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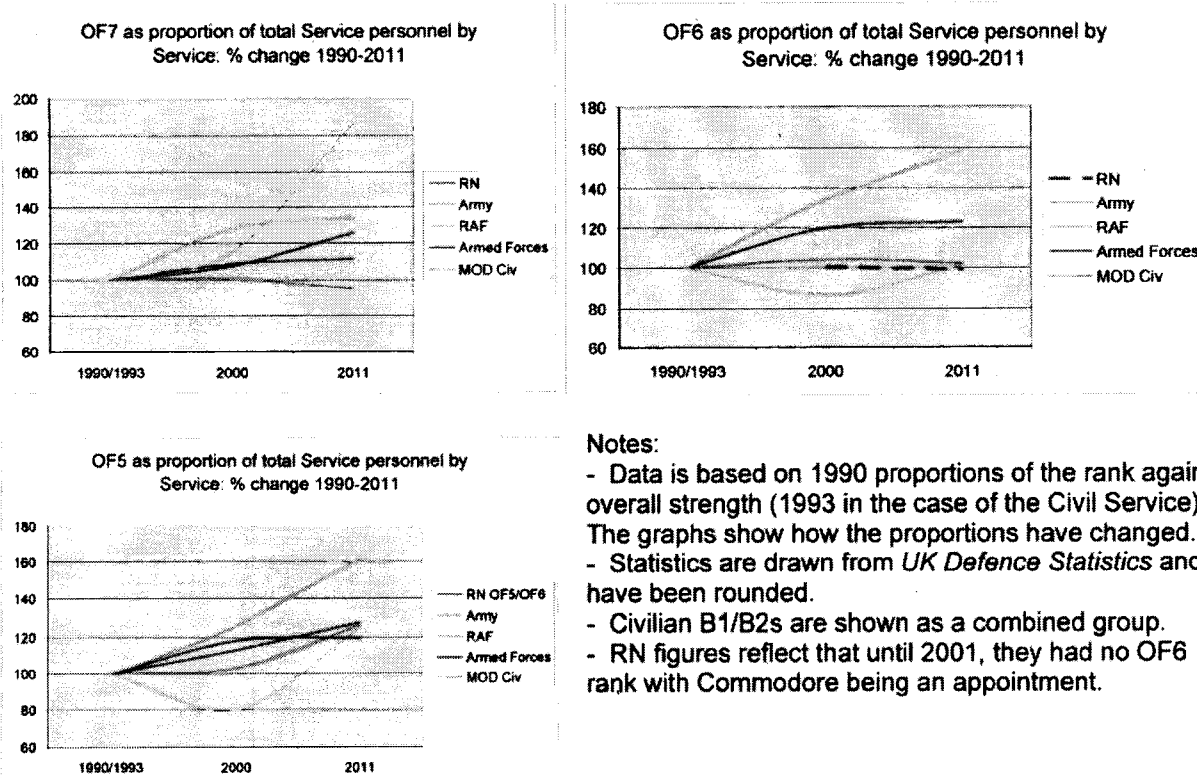
## DEFENCE REFORM – LIABILITY REVIEW

**1. Introduction.** The SofS agreed Defence Reform Report included the recommendation for the Department to conduct a Liability Review across the non front line of all senior posts (OF5 / Band B and above) to support the reduction in the size of the senior cadre and the management level below it (Defence Reform Key Recommendation 11a). The review should assist the delivery of identified savings, but also to support the creation of a more agile and less hierarchical and top-heavy structure and identification of the most appropriate military / civil workforce balance to deliver Defence outputs. The review should be conducted by all TLBs as an integral component of the implementation of the Defence operating model, informed by judgements on functions and outputs required from each TLB and the need to improve efficiency while maintaining the effectiveness of decision making. I know that some TLBs are already moving ahead with this work. JFC should lead the work on those organisations agreed for transfer to it at IOC. The review may be extended to lower grades in the longer term, but the focus at this stage is on the senior hierarchy.

