



MOD Efficiency Programme

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MOD EFFICIENCY TECHNICAL NOTE

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As part of Spending Review 2004, the Ministry of Defence agreed that it would realise total annual efficiency gains of at least £2.8 billion by 2007-08, of which three quarters will be cash releasing. As part of its efficiency programme, the Department will by 2007-08:

- *Reduce its civilian staff by at least 10,000*
- *Reduce the number of military posts in administrative and support functions by at least 5,000*
- *Be on course to have relocated 3,900 posts out of London and the South East by 2010.*

This Technical Note describes the various components of the Defence Efficiency programme, and explains how performance against them will be measured.

DEFENCE EFFICIENCY PROGRAMME

1. The following table summarises the Defence Efficiency Programme, with the component programmes being grouped under main headings. These figures reflect the planned efficiency delivery position as at September 2005.

Defence Efficiency Programme	Annual Gains by 07/08	Of which:	
	£M	Cashable £M	Capital £M
Force Structure	414	414	40
Corporate Services	300	172	40
Procurement and Logistics	1646	1433	458
Productive Time	88	0	
Organisation	14	14	
Relocation	13	13	
Manpower	450	450	
Adjustment ¹	-82	-82	
Total	2842	2414	538

¹ For manpower savings also included in Procurement and Logistics

2. Any continuing extra costs (such as the costs of operating new information systems) are deducted from savings, but not one-off programme implementation costs. The latter costs are managed by the programmes concerned, and are monitored as part of the overall management of the Defence Efficiency Programme.

3. The achievement of the Defence Efficiency Programme will require reducing the civilian workforce by over 10,000 and the trained strength of the Armed Forces by some 10,400 (RN 1,200, Army 1,500 and RAF 7,700). The reduction in the strength of the Armed Forces is partly enabled by removing over 5,000 military posts in administrative and support functions.

4. On current plans, the Department expects to achieve its commitment to the *Independent Review of Public Sector Relocation*² that by 2010 it will have relocated a net 3,900 posts from London and the South East.

The Measurement of Efficiency

5. **Efficiency will be measured as the objectively verifiable benefits delivered by specific improvement initiatives.** For each programme and initiative within the Efficiency Programme, efficiency benefits are measured against a defined baseline (typically, either the position as at April 2004, or the centrally agreed financial planning assumptions for the years 2004/05 to 2007/08 made in the Department's Short Term Plan³ 2004).

6. Cash-releasing or cashable savings are defined as efficiency benefits (typically in the form of reduced inputs or prices for the same outputs) that can be removed from the budgets of the relevant management areas, including:

- Reductions in operating costs (current expenditure);
- Reductions in capital expenditure, where efficiency improvements enable previously required and planned capital expenditure to be avoided

7. Non cashable efficiency benefits are those that cannot be removed from budgets. They will typically be of the form of increased outputs for the same inputs, or cost avoidance (where efficiency improvements enable the required quantity and quality of output to be provided without the need to increase budgets). The means of measuring and valuing output-related efficiencies varies from programme to programme and is described in the detailed section for each of the programmes concerned.

² By Sir Michael Lyons; published in March 2004.

³ The Short Term Plan (STP) is based upon the outcome of the biennial Spending Review. It covers defence expenditure over a four year period, and is reviewed and adjusted every two years. It allocates the resources to budget holders in order to deliver Defence objectives.

8. Savings in capital expenditure will normally be one-off in nature. Other efficiency benefits will normally continue from year to year. Each programme will revalue benefits occurring in earlier years to later years' price levels at the standard inflation factor used in the Department's forward financial planning system⁴, which is approximately equal to the GDP deflator.

9. The efficiency benefits of an initiative will be tracked until it reaches maturity (ie, when benefits have reached a steady-state position). Where initiatives reach maturity before the end of the Spending Review 2004 period (March 2008), efficiency benefits at maturity will be assumed to continue at that rate to the end of the period⁵.

Central Resource and Performance Management Processes

10. The Defence Efficiency Programme is closely linked to the Department's central resource allocation, financial management and performance management processes. Cashable benefits have been broken down to the top-level budgets where they will fall, and have been removed from those budgets as part of the Department's resource allocation process, with budget holders being held responsible for delivering their required outputs within their adjusted budgets. The Department's central performance management arrangements include

- A balanced scorecard used by the Defence Management Board - the Department's top management board – to assess achievement of the Department's organisational and strategic goals, and the delivery of its intermediate and final outputs; this includes achievement against the Efficiency Programme;
- Service Delivery Agreements between the Head Office and each of the top-level budget holders. These set out the outputs to be delivered and objectives to be achieved together with the resources made available; they are agreed as part of the Defence planning and budgeting process; appropriate efficiency targets, drawn from the Efficiency Programme, are included in Service Delivery Agreements. Performance against Service Delivery Agreement targets is scrutinised by the Finance Director's staff as part of in year financial management;
- Customer Supplier Agreements (also forming part of the Department's forward financial planning system) that set out the quality and quantity of services that each internal supplier undertakes to deliver to the internal organisations that consume those services; the Defence Management Board monitors of performance against key Customer Supplier

⁴ Currently 2.5% per annum

⁵ Except for capital expenditure and any other non-enduring benefits.

