board would subsume the functions currently performed by ad hoc Ministerial groups and much of that covered by the existing non-Ministerial Defence Board.

4.6 Looking more broadly, corporate decision-making should also be strengthened in three further ways. First, through greater clarity over the responsibilities and accountabilities of the senior leaders in Defence – we will return to this in parts 5 and 7. Second, the Department should move away from its current culture of consensual, committee-based decision-making and should instead move to a system under which senior individuals are empowered to take personal responsibility for achieving their objectives and are held rigorously to account for their performance. It should create committees only where absolutely necessary to support effective decision-making. Third, the Department should make increased use of evidence in decision-making, with improved analysis and management information clarifying the choices available to decision makers and setting out the costs and benefits of each option.

Sub committees

4.7 In light of this, we believe that the formal committee structure that supports the new Defence Board and the management of Defence should be minimised. In doing so, the Department should seek to generate a cultural shift. We propose three criteria to guide judgements on when a committee may need to be established (and where they are, their membership should reflect the functions they are intended to perform):

- where there is no single individual who can be reasonably held accountable for a

decision, so a collective view is required;

- where there is a single individual who is clearly accountable for the decision but where consultation should be formalised; and,
- where there is an external requirement.

4.8 We have drawn on these criteria to develop a proposed subordinate committee structure. An **Investment Approvals Committee** would meet the first criterion, and could act on the Board's behalf to reduce the volume of work it would otherwise have to cover itself. An **Audit Committee**, chaired by one of the Defence Board's NEDs, is mandated by the Cabinet Office's Corporate Governance Code. The Code also mandates a committee to cover issues such as succession planning and senior appointments. In the Defence context, we also see merit in creating a new **Appointments Committee** to the Board, again chaired by one of the Defence Board's NEDs, so that 'people' issues at the senior levels of Defence benefit from a collective civilian and military view. This committee would provide oversight of career management systems for senior military officers and senior civil servants. This structure is set out below.

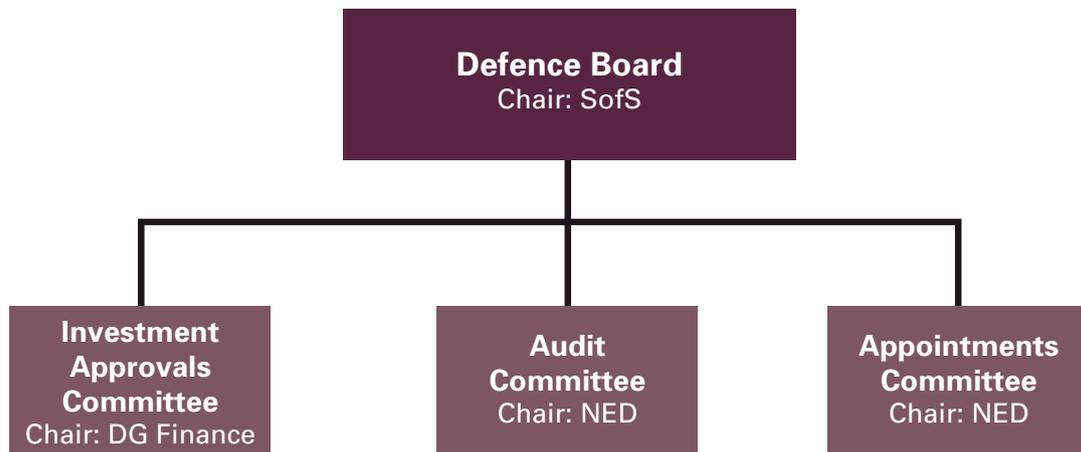


Figure 2 – The Defence Board and subordinate committees

4.9 With the exception of the Chiefs of Staff Committee under the CDS and a proposed CDS / PUS chaired strategy group, which we cover in Part 5 below, the remainder of business should be the responsibility of individual executives, who are empowered to take (or advise Ministers on) decisions without having to go through a formal committee. This does not mean that meetings will cease: clearly executives will need regularly to gather key people from across Defence together to ensure such decisions are properly informed. But exactly how and when they do that should be their responsibility, rather than something required by the Department's operating model.

Defence Council

4.10 We have also considered the scope for aligning the new Defence Board with the Defence Council, which is chaired by the Defence Secretary and provides the formal legal basis

for the conduct of Defence. Over recent years, membership of the Defence Council has reflected that of the Defence Board (plus Ministers and less non-executives). To avoid any confusion over respective role or accountabilities we recommend that this practice continues and that membership of the Defence Council be updated to reflect our recommendations. We recognise that there are some complex legal issues involved in this and that the Department would want to study them carefully. The Service Boards are discussed further in Part 7.

Part 5: Roles and responsibilities of Ministers, PUS and CDS

Key recommendation 2. The number and responsibilities of **MOD Ministers** should be reviewed to align with the new model.

Key recommendation 3. The **Permanent Secretary and Chief of Defence Staff** should continue jointly to lead Defence, but with their roles and responsibilities clarified. PUS's responsibilities include ensuring that the Defence Programme is affordable. As well as being responsible for the conduct of operations, CDS should represent the views of the Armed Forces on the new Board.

- a. PUS and CDS should be jointly responsible for strategy and should chair a new 'strategy' group to support them in delivering this function.
- b. CDS should continue to convene a Chiefs of Staff Committee meeting in 'operations' mode to support him in his operational responsibilities. He should also convene a Chiefs of Staff Committee meeting in 'Armed Forces' mode to inform but not constrain his contribution on the new Defence Board.

5.1 This section sets out our proposals on the responsibilities and accountabilities of the most senior leaders in Defence: Ministers and PUS and CDS, the Defence Secretary's principal advisers. Our analysis and consultation has led us to three main conclusions.

Ministers

5.2 First, that the number of Ministers and their responsibilities does not enable focussed Ministerial oversight of the core departmental functions. There is often a lack of clarity over which Minister is taking the lead on particular issues. As part of our overall proposal for greater alignment of responsibility and accountability we recommend that the Defence Secretary considers redrawing Ministerial responsibilities to ensure that the Ministerial team maps on to the new model and, in light of recent increases in the number of Ministers, whether that number is still appropriate. Additionally, while we recognise that Ministerial appointments are the gift of the Prime Minister of the day, our comments in Part 13 on the importance of increasing the length of tenure of senior military and civilian staff apply equally to Ministerial appointments.

PUS and CDS

5.3 Second, it has confirmed that the most efficient and effective model for running Defence and taking decisions immediately beneath the Ministerial level continues to be one in

which the PUS and CDS work together in an integrated Head Office of civilian and military staff, functioning as both the centre of the Department of State and a Strategic Military Headquarters. The allies we have consulted consider this to be a major strength of the UK Defence operating model, and the direction of reform in the French and German Ministries of Defence is towards a more integrated centre. We support that view. We have considered the alternative of organisationally separating the Department of State and the Armed Forces, but we do not recommend it. Separation would create clearer roles, but would introduce extra interfaces and risk incoherence and conflict between the two. Further detail on the proposed functions and structure of an integrated Head Office, and how it should be run, is set out in Part 6 of this report.

- 5.4 However, our third conclusion is that there is scope to clarify PUS's and CDS's respective roles and responsibilities, including the areas in which PUS or CDS has the lead responsibility. In some respects, what is needed is a re-stating of their existing executive responsibilities, which are not well or widely understood throughout Defence. We believe that the default to decision-making by consensus and through committees has tended to obscure, for example, the significant range of responsibilities of the Accounting Officer and the authority the PUS has in that role. In other respects, though, we believe that adjustments to PUS's and CDS's responsibilities, and how they are discharged, are needed if they are to have the authority they need to run Defence more effectively. Our proposed summary of the primary responsibilities and accountabilities of the PUS and CDS (together with those of the other top posts in Defence) is set out at Annex E to the report, but we would highlight the following:
- a. In addition to her traditional Department of State lead on policy advice, PUS is responsible for the formulation and oversight of the Defence programme, where the Department's strategy, available resources and ability to deliver come together. Clearly, this is a key responsibility as the Department seeks to tackle the most significant and pressing managerial problem it faces: bringing and keeping the Defence programme back in line with resources;
 - b. CDS's role as the principal military adviser will be clarified and strengthened by his membership of the new Defence Board and attendance at the National Security Council. CDS alone will be responsible for representing the military voice. Together with the proposed changes to the Service Chiefs' roles set out in Part 7, this will reinforce and clarify the existing military hierarchy, where we would expect the Service Chiefs generally to provide advice to the Defence Secretary – and now the new Board – through the CDS. This change would not, however, affect the accountability of the Service Chiefs to PUS, in their role as Top Level Budget holders, and to the Defence Secretary for the health of their Service.
 - c. PUS and CDS both have important roles to play in developing strategy on behalf of the Defence Secretary, and CDS has a particular focus on the development of military strategy as the Strategic Military Commander.
- 5.5 Guided by our second criterion for the establishment of committees in Part 4, we have also considered whether there are decisions and functions for which PUS and CDS are accountable, but where consultation should be formalised in order for the operating model to function effectively. Our conclusions were that:
- the CDS should continue to convene a Chiefs of Staff Committee to take the military advice of the Service Chiefs on operational matters, including the operational employment of their Service. The CDS should also convene a Chiefs of Staff Armed Forces committee, both to enable and require CDS to understand

the Service Chiefs' views on non-operational matters, before attending the new Defence Board. These discussions should inform but not constrain his contribution on the Board; and,

- we recommend that PUS and CDS establish a strategy group, to enhance senior focus on this issue. It should consider how Defence can most usefully engage in the world to deliver foreign and security policy objectives, and should both inform and be informed by the National Security Strategy.

Part 6: Head Office

Key recommendation 4: The **Head Office** performs a vital role in Defence, supporting PUS, CDS and Ministers. It should be clear on what that role is, have the people and skills to do it properly, and resist the temptation to do more. Our view is that the role needs to be more strategic than now, and as a result (and as a crucial enabler to this) the Head Office should be considerably smaller. This applies to the top structure as much as the rest.

- a. Given the challenges facing Defence today, the 2nd PUS and VCDS posts should be retained, to allow PUS and CDS to focus on the highest priority tasks, and their roles should be clarified. VCDS should support CDS in his increased role as the single military adviser on the Defence Board. 2nd PUS should lead the 'enable' function and act as head of profession for MOD civil servants. Together they should drive Transformation.
- b. The 3 star / Director General (DG) structure should be revised to reflect the new model. At its core should be four posts leading the policy, military strategy, finance and military capability functions. This should enable the reduction of at least one 3 star / DG post. The Chief Scientific Adviser should become a 3 star. The Head Office DG Commercial post has lapsed. The Department should consider whether the Chief of Defence Intelligence and DG Human Resources and Corporate Service posts continue to merit a 3 star given the changes to their responsibilities.
- c. The Department should take stock of progress in implementation in two years' time, and consider whether the proposed role and structure of the Head Office, including the requirement, role and seniority of the 2nd PUS and VCDS remain valid.

6.1 This section sets out our views on the role and function of the Head Office, how they would change in the new model, and the implications for its top structure.

Role and function of head office

6.2 The role of the Head Office is to support Defence Ministers, PUS and CDS in discharging their duties. As set out in Part 5, we recommend continuing with an integrated Head Office, rather than separating out the functions which support PUS and CDS in separate headquarters. We believe this is a more efficient way to do business and delivers stronger, more effective advice to Ministers. This feature of the organisation is also internationally admired and respected. We therefore recommend that the Head Office continues to focus on its core functions of:

- advising Government and accountability to Parliament;
- making policy and setting Defence strategy;
- planning and resource allocation;

- management of Defence (performance management and assurance); and,
- strategic direction of military operations.

6.3 However, our model relies on a head office that is smaller, stronger and more strategic. It should be focused on developing an affordable departmental strategy, setting a strong corporate framework and holding the TLBs robustly to account, as well as on the strategic command of operations. Its focus must be firmly at the strategic level. If the Head Office micro-manages the business of the Commands as it has in the past, it will undermine the ownership (and accountability) of the Chiefs which is so critical to the success of our model. It will also come at the cost of providing genuine strategic direction.

National security and Defence strategies

6.4 A key role for the Head Office is to assist Ministers, PUS and CDS in setting the direction for the Department and the Armed Forces. It supports PUS as the lead on policy advice and CDS as strategic military commander. We welcome the Government's commitment to publish a National Security Strategy (NSS) and conduct a Strategic Defence and Security Review (SDSR) each Parliament. This will need to be the focus for strategy making in Defence. The NSS and SDSR should be the means by which the Government determines the high level direction on the tasks the Armed Forces should undertake and plan for now and in the future.

6.5 The Head Office should lead this cross-Government process for the Department. Its role should be both to inform the formulation of the National Security Strategy and to ensure that Defence plans and uses the Armed Forces most effectively to deliver its objectives. To this end, the Head Office should produce a Defence Strategy with the same frequency. This should be the single authoritative means of setting direction to the Department. It should be developed, agreed and managed by the Defence Board.

Defence engagement

6.6 We have heard concerns over the coherence and prioritisation of Defence Diplomacy and 'soft power' influence activities in support of policy priorities. The National Security Strategy and SDSR indicate that this is an increasingly important area of business. The Head Office should better co-ordinate and prioritise all international engagement and Defence Diplomacy activity. We understand the Department is developing a Defence engagement strategy together with the Foreign and Commonwealth Office, which should achieve this. It should corral all the levers available to Defence to deliver the relevant National Security Strategy objectives, including exports, senior visits, capacity building, maritime deployments, military exercises (where a balance will need to be struck between Defence Diplomacy requirements, the need for effective training, and the need to best utilise Defence assets) and Defence Attaché business. It should prioritise their application, and be authoritative across the Department, forming a core part of the Defence Strategy. The Defence Board will want to monitor the implementation of this strategy as one of its strategic objectives. It should be owned and managed on a day to day basis jointly by the DG Security Policy and Deputy Chief of Defence Staff (DCDS) Operations and be executed variously by the Commands, PJHQ and directorates within the Head Office. This strategy will start to address the concern about the Department's capability and capacity to think strategically and to take a long term view.

Planning and resource allocation

- 6.7 A more fundamental concern has been the MOD's inability to reconcile ambition with resources. To support PUS in her role as Accounting Officer, the Head Office has a major role to play in planning and resource allocation and the management of Defence. The development of strategy and plans must be an iterative process with the Defence Board (including the DG Finance) playing a critical role. As set out in Part 8, the Board's role in this context should be to set the high level capability requirements and priorities for the Commands and to weigh up which policy ambitions should be funded (and which should not). To support the Defence Board in this task, we recommend a team (or teams) within Head Office should be established to perform the following functions:
- conduct strategic force development to determine high level capability requirements as the basis for Commands to develop their plans;
 - provide a scrutiny and challenge function on proposed Command Plans to meet these requirements;
 - package options to the Defence Board to support their strategic balance of investment decisions;
 - agree and allocate budgets and responsibilities to delivery organisations (including mandating the corporate framework);
 - support PUS in tracking delivery against those plans; and,
 - ensure the overall plan is affordable.
- 6.8 This team should be significantly smaller than the current equivalents spread across the capability, Strategy and Finance areas. It will, however, need to surge in the year before and after the quinquennial SDSRs, with staff temporarily transferred from other tasks. Much of the current DCDS Capability function should transfer to the relevant Command.

