



Defence Committee

Oral evidence: [Ministry of Defence Mid Year Report, HC 1174](#)

25 March 2014

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Written evidence from witnesses:

- Jon Thompson, Permanent Under Secretary and David Williams, Director General, Finance, [Ministry of Defence](#)

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Members present: Mr James Arbuthnot (Chair), Mr Julian Brazier, Mr James Gray, Mr Dai Havard, Mrs Madeleine Moon, Bob Stewart, Ms Gisela Stuart, Derek Twigg and John Woodcock

Questions 1-152

Witnesses: **Jon Thompson**, Permanent Under-Secretary, Ministry of Defence, and **David Williams**, Director General Finance, MOD, gave evidence.

Q1 Chair: Good afternoon. Thank you for coming back to the Committee. I think you were both last here when we were dealing with the Ministry of Defence report and accounts.

Jon Thompson: I think I was here two weeks ago when we were talking about the materiel strategy.

Q2 Chair: Yes, but it was not both of you. We are now dealing with the Ministry of Defence mid-year review, which allows us to ask questions about absolutely anything, so we will. If I may, I am going to start with something rather topical. In view of the fact that you are the policy adviser, Permanent Under-Secretary, of the MOD and in view of current events in Ukraine, what changes do you think need to be made to the MOD's policy?

Jon Thompson: The Ministry of Defence's policies in any regard?

Q3 Chair: In any regard. That gives you a very broad scope, but we are looking at it against the background of Ukraine.

Jon Thompson: I think it is quite a difficult question to answer off the top of my head to be completely frank. I was certainly not expecting—

Q4 Chair: No, but it is nevertheless rather an important question for the Ministry of Defence to be able to answer.

Jon Thompson: I am not completely convinced that there is anything that the MOD needs to do immediately. There are a number of reflections that might need to be made in relation to the Strategic Defence and Security Review's decisions and those that have followed since. There has been some speculation in various national newspapers about, for example, the return from Germany of the Army. Lord Dannatt has made various comments in the press. But it does not seem particularly pressing today or this week in terms of significant policy changes. They could certainly be reconsidered in the context of a strategic review, but your question is rather broad in that sense. It might need to be more specific.

Q5 Chair: Troops are amassing on the Ukrainian border. Does that have an impact on the policy of the Ministry of Defence?

Jon Thompson: I think the primary military adviser on this issue is the Chief of the Defence Staff.

Q6 Chair: He is the strategic adviser; you are the policy adviser.

Jon Thompson: Sure, but the question of divorcing military advice from security policy advice is a fine one. It seems to me that if you are contemplating some kind of theoretical military engagement or operation, the Chief of the Defence Staff is the best person to advise the Government as the Government's primary military adviser.

Q7 Chair: We have just seen a part of Europe annexed by military means by Russia. Do you think we are spending enough on defence?

Jon Thompson: I think the balance of public spending priorities is a matter for the whole Government to consider. Clearly, we could increase the amount of capability we have if we had more money. There

is clearly a connection between the amount of money that we have and the kinds of capabilities that we can develop, and therefore the kinds of operations that we can conduct at various scale or concurrently. Although there is not a direct correlation between the two, there is clearly a considerable connection. For example, maintaining 2% of GDP, which is the NATO commitment, will be a fundamental consideration for the next Strategic Defence and Security Review in 2015.

Q8 Chair: It might be a bit late then, mightn't it?

Jon Thompson: Your Committee will be completely familiar with the fact that if we have to conduct an operation, there are immediate funds that can be agreed and applied. So it depends on whether your question is about the immediacy of an operation for which the reserve applies, or whether it is about long-term funding for the Ministry of Defence to which different considerations apply. Which is it that you want me to answer?

Q9 Chair: The problem is that these operations might become immediate without any warning.

Jon Thompson: Yes.

Q10 Chair: So, for us to wait until the next Strategic Defence and Security Review might be taking a rather leisurely approach.

Jon Thompson: I am slightly struggling with the question. If your question is about the funding of an operation that needs to take place tomorrow or next week or next month, that is clearly a decision that can be made by the Government at some speed. The funding mechanism for that is clearly set out in the terms of the use of the reserve. On the advice about what kind of operation could take place and what kinds of options are available, the Chief of the Defence Staff can advise on that through the National Security Council.

Q11 Chair: All right. Let's bring it a bit further forward than the next defence and security review to the NATO summit in September. What policy advice are you giving to the Government in relation to that summit in the light of the annexation of Crimea?

Jon Thompson: The question of what may be discussed at the next NATO summit is one that is under active discussion, from officials,

military and civilian, to the National Security Council and the Prime Minister. I do not think it would be particularly appropriate at this point to share in public what may or may not be on the agenda of the NATO summit. It is also a matter on which NATO itself has to agree, as you will be familiar. There may be a UK perspective on that, but the other 27 countries also have a view on what might be discussed at that summit.

Q12 Chair: Would you accept that the annexation of Crimea is what some have described as a generational moment?

Jon Thompson: I think it is a very interesting security issue for NATO and therefore by default for the United Kingdom in the round. What could be done in this particular situation is a question that must be wrestled with—it is a very difficult question.

Q13 Chair: Of course it is fascinating, but do you think it is important?

Jon Thompson: Do I think what is important?

Chair: The military annexation of Crimea.

Jon Thompson: It seems to me, although I am not an expert in this, that that seems to breach international law, but I am not a lawyer and would not be the person who gives that advice. It seems to me that the annexation of independent states is significant, yes.

Q14 Ms Stuart: Let me try this another way, bearing it in mind that you are the Ministry of Defence's key policy adviser. For the last 20 years, it was assumed that Russia had joined the great European family and had changed, and everything was hunky-dory. Six months ago, if you had suggested we throw Russia out of the G8, you would have been told to reconsider your words very carefully. Things have changed in a way that takes us back to a period we all thought we had moved on from. Have you sat down in the Ministry of Defence and thought about the implementation of article 5, which suddenly, given the Baltic states, may be a reality? Six months ago, people thought this was one of those nice-to-have things. You should not just talk about money, but also means. Have you made an assessment of whether you could fulfil those commitments in the light of the cuts, in terms of not just money, but means?

Jon Thompson: The internal process of understanding what the threats are to the United Kingdom's security, and the United Kingdom's interests and its international obligations, is an ongoing one. One of the reasons I am struggling with this question is that it is incredibly difficult to be open about what our internal Ministry of Defence assessment is of those threats, including from other nations in the world. I am familiar with where we are in our assessment, and indeed with the various views of very senior military colleagues. It is just that sharing that in an open forum is obviously somewhat difficult for me.

Q15 Ms Stuart: I think what I am looking for is that you state something that, to me, would be very obvious. The implementation of article 5, and that it might occur, has moved from "fairly remote" to, "Hey, this is likely." Have you sat down and thought about this? Whether you have done or have not done that is hardly a national secret.

Jon Thompson: As I said, it depends where you think we started from. There is an ongoing assessment on a very regular basis about the threats that we face, which we do not share in public. The public view of threats to the United Kingdom—versus the military and security view—is somewhat different. You are suggesting a significant shift. In the eyes of the public, there may be a significant shift, but our private view may not be quite in line with that.

Q16 Ms Stuart: In the last three weeks, has there been a meeting with you and some of the other officials in the MOD at which the practicalities of having to implement article 5 obligations has been on the agenda?

Jon Thompson: There have been meetings around this issue, but I have to be up front and directly answer your question: I have not attended those meetings myself—the Director General of Security Policy has attended those meetings.

Q17 Ms Stuart: But there have been meetings?

Jon Thompson: There have been. We have not taken that all the way through to what the impact means in terms of our overall budget and what we do or do not plan to do.

Q18 Ms Stuart: Should you have been at that meeting or one of those meetings?

