Ministry of Defence

Defence Resources Secretariat
Ministry of Defence
Main Building [redacted]
Whitehall
London SW1A 2HB
United Kingdom

Telephone: [redacted]
E-mail: **DGFinance-SecParliamentaryFOI@mod.uk**

Reference: **FOI2014/05367**

[redacted]

E-mail: [redacted]

Date: **23 October 2014**

Dear [redacted]

Thank you for your e-mail of 24 September 2014 requesting the following information:

> *I would be grateful if you could e-mail me a copy of the Annual Budget Cycle 15 Main Instructions and related technical instructions.*

I am treating this as a request for information under the Freedom of Information Act 2000. A search for the information has now been completed within the Ministry of Defence, and I can confirm that information in scope of your request is held.

I attach the information in scope of your request that can be released, namely the Annual Budget Cycle (ABC) 15 Instructions. It is perhaps worth explaining that for ABC 15 we have combined the Main Technical instructions into a single document with a number of annexes.

Some of the information in scope of your request is exempt from release under Sections 43(2) and 35(1) of the Act, and has therefore been withheld. Since these are qualified exemptions, although the MOD considers they apply to information, the Department is required to decide where the balance of the public interest lies in releasing or withholding the information.

Section 43(2) deals with disclosure which would, or would be likely to, prejudice the commercial interests of any person. In favour of release is the greater level of public transparency which release would allow, and the increased understanding of MOD financial planning which the public would gain. Set against release is the damage which public disclosure of the Corporate Planning Assumptions (CPAs) used to create the MOD's forward spending plans could have in terms of prejudicing future contract negotiations with suppliers. In view of these considerations, we consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the CPAs.

Section 35(1) deals with providing space to allow the formulation or development of government policy. In favour of release, we recognize the greater level of public scrutiny which this would afford, and transparency around the MOD's financial decision making. Set against this, there is a public interest in withholding the information. The MOD's planning process looks out over a ten year period and therefore includes assumptions for which policy has yet to be set or where contractual arrangements have yet to be made. In the case of Service and Civilian pay, increases beyond the current period of Public Sector pay restraint have still to be set and public disclosure of the CPAs could influence future deliberations of the Armed Forces Pay Review Body (AFPRB) and negotiations with Trades Unions. For that reason, we are withholding this information under Section 35(1) of the Act.

In addition, some information is being withheld under Section 40 (Information which is Personal Data whose release is governed by the Data Protection Act (DPA). Where elements of the information in scope constitute the personal data of third parties, this has not been released. Since Section 40 is an absolute exemption, no Public Interest Test is required.

If you are not satisfied with this response or you wish to complain about any aspect of the handling of your request, then you should contact me in the first instance. If informal resolution is not possible and you are still dissatisfied then you may apply for an independent internal review by contacting the Information Rights Compliance team, 1st Floor, MOD Main Building, Whitehall, SW1A 2HB (e-mail CIO-FOI-IR@mod.uk). Please note that any request for an internal review must be made within 40 working days of the date on which the attempt to reach informal resolution has come to an end.

If you remain dissatisfied following an internal review, you may take your complaint to the Information Commissioner under the provisions of Section 50 of the Freedom of Information Act. Please note that the Information Commissioner will not investigate your case until the MOD internal review process has been completed. Further details of the role and powers of the Information Commissioner can be found on the Commissioner's website, http://www.ico.gov.uk.

I hope you find this helpful.

Yours sincerely,

Defence Resources Secretariat

Enclosures:

1. 20140613 ABC 15 Main Instructions-Final
2. 20140613 ABC 15 Annex A-Timetable-Final
3. 20140613 ABC 15 Annex B-CPAs-Final
4. 20140613 ABC 15 Annex C-Manpower-Final

Ministry of Defence

ANNUAL BUDGET CYCLE 15

INSTRUCTIONS

13 June 2014

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INTRODUCTION

1. The purpose of these instructions is to provide direction and guidance on the conduct of ABC 15. They are intended to be read and acted upon by all staff in the MOD involved either directly or indirectly in the annual planning process.

2. Part of the broader context for ABC 15 is the Department's fully delegated financial process. These instructions are not in any way intended to detract from this but, as a Department of State, the MOD operates within a centrally set financial framework and has certain legal and political considerations which it must adhere to in conducting its planning process. In addition, there are also internal Departmental considerations for the conduct of ABC 15 which need to be taken into account, including the need for a centrally set framework in terms of processes and timelines. It is therefore appropriate to provide specific direction and guidance on these issues.

3. These instructions comprise three parts as follows:

Part 1: Broader Context

Part 2: Process Guidance

Part 3: Planning, Budgeting & Forecasting (PB&F) and Data Entry

4. Any questions in respect of these instructions should be passed up through budgetary reporting chains in the first instance. To the extent that issues cannot be resolved internally, Commands/TLBs should consult the relevant desk officer in FMC-Cap-Plans or FMC-Cap-JtPlans. The Defence Resources desk officer is [redacted] (Def Res Planning 1 – Tel: [redacted]

PART 1 – BROADER CONTEXT

INTRODUCTION

1.1. This part explains the broader context in terms of strategy, policy and technical considerations within which ABC 15 is being conducted.

PRIORITIES

1.2. The main priorities for the financial approach to ABC 15 are:

a. to set Control Totals for individual Commands/TLBs that are consistent with an affordable Defence Programme and for TLBs/Commands to build plans, reflected in PB&F, which are coherent, affordable within these CTs and which deliver FF 2020 as currently reflected in Departmental Plan 14;

b. to continue to develop and embed the principles of full financial delegation to provide TLBs/Commands with the maximum possible flexibility to deliver their required outputs within available resources, whilst at the same time ensuring that strategic, policy and political constraints on the exercise of that delegation are properly understood and adhered to;

c. to set a coherent and affordable programme which will form the baseline for SDSR 15 and CSR 15;

d. to identify lessons learnt from the first year of running a fully delegated financial process (principally from the Learning From Experience exercise and from a recent HM Treasury review of MOD Transformation and the Delegated Model) and to develop the financial and capability planning process accordingly;

e. to continue to develop the Department's Management Information systems (most notably PB&F) to ensure that it continues to support the evolving Departmental Operating Model.

General Approach to ABC 15

1.3. ABC 14 was concluded on the basis of a balanced, coherent and broadly affordable forward Defence Programme. With that in mind, and given the upcoming SDSR/CSR 15, the general approach to ABC 15 should be a light touch and there should be no expectation of any major programming decisions being taken. Instead, Commands/TLBs will wish to focus on consolidating the position achieved at the conclusion of ABC 14 and work to implement cost leadership challenges to manage financial risk and to deliver agreed efficiencies.

Financial Delegation

1.4. The fully delegated financial model, first implemented in ABC 14, will continue to form the basis of ABC 15. ABC 14 was run on the basis of Target Operating Model (TOM) Initial Operating Capability. From 1 April 2014 the Department has transitioned to Full Operating Capability (FOC). However, this has no direct impact on the planning process, with all relevant changes having been made last year under IOC. The principle change as a result of transitioning to FOC relates to the limits which apply for Commands/TLBs to approve projects.

1.5. The essential principle of financial delegation is that Commands/TLBs have the authority to manage their programmes within the resources allocated to them, including the ability to change manpower requirements and, for Commands only, to veer and haul funding between the Equipment Programme and TLB Plan elements of their programmes. One important lesson to emerge from ABC 14 was that, where there are constraints on this financial delegation, these are properly understood and adhered to.

1.6. The key constraints on financial delegation in ABC 15 are as follows:

a. Changes to Service Manpower

The ABC 15 Manpower Instructions (Annex C) set out the process for managing the Service manpower element of Command/TLB programmes in this planning cycle and the flexibilities and constraints within which this will have to be managed. The overriding constraint is delivery of Future Force 2020 and maintaining the underpinning Service manpower requirement baselines.

b. Changes to Civilian Manpower

Similarly, the Manpower Instructions at Annex C set out the flexibilities and constraints for managing Civilian manpower requirements. The key difference here is the requirement to meet the Civilian manpower reduction targets (in terms of numbers and costs) resulting from SDSR/CSR 10. Any measures which seek to increase civilian manpower will have to be viewed against this requirement.

c. Transferring Funding Between TLB Plans and the EP

Whilst some veering and hauling by Commands of Control Total between the TLB Plan and EP elements of their programme is an acceptable part of the fully delegated model, significant switching from EP to TLB Plan is not because it undermines the affordability of the Equipment Programme, which is audited by the National Audit Office and published. In addition, any significant diminution in the overall size of the MOD Equipment Programme is contrary to the Government commitment to one per cent real terms annual growth from the 2015/16 baseline. Any proposals for material transfers of funding from EP to TLB Plan should be included in Command/TLB Reports but should not be assumed in the internal allocation of CTs to TLB Plan, EPP and ESP for the purposes of the financial summary position.

CONTROL FRAMEWORK

1.7. The management of public money requires a robust budgeting system to ensure adherence to the Government's fiscal rules, and to ensure that Value for Money is achieved. Budgets are not used to control cash directly, rather the budgeting system has been developed to indirectly control cash through Control Totals. The planning process requires a good understanding of the Department's Control Framework to enable costs to be attributed correctly.

1.8. The Treasury's Budgeting Guidance delegates the following budgets to Government Departments:

Resource DEL

1.9. This covers current expenditure and is split further into:

- Cash Resource DEL – essentially running costs calculated on an accruals basis (e.g. personnel costs and inventory consumption); and
- Non Cash Resource DEL – essentially non-cash expenditure on depreciation and impairments.

Capital DEL

1.10. This covers capital spending on tangible and intangible fixed assets. Capital DEL is calculated net of any income that is treated as negative expenditure. Details of the items that can be treated as negative expenditure can be found at the following link:

https://www.google.co.uk/url?q=https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2014-to-2015/consolidated-budgeting-guidance-2014-to-2015&sa=U&ei=dad0U8GXNe_Q7AaczoDYCg&ved=0CB8QFjAA&usg=AFQjCNF2h5gteMctvC8LrbAESabShITleQ

1.11. In addition, Capital DEL can be further broken down into two categories as follows:

- Single Use Military Equipment (SUME) Capital DEL – investment in assets that are categorised for use solely as SUME (e.g. an ASTUTE class submarine); and

- Fiscal Capital DEL – investment in all other assets including, in some cases, movements in debtors and other current assets. Clarification should be sought from Defence Resources, in these instances, as to what may be included.

1.12. The HM Treasury Control Framework structure provides the basis of the Control Total regime which underpins the entire planning process. For the purposes of ABC 15, details of the mapping of Level 4 Resource Account Codes (RACs) to these Control Framework headings can be found in the Department's FY 14/15 Chart of Accounts, available on the Defence Intranet.

Flexibility to Transfer Funding Between DELs

1.13. The MOD's Departmental Budgets are based on the Control Framework explained above. Since it is an absolute rule that departmental expenditure may not exceed approved budgets, it follows that this imposes an important restriction on the flexibility to transfer funding internally between DELs, with any such requirement at departmental level requiring specific agreement by HM Treasury.

1.14. However, there will inevitably be occasions when Commands/TLBs will wish to transfer Control Total funding between DELs at lower levels within their budgetary hierarchy, such as where assumptions about the method of acquiring goods or services changes between one planning cycle and the next. This is permissible without limit and without reference to Defence Resources, provided that it is internal to the Command/TLB and the net effect of all such transfers can be accommodated within the individual DEL Control Totals issued by Defence Resources. If, however, the net effect of the proposed changes would breach any of the Command/TLB Control Totals, then permission must be sought from Defence Resources.

1.15. As a general rule, requests from Commands/TLBs to transfer Control Total provision from Cash Resource DEL to Capital DEL will be allowed provided that the totality of such requests would not breach the Department's Capital DEL budget. Requests to flex Control Total funding from Non Cash Resource DEL to either Cash Resource DEL or Capital DEL will not be allowed. Similarly, requests to Defence Resources to transfer Control Total funding from Capital DEL to Cash Resource DEL are unlikely to be approved because this would be contrary to HM Treasury guidance.

1.16. Finally, within Capital DEL, the distinction between SUME and Fiscal elements remains extant and the Department will continue to report these separately. Advice should therefore be sought from Defence Resources where there is a requirement in ABC 15 to flex Control Total provision between these two elements of Capital DEL at Command/TLB level.

Ring-Fenced Non Cash Resource DEL

1.17. The distinction between Cash Resource DEL, which is not currently ring-fenced by HM Treasury, and Non Cash Resource DEL, which is currently ring-fenced, is not expected to be removed for FY 15/16. However, that position may change after the next Spending Review, effectively making the Department responsible for managing within a single Resource DEL. This could have potentially serious implications for MOD, with any excess in Non Cash Resource DEL expenditure having to be offset by a corresponding reduction in Cash Resource DEL. So, for example, a forecast overspend against depreciation costs might have to be offset by a reduction in personnel or infrastructure costs. It is therefore important that Non-Cash Resource DEL is planned and reported correctly in order to avoid this situation.

1.18. Inherent in this requirement is the need to ensure that all Commands/TLBs create and maintain an accurate and up to date Statement of Financial Position (SoFP) throughout the planning cycle. It is essential that the ABC 15 Opening Balances are updated to reflect the closing balances from FY 13/14, including any DRAc adjustments. The SoFP should be updated during the ABC 15 process to reflect the latest planning assumptions. The final ABC 15 SoFP data will also be published as part of the Annual Report and Accounts for FY 14/15.

Annually Managed Expenditure (AME)

1.19. Annually Managed Expenditure (AME) includes demand-led or exceptionally volatile types of expenditure that cannot be controlled by the Department and where the programmes are so large that changes could not be expected to be absorbed within DELs. Examples include War Pension Benefits Expenditure, creation and revaluation of nuclear and non-nuclear provisions, impairments outside management control and capitalised nuclear provisions. It is not a formal DEL budget delegated to MOD but is nevertheless a Treasury Control against which the Department is expected to monitor and forecast. Although not designed to be a firm cap on AME spending, HM Treasury approval is nonetheless required for any changes which would increase AME spending, or if AME is likely to rise above expectations. It is therefore important that costed plans in ABC 15 reflect, as accurately as possible, expected future AME expenditure.

Spend on Inventory Purchase (SOIP)

1.20. Inventory management has, for some years, been a difficult area for the Department to manage and HM Treasury has also expressed some concern over MOD's significant residual requirement for stock write-offs and more generally over the volatility of forecasts for all inventory movements.

1.21. Under full financial delegation, responsibility for planning the physical procurement of inventory across the ABC period no longer rests solely with DE&S. Although DE&S is responsible for the overall management of Raw

Materials and Consumables (RMC) purchases there should be more emphasis on Commands understanding of the resulting DEL impact of purchasing decisions. Commands therefore need to engage with DE&S to agree the appropriate level of planned purchases, taking into account the activity on SOIP for reports to inform their planned requirements. It is important that all movements, both in terms of consumption and write-offs, are considered, especially in the context of the potential changes to ring-fenced Non Cash Resource DEL, as detailed above (paragraph 1.17).

<u>Spend on Single Use Military Inventories and Single Use Weapons Systems</u>

1.22. Following the implementation of the European System of Accounts (ESA) 2010 there is an important differentiation between Single Use Military Inventories[1] and Single Use Weapons Systems[2]. Spending on military inventories will be classified as Capital DEL when the purchase of the equipment takes place, with the values of inventories continuing to score as Cash Resource DEL. To avoid a double count of costs, the CDEL spend element will be reduced by the value of the stock consumed. This will have the effect of increasing Capital DEL expenditure in the first instance. However, these changes are not reflected in the Chart of Accounts which underpins the planning models in PB&F. Defence Resources will manage any resulting Capital DEL pressure centrally for Year 1 of ABC 15 and it is therefore important that Commands/TLBs ensure that the costings entered into PB&F are an accurate reflection of their requirements for purchase and consumption of military inventories.

<u>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</u>

1.23. Like all other organisations, the MoD is required to comply with International Financial Reporting Standards (IFRS) in reporting its financial position. Throughout ABC 15, TLBs must therefore apply IFRS as adapted and interpreted by HM Treasury in the Government Financial Reporting Manual (FReM). Two areas where this has particular relevance are in relation to the costing of PFIs and foreign currency transactions.

1.24. The costing of PFIs under IFRS will need special consideration, as a result of the 'dual reporting' requirement for certain IFRIC 12 service concession arrangements. For accounting purposes these should be assessed under the IFRS based FReM. However, Commands/TLBs should further consider the treatment of these arrangements under National Accounts standards. These transactions are covered in Part IV of ESA95 and could result in a differing

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[1] Defined as ammunition, missiles, rockets, bombs and other single use military items delivered by weapons or weapons systems. It excludes some types of missiles with highly destructive capability.

[2] Defined as vehicles and other equipment such as warships, submarines, military aircraft, tanks, missile carriers and launchers etc. Most single use weapons they deliver are recorded as military inventories but others, such as ballistic missiles with highly destructive capability, that are judged to provide on-going deterrence against aggressors are classified as fixed assets.

budgetary treatment (off SoFP, as opposed to on SoFP for accounts). As a result of this requirement PFIs should be recorded in PB&F in accordance with the correct budgetary treatment, with the accounting impact being captured offline. The Estimates process reflects the budgetary treatment. Any issues regarding the capture of PFI costs within PB&F should be referred to the Defence Resources Planning Team in the first instance.

1.25. The Standards that relate to Foreign Currency transactions (FRS 23 and 26) essentially mean that all payments will be translated at current spot rate. However, in order to gain certainty on outcomes the Department forward purchases (hedges) against the risk of unfavourable movements for 80% of the forecast requirement for US Dollars and Euros. It is therefore important that Commands/TLBs accurately forecast their Dollar and Euro requirements to avoid unnecessary exposure to Spot Rate transactions. Commands/TLBs will therefore be funded at the hedged rate (weighted average forward purchase contract rate) for 80% of their requirement and the forecast DASA spot rate for the remaining 20%. The difference between the spot rate transactions and funded forward purchase rate will be refunded by CT relief In Year once gains are realised on the hedge. In the event that the spot rate is more favourable than the forward purchase rate the Defence Resources IYM Team will adjust Command/TLB CTs downwards to reflect the benefit being realised in the Command/TLB.