Corporate framework

- 6.9 The model fundamentally relies on a strong corporate framework set by the Head Office with which the TLBs must comply. While we are seeking to encourage the Commands to optimise within their delegations, we note that there are some policies and processes which must apply consistently throughout the organisation (for example on information, financial management, terms and conditions of service, safety etc). The setting of those processes should primarily fall to the Head Office. To formalise this corporate framework and strengthen the mandate on TLB holders to comply, we recommend that 'Process Owners' set their requirements as part of the initial Command Plan negotiations and TLBs are then held to account for delivering them by the PUS. We say more on the financial element of this corporate framework in Part 8.
- 6.10 Another critical part of this framework is information management. Information is a strategic asset and is crucial to success in the business and battle space. However, the MOD has struggled to bring coherence to its information management processes: policy is unevenly implemented, systems procurement is fragmented and governance structures are weak. Part of the cause has been excessive delegation and loss of central control. We welcome steps to standardise and improve interoperability across the Department, including the implementation of a MOD information strategy, and wish to

build on this progress. The Chief Information Officer (CIO) should continue to set the Information Management (IM) and Information and Communications Technology (ICT) frameworks within which the whole organisation should operate. The tight central control over this framework is a critical enabler for the greater delegation we are proposing on other matters. It is also necessary for the Department to be able to demonstrate how its investment in information systems complies with pan-Government strategy and initiatives. However, the CIO has not been empowered with the levers required to enforce standards in the past. In our model, the approach to information should be set out, managed and enforced through the Command Plans, with the CIO and Directors of Resources supporting the DG Finance and PUS in policing adherence and implementation.

Operations

6.11 The Head Office has a critical role in enabling CDS and PUS to provide sound and timely advice to Ministers on current and potential operations, and in supporting CDS in his role as the military strategic commander. As set out in more detail in Part 10, we understand that the Head Office finds itself, as in other areas, drawn towards operational and tactical business that is properly the responsibility of PJHQ and deployed commanders. Our understanding is that the formal split of responsibilities between the Head Office and PJHQ is correct, but that it is not always followed. There would therefore be value in re-stating the respective roles of the Head Office, PJHQ, national deployed commanders and the single Services, and then ensuring they are consistently applied. This will help ensure these vital functions are performed effectively; it may also expose some duplication and thus scope for efficiency.

Head Office structure

6.12 Our proposal for a Head Office that no longer delves into the tactical detail of delivery, and that has delegated some of its detailed planning functions to the Commands, suggests there is some scope to rationalise the number of senior posts within Head Office. We wish to create a Head Office where accountabilities are more clearly defined, effort is focused on the strategic, and with affordability at its heart, while retaining the capacity to both think at senior levels and to deal with tactical issues when the need arises.

6.13 We recommend that the Head Office should be structured around four critical posts. The paragraphs above have identified a clear requirement for 3 star / DG leads for the policy, military strategy and finance functions. In addition to these there is a need for a post at the same level to lead the core remaining functions currently discharged by the DG Strategy and DCDS Capability. The Department should consider how best to arrange these responsibilities including links or mergers with policy, finance and personnel leads. There are a number of options. DCDS Capability could merge with either DCDS Personnel or DG Strategy for example, depending on what outcome was sought. Ultimately this should lead to the deletion of one or two 3 star / DG posts. In the short term, however, the DG Strategy post should be maintained to implement Defence Reform and drive the broader Transformation agenda.

6.14 Around these critical posts, the Head Office should also include a number of senior posts and supporting staffs to set processes and provide specialist advice. We consider there to

be some scope for rationalisation here also. Specifically, we recommend that:

- the Chief Scientific Adviser (CSA) should become a DG (rather than 4 star). This would be in line with practice in Other Government Departments (OGDs). It is enabled by the fact that responsibility for approvals will transfer to DG Finance and for some nuclear issues to DG Security Policy;
- the Department should consider whether the senior civilian HR post should be held at Director level (2 star) rather than DG given the transfer of the People Pay and Pensions Agency to Defence Business Services, as set out in Part 12, the reduced workload once the Cabinet Office's Next Generation HR programme is implemented and the planned reduction in scale of the Business Resilience Directorate;
- the Department should consider whether the Chief of Defence Intelligence post continues to require a 3 star as intelligence delivery assets are transferred to a Joint Force Command (see Part 9);
- the Surgeon General post and some of the training functions of DCDS Personnel & Training should transfer out of Head Office to JFC (see Part 9 and 13). However, we judge that Personnel policy, including Terms and Conditions of Service and remuneration policy, should continue to be controlled from the Head Office; and,
- as recommended in Part 7, the Service Chiefs' principal supporting staff should be based at their Command headquarters, with a much reduced staff, headed at two star level, based in Head Office.

6.15 In addition, we support the transfer of the commercial function to DE&S and note that as a result the DG Commercial post in Head Office will lapse.

6.16 The changes set out in this chapter will make the Head Office considerably smaller, and force the strategic focus that we are seeking. We would envisage that some staff will transfer from Head Office to the Commands to reflect the changes in their respective functions proposed in this model.

2nd PUS and VCDS

6.17 PUS and CDS are currently responsible for a set of significant challenges, including operational commitments, the Defence budget, and the need to implement the SDSR and transform Defence. The model we are proposing increases the burden on what are already very demanding posts, with PUS becoming more active in performance management and the CDS becoming the single military adviser on the Defence Board. We have therefore looked at how we can reduce the burden on PUS and CDS, enabling them to focus on their primary responsibilities.

6.18 We have considered the requirement for the 2nd PUS and VCDS roles in the future operating model. Although the creation of the Joint Force Command will remove some functions from the Head Office and specifically from VCDS and 2nd PUS, we consider that the loading and spans of control on PUS and CDS without deputies would be unsustainable; it would involve some 20 direct reports between them.

6.19 We therefore recommend retaining the 2nd PUS and VCDS posts. Their roles need to be clarified. Together they drive Defence Transformation. In addition, VCDS should deputise

for CDS, including as strategic level commander and senior military advisor to the Government and lead senior military judgement for the future development of the Armed Forces. 2nd PUS should deputise for PUS, own and oversee corporate support services, infrastructure and science and technology, act as the chief operating officer for corporate business, and act as head of profession for MOD civil servants.

Implementation

- 6.20 We are conscious that the proposals set out above do not cover the full range of the Head Office's responsibilities. They are intended to provide a framework for the detailed work the Department will now need to embark on to design the new Head Office.
- 6.21 That design will need to evolve as the Department embeds the new financial model, sets up Joint Forces Command and implements Defence Transformation. We recommend that the Department takes stock of progress after about two years and considers whether the proposed role and structure of the Head Office, including the requirement, role and seniority of both the 2nd PUS and the VCDS remain valid.

Part 7: The Services

Key recommendation 5. The focus of the **Service Chiefs** should be on running their Service, including the development and generation of forces within their allocated budget, combined with their existing responsibility for the custodianship of their Service, and they should be empowered to perform their role effectively.

- a. The Service Chiefs should remain responsible for the overall leadership and custodianship of their Service, and should continue to provide operational advice to CDS and, when required, Ministers, on the employment of their Service.
- b. The Service Chiefs' 'direct' role in departmental strategy, resource allocation and Defence management should be reduced, though PUS and CDS should continue to seek their advice on issues relating to their Service as appropriate.
- c. As a result of these changes to the role of the Service Chiefs, and to avoid duplication, the Services should no longer need a 4 star Commander-in-Chief, although this will also require further changes of responsibility at the 3 star level.
- d. The Service Chiefs' principal supporting staff should be based at their Service headquarters, with a much reduced staff, headed at two-star level, based in Head Office.

7.1 This section sets out the role of the Service Chiefs in the new model.

7.2 The role of the Royal Navy, the Army, and the Royal Air Force and how they interact operationally and administratively has long been a key issue in the organisation of the Ministry of Defence. Under the current model the Service Chiefs perform a number of roles. They are the professional heads of their Service and as such are responsible for morale and fighting effectiveness and for providing advice to CDS and Ministers on the use of their Service on operations. They are top-level budget holders responsible to the PUS for the delivery of outputs and for the effective and proper use of resources. But they are also members of the Defence Board and in this capacity play a role in deciding overall departmental strategy, resource allocation priorities and the broader management of Defence.

Future role of the Service Chiefs

7.3 We are clear that the Services should continue to be the key building blocks of Defence and the basis on which military capability is generated. In the proposed model the Service Chiefs would, within a control framework, have greater delegations and be empowered with the levers and appropriate resources to develop and generate their Service for which they would be held to account. We see them having a reduced responsibility for departmental strategy, resource allocation and the corporate management of Defence. Instead we see their primary focus being on leading and running their Service, whilst retaining their constitutional responsibility as professional heads of the individual Services

and with full command over their people. In the new model, the role of the Service Chiefs would be:

- providing environmental advice to MOD and Government on the operational employment of their Service, contribute to CDS's formulation of military strategic advice, and advice to Defence Board decisions on departmental strategy and high level requirements setting, as they relate to their Service;
- conducting their own force development process to propose, in their Command Plan, optimum, affordable force structure (including equipment) which will best deliver the Defence Board's requirements;
- the development and generation of their Service to ensure it is balanced to deliver Defence outputs now and in the future. This would include recruiting, educating, training, equipping, preparing and sustaining their Service;
- running their Service and the Command TLB – being accountable for delivering agreed outputs within their delegated budget – making choices, within the framework of the Command Plan and the corporate framework set out in part 8, about the best balance between manpower, training, equipment, support etc and between different capability areas;
- acting as the customer for CDM, setting the detailed equipment and support requirements and budgets, and articulating their infrastructure requirements for delivery by the Defence Infrastructure Organisation;
- supporting PJHQ in the delivery of environmental aspects of operations and, subject to further consideration by the Department, commanding the delivery of delegated operations;
- conducting appropriately prioritised international engagement in support of the National Security Strategy. Additionally, undertaking domestic and representational influence and engagement activities in support of the Service's place in society; and,
- as custodians of their Service, maintaining its long-term health, its fighting effectiveness and sustainability, including career management, professional standards, reputation, ethos, welfare and morale.

7.4 Conversely, and as we set out in Part 4 the Department needs to streamline its high-level decision making processes, reducing the number of individuals involved and providing a much increased emphasis on individual accountability. We propose therefore the Service Chiefs should have a reduced executive function in the formulation of overall departmental strategy. They would still continue to provide operational advice to MOD and Government on the employment of their Service.

7.5 The Service Chiefs also have a long history of advising the Prime Minister on the employment of their Service. While ordinarily they report and tender advice through the CDS to the Defence Secretary, the freedom to represent advice as guardians of their Service direct to the Prime Minister as a last resort was formalised in the 1984 White Paper, 'The Central Organisation of Defence'. A mechanism for the Prime Minister and Service Chiefs to meet when required to discuss the health and morale of their Service seems entirely reasonable. However, we would not expect this to cut across the clear lines of accountability that we have set out for the management of the Department, with corporate decision making lying with the new Defence Board and CDS's position as the Defence Secretary's and the Government's principal military advisor strengthened.

- 7.6 Given these changes, we would expect the single Service staffs currently situated in the Head Office to move to their Service Headquarters. But while the focus of the Service Chiefs' time and effort will be on their Command they will need to maintain office space and a support staff in London. This should be headed at two-star level to ensure an appropriate level of representation and no reduction in cross-Service integration.

The Commanders-in-Chief

- 7.7 Increasing the role of the Service Chiefs in the running of the Commands would also reduce the requirement for a separate 4 star Commander-in-Chief. Removing the post would streamline top-level decision-making, simplify lines of accountability for Service outputs, remove duplication between the posts and also provide impetus to the leaning of the senior leadership. We have considered the effect on talent management and potential operational considerations but, on balance, we have concluded that these posts should be removed. We recognise that the Service Chiefs would still need to delegate some of the running of the Command (not least given their continuing representational duties). The Department should look to do this within the current structure at 3 star level.

Service Boards

- 7.8 The Service Boards should continue to sit as sub-committees to the Defence Council on an annual basis to provide a formal means by which the Service Chief can report on the health of his Service to the Defence Secretary, and to exercise its quasi judicial powers.
- 7.9 It will be for the individual Service Chief to decide how he is supported in the delivery of his responsibilities on a day-to day basis but we consider the Service Executive Committee may serve as a useful forum for this role and could be merged with the current TLB Operating Boards. The Command Director of Resources should sit on this committee.

Force Generation

- 7.10 In parallel with Defence Reform, a detailed examination of force generation has been undertaken at the instigation of the Defence Secretary and in concert with the Service Chiefs. It will report separately.

Part 8: Capability planning and financial management

Key recommendation 6. Financial management throughout the Department should be considerably strengthened and there should be a widely-shared culture of managing Defence within available resources and realistic assumptions about the longer-term budget. At the centre, the DG Finance should be a member of the new Defence Board, chair its Investment Approvals Committee (IAC) and set standards and policy for financial management across Defence. Responsibility and accountability should be aligned for all Top Level Budget (TLB) holders, with responsibility and budgets for detailed capability planning passing to the Service Chiefs and Commander Joint Force Command.

- a. The Head Office should be smaller, more strategic but stronger. It should advise the new Defence Board on high level balance of investment, set strategic direction and provide a strong corporate and financial management framework for the Department.
- b. The Service Chiefs should take responsibility (and ultimately own the budget) for detailed capability planning and propose (through a Command Plan) how best to deliver the strategic direction set by the Defence Board across all lines of development. Once the Plan is agreed by Head Office, the Chiefs should be given greater freedom to flex within their budgets, provided they continue to deliver the agreed objectives within their delegated resources. The Plan should be refreshed annually, including to enable cross TLB adjustments where necessary, but the Department should aim to make major changes only at SDSRs.
- c. Major investments should continue to be scrutinised by the Investment Approvals Committee (IAC), chaired by DG Finance. Within a strict approvals process, he should delegate some authority for smaller projects to Directors of Resources in the relevant TLBs. The Department should rationalise current processes as far as possible (but as a minimum to ratify the strategic requirement, affordability and sequencing of these major investments). The Department will need to consider with HM Treasury how quickly it is prudent to move to this more delegated model.
- d. DG Finance and the TLB holders should jointly appoint TLB Directors of Resources (formerly Command Secretaries). The post should report to them jointly. The Directors of Resources must have the necessary financial skills and experience and be properly supported.
- e. The new Defence Board should take an active role in managing departmental performance and risk at the strategic level, and the PUS should hold TLB holders to account at least on a quarterly basis for delivering their objectives within their delegated budgets.
- f. Financial management in the Department should be based on a single version of the financial truth. The Department should develop and resource a strategy for all management information, encompassing clear governance, processes and training, and it should invest in improving core information systems by bringing together financial, personnel and other management information in one place.

- 8.1 This section sets out the financial management framework, which is at the heart of the proposed operating model. Getting this right is essential, not least because a loss of financial control is in our view (along with the high tempo of operations) the key strategic issue that the Department has faced in recent years. We welcome the work in hand in preparation for the next planning round to close the current funding deficit. A broadly balanced programme (at least in the early years) will be a key enabler to implementing the model that we propose in Part 3.
- 8.2 Our proposed operating model involves, in some areas, a greater level of delegation from the Head Office. Our aim is for the Department to recognise that decisions should be taken in the right place. Sometimes this will be in the centre of the Department, but in other cases better and more efficient prioritisation will result if decisions are taken in the Commands. The model aligns budgets and responsibility in the Service TLBs and creates stronger incentives on budget holders to manage the financial consequences of their actions. Our model also aims to reduce bureaucracy and simplify over-complex processes, which are manpower intensive. But this aspiration should not be misunderstood. We are not proposing that the Head Office relaxes its grip. The new operating model must be underpinned by a robust and transparent framework based around the Head Office putting mechanisms in place to ensure it has the visibility and assurance to ensure financial control while reducing micro-management.