Agreements, thus giving assurance that efficiency savings are not at the expense of the quality of services provided.

Governance and Accountability

11. Many of the programmes that make up the Efficiency Programme fall within the Defence Change Programme which, since 2002, has brought together the key business improvement initiatives into a single coherent and prioritised programme. The Defence Change Programme has an established governance, monitoring and management structure which supports the Efficiency Programme.

12. Other efficiency initiatives fall out of the work on *Future Capabilities* carried out by the Department during 2004 to examine how best to structure the Armed Forces and future equipment acquisition in order to achieve our policy goals and how to drive out overhead costs. These included:

- changes to military force structures, and consequent changes to the requirement for military manpower and to the forward equipment programme, as explained in *Delivering Security in a Changing World: Future Capabilities*⁶. and
- further rationalisation of headquarter organisations and their supporting staffs - this is now being taken forward as part of the Defence Change Programme.

13. The Vice Chief of the Defence Staff is accountable to the Defence Management Board for the overall delivery of the *Future Capabilities* work and its associated efficiency benefits.

14. The Department has established an Efficiency Delivery Board to oversee the overall Defence Efficiency Programme, chaired by the 2nd Permanent Under Secretary of State and including the Vice Chief of the Defence Staff and the Finance Director. The Board is responsible for driving forward the Department's overall Efficiency Programme and ensuring that the targeted efficiencies are delivered as planned; and for ensuring that further efficiency opportunities are identified and exploited, both as contingency measures to support delivery of the efficiency target, and to support the delivery of improved efficiency across Defence in the longer term. Progress against the Efficiency Programme is reported to the Board each month.

⁶ Cm 6269

15. The Efficiency Delivery Board monitors the risks and dependencies associated with the Efficiency Programme; in particular the dependence of many change programmes upon the Defence Information Infrastructure programme, the interrelationship of many estate moves, and the pressure upon the capacity of the Department to deliver fundamental changes in a short timescale. The Chairman of the Efficiency Delivery Board reports progress regularly to the Defence Management Board so that emerging issues can be addressed at an early stage; and there is regular Ministerial engagement with the Efficiency Programme, providing challenge and support.

16. The following sections give an overview of the Department's key business improvement and modernisation initiatives; how these contribute towards the Efficiency Programme; and how benefits are to be measured. A summary of planned efficiency gains by programme is at Annex A.

17. Looking ahead, the Department has developed a management framework (the Business Management System) which will facilitate continuous improvement in the delivery of core defence outputs through a better understanding of the high-level cross-Departmental processes, their interconnections and single point accountability for their effectiveness and efficiency.

FORCE STRUCTURE CHANGES

The 2003 Defence White Paper⁷ set out the Government's analysis of the future security environment, the implications for defence, and how it was intended to adapt our planning and force structures to meet the potential threats.

18. The Department subsequently undertook a detailed study of force structures and the equipment programme and determined that extensive restructuring would allow us achieve better policy outcomes with smaller, lighter and more capable forces. *Delivering Security in a Changing World: Future Capabilities⁸*, published in July 2004, sets out these changes in detail. The key elements include within the Efficiency Programme are:

- Submarines: reducing the attack submarine force level to eight from the present ten; partly enabled by the additional effects based capability of the future ASTUTE class; and reducing torpedo maintenance costs through revised servicing routines.
- Destroyers and Frigates: reducing force levels to 25 by paying-off some Type 42 destroyers and Type 23 frigates earlier than previously planned and removing support and manpower from certain sonar equipments; enabled by, revised assumptions about concurrent operations, and improved networked capability.
- Patrol Vessels: reducing minehunter force levels to 16, enabled by changed requirement for large scale operations; and removing the three Northern Ireland patrol vessels.
- Armour: reducing the number of Challenger squadrons and AS90 batteries, providing instead Light Gun batteries and light armoured and reconnaissance squadrons, reflecting a shift in emphasis from heavy to light and medium weight forces.
- Ground Based Air Defence: reorganisation and reduction in numbers of fire units.
- Fast Jets: in parallel with the introduction into service of Typhoon, bringing forward the disposal of Tornado F3 and Jaguar, reducing missile stockpiles, reducing the Tornado GR4 aircrew requirement, and planning on the basis of a full multi-role capability for Typhoon; enabled by advances in weapons and aircraft capabilities and in networking.