**2. Background.** Much is made about the numbers of senior appointments in Defence, military and civilian, both by way of justification and criticism. However, irrespective of the relative cases, the simple truth is that the Defence senior cadre is larger than we can afford, is judged to be out of proportion with a reducing manpower base and also with modern working practices and societal tolerances. This conclusion is supported by evidence and analysis from Defence Reform and other sources. The perception, both within and beyond the Department, that Defence is bureaucratic and top heavy must be addressed; it undermines the confidence of our own staff, Parliament, the public and media, and has a detrimental impact on the delivery of front line and other Defence outputs.

**3. Current situation.** The size of the senior cadre (1\* and above) has increased as a proportion of personnel strength by approximately a third since 1990 with the greatest increase coming in the decade after the end of the Cold War (Table 1). The reasons for this vary as a result of respective environmental requirements. However, put simply, the size of the Defence workforce has fallen over recent decades, but reductions in the numbers of leaders has not kept pace. While this trend upwards has been mirrored largely in other countries, and recognising that UK's scale of ambition and capability differs from theirs, the UK has a higher proportion of senior officers than the majority of our allies. Management layers in the non front line still largely replicate those designed for the front line; in some areas there are too many layers in our structure, which swells senior

numbers and can stifle organisational agility. There is evidence across Defence of over-grading of posts, excessive management layers reducing effectiveness and efficiency, and cultural obstacles to appropriate civilianisation. There are many reasons for these trends, not least contractorisation and civilianisation of process functions, which generally cannot be replicated in the senior management layers.



**Notes:**

- Data is based on 1990 proportions of the rank against overall strength (1993 in the case of the Civil Service). The graphs show how the proportions have changed.
- Statistics are drawn from *UK Defence Statistics* and have been rounded.
- Civilian B1/B2s are shown as a combined group.
- RN figures reflect that until 2001, they had no OF6 rank with Commodore being an appointment.

**Table 1 – Changes in rank numbers as a proportion of the force**

**4. Why do we need to reduce numbers and management layers?** The imperative to instigate a formal process to bring down our senior numbers should be self evident:

- There is an urgent need to reduce our manpower costs to ensure that the forward Defence Programme is affordable and to ensure that we bear down on non front line liability to the greatest extent possible to release resources to the front line.
- Overall manpower reductions must be reflected at all levels of the hierarchy, although they may not fall to the same proportion.
- The need to ensure the Operating Model is supported by agile, lean and effective processes and structures.
- To exploit the ability and experience of those at middle management if we are to delegate responsibilities to the appropriate level and maximise the effectiveness of the organisation, but also to empower, incentivise and develop our future leaders.
- To support changes to top level decision making by ensuring that decisions at the 3/4\* level are delivered effectively without being 'diluted' at successive layers of the organisation.

**5. The requirement.** As a core component of your functional redesign of your organisations, you should now run a formal review of your non front line<sup>1</sup> liability from OF5 / Band B to 2\* level<sup>2</sup> to deliver a more effective and efficient structure through reductions in numbers and layers. You should:

- a. Conduct the review in concert with the design of the new operating model delegations and with changes to military and civilian senior career management processes, which should provide greater stability and control to promotions into the senior cadre. The review should make assumptions where uncertainty exists as to future structures and functions.
- b. Draw on the criteria set out by PUS and CDS in their note on the issue dated 17 Feb 11 and identify which posts currently filled by the military might be delivered as effectively by a civilian. Military posts should be limited to those requiring specific military skills and experience.
- c. Work on the presumption that the lowest possible rank should be used to deliver the required outputs, commensurate with acceptable levels of risk, assurance, responsibility and accountability.
- d. Seek to flatten structural hierarchies to ensure more effective methods of working and support to decision makers. By way of example, a 1\* need not necessarily have a number of OF5 / Band Bs sitting beneath, each of whom in turn have a number of OF4 / Band Cs working to them. Such a pyramidal approach drives up liability, but in many cases does not deliver better effect in the non front line. Not every branch in a department necessarily needs to be headed at the same level. For example, you should consider whether if you have a OF5 / Band B in an area, you necessarily need a 1\* as well.