Planning and resource allocation

- 8.3 The current financial planning process is convoluted, inefficient and ineffective, and incentivises what are ultimately self-defeating behaviours. The annual planning round is resource intensive, fails to focus on outputs or understand true costs, and is not sufficiently strategic to keep the forward programme in balance. As we have already set out we support the Government's commitment to conduct a cross-departmental Strategic Defence and Security Review every five years and recommend that MOD aligns its planning cycles accordingly. In the absence of unforeseen strategic shocks we see no need for a major reassessment of priorities and overhaul of resource allocation more than once every five years with minor adjustments in the interim.
- 8.4 Key to achieving this steady state is agreeing a balanced and affordable plan at the outset that is costed properly, having transparency of financial information, and effectively holding individuals to account for performance. The Head Office and Commands must be clear about the outputs each Command is expected to plan and deliver over the longer term and the PUS and the TLB holder must both agree that those expectations are achievable with the budget agreed. CDM must also agree that the equipment and support elements of the plan that are for DE&S to deliver are adequately funded and are achievable.
- 8.5 At the outset of each planning cycle, the Head Office, will set out high level capability requirements (covering the short, medium and long term) for each TLB and the processes or standards with which they must comply. The Commands will then submit a detailed proposal setting out how they will deliver this. Once the proposals are agreed, we recommend that that they are enshrined in a Command Plan that must include:
- capabilities that the Command is accountable for planning and delivering, including the number and readiness of force elements to be delivered;

- key investment projects within the plan, their ownership and stage of maturity in cost and project terms;
- a risk plan which sets out how the Command will deal with unforeseen events and costs;
- the delegated budget and terms of delegation; and,
- mandated corporate processes for Command compliance (eg. personnel, information etc).

8.6 A similar plan should be developed for other budget holders, notably DIO, corporate functions and the cost of running DE&S.

8.7 Whilst the Commands should take a lead in developing these plans the Head Office will remain responsible for ensuring that together they represent the most coherent and cost-effective way of meeting the objectives set for the MOD by the Government. Ultimately they must be approved by the Defence Board. It is critical that a firm grip is held on strategic equipment programmes in the process of approving the Plans, particularly at their early stages of development. The process for proposing, discussing, scrutinising and approving the Plan will become a critical strategic task for all parties. Head Office should develop more detail on the mechanics of this critical process but it must reduce current burdens and process whilst maintaining a strategic grip on outputs, resources and projects. See Figure 3 below.

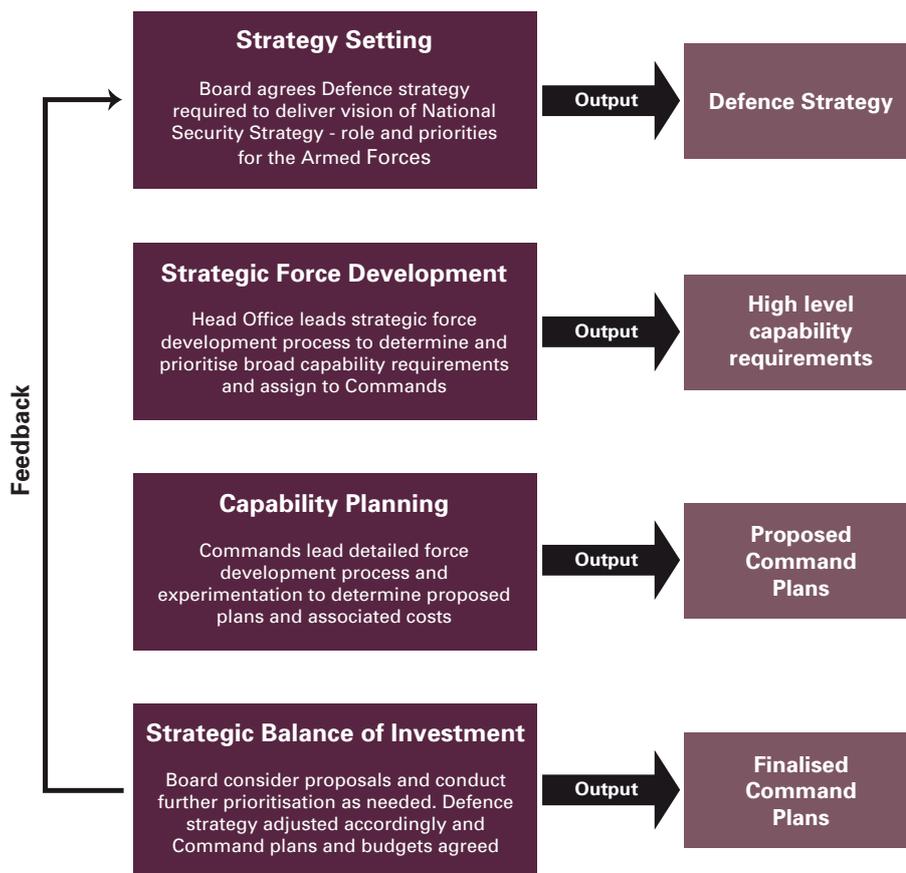


Figure 3 – Quinquennial strategy review and resource allocation process

- 8.8 Once agreed, we believe the Service Chiefs – as delegated budget holders - should be able, within a tight control framework, to flex within their budgets as long as they continue to deliver the outputs set out in the Plan. They might, for example, choose to increase spend on an equipment project, so as to reduce future manpower numbers or vice versa (within the parameters set in the Command Plan). Head Office authorisation should be required to change the output set out in the Plans – potentially through an annual refresh of the Plans within the Command. We would hope that, in the normal run of events, the Defence Board would not need to reopen these plans on a regular basis. Our proposals are designed to ensure that accountable individuals are better placed to manage the inevitable difficulties that arise in any business. But the Defence Board will of course retain the right to intervene as circumstances and changing priorities require. In order to maintain coherence the Head Office must have an appropriate level of visibility. In addition, this new model of empowered and accountable TLB holders working within a stronger corporate framework, will depend for its success on changed behaviours and the Department must ensure this takes place.
- 8.9 At each SDSR, the Defence Board will also allocate resources and requirements to the other key budgets, namely the Defence Infrastructure Organisation (DIO), Defence Business Services and the Head Office, and the cost of running DE&S. As part of their planning, the Commands will propose infrastructure requirements to the DIO. The DIO in discussion with the Commands will balance these requirements, identify efficiencies and opportunities for rationalisation, and propose an Infrastructure Plan to the Head Office. This will be considered by the Defence Board alongside the proposed Command Plans.

Project initiation

- 8.10 We note that projects in the past have been accepted into the Department's equipment and financial plan, without adequate consideration of their requirement, affordability and sequencing. This is what Bernard Gray referred to in his review as 'entryism'. By passing responsibility for proposing new equipment to the Commands, the incentive on their capability planners to bid low is much reduced: the budget holder would have to find resources for any subsequent growth within their agreed delegation. However, to maintain a focus on this well recognised practice, we welcome the steps the Department has taken to enhance governance of project initiation for the largest programmes, including through better costings (see Part 11) and recommend this endures in the new operating model. For smaller projects the Department should ensure that the process of central approval of project initiation is as light touch as possible.

Investment decisions

- 8.11 A key part of the financial control framework is the process by which major investment decisions are scrutinised and taken – the approvals process. Whilst some elements of the process in place today can be streamlined, we believe the principles underpinning it to be sound. However the mechanisms to ensure that decisions take into account value for money and technical and financial risk should be strengthened. In particular affordability should be at the heart of all decisions. We recommend therefore that the DG Finance

should be accountable for the scrutiny process and should chair the Investment Approvals Committee.

- 8.12 The Investment Approvals Committee currently approves the most strategic projects and we recommend this should continue under the new model (with detailed proposals now coming from the Commands). But we see no reason why some investment decisions should not be delegated in a similar way to planning and budgeting, recognising that this would have to be consistent with the delegations to the Department from the Treasury. Our proposal for strong Directors of Resources in the TLBs reporting to the DG Finance is in part a mechanism to ensure that this can happen whilst providing confidence that the interest of the Accounting Officer and the corporate framework more generally can be protected. The Department will wish to consider, in consultation with the Treasury, how quickly it is prudent to move to this more delegated model.
- 8.13 The Defence Board should take an active role in monitoring the delivery and assessing the risks in major investment projects and we support the Defence Secretary's decision to chair a group looking specifically at the major projects and holding individuals to account for their delivery. We also support plans to provide to Parliament an annual assessment of the affordability of the equipment and support plan and for that assessment to be audited by the NAO. These commitments should continue to stand. Both initiatives are crucial to controlling the programme.

Risk and contingency

- 8.14 Ensuring that financial risk is understood, held and managed at the appropriate level is key to any financial control framework. The model of financial delegation seeks to strengthen the accountability of the Service Chiefs / Commander JFC to manage within their delegated budgets. One of the major considerations in delegating more financial authority to the Commands will be their ability to handle risk and cost growth. Our recommendation to pass responsibility for planning new capability to the Commands requires them to consider its overall affordability and directly address the culture of entryism, and our recommendations in Part 11 should also more closely align projected and actual costs. In the first instance, therefore, and as a principle we see no reason why Commands should not absorb any unforeseen costs and set out in their Command Plan how they would propose to do so.
- 8.15 We accept, however, that the scale and volatility of some projects may drive costs that the Commands would be unable to absorb within their budgets (or doing so would unacceptably skew the balance of their outputs). Any recourse to the Head Office in these scenarios that led to a significant re-negotiation of delegations across TLBs would undermine the principle of ownership and accountability and create bad incentives throughout the system. The Department should therefore consider whether it should hold a contingency against the largest programmes for these instances and, if so, whether this is best held centrally (and the criteria for accessing it) or whether it is better held within each TLB.

Director of Resources

8.16 To strengthen the financial backbone throughout the organisation, we recommend establishing Director of Resources posts within each of the TLBs in place of the current Command Secretary. Their primary focus should shift to resource management within the TLB and these post holders must have the financial skills and experience necessary to enable them to carry out this role effectively, and be suitably supported. For the single Services and JFC, individuals should be appointed jointly by the DG Finance and Service Chief / Commander JFC. Whilst on a day-to-day basis the Director of Resources would be a key member of the Service management team, he or she would report jointly and directly to their Service Chief / Commander JFC and the DG Finance. They should have formal membership of the TLB management / operating board and of the Service Board. Their role will be to oversee all aspects of TLB financial planning, including equipment and personnel, to ensure TLB plans are affordable and to ensure that business is conducted within the terms of the delegation agreement, including compliance with centrally mandated processes. They would, as set out above, chair the Command's Investment Approvals Committee.

Performance Management

8.17 This system of delegation relies on robust and transparent performance monitoring and management from the Board down. We do not believe the current system of reporting to the existing Defence Board and annual holding to account sessions with TLB holders and process owners will be sufficient for the operating model we propose. We can also see some opportunities to control proposals from process owners that have cost implications and to streamline the system for managing the performance of process owners.

8.18 Our model sees a strengthened role for the PUS in personally holding TLB holders to account and a more active role for the new Defence Board in providing support, guidance and challenge on overall departmental performance.

8.19 Specifically, we recommend that the PUS supported by DG Finance and, where appropriate, the CDS should hold TLB holders to account on a quarterly basis for:

- delivery of specific and pre-agreed objectives within the delegated budget;
- effective management of risk; and,
- compliance with corporate rules and standards set by process owners.

8.20 This process should be objective, evidence based and robust. We are quite clear that, unlike in the Department today, budget holders must be held to account. If their performance does not meet requirements they should be removed from their post. We recommend that the Department does further work on the contractual implications of this but we are in no doubt that mechanisms should be put in place to allow this to happen.

8.21 Similarly we would expect departmental performance (across the range of the Department's business) to be the key issue on which the Defence Board should focus.

Audit and assurance

- 8.22 On behalf of the Defence Board, the Defence Audit Committee, which is chaired by a non-executive member of the Defence Board, will continue to review departmental performance against corporate rules and standards, particularly financial systems and controls. We recommend the Defence Audit Committee should work to a defined terms of reference, should report to the Defence Board by exception on issues arising through the year, and submit a formal written report at the year end, which will feed the Statement of Internal Control (for which the PUS remains responsible). It should consider performance reports from the process owners annually.
- 8.23 We have sought to empower the Commands within a strong corporate framework and to eliminate duplication between the Head Office and TLBs. The Department should, as part of the implementation process, consider whether in such a model the multiple audit committees and supporting staffs who sit within each TLB might be replaced by a single centrally-run audit process. Our recommendation is that a Head Office based team should take full responsibility for this function throughout the organisation and report their findings directly and simultaneously to the TLB holder and Director of Resources and to the Defence Audit Committee.

Non Executive Directors

- 8.24 We recognise the important role that Non Executive Directors (NEDs) play in providing challenge, assurance and best management practice. However, we consider the current number of such appointments throughout the organisation excessive and recommend significant rationalisation, preferably limiting non executive director positions to the primary operating board within each TLB.

Evidence based decision making and better management information

- 8.25 Essential to the new model is the Department's approach to management information. The MOD has made good progress on integrating financial systems and has a single general ledger and single financial planning and budgeting system (PB&F). More work is needed to further develop financial feeder systems relating to assets and people to continue to further improve the accuracy and completeness of information in core financial systems. We believe this requires continuing investment and recommend the Department develops a strategy to bring together financial, personnel and other management information in a single place. It should focus on decision-makers' needs, with clear governance, processes, improved IT and training. It should ensure information is timely, comprehensive and reliable.
- 8.26 In addition, we believe that culturally the MOD has a significant challenge in accepting the information in core financial systems. Whilst the Department has a single financial and budgeting system there are multiple views on departmental costs, future project and programme costs and options for savings. Acceptance of a single source of the truth is

fundamental to financial control; it would also save time within the finance community (and across MOD in general) reworking or reanalysing information supplied by other elements of the finance community. Aspects of this challenge will be addressed by the rationalisation of parties involved in strategic financial management elsewhere in our recommendations. However, the Department must address the acceptance of information in core systems by the wider decision making community.

- 8.27 Greater use of analytical staff in handling information will also enhance decision making in Defence. We recommend the Department should also consider how best to use this expertise to draw upon relevant evidence, improve presentation, and clarify the issues for decision makers.

Implementation

- 8.28 The Department should look to move in the direction of the new model as a priority, in stages, as the enablers are put in place. Inevitably, it will take time to put some of these enablers in place, such as the necessary skills within the Commands, the single version of the financial truth, and clear terms of delegation. Some have argued that the books must be completely balanced before the new financial model could work. Others have argued that at least the early years would need to be broadly in balance, allowing the Commands to make their own recommendations about where savings in later years might be found. Clearly the books need to be balanced irrespective of what financial model is used. The Department will wish to consider the speed, in consultation with the Treasury, with an eye to the over-riding need to retain financial control.

Part 9: Jointery and the Joint Forces Command

Key recommendation 7. Some military capabilities have to be integrated on a 'joint' basis in order to effectively enable operations. Such enabling capabilities need more effective proponentry within Defence. To that end, a **Joint Forces Command** should be created to manage and deliver specific joint capabilities and to take the lead on joint warfare development, drawing on lessons and experimentation to advise on how the Armed Forces should conduct joint operations in the future. Certain joint and Defence capabilities should continue to be delivered on a 'lead Service' basis.

- a. The Joint Forces Command should be led by a military 4 star, and should have responsibility for commanding and generating the joint capabilities allocated to it and setting the framework for joint enablers that sit in the single Services.
- b. As a result, a number of military organisations currently managed by the Central TLB should pass to the Joint Forces Command.
- c. The Permanent Joint Headquarters should sit within the Joint Forces Command, but report for operational purposes direct to the CDS.
- d. In implementing the Joint Forces Command, the Department should systematically review joint or potentially joint capabilities and functions across the Services against the criteria set out below to determine which might be rationalised, the merit of further joint organisations, which should transfer to the Joint Forces Command and which should transfer to a lead Service.

9.1 This section addresses how existing 'joint' organisations should be managed, whether further joint initiatives should be pursued and in particular our proposal to set up a Joint Forces Command.