FORCE ELEMENTS AT SUSTAINABILITY

1.26. Force Elements at Readiness (FE@R) is used to measure the current capability of Force Elements against Departmental Planning Assumptions. In parallel, Force Elements at Sustainability (FE@S) provides a mechanism for reporting the capability to sustain Force Elements from within current resources when deployed on contingent operations. The FE@S process provides objective evidence on logistic sustainability and informs the Departmental performance reporting and planning processes.

1.27. The Centrally managed FE@S assessment will report on a quarterly basis and will be incorporated, with FE@R assessments, as part of the Capabilities, Operations, Standing Tasks and Recuperation (COSTR) report. Where a shortfall in FE@S is identified, this will be dealt with through the appropriate Balance of Investment approach, with any proposed enhancement being considered along with other requirements across Defence.

1.28. DE&S Teams will have a routine and enduring role in understanding the sustainability liability and advising on potential programming decisions. Requests for further direction or guidance on the FE@S process and its integration with ABC 15 should be directed to ACDS (Log Ops).

CAPABILITY AUDIT

1.29. Whilst there is no directed requirement to undertake a full Capability Audit this year, it is acknowledged that Commands/TLBs plan to conduct further work to improve their detailed understanding of capability issues and concerns. Commands/TLBs have discretion on how much additional work is considered necessary and should utilise the policy framework presented within the guidance issued by Hd Cap Strat[3]. Any adjustments that may be required to the Defence Capability Assessment Register (DCAR) should be submitted to ACDS C&FD by 29 August 2014 and issues or concerns should be included in Command/TLB Reports.

STRATEGIC BALANCE OF INVESTMENT (SB)

1.30. In previous planning cycles the Single Integrated Capability Priority List (SICPL) was used to inform Strategic Balance of Invest (SB). As delegation as matured to Full Operating Capability (FOC) on 1 April 2014, the SICPL has been retired, with Commands/TLBs holding their own Capability Priority Lists (CPLs). In line with the light touch approach to ABC 15, a number of different tools will be utilised to inform SB, with the Defence Capability Assessment Register as the primary tool for considering areas for investment. A more complete description of the SB process will be provided in the FMC Operating Model (FOM), which is the successor to the Target Operating Model Version 3, and is expected to be published in the summer.

MEETING EMERGING OPERATIONAL DEMAND

1.31. ABC 14 introduced the Urgent Capability Requirements (UCRs) process to enable Defence to consider how it will manage emerging operational capability demand. The process emphasises the need to distinguish between Urgent Operational Requirements (UORs) which are mapped to an approved operation and UCRs which are not specific to. but shaped by, contingent operational activity and policy. The delegated model now empowers Commands/TLBs to consider operational demands and balance against their core programmes and available funds. The Corporate Centre will only become involved when a Command/TLB cannot identify sufficient financial headroom to accommodate an emerging operational requirement and further consideration is required to satisfy a pressing capability requirement without which there is a risk of operational failure. Requests for additional funding will be prioritised by MOD Op Cap, who will pass these to the Military Capability Board (MCB). The MCB will consider the requests and inform the VDCS Stocktake of the more immediate capability risks and, where necessary, seek either VCDS Stocktake or Armed Forces Committee (AFC) endorsement. This process is included in detail in the Capability Management Practitioners Guide, which can be found on the Acquisition Operating Framework (AOF) website[4].

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[3] STRATMAN/CA14/15: Guidance on Capability Audit for 2014/15 dated 12 March 2014

[4] http://aof.uwh.diif.r.mil.uk/aofcontent/cm/cmpg.htm

COST OF OPERATIONS

1.32. In line with the approach adopted in previous planning cycles, funding for operations is specifically excluded from the ABC process. It follows that, where there is a requirement to provide supplementary information (e.g. Forex volume requirements), any element related to operations should also be excluded. Further advice concerning funding of operations should be sought from Defence Resources Operations.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

1.33. The United Kingdom provides Official Development Assistance (ODA) to developing countries and international organisations. ODA is measured in accordance with the international standards agree by the Organisation for Economic Cooperation and Development (OECD) and is the promotion of the economic welfare and development of developing countries. The UK Government committed to investing 0.7% of Gross National Income (GNI) on ODA by 2013, ahead of other EU members who committed to achieving this by 2015. The target set for MOD is £5M a year on qualifying activities; this is likely to be reviewed in CSR 15.

1.34. The table below provides a brief introduction to activities that qualify as ODA. Defence Resources will shortly be issuing an In-Year Management Information Notice providing more detail on ODA and the Department's reporting requirements. Although aimed at the in-year management community, this should also be used as the basis for reporting ODA in ABC 15.

Activity	**Guidance / Example Activity**
Security Sector Reform and Capacity Building	By non-military staff such as special defence advisors, police training, short term training teams and Military Stabilisation and Support Group (MSSG).
Defence Education	This is distinct from Defence Training. This is where there is a significant civilian and/or academic component.
Disaster Relief and Humanitarian Aid	Direct response to crisis, disaster preparedness training, protection of World Food Programme shipments (Op ATALANTA).
Medical Training and support.	This excludes military to military
Ad Hoc peacekeeping activity and support	UK contribution to UN mandated Peacekeeping mission.
Removal of remnants of war and de-mining	

1.35. The Department therefore needs to get a better understanding of spending on ODA in both actual and planned terms, especially as there is every likelihood that this will be audited by ICAI, an Advisory Non-Departmental Public Body set up by the Department for International Development (DFID) for this purpose. For ABC 15, Commands/TLBs should explicitly report their planned expenditure on qualifying ODA activities as part of the Command/TLB Reports to be submitted on 10 October.

SAFETY AND ENVIRONMENTAL CONSIDERATIONS

1.36. The Department owes an important duty of care in terms of Health, Safety and Environmental Protection (HS&EP). These issues are therefore to be considered throughout ABC 15 and handled in accordance with these instructions. It is essential that decisions taken in this budget cycle do not result in an increase in the current level of HS&EP risk or contribute to the emergence of new risks without due and careful consideration. New HS&EP enhancements that are required to maintain risks at ALARP and tolerable levels should be included in organisations' costed plans and compensating savings indentified; HS&EP enhancements should not be treated as enhancements at Command/TLB level.

1.37. Any proposed programming changes to current or future resource allocations must include consideration of any potential HS&EP implications. In doing so, commanding officers and managers have a key role to play in quantifying the HS&EP risks they are holding and, having applied all mitigations available to themselves, articulating and justifying the requirement for further enhancement within their TLB. This justification should also identify the implications of not funding an HS&EP enhancement in terms of capability, risk transfer or other relevant factors. Where necessary, advice on H&EP matters should be sought from the Defence Safety and Environmental Authority (DSEA) or, for Air Safety issues, the Military Aviation Authority (MAA). In considering HS&EP implications, it is also important to take into account those smaller issues which, in themselves, might not have much impact but which, if taken cumulatively, may do so.

1.38. Command/TLB Reports due on 10 October 2014 must: highlight any HS&EP concerns that have emerged in ABC 15; confirm what actions and mitigations have been taken to address these; and, if appropriate, set out what further steps the Command/TLB would need to take which would require Defence Board endorsement in order to release resources to provide for further enhancements. In all cases it is essential to maintain a comprehensive audit trail of any HS&EP risk decisions made during ABC 15 or attributable to its outcome.

TRADES UNION CONSULTATION

1.39. Throughout ABC 15 Commands/TLBs and the Corporate Centre will need to ensure that any proposed savings measures which have an impact on the Civilian workforce are fully and frankly discussed with the Trades Unions. This will be particularly relevant when generating proposals for manpower programming measures in TLB Reports and during the Options process to implement those measures which are approved. It will be the responsibility of Commands/TLBs to ensure that the necessary consultation/discussion processes are in place with the Trades Unions to address proposed changes to manpower, while noting that the majority of changes are likely to take place within the manpower levels announced as a result of PR 11 and PR 12.

MULTILATERAL INSTITUTION (MI) CONSIDERATIONS

1.40. The UK has regional and global obligations (both formal treaty obligations and the necessity to maintain and develop international relations, reputation and solidarity). This manifests itself most acutely in the need to engage with and provide defence capability to NATO the EU and the UN. This ranges from including almost all UK forces in NATO's defence planning return for their planning purposes, through to offering UK assets as contributions to specific multinational forces such as the NATO Response Force (NRF), the EU Battle Group (EUBG) and UN peacekeeping activities and being engaged in developing policies and agreements to work with other nations in all these institutions to develop and deliver defence capabilities in the future. This engagement will shape the UK's future defence plans.

NATO

1.41. PUS and CDS wrote in 2012[5] emphasising the importance of UK political and military obligations to NATO and reiterating the SDSR axiom that NATO remains the cornerstone of UK defence. This led to a strengthened direction in DSD13 which states "NATO underpins the defence of the UK and our Allies, while providing the means and structures to develop and command deployable, expeditionary Allied capabilities to support and defend our interests further afield". This position has strengthened, with the UK hosting the NATO Summit in September 2014. The Future NATO theme will seek to build on the 2012 NATO Chicago Summit, where the UK committed to a package of measures designed to deliver 'NATO Forces 2020', a tightly connected and highly interoperable multinational force. Measures being considered for the Wales Summit on Future NATO include improved Capabilities, Framework Nations, which addresses the UK Joint Expeditionary Force (JEF), increased maritime activity as well as cyber.

1.42. As reflected in DSD13, it is important to ensure the availability of forces to fulfil UK commitments. The vast majority of UK deployed operations are conducted within NATO constructs, utilising NATO structures and working with Allies. The UK hosts NATO Command (Northwood) and Force Structure (HQ ARRC) elements. The NATO Response Force (NRF) will continue to drive interoperability (as will the EU Battle Group). The Connected Forces Initiative (CFI) to maintain, improve and exercise post ISAF interoperability will remain important tools that the UK must engage with to secure improved efficiencies and value for money. To do so adequate provision for such activities (including exercises) must be created.

1.43. The UK has a long experience of Multinational capability programmes; however the increased emphasis within NATO through Smart Defence will

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[5] D/CDS/3/1/5 'NATO at the Heart of UK Defence' dated 13 July 2012

mean a larger pool of nations who are keen to collaborate in a structured way, thus potentially providing greater efficiencies and wider interoperability. The identification of capability requirements in other nations through the NATO processes may also provide opportunities for MOD and UK industry. This however will entail engagement from the MOD Capability community in order for it to work. Furthermore as the UK offers the overwhelming majority of its defence capability to NATO through the NATO Defence Planning Process (NDPP), national requirements should align as far as possible with those of NATO. We must also seek to influence the overall capability required by the Alliance and of allies in order ensure our burden is fair. It is therefore crucial that appropriate cognisance is taken of the NDPP targets in UK planning (as per the CDS/PUS letter).

<u>EU</u>

1.44 The UK is committed to support EU defence (CSDP) and provides defence planning detail required by the EU for its defence planning purposes. This is achieved by taking appropriate elements from the NATO return, in line with the approach taken by many other European countries who are members of both organisations. As such, the UK offers a large proportion of its capability to the EU for defence planning purposes, which is then subject to Force Generation processes should the UK decide to contribute to an operation (as in NATO).

1.45. The EU also has a Pooling and Sharing mechanism and the European Defence Agency (EDA) seeks, like Smart Defence, to maximise collaboration across all DLODs and value for money amongst Member States through co-operation on certain capability activities.

1.46. The December 2013 European Council discussion on defence reinforced that the EU should complement not compete with NATO, and provided strong direction that the EU institutions should work together in a coherent and joined-up way. A set of pragmatic measures was agreed that will improve the EU's response to conflict prevention, crisis management and stabilisation through the EU's full spectrum of tools. On capabilities, the European Council called for more systematic and long term cooperation on Defence capability development. As a result, the UK along with other nations is investigating ways in which detailed defence plans can be shared within small or regional groups to identify multilateral solutions to common requirements, be it national, NATO or EU.

1.47. Furthermore, in November 2012, Minister (International Security Strategy) signed the European Defence Agency's "Code of Conduct on Pooling and Sharing". This political declaration obliges the UK to consider within its national planning processes the potential for engaging in multi-national co-operation with Allies to share the burden of defence capability sustainment, generation and development. As such the same issues apply to the EU as for NATO. If in any doubt as to whether your decision requires an EU angle, please contact the EU Policy team as shown below.

UN

1.48. As one of the founding members of the United Nations and one of the five permanent members of the Security Council the UK holds a privileged position within the UN structure. This provides us with a significant level of influence, not only in the UN, but also on the world stage. With the end of ISAF, Defence is being asked by the UN and other elements of HMG to do more. CDS has recognised that the UK needs to be far more pro-active and the UN policy team within the MOD has begun the process of establishing what is possible in terms of increasing the UK's contribution to UN Peacekeeping and has gained the authority of SofS to increase the number of staff officers in key UN missions. Consequently, the UN should sit alongside NATO and EU commitment in future Command/TLB planning assumptions. If further assistance or engagement on the incorporation of a UN approach is required, please contact the UN team as shown below.

1.49. It is therefore important that decisions made in ABC 15 take into account the requirements and tasks the UK must conduct in NATO, EU and the UN and also recognise the opportunities for multinational co-operation this presents, including in the capability field. Further guidance, including on whether a proposed decision has potential consequences, should be sought from the following:

NATO/EU/UN	**NEP DeputyHeadMulilateralPol**
NATO Capabilities	**NEP DeputyHeadCapabilities** **NEP-CapDevPol1**
NATO/EU General or Defence Planning	**NEP-DeputyHeadMultilateralPol**
NATO Specific Issues	**NEP-NATOandNorthAmerica** **NEP-NATOMil1** **NEP-NATOPolicy**
EU Specific Issues	**NEP-EUAsstHd** **NEP-EUMil1** **NEP-EU2**
UN Specific Issues	**NEP-UnitedNations3** **NEP-UnitedNations2**

TIMETABLE

1.50. The ABC 15 timetable (Annex A) sets out the key milestone dates and the dates for the key technical steps in the process required to ensure that this planning cycle is concluded in its entirety by mid-February 2015. This timetable forms a subset of the broader Defence Programming Timetable which additionally includes Defence Plan, Command Plans and Force Development Activity. The ABC 15 timetable is provided here for ease of reference when reading these instructions. TLBs/Commands will need to design their own internal timetables around these dates. Updates to the ABC 15 timetable will be issued as necessary.

OUTPUT DELIVERY TARGETS

1.51. The outputs which Budget Holders are expected to deliver as a result of decisions taken in ABC 15 will be recorded in the Defence Plan (DP) and its Annexes; draft DP 15 will be available shortly. These will be broken down further into Command Plans Command Acquisition Support Plans (CASPs) and Joint Business Agreements (JBAs). Performance will then be measured throughout the year as part of the Defence Performance Framework and the Holding to Account (H2A) process.

PART 2 – ABC 15 PROCESS GUIDANCE

Introduction

2.1. The purposes of this section is to set a general process framework and associated timelines for the conduct of ABC 15. In line with the general approach taken in these instructions, the intention is not to detract from the principles of full financial delegation but rather to ensure that;

- the Defence Board can be provided with timely advice and assurance that the Department is on track to deliver a balanced, coherent and affordable ABC 15 programme;
- a consistent approach is taken to ABC 15 across the Department;
- the Corporate Centre has access to accurate and sufficiently detailed information at key points in the process to meet its business requirements:

INITIAL PHASE OF ABC 15

Process Summary

2.2. The principal elements of the initial phase of ABC 15 are:

- Roll-forward of ABC 14 final costed plans and Control Totals;
- Issue of ABC 15 Initial Control Totals;
- A common understanding of the outcome of ABC 14:
- Re-costing/refresh of the Defence Programme.

Roll Forward of ABC 14 Models in PB&F

2.3. At the start of ABC 15, Defence Business Services (DBS) will migrate final ABC 14 planning data in PB&F to the new ABC 15 planning models (using the Rolled Forward version) and will update models and reporting hierarchies to reflect changes in the Standing Data Structure (SDS) and any changes in the mappings used in alternative reporting hierarchies.

2.4. This migration process does not require action from users. However, once migration is complete, users at Command/TLB level are asked to confirm that the initial ABC 15 position is an accurate reflection of the outcome of the previous planning cycle. To facilitate this, DBS provide each Command/TLB with a reconciliation spreadsheet explaining any changes from the final ABC 14 position. Once Commands/TLBs confirm to DBS that they are content, the models are rolled forward to the Initial Phase version, updated to reflect those centrally mandated Corporate Planning Assumptions which are 'hardwired' into the planning models and then unlocked to allow users to start work on ABC 15.

2.5. The process of migration from one ABC to the next will populate most but not all years with planning data in the new models. For TLB Plans, ABC 14 Years 2 to 10 will be migrated to form ABC 15 Years 1 to 9. The new Year 10 cannot be populated in the same way as there was no ABC 14 Year 11; this will therefore remain unpopulated. A similar approach will be applied to the migration of the Equipment Programme (ESP and EPP), with the new Year 10 (as Year 11 data in the ABC 14 models is only held at DEL level) and the new Year 30 (as there was no Year 31 in the ABC 14 model) both left unpopulated.

2.6. This is essentially in line with the approach taken in ABC 14. At the time Commands/TLBs agreed that this approach was preferable to the nugatory work involved in applying either a general inflation rate to the new Year 9 or taking the old Year 11 DEL costs and applying these to a lead Level 4 RAC to create the new Year 10 since, in either case, the migrated data would then need to be reversed out again to allow users to populate the models with realistic costings.

ABC 15 Initial Control Totals

2.7. ABC 15 Initial Control Totals are being issued in parallel with these instructions. They will reflect the outcome of ABC 14 adjusted, where appropriate, for the following:

- resolution of funding issues which remained outstanding at the conclusion of ABC 14;
- changes as a result of implementing the updated SDS;
- changes as a result of implementing the ABC 15 CPAs.

2.8. Setting Control Totals for ABC 15 Year 10 will follow a slightly different approach to that set out above. For the TLB Plan element of programmes, this will be calculated by taking the new Year 9 and applying an inflation uplift of 2.2%. For the Equipment Procurement Plan (EPP) element, Year 10 Control Totals will be Year 11 of ABC 14. It is recognised that there are some apparent anomalies in the final ABC 14 data and Defence Resources will work with Commands to resolve these. For the Equipment Support Plan (ESP) element, Year 10 Control Totals will be ABC 15 Year 9 plus an inflationary uplift of 2.2%. This approach is necessary because it is apparent from the final ABC 14 data that a significant number of project teams did not populate Year 11 of ABC 14. The adjustments listed in paragraph 2.7. above will then be applied, as appropriate.