**6. Coherence with other work.** The review should be undertaken against the context of recent and ongoing reductions, including the Cabinet Office Smarter Government initiative and SDSR changes. Specifically, work has been presented to the G4 on the Head Office 1/2\* structure. The CTLB should use the review to identify what subordinate structures they require to support the senior hierarchy, while delivering their mandated head count reductions.

**7. Financial Assumptions.** In the SDSR and 3ME, and their associated Planning Rounds, we have made financial reductions based on average capitation costs. Defence reports to Parliament (including the SDSR White paper and 3ME announcements) have been based on the premise that we will make pro rata headcount reductions across all ranks (ie a slice off the side of the whole rank pyramid). Consequently, any move to alter this approach would require a significantly larger reduction in headcount of more junior posts for the resulting plans to be affordable.

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<sup>1</sup> In the case of the military you should use the Making Best Use of Service Personnel (30 Mar 10) definitions 'Front Line (FL) force elements (which can include non front line personnel) are those that directly deliver military effect. The Non Front Line (NFL) exist to generate and support the FL and is unlikely to be directly involved in the delivery of military effect.' The Services should use their FL/NFL data from the Force Generation Review. All civilian posts should be included.

<sup>2</sup> The 3/4\* level is addressed in the Defence Reform Report and design of the Operating Model.

**8. Factors.** You will wish to take account of a range of factors specific to your circumstances, but I highlight a few:

- a. Proposals for senior reductions will need to take account of overall single Service and Civil Service manpower models and career structures through the organisation.
- b. The continuing requirement for senior military capacity to meet Defence outputs in support of the National Security Strategy and the requirement to ensure that Defence retains sufficient leadership capacity.
- c. The focus of the review on the non front line (where the significant majority of senior posts lie) and consequent impact on the front line element.<sup>3</sup>
- d. Whole Force Concept and Reserve plans.
- e. Potential changes resulting from the NEM.

**9. Tools.** I do not wish to impose a standard methodology; your circumstances will differ and you will be best placed to judge how to deliver this. Paragraph 11 sets out how we will seek to ensure that the review is conducted rigorously and fairly across all TLBs. However, you may wish to assess civilian posts below SCS using the key elements of the new process<sup>4</sup> introduced in April 2011 to enable management to quickly match activities against the Band B grading guidance; and the military equivalence table. The full Job Evaluation Grading Support (JEGS) process for Band Bs and Joint Evaluation for Senior Posts (JESP) for 1/2\*s<sup>5</sup> should only be used for disputed posts, or for a representative sample of similar posts. Additionally, you may wish to draw on some of the following tools:

- a. The Brian Dive Decision Making Accountability (DMA) method. There are a number of trained practitioners of this approach across Defence, which identifies where compression (excessive management layers) compromises accountability and effectiveness. A review by Brian Dive concluded that the span and scale of MOD should require no more than 7 layers of managers up to CDS/PUS, yet Defence operates 11 in many parts of the organisation. In isolation, the method can identify compression in existing structures, but if used as part of a systematic approach to your core processes, improved ways of work, and decision making it is likely to inform substantive improvements.
- b. The job evaluation (JE) process for Armed Forces personnel. JE is not appropriate to use in all cases, but officer data is available for posts up to 1\* and this may assist the assessment of relative job weighting. The Joint Service Job Evaluation Team in DCDS (Pers & Trg) Pay & Manning can provide guidance and existing data. The JESP methodology can also be applied to senior military posts, enabling comparison with civilian counterparts (although the results would not be directly comparable with those of lower military ranks assessed under the standard military JE system).

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<sup>3</sup> Approximately 5% of OF5/6 posts are in the front line and considerably less at OF7.