Background

9.2 The pros and cons of a more 'joint' approach has been a feature of the debate about the organisation of Defence for many years. It continues to divide opinion. The UK sits at the forefront of the delivery of joint and integrated operational outputs. Some have argued strongly that the UK should go further; others that there are few further opportunities. There is a limit to which an external steering group can make detailed recommendations on such a broad area of debate. We do believe that jointery should not be pursued for its own sake; it should be developed where it makes sense to do so. But we have heard strong arguments that there are a number of tensions in the joint arena that should be addressed. Our analysis indicates that:

- cross-cutting or enabling military capabilities (such as Intelligence, Surveillance, Targeting, Acquisition and Reconnaissance, and Command and Information Systems), which act as the operational 'glue' between the Services, are not organised and managed as coherently or effectively as they could be;

- these key enablers are often split between the Services and are generally not seen as core to single Service outputs. Evidence suggests they continue to be under prioritised or that allocated funds are incoherently spent. The sum of the parts of the individual Services offers less operational capability than might otherwise be the case;
- a number of joint organisations, such as Defence Intelligence assets, sit uncomfortably within the Central TLB structure in the absence of a natural home; and,
- the current structure for joint capabilities does not allow potential operational synergies between them to be exploited easily.

- 9.3 There are around 80 organisations currently in existence that could variously be described as 'joint'. They differ significantly in nature and purpose. Some manage input functions (such as training schools) on a collective basis to ensure effectiveness and efficiency. Others deliver an operational output (such as deployable units) on a collective basis. Many sit perfectly effectively in their current management and budgetary structure. Others are, in effect, orphaned, lack clear ownership (for example those currently lodged in the Central TLB) and, as a result, do not receive the priority that their importance to overall outputs would suggest.
- 9.4 We believe that there are currently too many individual joint organisations, and the Department should look to rationalise the number, brigading some organisations together to deliver improved efficiency and effectiveness. There are also some capabilities or functions currently undertaken in the single Services, which might better be conducted on a joint basis. We recommend therefore that the Department should systematically review joint or potentially joint capabilities and functions across the Services against the criteria set out in paragraph 9.10. This recommendation is set out in more detail in paragraph 9.8.

Lead Service

- 9.5 We would envisage that the majority of joint or Defence organisations would be delivered by a 'lead Service', as many are now. This should minimise overheads, support the grain of delegation and single Service force generation, and foster a more joint approach by the single Services. The single Services should retain those capabilities that are core to their Services, to ensure that they maintain their overall integrity and coherence. As set out above, in the majority of cases the input generation of forces is better achieved on a single Service basis, except where the capability acts as an enabler across the environments.

Joint Forces Command

- 9.6 We do not, however, believe that clarification in this way will be enough. The future character of conflict will increase yet further the demand for integrated capability and joint enablers. There is evidence that joint enabling capabilities do not receive the priority they merit in the single Service force structure. We therefore believe there is a strong case for developing a Joint Forces Command (JFC) to deliver output focussed capabilities and capitalise on potential synergies to deliver enhanced joint operational effect.

- 9.7 As a minimum, the JFC would include the Permanent Joint Headquarters (PJHQ), and many of the assets currently held in the Central TLB (including the Directorate Special Forces, training and delivery units from the Defence Intelligence Staff (with the analysis function remaining in Head Office), the Joint Medical Command, the Defence Academy and the Development Concepts and Doctrine Centre) to produce a coherent military grouping. An initial structure for the JFC, based on this scope, and a list of key responsibilities are at Annex F.
- 9.8 But we would expect the Department to go further, transferring to the JFC some joint capabilities and functions that currently sit in the single Services. We recommend therefore that the Department should, as part of the implementation of JFC, systematically review joint or potentially joint capabilities and functions across the Services, DE&S and the Central TLB, to determine which might be rationalised, the merit of further joint organisations, and which should transfer to the JFC and which should transfer to a Lead Service. It would make sense for that work to be led by a Commander JFC designate.
- 9.9 We would expect some additional capabilities or functions to transfer into the JFC at its inception. That is important if JFC is to be set on the right course at the outset. It will then evolve over time through military necessity.
- 9.10 In this work, the Department may wish to decide whether individual capabilities or functions should be joint using the following criteria:
- is the capability core or non-core to the environment / single Service?
 - would the capability or function be delivered more efficiently and cost effectively outside the single Service?
 - is it feasible to establish appropriate governance structures to deliver assurance back to the single Service for the delivery of a capability or function on its behalf? and,
 - what is the optimum command and control construct to support the capability or function?
- 9.11 In a small minority of cases, capabilities should be placed in JFC that do not meet these criteria, where experience indicates that it is impractical to expect lead Service delivery due to conflicting interests. However, it should not become the default for capabilities with no other natural home.
- 9.12 We would also expect that the analysis we recommend above leads to the creation of further joint organisations, which would then sit in either the JFC or a lead Service.
- 9.13 The JFC should be led at 4 star level. He/she should report to CDS, but, as a TLB holder, would also be accountable to the PUS. The Commander JFC should hold similar status as the single Service Chiefs to ensure appropriate traction across Defence. He/she should sit on the Chiefs of Staff Committee, representing joint requirements on Chiefs of Staff (Armed Forces) and as the proponent for joint effect on Chiefs of Staff (Operations). He should be responsible for:
- the command of allocated joint enabling capabilities in support of operational outputs and increased joint operational coherence;
 - joint warfare development to ensure the effective delivery of joint operational capability and increased coherence and balance to Defence outputs; and,
 - the integration, support to development and championing of enabling capabilities

held within the single Services that are brought together for operational employment.

He should be the departmental 'champion' for ensuring joint enablers across Defence are appropriately resourced.

9.14 Commander JFC should command JFC organisations, with single Services retaining Full Command of the Service personnel within them. He should have administrative and development responsibility for PJHQ and Directorate Special Forces (which, like PJHQ, would continue to report to CDS for the conduct of current operations). The budget for allocated joint capabilities would flow through JFC to DE&S in a similar way to the other Commands.

Cost and Benefit

9.15 We have considered the resource implications of this proposal given the financial pressure on the Department. We are confident, and it is clearly important, that the JFC can be achieved without any increased costs and will deliver manpower savings and efficiencies. The staff requirement should be delivered largely through liability transfer from elsewhere in Defence, not least through changes to the organisation and function of Head Office. Subsequent work will need to identify a location for the JFC headquarters.

9.16 We see a number of benefits to this model:

- the provision of a joint balance in the model and clearer organisational alignment to how the Armed Forces operate;
- the provision of a powerful proponent for joint capability, and a focus for the conceptual development of joint warfare;
- the provision of a formal joint perspective into strategic force development, planning and resource decisions;
- the release of the Chief of Joint Operations from his broader responsibilities, allowing him to concentrate on the conduct of operations;
- delivery of efficiencies through more coherent investment in enablers;
- the delegation of Central TLB delivery functions from the Head Office;
- enabling the Head Office to focus at the strategic level and reduce its size;
- reinforcing joint thinking within Defence; and,
- further development of joint behaviours and the pool of officers with an inherently joint outlook.

Conclusion

9.17 The correct balance between 'joint' and Single Service is key to a successful operating model for Defence. We believe the creation of a Joint Forces Command is a necessary and significant step in ensuring that the MOD responds to the increasingly joint nature of the operating environment.

Part 10: Operations

Key recommendation 8. A model for running military operations centred on the Permanent Joint Headquarters (PJHQ) remains the optimum one. In principle, and to simplify roles, the Department should look to make PJHQ responsible for all military operations. The Department should consider whether those operations not currently run by PJHQ should transfer to it.

- 10.1 This section sets out our assessment of the top level governance of operations as they impact on the overall operating model. We have specifically looked at the respective roles of the Head Office, PJHQ and the single Services. More detailed analysis of the arrangements for the conduct of operations clearly sits outside the scope both of our work and our experience.
- 10.2 We understand that the Head Office finds itself drawn towards operational and tactical business that is properly the responsibility of PJHQ and deployed commanders. This concern is common to other areas of departmental business and we have argued that the Head Office as a rule should be focussed more clearly at the strategic level. The Head Office and PJHQ have discrete and supporting roles in the governance of operations and given the importance of these functions (and pressure on resources) these need to be understood more clearly and applied with greater consistency within the Department.

Head Office

- 10.3 In the operational sphere, our view is that the Head Office should focus on the conduct of strategic level operations with global impact (such as special forces operations, counter proliferation, nuclear deterrence, strategic influence and some cyber operations) and the strategic level command of operations exercised by CDS on behalf of Ministers.

PJHQ

- 10.4 We believe that PJHQ continues to be the right national construct for the command of operations; the model is respected and copied internationally. We have heard that it has some detractors, but that past failings have generally resulted from ill-discipline and behaviours both within and beyond PJHQ, rather than from shortcomings in the PJHQ model itself. There is some evidence that like the Head Office it allows itself to be drawn down into the tactical level. We believe that re-clarifying the respective roles of Head Office, PJHQ, national deployed commanders, and the single Services, and ensuring consistent application would help.
- 10.5 PJHQ's role should continue to centre around the 'direct, deploy, sustain and recover' functions. It must play the key role in ensuring continuity of UK operational approach in support of coalition command, but continuing care is needed in limiting its 'direct' function in multi-national operations. Equally, however, it needs to draw on single Service

environmental understanding and take account of their Full Command responsibilities. Under our proposals in Part 9, PJHQ would be under the administrative command of the JFC, which would assume the Chief of Joint Operation's TLB function and his broader responsibilities for Joint Warfare Development and the Permanent Joint Operating Bases. This would allow him to focus purely on his operational function, for which he should remain directly accountable to CDS.

Command of Operations

10.6 In line with our drive to clarify and simplify the roles and responsibilities of both the single Services and PJHQ, we believe that, whilst force generation should be the responsibility of the single Services, force employment should be conducted on a joint basis through PJHQ unless there are exceptional reasons of operational effectiveness to do otherwise. Application of this principle would ensure full exploitation of the operational focus, connectivity, relationships and facilities of PJHQ. The Department should consider whether the operations that do not currently follow this principle, notably maritime operations, including the deterrent, security of UK airspace and UK Resilience, should continue to be led by the single Services.

Defence Diplomacy activity

10.7 We have set out in Part 6 the need for the Head Office to better prioritise and co-ordinate all international engagement and Defence Diplomacy activity. PJHQ will need to continue to play a role in the execution of these tasks, along with the Commands and the Head Office.

Part 11: Acquisition

Key recommendation 9. The **Chief of Defence Materiel (CDM)** has a crucial role in managing through the consequences of the over-committed equipment and support programme and should have the authority he needs to do that.

- a. CDM should be a member of the new Defence Board.
- b. We endorse the recent decision to give CDM the lead for commercial and industrial policy on behalf of Defence.
- c. The Department should consider whether making CDM an additional Accounting Officer for expenditure on equipment and support would usefully further strengthen his authority.
- d. We welcome the development and increased use of the independent costing capability provided by the Cost Assurance and Analysis Service. The Department should mandate the use of this service more broadly across Defence to support investment decisions and planning.
- e. We note that CDM's Materiel Strategy is examining the scope, structure and size of the Defence Equipment and Support (DE&S) organisation, and is due to report later this year. That work should build on the recommendations set out in this report.

11.1 This section sets out how acquisition fits into our broader model. Acquisition is one of the major building blocks of Defence, and addressing the over-heated equipment and support programme is a major strategic challenge for the Department. The Department has been seeking to address this challenge through a combination of the programme of reforms initiated in response to Bernard Gray's 2009 review of acquisition and decisions taken in last year's Strategic Defence and Security Review and the subsequent departmental planning round. Our work under Defence Reform has focused on:

- aspects of the way Defence is run which have a significant impact on the strategic alignment, affordability and delivery of the equipment and support programme – as perceived 'acquisition' problems are often symptomatic of deeper underlying causes;
- the role, responsibilities and accountabilities of the CDM within the overall operating model; and,
- some other activities which are related to acquisition, but which go beyond the current responsibilities of DE&S or have wider ramifications for the operating model - in particular support, science and technology, test and evaluation, logistics and exports.

11.2 We have deliberately not sought to offer views on the cross-Government work (which pre-dated Defence Reform) on a Equipment, Support and Technology for UK Defence and Security White Paper, which will help shape the Department's approach to procurement and relationship with industry. Nor have we sought to make proposals on the future functions, structure and size of DE&S, since Bernard Gray was recruited as CDM late last year with a remit to do that, building on his previous review. We note that CDM has already reorganised the DE&S operating centres into four groups, one each to face the three Services and a joint group. We support this change, which fits well with our model.

We also note that CDM has put the single Service Chiefs of Materiel in charge of the three groups that face the Services. It will be important to our model that a clear customer–supplier divide is maintained in this new arrangement. We understand that CDM is aiming to report later this year on his broader plans to transform DE&S. CDM and DE&S should be supported in these endeavours, which will need to be coordinated closely with the implementation of the reforms to the overall operating model that we are recommending.

11.3 Parts 4 on strengthened top-level decision-making and 8 on a new model for capability planning and financial management are deliberately designed to tackle some of the underlying issues behind the over-heated equipment and support programme. We support the work the Department has in hand to improve cost estimation and ensure that realistic costs with sufficient contingency are reflected in programme and project plans, to better control the emergence of new projects, and to provide to Parliament an assessment of the affordability of the forward equipment plan, audited by the NAO. In particular, we see value in mandating the broader use of the independent costing expertise being built up in DE&S's Cost Assurance and Analysis Service, for example in developing Command plans and in supporting the Head Office in its development of the overall departmental plan.

11.4 Clearly though, as CDM's primary responsibility is to deliver an equipment and support programme that meets military users' requirements, to time and within budget, he has a crucial role to play personally in managing through the consequences of the current, overheated programme and helping to ensure that it is kept under control in the future. We examined whether CDM had the necessary authority to discharge his role effectively, concluding that:

- CDM should be a member of the Defence Board, as set out in Part 4, reflecting his responsibility for a major part of the Department's business, and the immediate priority of ensuring that the equipment and support programme is affordable and deliverable;
- reflecting DE&S's role as the Department's primary interface with industry and owner of the vast majority of the Department's commercial risk, the CDM should have the lead responsibility for Defence industrial and commercial policy and functions. Until recently, these responsibilities rested with the 3 star Director General Commercial in Head Office, reporting to PUS, which led to duplication and friction with DE&S, but the Department has now ended the DG Commercial post and transferred the responsibilities to CDM. We support that decision;
- there needs to be a robust and disciplined interface between DE&S and its customers. It is for the customers – the Commands – to decide on their requirements, in line with the Command Plan they will have agreed with the Defence Board. But in reaching these decisions the Command TLBs should be closely advised by DE&S, and other delivery bodies, so as to ensure a properly deliverable programme. DE&S should only take responsibility for delivering projects that it judges are technically feasible and properly resourced. This has been fudged in the past, as Bernard Gray's acquisition review set out. Making the CDM an additional Accounting Officer for spending on equipment and support could help bring clarity to this area. It could reinforce the duty of CDM to accept only projects that DE&S can deliver within the available budget, and it would strengthen his accountability for then delivering them. It would not detract from PUS's responsibilities as the Department's Accounting Officer, nor should it detract from the Services' and JFC role to set requirements, produce an affordable Command plan and hold the CDM to account. It should, however, increase the likelihood of those plans and subsequent changes to them proving robust, and would provide a useful control on a more delegated model. This would provide

institutional force to what should be the status quo; as such there were differing views on the Steering Group as to whether it is necessary. There were also some concerns that it may inadvertently undermine the responsibility of the Service Chiefs or their ability to hold CDM to account. The PUS, as Accounting Officer, will want to consider the case carefully.

Our proposals on these and CDM's other main responsibilities and accountabilities, are summarised in the table at Annex E.