2.9. In line with the approach in previous planning cycles, Defence Resources will issue updated Command/TLB Control Totals at various stages of ABC 15. These CTs are definitive and, for reasons of coherence, under no circumstances should Commands/TLBs assume changes without specific approval from Defence Resources.

2.10. The process for changing Control Totals in ABC 15 has changed as a result of the introduction of a new PB&F Planning Control Model (PCM). The rationale for the changes and the associated process requirements, which will apply equally to the Corporate Centre and Commands/TLBs, are explained in greater detail in Part 3 of these instructions (Paragraphs 3.3. to 3.7.). In order to inform QRPC 1-15, Commands will have updated the EP element of their PB&F PCMs by <u>10 June</u>.

<u>The Outcome of ABC 14</u>

2.11. It is essential to the success of ABC 15 to ensure that everyone involved across the Department starts with a common understanding of the outcome of ABC 14 and that issues identified as requiring further work (including how any un-attributed wedges in Commands/TLBs will be dealt with) are taken forward in a coherent manner.

2.12. For the Equipment Programme, it is important that ABC 15 costed plans are based on a set of extant Third Order Assumptions (3OAs) which accurately reflect the outcome of ABC 14 (i.e. QRPC 3-14), the content of Smart Contracts 14, and which have been agreed with stakeholders and recorded in ADMIS.

<u>Re-costing Activity</u>

2.13. Re-costing activity in ABC 15 will take two forms and will, in all instances, have to be managed within the Command/TLB Control issued by Defence Resources. Additionally, in all cases, programme costings are to include Value Added Tax (VAT) unless specific evidence has been obtained that shows a different treatment may be more appropriate.

2.14. Firstly, the costed plans rolled forward from ABC 14 will need to be re-costed on the basis of the Corporate Planning Assumptions at <u>Annex B</u>. Note that the important restriction on the use of <u>discretionary</u> CPAs must be strictly applied and that Commands/TLBs and Project Teams (for the EP) should use:

a. the published CPAs **for pay, Local Overseas Allowances (LOA), fuel, foreign exchange and Modified Historic Cost Accounting (MHCA) indices;**

b. the best available information regarding **project-specific cost growth and/or inflation factors**. Only where this is not available should the CPAs for inflation be used. Under no circumstances should projects/programmes be costed using the CPA for inflation if better information is available. Similarly, costings must not be based on the CPA for general inflation with the difference, calculated using a realistic project/programme-specific factor, held as "risk outside costing".

2.15. ABC 15 Initial Control Totals will be updated to reflect the financial impact of changes in the mandated CPAs for Service and Civilian Pay and the consequential affects on ERNIC and SCAPE; there will be no change to CTs in respect of the changes to Civilian Salary Bandings for SCAPE. Changes to discretionary CPAs will not be covered by adjustments to Initial ABC 15 Control Totals and, where these result in increased costs, this will have to be managed within existing Control Totals.

2.16. Additionally, there will inevitably be elements of costed plans which will require further resolution at the start of ABC 15, most particularly those ABC 14 adjustments which are being held by Commands/TLBs in adjustment nodes and where decisions are now required on how these will be implemented. Such changes will alter the costs of plans below Command/TLB level but should always be cost neutral at the Command/TLB level.

2.17. The second form of re-costing is a more general refresh of existing costed plans, including recosting the Equipment Programme for the outcome of QRPC 1-15 and reflecting this in the CASP. Under full delegation it will be a matter of judgement for Commands/TLBs to determine which other elements of their costed plans require refreshing, although, in line with the light touch approach to ABC 15, it is not expected that there will significant changes. However, it will, in all instances, be the responsibility of Commands/TLBs to manage the financial consequences of any such refresh activity.

2.18. In undertaking opening ABC 15 activity, there will be a number of issues which will require careful handling. One important example is Service and Civilian manpower, where it is extremely important that the constraints on delegation are recognised (see paragraph 1.6.) and that the direction provided in the ABC 15 Manpower Instructions (Annex C) is properly understood and followed.

2.19. A further area where there has been some confusion in recent planning cycles is the treatment of Grants-in-Aid. Under the HM Treasury Clear Line of Sight Initiative, Departments are required to provide transparency of the running costs of Non-Departmental Public Bodies (NDPBs) for which they are responsible. Grants-in-Aid to NDPBs themselves are classified as Outside DEL but the Department has to account for the net running costs of these organisations as part of their costed plans (i.e. show the costs against the relevant RA Codes in their costed plans). This approach applies only to the ABC process.

2.20. For in-year management, HM Treasury requires Departments to account separately for the net running costs of NDPBs as part of the Estimates process. Consequently, Command/TLB in-year Cash Resource DEL budgets will be reduced by the amount of Grants-in-Aid for NDPBs and expenditure reported separately.

Programming and Costing Responsibilities

2.21. The transition to fully delegated budgets from 1 April 2013 resulted in important changes to responsibilities for programming and costing plans in ABC 14; there are no further changes in ABC 15 other than those resulting from organisational changes.

2.22. Therefore, for ABC 15, programming and costing responsibilities will be as follows:

Commands (i.e. Navy Command, Army Headquarters, Air Command and Joint Forces Command

Commands are responsible for costing and programming their TLB Plans at RAC Level 4 across the full ten years of ABC 15. They are also responsible for programming for the ten year planning period those elements of the Equipment Programme (EPP. ESP(NE) and ESP(IS)) which have been delegated to them. In addition, they are responsible for programming their elements of the second and third decade Equipment Programme.

Other TLBs (i.e. HO&CS, DE&S and DIO)

Other TLBs are responsible for costing and programming their TLB Plans at RAC Level 4 across the full ten years of ABC 15.

Strategic Sponsor

The Strategic Sponsor is responsible for programming those strategic projects in the Equipment Programme which have not been delegated to Commands for across the full ten years of ABC 15. Additionally, they are responsible for programming their elements of the second and third decade Equipment Programme.

DE&S Staff

DE&S Staff are responsible for entering and maintaining the EPP and ESP costing in PB&F at RAC Level 4 for Year 1 to 10 and DEL level for the second and third decades.

2.23. The distinction between ESP(IS) and ESP(NE) is a hang over from the previous planning process under which FLCs were responsible for programming ESP(IS) in Years 1-4. With the transition to fully delegation budgets, this distinction has become significantly less relevant although it is used internally by Commands. Defence Resources will lead a review of this requirement in ABC 15 to determine whether it can be met in some other way, allowing the distinction to be removed and reducing the associated overhead for maintaining separate elements of the ESP model in PB&F.

2.24. However, given that the distinction still forms part of ABC 15, it is worth re-iterating the definition of ESP(IS) – those equipments which are scheduled to be in service or, where separately agreed have reached Initial Operating Capability (IOC), by 31 March 2015.

REBALANCING COSTED PLANS TO CONTROL TOTALS

2.25. The opening phase of ABC 15 will provide Commands/TLBs with a common understanding of the outcome of ABC 14 and a set of re costed/refreshed plans. Under fully delegated budgets it will be for Commands/TLBs to determine how they intend to manage any emerging cost pressures but this will inevitably involve consideration of existing and new efficiencies, risk and further measures (either internal to the TLB or which require Options to be raised). In order to provide a consistent approach across the Department, it is therefore appropriate to provide brief guidance on these elements.

2.26. Although the Opening ABC 15 phase and the second phase of work to rebalance costed plans to Control Totals are presented in these instructions as a linear progression, the expectation is that these activities will be conducted in parallel.

Efficiencies

2.27. Commands/TLBs should, as part of refreshing their costed plans, review efficiencies taken in previous planning cycles. They will also wish to consider the scope for introducing any new efficiencies, although the main driver for this will be meeting the efficiency targets set in SR 13.

2.28. In considering new efficiencies, there may be instances where the delivery of downstream cost reductions may require up front expenditure. In this situation Commands/TLBs should initially seek to accommodate this additional funding requirement within their existing Control Totals; where it is judged that this cannot be achieved, the proposal should be raised in their Reports for further consideration by the Corporate Centre.

Financial Risk

2.29. All Commands/TLBs are expected to carry within their programmes a certain level of financial risk, and provided this is understood and can be mitigated and managed, this is a sensible way of planning. It is for the Command/TLB to determine the appropriate level of financial risk (both inside and outside of costing – see below). However, in providing reassurance to the Defence Board that ABC 15 is on track to deliver a balanced, coherent and affordable ten year Defence Programme, Defence Resources will need to provide an assessment of the overall level of financial risk at departmental level. Command/TLB Directors of Resources will therefore be asked to comment on their financial risk position in their TLB Reports. This should be done with reference to the Department's risk management policy (JSP 892 Risk Management[6]).

2.30. Judgements about the levels and types of risk which are acceptable will vary with the level and size of the organisation; a significant and unacceptable financial risk in a small BLB may be insignificant and therefore acceptable at Command/TLB level. It is important, therefore, that Commands'/TLBs' judgements about risk are taken in the context of their organisation as a whole rather than simply being an aggregation of lower level risks.

2.31. For ABC 15, the approach to considering and reporting financial risk to the Centre will continue to focus on Risk Inside Costing (RIC) and Risk Outside Costing (ROC). TLBs and DE&S staff (for the EP) may, of course, continue to use other risk definitions (e.g. probabilistic and deterministic) for their own internal processes and non-financial risks but there is no requirement to report to the Corporate Centre along those lines. TLBs may also continue to use the Risk Tab in PB&F as the basis for internal reporting; however, this tab does not support analysis based on RIC/ROC, which will therefore have to be provided separately as part of Command/TLB Reports.

2.32. RIC is a level of funded risk mitigation within costed plans. In practice, it is usually a positive provision within the costed plan to mitigate financial risks that are assessed as likely to arise; this provision then becomes redundant if the risk it is intended to cover does not materialise, hence the need to assess likelihood correctly. It is important that RIC is then carefully managed, particularly in-year, to ensure that if it does need to be retired it can be reallocated such that it does not create material underspends.

2.33. RIC contrasts with Command/TLB over-programming, which is a judgement to remove funding from elements of the costed plan in the anticipation that funding can be found in-year if it is required, including from redundant RIC provisions. As such, over-programming represents a risk to programme delivery, since if funding cannot be found in-year action will need to be taken to address the requirement. RIC and over-programming are therefore different but inter-reliant approaches to settling on a prudent overall balance between available budget and planned activity.

2.34. Risks that are assessed as having a low likelihood should be classified as ROC and, since these are unfunded, they are therefore not included in costed plans. Presentation of risks handled as ROC then provides a measure of the Command/TLB's potential risk exposure out with the costed plan. Exceptionally, very large value, i.e. very high impact, risks which have a higher likelihood but which would cause unacceptable distortion in the costed programme, such as large capital receipts, may be held as ROC.

2.35. As outlined above, the primary determinant in categorising a financial risk as RIC or ROC, assuming the financial implications are known in sufficient detail, is the probability of the risk materialising, i.e. the likelihood assessment.

[6] http://defenceintranet.diif.r.mil.uk/libraries/library1/DINSJSPS/20110714.1/JSP892.pdf

In the main, low likelihood financial risks should be treated as ROC, and high likelihood as RIC. For example, a particular Command/TLB activity that is assessed as being liable for a new tax treatment and therefore a new cost, and in addition the Command/TLB consider that there is only very limited room for negotiation around this new treatment, should likely be treated as RIC: although successful negotiation could treat the risk, given the assessment of negotiating freedom it would be prudent to make a funding provision and then retire it if the negotiation is successful. The inverse of this example would then be that if the Command/TLB consider their negotiating position to be very strong, the prudent outcome would likely be to treat this as ROC, since taking programming action to fund the provision is likely to be wasted activity once negotiations successfully conclude. However, it is ultimately for Commands/TLBs to judge the correct treatment of a financial risk, considering all the relevant factors including the impact assessment of the risk.

2.36. There are a number of elements that should not be considered or reported as RIC or ROC, including:

a. Risks where the financial effects are too uncertain to realistically calculate – whilst these are potentially still classifiable as financial risks, in the absence of financial data they cannot be treated as RIC or ROC. It is recognised that these forms of risk could have significant financial consequences if they did materialise, so they should be kept under review. Screenings should also remove any unwarranted contingency built into programme costings;

b. Efficiency: The basic assumption is that Commands/TLBs will deliver efficiency which has been programmed in their CTs, in particular the SR13 ESP efficiency challenge that was disaggregated at the close of ABC 14. Any challenges Commands/TLBs face in achieving efficiency plans should therefore form part of a discussion on efficiency, rather than being reported as risk;

c. Aspirational requirements which are not currently part of the funded plan;

d. The measures identified by Commands/TLBs to close the gap between the costed plan and the CT; since to express such an item as a risk would be to count the potential pressure on the programme twice, as both a variance and a risk.

Internal Reprogramming

2.37. To the extent that Commands/TLBs have a residual funding shortfall between their recosted plans and Control Totals after considering risk and efficiency, they will need to consider what further programming action they need to take in order to return to a position of affordability. Commands/TLBs should always look to internal reprogramming in the first instance, rather than raising Options. The DE&S managed Equipment Plan Amendment Form (EPAF) process, with which Commands will already be familiar, provides a mechanism for making changes to the core EP in circumstances where it is not appropriate to issue a formal Option.

2.38. Some measures (both savings and enhancements) can be taken into Command/TLB costed plans without the need for further consultation; others will need to be raised as Options. The latter include those that:

a. Affect Defence Final Outputs[7];

b. Are politically sensitive or are likely to generate Ministerial interest;

c. Are Novel or Contentious;

d. Have a potential impact on other Commands/TLBs[8];

e. To cost Genesis Options to inform early planning for the use of EP headroom in later years.

2.39. When considering raising an enhancement Option, Commands/TLBs will need to take into account the direction issued by Defence Resources in ABC 14 on allocation of funding from the centrally held EP Headroom, which remains extant. In order to preserve flexibility over the future size and shape of the Defence Programme, EP Headroom will only be released as an increase to Command/TLB Control Totals when a project has reached its Main Gate approval point and is therefore ready to progress to contractual commitment for Demonstration and Manufacture, at which point the total cost and funding profile will be firm.

2.40. The approach for dealing with enhancement Options which rely wholly or partly on funding from the EP Headroom is to raise two Options, one to cover the funding which will be found from within existing Command/TLB Control Totals and the second to cover the element which would require funding from EP Headroom. This will allow the Command/TLB to capture the full costs of the project but, by implementing only the first Option, will not drive additional risk into its programme or risk a double count between the EP Headroom costings held in the Command/TLB programme and that held centrally by Defence Resources.

2.41. TLBs should seek direction from FMC-Cap-Plans or FMC-Cap-JtPlans if there is any uncertainty as to whether a savings or enhancement measure can be taken into costed plans or will require an Option to be raised

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[7] Affect the Force Structure in terms of Force Elements at Readiness (FE@R) or Sustainability (FE@S).

[8] Where such impacts have not been previously agreed between the TLBs.

COMMAND/TLB REPORTS

Format

2.42. Not withstanding the move to fully delegated budgets, there remains a requirement for the Corporate Centre to provide a departmental view of the ABC 15 position at key stages in the process, allowing DG Finance to seek direction from the Defence Board as appropriate and to provide it with assurance that MOD is on track to deliver a balanced, coherent and affordable forward Defence Programme.

2.43. To facilitate this, all TLB Directors of Resources are to submit a Command/TLB Report to DG Finance by 10 October[9]. This Report will be the vehicle to set out the overall position in terms of delivering the agreed forward programme and the key issues and risks identified. The exact content and format will be for individual Commands/TLBs to determine but, as a minimum, it must include the following:

a. Summary Financial Position

The report should provide a summary of the ten year financial position by DEL (Cash Resource DEL, Non Cash Resource DEL and Capital DEL) and by programme element (TLB Plan, ESP and EPP).

Commands should ensure, and confirm in their Command Reports, that the EPP and ESP elements of the financial summary are consistent with their candidate Command Acquisition Support Plans (CASPs) and that the financial data represents the latest position with DE&S as to the Programme of Work DE&S expects to deliver on their behalf. Where material differences exist, these should be highlighted within the Command Report with supporting comment. A complete breakdown of CASP Annex financial data is not required.

The costed plan should reflect the latest costings after taking account internal risk assumptions, efficiencies and internal reprogramming measures. It should also include Options implemented in Window 1 and Inter-TLB Transfer Implementation 1. For the Equipment Programme, the latest costed position will be QRPC 1-15.

Control Totals should be those issued by Defence Resources in mid-September. The only changes from the ABC 15 Initial Control Totals are likely to be in respect of Transfer Implementation 1,

[9] For DIO only, an updated report will be required once the new Strategic Business Partner construct is in place.

including transfers resulting from implementation of Options Window 1.

There is no requirement for Commands/TLBs to provide a detailed reconciliation between the outcome of ABC 14 and the current costed position but it would helpful if material changes made through internal reprogramming could be highlighted in the narrative of the Reports. Reports will need to explain the reasons for any residual excesses between costed plans and Control Totals and how the Command/TLB proposes to deal with these, including any measures which will require Centre or Defence Board endorsement. Additionally, Reports should set out any proposals to make material transfers of funding from EP to TLB Plan within Command costed plans.

b. Capability Issues

Any issues arising from Commands/TLBs further work to improve their understanding of their capability position should be included in Reports (see paragraph 1.29.).

c. Efficiencies

Reports should highlight any efficiencies taken into account in previous planning cycles which Commands/TLBs consider can no longer be delivered. In addition, Reports should set out any new efficiencies which are included in ABC 15 costed plans. Finally, a statement should be included on progress made in implementing SR 13 efficiency savings, where applicable.

d. Risk

Command/TLB Reports should set out the overall levels of risk (RIC, ROC and over-programming risk) by Plan (TLB Plan, EPP and ESP, as appropriate), using the guidance provided in paragraphs 2.29. to 2.36. above. Reports should also set out the rationale for the approach taken, the key risks and how these will be managed.

e. Manpower

Annex C provides further detail of the manpower related information which Commands/TLBs are required to provide as part of their Reports in October.

f. Safety and Environmental Considerations

In line with the guidance on Safety and Environmental considerations at paragraphs 1.36. to 1.38 above, Command/TLB

Reports should highlight any significant concerns which they wish to bring to the attention of the Board[10]. For each issue, the Report should detail what actions and mitigations have been taken and why a Tolerable or ALARP status cannot be achieved within allocated Control Totals; the impact of not resourcing the issue, in terms of likely reduction in capability or the need to transfer the risk to either SDH or SofS; and the proposed measure(s) and likely costs of achieving Tolerable or ALARP status.

g. Official Development Assistance (ODA)

In line with the requirement set out in paragraph 1.35., Commands/TLBs will include details of planned expenditure on activities qualifying as ODA in their Reports.