⁷ *Delivering Security in a Changing World*: Cm 6041

⁸ Cm 6269

- Maritime Patrol Aircraft: reducing the number of Nimrod MR2s and shifting their role towards wider surveillance in support of joint military and security operations.
- Helicopters: reducing the required fleet sizes for Lynx and Gazelle; reflecting changes to force attribution.
- Estate: the consequences for the Defence estate of the force capability measures, in particular the closure of RAF Coltishall, enabled by the fast jet measures, and the closure of an inner London barracks, enabled by reductions in the planned size of the Army⁹

19. Input costs savings arise from reduced operating and maintenance costs and from savings in the cost of capital and depreciation from reduced asset holdings. Savings from the reduced requirement for military manpower are not included here, but under Manpower Reductions.

20. The implications of these measures upon the costs of the Department's programme have been analysed in detail by the management areas concerned as part of Department's forward financial planning process, and corresponding adjustments have been made to budgets.

21. The managers responsible for each of these measures report progress on implementing them to the Finance Director's staff. Provided that progress remains on track, and no related financial problems arise in the areas concerned, it is concluded that the savings in operating cost has been achieved.

22. The baseline for these measures is the assumptions and costs included in the Department's Short Term Plan 2004, covering the years 2004/05 to 2007/08.

23. The key measure of quality for this programme is performance against Public Service Agreement targets, in particular:

- PSA target 3 – *Generate forces which can be deployed, sustained and recovered at the scales of effort to meet the government's strategic objectives.*

⁹ It is now planned to be Chelsea Barracks that is disposed of.

CORPORATE SERVICES

The Department is undertaking a comprehensive and challenging range of programmes to modernise and improve the effectiveness and efficiency of its corporate services. Most of these programmes fall within the Defence Change Programme¹⁰.

Military Personnel Management

24. The *Joint Personnel Administration (JPA)* programme will modernise the management and administration of Armed Forces personnel. A wide range of personnel policies and processes have been harmonised and simplified, including pay and allowances. These processes will be supported by a single commercial off-the-shelf IT package, and a central enquiry centre.

25. Cashable efficiency gains are from reduced input costs through:

- i. Reductions in the number of staff employed in the administration of military personnel, through the introduction of self-service and centralisation of support functions and through the automation and streamlining of transactions using new information systems.

The numbers of posts to be removed from each budget area have been identified and agreed with budget holders. Financial savings have been calculated by multiplying post reductions by a capitation rate appropriate to the Command from which the posts have been removed. The achievement of post reductions is reported by budget holders to the programme, which tracks the overall position.

- ii. Reduced operating costs of the Armed Forces Personnel Administration Agency (AFPAA) following JPA implementation.

This will be measured by comparing actual AFPAA costs after the implementation of JPA (drawn from the Agency's accounts) with the operating costs of the Agency as planned in STP04.

- iii. Reduced expenditure on pay and allowances; the harmonised policies developed by JPA have been used to agree savings during a recent review of pay and allowances. In future, improved management information from JPA will enable pay and allowances to be better targeted to achieve the desired recruitment and retention effect.

¹⁰ Following the implementation of the new finance information system, it was decided that the finance modernisation programme had matured and no longer needed to be managed as a change programme.

The pay and allowance bill will be monitored to assess achievement of this benefit.

26. The cost and benefit baseline for the JPA programme was established in its main gate business case, which recorded target cost and financial benefits, along with the agreed number of post reductions.

27. The quality of service delivered by the JPA programme will be governed by the Service Level Agreement between AFPAA - the agency delivering JPA, and its customers – the single Services and Service Personnel Policy branches. A Continuous Attitude Surveys) is run by each of the three single Services to measure the morale and understand the concerns of their serving personnel across a wide range of Service issues

Civilian Personnel Management

28. The *People Programme*, which has evolved from the previous Human Resource Transformation Programme, exists “To enable MOD civilians to make the best contribution to the UK's defence capability” through a civilian workforce which is appropriately skilled, managed and motivated to support defence capability now and in the future.

29. As a component project of the People Programme, the Human Resource Service Delivery programme, incorporating and building on the Human Resource Management System (HRMS) and the Future Pay project, is developing a full suite of customer focused human resource (HR) services delivered through a single, modernised HR service delivery organisation to be known as the People Pay and Pensions Agency (PPPA).

30. Cashable efficiency gains are from reduced input costs through:

- i. Reductions in the number of staff working in civilian HR through the introduction of new streamlined HR services and through the centralisation of previously delegated HR functions

The Programme of post reductions from the baseline position, valued using a model of pay bands reflecting the planned change in grade mix (based on the roll out of HR services over time).

Reductions in posts are effected by budget holders, who will report these reductions to the Programme.

The funding for these posts has been removed from budgets, and the post reductions form part of the civilian manpower targets within which budget holders are required to manage.