Jon Thompson: It was my judgment that it was better that the subject matter expert at the director general level, which is the Director General for Security Policy—you may or may not be familiar with Mr McKane—was better suited to that conversation than I was last week. I have a very difficult legal situation that I am also trying to deal with. My prioritisation was that he would attend that meeting, as he regularly does.

Q19 Chair: Yes. Mr McKane is leaving the Ministry of Defence next week.

Jon Thompson: He is, and we are announcing his replacement on Thursday.

Q20 Chair: So he was the right person to go to this meeting?

Jon Thompson: We are retaining Mr McKane's services because he has some unique skills that we will require on an ad hoc basis for some time. We struck a deal with him to keep some of his services on an ongoing basis.

Q21 Mr Gray: I am going to approach things from a slightly different angle—an easier one from your point of view, you might be pleased to hear. Some time ago we produced our report "Towards the next Defence and Security Review", and last week we published the Government response to it, which was, broadly, very bland. They said that there would be some tweaks and that the national security strategy might need updating, but they saw no reason for a revolution to come about. Do the events of the past week change the Government's response to our report?

Jon Thompson: I cannot give you a Government response, but I can give you my personal response. Our view on the Strategic Defence and Security Review 2015 is that it requires somewhat more of a rethink of various different issues. In fact, our own internal work had suggested that there were more issues to be discussed in 2015 than were naturally apparent. There are not as many as there were in 2010, because there had been such an enormous gap from 1997 to 2010, but there remain some significant security policy issues for 2015 to consider.

Do the events of the past week mean that we should rethink our own internal plan? Probably not. We had thought about it at some considerable depth. I appreciate that I am saying that we have more of a

plan, as it were, than has necessarily been agreed across the rest of Whitehall, but significant issues remain for us to deal with.

Q22 Mr Gray: The question is about your response to our report, in which you said that, broadly speaking, you felt that the new SDSR was not significantly different from the previous one—although it needed updating, it was not going to be hugely different—and whether the events of the past couple of weeks changed that. Before you answer, I will give an example. What about having a recently retired Chief of the General Staff say that he felt we should reverse the decision on withdrawing from Germany? I am not at all suggesting that I agree with him, but the mere fact that he took that stance is an extremely fundamental and radical thing for a recently retired CGS to say. Does that not indicate that your response to us on our SDSR report was just a little bland? There are big things happening out there—is it not time that the MOD acknowledged that?

Jon Thompson: I am trying to say to you that we think the need for an SDSR in 2015 is more expansive than other colleagues might perhaps believe. We think that there are still some fundamentally difficult issues for us. We see the need to increase various capabilities—not necessarily relevant to the current situation, but, for example, do we go further on cyber? Where are we on ballistic missile defence? We think that the Government's policy on ballistic missile defence is a fundamental question we should look at in the SDSR for 2015.

Q23 Mr Gray: I was not asking for your general position on the SDSR. The question is whether or not the Russian annexation of the Crimea changes your approach to the SDSR.

Jon Thompson: It could do, yes. As I said, that needs some thought now, doesn't it? It could potentially change it, yes.

Q24 Mr Gray: Just have it out now. Our job, as the Defence Committee, is to seek to prise out from you, as the Permanent Under-Secretary of the Ministry of Defence, whether or not our Government, in the form of the MOD, are taking urgent steps to do something about the Russian annexation of the Crimea. You said that they might be, and then started rambling on about cyber—I am afraid to say that that is not a very good answer, is it?

Jon Thompson: I appreciate that you do not like the answer, but I am trying to indicate—I have made this fairly clear to the Chairman—that

if you want to take a military view about what military capacities might be needed in future, it is best to listen to the current CGS or the current CDS, rather than the former CGS.

Q25 Bob Stewart: Permanent Secretary, even before this crisis, we had an article 5 obligation to the Baltic states. That has worried me ever since I was chief of policy at Supreme Headquarters Allied Powers Europe 20 years ago. I advised the Supreme Allied Commander that this would be a big problem. Have we, in your view, got a plan to defend the Baltic states in the event of an attack from Russia? We used to have hugely sorted out plans in Germany, with the Americans, Belgians and French all in line, but I cannot see and haven't heard of any decent plan to exercise our article 5 responsibilities in the Baltic states. Have you an opinion on that, sir?

Jon Thompson: I cannot directly answer your question on whether there is a plan. Your question is very direct. Is there a plan? Can I answer yes or no sitting here right now? I cannot answer that question.

Q26 Bob Stewart: Do you mean that you don't know whether there is a plan? There should be, shouldn't there? In principle there should be.

Jon Thompson: I am not familiar with whether the answer to your question is yes or no.

Q27 Bob Stewart: Blimey. That's worrying. SACEUR, the Supreme Allied Commander Europe, has responsibility to defend that territory, and I am making the assumption that someone has actually worked out a plan in case there is an incursion from Russia into those territories, for which we have a collective security responsibility.

Jon Thompson: I am sorry that I am not fully familiar with it. I think I have previously given some evidence to the Committee—

Bob Stewart: In fairness, I think it is a bit of an unfair question.

Jon Thompson: Perhaps I could put it in some context. The Strategic Defence and Security Review of 2010 ran 57 operational scenarios in which the United Kingdom's forces might be deployed. The scenarios were run by the then Vice Chief of the Defence Staff, who is now Chief of the Defence Staff. Was that one of the 57 operational scenarios that we ran in order for us to think about what capabilities we

need going forward? I do not know the answer to that question. I can check for you if that would be of assistance.

Q28 Bob Stewart: I would be very grateful if you wrote to the Committee, as far as you can within your competence, with unclassified information.

Jon Thompson: I will be up front with you. The reason was that at the time, as you may recall, the structure of the Ministry of Defence was that there was a Director General of Finance, which was me, and a Director General of Strategy, which was Mr McKane. He sat through those meetings on military capability priorities. Whether that operational scenario was run as one of those 57 scenarios, I do not know. Sorry.

Q29 Chair: Bob Stewart has just been talking about an attack on the Baltic states. In your view, would a cyber-attack on the Baltic states amount to an article 5 attack?

Jon Thompson: That is an interesting legal question. I am afraid I do not know the answer to that question, either. There is some very tricky legal territory on what does and does not constitute an act of war and what offensive cyber means in that legal context. I am not an expert on that because it is untested territory in some regards.

Q30 Chair: The Committee will be producing a report on Thursday on the role of deterrence. What examination, or re-examination, of risks is the Ministry of Defence doing in relation to the National Security Council and the advice that you give to it?

Jon Thompson: One of the questions that we feel needs to be examined is that there is both nuclear deterrence and conventional deterrence, and we think that our policy is very clear on the former. In relation to conventional deterrence and some of your questions on the upcoming strategic review, we think our capabilities need to be more carefully laid out. Is your question about conventional deterrence or nuclear deterrence?

Q31 Chair: It is a question about both. I am glad you said what you said because we will call for you to say exactly that.

Jon Thompson: I do believe that that is the situation, and I think that view is shared by all senior military colleagues as far as I am aware.

I have certainly discussed it with the Chief of the Defence Staff, the Vice Chief of the Defence Staff and the Commander of Joint Forces.

Q32 John Woodcock: Is it fair to say that the situation in Ukraine was obviously unexpected, that there is a process of readjustment internally, and that you recognise that that process has some way to go and needs to accelerate from here?

Jon Thompson: The internal process within Ukraine needs to accelerate—is that what you are asking?

Q33 John Woodcock: No. Not the internal process within Ukraine, but within your Department. I am not going to hold you responsible for the internal process within Ukraine, but within your Department you gave an example of a pretty significant meeting, or series of meetings, to discuss what would happen if article 5 was invoked. You were not at that meeting, or series of meetings. It may be understandable, of course, that this was out of the blue, but do you accept that the process of readjustment needs to accelerate from here?