2.44. Further guidance on the format and content of Command/TLB Reports will be provided in due course, including templates which must be used to report the required information to the Centre. These will ensure that this is provided in a common format that can be easily aggregated at the Departmental level for the Defence Board.

PB&F Submissions to Support Command/TLB Reports

2.45. Commands/TLBs will be required to submit their ABC 15 Planning models in parallel with their Command/TLB Reports and it is essential that the information in both is identical, to allow the Corporate Centre to use PB&F to undertake any further analysis which might be required. Immediately after submission , the models will be rolled forward to the next version and reopened to users.

TRANSFERS

2.46. The planning process incorporates two types of transfers of funding and where appropriate, manpower. The first, called intra-TLB or internal transfers involves transfers which are internal to a Command/TLB and have no impact on its overall Control Totals issued by Defence Resources. This includes transfers between organisations in the Command/TLB's budgetary structure (e.g. from one BLB to another) and, for Commands only, transfers between the TLB Plan, EPP and ESP elements of their programmes. Subject to the constraints on financial delegation set out in paragraph 1.6. of these instructions Commands/TLBs may make internal transfers at any point during ABC 15 and these will be actioned overnight. Proposals to make material transfers of funding between the EP and TLB Plan element of Command costed plans should not be actioned by internal transfers until the matter has been raised in Command/TLB Reports and Corporate Centre approval has been given.

[10] In accordance with MAA Regulatory Article 1020(4)

2.47. The second type of transfer, called inter-TLB or external transfers, are transfers between Commands/TLBs which therefore affect their overall Control Totals and require implementation by Defence Resources. Changes to Control Totals resulting from both types of transfers, together with other baseline adjustments made by Defence Resources and the affects of Option implementation (although the latter is optional) will, for ABC 15, be entered and implemented through the new PB&F Planning Control Model (PCM). Further detail on the new PCM is provided at paragraphs 3.3. to 3.7. below.

2.48. Other than the requirement to use the new PB&F PCM, the underlying process for external transfers remains essentially unaltered from that in previous planning cycles. Commands/TLBs will need to agree such transfers between themselves, with the exporting Command/TLB entering the transfer on PB&F and the importing TLB approving it. As in previous years, external transfers will not be implemented immediately; instead, Defence Resources will take the necessary action to implement these at pre-designated points as shown in the ABC 15 timetable (Annex A).

2.49. In previous planning cycles the inter-TLB transfers process was divided into windows, which opened on a set date allowing Commands/TLBs to enter and approve transfers and then closed on a set date, at which point Defence Resources implemented the approved transfers by making changes to Command/TLB Control Totals. Under the new PCM process, Commands/TLBs can enter and approve inter-TLB transfers at any time from the models becoming available and those that have been approved will be implemented by Defence Resources on certain pre-set dates.

2.50. There are two such dates in the ABC 15 timetable; 15 September (to capture any transfers outstanding from ABC 14, routine business in the first half of ABC, transfers relating to Options Window 1 and the outcome of QRPC 1-15) and 6 February (to cover the outcome of any Defence Board decisions on ABC 15, transfers relating to Option Window 2 and routine business to close out the planning cycle. Defence Resources will not, in general, adjust Control Totals for transfers other than at the each implementation point, as to do otherwise would introduce unnecessary uncertainty and complexity into the planning process.

2.51. In all cases it will be for the two organisations involved to agree the details of a transfer between themselves; the Corporate Centre will only intervene to make a binding adjudication in those exceptional cases where such agreement cannot be reached. One area which has proved particularly problematical in recent planning cycles is where the exporting Command/TLB seeks to apply a general percentage reduction to the value of transfers to cover a centrally held savings adjustment, the detail of which has not yet been programmed. In the absence of initial agreement between the two organisations on the amounts to be transferred, the following will apply:

- Where, at the time of the transfer decision, the exporting organisation has in place a plan to deliver the savings requirement or has cascaded an element of the savings requirement to the business unit which is transferring, the amount to be transferred should reflect this (i.e. the amount to be transferred should be abated to reflect the delivery plan);

- Where, at the time of the transfer decision, the exporting organisation has not cascaded the savings challenge to the business unit or developed a delivery plan, the amount to be transferred should not be abated.

2.52. At each inter-TLB transfers implementation point, all agreed transfers will be implemented as adjustments to the CTs of the importing and exporting organisations. It should be noted that costed plans will not automatically be adjusted for the affects of these transfers. In all cases where a transfer of CT has been agreed between Commands/TLBs, the changes must not be reflected in costed plans until Defence Resources has formally amended CTs. Experience from previous planning cycles has shown that pre-empting transfers can lead to costs being double counted or omitted altogether and makes the central assessment of an organisation's position against CT and the overall Departmental position considerably more difficult.

OPTIONS

2.53. The broader Options process for ABC 15 will be largely unchanged from that used in ABC 14, although, as stated above, the expectation is that Commands/TLBs should look to internal reprogramming in the first instance, rather than raising Options. However, there were a number of important lessons learnt from ABC 14 which will need to be addressed. These are set out in the relevant paragraphs below.

2.54. Commands/TLBs will be responsible for generating and managing Options, for liaising with other affected Commands/TLBs during the costing/assessment phase and, ultimately, for deciding which Options they propose to implement. Implementation decisions may, in certain limited circumstances, be overridden by Defence Resources (e.g. where an Option requires Defence Board/Ministerial approval or where appropriate funding mechanisms have not been agreed with other affected Commands/TLBs.

2.55. Defence Resources will act only as a facilitator in the main ABC 15 Options process, setting the timetable and processes, formally creating Options on PB&F and issuing these, actioning implementation decisions and providing advice and guidance.

2.56. The Corporate Centre will be responsible for managing and running the Option implementation process to the extent that this is required in the build up to Comprehensive Spending Review 15.

2.57. The key to an effective Options process will be good communication between all of the relevant stakeholders throughout the entire Options process.

Option Generation and Distribution

2.58. Under the delegated financial model, Commands/TLBs are responsible for raising Options where they consider that they are required. Further guidance on the types of measures which are likely to require the raising of an Option is at paragraph 2.22. above but this is not exhaustive and Commands/TLBs may, for example wish to use the Options process as a way to gather data to inform future decisions. However, in light of the light touch approach to ABC 15, it is expected that there will fewer Options raised than was the case in ABC 14 and no major reprogramming activity.

2.59. Also, although there is no formal limit on the number of Options that a Command/TLB can raise (other than an overall limit of 500 Options across Defence that can be created using the 'Option Creation and Selection 15' tool), there are implications in terms of the workload that raising Options generates in both the originating organisations and for all others that have to review and input into the measures. It is therefore important for the originating Command/TLB to establish early communication with other potential stakeholders to allow early consideration of whether the proposed Option is the best way forward or whether, for example, a ROM cost would be sufficient in the first instance. For this to work, the other stakeholders will have to move away from the idea that they will not consider a proposed measure until a formal Option has been created.

2.60. Similarly, Commands/TLBs who identify a desired outcome should refrain from issuing every potential course of action to achieve this as an Option; instead they should discuss these with stakeholders in order to determine which are the most viable and should therefore be taken forward. Finally, Commands/TLBs should refrain from building up large numbers of measures and then issuing these as Options with the same costing date. This has the potential to be unmanageable for the other organisations which have to cost the measures.

2.61. Commands/TLBs should raise Options using the standard template (Option Template ABC 15 Version 1.2) which has recently been issued. Further guidance on best practise for Option writing will be issued shortly. All Options are to be treated sensitively on a 'need to know' basis and industry should not be consulted on the formulation of Options unless specific authorisation is granted by Head of Defence Resources. It should be noted that raising an Option will not automatically blight the project or programme being reviewed or recosted.

2.62. Once the template has been completed, it should be forwarded to Defence Resources and FMC-Cap-Plans and/or FMC-Cap-JtPlans. Defence Resources will allocate the measure a formal Option number, enter it on PB&F and ERIC and then release the Option, using a standard distribution list which will ensure that all stakeholders have visibility and are able to input.

Selection of Options for Costing in PB&F

2.63. Once an Option has been created on PB&F, users will need to update their view of live Options in the 'Option Creation & Selection' tool, using the 'Get Data' link and then running the appropriate systems link. Any new Options (and any amendments to existing Options) since the last update will be added to the existing list of Options and highlighted in red.

2.64. Users who wish to cost an Option will need to actively select the measure for costing, using the 'Option Creation & Selection 15' tool. As in previous planning cycles, the user will be able to select against which model (TLB Plan, ESP or EPP) the costings should be entered. By using the PB&F workflow functionality, users at higher levels in the budgetary hierarchy, including the Corporate Centre, will be able to review which areas have selected to cost an Option and what progress has been made.

2.65. It is important that users only select for costing those Options which they genuinely intend to cost. Selecting large numbers of measures on a 'just in case' basis will reduce the speed at which the Option costing model will run, to the frustration of all concerned; it will also delay implementation of an Option, as all lower level nodes need to have submitted their costings (and therefore locked them) before this can occur. If an Option is selected for costing in error, there are two ways to correct this situation in PB&F:

a. If the error is spotted quickly and an Option Costing Model has not automatically been created, the user can simply select 'No' from the dropdown menu in the 'Option Creation & Selection 15' tool.

b. If an Option Model has been created the user will need to select 'Delete' from the drop down menu in the 'Option Creation & Selection 15' tool. This will raise the error with the DBS team who will reset the selection process for that user for the stated Option. It should be noted that any costing input against that Option will be deleted and cannot therefore be recovered at a later date.

2.66. It will be for Commands/TLBs to initiate local business processes to ensure that the appropriate elements of their budgetary organisations have selected and costed Options correctly on PB&F.

Costing of Options

2.67. Options raised on PB&F are to be fully costed, both in terms of financial and manpower implications, and TLB Plan, ESP and EPP modules are provided to ensure that these are captured across all plans, as appropriate. Each Option will be issued with a deadline for costing; it is extremely important that all data is entered into the relevant modules and submitted by the deadline, as any delay can have a knock-on effect on subsequent processes and ultimately the conclusion of ABC 15.

2.68. **Other Costing Considerations.** When costing Options, the following additional considerations should be taken into account:

a. **Non Cash Resource DEL.** The importance of costing Non-Cash Resource DEL was explain in Part I of these instructions; it follows that the same rigour should be applied to costing the Non-Cash Resource DEL elements of Options. It will be for affected Commands/TLBs to determine the internal processes required to deliver this.

b. **Manpower.** For coherence, and to avoid complications when approved Options are automatically implemented during the Option process, the manpower element of Options should be costed using the same capitation rates as costed plans. Commands/TLBs should also ensure that all manpower implications of costed Options (i.e. changes in Establishment and Strength for Service and Civilian personnel) are properly captured in the PB&F Option Costing model. When costing Options which include changes to manpower, the relevant military and civilian protocols should always be applied. For civilian personnel, the costings should exclude redundancy, as this will be held centrally and ring-fenced.

c. **Data Entry in PB&F.** Options should be costed against a baseline of the current costed plan in PB&F. Data should be entered against each Option at the same level of detail as in the main planning models and should be attributed to the correct Level 4 RA Codes and the correct organisational nodes from the outset. The use of dummy adjustment nodes and lead RACs should be avoided wherever possible. This is because the data entered onto the system will be used for other purposes within the ABC process (e.g. manpower analysis or the calculation of the adjustment to CTs in respect of Fuel) and because the automated process for implementing approved Options (see paragraphs XX to XX below) does not readily allow for subsequent adjustments. Validation will continue to be applied to the Option costing models to prevent costings of less than £1000 being entered. This does not apply to the manpower related cost tabs.

d. **RA Code KAB666.** In order to ensure accounting integrity in the Option costing models, a balancing entry is automatically created against RAC KAB666 if users do not complete the double entry themselves. Again, it is strongly recommended that users should take action to remove these automatic balancing adjustments before submitting the costed Option, by manually inputting the double entry against the appropriate RAC. If this is not done, any balances against this RAC will need to be removed before the completion of ABC 15.

e. **Supplementary Data Tabs.** It is also important that all tabs in the Options costing model are fully completed including, for example, the Forex tab.

Submission of Options in PB&F

2.69. Once a user is satisfied that an Option has been correctly costed and all data tabs have been properly completed, they must formally submit that Option. Once submitted, Options can only be unlocked by Defence Resources and care should therefore be taken to ensure that an Option has been correctly costed before it is submitted. In addition, once it has been agreed that an Option will be implemented, Defence Resources will centrally lock it to prevent further costing nodes being created by users. In the event that further costings or adjustments are required, Commands/TLBs will need to contact Defence Resources.

Implementation of Options

2.70. In ABC 15 Options will be implemented in two windows. The first, in September, is principally intended for any measures left outstanding from ABC 14, to implement any decisions emerging from QRPC 1-15 and any other measures which Commands/TLBs wish to have implemented in time for inclusion in their Reports. By definition, this cannot include any proposed measures which require Defence Board or Corporate Centre endorsement; these will need to be include in Command/TLB Plan Reports and, if endorsed, actioned in the second ABC 15 Options window.

2.71. The second window will run from September to the end of January 2015 and is principally intended to capture any decisions made at the November Defence Board along with other routine business required to close out ABC 15.

2.72. Subject to any requirement for Defence Board or Corporate Centre endorsement, it will be for Commands/TLBs to decide which of their measures they wish to implement at the end of each Options window. Where these have an impact on other Commands/TLBs, the originating Command/TLB will need to confirm that it has consulted with all those affected and that they are content for the Option to be implemented. Defence Resources will circulate a consolidated list of Options which Commands/TLBs wish to implement to all Commands/TLBs immediately prior to implementation on PB&F to ensure that this consultation process (including agreeing any funding adjustments – see below) has taken place.

2.73. As part of these discussions, Commands/TLBs will need to agree between themselves how any funding implications (including changes in manpower requirements) will be addressed. As was the case in ABC 14, any agreed adjustments to Control Totals will need to be made by Commands/TLBs through the inter-TLB transfers process, not by an automatic transfer of Control Totals made by Defence Resources.

> TLB X raises a savings Option which saves it £10M a year. TLB Y costs the measure, showing a cost pressure to TLB Y of £2M a year – a net saving to Defence of £8M a year. TLB X will need to agree with TLB Y that the Option should be implemented and how the £2M a year of additional

costs in TLB Y will be dealt with. They may agree that costs lie where they fall (i.e. TLB X scores the full £10M a year saving and TLB Y absorbs the cost pressure of £2M a year) or that there will be a transfer of Control Total cover (i.e. £2M a year of Control Total cover is transferred from TLB X to TLB Y through the inter-TLB transfer process, so that TLB X scores the net saving of £8M a year and there is no additional cost pressure for TLB Y to deal with).

2.74. Commands/TLBs may, of course, implement any Option which is purely internal to itself and does not require Centre approval although, in line with the general approach to Options in ABC 15, these should be handled as internal reprogramming.

2.75. It is important to note that only the latest version of an Option can be selected for implementation (e.g. for Option S15AA800C, only the 'C' version can be selected; neither the preceding 'A' nor 'B' version can be implemented).

<u>The Implementation Process</u>

2.76. Implementation of Options will take place on PB&F and will follow a similar process to previous planning cycles. For those Options selected for implementation, the costing and manpower consequences will be automatically applied to costed plans in PB&F at the same organisation and RAC level as the data was entered for the Option costings. In parallel, Defence Resources will issue revised Control Totals sheets which will show those Options which have been implemented and which require a change to CTs (as opposed to measures to rebalance plans to CTs which will only affect costed plans). These will also include any manual adjustments that may be required. Subsequently, progress on ABC 14 Option implementation will be reviewed as part of the In Year Management (IYM) process in the next financial year.

2.77. In addition, the new (PB&F) Planning Control Model will allow Commands/TLBs to have their lower level budgetary organisation Control Totals changed automatically to reflect changes due to Options which have been implemented.

<u>MANPOWER</u>

2.78. The detailed instructions for planning manpower in ABC 15 are at Annex C. They reflect the approach agreed by all stakeholders at meetings and workshops held over the last few months. Essentially, they provide direction and guidance for Commands/TLBs under a delegated manpower model.

2.79. Not withstanding the move to fully delegated budgets, funding for Future Reserves 2020 (FR20) is ring-fenced and Commands/TLBs will be required to report progress to the FR 20 Programme Management Office at key points in-year. This is an area which attracts significant interest, both internally from Ministers and senior management, and externally. It therefore follows that planning for Reservists should be conducted with the same rigour which is applied to planning regular manpower. There are no separate ABC 15 reporting requirements over and above those required by CDP, although any issues relating to ring-fenced FR 20 should be included in Command/TLB Reports, where Ds Resources wish to bring these to the attention of the Centre for planning purposes.

FURTHER ANALYSIS OF THE OUTCOME OF ABC 15

2.80. An important part of the outcome of the planning cycle is the analysis of the financial position. This provides important management information to a range of customers, including senior management within MOD and various external bodies such as HM Treasury and the Cabinet Office. The data is also used routinely to answer PQs, FOI requests etc. Much of this analysis is undertaken centrally, using the information in PB&F; it is therefore extremely important that the source data input by users is complete and accurate.

2.81. One important piece of analysis which will continue to require direct input from Commands/TLBs is the Cost of Defence (COD) by Output exercise, which provides an overview of the main outputs to which resources are allocated in the ABC process. It forms an integral part of briefings to the Defence Board and Ministers and is also used to provide information to external organisations such as HM Treasury. The nature of the COD 15 exercise is currently under review and further guidance will be provided as this work progresses.