- ii. Lower maintenance costs of HRMS compared with the HR information systems that it is replacing.

The Programme tracks the actual costs of HRMS, compared with the costs of legacy HR information systems.

Actual costs are measured as expenditure against relevant contracts. Legacy system costs were baselined as part of the business case.

- iii. The implementation of Future Pay; which will modernise and simplify pay policy and processes by replacing the existing civilian payroll information system with one based on a commercial off-the-shelf package

The Programme tracks the actual costs of Future Pay, compared with the costs of legacy pay systems. Actual costs are measured as expenditure against relevant contracts. Legacy system costs were baselined as part of the business case

- 31. In addition, these three measures give rise to non cashable efficiency gains:

- iv. Savings in staff time devoted to administrative tasks across the Department (these savings are not cashable because the posts concerned carry out other non-HR duties)

The programme will track the release of capacity within management areas through the changes to HR service delivery.

- 32. The quality of services provided through the programme is measured by a variety of means, including: staff attitude surveys; customer acceptance testing (prior to the implementation of new services); and monitoring the service level agreement with the PPPA (which will include key performance indicators)

- 33. The baseline for the programme was established in a survey of the civilian HR function carried out in preparation for the programme in August 2003.

Finance Function

34. The aim of the *Defence Resource Management Programme* is to simplify and improve current financial processes, structures and systems in order both to reduce cost and to improve decision-making. The programme includes initiatives covering areas such as the creation of a shared service centre for processing accounting transactions; the centralisation of fixed asset management and processing; and improved financial management information for budget holders.

35. Cashable efficiency gains are from reduced input costs through:

- i. Reducing the number of staff employed in the finance function

The number of staff (full time equivalents) employed in the finance function is measured annually through a survey of the health of financial systems; the programme aims to achieve at least a 10% reduction in the cost of the finance function from a 2002/03 baseline. Some reductions in finance staff numbers were already included in the Department's forward financial plans, in part as a result of other efficiency initiatives; to avoid double-counting, these savings are not counted against this programme.

- ii. Reduction in expenditure on external assistance enabled through simplifying and improving financial processes and increasing Defence capability through skills transfer.

Actual expenditure will be compared with that previously planned.

36. Cashable efficiency benefits are measured against the number of staff (full time equivalent) previously planned to be employed in finance in the years 2005/06 to 2007/08.

37. The DRMP Simplify and Improve Benefits Realisation Strategy provides a coherent and coordinated approach to the realisation of benefits across the Simplify and Improve Programme. An annual incremental Post Programme Evaluation is also carried out to ensure that deliverable benefits, and in turn efficiencies, have been met.

Information Services

38. The *Defence Information Infrastructure* (DII) programme will provide a single modern information infrastructure across Defence, replacing 300 diverse information systems across 2000 locations worldwide. In addition to the efficiency benefits directly attributed to the programme, DII is a key enabler for many of the other business improvement initiatives in the Efficiency Programme; the efficiencies resulting from these initiatives are reported against the relevant programmes.

39. The DII programme plans to reduce the cost of ownership of the Department's information infrastructure by 10%. Of this overall target, an element is cashable, in the form of reduced input costs, enabled by:

- i. Centralising the management of legacy infrastructure contracts within the Defence Communications Services Agency (DCSA).

Funding equalling the estimated costs of legacy systems has been removed from the budgets of the management areas concerned. Efficiency gains are calculated as the difference between these costs and the actual costs now being incurred by the DCSA in managing the contracts. Actual costs are drawn from DCSA financial systems.

40. The remainder of the reduction in cost of ownership is non-cashable and comes from:

- ii. The improved value for money of having a single integrated information infrastructure across Defence.

The efficiency gain is measured as the difference between the actual costs of providing the future integrated DII capability (DII(F)), and the costs of the public sector comparator in the DII(F) main gate business case

41. DII(F) will provide access for occasional users (for example, to provide access to future military and civilian HR systems, and to electronic training packages), which is an enhancement to the existing functionality. This provides an output efficiency gain:

- iii. additional user accounts for occasional users

The programme office will track the take-up of additional user accounts, and will assess benefits as the difference in cost between providing for these additional users through DII compared with legacy systems.

42. There are some further non-cashable efficiency gains from the economy of having a single information infrastructure across defence

- iv. Legacy systems would have required the provision of multiple solutions for business continuity, secure external links, and electronic document and record management systems; and DII(F) only a single solution will be needed.

The programme office will assess benefits as the difference in cost between providing these facilities through DII compared with legacy systems, based on their estimates of notional legacy systems costs.