Jon Thompson: I think that if Ministers wanted to have that advice at speed, then it could be produced at speed. There does not necessarily have to be a—

Q34 John Woodcock: So Ministers just did not ask for it?

Jon Thompson: It was clear that it depends on what Ministers would like—

Q35 John Woodcock: The Department would have been geared up but they did not ask the question?

Jon Thompson: No, I did not say that either.

Q36 John Woodcock: I thought you did just now—

Jon Thompson: No, I didn't. I said that if Ministers wanted that advice, it can be done. We can do whatever—

Q37 John Woodcock: That is perfectly acceptable from a civil service point of view if they do not ask the question—if they had asked, you would have been geared up, but they do not ask. You said you would have been geared up.

Jon Thompson: It is possible for us to give whatever policy—

Q38 John Woodcock: Sorry, but the clear implication of that is that they did not ask.

Jon Thompson: It is possible for the MOD's security policy team—advisers and whatever—to produce whatever is necessary in whatever time is available.

Q39 John Woodcock: You are waiting to assist the political leadership of this Government and are geared up to do that, which is a good thing for this Committee to hear. You are geared up, should they ask the question.

Jon Thompson: Okay, but it rather depends on what the question is. If the question is, "Do you want to think about what our military options are on Sunday?" versus, "What are the long-term implications of this for our conventional deterrence position?", then your time scales are different, the question is different, the evidence is required. So you need to be clear about what question it is that Ministers want to explore and what the time scale is—

Q40 John Woodcock: But neither of those questions have been asked thus far?

Jon Thompson: I didn't say that.

Q41 John Woodcock: Oh, sorry. I thought you did.

Jon Thompson: No, I didn't say the question hadn't been asked. You said, "Could it be done?", and I said, "Yeah, it can be done."

Q42 John Woodcock: Has it been asked?

Jon Thompson: I am trying to be clear. You have asked me whether I was involved in the meeting. I am being up front that you have got the wrong witness, if you like.

Q43 John Woodcock: No.

Jon Thompson: I am trying to be respectful, in terms of you are asking me a series of questions and I am trying to respond to your questions about a subject in which I was not party to the meeting—I have been clear about that—because I have a rather difficult other issue to deal with.

Q44 John Woodcock: You have been otherwise engaged?

Chair: Do you want to tell us what that is? Or would you rather not?

Jon Thompson: It is a rather difficult case—a very complicated personnel case that you would be familiar with, with a senior member of staff, which will undoubtedly become a public matter at some point in the future. I am afraid that I am buried under a mountain of lawyers.

Q45 Chair: I understand that.

May I say that I particularly welcome something that you said, namely that you want a more extensive SDSR than may be the case elsewhere in Whitehall, because one or two things of some importance have happened since the last SDSR, such as the Arab Spring and the invasion of Europe? I am glad that you are giving this a little increased importance than the stories that we had before that people wanted a “steady as you go” defence and security review, which we think would not have done the trick.

Jon Thompson: Do you want me to say a little about where we are with the SDSR?

Q46 Chair: Yes, that would be interesting and helpful. Thank you.

Jon Thompson: We decided to form a fairly small group of the Chief of the Defence Staff, the Vice-Chief, the Commander of Joint Forces, Mr McKane and myself. We spent most of a series of meetings through December, January and February to lay out what we think is the landscape, and we put that to the Secretary of State about three weeks ago. We think that there are as many as 60 or so different questions that need to be explored, and I am sure that—

Q47 Mr Gray: Was that 60?

Jon Thompson: Sixty questions need to be explored. Some of those arise from the Arab Spring and one of those is: do we need some kind of long-term military base the other side of Suez, for example? That is a perfectly legitimate question for us, if we think that that is where the threats to the United Kingdom are, but there are a whole range. It will be perfectly possible for us at some point later in the current calendar year to give you some further evidence about the landscape that we are looking for.

I am very conscious that we need to construct the necessary evidence base so that, when a Government is elected and wants to conduct the next SDSR, we have the necessary evidence base—and so will you, if you want that—to be able to make the decisions that will be needed in 2015 or 2016, depending on when the SDSR takes place. We will do all the necessary preparation work this year so that there is a strong evidence base and research base in order to be able to look at whatever options are available.

I think that one of the reflections of 2010 was that some decisions were made without the necessary evidence base to support them. You will have seen us reverse a couple of decisions from 2010 subsequently because we had better evidence and I want to avoid that, if we can, in 2015.

Q48 Chair: Is that the first time that anyone has suggested that the next SDSR might happen in 2016?

Jon Thompson: No, I thought the shadow Defence Secretary had suggested that he might want to consider it in 2016.

Mr Havard: It is my smart £5 bet.

Jon Thompson: There is a logical argument: if there were to be a change of Government, there are some advantages in learning as much as you can about defence before you begin to make massive decisions about its long-term future. But that is a choice for the next Government to make.

Chair: We may come back to that, but we will now move on to voluntary outflow questions.

Q49 Mr Brazier: Let us move from the immediate crisis at the moment to nuts and bolts, but important ones. Voluntary outflow is

currently high and it is rising. How confident are you in the services' prediction, Permanent Under-Secretary, that it will be falling by April next year?

Jon Thompson: I agree that the level of voluntary outflow is high and we are rather concerned about it. We believe that, as the economic situation continues to improve, we may see voluntary outflows from particular trades or skills rise. We need to be conscious of that, because voluntary outflows kept up through the recession.

One of the indicators we have here is about people putting in their notice that they wish to leave. That has just begun to drop off a little, but I could not honestly say to you that I am confident that it will turn down—I definitely could not say that. The Defence Board gets voluntary outflow data every month. It has had three in-depth conversations about voluntary outflow in the last 12 months with a view to ensuring that the three services are very clear that we regard this as a significant issue, as they do, too.

Q50 Mr Brazier: Under the Levene model, there are huge delegated powers, which are unprecedented in the last 50 years, on equipment purchase, which is something that is very long term. Why are you moving towards a centralised, new employment model rather than delegating greater powers to the individual services?

Jon Thompson: We have delegated military manpower planning and the budgets down to the three services, so you have the three services that generate military manpower and then the seven organisations that demand military manpower. The new employment model is an assessment of betterment across the services.

The house purchase initiative scheme was something we thought was for all service personnel and can be taken at a departmental level, but it is best for financial incentives for particular skills, which are partly to address voluntary outflow, to happen in the Navy, the Army or the Air Force because they know much more about it. The balance has shifted, and the Department has moved much more back to, "What are the big strategic issues?" while delegating as much as it can to the services.

Q51 Mr Brazier: Why are you making the Chief of the Air Staff pay the same level of gratuities as the Army and Navy? Instead of paying people with extremely expensive skills—almost all of whom can go to better-paid jobs tomorrow—extra money to leave in the same way as you would with an Army or Navy officer, where you may be compensating for

disadvantages when they move out, why not let him spend the money on retention bonuses?

Jon Thompson: We do allow the three services to consider financial incentives on a service-by-service basis, and they have to approach the Armed Forces' Pay Review Body to seek endorsement of those. We would not want the financial incentives scheme fundamentally to affect the rank-based pay system, which is essentially where we are.

Q52 Mr Brazier: Why not?

Jon Thompson: Because if it did fundamentally affect the rank-based pay system, we would need a different pay system. There are alternatives that could be considered. We currently pay by rank, but it is possible to conceive of a military pay system that rewards by skill or particular attributes rather than by rank as a primary driver. It is possible to consider that.