PART 3 - PB&F AND DATA ENTRY

Introduction

3.1. For ABC 15, the Planning models within PB&F will continue to provide the functionality for users to recost their plans at all levels and to submit those plans up through their budgetary hierarchies. PB&F will therefore provide a single version of the truth at every stage of the planning cycle for all financial aspects. In line with the approach taken in recent planning cycles, users will be able to update their planning models throughout ABC 15; the only exception being where models have to be locked for short periods for technical reasons such as rolling forward to the next version or implementing Options.

CHANGES TO PB&F SINCE ABC 14

3.2. The ABC 15 PB&F Planning models were made available to users from 6 May and include a number of changes since ABC 14, as detailed below:

Planning Control Model

3.3. The PB&F Planning Control Model (PCM) is used by Defence Resources to set Control Totals at Command/TLB level by year and DEL throughout the annual budget cycle. It is then used by individual Commands and TLBs to allocate these CTs to their TLB Plan, EPP and ESP (as appropriate) and then to their lower budgetary hierarchies in each of those plans. It also provides snapshot functionality which allows users to create a point in the ABC process against which Management Reports and Extended Analysis can be run.

3.4. For ABC 15, the PCM has been significantly changed in order to provide a comprehensive audit trail of all changes to Control Totals for users at every level. Control Totals will be automatically rolled forward from the ABC 14 PCM; thereafter, any subsequent changes, from whatever source or for whatever reason, will be recorded in the ABC 15 PCM. These changes will essentially be as a result of one of the following:

a. Inter-TLB (External) Transfers.

Previously, the ABC Planning Transfer model allow exporting Commands/TLBs to enter and approve transfers between themselves at the Command/TLB level only during an ABC Transfers window. When the window was closed, Defence Resources would extract details of approved transfers and manually adjust Command/TLB CT sheets and the PCM.

Under the new PCM process, the ABC Planning Transfers Model has been removed and all transfers are now actioned through the PCM. The implications of this for the inter-TLB transfer process are explained at paragraphs 2.47. to 2.50.

This approach has a number of advantages, including that transfers can now be actioned at the lowest levels in a budgetary organisation and a full audit trail is available of every change. Also, unlike in previous planning cycles, transfers which have been entered but not approved at an implementation point will not be lost (and therefore need to be subsequently re-entered) as they will remain on the system until they are either approved for a subsequent implementation point or deleted.

b. Intra-TLB (Internal) Transfers

Intra-TLB transfers do not alter the overall CTs for a Command/TLB but how that Command or TLB allocates those CTs internally. So, they might reflect a transfer between planning models (TLB Plan, EPP and ESP) or between lower level budgetary organisations. Previously, such adjustments to CTs could be made at anytime by the Command or TLB and reasons for the changes were not recorded. All such transfers will now be processed through the new PCM. This can be done at any time, at the discretion of the Command/TLB.

c. Baseline Adjustments

Baseline adjustments is the collective term for adjustments made by Defence Resources which are not as direct result of inter-TLB transfers or Options. Previously, the net affect of these changes was entered onto the PCM at TLB level by Defence Resources, with the detail set out in Command/TLB Control Total sheets. Under the new process, all baseline adjustments, including those related to the setting of Initial ABC CTs will be made through the PCM.

d. Options

When Options are implemented in PB&F, the affect is to adjust costed plans at the level that the Option was costed and with the same RA Code granularity. In previous planning cycles, implementing Options did not automatically adjust Control Totals; instead, the changes were extracted manually by Defence Resources and CT sheets and the TLB level of the PCM adjusted accordingly where a central adjustment to Control Totals was required. Commands/TLBs could then manually change the CTs for the affected lower level budgetary organisations, as required.

The new PCM process will pre-populate an Intra-TLB transfer which would change the CTs for affected lower level budgetary organisations in line with the financial impacts of the implemented Options, using the TLB Plan adjustment node as the balancing entry where the Option has an overall financial impact on the Command/TLB.

Whether this pre-populated intra-TLB transfer is used is entirely at the discretion of the Command/TLB. It may choose to implement the transfer as is, delete the transfer without implementing it, or use it as a starting point from which to make selected changes to CTs in lower level budgetary organisations. Situations in which it might not be appropriate to implement the transfer as is would include:

- The Option was costed using an adjustment node and the CT changes should now be made to the correct budgetary organisation;

- The Command/TLB does not with to provide full CT cover to the lower level budgetary organisation for the impact of an Option;

- The Command/TLB wishes to balance the net financial impact of implemented Options against an organisation other than the TLB Adjustment Node.

Commands/TLBs will need to bear in mind that the vast majority of Options implemented will not result in a change to their overall Control Totals issued by Defence Resources.

3.5. To support the new PCM process, a range of reports has been developed which allows the user to see the all of the changes which have been made to an organisation's CTs. They also allow the user to see what the affect of changes which have not yet been implemented would be. The snapshot functionality previously available to users remains unchanged.

3.6. Although there is no formal training available on the use of the new PCM, Commands/TLBs were fully involved in the PB&F Joint Application Design (JAD) process which agreed the final solution and the subsequent User Assurance Testing. Key personnel in each Command/TLB should therefore have a reasonable understanding of the new processes which they can pass onto colleagues. In addition, DE&S have produced Job Instruction Sheet 55 (Planning; Control Model)[11]. Although primarily intended as an internal DE&S document this provides a lot of useful detail on how the models work and should be used and other Commands/TLBs may find it useful to refer to this.

[11] http://defenceintranet.diif.r.mil.uk/Organisations/Orgs/DES/Organisations/Orgs/DGRes/FinOps/Pages/JobInstructionSheets.aspx

3.7. One key element of the new PCM process is that all transactions need to given a unique reference number as part of the data that has to be entered onto the system. The convention, agreed through the JAD process, is as follows:

XXX/YY/ZZZZ

where XXX is the Command/TLB budget code (e.g. B00 for JFC), YY is the current ABC cycle (so 15 for ABC 15) and ZZZZ is a sequential reference number. Use of this convention is mandated, although Commands/TLBs have discretion over how the use the sequential reference number. They could, for example, just use the numbers sequentially or they might instead decide to allocate a range in the sequence (e.g. 2001-2999) to a particular type of transaction (e.g. inter-TLB transfers). How the sequential reference number is used is for Commands/TLBs to determine, although a key consideration is that each reference must be unique (i.e. the same package reference should never be used twice for two different transaction).

<u>ISS Reporting Solution</u>

3.8. The transfer of ISS from DE&S to JFC is unique in that it will effectively transfer the EP element of ISS out of the EP. The full solution to achieve this will require the creation of a set of new EP models for JFC but the decision to proceed with this was taken too late to allow the changes to be made for ABC 15, Consequently, DBS have provided a temporary reporting solution for ABC 15 which allows DE&S and JFC to run reports which include or exclude ISS, as required, and ISS to run reports on the totality of their budgetary responsibility. This is achieved through the creation of two new pseudo-TLBs in the organisational structure (ISS1- ISS TLB Plan and ISS2 – ISS Equipment Plan)

3.9. Additionally, a new level called ' TLB IISS Adjusted' has been added to the report organisation dropdown boxes. Running a report using this new level will show items for 'B00 JFC (ISS Adjusted)' and 'D00 (Defence Equipment & Support (ISS Adjusted)'. Using this structure, the totality of ISS (including the EP element) is represented within 'B00 JFC (ISS Adjusted)'. None of these changes affect the 'By Command' reporting options, which will still show ISS P9s and S9s mapped to the Command which they face,

<u>Organisational Structure</u>

3.10. The PB&F organisational structure for ABC 15 has been updated to reflect the latest version of the Department's Standing Data Structure (SDS). Any further small structural changes (e.g. renaming of Basic Level Budgets) during ABC 15 can be implemented through monthly updates of the SDS and PB&F will be updated accordingly. However, any more significant structural changes will not be implemented until the start of ABC 16 or IYM 15/16.

RACE Structure

3.11. The Resource Account Code structure has been updated to the FY 14/15 version.

Manpower Ranks, Rates and Grades

3.12. The ABC 15 Manpower models have been updated to reflect the latest ranks and Rates for Service personnel and Grades for Civilian personnel.

FURTHER CHANGES TO PB&F DURING ABC 15

3.13. The following further changes to PB&F which affect planning are expected to be rolled out during ABC 15:

Non-Cash Resource DEL in the Non Current Asset Model

The Non Current Asset (NCA) model was developed by DBS to forecast depreciation for both in-year and planning, based on Asset Values and In/Out of Service in the Non Current Asset Register (NCAR) and the Asset Delivery Schedule (ADS). The change being implemented in ABC 15 will articulate Non Cash RDEL to Commands in line with how cash costs are articulated, completing another key element of the financial delegation process. PB&F reporting functionality will support these changes. This will be an iterative process during ABC 15 and consequential Control Total adjustments for Commands will be made when the data is considered sufficiently mature.

Official Development Assistance (ODA)

The reporting requirements for ODA are explained at paragraph 1.35. above. To facilitate this, DBS will provide a PB&F ODA supplementary data tab in the IYM model set, which will cover the IYM and planning years. However, it is unlikely that this will be available in time to support Command/TLB Reports, in which case the data will need to be provided off-line.

DATA ENTRY IN PB&F

Level of Data Entry

3.14. The standard level of data entry in PB&F for ABC 15 remains unchanged:

TLB Plans	RAC Level 4 Years 1-10	
ESP	RAC Level 4 Years 1-10	DEL Years 11-30
EPP	RAC Level 4 Years 1-10	DEL Years 11-30

3.15. Users may exceptionally, enter costings using a lead Level 4 RAC Code where a more detailed breakdown is not readily available (e.g. enter all costings against Electricity rather than individually against Electricity, Gas and Water & Sewerage). This should, however, be kept to an absolute minimum, not least because of the potential for such an approach to distort any subsequent analysis of the costings by higher level reviewers.

3.16. PB&F has no constraints on the level of detail at which financial information can be entered, but there are a number of shortcuts which allow data to be entered at a higher level (in £Ks or £Ms). It will be for Commands/TLBs and DE&S Project Teams to determine the level at which data should be entered onto the system. This does not, of course apply to capitation rates (which are usually calculated to the nearest pound) nor to calculations performed automatically within PB&F, such as the application of Corporate Planning Assumptions for fuel prices to TLB volumes. For reporting purposes, the COGNOS functionality can be set to produce reports in pounds million (£M), to three decimal places.

Manpower Validation

3.17. The validation applied to capitation rates in Manpower models in ABC 15, which remains unchanged from ABC 14, is as follows:

PAY ELEMENT	VALIDATION RATE
Service Personnel	
Pensionable Pay	£450K
Non-Pensionable Pay	£450K
ERNIC	£70K
Civilian Personnel	
Pensionable Pay	£400K
Non-Pensionable Pay	£400K
ERNIC	£70K

3.18. Further validation will continue to apply to prevent users from entering negative Strength numbers or negative capitation rates. It should be noted that validation also applies to the manpower element of Option costing models, although in this case entering negative Strength numbers (but not capitation rates) will be allowed, to facilitate costing manpower savings measures, should these be required.

PB&F Versions Available in ABC 15

3.19. The following formal PB&F versions will be available for ABC 15:

- Rolled Forward
- Initial Phase
- TLB Report
- Intermediate A

- Intermediate B
- Intermediate C
- Final A
- Final B
- Final C
- Final D

It is not expected that all of the available versions will be used in ABC 15; further guidance will be issued as the planning cycle progresses.

ANNEX A - ABC 15 TIMETABLE

DATE	ACTIVITY
2014	
6 May	ABC 15 PB&F TLB Plan, EPP, ESP, PCM and Options Planning Models Available for Reconciliation and then Release to Users
w/c 19 May	Defence Resources Issue ABC 15 Instructions and Initial ABC 15 Control Totals
20 May	First ABC 15 Options Window Opens
By 10 June	Commands to have Completed Initial Update of PB&F PCM to Inform QRPC 1-15.
10-24 June	QRPC 1-15 3* Review Meetings
1 July	EPP and ESP Models to be Updated for Outcome of QRPC 1-15
2 July	Roll Forward of Planning Models to 'TLB Report' Version
8 July	Last Date for Release of Options for Costing in Window 1
12 August	Options for Implementation in Window 1 to be Costed and Locked
29 August	Commands/TLBs Submit List of Options for Implementation in Window 1 to Defence Resources
5 September	Finalisation of List of Options for Implementation in Window 1
8 September	• Window 1 Options Implemented in PB&F
15 September	• Inter-TLB Transfer Implementation 1 on PB&F • Second ABC 15 Options Window Opens
10 October	Submission of ABC 15 Command/TLB Reports to DG Finance
13 October	Roll Forward of ABC 15 PB&F Models to 'Intermediate A' Version
3-7 November	DG Fin/DCDS(Milcap) Meetings with Command/TLB Ds Resources and Com Caps [tbc – potentially combined with IYM 14/15 AP6 reviews]
18-28 November	QRPC 2-15 Review Meetings
26 November	Armed Forces Committee Consideration of ABC 15 Position
28 November	Defence Board Consideration of ABC 15 Position
5 December	EPP and ESP Models to be Updated for Outcome of QRPC 2-15
8 December	Roll Forward of Planning Models to 'Intermediate B' Version
10 December	Last Date for Release of Options for Costing in Window 2
17 December	Armed Forces Committee

19 December	Defence Board
2015	
16 January	Options for Implementation in Window 2 to be Costed and Locked
21 January	Commands/TLBs Submit List of Options for Implementation in Window 2 to Defence Resources
27 January	Finalisation of List of Options for Implementation in Window 2
28 January	Window 2 Options Implemented in PB&F
4-13 February	QRPC 3-15 Review Meetings
6 February	Inter-TLB Transfer Implementation 2 on PB&F
18 February	Conclusion of ABC 15 on PB&F
From 18 February	• Migration of ABC 15 PB&F Models to IYM 15/16 and ABC 16 • Finalisation of Command Plans [tbc] • FY 15/16 AP0 FOOs • Input ('Cracked Record') and Output (Cost of Defence) Analysis of Outcome of ABC 15

ANNEX B – CORPORATE PLANNING ASSUMPTIONS

Introduction

B.1. The Corporate Planning Assumptions (CPAs) for use in ABC 15 are shown below. They are based on the Defence Economics (DE) 'Economic Forecast Assumptions 2014/15' which are available on the DE website[1]. In many cases the ABC 15 CPAs match the DE forecasts but there are instances where, because the projections are particularly volatile or unpredictable, the CPAs have been set at a different level for reasons of prudence and/or stability. These include Service and Civilian Pay, Propulsion Fuel prices and Foreign Exchange (Forex) rates. Where there are differences between the ABC 15 mandatory CPAs and the DE forecasts, it is essential that the CPAs are used to re-cost plans in ABC 15. Defence Resources will centrally manage the financial implications of any such differences throughout ABC 15 and will adjust Command/TLB Control Totals towards the end of the planning cycle, where appropriate.

B.2. The ABC 15 CPAs are divided into those which are mandated and those whose use is discretionary. Mandated CPAs are used to provide a consistent basis for costing specific elements of the Defence Programme and to allow Defence Resources to calculate centrally held provisions and to make any required adjustments to Command/TLB Control Totals. Where appropriate, these mandatory CPAs are loaded directly into the PB&F planning models and cannot be altered by users. Discretionary CPAs are also provided but in almost all instances, Commands/TLBs and DE&S Project Teams will have better information (e.g. specific contracts for the delivery of equipment and associated support, knowledge of local inflation factors etc.) and these must be used in ABC 15 to ensure that programmes reflect the most likely costs. Simply applying the default inflation assumptions below in order to avoid unwelcome but expected cost pressures is not acceptable and risks making programmes ultimately unaffordable and introducing unmanageable in-year pressure in Command Plans. It follows that a review of inflation assumptions should be a key consideration in DE&S reviews of equipment programmes and support costs and TLB reviews of costed plans.

Part 1 - Mandatory Corporate Planning Assumptions

A. Service Pay

ABC 15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Service Pay	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[1] http://defenceintranet.diif.r.mil.uk/Organisations/Orgs/HOCS/Organisations/Orgs/DFMC/Pages/EconomicForecastAssumptions.aspx

ABC 14 CPA	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.3. The ABC 15 CPAs shown above are planning assumptions only and should not be taken to indicate a central forecast of future military pay awards. The rate for FY 15/16 reflects the application of the 1% cap on Public Sector pay awards announced in the 2013 Budget. The additional [redacted] reflects DE's assessment of the financial impact of progression up incremental pay scales to which Service personnel remain entitled; this has reduced from [redacted] in ABC 14 (see DE Report for detail). Beyond FY 15/16, the CPAs reflect the ABC 15 GDP deflator rates. DE's forecasts for pay inflation beyond FY 15/16 are higher than those shown in the CPAs above and the financial implications of this difference will be managed centrally by Defence Resources. This approach allows the Department to manage future fluctuations in DE's forecasts without Commands/TLBs having to re-cost their manpower plans. It should be noted that the ABC 15 CPAs do not reflect the New Employment Model (NEM) pay model; it is expected that this will be dealt with in ABC 16.

B. Service ERNIC

ABC 15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Service ERNIC	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ABC 14 CPA										

B.4. Changes in Service Employer Related National Insurance Contributions (ERNIC) are driven by annual changes in National Insurance earnings thresholds and by increases in basic pay. Budget 2013 announced the introduction of a Single-Tier State Pension from FY 16/17. Additionally, Budget 2014 announced minor reductions in the lower and secondary earnings thresholds for NI. The financial impact of these changes is complex and it has not been possible to factor them into the CPAs shown above. Defence Resources will work with DE to understand any financial impact of these changes and will manage this centrally for ABC 15, with the expectation that cost increases due to the introduction of the Single-Tier State Pension will be incorporated in ABC 16 and the central held provision disaggregated.

C. Service SCAPE

ABC 15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Officers	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Other Ranks										
Full Time Reservists										

B.5. Service SCAPE rates for ABC 15 are unchanged from those used and funded in ABC 14. The introduction of the new Armed Forces Pension Scheme in 2015, the on-going actuarial revaluation of the scheme and recent amendments to the Pension Discount Rates will potentially result in changes to these assumptions during the course of ABC 15 or, more likely, in ABC 16. These will initially be managed centrally by Defence Resources who will, at a convenient point in the process after the new rates have been finalised, freeze the PB&F planning models and upload the new rates. This will automatically change Command/TLB costed plans and any required adjustments to Control Totals will be made at the same time.