PROCUREMENT AND LOGISTICS

The Department is building on its Smart Acquisition programme, which was launched some six years ago and has been revised recently as a result of a stocktake by the Defence Procurement Agency. The Department is aware of the need to implement more fully the key principles of the programme and to go further in creating a better, more open relationship with industry - in particular through: increasing the levels of early investment to de-risk projects; improving the operation of the approvals process to enable decisions to be taken more quickly; and enhancing performance management across the procurement process.

The Future Capabilities work has identified opportunities to improve the value for money to be obtained from expenditure on the forward equipment programme.

The Defence Change Programme includes a far-reaching programme of logistics transformation to increase effectiveness, efficiency and flexibility of Defence logistics activity, and a comprehensive programme to modernise the management of the Defence estate. In addition, there are initiatives in hand to improve the efficiency of commodity procurement across Defence.

Equipment Procurement

43. The *Future Capabilities* work described at under Force Capability Changes has identified opportunities to improve the value for money to be obtained from expenditure on the forward equipment programme. Cashable savings (primarily of capital expenditure) arise from the following measures:

- i. The procurement strategy for the future helicopter fleet has been revised to rationalise the number of different aircraft types to be procured, thus delivering the required capability at a lower cost through savings on development, testing and logistic support.
- ii. A more efficient way of providing the required offensive air capability out to 2020 is to use multi-role fast jets, so reducing the number of platform types. The Future Offensive Air System (FOAS) programme has evolved into the Future Combat Air Capability (FCAC). As a result the rate of spend has been reduced whilst FCAC will still address the requirement for a deep strike capability from the latter half of the next decade onwards.

- iii. The procurement strategy for the Future Rapid Effects System (FRES), the new air deployable family of land vehicles, has been revised to extend the assessment phase. This will defer expenditure on the overall project, while making it more certain that the solution will provide the required capability. Funding for the assessment and development phases has been increased by some £36M against the original plans, with spending now concentrated on the technically more complex variants. The revised in-service date for FRES is coherent with plans to increase strategic airlift. Until then, the Department's ability to achieve the required strategic effect is not impaired by using existing platforms.
- iv. Indirect Fire Precision Attack (IFPA) will provide the capability to engage targets at long ranges with increased precision. It will be delivered through incremental acquisition of a range of systems including guns, rockets and other advanced munitions. Operational Analysis has both affirmed the cost-effective utility of the IFPA force mix with complementary systems and the most cost effective route for the introduction of the capability. The acquisition increments have been re-profiled, providing the IFPA capability at a reduced rate and cost whilst continuing to invest in de-risking promising new capability such as loitering munitions.

Project plans have been revised and budgets have been adjusted. The projects concerned will be monitored to ensure that the assumptions upon which these efficiency benefits have been based remain valid.

- 44. The resources released by these measures are being reinvested in the provision of military capability.

Defence Logistics Transformation

45. A key reform following the Strategic Defence Review of 1998 was the creation of the Defence Logistics Organisation (DLO), to bring together the three single Service logistic Commands into a unified structure. On its creation the DLO was set a goal (known as the "Strategic Goal") of reducing its output costs by 20% by 2005/06, which was to be delivered through the DLO Change Programme.

46. In 2003 the Department undertook a comprehensive review of the logistics process, from front line to industry. The required enhancements identified in this work are being implemented through the Defence Logistics Transformation Programme (DLTP), whose objectives are to increase effectiveness, efficiency and flexibility, and to optimise all Defence logistics activity in support of the tasks required of the Armed Forces. The DLTP has subsumed the former DLO Change Programme.

47. The DLTP is an extremely complex programme, comprising over 1,000 separate projects. There are however a number of cross-cutting “levers” that are applied to achieve efficiency and other benefits:

- The *lean approach*, which is about driving waste out of any process, reducing the number of people and amount of equipment needed to achieve a given result.
- *Concentrating maintenance facilities and manpower*, thus reducing duplication and rationalising the logistics support chains for major platforms and equipments onto nominated logistics hubs or ‘centres of gravity’.
- *Better engineering* techniques; eg predicting when maintenance might be needed rather carrying out maintenance to a fixed schedule and applying revised lean maintenance work patterns to reduce turnaround times and improve availability.

48. In addition, there are a number of other programmes underway within the DLO that will deliver efficiency benefits, such as:

- *Procurement Reform*¹¹ to deliver professional, best in commercial class means of maximise the Department’s buying power using reverse auctions, electronic purchasing, incentives and rationalisation of contracts.
 - Work to *redesign the joint supply chain* organisation and processes, and introduce modern ‘asset tracking’ techniques, which has already achieved greater consistency and a reduction in delivery times.
 - *Restructuring* the DLO and thereby making it more efficient through establishing common enabling services and procedures across the organisation.
- i. These and other initiatives are producing cashable benefits from reduced input costs through reduced contract costs, headcount reductions, better asset utilisation and reduced stockholdings

¹¹ Procurement Reform is being applied across the full range of the DLO’s procurement expenditure of some £6bn (covering the bulk of the MoD’s procurement expenditure apart from procurement of military equipment and expenditure on the estate).