Q53 Mr Brazier: But you do not have to go the whole way on that. You could just say, "Okay, we will put the gratuity into a pot and you can spend it as you see fit." I think you would find that the Air Force would come to a very different conclusion from the other two services. Let me take the example you have just looked at. You have said you are pulling house purchase into the centre. Surely, one does not have to be an expert on the armed forces to see that the Navy, the bulk of whose families are settled, requires a different structure from quite large parts of the Army, whose families—even with the super-garrisons—will have to move. The vast majority of Army officers will continue to move every two years.

Jon Thompson: What we were trying to do with the house purchase initiative, which I genuinely think was a really good move on our part, was to try to treat all service personnel equally, so the offer is there for all service personnel. I do not see what the disadvantage of that is. It is an optional issue; people can take it up or not take it up.

Q54 Mr Brazier: We are talking about outflows here. Do you know when the last study was carried out by the APRE on the impact of house purchase on premature voluntary release? [*Interruption.*] Sorry, that is the Army personnel research establishment.

Jon Thompson: I don't know when that was, no.

Q55 Mr Brazier: You may know of a more recent one, but the one I have seen was from nearly 20 years ago, and I still have a copy of it. It showed that people who bought houses early on in their military service were more than 50% more likely to PVR in the subsequent few years.

Chair: PVR?

Mr Brazier: To leave early. Premature voluntary release. You bounced back with a question: you said that you could not see why they should need different approaches. If there is real evidence that it increases outflows in one service while it is clearly a retention aid in another, there is something to be said for saying it should be handled at service level, isn't there?

Jon Thompson: Sorry, I am trying to draw some distinction. There are some things that I think should happen to all military service personnel. The house purchase initiative scheme is something that I think all military personnel should be eligible for, and they are. That is a decision that can be made at the Defence Board level for all military personnel, but in general, I agree with your question. Financial incentives are best decided at the service level, and that is where they largely rest.

Q56 Mr Brazier: So the fact that accelerating house purchase for some elements of the armed forces may increase outflow, and that having a generous system of gratuities may for other elements of the armed forces increase outflow, is not a factor? Those things will remain determined centrally for reasons of doctrine that have nothing to do with value to the services.

Jon Thompson: I am sorry, but I do not really understand the worry that you have got. It may be that I am completely misunderstanding the point. Let me reiterate. There are some things that I think are best dealt with for all military personnel. We have a 1% payrise—

Q57 Mr Brazier: What are your criteria for that? What are your criteria for deciding what should be done centrally and what should be delegated?

Jon Thompson: Our presumption is that the services know best what skills they require, how they should fill operational pinch points and how they might address voluntary outflow. The presumption is that that largely rests in the services, but there are some issues which have to be

consistently applied: giving people the option on house purchase, a uniform pension scheme, a uniform pay rise and so on. Those are dealt with at a higher level. But the presumption about how to address individual pinch points, for example, which we reported on in the data, is that that is best dealt with by the Navy. If the Navy has concerns about nuclear submariner skills, they are best placed to consider it. That is for the Royal Navy—the Navy Board and the First Sea Lord. He has delegated power to do that, and he works with the armed forces pay review body.

Q58 Mr Brazier: Let us come to the question of harmony. The figures quoted for breach of harmony guidelines are very different between the services, but I put it to you that they are also completely irrelevant, because the three services have such different standards. Can it really be right that the different average numbers of days a year are acceptable? Let us put them all on a one-year basis so we can compare them directly. In the RAF it is 140, in the Army 166 and in the Navy 220. That is an absolutely colossal difference in what is regarded as fair for harmony purposes. You do not think that that should impact at all on how people are remunerated? It is a hugely different set of challenges that we have got between the three services.

Jon Thompson: I think it is perfectly possible to conceive of a system that would take harmony into account in how people are remunerated, yes. The question of the differences between what harmony is in the three services was considered in the SDSR in 2010, and it was decided that we would not change the current system and seek to—sorry—“harmonise” the three services into having the same measure. The decision was taken that there was a difference, so it was left. But your question remains a good one.

Q59 Mr Brazier: Let me ask a last question. I am genuinely not trying to be destructive—I am a great believer in trying to make things work—but I suggest to you that the work that has been done on the new employment models and the bits that are coming out would not be taken terribly seriously in a commercial organisation. It is not looking at what is in the best interest of the forces; it is all set on a rather woolly concept of what is fair, which is then very unevenly applied.

Jon Thompson: I am sorry, but I do not really agree with that statement. I think the new employment model is a rather good thing to explore. It is right that we should explore whether the Ministry of Defence can provide an offer to service personnel to increase home ownership. There is no compulsion on service personnel to take up that option, but it

is there. I do not see that there is anything wrong with that policy position. I do not think that there is anything wrong with it at all.

Q60 Mr Brazier: But my question is this. If this were a commercial organisation, the underlying question would be “How, for the money we’ve got available, do we ensure that we get the right people and retain them afterwards?” The series of answers you have given me indicate that in deciding what to hold centrally and what to devolve, that is not the criterion. Instead, the criterion is a more theoretical one based—sort of—on ideas of fairness, except where harmony is concerned.

Jon Thompson: I am defending our current pay policy because I think it is the right thing to do. I can conceive that you might want to argue that we should take the 1% pay pot that we have and apply it all to everyone in the Navy, but I don’t think that is what you are suggesting, is it?

Q61 Mr Brazier: No, it is not what I am suggesting.

Jon Thompson: Well, I am slightly lost as to what you think the problem is with the new employment model. It seems to me that the home purchase initiative scheme was a good thing, as is doing something about allowances so that military colleagues are really clear about them. There are way too many. There are hundreds and hundreds of allowances, and they need to be rationalised. It seems to me that how we charge for service accommodation, the standard of service accommodation and so on are things that we should explore, because we want to make sure that we have the right offer of accommodation for military personnel and their families, and it seems to me that we should look at lifelong learning and pay. Those all seem to be positive things for us to look at, to see whether we can improve our offer. I appreciate that you may have had some evidence on the new employment model that disagrees with me, but it seems to me that those five things were all definitely worth exploring.

Q62 Mr Brazier: Let me put one further point to you. Some of the ideas you have set out are good ones, and some have received endorsement from the Committee, but the fact remains that we have, at the moment, among the best-paid armed forces in the world—they are very nearly at the top, in terms of pay—yet in the depths of the worst recession since the Second World War, we are losing large numbers of our best people. That suggests to me that the structures we are developing do not meet the underlying criteria of best value. I have given a few

examples, and you have produced some examples, one or two of which I agree with—they are really good things—but overall it is not a construct that commands a lot of confidence.

Chair: I think a lot of people would be unhappy about the suggestion that we are in the depths of the worst recession since the Second World War.

Mr Brazier: No, we are coming out of one, but we have been losing people during it.

Chair: I thought we were on the sunlit uplands.

Mr Brazier: We are now, but the Permanent Under-Secretary's point at the beginning was that we were continuing to lose people, even in the depths of recession.

Jon Thompson: May I respond to the question about why people leave?

Chair: Please do.

Jon Thompson: Among the factors at play here is the fact that there is a national shortage of people with engineering skills, nuclear skills, nuclear regulatory skills, airworthiness skills, and so on. You may have trained for 20 years to be a nuclear submariner, and you understand how a nuclear reactor works in a confined space, but if you want to earn more, you are highly likely to leave the Royal Navy, because there is a national shortage, and the rise of the civil nuclear industry provides people with ready-made employment in which they can earn significantly more than they can with us. We can address that in some way through financial incentives. We have put in an allowance, for example, of £12,000 a year for people with certain nuclear skills, but even that may not be enough of a financial incentive to retain people. That is part of the reason why voluntary outflow remains at a high level—an uncomfortable level.