11.5 Wider work under Defence Reform has examined some more specific issues relating to the Department's acquisition model and process – on the support industry provides, the role of science and technology and test and evaluation, logistics and exports - with a focus on developing clear organisational responsibilities, improved support to decision-making and ways of reducing costs. The emerging conclusions of the work are:

- on support, there is the potential to build on the trend over the last decade and move towards the greater involvement of industry in supporting military capabilities both at home and on operations and new models for contracting. The Department has developed a new vision for Defence support, which highlights, for example, the scope for a more fluid and flexible mix of military, contractor and civilian staff in support roles and for integrated bases on which a range of functions are brought together to realise efficiencies. The options for implementing such an approach, including the benefits and risks, should now be examined more fully;
- on science and technology, such advice plays a very important role in supporting acquisition decision-making, and should be factored in to the process from an early enough stage. Science and technology advice should also be used more widely in support of decision-making across Defence;
- on test and evaluation, such activity should also be seen as an integral part of the acquisition process and again, should be undertaken from an early stage, not least because the evidence suggests that this helps to keep costs under control later in the process;
- on logistics, the question of whether logistics support to the Armed Forces at home and on operations is best carried out by DE&S, or elsewhere in Defence – including the case for transferring operational logistics, in particular the Defence Supply Chain Operations and Movement unit, to the JFC – should be examined as part of the detailed design of the JFC, working closely with CDM; and,
- on exports, we understand that current MOD and cross departmental organisational structures do not allow for the optimal delivery of Government support to defence exports to achieve its political intent and the tangible economic benefits for the UK economy and tax-payer and to maximise the tangible benefits to the Department from supporting Defence export campaigns. Further work on this is needed. We note that broader issues around exports will be covered in more detail in the White Paper, following on from last year's Green Paper on *Equipment, Support and Technology for UK Defence and Security*.

Part 12: Enabling functions and services

Key recommendation 10. Enabling services should be delivered as efficiently, effectively and professionally as possible, including through the creation of the new Defence Infrastructure and Defence Business Services organisations on which we advised the Defence Secretary earlier in the year.

- a. The Department should keep under review the future scope of the Defence Infrastructure Organisation and Defence Business Services as it implements its infrastructure and corporate services transformation programmes.
- b. The DG Finance should be given the authority to direct standards, procedures and staffing for the finance function across the Department, in line with the changes already made to the HR and commercial functions.
- c. As a consequence of the changes recommended here and in Part 9, the Department should look to disestablish the Central TLB.

- 12.1 This section sets out our approach to enabling functions and services and in particular our recommendations to set up a Defence Infrastructure Organisation and Defence Business Services.
- 12.2 As Part 3 on the organisational framework set out, the work of Defence must also be supported by a range of enabling functions. These functions encompass both the setting of pan-Defence policies, standards and rules in enabling business areas (for example, in the management of military and civilian personnel, finance and commercial) and the delivery or commissioning of particular enabling services, including infrastructure, corporate services and science and technology.
- 12.3 Prior to the launch of Defence Reform, the Department had initiated work on the future models for the management and delivery of corporate services and infrastructure, in part to ensure that non-front line functions in Defence are being performed as cost-effectively as possible. We reviewed these proposals in order both to assess them on their own merits and to ensure that they were consistent with the overall Defence operating model we have been developing, culminating in advice to the Defence Secretary in January 2011.
- 12.4 Underpinning our advice was a judgement that, as in the private sector, there are a range of supporting functions which are best performed consistently and on a collective basis for the benefit of Defence and Defence users, for reasons of effectiveness, efficiency and (in some cases) compliance with legislation or other external requirements.

Infrastructure model

- 12.5 We judged that the delivery arrangements under the previous Defence infrastructure model, with Defence Estates as the primary delivery organisation, but with the single Services and other TLBs retaining some significant delivery responsibilities (for 'soft' facilities management such as catering and cleaning contracts and Private Finance Initiative / Public-Private Partnership projects), were fragmented and inefficient, and that there was scope for a much greater injection of professional estate skills and expertise. We also found that, with responsibility for identifying their estate requirements and planning and prioritising funding resting largely with the TLBs under the previous model, Defence has struggled to manage its estate and infrastructure as a corporate asset, including to drive further rationalisation and to get the best use out of it.
- 12.6 The Defence Secretary announced the conclusions of the work on managing Defence infrastructure on 16 February 2011. The new infrastructure model, which we endorsed, will see a single delivery organisation – the Defence Infrastructure Organisation (DIO) – taking responsibility for all infrastructure delivery, being given all infrastructure funding, and including a strengthened prioritisation function to coordinate the Services' and other TLBs' needs into an affordable infrastructure programme. A new Defence Infrastructure Board, chaired by an independent with property expertise, will direct the work of the DIO. The purpose of the Defence estate is to support the delivery of military capability, so the model includes mechanisms to ensure that military users' requirements are taken properly into account in the work of the DIO, and that the DIO is held robustly to account for its performance in delivering on behalf of users as well as Defence as a whole. But the model quite deliberately represents a shift to a more corporate, professionally-based approach. In our view, this represents the best way of balancing users' needs with the imperative, particularly in the Department's current financial circumstances, of introducing a more cost-effective model, to enable reductions of some 2,500 posts by 2014, as well as the significant running cost savings and rationalisation receipts assumed in the Department's financial plans.

Corporate Services model

- 12.7 Some similar considerations have informed our analysis of the corporate services model. There is scope for a more streamlined and professionalised delivery model than the current one, under which delivery responsibilities for corporate services such as finance, military and civilian personnel management and security vetting are divided between a number of stand-alone delivery organisations providing common services across the Department, and the TLBs themselves. In addition, we agreed with the view that the senior corporate owners of these functions and processes did not have sufficient authority in order genuinely to be able to drive improvements in efficiency and effectiveness across the Department in their enabling areas, for which they could then be held to account.
- 12.8 The Defence Secretary announced the conclusions of the work on corporate services on 22 March 2011. The new corporate services model, which we endorsed, will see the establishment of a single delivery organisation – Defence Business Services (DBS) – to deliver transactional and other services in the fields of civilian HR, finance, some elements of information and commercial services, and, at a later date in the transition, security vetting and military HR. The authority of the process owners will also be

strengthened. They will be given the responsibility for tasking the DBS (having consulted the TLBs on their requirements) and, in addition, any non-DBS staff in the civilian HR and commercial functions (the latter now under the CDM) will report primarily to the process owner rather than their TLB management. We judge that these changes provide a sound basis for the more efficient delivery of corporate services in Defence (the Department expects these changes to enable reductions of some 2,000 posts by 2014) at the same time as ensuring they respond to TLB needs, as well as for: greater consistency in the implementation of corporate policies and standards across the Department; the potential to improve management information; and a further impetus towards the use of professional skills in the Department's corporate functions.

- 12.9 Our proposals in Part 8 to strengthen financial management throughout the Department, and in particular the recommendation that new TLB Directors of Resources should report jointly to the DG Finance and the TLB Holder, also have implications for the reporting arrangements of TLB finance staff below that level. The Department should consider precisely how their reporting arrangements may need to be adjusted in order to ensure that effective financial management is integral to the way TLBs work. In our view, and in line with the decisions on HR and commercial staff, we recommend the Department should enhance the authority of the DG Finance to direct standards, procedures and, through the Directors of Resources, staffing for the finance function across the Department. This would support the development of a single version of the financial truth and the effective, efficient, consistent and professional delivery of the finance function across the Department. The DG Finance may wish to bring together regularly the Directors of Resources and the senior finance officers within the Head Office to ensure a common understanding of, and approach to, the Department's financial position.

Future development of the DIO and DBS

- 12.10 It is sensible that the Department takes a phased approach to the introduction of these new infrastructure and corporate services models, as it is now doing. The DIO and DBS will also need to earn the confidence of the Department and individual TLBs by demonstrating that they can both deliver professional services to users and meet wider Defence objectives. But as the Department makes the transition, it should continue to develop and refine the respective models. We recommend also that the Department should keep an open mind about the future scope of the DIO and the DBS, to ensure that it exploits their full potential to drive further improvements in effectiveness and efficiency. There is the potential for the DIO or the DBS to take on responsibility for other estate-related functions, such as guarding, which are currently performed elsewhere in the Department, and for the DBS to build on the 'critical mass' of corporate services it is currently planned to deliver on launch and in its early years.

Related work on enabling functions

- 12.11 In coordination with Defence Reform, the Department has undertaken several other strands of work aimed at improving the efficiency and effectiveness of its enabling functions. We believe it is particularly important that the Department follows through on the work to identify how to strengthen the authority of the corporate process owner for security, whose remit covers some 10,000 staff, so as to ensure the most cost-effective

use of security manpower across Defence; and on the work to determine the simplest and most cost-effective way of organising and managing the Department's 9,000 or so 'administrative support' staff.

- 12.12 We also support the Department's intention to create a new Defence Safety Authority (DSA) to cover all non-airworthiness areas, which would respond to the need following the Haddon-Cave report for a clearer and simpler corporate safety system, themes which resonate with us. In keeping with these principles, it appears logical in due course that the DSA and the Military Aviation Authority (which covers airworthiness) should be merged.
- 12.13 Finally, we endorse the findings of a review of the role of science and technology commissioned under Defence Reform, which concluded that such advice has a very important part to play in supporting acquisition decisions (and should therefore be factored in to the process from an early enough stage), but should also be used more widely in support of decision-making across Defence.

Governance and budgetary arrangements

- 12.14 Part 6 sets out our proposal that 2nd PUS should oversee corporate enabling functions, which would see the senior individuals heading up the functions, including the Chief Executives of the DIO and DBS and the CSA, reporting to him. However, as a TLB holder in his own right, the Chief Executive of the DIO would also be held to account on a quarterly basis by the PUS. We make no specific recommendations on the scope or governance of Trading Funds, or other agencies.
- 12.15 Under this model, we would envisage the Central TLB being disestablished. Its military enablers would transfer to Joint Force Command, as set out in Part 9. Building on the lead Service concept set out in Part 9, the MOD Police and Guards Agency could transfer to either Land Command, the DIO or DBS. The remaining elements of the Central TLB, the Head Office, the DBS, the Military Aviation Authority and research funding could be included in an expanded Head Office budget area, led by 2nd PUS. This should be considered further in implementation.

Part 13: People

Key recommendation 11. In line with the overall capability planning and financial management model, the Department should afford greater priority to managing its **'human capability'** as a strategic resource, to ensure a better balance with its consideration of equipment capability. Specifically, it should develop the 'Whole Force Concept,' which seeks to ensure that Defence is supported by the most cost-effective balance of regular military personnel, reservists, MOD civilians and contractors.

- a. The Department should reduce the size of the senior cadre of Defence and the management levels below it. To enable this, the Department should review all non-front line military posts from OF5 (Captain / Colonel / Group Captain) and civilian posts from Band B (Grade 7), to determine the need for the post, whether it needs to be civilian or military, and optimum management structures.

Key recommendation 12. The Department should manage and use its senior military and civilian personnel more effectively. With oversight of the Appointments sub-committee to the new Board, the **career management** system should be designed so that individuals stay in key senior posts for longer and the processes for promotions and appointments are transparent and (on the military side) standardised, to provide assurance that both Defence and Service needs are being met.

- a. A new model for the management of senior military officers – the joint assured model – should be introduced, which would include a role for an independent member on Service promotion and appointing boards; an enhanced role for the existing Senior Appointments Committee, to which PUS, Commander Joint Forces Command and an independent private sector representative would be added as members; and a more formal process for the involvement of reporting officers in the appointment of senior military personnel, and vice versa for civilian appointments.
- b. The Department should improve its talent management and succession planning in the Senior Civil Service and the management level below, and involve the Civil Service Commissioners for all appointments at 2 star and above and CDS or VCDS for the most senior appointments.
- c. The Department should move to a model where most individuals stay in post for longer and the most senior civilian and military posts are held, as a rule, for 4 to 5 years.
- d. Defence should place greater emphasis on recruiting or developing people with the right skills and expertise, particularly in professional or more specialist functional areas.
- e. The Head Office should continue to set high level training and education policy, but joint requirement setting and co-ordination should be delegated to Joint Forces Command to the maximum degree possible. We do not see any changes to single Service responsibilities.

- 13.1 This section looks at the crucial issues of how Service personnel, MOD civilians and other people supporting the delivery of Defence outputs are used and managed, the behaviours that are incentivised or discouraged as a result, and how the current people model would need to change to align with the overall operating model we are proposing.

Management of human capability

- 13.2 In the past, there has been a tendency in the Department to underplay the importance of human capability to the delivery of Defence outputs and the development of an agile, flexible and adaptable Armed Forces and MOD - particularly in relation to the attention given to equipment capability - or to focus primarily on manpower numbers rather than human capability issues in the round. Under the new model, human capability should instead be integrated fully into Defence planning, in coordination with the work on a 'New Employment Model' for Service personnel, which, on the military side, is aiming to deliver the future human capability Defence needs and can afford. A good understanding of the full costs of employing different types of manpower and the benefits and capabilities they offer is a prerequisite to this.
- 13.3 If the Department adopts such an approach, it should be better able to determine the most effective and efficient balance in front line and non-front line areas between regular Service personnel, Reserves, MOD civilians and contractors, and to make balance of investment decisions between 'people' and other Defence lines of development, including equipment. The Reserves Study being led by the VCDS on behalf of the Prime Minister and associated work to develop the 'Whole Force Concept' will play a significant role in identifying the right workforce balance in front line areas. Beyond that, we envisage these objectives being achieved in two main ways. First, we recommend the Department undertakes a full review of non front line manpower, starting at OF5 / Band B and above, to establish the requirement and criteria for all posts, including whether they need to be military or civilian, and to identify the optimum management structures. This should reduce the size of the senior cadre, which will help the Department both to make savings and to create a more agile and less hierarchical and top-heavy structure, though it will need to ensure it retains essential leadership capacity. Secondly, the proposals in Part 8 to make Command TLBs responsible for detailed equipment and support planning – as the Services largely already are for manpower planning – should incentivise trade-offs between people and equipment by giving them greater flexibility over how to deliver their outputs and ensure affordability and value for money.

Responsibilities for Service personnel

- 13.4 In terms of governance over Service personnel issues, we believe that Defence needs to continue to strike a balance between the Services' responsibility for managing their people and manpower planning, and the need for effective corporate policy. In order to ensure compliance within a common framework and legal requirements and appropriate standardisation, Head Office should continue to set personnel policy, including Terms and Conditions of Service and remuneration. Our work identified that there is scope for further simplification and harmonisation and more consistent application of policies and procedures between the Services, for example the creation of standard military and civilian career fields, competencies and job specifications. However, within this corporate framework, we believe that the single Services should remain responsible for manning, career management (subject to the reforms to the senior career management model set out in the paragraphs below) and manpower planning. This reflects the importance of people to integrated capability generation in the Services and the greater freedom under our proposed model for Service Chiefs to trade between different types of manpower (regular, reserve, MOD civil servant and contractor) to deliver the most effective and efficient workforce mix.

Responsibilities for training

13.5 Previous work has identified weaknesses in the governance of training, partly due to the number of stakeholders involved and a lack of clarity over their responsibilities. We understand that progress has been made in this area recently, but judge that further changes are needed to reflect our proposals on the overall model and allow Head Office to step back from delivery. In our view, Head Office should be responsible for setting overall corporate policy, strategic direction and prioritisation, balance of investment across Defence and assurance, and for setting MOD-specific training and education requirements for civil servants. However, Commander JFC should take on responsibility for setting the high-level joint requirement and Defence training standards; the delivery of training for its allocated enabling capabilities and joint collective training, including the management of and budget for the Defence Exercise Programme, and co-ordinating user requirements for the Defence Academy on behalf of Head Office. There would be no change in responsibilities for the delivery of other military training, with the Services continuing to deliver individual basic and special-to-role training and organic collective training, subject to the work on jointery set out in Part 9.