Because of the way the DLTP was created from predecessor programmes and strategic process reviews, and the complex structure of the programme, the management of benefits realisation across the DLTP is unlike that of a conventional single tier programme. Typically, benefits are identified at a high level when a programme is initiated and the benefits are then profiled in detail during the programme definition stage. A portfolio of projects is then undertaken to realise overall programme benefits.

It is through these multiple individual and interdependent that overall programme benefits are delivered. Each project falls to a particular budget holder, such as an integrated project team leader, whose budget is adjusted to reflect anticipated efficiency benefits, and who is then responsible for achieving, tracking and reporting those benefits, and for maintaining an appropriate audit trail.

49. The overall baseline for the DLTP is April 2004; some component programmes within the DLTP will have their own baselines, established in their respective business cases.

50. Maintaining and improving the quality of logistic support is core to the aims of the DLTP. At the highest level, the volume and quality of logistic support to be provided is specified in the DLO's Customer-Supplier Agreements with the front line Commands who are its principal customers, and performance against these CSA's is monitored and included within the Department's high-level performance monitoring arrangements. Many lower-level performance indicators of logistics effectiveness exist, covering aspects such as delivery times; turn around times; and vehicle and aircraft availability.

Whole Fleet Management

51. The Whole Fleet Management programme will improve the management of the military vehicle fleet and the availability of military vehicles through centralised fleet management and information being readily available through the introduction of the JAMES management information system. Cashable savings will be achieved by

- i. Reduced spares consumptions from the storage of vehicles in a Controlled Humidity Environment (CHE), and from centralised fleet management

Benefits will be tracked by measuring actual consumption against the previous year's usage.

- ii. Reduced battery usage through the use of battery conditioning equipment

Benefits will be tracked through measuring actual usage compared with the previous year's usage.

- i. There are also capital savings from the reduced need for technical accommodation for vehicles in unit lines through the pooling of equipment for training.

These savings are cashable and have been removed from the relevant budgets.

- iii. Drawdown of the fleet due to JAMES 1 Implementation.

Benefits will be tracked by the DLO IPTs and reported to the WFM project team.

52. In addition, this programme will achieve some significant non-cashable benefits:

- iv. Improved management of the vehicle fleet means that same level of operational effectiveness can be achieved with a smaller overall fleet. There is therefore a notional saving because of a reduction in the required size of purchases of new equipments.

Modelling techniques have been used to assess the size of this benefit.

- v. Manpower efficiencies (reductions in the time spent by military personnel on vehicle husbandry) from the introduction of CHE technology.

Savings are based on surveys

53. The tracking of all these benefits is covered in the WFM Benefits Realisation Management Plan

The Estates Modernisation Programme

The Estates Modernisation programme is focused on both rationalising and improving the condition of the Defence estate whilst at the same time obtaining better value for money from estate expenditure. This is being achieved through new contractual arrangements and the centralising of management responsibility.

The programme of Prime Contracting for the management and maintenance of the Defence estate, single living accommodation for Service personnel and Service families' accommodation is at the heart of the Department's strategy to deliver an estate of the right quality in support of Defence capability. Prime Contracting will meet the requirements of the customers, deliver improvements in supply chain management and collaborative working with industry will provide value for money and improve the delivery of estate services. Contracts are being awarded based on suppliers delivering to a pre-determined output specification. The prime contracts replace numerous local arrangements with contractors that have been costly to administer in the past.

54. A major aim of the estate modernisation programme is to improve the condition of the Defence estate and the majority of the efficiency gains from the programme are in the form of improved outputs. There are however some "cashable" gains:

- i. Reduced manpower and overheads employed on the management of Service families accommodation through the letting of a Prime Contract for Defence housing
- ii. Savings in operating costs from merging the former Defence Housing Executive (DHE) with the Defence Estates Agency (DE).

A baseline of operating costs was established prior to the merger of DHE with DE. As the full impact of the merger of the two agencies is achieved, operating costs will be compared with this baseline.

55. Other benefits are non cashable:

- iii. The introduction of Prime Contracting will enable better value for money to be obtained from expenditure on the Defence estate, through replacing the previous network of numerous small contracts.

The achievement of these efficiency gains will be measured through the Estate Performance Measurement System (EPMS). The EPMS contains six Key Performance Indicators, which will be used to gauge performance:

- Improving the condition of the estate
- Programme Effectiveness
- Efficiency
- Customer Satisfaction
- Safety
- Sustainability

By applying a weighted score to each of these indicators the level of performance against a baseline can be assessed and the overall value for money efficiency can be evaluated.

- iv. Non cashable efficiency benefits have also been identified from two major public-private partnership projects. These are for the modernisation of single living accommodation and for the provision of water and sewerage services (Project Aquatrine).