Q63 Mr Brazier: A last point, Chairman. Let us focus on that one specific example. If this was a commercial organisation, I strongly suspect, having been a very small part of an exercise in—forgive my saying it—an organisation much bigger than the British armed forces, one criteria would be that if people want to work within these skills, they will not get a gratuity at the point at which they leave the service, because everybody is aware that they are going to better paid jobs and they are acquiring valuable skills. That would provide you with an additional pot that you could use for an in-service bonus. One of our parliamentary

colleagues here was talking about this context a generation ago. That is the sort of thing that I suggest should be in the new employment model.

Jon Thompson: I am happy to look at that specific idea. I do not think that is one we have had a look at, but I can go and check.

Mr Brazier: Thank you.

Q64 Chair: I am afraid I did not hear the answer to the point that Julian Brazier made about the vast majority of officers moving every two years, even under the new employment model. Do you accept that that is likely to be the case?

Jon Thompson: No, I do not. Lord Levene covered this in his second annual report. We have to recall that Lord Levene was rather concerned about that issue and made a recommendation that we ought to think about longer postings, particularly for starred military officers. There is evidence, two years on, that postings are now longer than two years, on average, and our plan is to continue to make those tours longer.

Mr Brazier: The starred were a tiny proportion. That does not affect the overall point. Only a handful of people are starred.

Chair: Bob Stewart.

Q65 Bob Stewart: Changing the subject slightly, let us talk about the strategic business partner for the Defence Infrastructure Organisation. How will the Ministry of Defence and the armed forces generally benefit from the appointment of a strategic business partner for the Defence Infrastructure Organisation?

Jon Thompson: Well, primarily, we are attempting to do two things. One is to try to improve the service as much as we can, in terms of repairing buildings and maintaining the estate. The other is to try to reduce the cost of running the estate. In the world of having to make choices, if we can reduce the cost of running the estate, we do not have to take resources out of front-line military capabilities, so there are two drivers.

The introduction of the strategic business partner was done to give us the necessary capacity and capability to run what is probably the largest single property and asset estate in the United Kingdom. We own or control 1% of the total landmass of the UK. We sought the injection of private sector skills on how to manage such an enormous estate—how to manage what is 250,000 hotel beds—in a more professional way, and

how to improve the service while reducing costs. As the Secretary of State said when he announced it, we anticipate that by the time it is fully up and running, we could save as much as 10% of the budget, or some £300 million to £350 million a year.

Q66 Bob Stewart: 10% of the budget that you spend on infrastructure?

Jon Thompson: Correct, which is around £3.5 billion a year.

Q67 Bob Stewart: So £3.5 million.

Jon Thompson: We spend £3.5 billion.

Q68 Bob Stewart: 10% of £3.5 billion, so £350,000.

Jon Thompson: No, we currently spend £3.5 billion.

Bob Stewart: Goodness me; sorry.

Jon Thompson: We would expect to save around 10%

Bob Stewart: Excellent.

Jon Thompson: That money clearly helps to balance the budget without us removing military capability, which has to be a good thing.

Q69 Bob Stewart: Before I move on to the next point, what accountability arrangements will this organisation have? How are you going to keep an eye on these people?

Jon Thompson: We are creating something called the Defence Infrastructure Governing Authority, or the DIGA, as it has become known in the MOD.

Q70 Bob Stewart: What is it going to be called?

Jon Thompson: The Defence Infrastructure Governing Authority.

Q71 Bob Stewart: Can't it be simpler?

Jon Thompson: Possibly, yes. I am conscious of your questions last time about Denmark. It could be simpler, but we are commissioning this service and we need a commissioner of the services, which will be the Defence Infrastructure Governing Authority. The current director of the Defence Infrastructure Organisation has been the architect of the change and has led the strategic business partner competition. He will now come into the head office with Major General Ashmore, who does the strategic planning of the estate from a military perspective. They will come into the head office and become the governing authority for this, so that we know whether they are delivering against the contract that they sign.

Q72 Bob Stewart: By "head office", do you mean the Ministry of Defence?

Jon Thompson: I do mean the Ministry of Defence. On this particular occasion, yes. I mean the main building just down the road. What sits above that is the Defence Infrastructure Board, which includes all the top level budgets of the MOD, but in particular the services. It includes, for example, the Adjutant-General looking, from the perspective of Army personnel, at what property services are being delivered. Where we are with service family housing, for example, is a matter for the AG to represent on the Defence Infrastructure Board.

Q73 Bob Stewart: Going right to the top, who is in charge?

Jon Thompson: Under our management structure, the director responsible for this will work for the new director general of commissioning. You will be familiar with the fact that we are putting DE&S at arm's length. We already have a range of other services, such as the Defence Science and Technology Laboratory; we are bringing all of those arm's length bodies together under one new director general of commissioning services. It will fall within that plot, and he works for me.

Q74 Bob Stewart: So the buck stops with you in the end.

Jon Thompson: Yes, I guess.

Q75 Bob Stewart: I am conscious of time, because we are trying to get on with it, so let's just talk about DE&S as a new business partner. Where are you in your negotiations with the Treasury on setting up this new business partner?

Jon Thompson: Ministers have agreed all the necessary changes. The Chief Secretary and the Secretary of State for Defence have agreed all the changes. You will recall that when Mr Gray and I were here two or three weeks ago, we were talking about pay and flexibilities. We have now reached an agreement with the Treasury that gives DE&S pay freedoms within a financial envelope. We have also agreed the financial envelope, and Mr Williams can talk about that, if you wish. We have permission to set the organisation up from 1 April. From 1 April, there will be a bespoke training entity. It does have pay freedoms, and we have set the financial envelope for it. All of that is agreed. I am content with all that, and so is Mr Gray. It will be for Mr Gray and his new board to decide how to use those pay flexibilities to address the kinds of issues Mr Brazier has brought up on the civilian side. We have made massive progress.

Q76 Bob Stewart: So from the start of the next financial year you are in business and on track?

Jon Thompson: Yes.

Q77 Chair: Can I interrupt for a moment? Is the financial envelope you are talking about—the one within which the freedoms will exist—restricting and reducing over a period of time?

Jon Thompson: It is. We have had to commit to some financial efficiencies within that envelope. As Mr Gray and I explained at a previous hearing, the envelope is the cost of the staff in this area plus that of the outside technical support. That is about £400 million or thereabouts.

David Williams: The baseline for that op cost envelope for the next financial year is about £1.25 billion. We are setting Mr Gray a target of reducing that by around £200 million a year by 2017-18.

Jon Thompson: That's four years.

Q78 Chair: So the freedoms will not exist in 2019, is that right?

David Williams: No. We have simply looked at the op cost envelope four years ahead. There is no reason why we cannot extend that arrangement. He has the freedom within that op cost envelope to vary the balance of pay bill, bought-in private sector support and other operating costs, with the freedoms that we are negotiating.

Bob Stewart: Chairman, I have more questions, but with your permission, I am going to cut them, because we have a time problem. I will say that that is enough for the moment.

Q79 Mr Havard: One question Bob did not ask you was how you are improving the capabilities of the armed forces and front-line commands to participate in this activity. We are going to publish your reply anyway, but in the Government response there are all the details about various financial management systems and reform management projects and programmes and so on. I understand the description. My concern is that you say in it that one thing you want to do is have the mapping system, and so on. You describe how you are going to do it, but what you actually say is that it should be available in time to inform the SDSR—not that it is going to be, but that it should be. You also say that the project to develop it, which is with dstl and is crucial to all of that, is due in April 2014—that is next month—but is not yet agreed. The project to do it is not agreed, but it is going to be available—or should be, maybe. What is it?

Jon Thompson: It should be available for the SDSR in 2015.

Q80 Mr Havard: Are they agreeing it? Have they agreed the project to start next week, or the week after next, or whatever it is?

Jon Thompson: I am not familiar with the exact project.

Q81 Mr Havard: You say that the method of dealing with it involves dstl developing a system. That project is not yet confirmed, yet it is due to start in a fortnight's time.