B.6. When applying these rates, the following should be noted:

- All rates are applicable to pensionable pay;
- Rates for Officers and Other Ranks include Gurkha Officers and Gurkha Other Ranks respectively;
- Full Time Reservists rates apply to both Officers and Other Ranks.

B.7. Whilst the automated the automated application of the Service SCAPE CPAs in PB&F will, in most circumstances, give the correct result, it is inevitable, given the complex rank and rate structure and differing local circumstances within budgetary organisations, that there will be instances where this may not be the case. Where this affects all personnel in a single rank or rate, TLBs should report the problem to Defence Resources for corrective action on PB&F. Where the issue is entirely due to a local peculiarity in the application of SCAPE, the overriding consideration should be to ensure that the costings are accurate and a manual adjustment should be applied, using a 'spare' RAC code in the Service Personnel cost Commodity Block. Neither manpower numbers (i.e. Strength) nor capitation rates should be used to make the adjustment.

D. Civilian Pay

ABC 15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Civilian Pay	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ABC 14 CPA	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.8. These are planning assumptions only and should not be taken to indicate a central forecast of future Civilian pay awards. The rate for FY 15/16 reflect the application on the 1% pay cap for Public Sector workers, although unlike for Service Personnel, there is no additional element for progression up incremental pay scales following the Budget 13 announcement of reform to Public Sector pay progression. Beyond FY 15/16 the CPAs reflect the ABC 15 GDP deflator rates. DE's forecasts for pay inflation beyond FY 15/16 are higher than those shown in the CPAs above and the financial implications of this difference will be managed centrally by

Defence Resources. This approach allows the Department to manage future fluctuations in DE's forecasts without Commands/TLBs having to re-cost their manpower plans.

E. Civilian ERNIC

ABC 15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Civilian ERNIC	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
ABC 14 CPA	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.9. The considerations set out above under Service ERNIC apply equally to Civilians and will be managed in the same way.

F. Civilian SCAPE

Salary Band	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
£22,000 and under	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
£22,001 to £44,500	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
£44,501 to £74,500	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
£74,501 and over	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.10. The Salary Bandings for Civilian SCAPE have been updated to reflect the latest Cabinet Office direction, although the SCAPE rates remain unchanged from those used and funded in ABC 14; these will be automatically uploaded into the ABC 15 planning models in PB&F. The review of the Principal Civil Service Pension Scheme (PCSPS) is due to conclude in 2015 at which point rates will change to cover future pension liabilities. In line with the approach for Service SCAPE explained above, Defence Resources will centrally manage this initially, uploading the new rates once these have been confirmed by the Cabinet Office and adjusting Command/TLB Control Totals where appropriate.

B.11. The rates shown above are applicable to <u>pensionable</u> pay. The considerations for Service SCAPE on the results generated by the automated application of the CPAs in PB&F apply equally to Civilian SCAPE

G. Local Overseas Allowance (LOA)

B.12. In line with the approach used in previous planning cycles, the following rates are mandated for costing the Euro element of LOA:

LOA (Euro)	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Euro	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20

B.13. These rates are unchanged from those mandated for use in ABC 14. An equivalent rate for the US$ element of LOA in not required, as the costs involved are not material.

B.14. ABC 15 Initial Control Totals will be updated to reflect the financial impact of changes in CPAs for Service and Civilian Pay and the consequential affects on ERNIC and SCAPE. There will be no change to the CTs in respect of the updating of Civilian Salary Bandings for SCAPE.

H. Modified Historic Cost Accounting (MHCA) Revaluation Indices

Fixed Assets	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Land & Buildings - Dwellings	2.1%	1.8%	1.7%	1.7%	1.9%	2.1%	2.2%	2.2%	2.2%	2.2%
Land – Other	1.5%	1.8%	1.7%	1.7%	1.9%	2.1%	2.2%	2.2%	2.2%	2.2%
Land & Buildings – Non-Dwellings	2.7%	1.9%	1.7%	1.7%	1.9%	2.1%	2.2%	2.2%	2.2%	2.2%
SUME	1.9%	1.9%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Plant & Machinery	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Transport – Other	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Transport – Fighting Equipment	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
IT & Communications	-2.8%	-2.9%	-3.1%	-3.1%	-3.4%	-3.5%	-3.5%	-3.5%	-3.5%	-3.5%
Assets Under Construction	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Intangible Fixed Assets	1.5%	1.8%	1.7%	1.7%	1.9%	2.1%	2.2%	2.2%	2.2%	2.2%

Stocks	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Armaments	2.0%	1.8%	1.9%	1.9%	1.7%	1.6%	1.5%	1.5%	1.5%	1.5%
Clothing & Textiles	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Engineering & Technical	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
General	1.5%	1.8%	1.7%	1.7%	1.9%	2.1%	2.2%	2.2%	2.2%	2.2%
Guided Weapons, Missiles & Bombs	2.0%	1.8%	1.9%	1.9%	1.7%	1.6%	1.5%	1.5%	1.5%	1.5%
Medical, Dental & Veterinary	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Strategic Weapon Systems	2.8%	2.9%	2.9%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

B.15. The application of these rates will change asset valuations and, importantly, will have implications for the Non-Cash RDEL element of costed plans. Where appropriate, they will be automatically uploaded into PB&F planning models for ABC 15.

I. Foreign Exchange Rates

ABC 15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
$US	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Euro	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
$ Canada	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.16. The rates for the $US and the Euro remain unchanged from those mandated for ABC 14; the $ Canada rate has been updated to reflect the latest DE forecasts. These rates will be uploaded into the Foreign Currency tab in the ABC 15 PB&F planning models and will be automatically applied to user entered volume requirements. There will be no changes to these rates during the course of ABC 15; this will ensure stability of pricing assumptions and leave Commands/TLBs to focus on managing the financial impact of any changes in volume requirements, <u>for which there will be no central relief</u>.

B.17. Defence Resources will receive monthly updates of forecast exchange rates from DE and will use these to manage the Department's exposure to FOREX movements. Where appropriate, Defence Resources will adjust TLB Control Totals towards the end of ABC 15 to reflect the financial implications of the variance between the latest DE forecasts and the CPAs for US Dollars and

Euros (but not for Canadian Dollars). The forecast benefits of the Department's foreign currency forward buy programme will be assumed centrally in balancing the Defence Programme to budget.

B.18. The volume of currency to which the Department commits itself under the forward buy programme and the central management of the Department's exposure to FOREX movements are based on the volumes reported by Commands/TLBs in PB&F. It is therefore essential that this information is regularly updated throughout the planning cycle to ensure that it accurately reflects the latest underlying costed plan.

B.19. Whilst these rates are mandatory for all aspects of ABC 15, there may be circumstances where this is inconsistent with prevailing local circumstances, such as where different exchange rates are set out in the terms of a contract. Where this is the case, the CPAs should still be used but, if the financial affect would be material, further advice should be sought from Defence Resources. Further, it should be noted that, due to the volatility of foreign exchange rates, these CPAs are only to be used for ABC 15 planning purposes. DE staff must be consulted if current exchange rates are required for contract negotiations, for producing business cases or for other non-ABC 15 related costings. When considering business cases, adverse movements between the latest rates advised by DE and the CPAs used to cost ABC 15 can be an important factor when considering alternative options. Since Defence Resources manages the financial effect of foreign exchange movements centrally, an adverse variance will not render a project unaffordable; however, there will come a point that, from a Value for Money perspective, when a UK supplier would be a better alternative.

J. Propulsion Fuels

ABC 15 (£s per cubic metre)	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Aviation Fuel	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Marine Fuel	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Road Diesel	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.20. These CPAs are unchanged from those used in ABC and will be uploaded into the ABC 15 Planning models; they will remain unchanged until towards the end of the planning cycle, allowing Commands/TLBs to focus on managing their volume requirements. Where changes to Command/TLB Control Totals are required at the end of ABC to reflect the latest DE forecast spot rates, these will be made as baseline adjustments, based on the latest volumes reported on PB&F. Forecast prices for Other Propulsion fuel have not been provided for ABC 15, as there were no reported volumes at the end of ABC 14.

B.21. In order to provide TLBs with greater visibility of the total cost of their planned fuel consumption, which in turn will provide them with better information when considering Balance of Investment decisions, it would clearly be desirable to increase the CPAs for propulsion fuels to bring them closer to the latest DE spot rates for fuel. However, this cannot realistically be achieved until the various issues relating to TLB overestimation of fuel volumes are addressed.

B.22. The fuel hedging regime will continue to operate and provide increased certainty with respect to the Department's planned expenditure on propulsion fuel. TLBs are expected to review and update their planned fuel volumes on PB&F throughout ABC 14 in order to reduce the significant variance between their planned fuel volumes and in-year usage. This will provide the Department with more robust management information to operate and benefit from the fuel hedge mechanism.

Discretionary Corporate Planning Assumptions

Utilities

ABC 15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Electricity	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Gas	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Water	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Heating Oil	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.23. These inflation assumptions are based on the latest advice from DE and represent year on year forecasts of the most likely movements in Utilities prices, so that the rates for FY 15/16 should be applied to the latest costing forecasts for FY 14/15, the rates for FY 16/17 to the revised forecast for FY 15/16, and so on. It is recognised that these rates are likely to vary from those which are most likely to apply across specific MOD sites. In line with the approach directed above, the most realistic assessment of likely costs must always be used to cost plans. In line with the approach in previous planning cycles, Commands/TLBs are responsible for managing all changes in the forecast costs of Utilities within their existing Control Totals.

Other Costs

ABC 15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
General Administrative Expenditure	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Defence Works – PROPMAN	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

B.24. In line with the approach to applying discretionary CPAs set out above, these CPAs are only to be used in exceptional circumstances where better information is not available.

ANNEX C – MANPOWER INSTRUCTIONS

SCOPE

This instruction gives the direction and guidance for Commands/TLBs to implement manpower delegation. Central funding of Control Totals (CT) includes an element which is derived from Service manpower strength figures. In the future, once all single Services (sS) reach their FF20 structure (c2016), the manpower element of CTs will be derived from liability.

This instruction is intended to cover the period prior to declaration of manpower FOC (the conditions of which will be confirmed by the AFC) under the Delegated model.

GENERAL

C.1. Manpower represents the largest single cost to Defence, accounting for around 35% of the annual Defence Budget. In the past manpower resource was planned and, to an extent, managed by Head Office (HO) either by directed savings and/or centrally adjusted Defence Final Outputs (DFOs). The aim of strategic manpower delegation is to incentivise Commands/TLBs to employ the optimum mix of manpower, seek efficiency in the delivery of their DFOs, flex resource to the point of need and reduce to a minimum HO manpower planning bureaucracy. Head Office (HO) will provide strategic direction, allowing tactical judgements to be applied at the appropriate level.

C.2. Manpower delegation aims to better enable Commands/TLBs[1] to trade across manpower types (Service, Civilian or contractors) and achieve the Whole Force Concept (WFC)[2]. Changes to Service manpower will be agreed between the single Service (sS) Principal Personnel Officers (PPOs), and captured in SLAs, to ensure the Services have full visibility and control of their manpower structures and career management[3].

C.3. With Civilian Manpower planning Commands/TLBs manage their Civil Service (CS) workforce Strength and grade mix, with skill-set composition managed in partnership with the skills champions in CDP/HRD. Greater emphasis is being placed on Establishment, with a requirement to advise FMC-Cap-Plans of changes of greater than 50 in Full Time Equivalents (FTEs), so that Head Office can retain awareness and influence over the Department's total civilian personnel resource. There remains the Department's SDSR 10 and 3ME commitments to reduce headcount[4], with disaggregated targets for 1 April 2015 and a centrally held commitment to further reductions by 1 April 2020.[5]

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[1] Customer Command/TLB – a TLB that receives Service Manpower to deliver DFOs. Supplying Command would be the sS TLB that provides that manpower as agreed in the Liability Baseline.

[2] WFC is an approach to delivering a balanced, resilient and fully integrated force structure, comprising Service Personnel (Regular and Reserve) and civilians (MOD Civil Servants and contractors), optimised to deliver the people (Human Capability) component of Defence 's Operational Capability, at declared readiness and defined risk, in the most cost effective and affordable manner.

[3] A key incentive in Manpower Delegation is the ability for commands/TLBs to trade manpower types to seek financial efficiencies which they will retain and re-invest, but until FOC there is a degree of limitation on the ability to trade and realise financial benefits.

[4] More accurately, the currency for paid CS manpower is the Full Time Equivalent (FTE) unit.

[5] A more detailed description of how civilian establishment relates to this head-count profile can be found in the Civilian Manpower section of this document.

SERVICE MANPOWER

Service Manpower Management

C.4. Customer Commands/TLBs (roles and responsibilities at Appendix 2; definitions are at Appendix 3) have the freedom to manage their manpower provision with any adjustments being made between the customer and supplier and recorded for audit purposes through Options or inter-TLB transfers. The customer Commands/TLBs will programme the agreed liability and strength on PB&F with data support from the supplying Command; Service PPOs will ensure single Service structures and career progression are sustainable.

C.5. **Service Manpower Options.** During the ABC period manpower Options will be raised by the Command/TLB owning the liability for the affected position for both Enhancements and Deletions to liability. Detailed guidance is contained within the Target Operating Model (TOM). An approved Option is then programmed into PB&F by the liability owning Command/TLB; Defence Resources will, in parallel, place the approved Option onto ERIC[6].

C.6. Customer Commands/TLBs wishing for an enhancement to meet a new DFO or to increase manpower to meet a current DFO in excess of 24 months[7] should bid to the supplying Command. In order to provide some flexibility, and maintain DFOs, supplying Commands have the ability to veer/haul within an agreed flex of +1/-2% of the agreed liability before needing HO assistance/approval.

C.7. When considering reductions particularly, there must be consultation with the affected PPO/Command/TLB who will advise on any necessary adjustment to profiles and any other considerations, such as branch sustainability, that need to be taken into account. As part of the contractual arrangement, PPOs and customer TLBs will agree manpower drawdown profiles[8].

C.8. When an agreed amount of manpower is given up by a customer Command/TLB it is returned back to the supplying TLB over an agreed period of time that will vary upon their rank, branch or trade. HO would then acknowledge the revised manpower requirements and the liability baseline revised to reflect these minor adjustments. If the adjustments are significant or involve a strategic shift in DFOs it is likely that the decision would be through the SDSR process. In either case the Service Personnel Liability Baseline (SPLB) will be reset on completion of the ABC process. Figure 1 provides a schematic description.

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[6] Equipment Records In Capability (ERIC) database that holds all Options.

[7] Posts of less than 24 months in duration will be met, where possible, by the supplying Command following a reprioritisation of its own manpower resource. After 24 months the long-term liability change would need to be submitted as an Option.

[8] With the development of the DE&S as a Bespoke Trading Entity (BTE) the nature of the relationship between DE&S and supplying Commands will become more contractual, though its precise nature is still being determined.

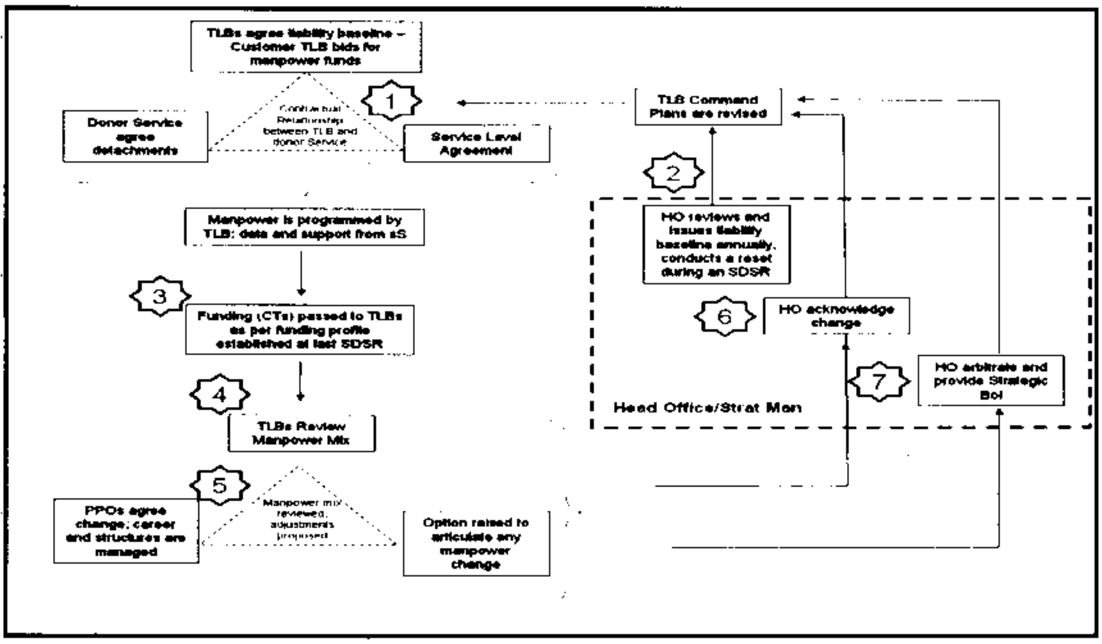

Figure 1 - Manpower delegation during IOC

C.9. **Service Level Agreements (SLA).** Supplying and Customer Commands/TLBs will sign an SLA regarding their manpower requirements; these will provide assurance that they will receive the manpower strength required to deliver their Defence Final Outputs. Overall manpower will remain with the owning Command/TLB, not the sS, in accordance with the delegated financial model. Customer Commands/TLBs will be able to make proposals, through PPO engagement, to materially alter the force mix under the WFC. The funding aspects of such changes will be the subject of negotiations between Supplying and Customer Commands/TLBs, including who can score the benefits of efficiencies/savings. Post FOC, SLAs may expand to cover all manpower types, which will assist PPOs in governing the mix and supply of manpower to employing Commands/TLBs effectively.

C.10. The SLAs will detail the agreed SPLB[9], gapping and manning priorities which were agreed by the AFC[10] and have been incorporated in to Defence Plan 14. SLAs, which will cover the ten year ABC planning horizon, are to be signed by PPOs for the supplying Command and Director Resources for the customer Commands/TLBs[11].