<sup>4</sup> This process is based on that used to assess roles when they are competed, using PPPA Form 214. This can be found on the Defence Intranet under People Services. The full process includes TU consultation and other aspects, but the crucial elements can be used to conduct a base comparison between job descriptions and grading guidance.

<sup>5</sup> Cabinet Office JESP Handbook dated Mar 08.

c. Value Stream Analysis, with which your Continuous Improvement teams will be familiar.

**10. Indicative reductions.** I do not intend to set arbitrary reduction targets as, in the post Defence Reform era, this exercise should be delegated and driven by the requirement. I also recognise that you will all be coming from different start points and that the figures for each Service and TLB are driven by different requirements and factors. However, it should be judged against 2 truths – there will be an expectation that our numbers of senior officers will drop in broad proportion with overall personnel reductions, and that our current ratio of senior cadre to personnel is too high. Consequently, as a guide and based on personnel numbers, the expectation is that the senior cadre would fall in accordance with Table 2.<sup>6</sup> There may be reasons why this should not be the case, but these will need to be set out.

| Total Size | RN     | Army    | RAF    | Civil Service |
|------------|--------|---------|--------|---------------|
| 2011       | 37,500 | 100,000 | 42,500 | 69,900        |
| 2015       | 30,000 | 90,000  | 33,000 | 57,800        |
| 2020       | 29,000 | 82,000  | 31,500 | 51,400        |

|               | Band B / OF5 |      |      | 1*   |      |      | 2*   |      |      |
|---------------|--------------|------|------|------|------|------|------|------|------|
|               | 2011         | 2015 | 2020 | 2011 | 2015 | 2020 | 2011 | 2015 | 2020 |
| RN            | 300          | 240  | 232  | 80   | 64   | 62   | 33   | 26   | 25   |
| Army          | 580          | 522  | 476  | 170  | 153  | 139  | 43   | 39   | 36   |
| RAF           | 330          | 256  | 244  | 90   | 70   | 67   | 26   | 20   | 19   |
| Civil service | 2410         | 1993 | 1772 | 210  | 174  | 155  | 50   | 41   | 36   |

**Table 2 – Indicative reductions based on changes in the size of Defence manpower**

**11. Approach.** The conduct of the review is delegated to you, but I will be responsible for overseeing its delivery and will provide overall assurance to spread best practice and to build confidence in the TLBs that a consistent approach is being followed. I do not under-estimate the scale of the challenge, not least to co-ordinate this with other change activities while the overall operating model is still being developed. In order to achieve this I would be grateful if you would inform the DRU of your nominated team leader, ideally at 1\* level, by 3 Dec. We will then deliver a central briefing to them on the requirement and approach. There will need to be bilateral co-ordination between the single Services and HRD with other TLBs to ensure that changes take account of all requirements, including the maintenance of appropriate environmental expertise in TLBs. On completion of the review I will oversee a moderating panel to ensure consistency of approach across Defence, drawing on DCDS(Pers & Trg), HRD, the RPs and peer involvement from other TLBs. The findings of the review will then be scrutinised by the DOB(T) and Defence Board.

**12. Timing.** The review should be complete no later than 1 Apr 12 by when I would envisage the initial phase of implementation to be underway. I understand that some TLBs may wish to move faster than this. Clearly, full delivery will take a number of years

<sup>6</sup> The number of posts may differ from the numbers in a rank, but both will need to reduce.

to complete. I would welcome an interim progress report by 3 Feb<sup>7</sup> and a full report by 1 Apr, which should set out your conclusions and how you will bring down numbers and delay your organisation. I recognise that DE&S, DIO and DBS may need to work to different timings, which we can discuss at the briefing.

**13. Communications.** Formal Trade Unions consultation is not required ahead of the review, having been covered by the overall Defence Reform consultation. However, TLBs should engage with their TLB representatives throughout. Formal consultation will follow when proposals on the future size and shape of the senior cadre are available.

DG T&CS

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<sup>7</sup> To include: the detail of your methodology, other recent work of this nature in the TLB, issues you envisage with meeting the requirement, and how you intend to overcome them.