Project SLAM (Single Living Accommodation Modernisation) is the department's major project to provide high quality SLA to service personnel through a single prime contract. The improvement of SLA is high on the department's agenda, given its impact on morale and retention. The department is working closely with the contractor to reduce the average cost per bed-space through more efficient delivery and supply chain management.

Project Aquatrine comprises three geographical Private Finance Initiative packages covering the UK mainland, that transfer responsibility for the operation and maintenance of the Department's water and wastewater assets and infrastructure to the private sector. By working with industry Project Aquatrine enables Defence to deliver increased value for money, whilst mitigating risk and meeting legislative requirements. Benefits from both projects are based on comparison with the public sector comparators.

56. The delivery of improvements to the quality of the Defence estate is monitored by the Defence Management Board as part of the Department's top level performance management arrangements.

Other Procurement Initiatives

57. Beyond the three principal acquisition areas of equipment, logistics¹², and estates, there are a number of other initiatives that extend procurement best practice across other areas of Defence:

- i. Cashable savings across a range of goods and services such as IT/IS consumables, professional and technical services, utilities and transport. This is being driven by the commodity procurement process owner, as part of the Business Management System (see paragraph 17).

Savings are calculated for each individual category; improvements include a range of opportunities including reduced unit costs for goods; improved day rates for services; improved demand management for Utilities and in some instances purchase avoidance. Savings are tracked by the Category Management teams who are responsible for monitoring take up of new contracts and performance of the new arrangements

- ii. The *Defence Travel Modernisation* programme will deliver a modern, coherent travel e-booking capability across defence, working alongside OGC to address pan-government requirements. Cashable savings will be achieved through
 - Contract re-negotiation with travel providers, supported by analysis of current travel expenditure and over time has comprehensive and consistent management information
 - Strategic contracts with travel service providers that fully exploit the Department's buying power. Users throughout Defence and the FCO will have access to a wide range of MOD and industry negotiated fares through either an e-booking or offline capability
 - Detailed analysis of management information will also lead to increased ability to monitor adherence to travel policy and entitlements, and could potentially lead to identification of areas suitable for change.

Although patterns of travel spend are volatile, because of changes in market forces and business needs, the monitoring of like-for-like travel costs will enable the achievement of these benefits to be identified.

¹² Including the DLO specific Procurement Reform programme

- iii. The expansion of e-purchasing beyond the DLO, using the Defence Electronic Commerce System (DECS) infrastructure is expected to secure savings in transaction processing costs. The DECS capability includes electronic purchasing, bulk fuels management and electronic collaboration services. The bulk of the expected savings are expected to be achieved through a combination of simplifying purchasing through the provision of an 'easy to use' electronic capability and the use of management information to reduce the incidence of purchasing at unfavourable prices through purchasers not using pre negotiated 'bulk' contracts. Collaboration services achieve savings through economies of scale.

Mechanisms to monitor the savings are being put in place; these vary for each of the DECS services but in most cases employ 'before DECS service costs' as a baseline with current costs being recovered from DECS provided usage figures.

PRODUCTIVE TIME

58. One of the objectives of the wide-ranging *Defence Health Change Programme* is to increase the proportion of military personnel who are fit-for-task, by improving the quality of healthcare using Regional Rehabilitation Units and other methods. There is a non cashable efficiency gain from:

- i. Reducing the time taken to restore personnel to full fitness

The average length of time a patient takes to recover will be monitored and compared with historical data; the improvement will be converted to additional man-years (of personnel available for operational deployment) and valued using a capitation rate¹³,

¹³ Lance Corporal is used as a representative rank for costing purposes

ORGANISATIONAL CHANGES

In 2004 the Department moved its slimmed down Head Office back into the Main Building in Whitehall, providing benefits from reduced staff numbers, improved ways of working, and reductions in the number of MOD headquarters buildings in London (reducing from more than 20 in 1991 to just 3 in 2004), A range of initiatives – many of them stemming from Future Capabilities – are now in hand to reduce still further the management overhead and the number of headquarters sites occupied by the Department.

59. Projects are being undertaken to collocate and rationalise the Command headquarters of each of the Services, delivering cashable efficiency benefits from reduced estate requirements and from manpower savings as well as increased effectiveness from improved working practices.

- i. A single Navy command with a modern, effective headquarters is being created at Portsmouth.
- ii. The headquarters of the Army's Land Command and of the Adjutant General are being collocated on a single site
- iii. Under the RAF's Process and Organisational Review programme the headquarters of Strike Command and the RAF Personnel and Training Command are being collocated at High Wycombe.]

RELOCATION

The Department has relocated a significant amount of Defence activity out of London and the South East in recent years. Building on this and the work already underway to rationalise the Defence estate, the Department put forward proposals to the Independent Review of public sector relocation to move 3,900 posts out of London and the South East by 2010.