David Williams: I think we are running together two issues here. The dstl project is around the further development of a corporate planning tool, the output of which is mainly used by staff working for me and Air Marshal Steve Hillier in the corporate capability planning and long-term financial planning area. It is a high-level tool whereby, put simply, you can plug in a budget number, you can give it some parameters and it will come up with a range of possible force structures that you can take into scenario-based modelling that allows you to test different force structure options at the SDSR corporate level.

Q82 Mr Havard: But these people need this level of support. They need this information, and they need financial information and the ability

to deal with it if you are going to devolve all of these things to them. You are saying that it should be available. Is it going to be available? That is my question.

David Williams: Well, I think this particular tool is not going to be a key plank of the delegation to front-line command or the way in which they develop their own capability planning approaches. That will be more in the detail of individual programmes and projects. We are putting a range of support in for them to develop the way in which they understand and set their requirements, building on the transfer of staff from head office that we have made over the past 12 months. We are helping them to build up their own commercial and financial capacity to act as an intelligent client to the beefed-up DE&S project teams. So it is about the difference, thinking about an Army force structure, in the number of deployable brigades that you might want and what you could do with four, five or six—

Q83 Mr Havard: Our concern is, unless you have this intelligent customer and these systems, then DE&S can be as efficient as it likes at buying things, but they are not being given the right things to buy, and there will still be a problem.

David Williams: It is absolutely right that we need to develop the intelligent customer in the front-line commands in parallel with the improvements in DE&S itself. It is just that the specific tool in the dstl example that you mentioned is not, in my mind, central to that customer development.

Q84 John Woodcock: When do you think you will fully understand the support costs, which make up over 50% of the equipment plan?

Jon Thompson: You answer that.

David Williams: Thank you, Permanent Secretary. We have a range of work in train at the moment. There are two main elements to this. There is the development of independent cost estimates by our own internal cost assurance and advisory service team, alongside a range of work that we invited McKinsey to help us with, looking at ways in which we can be a more demanding customer in the equipment support area.

The focus of the two strands of work is different but complementary. The CAAS work is looking at whether there are elements of risk or contingency provision that we should build into some of our equipment support budgets. On the whole, support of in-service

equipment is not as volatile as buying leading-edge new equipment. In those areas, I would expect the risk levels to be lower. But I think we will need to think about some provision for the support arrangements for new equipment just coming into service—A400M as an example.

John Woodcock: If I may say, that was a long and interesting answer. It gave no sense of time scale at all.

David Williams: Thank you.

Q85 John Woodcock: In a shorter way, is it fair to say that you don't know?

David Williams: The first cut of the CAAS independent cost estimates has been reviewed by us in the tail end of the planning round that is just concluding. We shared the first view of those data with the NAO in a session last week. It will inform our presentation of the ABC14 equipment plan and the NAO's assessment of that, which we expect to publish in the autumn of this year.

The McKinsey work, which is looking at major projects over a period of probably a couple of years, has—in its first phase—looked at Typhoon support, Tornado support and support arrangements for surface ships. The Tornado ATTAC contract amendment, which, if it has not been signed already, is about to be signed imminently. It has certainly been through my internal departmental approvals processes. Now we are moving on to look at a next tranche of projects.

Q86 John Woodcock: Presumably, Permanent Secretary, you fully accept the NAO's assessment that, until you fully understand the cost, the confidence in the overall plan that you can express is going to be limited.

Jon Thompson: I gave extensive evidence in the Public Accounts Committee. I think the one thing that the NAO is rather ignoring is that more than 90% of the equipment support plan is already on-contract. Therefore, the risk is significantly different than if you were building something new.

Q87 John Woodcock: So they are wrong?

Jon Thompson: I accept that the NAO will not be able to get to a substantial assurance until we have finished all that work.

Q88 John Woodcock: I think people will appreciate your frankness when you were talking about the 2010 SDSR and you said it was made without the necessary evidence. That is in some ways an historical document now. The Department's assessment—statement—that it has balanced the budget is current. You cannot possibly say you have balanced the budget if you do not have confidence in over 50% of the equipment plan.

Jon Thompson: No, I am sorry; I reject that completely. We can completely have confidence that the budget is balanced.

Q89 John Woodcock: But you don't know what the budget is.

Jon Thompson: The question is about the risk around that budget, not what the budget is. Broadly, the equipment support plan is half the equipment plan. More than 90% of that is on-contract, so you have certainty about those numbers, because you are currently paying the invoices and because you are on-contract. The question is whether you have an appropriate amount of risk provision for the remainder. We have set aside £4.7 billion worth of risk contingency, and our current estimate—at the last National Audit Office report—was that we required £4.3 billion of that.

The NAO said we should do further work on the equipment support plan, so the assessment may be slightly more, but I have £4.7 billion-worth of contingency. Let us assume that we have got this horribly wrong and that what I actually needed was £6 billion. There still remains more than £8 billion-worth of headroom that has not been allocated in the equipment plan, which could be allocated, and there remains a departmental unallocated provision of more than £2 billion, so you have still got £10 billion-worth of flexibility in the Ministry of Defence budget over the next 10 years that could in extremis be used to apply to that specific issue. It is all set out in the NAO's report. At the minute, all of the commitments that we have got—political or contractual—add up to less than the amount of funding we have; the budget is therefore balanced.

Q90 John Woodcock: So when you or the Secretary of State next make a claim that the budget is balanced, we need to be clear that we understand that in terms of a snapshot in time, because there is a level of uncertainty over the future risks of more than 50% of the programme. The NAO says—I am sure you know the quote—"Until it fully understands these costs and the risks associated with them the confidence it can express in the overall plan is limited." And yet you say it is balanced, but

it is balanced at this point in time, and we should not take that as an assessment of confidence in the future.

Jon Thompson: Well, let me just be really clear again. Unless we are suddenly going to discover that the equipment plan is going to cost us £10 billion more than we thought, which is not going to happen, that is the only plausible scenario in which the budget is not balanced, and that is not going to happen. It's just not.

Q91 Chair: So why, then, is the National Audit Office refusing to say that the budget is balanced?

Jon Thompson: Because we are only asking them about the equipment plan. The NAO's audit is restricted to the equipment plan. At the moment, what we have committed to, either contractually or in terms of ministerial announcements, adds up to just over £12 billion less on a 10-year basis than the amount of funding we have estimated we will have. There is a debate here about whether our £4.7 billion of contingency might or might not be enough, which is part of that £12 billion. So we have £8 billion of headroom and £4.7 billion worth of contingency. We have £12.7 billion of financial manoeuvre space. So if we were horribly out with the £4.7 billion of contingency, we have still got £8 billion of headroom. They are not asked to say whether it balances.

The NAO are asked to say whether we have sufficient confidence in the numbers. There remains some further work for us to do on the equipment support plan, and it is possible that that £4.7 billion of contingency is not sufficient. But let me restate: on the equipment support plan, if more than 90% of it is on-contract, you have some certainty. It is fundamentally different from the equipment plan where you are doing new things and where the cost basis therefore is somewhat more uncertain, and that work has all been completed. So I understand the NAO's point. We do need to finish it off, but it is not so fundamental that it would unbalance the budget.

Q92 John Woodcock: You said you haven't asked them to give an assessment on that, but the truth is that they have. Their assessment is quite different from yours.

Jon Thompson: No. I'm sorry; I don't accept that. The question of whether the MOD's budget—

Q93 John Woodcock: You say it is balanced, but they say you can't have the confidence to say that. It seems reasonably simple to me.

Jon Thompson: No, I'm sorry. We had this discussion at some length at the Public Accounts Committee. There has been no statement from the National Audit Office or the Public Accounts Committee that the Ministry of Defence's budget is not balanced. It remains balanced, and there is sufficient financial headroom within it to do everything we currently plan to do.