Skills and length of tenure

13.6 Across Defence there should be greater emphasis on recruiting and developing people with the right skills and expertise, particularly in professional or more specialist functional areas such as commerce, infrastructure, acquisition, finance and HR. Additionally, more deliberate steps are needed to develop the senior leadership with the professional skills required to exercise the responsibilities envisaged for the top posts in the new model. Defence should also move towards a system that, as a principle, allows individuals to stay in key posts for longer than they tend to at present. This would allow them to bring their expertise to bear, enhance continuity and a corporate perspective, and make it easier for them to be held to account for their decisions and performance. Of course, given the range of appointments in an organisation as large and complex as Defence, the need to develop individuals' skills through different postings and to meet the expectations of military and civilian staff, the system will still need to be sufficiently flexible and pragmatic. Specifically, we judge that:

- standard tenures for the most senior posts should, as a guide, be increased from 2 to 3 years to 4 to 5 years;
- 2 to 3 years continues to be the optimum length of tenure for operational command appointments (for example of ships, units and air stations);
- tenures at OF5 / Band B and above should reflect the fact that the military, and to a lesser extent the Civil Service, are bottom-fed organisations. The top talent and those in very high tempo posts should continue to serve for 2 to 3 years to ensure a breadth of experience or to avoid burnout, but the majority should follow a more deliberate and increasingly specialised progression, with tour lengths aligned with the key outputs of the post (for example, key milestones in an equipment project); and,
- the Department should manage senior individuals' performance robustly and must be willing to replace those whose performance falls short.

Senior military career management

- 13.7 The way the careers of senior military and civilian personnel are managed, and the incentives that creates, is key to ensuring the right behaviours and quality of individuals in key posts. We concluded that, whilst the existing, single-Service led military processes do need to be refined, they are not fundamentally flawed. We looked carefully at the argument that single Service loyalties and influences can outweigh the interests of Defence as a whole, which is particularly important in joint or corporate posts, and at senior levels. We found concrete evidence of this quite difficult to come by, partly because motivations among the military reflect a range of influences, both from their single Service and from the joint operations and training and education that has been the norm over the last generation. This perception may also be a symptom of the current model, where the single Services do not have all the levers they need to deliver the military capability for which they are held responsible and accountable.
- 13.8 However, given the increasingly integrated and joint environment in which Defence is undertaken, it is important that single Service views are balanced by a joint perspective. This is reflected in our proposals in Part 9 to form a JFC, which we hope will, among other benefits, further develop joint behaviours across the Armed Forces and champion joint capabilities and the people operating in joint posts. Our conclusions on the management of our senior people also reflect this trend.

The joint assured model

- 13.9 If the future military career management model is to meet both Defence and single Services needs and ensure consistency with the overall operating model, it needs to balance a number of criteria:
- as a rule, delivery functions should not be undertaken in Head Office;
 - processes should be built on trust to harness rather than enforce behaviours;
 - be designed around the breadth and diversity of Defence balancing single Service and Defence requirements;
 - appropriate delegation, empowering Chiefs with the levers to deliver their Services;
 - alignment of authority, responsibility and accountability;
 - the need to develop future environmental experts;
 - designed for the new 1 star generation whose behaviours reflect extensive joint operations and joint staff training; and,
 - support the need for efficiency and reduced overheads.
- 13.10 We assessed a number of models for military career management, including full joint career management, against these criteria and in the light of our proposals on the overall operating model that are set out in the preceding chapters. Full joint career management of the senior military cadre would have the benefits of enabling the best use of the top talent across the Armed Forces, aiding consistency across the Services and incentivising a corporate approach and behaviours in key posts. However, it would centralise from the Service Chiefs a key delivery lever, when the majority of senior military posts are in

single Service structures, it would create a fault line in career management and it risks an increased overhead. On balance, therefore, we do not believe there needs to be such a significant change to the career management model. It seems to us better for the Services to retain the primary responsibility for career management, but to make adjustments to the model to ensure that single Service decisions are aligned with wider Defence interests and a joint perspective.

13.11 We propose therefore that the Department adopts a 'joint assured model' for military career management. This model seeks to preserve the strengths of the current system – the link between career management and the Services' responsibility for force generation, the single Services' knowledge of their people, and the rigour of Service promotion and appointment boards to assess performance and potential. But it also seeks to increase transparency, ensure a Defence perspective is factored fully into relevant appointments and encourage the development of officers with strong joint credentials. Such a model would see:

- the optimisation of procedures around standardised best practice, with only minimal tolerable environmental variations between the Services;
- increased transparency and assurance through the addition of an independent member (ideally with a management or HR background) from the private sector on single Service senior promotion and appointing boards to offer independent scrutiny and challenge that the best individuals are being selected, broaden perspectives and spread best practice. Ideally, 3 members should rotate between the Services and submit an annual assurance report on their findings;
- an extension of the Senior Appointments Committee's (SAC) mandate to include a ratification function for single Service selections to Defence posts, all 3 star posts and 2 stars in key single Service / Defence interface posts. Responsibility for selections should lie with the Service; we would envisage that these would only need to be challenged by exception, if Defence interests were jeopardised;
- the current SAC initiative to identify and develop talent across the Armed Forces through consideration of top military posts and individuals formalized. This should include allowing the Services to propose more than one candidate for an appointment where they judge that they have suitable candidates;
- the SAC's membership reinforced by PUS (for budgetary and management assessment of candidates), a private sector member (to provide an independent view) and Commander JFC (to champion a joint perspective);
- the development of a formal process to involve reporting officers – military and civilian - in the appointment of senior military personnel, to ensure that candidates have the appropriate skills to meet the job specification. The membership of the SAC is designed to ensure that in all cases the employer will have a representative on the committee; and,
- responsibility for recommending future single Service Chief appointments to the Defence Secretary should sit with CDS, advised by the current incumbent.

Civilian career management

13.12 Given the very different career management model for civil servants – which is designed to develop different capabilities and is based on fundamentally different terms and

conditions of services to the military model – we do not believe there is scope to harmonise military and civilians processes to any significant degree. However, the current procedures for open competition, where posts could be filled by either civilian or military candidates, should be clarified. When such competitions occur, they should be based on clear, standardized rules for all candidates, to ensure that the process is fair.

13.13 Our analysis does suggest, though, that the model for the management of Senior Civil Servants and their feeder grades is in need of refinement. Recognising the constraint that the Senior Civil Service is managed as a pan-Government resource and the Cabinet Office already has work in hand to improve how the way this works, we propose that the Department should look to move to a model in which there is:

- improved discipline in the appointing process, with reduced scope for local decisions on whether to use competition or managed moves;
- better succession planning and a smoother process for filling key posts to reduce the frequency with which they are left vacant, often for extended periods;
- increased emphasis on active talent management in the interests of Defence, rather than the current reliance on individuals managing their own careers. Existing departmental initiatives in this area should be given greater impetus, specifically to develop and map talent for the top tier, specialists and key Band B posts;
- a return to the use of past annual reports in selections;
- increased transparency and the sharing of best practice, including through the involvement of the Civil Service Commissioners in all 2 star and above appointments; and,
- a formal mechanism for the involvement of military reporting officers in the appointment of civil servants working for them. Likewise, CDS or VCDS should be involved in the most senior appointments, mirroring PUS's role on the SAC.

Governance

13.14 Overall policy oversight of military and civil senior career management should be provided by an Appointments Sub Committee to the new Board, chaired by a Defence Board NED, with responsibility for assurance that processes for promotions and appointments are appropriate, transparent and, in the case of the military, standardised to meet both Defence and Service needs.

Part 14: Implementation

Key recommendation 13. The new Defence Board should ensure that the implementation of the Defence Reform proposals is properly resourced, coordinated from Head Office and driven by both Ministers and the senior leadership of the Department.

- a. The Defence Secretary should chair a group specifically to oversee implementation.
- b. Implementation should be led at 4 star level. They should be responsible to the Defence Secretary's group and the Defence Board for driving through the detailed design and implementation. They should stay in post to see it through.
- c. Implementation should be one of the Department's top priorities and will need to be resourced accordingly. This will need to cover training for Defence as a whole, as well the core teams who will lead the work.
- d. The Defence Reform Steering Group should be asked to reconvene on an annual basis for the next three years to check on progress, and report to the Defence Secretary, who should in turn report on progress to Parliament.

Key recommendation 14. The model depends on the right leadership and behaviours. The Department has failed in this regard in the past. Behaviours should be front and centre of, and embedded throughout, the implementation. The right example must be set from the top.

- 14.1 This section sets out our recommendations on implementation. In this report, we have produced what we believe to be a coherent set of proposals covering the major areas of Defence. They have been designed, and need to be considered, as a package, with a carefully thought through set of checks and balances.
- 14.2 The model provides the top level framework for Defence and a clear direction of travel for the work that the Department will now need to conduct. We have not produced a detailed blueprint. This is deliberate. There is a limit to what an external group should or could do. The senior leadership of Defence understands the detail better, and will be the people responsible for making it work. They must now take the lead.
- 14.3 Any model, however good, will fail if it is not implemented well. How the proposals are implemented, and how the change is led will be crucial. It is important that this is done in a way that remains true to the intent of this report. It is also in the detailed design and implementation work that the necessary savings should be identified.
- 14.4 The Department's record on implementing major reforms is mixed. We have considered why change fails, both in the MOD and externally, and what is necessary for it to succeed. Our analysis is set out at Annex G. The main issues were around leadership, vested interests, culture, engagement, addressing the whole 'system' and implementation.
- 14.5 Building on this analysis, we have identified some conditions for success in implementation. These are also set out in Annex G. A few are worth emphasising here. Many will seem obvious, but they are no less important for that.

- 14.6 First, implementation needs to be owned, co-ordinated and driven from the very top. We recommend the Defence Secretary chairs an implementation group and a single 4 star is charged with overseeing implementation to achieve the co-ordination and drive. The ownership must be broader. The reform will not succeed unless the senior leadership is united behind it. That is true in most organisations, but particularly Defence. Once a decision has been made on the new model, the entire senior leadership must ensure they personally understand, sell and drive the delivery of it. If they are not able to do so, they should leave.
- 14.7 Secondly, the vision for reform needs to be set out clearly, and communicated persistently and consistently throughout the organisation. Staff need to be clear what the model is, what it means for them, and how they are involved. We understand the Department is considering producing a blueprint in the Autumn, which would set out what the end state should look like, and would cover not only Defence Reform recommendations but also the other major changes the Department is embarked on. We support this proposition. Setting out all the changes in one place makes them more likely to be coherent and easier to explain. It would also be an opportunity to mark clearly that it is the Department's view of the future, not just the Steering Group's. The sooner that shift is made the better.
- 14.8 Thirdly, implementation will need to be properly resourced throughout Defence, specifically in manpower, finance, training and leadership attention. This is not easy in the current financial situation, doubly so when freeing up the resource to invest in change will be seen as taking money from the front line. In the short-term it is; but getting the organisation to function effectively and efficiently is an important investment in the front line of the future.
- 14.9 Fourthly, implementation will need to be carefully planned, sequenced and managed. Change on this scale will need a central team to ensure coherence between the various parts. They should also ensure that the intent of the proposals is neither diluted nor deflected. The planning will need to manage carefully the risks inevitably involved in any such change, particularly to operations and to safety. It will also need to be sequenced so that the key enablers are put in place first and to take account of the rate at which the Department's headcount reduces.
- 14.10 Fifthly, the hardest part of any reform such as this, is effecting the changes to behaviour necessary to reinforce the organisational and process improvements; they will need particular focus in implementation. Much of the model is designed around trying to get the right behaviours in the right places. Our work suggests that a number of behaviours are going to be particularly important in the new model: putting Defence first, being focused on outputs, prizing affordability, understanding your role and sticking to it, honesty, holding to account, valuing and sharing information and trust. But we are deliberately not making recommendations on specifically what they should be. To have any chance of success, they need to be developed and owned by the Department itself, preferably through a process of engagement and consultation with staff. Once the key behaviours have been defined, the Department will need to invest significantly in embedding them. For that to happen, people will need to be clear what they are and how they are relevant to them, see them being demonstrated actively from the top, and see any divergence from the new behaviours being tackled robustly.
- 14.11 We believe that implementation should start promptly and proceed at pace. We are pleased that some of our earlier proposals, on infrastructure and corporate services, have already been implemented. If these proposals are agreed, we believe that the changes to the top structure (e.g. appointing a Commander JFC designate, moving to the new 3 star

structure in Head Office) should be made quickly. This is so that the further design work is overseen by the individuals who will lead those areas into the future.

- 14.12 The implementation of the new financial model will clearly take longer. It will take time to put some of the enablers into place, such as the necessary skills within the Commands, the single version of the financial truth, and clear terms of delegation. Some have argued that the books must be completely balanced before the new financial model could work. Others have argued that at least the early years would need to be broadly in balance, allowing the Commands to make their own recommendations about where savings in later years might be found. Clearly the books need to be balanced irrespective of what financial model is used. We believe the Department should move in the direction of the new model as a priority, in stages as the enablers are put in place. The Department will wish to consider the speed, in consultation with HM Treasury, with an eye to the overriding need to retain financial control.
- 14.13 Our final recommendation is that this Steering Group should be reassembled each year for the next three years to take stock of progress, and report on it to the Defence Secretary, who would in turn report to Parliament. The aim of this is to provide an assurance mechanism that can check that the right actions are being taken, that they are being progressed with sufficient urgency, and that they are implementing not just the specific recommendations in this report but also the broader intent of creating an organisation that is effective and efficient in delivering one of the most important roles in Government.

Annex A - Defence Reform terms of reference

The Review is to be a fundamental examination of how the Ministry of Defence is structured and managed. Its purpose is to develop a new model for departmental management, which is simpler and more cost-effective, with clear allocation of responsibility, authority and accountability.

The Review should take account of:

- the Secretary of State's vision of a leaner and less centralised Department that is built around policy and strategy, the Armed Forces, and procurement and estates;
- the need for a more effective and efficient approach to force generation;
- the need to deliver integrated Defence outputs, including in current operations, and the importance of joint Service activity and effective military / civilian cooperation for that purpose;
- the need to reduce MOD running costs significantly;
- any decisions of the Strategic Defence and Security Review which significantly impact on Defence organisation and management; and,
- the Permanent Secretary's role as principal Accounting Officer for the Defence budget.

The Review will be overseen by a steering group (the Defence Reform Unit) chaired by Lord Levene, the other members of which will be:

Baroness Noakes
Dr David Allen
Raymond McKeeve
Björn Conway
George Iacobescu
Gerry Grimstone
General Sir Nick Houghton
Ursula Brennan¹

Detailed work in support of the Review will be undertaken by a small team within the Ministry of Defence.

The Review should aim to provide final recommendations by the end of July 2011.

1. Ursula Brennan was replaced by Jon Day on the latter's appointment to the position of 2nd PUS in February 2011

Annex B - Consultation

1. Steering Group members and the supporting team in the MOD have consulted widely both internally and externally to obtain views and understand lessons learned in order to provide a balanced set of recommendations.
2. The members of the Steering Group between them consulted with all the members of the Defence Board and with other 3 star and 2 star personnel across Defence. They also visited operational establishments to understand how they work. In addition Lord Levene and other Steering Group members have consulted with past Chiefs of Defence Staff and senior officials. Our thanks in particular to, Field Marshall The Lord Bramall, General The Lord Walker, Admiral The Lord West, Sir Ian Andrews, Sir Richard Mottram, Sir David Omand, Sir Kevin Tebbit, and Sir Clive Whitmore for their valuable assistance.
3. The Team has also consulted other government departments in the UK and in other countries, including USA, France, Germany, Canada, Denmark, Sweden, Israel, Australia and New Zealand who are undergoing or are about to embark on similar projects, to learn from their experiences and pick up best practice.
4. We are also grateful to the think tank and academic community who offered their thoughts: our thanks in particular to Lord Hennessey and Professors Michael Clark, Malcolm Chalmers, Hew Strachan and Trevor Taylor, and to Catherine Haddon at the Institute of Government. Thanks also to David Berteau and colleagues from the Centre for Strategic and International Studies in Washington DC.
5. The Team has also held discussions with a number of Trade Union officials who represent a diverse group of personnel.