60. In line with these proposals, the Army Technical Foundation College at Arborfield in Berkshire has now been closed, with over 1,200 posts relocated outside the South East. The closure of this establishment has also delivered cashable efficiency gains.

61. Relocations are driven by efficiency and business need and Government policy on public sector relocation is embedded in the Department's processes for developing business cases with relocation implications. The net number of posts relocated from London and the South East is tracked by the Defence Efficiency Programme office.

MANPOWER REDUCTIONS

Taken together, the measures described above will have a major impact upon the Defence requirement for both military and civilian manpower.

Military Manpower

62. The combined effect of the of the measures in the Defence Efficiency Programme, in particular of the DLTP and JPA programmes and Force Capability measures, is to reduce the requirement for military manpower, as explained in the *Future Capabilities* White Paper. As a consequence, the trained strength of each of the Armed Forces will fall, both against their actual strengths and by comparison with previous planning assumptions:

- i. Reductions in the trained strength of the Armed Forces from 1 April 2004.

Measured as full-time strength including UK Regular personnel, Gurkhas, and personnel on Full Time Reserve Service.

Trained strength is measured by the Defence Analytical Services Agency (to National Statistics standards) and is shown in tri-service publication (TSP) 3 *UK Armed Forces Trained Strengths and Requirements*.

63. These reductions in trained strength give rise to cashable efficiency gains:

- ii. Efficiency gains are assessed as the difference between the planned strength in STP04 with that which emerged from the *Future Capabilities* work.

The financial effect of reductions to the previously planned strength was assessed by the budget holders concerned, and their budgets have been adjusted accordingly. The actual trained strength and requirement for each of the Armed Forces is monitored and compared with the post *Future Capabilities* plans.

Financial savings from that part of the reduction in planned strength that is enabled by the DLTP is also included in the efficiency gains of that programme; the table at paragraph 1 includes an adjustment to avoid double counting.

64. The Efficiency Programme has enabled significant reductions in the number of military posts in administrative and support functions. This has both contributed to the overall reduction in military manpower strength, and has enabled Army posts to be reallocated as required by the Future Army Structure:

- iii. Reductions in the number of military posts in administrative and support functions by at least 5,000.

These are measured as reductions in military posts enabled by the DLTP and JPA programmes; the rationalisation of Service HQs; reductions in Head Office numbers; and from the closure of RAF Coltishall.

65. The measure of quality for military manpower reductions is performance against the MOD Public Service Agreement, in particular Target 5 - *to Recruit, train, motivate and retain sufficient military personnel to provide the military capability to meet the Government's strategic objectives.*

Civilian Manpower

66. Collectively, the measures in the Efficiency Programme will reduce the number of civilians employed by the Department by over 10,000:

- i. Reductions in the number of civilians employed by the MOD

The Defence Analytical Statistics Agency measures the size of the civilian workforce on a full-time equivalent basis. For the purpose of the Efficiency Programme, these numbers are adjusted to remove locally-employed civilians working in operational areas overseas.

67. For programmes within the Corporate Services and Procurement and Logistics workstreams, financial savings reductions in civilian strength are included in the efficiency benefits of the programmes concerned. For other programmes, including force capability changes, organisational changes, and a range of minor local efficiency initiatives, cashable savings from civilian manpower reductions are measured centrally;

- ii. Financial savings from civilian manpower reductions

The financial effect of reductions to the previously planned requirement for civilian manpower was assessed by the budget holders concerned, and their budgets have been adjusted accordingly. Each top-level budget holder has set been a civilian manpower target which reflects the reductions from the Efficiency Programme. Performance against these targets is monitored, and achievement of the financial savings is assumed if the manpower targets are met.

68. There are no quality measures against the reduction in civilian manpower, because this is not an efficiency measure in itself, but rather a consequence of other efficiency measures.

ANNEX A

DEFENCE EFFICIENCY PROGRAMME - Annual Gains			
	2005/06	2006/07	2007/08
	£M	£M	£M
Force Structure Changes	152	351	414
Corporate Services	131	252	300
Military Personnel Management	5	43	85
Civilian Personnel Management	21	48	98
Finance Function	2	13	11
Information Services	103	147	106
Procurement and Logistics	820	1204	1646
Equipment Procurement	64	238	435
Defence Logistics Transformation	655	727	840
Whole Fleet Management	56	98	146
Estates Modernisation	37	66	99
Other Procurement	9	75	126
Productive Time	84	86	88
Organisational Changes	0	2	14
Relocation	12	13	13
Manpower	89	285	450
RN	15	32	32
Army	18	64	88
RAF	53	121	203
Civilian	2	68	126
Adjustment	-9	-41	-82
Total	1280	2152	2842