Q94 Chair: They haven't said it is not balanced, but they have refused to confirm that it is.

Jon Thompson: No, they have only been asked to confirm whether our equipment plan estimate is robust. There remains some uncertainty at the margin about the equipment support plan.

Q95 Mr Havard: My understanding is that they are essentially saying to you that there are huge risks in the process that could destabilise it.

Jon Thompson: No.

Q96 Mr Havard: Well, effectively, in my opinion, they are. They are saying to you that you have the equipment plan and the support plan, and they can go out of balance because you have enough contingency to cater for that balance. You might find that because you have to make £2 billion of savings and because things such as complex weapons and the upgrade of the submarines can go wrong, your equipment numbers may change. But, overall, the Ministry of Defence's budget would not be unbalanced because you could use the contingency money to balance the overall budget, even though the equipment budgets may go out of balance. Is that essentially what you are saying?

Jon Thompson: No, sorry. I am not saying that either. I reject the suggestion that we are running huge risks on the equipment support plan. I am sorry for being so clear and robust about this. The National Audit Office do not conclude that at all. The equipment support budget over the 10 years is broadly £160 billion—Mr Williams has the benefit of having the report in front of him—of which £152 billion is allocated against projects that are either on-contract or that Ministers have said will move towards a contract fairly shortly. In there is £4.7 billion worth of contingency. The National Audit Office are saying that £4.7 billion may not be enough. In

our assessment, which they saw last time, we thought that £4.3 billion was probably going to be enough, but we allocated £4.7 billion.

Q97 Mr Havard: Right. That is your assessment of the size of the risk.

Jon Thompson: Then I have £8 billion—the difference between £160 billion and £152 billion—worth of headroom to use.

Q98 Mr Havard: What other potential risk is there? Are you saying that there are no other potential risks beyond your £4.7 billion?

Jon Thompson: No, financial risks exist at three different levels. They exist within the project—so at the project level you can identify financial risks. You then have to come up to the portfolio level. If you think about all the interactions between us and BAE Systems, there are the levels of risk above individual projects at a portfolio level. Then you need to have some sense of the risks that exist at the organisational level. We have allocated money against all three of those levels, which I think is sufficient for all our financial risks. Therefore, it is balanced.

Q99 Mr Havard: We have got to go on, but we understand from the NAO that a lot of people were not able to quantify the risks when they were asked about them, so we will have to return to this issue when we go through the reply to your Government response.

Q100 Bob Stewart: There is an apparent overspend of £1.2 billion against the equipment plan. Is that correct, Mr Thompson?

Jon Thompson: I think you mean underspend.

Q101 Bob Stewart: Did I say over? I meant under. I am sorry. Is that a fact?

Jon Thompson: In the past financial year—2012-13—yes.

Q102 Bob Stewart: And before that we had a £3 billion underspend.

Jon Thompson: 2011-12 was under by more than £1 billion.

Q103 Bob Stewart: So it was another significant sum. Will the Ministry of Defence be able to retain that money?

Jon Thompson: Yes, we have struck a deal with the Treasury that allows us to roll forward underspends from the past two financial years into 2014-15 and 2015-16.

David Williams: Yes, elements of the 2012-13 underspend were rolled into 2013-14, but the remainder of the financial headroom in that year has been spread into 2014-15 and now into 2015-16.

Q104 Bob Stewart: This has not come from time slippage in programmes, has it?

David Williams: Within the equipment plan, the underspend is caused by a variety of reasons. There will be some projects where there has been slippage against at least our expectation of spend, not necessarily against project milestones, although as you can see from the major project report, our slippage performance has improved over the past reporting period. There will be elements where, genuinely, equipment has cost us less money than we thought. For example, in 2012-13, we took delivery of the last two Type-45 destroyers, off contract earlier than expected, which came at a reduced cost.

The element where it is difficult to give you an aggregate feel is because it plays into precisely those sort of risk judgments that we have been talking about at the programme and project level. Whether provision that has been made is not needed, whether that means that the risk will never crystallise, or that it has simply not crystallised yet but might hit later on, is quite a complex judgment and needs to be made in the first instance at the project level. So it is a combination of factors; it is not all slippage.

Q105 Bob Stewart: Returning you to the Chairman's original question, which started this investigation, we are now in a slightly different situation, with Russian submarines increasingly appearing off our northern shores, aircraft flying into our northern waters and a huge spend in the Russian fleet, while over the past two weeks we have watched the Americans, the New Zealanders and the Australians use maritime patrol aircraft to try and find the wreckage of an aircraft using Orion, for example, or possibly the P-8 Poseidon in the Americans' case. They are ready to go, and you have got an underspend here. We have a serious situation developing and we could use some of that underspend to plug

the one huge capability gap that this Committee has said exists in our defence capability at the moment, prior to the next SDR, whether it is in 2015 or 2016.

I know you will say, "We can't do it", but all I am doing, if nothing else, is planting the seed that we are required to do something and we actually could do something, because there is an off-the-shelf version, which is ready to go now. If nothing else, I plant the seed in your mind that you, as the Permanent Secretary, might be a convert to buy an aircraft prior to SDR '15 or '16. Do you have a comment?

Jon Thompson: Well, actually, I was not going to say that it is something that I would reject. It is certainly possible for us to believe that that capability should now be given somewhat more of a priority, but to do that is clearly a decision for Ministers to take.

Q106 Bob Stewart: But you would not be against it?

Jon Thompson: In principle, I have no objections to that. It is definitely something that needs to be revisited.

Q107 Bob Stewart: And we have the money?

Jon Thompson: We do have some money. We have allocated something else.

David Williams: Let me be a bit more cautious. In a way that is helpful in capability terms, we have actually been able to reallocate the underspend that we will have carried forward over this and the next couple of years to emerging areas of capability priority, particularly in the joint enablers environment and in C4ISR capabilities. The problem I think with looking to buy a whole new platform off the shelf quickly is that, unless you have got the crewing, training and infrastructure arrangements, you are buying yourself into a long-term bill. I cannot be confident that I will be underspending every year to pay for that.

Q108 Bob Stewart: I hear you, but we also have the trained guys. Here is our problem—and I will shut up after this, Mr Chairman—we are responsible by treaty for up to 1,400 nautical miles in the North Atlantic. We can actually do it not very well with helicopters out to 240 nautical miles. An answer that I received from the Defence Secretary was that we have got other aircraft that can do it, but in fairness we haven't; we have a big gap. What would happen if an aircraft went down in the Atlantic and

we did not know where it was, and it was out at 800 nautical miles? Would we really have to ask the French, the Portuguese and the Spanish to send out a maritime patrol aircraft to try to locate one of the aircrafts for which we have responsibility, in a treaty area for which we have oversight responsibility? I know that you are going to tell me—

Chair: No, we don't know what he will tell us. Would you care to answer the question, Jon?

Jon Thompson: I am happy for Mr Stewart to answer the question for me.

Q109 Bob Stewart: I am hoping that you are going to say yes.

Jon Thompson: Yes, we would get the French to do it. That is not the answer that you wanted. I could not answer that question off the cuff. I would ask Air Marshal Hillier, who has appeared before, what the options would be in tackling the problem. I could not answer your question off the cuff, sorry.

Q110 Chair: Can I ask you one question about the underspend? Is there a risk, as we move towards general election paralysis, that it will be difficult to spend the money?

Mr Havard: Buy now while stocks last.

David Williams: We clearly need to be careful about how we sequence major investment decisions, particularly in the months immediately before the next election.

Q111 Chair: That is all I wanted to hear you say.

Jon Thompson: The straightforward answer to your question is that, yes, there is a risk in 2015-16.