C.11. SLAs will be required for:

RN supply to: Army Cmd, Air Cmd, JFC, DE&S, DIO, HO&CS. – <u>ACTION NAVY COMMAND</u>

Army Supply to: Navy Cmd, Air Cmd, JFC, DE&S, DIO, HO&CS. – <u>ACTION ARMY HQ</u>

RAF Supply to: Navy Cmd, Army Cmd, JFC, DE&S, DIO, HO&CS. – <u>ACTION AIR CMD</u>

C.12. The Command Plan will be the mechanism for assurance of 'Navy in Navy', 'Army in Army' and Air in Air' personnel numbers, and Navy Cmd, HQ Army and Air Cmd are to

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[9] The SPLB covers the FMC Cap Plans issued targets and the level of achievement if there is a shortfall (i.e. within HO&CS and JFC).
[10] ACDS(CFD)/14/02 dated 21 Feb 14 'Defence Personnel Priorities'.
[11] Commands/TLBs to define their own representation; PPO, Asst Chief, D Res or Budget Holder.

detail within their Plan the manpower requirements required in their Commands deliver DFOs.

C.13. **Access to the Service Manpower Model on PB&F**. Authorised staff within the customer Commands/TLBs are to enter Service Manpower data into the ABC Manpower Model for each of the Services they employ. This will be conducted with the sS, which should be sent the appropriate reports, to ensure the correct liability and strength forecasts by rank/rate mirror those agreed between the customer and supplier Commands/TLBs in their SLAs.

C.14. **Service Manpower Liability**. Customer Commands/TLBs are to input liability data by Rank/Rate into the Establishment tab in PB&F (in coordination with the relevant sS) as per the programmed SPLB and agreed SLAs, and as at 31 March annually thereafter. It is essential that all parties have a clear understanding of the demand that they place on the manning system. A description of the various types of manpower is:

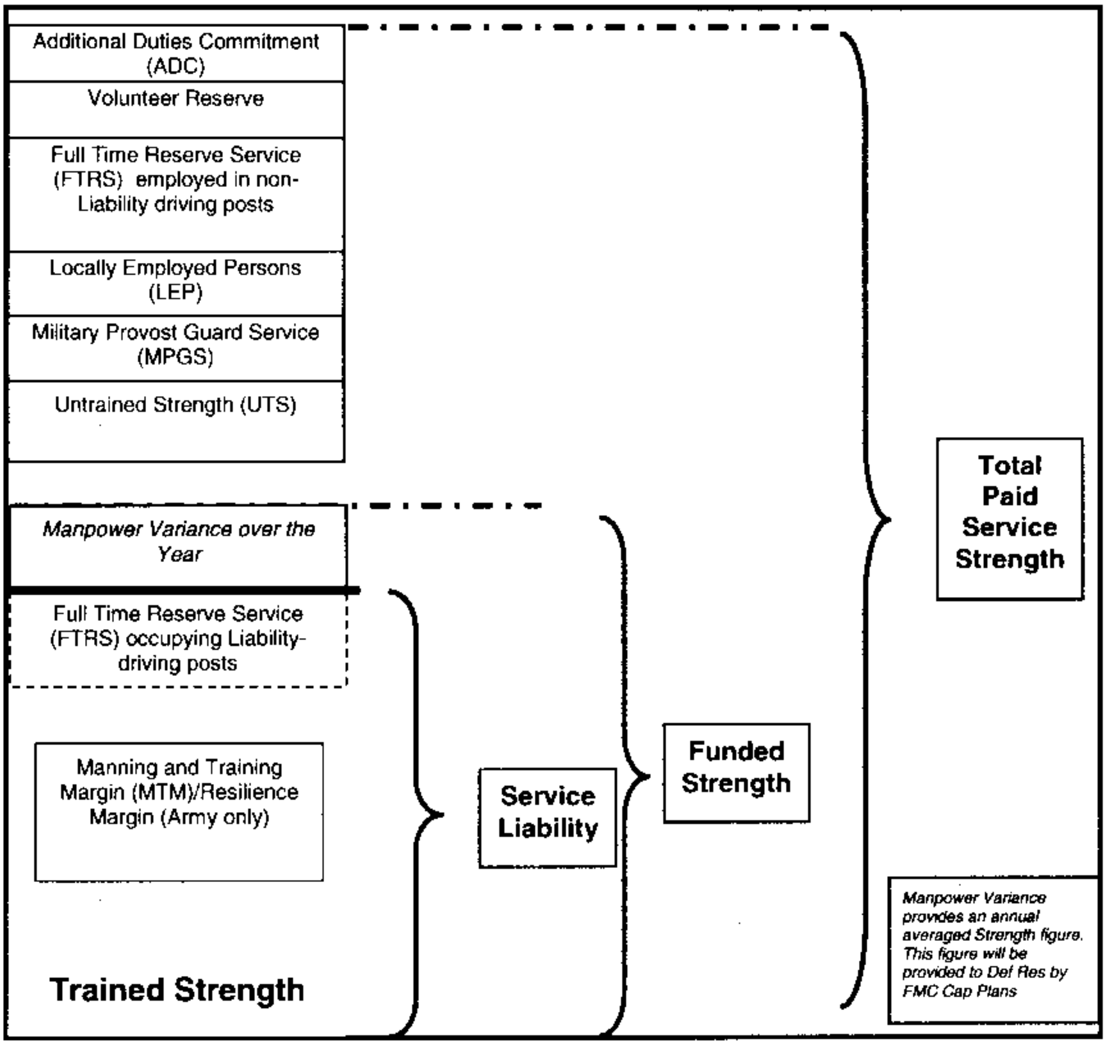

Figure 2 - Definitions

C.15. **Service Manpower Movement.** There are a number of manpower adjustments that could take place between SDSR/CSR periods. Although not exhaustive, scenarios that should be considered within the SLAs include:

a. **Service Manpower *Growth*.**

(1) **New Manpower Requirement – Self Imposed (by a Command/TLB wishing to create temporary or permanent liability to meet a particular output).** The financial risk of any such growth is borne by the customer Command/TLB and funding will have to be found through either making compensating manpower reductions within the Command/TLB or by rebalancing funding from elsewhere within their costed programme. For self-imposed liability growth the customer Command/TLB has the ability to create temporary appointments using compensating adjustments (same rank) from within its own organisation. Permanent enhancements are to be tested through Head Office for capability coherence.

(2) **New Manpower Requirement – Externally Imposed.** A Command/TLB may be mandated to undertake another DFO[12] which would incur an increase in manpower (paragraph C.6. above describes the limitations within which Commands/TLBs operate) and where the Command/TLB is not required to reprioritise or subsume. In this scenario the customer Command/TLB will engage with Head Office as part of the ABC process to understand the most appropriate way to programme any change. An exception to this process would be when a new temporary post is directed by an external authority. FMC Capability Plans would authorise temporary liability without compensating reductions – funding would be considered on a case-by-case basis. Assuming such a post is 'lifed' at less than 24 months there would be no need for an Option to be raised.

b. **Service Manpower *Reduction*.**

(1) **To Seek Efficiency.** During IOC a customer Command/TLB wishing to reduce manpower to seek an efficiency imposed as part of the ABC process would consult the supplying Command to scope the feasibility/timeline. For ABC 15 there will be no savings scored by customer Commands/TLBs identified against Army manpower other than those agreed in achieving the SPLB profile[13].

(2) **To Change Manpower Commodity (from Regular to FTRS/Civilian/Contractor).** Delegation allows customer Commands/TLBs to adjust their work force mix through the WFC. During IOC a customer Command/TLB wishing to change manpower commodities as part of the ABC process must consult the supplying Command to scope the feasibility/timeline[14]. This will be subject to further work as FOC is approached as the financing, where liability is filled by a contractor, needs to be refined taking into account SPLB, civil service headcount and contractor requirements. A single liability baseline will not provide the necessary refinement as military liability driving posts have upstream effects on, for example, recruitment targets and GTS which are not replicated in other manpower commodities.

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[12] Or, in the case of DE&S and DIO, a significant change in capability delivery and in-service support.
[13] Until the Army has reached its steady state of c82,500
[14] Noting the constraint of any saving against a reduction in Army manpower until they have aligned to A2020 structure.

(3) **Service Manpower Transfers (Adjusting the Balance of Service Personnel).** Throughout the ABC process the sS may agree to pass liability from one Service to another. It does not affect DFOs or how those posts are accounted for by the customer Commands/TLBs. Adjustments between sS are shown as part of the annual ABC Liability Settlement sheet which is based upon the bi-annual PB&F reports following each inter-TLB transfer implementation. Defence Resources will continue to run reports at the end of each inter-TLB transfer implementation to ensure FMC-Cap-Plans has oversight of manpower movement throughout the year. Changes in manpower requirements resulting from inter-TLB transfers will not require to be actioned additionally through the Options process, as the new PB&F Planning Control Model will provide the required audit trail, allowing the changes to be used to inform the annual ABC liability sheets and amendments to the SPLB, SLAs and Defence Board products.

C.16. **Gapping.** There will be occasions when it will be necessary for PPOs to gap posts. Moreover, whilst the sS are transitioning to their FF20 structures there will be gapping across each Service[15]. These gaps will be articulated in the SLA as an agreed percentage of expected manpower that will be supplied. The gapping policy will be influenced by the Defence manning priorities[16] as well as the structure, demand and specialisation of manpower needed by the customer Command/TLB. In the case that a vacancy arises that is the result of the supplying Command deciding not to fill Service manpower, the customer Command/TLB will be informed in sufficient time of the gap, its length and reasoning. The advance warning must be enough to allow a replacement manpower type to be programmed into the customer Command/TLB's plan, and an agreement articulated in SLAs. An unplanned gap appears when the supplying TLB is unable to fill a liability driving position with appropriate Service manpower within a shorter timeframe[17].

C.17. **Allocation of Competition & Rotational Posts**. The guidance on how tri-Service and rotational posts are managed is contained in JSP 755.

C.18. **HO issued 'Efficiencies'**. As part of delegation, TLBs will be left to decide how they would meet any saving mandated by HO ensuring DFOs are not adversely affected.

Financial Management of Service Manpower

C.19. **PB&F governance**. The customer Command/TLB inputs those figures agreed in the 10 year profile contained in the SLA (the projected establishment (liability) and agreed provision of strength) in addition to the capitation rates (by rank & rate).

C.20. **Funding Flow**. The flow of funding will be direct to all customer Commands/TLBs as part of the overall Cash RDEL Control Totals issued by Defence Resources[18]. These Control Totals do not distinguish the manpower element separately.

C.21. **Capitation Rates.** Capitation Rates are set by customer Commands/TLBs and are calculated on the basis of the latest emerging in-year actuals inflated by HO mandated

[15] Where, owing to the previous planning round, SDSR and Armed Forces Redundancy Scheme decisions Liability (posts) has not drawn down as fast as the Strength.
[16] ACDS(CFD)/14/02 dated 21 Feb 14 'Defence Personnel Priorities'.
[17] Assume 3 months.
[18] Cost Recovery in support of Other Government Departments is detailed in JSP 368.

CPAs and are placed on PB&F by the customer Command/TLB; this guarantees coherence between liability and strength and money[19].

C.22. **Ring-fencing of Manpower Funds.** Where sS are still reducing to their SDSR10/3ME manpower targets, particular care will need to be taken over how any sS manpower savings identified by other Commands/TLBs will be scored. Under the delegated model, the scoring of any such savings will be for negotiation between the sS and other Command/TLB. This will need to balance the risk targets held by the supplying Commands with the wider delegated model process, which allows Commands/TLBs to identify savings which can be recycled within their own budgetary area.

Dispute Resolution

C.23. Where agreement cannot be reached between the supplying and customer Command/TLBs on either the Liability required or the intended supply of Strength, the resolution process is:

a. **Within and Between** Commands/**TLBs.** Supplying Commandss have processes for dealing with liability disputes: the Navy Manpower Working Group (RN), the Standing Army Liability Committee (Army), the Liability Appeals Tribunal (RAF) These are not matched within the Customer Commands/TLBs. A Single point of Contact (SPOC) is to be established in the SLAs to enable the customer/supplier relationship. Any dispute should be resolved within Commands/TLBs up to 2* level.

b. **Head Office.** FMC-Cap-Plans will provide advice to ACDS(C&FD), who will provide arbitration should manpower issues escalate beyond Commands/TLBs (at 2* level). A general explanation of the mediation and arbitration process is at Appendix 4 and articulated in the SLAs.

Guidance for Completion of Service Manpower in PB&F

C.24. Within the Headcount tabs in PB&F, Commands/TLBs will be required to submit FTE numbers against a '*Ranks/Rates/Grades*' field which offers a standard list of military ranks/rates and categories types. This information must be entered for all ten years of the ABC 15 planning horizon.

C.25. Whilst many of the entries in the '*Ranks/Rates*' listing are self-explanatory, Customer Commands/TLBs should programme Service Manpower Strength in accordance with the following specific guidance (Army manpower types have been used in the examples but similar designation exist for the other two Services):

C.26. Customer Command/TLB staff will input Army UKTAP manpower strength data. This should be submitted against the '*Army-*' ranks and rates. The designations '*UK Trained Adult Personnel – Officers*' and '*UK Trained Adult Personnel – Other Ranks*' **should not be used.**

C.27. Customer Commands/TLBs will enter GURTAM strength data and should be submitted against '*Gurkhas - Officers*' or '*Gurkhas – Other Ranks*'.

[19] Post FOC this will provide coherence between liability and funding

C.28. Only Royal Gibraltar Regiment should be submitted against the relevant rank using the relevant field with prefix, '*LEP-*'.

C.29. MPGS manpower is to be submitted against '*Military Provost Guard Service*'. Commends/TLBs **must not** use Regular Service designations to enter MPGS data.

C.30. Service Manpower Untrained Strength (UTS) should only be entered by employing Command/TLBs using the PB&F UTS fields.

C.31. FTRS (FC,LC & HC) should be entered against the relevant manpower tab.

C.32. **Volunteer Reservists**. The pay elements for Volunteer Reservists should continue to be entered directly into the Manpower RAC tab. Volunteer Reservist ranks/rates are read only in the Manpower Detail tabs.

C.33. **PB&F Data Validations**. The PB&F manpower models contain validation to prevent incorrect data from being entered. Specifically, users are prevented from entering negative Strength or Establishment numbers in the main manpower models (although this is allowable in the manpower element of Option costing models to allow manpower savings measures to be run) and from entering negative capitation rates in any manpower model (including Options). Additionally, the following validations apply on the maximum value of individual capitation rates which can be entered into the PB&F models:

	Pay - Pensionable	**Pay Non-Pensionable**	**ERNIC**
Service Manpower	£450K	£450K	£70K

If capitation rates are entered above these amounts, the user will be unable to save the changes and will receive a message indicating which rank/rate/grade(s) has caused the error.

Outstanding PR12 Action – Reconciling the Liability Baseline

C.34. FMCs/Commands/TLBs contributed towards the development a of SP Liability Baseline, which was based upon the Service manpower liability sheets issued by Strat Man in May 2012, and takes the form of a matrix, breaking out the Service manpower liability by Command/TLB. This Baseline will govern the indicative glide path in Service manpower to the FF20 structure.

C.35. JFC and HO&CS both programmed reductions in Army liability in ABC 13 against their Liability Baseline targets. For JFC, Head Office agreed to hold-over the savings identified in DSF and the PJOBs and directed the JFC to programme these out over the course in ABC 14.

C.36. In ABC 14, Army worked with JFC and HO&CS to assess the scope for further Army liability reductions in each Command/TLB. Both organisations will hold the remaining liability challenge set out in the Liability Baseline as a target. Once completed, and the stakeholder Command/TLBs have agreed the level of Army liability reductions they accept, the resulting Army liability position in each Command/TLB will become the agreed baseline and the targets will no longer apply.

C.37. HO&CS has an existing challenge to find military post reductions to meet a PR 12 Star Chamber savings measure (110 posts). As a result the savings associated with any Army liability reductions identified during this exercise in HO&CS will score against this measure in the first instance.

CIVILIAN WORKFORCE PLANNING

Strategy

C.38. A reducing civilian workforce resource envelope was established as a result of the measures announced in SDSR and the Secretary of State for Defence's July 2011 statement to Parliament after the three month exercise (3ME). These decisions were formalised in PR 11 and PR 12 Options[20]. The post SR13 Control Total letters set out the civilian personnel FTE targets for each Command/TLB to meet by 1 April 2015 in order to meet the Department's SDSR10 commitment of 'a reduction by 25,000 to 60,000 by 2015'.[21] Defence Statistics agreed a SDSR baseline of 85,850 for 1 April 2010. The SDSR Baseline is comprised of all Civilian Level 0 personnel but excludes all NACMO Funded Locally Engaged Civilians in Afghanistan and personnel on US Visiting Forces stations. The MOD has no financial liability over NACMO LECs and USVF civilians and therefore they are not included, although they are part of the Level 0 and Level 1 global definitions.

C.39. After the 3 Month Exercise in 2011 the department expected to meet an increased target reduction of 28,410 between April 2010 and April 205 and 32,000 by April 20 (a 33% reduction from the SDSR10 baseline). An NAO report subsequently noted that this constituted a reduction to 57,000 FTE in 2015 and 54,000 in 2020.[22]

C.40. The Defence Board has subsequently been content to closely monitor Command/TLB reductions which have progressed towards these targets based on the 3ME decisions without imposing additional constraints other than the post SR13 CT Letters, which included a maximum variation of plus or minus 100 FTE personnel. Adjusted Strength targets for 1 April 15 taking into account inter TLB transfers (but not authorised Establishment changes) up to close of ABC 14 have been agreed with Commands/TLBs:[23]

	Navy inc RFA	Army	Air	JFC	HOCS	DIO
FTE Strength at 1 April 15	4,585	14,099	4,656	7,534	7,971	5,289

C.41. Noting the Department's public commitments to reduce civilian personnel numbers further by 2020, there is also recognition that, where possible, professional effectiveness, value for money and the principles of the Whole Force Concept should be driving a TLB's decisions on its civilian workforce.