Annex C - Full list of recommendations

Key recommendation 1. Strengthened top-level decision-making should be centred on a new and smaller Defence Board chaired by the Defence Secretary, with another Minister, the PUS, CDS, DG Finance, Chief of Defence Materiel and three Non-Executive Directors as members, responsible for providing strategic direction to the Department and holding it to account. The Department should place an emphasis on individual executive accountability, with the formal committee structure reduced and simplified.

- a. The new Defence Board should be the primary decision-making body for non operational matters. It should meet ten times a year. It should subsume the functions of the current Defence Board.
- b. Formal sub-committees to the new Defence Board should be established to conduct investment approvals (Investment Approvals Committee), audit (Defence Audit Committee) and to oversee the career management system for senior civilians and military officers (Appointments Committee).

Key recommendation 2. The number and responsibilities of **MOD Ministers** should be reviewed to align with the new model.

Key recommendation 3. The Permanent Secretary and Chief of Defence Staff should continue jointly to lead Defence, but with their roles and responsibilities clarified. PUS's responsibilities include ensuring that the Defence Programme is affordable. As well as being responsible for the conduct of operations, CDS should represent the views of the Armed Forces on the new Board.

- a. PUS and CDS should be jointly responsible for strategy and should chair a new 'strategy' group to support them in delivering this function.
- b. CDS should continue to convene a Chiefs of Staff Committee meeting in 'operations' mode to support him in his operational responsibilities. He should also convene a Chiefs of Staff Committee meeting in 'Armed Forces' mode to inform but not constrain his contribution on the new Defence Board.

Key recommendation 4: The **Head Office** performs a vital role in Defence, supporting PUS, CDS and Ministers. It should be clear on what that role is, have the people and skills to do it properly, and resist the temptation to do more. Our view is that the role needs to be more strategic than now, and as a result (and as a crucial enabler to this) the Head Office should be considerably smaller. This applies to the top structure as much as the rest.

- a. Given the challenges facing Defence today, the 2nd PUS and VCDS posts should be retained, to allow PUS and CDS to focus on the highest priority tasks, and their roles should be clarified. VCDS should support CDS in his increased role as the single military adviser on the Defence Board. 2nd PUS should lead the 'enable' function and act as head of profession for MOD civil servants. Together they should drive Transformation.
- b. The 3 star / Director General (DG) structure should be revised to reflect the new model. At its core should be four posts leading the policy, military strategy, finance and military capability functions. This should enable the reduction of at least one 3 star / DG post. The Chief Scientific Adviser should become a 3 star. The Head Office DG Commercial post has lapsed. The Department should consider whether the Chief of Defence Intelligence and DG Human Resources and Corporate Service posts continue to merit a 3 star given the changes to their responsibilities.

- c. The Department should take stock of progress in implementation in two years' time, and consider whether the proposed role and structure of the Head Office, including the requirement, role and seniority of the 2nd PUS and VCDS remain valid.

Key recommendation 5. The focus of the **Service Chiefs** should be on running their Service, including the development and generation of forces within their allocated budget, combined with their existing responsibility for the custodianship of their Service, and they should be empowered to perform their role effectively.

- a. The Service Chiefs should remain responsible for the overall leadership and custodianship of their Service, and should continue to provide operational advice to CDS and, when required, Ministers, on the employment of their Service.
- b. The Service Chiefs' 'direct' role in departmental strategy, resource allocation and Defence management should be reduced, though PUS and CDS should continue to seek their advice on issues relating to their Service as appropriate.
- c. As a result of these changes to the role of the Service Chiefs, and to avoid duplication, the Services should no longer need a 4 star Commander-in-Chief, although this will also require further changes of responsibility at the 3 star level.
- d. The Service Chiefs' principal supporting staff should be based at their Service headquarters, with a much reduced staff, headed at two-star level, based in Head Office.

Key recommendation 6. Financial management throughout the Department should be considerably strengthened and there should be a widely-shared culture of managing Defence within available resources and realistic assumptions about the longer-term budget. At the centre, the DG Finance should be a member of the new Defence Board, chair its Investment Approvals Committee (IAC) and set standards and policy for financial management across Defence. Responsibility and accountability should be aligned for all Top Level Budget (TLB) holders, with responsibility and budgets for detailed capability planning passing to the Service Chiefs and Commander Joint Force Command.

- a. The Head Office should be smaller, more strategic but stronger. It should advise the new Defence Board on high level balance of investment, set strategic direction and provide a strong corporate and financial management framework for the Department.
- b. The Service Chiefs should take responsibility (and ultimately own the budget) for detailed capability planning and propose (through a Command Plan) how best to deliver the strategic direction set by the Defence Board across all lines of development. Once the Plan is agreed by Head Office, Chiefs should be given greater freedom to flex within their budgets, provided they continue to deliver the agreed objectives within their delegated resources. The Plan should be refreshed annually, including to enable cross TLB adjustments where necessary, but the Department should aim to make major changes only at SDSRs.
- c. Major investments should continue to be scrutinised by the Investment Approvals Committee (IAC), chaired by DG Finance. Within a strict approvals process, he should delegate some authority for smaller projects to Directors of Resources in the relevant TLBs. The Department should rationalise current processes as far as possible (but as a minimum to ratify the strategic requirement, affordability and sequencing of these major investments). The Department will need to consider with the Treasury how quickly it is prudent to move to this more delegated model.
- d. DG Finance and the TLB holders should jointly appoint TLB Directors of Resources (formerly Command Secretaries). The post should report to them jointly. The Directors

of Resource must have the necessary financial skills and experience and be properly supported.

- e. The new Defence Board should take an active role in managing departmental performance and risk at the strategic level, and the PUS should hold TLB holders to account at least on a quarterly basis for delivering their objectives within their delegated budgets.
- f. Financial management in the Department should be based on a single version of the financial truth. The Department should develop and resource a strategy for all management information, encompassing clear governance, processes and training, and it should invest in improving core information systems by bringing together financial, personnel and other management information in one place.

Key recommendation 7. Some military capabilities have to be integrated on a 'joint' basis in order to effectively enable operations. Such enabling capabilities need more effective proponenty within Defence. To that end, a **Joint Forces Command** should be created to manage and deliver specific joint capabilities and to take the lead on joint warfare development, drawing on lessons and experimentation to advise on how the Armed Forces should conduct joint operations in the future. Certain joint and Defence capabilities should continue to be delivered on a 'lead Service' basis.

- a. The Joint Forces Command should be led by a military 4 star, and should have responsibility for commanding and generating the joint capabilities allocated to it and setting the framework for joint enablers that sit in the single Services.
- b. As a result, a number of military organisations currently managed by the Central TLB should pass to the Joint Forces Command.
- c. The Permanent Joint Headquarters should sit within the Joint Forces Command, but report for operational purposes direct to the CDS.
- d. In implementing the Joint Forces Command, the Department should systematically review joint or potentially joint capabilities and functions across the Services against the criteria set out below to determine which might be rationalised, the merit of further joint organisations, and which should transfer to the Joint Forces Command and which should transfer to a lead Service.

Key recommendation 8. A model for running military **operations** centred on the Permanent Joint Headquarters (PJHQ) remains the optimum one. In principle, and to simplify roles, the Department should look to make PJHQ responsible for all military operations. The Department should consider whether those operations not currently run by PJHQ should transfer to it.

Key recommendation 9. The **Chief of Defence Materiel** (CDM) has a crucial role in managing through the consequences of the over-committed equipment and support programme and should have the authority he needs to do that.

- a. CDM should be a member of the new Defence Board.
- b. We endorse the recent decision to give him the lead for commercial and industrial policy on behalf of Defence.
- c. The Department should consider whether making CDM an additional Accounting Officer for expenditure on equipment and support would usefully further strengthen his authority.

- d. We welcome the development and increased use of the independent costing capability provided by the Cost Assurance and Analysis Service. The Department should mandate the use of this service more broadly across Defence to support investment decisions and planning.
- e. We note that CDM's Materiel Strategy is examining the scope, structure and size of the Defence Equipment and Support organisation, and is due to report later this year. That work should build on the recommendations set out in this report.

Key recommendation 10. Enabling services should be delivered as efficiently, effectively and professionally as possible, including through the creation of the new Defence Infrastructure and Defence Business Services organisations on which we advised the Defence Secretary earlier in the year.

- a. The Department should keep under review the future scope of the Defence Infrastructure Organisation and Defence Business Services Organisation as it implements its infrastructure and corporate services transformation programmes.
- b. The DG Finance should be given the authority to direct standards, procedures and staffing for the finance function across the Department, in line with the changes already made to the HR and commercial functions.
- c. As a consequence of the changes recommended here and in Part 9, the Department should look to disestablish the Central TLB.

Key recommendation 11. In line with the overall capability planning and financial management model, the Department should afford greater priority to managing its **'human capability'** as a strategic resource, to ensure a better balance with its consideration of equipment capability. Specifically, it should develop the 'Whole Force Concept,' which seeks to ensure that Defence is supported by the most cost-effective balance of regular military personnel, reservists, MOD civilians and contractors.

- a. The Department should reduce the size of the senior cadre of Defence and the management levels below it. To enable this, the Department should review all non-front line military posts from OF5 (Captain / Colonel / Group Captain) and civilian posts from Band B (Grade 7), to determine the need for the post, whether it needs to be civilian or military, and optimum management structures.

Key recommendation: 12. The Department should manage and use its senior military and civilian personnel more effectively. With oversight of the 'Appointments' sub-committee to the new Board, the **career management** system should be designed so that individuals stay in key senior posts for longer and the processes for promotions and appointments are transparent and (on the military side) standardised, to provide assurance that both Defence and Service needs are being met.

- a. A new model for the management of senior military officers – the joint assured model – should be introduced, which would include a role for an independent member on Service promotion and appointing boards; an enhanced role for the existing Senior Appointments Committee, to which PUS, Commander Joint Forces Command and an independent private sector representative would be added as members; and a more formal process for the involvement of reporting officers in the appointment of senior military personnel, and vice versa for civilian appointments;
- b. The Department should improve its talent management and succession planning in the Senior Civil Service and the management level below, and involve the Civil Service Commissioners for all appointments at 2 star and above and of CDS or VCDS for the most senior appointments.

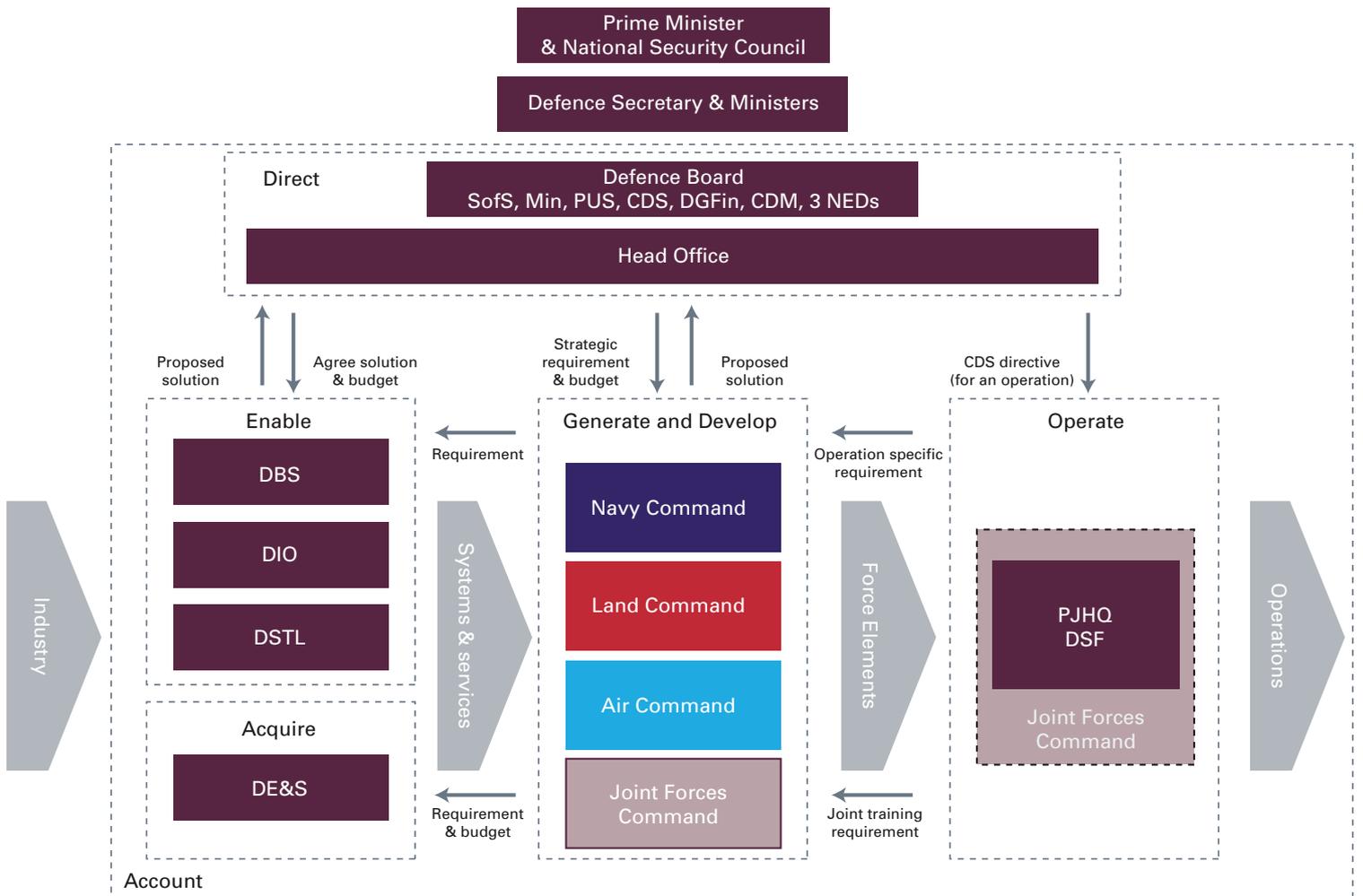
- c. The Department should move to a model where most individuals stay in post for longer and the most senior civilian and military posts are held, as a rule, for 4 to 5 years.
- d. Defence should place greater emphasis on recruiting or developing people with the right skills and expertise, particularly in professional or more specialist functional areas.
- e. The Head Office should continue to set high level training and education policy, but joint requirement setting and co-ordination should be delegated to Joint Forces Command to the maximum degree possible. We do not see any changes to single Service responsibilities.

Key recommendation 13. The new Defence Board should ensure that the **implementation** of the Defence Reform proposals is properly resourced, coordinated from Head Office and driven by both Ministers and the senior leadership of the Department.

- a. The Defence Secretary should chair a group specifically to oversee implementation.
- b. Implementation should be led at 4 star level. They should be responsible to the Defence Secretary's group and the Defence Board for driving through the detailed design and implementation. They should stay in post to see it through.
- c. Implementation should be one of the Department's top priorities and will need to be resourced accordingly. This will need to cover training for Defence as a whole, as well the core teams who will lead the work.
- d. The Defence Reform Steering Group should be asked to reconvene on an annual basis for the next three years to check on progress, and report to the Defence Secretary, who should in turn report on progress to Parliament.

Key recommendation 14. The model depends on the right **leadership and behaviours**. The Department has failed in this regard in the past. Behaviours should be front and centre of, and embedded throughout, the implementation. The right example must be set from the top.