[20] The most pertinent Options were: S11CC072A, S11CC105A, S11CC175A, S11CC176A, S11CC102A, S11MM025A, S11LL117A, S11AA006A, S12CC017A, S12CC018A, S12MM013A, S12LL015A, S12AA014D.
[21] Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review Oct 10 para 2.D.9
[22] 'Managing Change in the Defence Workforce', Report by the Comptroller and Auditor General, 9 Feb 12. http://www.nao.org.uk/wp-content/uploads/2012/02/10121791.pdf
[23] Figures exclude USVF and include LECs. The SDSR Baseline also includes Trading Funds and DE&S CS Personnel. DE&S are excluded because of their change to Bespoke Training Entity (BTE) status.

C.42. As agreed with the Commands/TLBs, Head Office led Workforce Plans are no longer required.

Annual Budgetary Cycle for Civilian Personnel

C.43. The civilian workforce cycle will comprise:

a. Carry forward of the closing ABC baseline Establishment (this will correspond to the Establishment at the close of the previous ABC period).

b. Carry forward of the previous ABC Strength to subsequent ABC period, ensuring the accuracy of PB&F.

c. Agreement of revised targets for 1 April 2015 incorporating inter-TLB transfers since the setting of the original targets in the post SR13 CT letters.

d. Command/TLB Reports, including the information in the paragraph below:

e. Implementation of internal re-programming measures.

f. Scrutiny, approval and implementation of manpower enhancement Options.

Civilian Establishment and Strength

C.44. It is expected that the Commands/TLBs will manage civilian personnel by closer definition of their Establishment, which equates to the required number of funded posts. CDP's Strategic Work Force Analysis Team should routinely be kept informed of intended changes to Establishment over 50 FTE personnel and changes are also to be included in Command/TLB Reports. Changes to Establishment will normally occur by inter-TLB transfers or by Options.

C.45. Command/TLB Strength varies through internal re-programming measures and retention and recruitment factors. Comparison with Establishment provides an indication in PB&F of civilian workforce resource pressure (where civilian Strength exceeds Establishment) or gapping. In PB&F, Strength is the average number of FTE it is expected that will be employed during the Financial Year, and therefore the number used for funding and the costed plan.

Capitation Rates

C.46. Capitation rates for ABC should, in line with the approach used for costing Service personnel, be based on the average annualised figures from the Command's/TLB's latest in-year actual costs, adjusted for centrally mandated Corporate Planning Assumptions.

Transfers between TLBs

C.47. All transfers of personnel between Commands/TLBs must be entered in the appropriate 'L' RAC codes and in the Manpower Model for Strength but not until the required inter-TLB transfers have been agreed between TLBs, approved and Defence Resources have amended Command/TLB Control Totals accordingly. Transfers prior to the Command/TLB Reports and forecasts of further transfers before the end of the

Financial Year are to be covered in Command/TLB Reports. Establishment will only be changed to reflect transfers after the Command/TLB Report stage.

Options

C.48. It is anticipated that the majority of amendments to the civilian workforce in an ABC will not result in net additional savings or require additional resource from the Centre but will address variance arising from existing measures. Corrections, as opposed to adjustments, will be approved on presentation of Command/TLB reports. Options will only be raised for changes to the civilian workforce requiring additional resources from the Centre and/or which result in permanent changes to Establishment. These would include:

a. Proposals to amend Establishment in order to address variance or to restructure, including proposals to permanently replace military personnel with civilian personnel (and vice versa).

b. All proposals for TUPE, even where there is no net saving being realised by the Command/TLB and (less likely) no change to Establishment.

Command/TLB Reports

49. Command/TLB reports enable HO to assess emerging strategic resource risks and trends. Specifically, reports are to include tables and associated narrative that features and explains:

a. Plans for Strength and Establishment over the 10 year programme, including transfers forecast to occur before closure of the ABC.

b. Bids to amend Establishment through enhancements/savings Options, to include all plans for programmed TUPE and any additional requirement of early release redundancy funding from Year 1.

c. An estimate of Strength on 1 April 15 to enable HO assessment of the achievement against SDSR10 and 3ME targets.

e. Any significant Civilian personnel resource issues or risks.

Guidance for Civilian Workforce Planning in PB&F

C.50. In order to align civilian and military workforce planning, and to improve the accuracy of reporting, Commands/TLBs are to be rigorous in their use of civilian Establishment within PB&F. Commands/TLBs are required to submit their costed civilian plans in PB&F using the ABC Model for that year. PB&F requires the input of Full Time Equivalent (FTE[24]) personnel numbers, both in terms of Establishment and Strength and their associated pay details in accordance with these Instructions.

C.51. Within the Headcount tabs in PB&F, Commands/TLBs will be required to submit FTE numbers against a '*Grades*' field which offers a standard list of civilian grades. Commands/TLBs may customise their lists to reflect actual Grades that they require.

[24] FTE is determined by pay equivalence, such that FTE x cap rate equates to manpower cost.

C.52. Additional data entry issues implemented previously that continue to apply are:

a. **Civilian Personnel supporting US Forces**. Civilian personnel supporting US forces, for which the MOD get the full compensating receipt, should be identified by using the appropriate RACs in PB&F (LJA010, LJA012, LJB010, LJB012, LPA003, LPB003, LMA002, LMB002).

b. **Data Validations.** Validation on the maximum value of individual capitation rates which can be entered into PB&F will continue to apply:

Pay - Pensionable	Pay Non-Pensionable	ERNIC
£400K	£400K	£70K

If capitation rates are entered above these amounts, the user will be unable to save the changes and will receive a message indicating which rank/rate/grade(s) has caused the error. In addition , validation will prevent users from entering negative capitation rates in all models and negative Strength/Establishment data in the main manpower model.

c. **Data Realism.** The Grade mix of civilian manpower entered into PB&F should so far as possible reflect the projected civilian manpower grade structure in the Command/TLB, as reflected in the Civilian Workforce Plans. The use of notional strengths at particular grades in order to achieve fiscal balance is to be avoided.

SERVICE AND CIVILIAN MANPOWER ADJUSTMENTS

C.53. There may be occasions where a Command/TLB wishes to make manual adjustments to pay elements[25] but is not yet in a position to make the detailed changes to manpower numbers or individual capitation rates. All such changes should be made against the RAC created specifically for this purpose (**RAC LAZ666**[26] – PB&F Man Plan Round Use Only) but must subsequently be removed (by making the appropriate detailed adjustments) before each submission to the Centre. Defence Resources will check that the balance against this RAC is zero at these key stages and may ask Commands/TLBs to resubmit if this is not the case. No other costs should be entered against this RAC during the ABC process.

POINT OF CONTACT

C.54. The primary POC for the implementation of these instructions is [redacted] (FMC Capability Plans-Army Manpower, Tel: [redacted].

Appendices:

A. Timelines for an ABC Period.
B. Glossary of Terms for Manpower Delegation.
C. Responsibilities under Manpower Delegation.
D. Mediation & Arbitration Process.

[25] This does not apply to Service Personnel Pay and allowances - see the Service Pay Board Pay and Allowances delegation paper (issued separately).
[26] Used for all manpower types.

TIMELINES FOR ABC PERIODS

Manpower delegation will align with the ABC 'battle rhythm' and be referenced within the Command/TLB Plans and SLAs. Indicative timelines and actions for Commands/TLBs to implement Manpower Delegation are:

a. **Mar:**

(1) Service liability agreed and liability sheets issued on completion of ABC reflecting Options implemented and transfers agreed.
(2) PB&F is to be purged at this point.

b. **May/Jun:**

(1) Service Personnel Liability Baseline issued (reflecting Command/TLB positions at end of previous ABC).
(2) Liability/Establishment transferred to PB&F to establish the programmed baseline.
(3) CPAs applied to generate corrected ABC mid-year Strength and Capitation rate, reflecting start of new ABC.

c. **Jun/Jul:**

(1) SLA period ends (30 June annually) and SLA for July to July agreed between Commands/TLBs reflecting HRD, TU, TLB consultation.

d. **Nov - TLB mid-year submissions:**

(1) **Internal Programming proposing how Commands/TLBs return to CTs.** This is largely financially focused but should include future amendments of the SLA, particularly if CTs have been exceeded.

(2) **Description of where manpower pressure is being held (strength exceeding liability).** If supplying Commands provide to an agreed liability, there should be few instances where strength exceeds liability in customer Commands/TLBs, unless instigated by the customer Command/TLB (in which they accept the financial risk)). Should HO mandate change to DFOs, for which liability is granted (for example, a NATO manpower review or bespoke appointment (for example, Senior British Military Adviser – Middle East)) then funding will follow liability.

(3) **Proposed Options for permanent alterations to manpower establishment.** Options would be submitted to permanently change the manpower mix, or respond to a HO mandated efficiency (in fiscal terms, rather than headcount). Any such adjustment would have been already discussed between supplier and customer Command/TLB.

g. **Autumn - Following TLB Reports:**

(1) **Commands/TLBs raise Manpower Options.** This should be undertaken in conjunction with the appropriate customer/supplier Command/TLB to reflect permanent changes to liability.

(2) Implement approved Options and conduct internal programming.

GLOSSARY OF TERMS FOR MANPOWER DELEGATION[27]

Term	Definition	Comment
Customer	The Command/TLB that receives sS manpower in order to achieve its defence outputs.	
Supplier	The Royal Navy, Army and Royal Air Force who will provide manpower to other Commands/TLBs so that they meet the requirements placed on them by Defence. The volume of their supply is articulated in annual SLAs.	
Manpower Supply Planning	The process of determining and managing single Service (sS) manpower demand and strength (JSP 755). It is conducted by the sS Navy, Army and Air Commands.	It describes the process within the ABC of determining & managing Service Manpower Liability and Strength across Commands/TLBs; output is the HO owned SPLB & SLAs.
Funding flow	The treatment of manpower funding and how it passes from HO to the recipient Command/TLB that employs manpower. It will include the accounting protocols necessary to programme Service Manpower detached to oTLBs.	
Service Liability (Shown as *Establishment* on PB&F)	Liability is the number of established posts within a Command/TLB. It refers to the requirement for specified types of trained military manpower. A baseline 'Service Liability' is agreed for each of the Services and endorsed by the DB.	See Figure 2 A figure for abatement is also included in calculating liability. The abatement protocol manages the reduction of manpower over time.
Funded Strength (Shown as *Strength* on PB&F)	Funded Strength is the funded level of manpower - those posts that are actually filled. The Funded Strength is developed through the ABC, and published alongside ABC Control Totals.	See Figure 2 and JSP 755
Service Personnel Strength	The number of personnel in an Organisation	See JSP 755
Manpower Programming	The alignment of aspiration to resource in order to best meet outputs. A function in full delegation that all Commands/TLBs ought to be able to perform.	
Manpower Resource.	The treatment of manpower funding including flow from HO to sS and accounting protocols necessary to programme Service Manpower.	

[27] See JSP 755 for the definitive lexicon of manpower related definitions.

RESPONSIBILITIES UNDER MANPOWER DELEGATION[28]

1. The contractual relationship between customer Command/TLB and supplying sS, their roles, place within the planning process and managing of disputes will be pivotal in delivering delegated manpower planning. Key personalities/organisations and their role are below:

a. **Principal Personal Officer (PPO) (Service Manpower Owner).** Owns all Service manpower types within their Service. POC for Options which are initiated by Customer Command/TLBs. Gives advice on Service structure and career implications in response to any planned change. PPOs will retain authority on sustainability issues.

b. **Supplying Command (sS FLCs).** Shares programming responsibility with Customer Commands/TLBs in planning movement of manpower. Custodian of SLA, drawn up in negotiation with Customer Command/TLB. Custodian of Joint Business Agreement (JBA) with DE&S. Supplier of all sS manpower across Defence in accordance with the agreed liability baseline.

c. **Customer Command/TLB.** Owns liability requirement. Has the authority to re-design its manpower mix and decide risk appetite when wishing to make efficiencies (subject to PPO agreement). Takes the lead in programming the recycling of manpower (ie, changing from FTRS to contractor) in close liaison with the supplying sS. The customer Command/TLB controls all manpower costs and calculates Capitation Rates in order to inform their manpower estimate.

d. **Def Res (HO).** Sets Financial Planning Assumptions, policy, sets and allocates Control Totals and Central Planning Assumptions, and provides Senior Financial Officer function.

e. **FMC (HO).** Acknowledges manpower Options (when agreed upon by customer/supplier Commands/TLBs). They direct the need for savings and arbitrate pan-Defence when manpower efficiencies impact on DFOs. Sets policy and maintains Capability Coherence to support Strategic Balance of Investment (BoI). Ensures Parliamentary controls on the size of the Armed Forces are not breached.

[28] This paper does not cover the contribution CDP will make to managing delegated manpower. This is part of further work.

MEDIATION & ARBITRATION PROCESS

1. This Mediation & Arbitration Annex outlines the steps taken to seek a resolution of a dispute between two or more Commands/TLBs under manpower delegation. It is broadly based upon the principles laid down in the Target Operating Model.[29] The holding to account (H2A) process will enable some discussion on specific problem areas but this proposal suggests that the dispute resolution is managed in parallel so that it does not crowd out other discussions by overwhelming the H2A agenda.

2. Manpower delegation will give customer Commands/TLBs the opportunity to decide the optimum manpower requirments to meet its DFOs. In achieving this target, customer Commands/TLBs must have a strong contractual relationship with its supplying Service (supplying Command). Under manpower delegation most non-strategic decisions exclude any role for HO; however, it is appreciated that disputes over the manpower issues will quickly become emotive, and as such this Annex aims to articulate a clear arbitration process.

3. **Type of disputes.** There are numerous manpower issues that may arise, for example, in a customer/supplier relationship:

- Disagreement over allocation of manpower.
- Disagreement over who owns or manages a risk or issue.
- Disagreement over interpretation of rank/grade/SQEP provided to a customer Command/TLB.
- Short notice requirment to increase manpower for a new DFO (or increase in manpower to deliver an exisiting one).

[29] Version 3 dated Dec 12.

4. Similar to the TOM, the manpower mediation and arbitration process will follow a 4 step process:

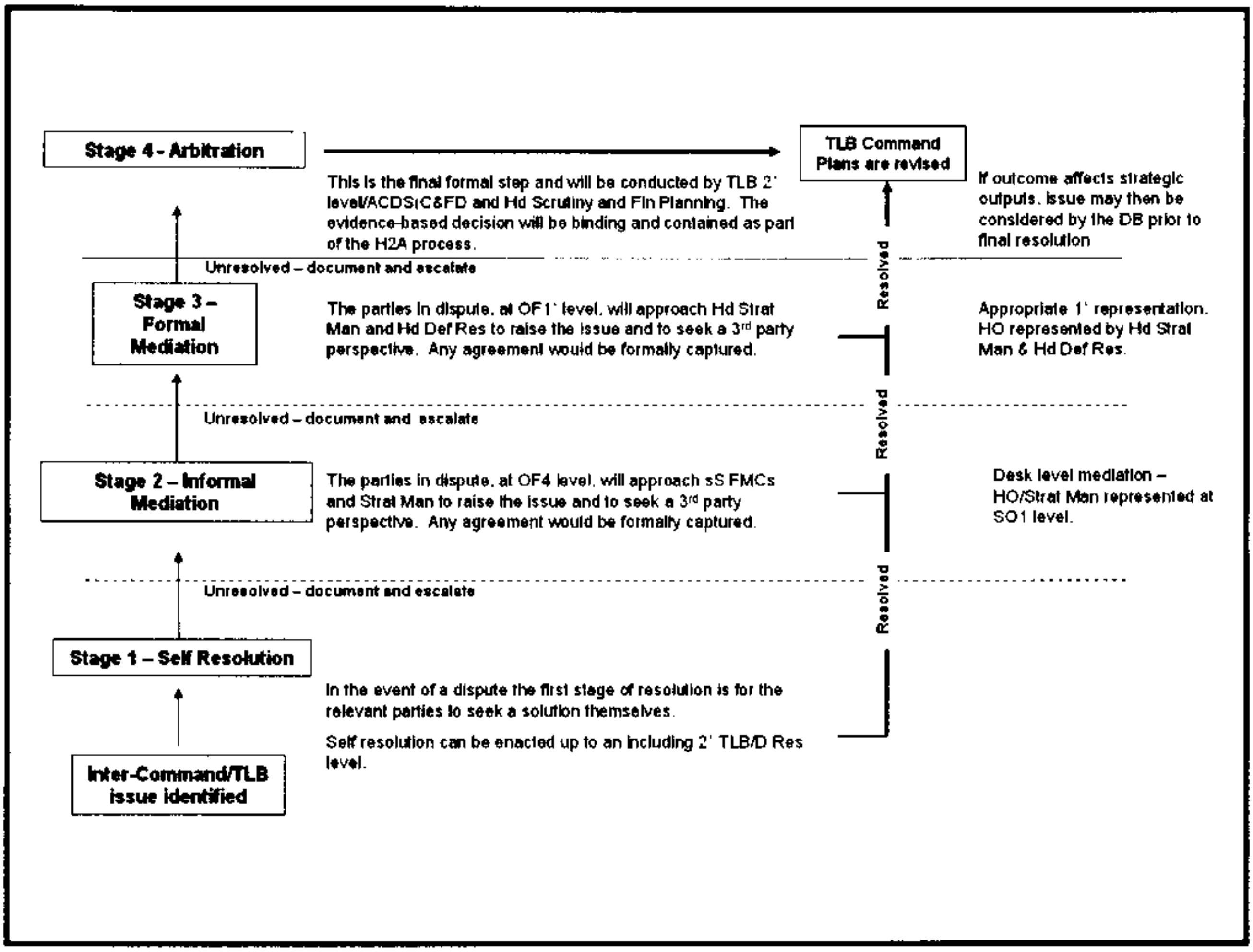

Figure 1 - Mediation and Arbitration Process

5. The HO focus for the mediation / arbitration process is Capability Plans who will advise D Fin Planning, D Strategy or ACDS (Capability & Force Design), depending on the nature of the dispute (e.g. financial, strategic/policy or capability focussed). Cases reaching arbitration will be heard by those listed, or in extremis, DG Finance or DCDS (Mil Cap). All cases will be focused on an outcome that is most equitable for Defence as a whole. In order to engender positive behaviours every effort should be put in to making mediation work as it will lead to a quicker decision and less bureaucracy.