Annex D - Defence operating model: future



Annex E - Core responsibilities and accountabilities of top posts

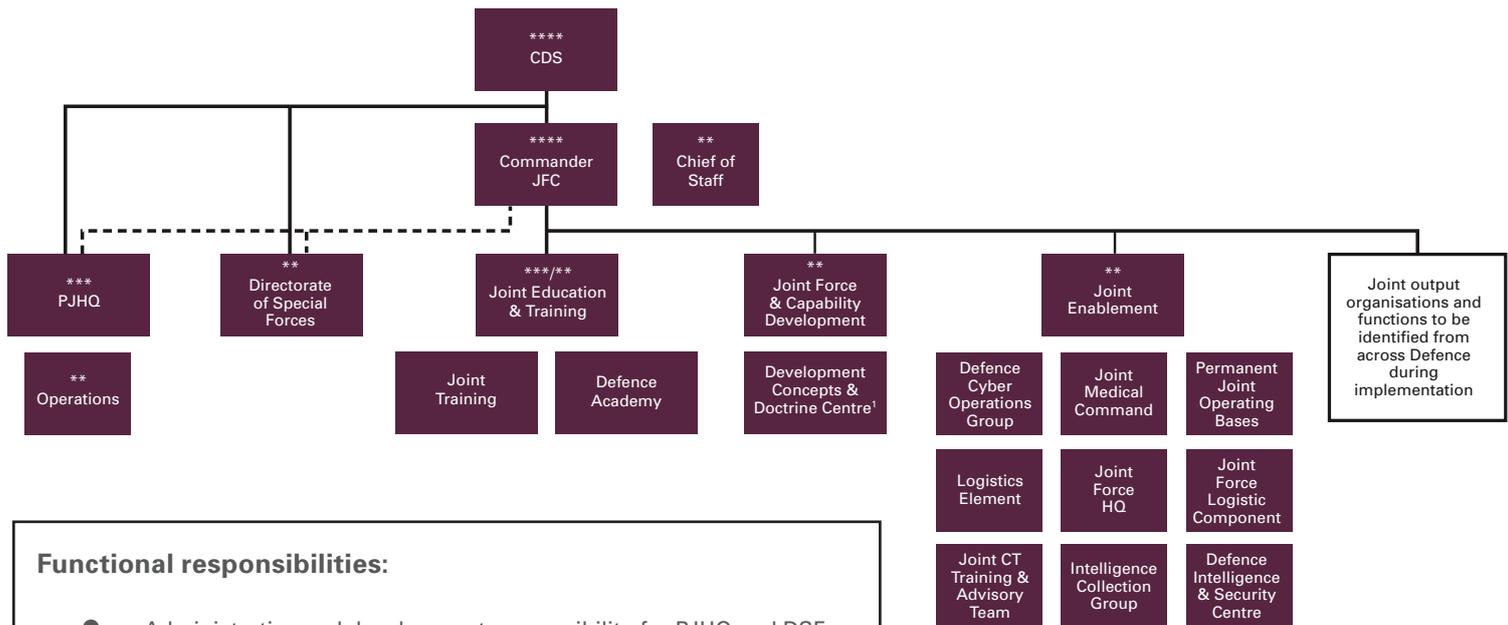
Position	Responsible for	Accountable to
Permanent Secretary	<ul style="list-style-type: none"> ● leading Defence, with CDS ● defence and nuclear policy advice to Ministers and the Board ● Accounting Officer duties, including organisation and management of Defence and holding TLB holders to account ● development of an affordable programme ● together with CDS, setting strategy for Defence 	<p>SofS</p> <p>SofS</p> <p>SofS / Parliament</p> <p>SofS</p> <p>SofS</p>
Chief of Defence Staff	<ul style="list-style-type: none"> ● leading Defence, with PUS ● planning, direction and conduct of all military operations as Strategic Military Commander ● professional head of the Armed Forces ● military advice, including single Service views, to Ministers, wider Government and the Board ● together with PUS, setting strategy for Defence 	<p>SofS</p> <p>SofS / wider Government</p> <p>SofS</p> <p>SofS / wider Government</p> <p>SofS</p>

Position	Responsible for	Accountable to
Service Chiefs	<ul style="list-style-type: none"> ● leadership and long term health of their Service, including professional standards, reputation, ethos, welfare and morale ● development and generation of forces ● managing TLB to deliver the Command Plan within delegated budget and corporate framework ● commissioning DE&S for equipment and support outputs ● advice to CDS and Ministers on the operational employment of the Service ● contribute to CDS's formulation of strategic military advice 	<p>SofS</p> <p>PUS / CDS</p> <p>PUS / CDS</p> <p>PUS</p> <p>CDS / SofS</p> <p>CDS</p>
Chief of Defence Materiel	<ul style="list-style-type: none"> ● deliver equipment and support to meet the requirements of Commands ● managing TLB to deliver DE&S plan within delegated budget and corporate framework ● logistic support to current operations ● defence commercial and industrial policy advice ● leading MOD relationship with industrial suppliers ● as National Armaments Director, representing UK acquisition interests in international fora, including NATO and the EU 	<p>Service Chiefs / CJFC</p> <p>PUS</p> <p>PUS</p> <p>PUS</p> <p>PUS</p> <p>PUS</p>
2nd Permanent Secretary	<ul style="list-style-type: none"> ● deputising for PUS ● co-ordinating delivery of top level decision making and running the Head Office (with VCDS) ● oversight and co-ordination of the 'enable' function – including corporate support services, infrastructure, science and technology and safety ● head of profession for MOD Civil Servants ● leading Defence Transformation (with VCDS) 	<p>PUS</p> <p>PUS / CDS</p> <p>PUS</p> <p>PUS</p> <p>PUS</p>

Position	Responsible for	Accountable to
Vice Chief of the Defence Staff	<ul style="list-style-type: none"> ● deputising for CDS (in particular as Strategic Military Commander) ● co-ordinating delivery of top level decision making and running the Head Office (with 2nd PUS) ● leading senior military judgement for the future development of the Armed Forces ● leading Defence Transformation (with 2nd PUS) 	<p>CDS</p> <p>PUS / CDS</p> <p>PUS / CDS</p> <p>PUS</p>
Commander Joint Forces Command	<ul style="list-style-type: none"> ● command of JFC with responsibility for the development and generation of allocated capabilities ● managing TLB to deliver Command Plan within delegated budget and corporate framework ● commissioning DE&S for equipment and support outputs relating to allocated capabilities ● advice on the operational employment of allocated capabilities ● integrating, championing and supporting the development of enabling capabilities held within the single Services ● joint warfare development to ensure the effective delivery of joint operational capability 	<p>PUS / CDS</p> <p>PUS / CDS</p> <p>PUS</p> <p>CDS</p> <p>CDS / PUS</p> <p>CDS / PUS</p>

Annex F - Initial Joint Forces Command structure

(subject to change during design / implementation)



Functional responsibilities:

- Administrative and development responsibility for PJHQ and DSF.
- Conceptual Force Development for Defence in the 10/20 year horizon for the Head Office.
- Future capability requirement setting to ensure joint and combined interoperability and an integrated collective capability.
- Dynamic Force Development changes, including the lead for Urgent Operational Requirements resulting from operational lessons.
- The development of enabling capabilities, in concert with the Services, across Defence to ensure coherence across the joint arena.
- The Senior Responsible Owner for Information, Surveillance, Targeting, Acquisition and Reconnaissance (ISTAR) and for Command, Control, Communications and Computers (C4).
- Empowered joint warfare development, including: strategic and operational lessons, joint doctrine, joint and combined collective training, and experimentation.
- Joint Training and Education requirement setting for joint capabilities and wider joint and combined training.
- Setting theatre and contingency standards and evaluation of current Responsive Force Readiness in support of contingency.

Notes:
 1. DCDC functions may be split
 - - - - - Administrative reporting chain

Annex G - Lessons from past organisational reform

A note by the Defence Reform Unit

1. It is important to understand why change fails, both in the MOD and externally, and what is necessary for it to succeed. Reputedly, around 70% of major change programmes fail to achieve all their objectives, often for common reasons that recur across programmes and over time in the public and private sector².
2. We looked at the recent history of change in the MOD, to determine whether any of these challenges are particularly acute in Defence or whether there are any additional challenges unique to Defence. There was little that was unique. The main issues were around leadership, vested interests, culture, engagement, implementation, and addressing the whole 'system'. These are set out below.
3. Two points are worth making as context. First, it would be wrong to assume that change typically fails in Defence. Very significant modernisation and manpower savings have been delivered since the 1990s, while continuing to deliver core outputs. It is a much smaller organisation and works quite differently to the MOD of ten or twenty years ago. But the institution tends to struggle with any significant changes to the balance of power within Defence (eg: between the three single Services and joint organisations or the Head Office), and with implementing significant behavioural or cultural change. Second, there are elements of how Defence Reform was set up that aimed to address some of the issues set out below. Most notably, the establishment of the external Steering Group for Defence Reform was designed to challenge the organisation's tendency towards conservatism.
4. There are some particular issues around **leadership** in Defence. Given the very federated nature of Defence, and the dual leadership of PUS and CDS, pan departmental change is impossible unless the Defence Secretary, PUS and CDS are all united behind it, and tends to fail if the Chiefs do not actively support it as well. This can be tricky to achieve and trickier to sustain, given the nature of the issues and the rapid turnover of the most senior appointments. It is also hard for the most senior leaders to devote the time they need to drive reform in Defence; the nature of politics and current operations, and also cultural preferences, draws leaders from the strategic to the tactical. Many of these issues also exist below the most senior leadership, where tour lengths, particularly (though by no means exclusively) in the military, can be even shorter. This means that those leading and managing change do not remain in post for long enough to see change through. At worst, people are rewarded for their initiative in instigating change, but then move on, leaving the implementation to others, who often then stop it (or are unaware of any implementation plan) and instigate their own change.
5. Like in any large organisation, '**vested interests**' exist. These are unusually strong in Defence, where specific allegiances often trump corporate ones. The single Services are often cited in such discussions, but are of course only some of many, albeit ones with unusually strong identities and ability to resist change they dislike. The strength of these interests coincides with the weakness of the corporate decision making culture (often consensual, with many people effectively able to veto decisions) and the culture of holding to account (where a tendency to 'consent and evade' is permitted).

2. The statistic is drawn from the academic John Kotter's work on leadership over the last 30 years, which has proved quite resilient since.

6. There are three related **cultural** issues. First, Defence does not like change: the organisation is largely 'bottom-fed' - the senior cadre in the Department is filled primarily by home-grown staff, civilian (although this has begun to change significantly) as well as military, which tends to perpetuate conservatism and insularity; this is common to military organisations worldwide. Secondly, there is also a view that the Department has simply taken on too much ill-considered, piecemeal change over the last 20 years, which has led to change fatigue and scepticism about the benefits of any new initiatives among staff throughout the organisation. Thirdly, the Department has often under-estimated how hard it is to change behaviours and culture, the resources required to do it, and the senior commitment involved; so the Department has failed to build the foundations for real changes in working practice and expected too much, too soon without support for those affected. As a result, the Department has not built a shared culture of relentless improvement.
7. Some past attempts at reform have, for understandable reasons, focused on elements of a process or organisation, rather than **the system as a whole**, which has sometimes resulted in displacing problems and / or not identifying the root cause. An example is acquisition, where successive attempts at reform have concentrated on acquisition delivery, rather than – as Bernard Gray's review suggested – seeing procurement as a symptom rather than a cause of the problems in the Department's decision making.
8. The Department has often underestimated the importance of good, transparent communications and **genuine engagement**. This may stem from the 'need to know' culture, a concern about leaks, and a cultural tendency to see problems as too purely intellectual. This leads to a tendency to communicate late and to engage insufficiently, with the result that the reforms are not as well informed as they could be and that the people who have to implement them are not as bought-in as they need to be.
9. The Department has also failed in how it approaches **implementation**. Experience of the Defence Change Portfolio – the Department's mechanism to oversee implementation of the most significant changes across Defence – is that change programmes often fall down by failing to follow best practice (available both from within the MOD and externally) in programme management. Partly, this is because change is not resourced sufficiently, in terms of manpower, finance, training and leadership attention. Partly it is because people and attention move on, and implementation is not driven through. A particularly acute challenge has been freeing up the resource to invest in change, when it can be seen, in the short term at least, as taking money from the front line.
10. Recognising these lessons, and broader public and private sector experience, we identified the following conditions for success in transformations such as this. They are:
 - **Leadership:** Defence's leaders – Ministers, senior military and senior civilians – are role models who visibly lead and champion this change, and see it through;
 - **Vision:** the change is driven by a coherent, unified, vision-led approach, which all leaders can adopt;
 - **Engagement:** people - senior leaders and throughout - are consistently engaged to obtain their contribution and their buy-in;
 - **Communication:** leaders and key stakeholders 'sing from the same hymn sheet' with strong, consistent communication of why and how;
 - **Effective People:** the change is clearly and visibly focused on skills, competences and incentives as well as structures and processes;

- **Implementation:** a strong emphasis on incremental, sustainable, implementation planning with robust change and risk management;
- **Resourced:** the change is sufficiently resourced in terms of manpower, finance, training and leadership attention
- **Innovation:** implementation visibly encourages original and radical thinking, and leverages both independent expertise and internal knowledge;
- **Honesty:** the programme's tone inspires confidence, enthusiasm and a 'sense of opportunity' while being realistic about cuts and challenges; and,
- **Benefits:** a clear focus on the benefits in effectiveness and efficiency, that clearly outweigh the effort and risk involved.

11. The Department will want to think carefully about these as it plans implementation, engages with its people, and establishes leadership of change.

Annex H - Glossary of terms

Definitions provided here reflect the usage in this report, and not necessarily usage in the Ministry of Defence or elsewhere.

2nd PUS	Second Permanent Under Secretary
CDM	Chief of Defence Materiel
CDS	Chief of the Defence Staff
Central TLB	The central budgetary organisation, including Head Office, corporate service agencies, Intelligence, MOD police and guards, the Defence Academy and the Surgeon General's area.
Command plan	The business plan, defining outputs, performance and controls for the Command TLB.
Command TLB	Collective noun for the military TLBs: Fleet Command, Land Command, Air Command, and Joint Forces Command. Replaces the collective noun 'Front Line Command', which covered the Services and dated from a time when there were also separate Principal Personnel Officer TLBs
CSA	Chief Scientific Advisor
CJO	Chief of Joint Operations
DBS	Defence Business Services – see Part 12
DCDC	Development, Concepts and Doctrine Centre
DCDS	Deputy Chief of the Defence Staff – a military 3 star appointment in Head Office
Defence	See MOD
DG	Director General – a civil servant 3 star appointment
DIO	Defence Infrastructure Organisation – see Part 12
DSF	Director Special Forces
Directors of Resources	The finance director post in each of the TLBs. It is a re-titling of the Command Secretary post to emphasise that their primary responsibility is their financial duties – see Part 8.
DSTL	Defence Science and Technology Laboratory
Force Development	A resource informed process by which the future force is designed, tested and developed to meet policy requirements, strategic trends, emerging threats, and technological and operational opportunities effectively and efficiently.
Force Elements	Force Elements, are the building blocks of trained, equipped capable people, typically company, battery or squadron sub-units, that make up the Force Structure. (Source: Acquisition Operating Framework (AOF))

Force Generation	The process of providing suitably trained and equipped forces, and their means of deployment, recovery and sustainment to meet current and future tasks, within required readiness and preparation times. (Source: DCDC)
Full Command	The military authority and responsibility of a commander to issue orders to subordinates. It covers every aspect of military operations and administration and exists only within national services. (Source: DCDC)
JFC	Joint Forces Command – see Part 9
MOD	The integrated Ministry of Defence incorporating the Department of State, strategic Military HQ, Royal Navy, Army and Royal Air Force, support organisations and agencies (for the purpose of this report - MOD, Defence and the Department are used interchangeably; we have not used it, as some do, to refer only to the Head Office)
PJHQ	Permanent Joint Headquarters – CJO’s TLB
PUS	Permanent Under Secretary (or simply Permanent Secretary)
SAC	Senior Appointments Committee
Service Chiefs	Collective noun for the heads of the Royal Navy, Army and Royal Air Force. Not to be confused with Chiefs; this also covers CDS and VCDS.
TLB	Top Level Budget – the main budgetary building blocks of Defence
VCDS	Vice Chief of the Defence Staff



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