Q112 Chair: So long as you can guard against it. Bringing urgent operational requirements into core will cost £2.9 billion, we are told, yet you have only allocated £370 million to it. Where is the rest of the money going to come from? Why do you say that it is £2.9 billion for the recuperation, maintenance and support costs going forward?

David Williams: The £2.9 billion was our first estimate of the full cost of bringing the full range of UORs into service—not simply bringing

them back from Afghanistan and parking them up or storing them, but fully integrating them into our force structure and using them in peacetime training.

Q113 Chair: So that was the first estimate. You are going to have to cut your answers down.

David Williams: That was a 10-year cost. We have allocated more than half a billion towards this over the previous two planning rounds, which is an increase on the figure in the NAO report. We put some more money in with the last planning round.

Q114 Chair: What is it now?

David Williams: It is now £500 million, or £600 million that we have allocated to commands over the next three to four years. We will look to them under the delegated model to assist the relative priority of fully using UOR equipment set against other things that they might spend their budget on. If I think about the Army in particular and the range of investment we have made in protected mobility vehicles, there is a trade for the Army to consider in how it takes forward its utility vehicle programme and spends money on a new vehicle set against the vehicles bought for the Army under UOR processes. In the delegated model in the first instance, that is for the Army to assess.

Q115 Chair: You still allocated only one sixth of the total cost of the recuperation, maintenance and support costs.

David Williams: Well, the £2.9 billion was a 10-year figure and the £600 million that we have allocated is a four-year figure, so we are probably at 40% of the cost. That is a central contribution, and we are inviting commands to prioritise the rest, if that is how they want to use it. There is choice about how far the equipments are fully integrated into the training system or whether they are kept ready to go next time, but not used on a day-to-basis in peacetime training.

Q116 Mr Gray: Regional piloted air systems, or whatever they are now called—

Chair: Remotely piloted.

Q117 Mr Gray: They are all UORs, aren't they?

David Williams: The purchase of the Reaper Predator aircraft was, and we have a plan to bring those into core.

Q118 Mr Gray: So where has the money come from if you have gone back into the mainstream budget? If it came from the UOR budget, how will we pay for them in future?

David Williams: We have allocated some funding to keep the current air vehicles going, and we are running a project to consider the medium-term replacement for those air vehicles. We have been looking at either a further purchase of Reaper, or some collaborative programme with international partners. Our planning assumption at the moment is more heavily geared towards the former.

Q119 Chair: We asked you lots of questions on that in our report that came out today. It is a bit unfair to ask you to answer two months early, but we will want some answers to those questions at the appropriate time.

Q120 Ms Stuart: On the civilian work force, to change the subject, does the Defence Board consider the reduction in the civilian work force to amount to a strategic risk?

Jon Thompson: The straightforward answer is yes. The board does consider the reduction in the civilian work force to be a strategic risk. It has been reduced fairly significantly over the course of this Parliament. We must make sure we get the right people with the right skills, the same as we do on the military side. The straightforward answer is yes, it remains a strategic issue for us.

Q121 Ms Stuart: What do you think the ultimate size of the civilian work force will be? What are you aiming for?

Jon Thompson: It is quite difficult to give you an answer to that, because we have made some assumptions that we would reduce to 54,000 in 2020 from 86,000 in 2010. If you want me to give you a hard figure, it would be that current plans assume a reduction of 32,000 over the 10 years, but it will clearly be steeper in the lifetime of this Parliament than in other years. However, we have made some assumptions that it

will continue to reduce more gently. We are down by 22,000 so far, so we are down from 86,000 to 64,000, but we think that will continue on.

Q122 Ms Stuart: That is quite a steep cut, and at the same time the size of the contingent staff has gone up by 50%.

Jon Thompson: Yes. The size of contingent staff has gone up. I think I have given evidence here on this before, but the effect of budget reduction in the Ministry of Defence in the lifetime of this Parliament is 20%. There was the 10% overhang—Dr Fox’s so-called black hole, which amounted to 10%. That was 10% over the budget, if you like, and then the budget itself was reduced by 10%. We therefore had to reduce costs by 20%. It is not surprising, therefore, that the civilian work force has reduced slightly more.

Q123 Ms Stuart: What is the size of the contingent staff at the moment?

Jon Thompson: I have those data somewhere in my pack, if you want me to give them to you.

Q124 Ms Stuart: Just roughly. Given that the civilian staff have been cut by 22,000, what have the contingency staff gone up by—500, 1,000 or 5,000?

Jon Thompson: It is definitely going to be in the hundreds, for sure.

Q125 Ms Stuart: It is going to be in the hundreds, and not in the thousands?

Jon Thompson: I cannot give a definite figure—I am happy to write—but it is definitely going to be in the hundreds. As the Institute for Government said, we are currently going through the largest change programme in western Europe, so there is a significant amount of fluctuation. We need some specialist skills and some short-term skills, but the overall level remains higher than I feel comfortable with, so I would like to get that down. Part of the reforms of DE&S are to shift the balance between contingent labour and employed staff, and that is one of the reasons why DE&S launched a recruitment campaign for some 1,400 staff in 2013. I am sorry, I do not have the numbers to hand.

Q126 Ms Stuart: No, it is okay. Given those kinds of very clear, severe cuts in the civilian staff, do you think that there has been an impact on the front-line capabilities of the MOD? Could an argument be made that those cuts have gone too deep and have actually affected the effectiveness of the armed forces?

Jon Thompson: I think we have managed to achieve the reductions through a number of different measures. Is it too much or not? Well, that is a matter of judgment. Does it affect our outputs or not? Well, we all have to be transparent about this. There have been some reductions in the Ministry of Defence's total outputs in order to reduce spending by 20%.

Q127 Ms Stuart: If you are cutting by 20%, either you have been overseeing an enormously inefficient Department that can take a 20% cut with no impact—if that is what you are telling me, it is fine—or, as I assume, you think that you have run a pretty tight ship. That means that the 20% must have an impact on front-line capabilities. What is your assessment of that impact?

Jon Thompson: I am not sure I have been overseeing the Department for very long, and for those 18 months we have been on a downward trajectory. It is a mixture of things, isn't it?

Q128 Ms Stuart: You cannot just say 18 months; you know there is continuity in the position that you hold. You are the current guy in charge, so give me your view.

Jon Thompson: Sure, but I'm not going to defend the fact that, to some degree, the Ministry of Defence was an inefficient organisation, otherwise you wouldn't have launched one of the biggest change and efficiency programmes that has ever been seen. I am not going to deny that.

Q129 Ms Stuart: So your answer is that the 20% cut dealt with inefficiencies and therefore did not disproportionately cut front-line capabilities?

Jon Thompson: No. Let me be really clear. The reduction in personnel, military and otherwise, is a combination of things. We are trying to be more efficient, we are trying to do things in a different way

and we have some lower outputs. It is a combination of those things, and it is quite difficult to split them.

Q130 John Woodcock: What did you do in the past that you are not doing now? What are your lower outputs?

Jon Thompson: The military answer to that question is transparent. We withdrew the Harrier from service in 2010 and we withdrew the aircraft carriers, and so on. There are some military reductions. A purely civilian answer is possibly a little dull, but our statistical output, for example, has reduced because we have fewer people. We have been really clear about prioritising; so for example some statistics that we used to put out weekly we now put out monthly, which requires fewer people.

Q131 John Woodcock: What else? Is it only statistics?

Jon Thompson: No.

Q132 John Woodcock: So what else?

Jon Thompson: For example, some of it occurs because we have closed bases, so we need fewer people. If you want me to give a longer answer on where we are being more efficient, I can do that.

Q133 John Woodcock: My concern is simply that, when I asked for examples, you gave me an answer about statistics and said that there are other examples. My suspicion is that those other examples may be of more interest to the Committee. Maybe that isn't the case; you tell me.

Jon Thompson: It is difficult to sit here and set out how exactly we will save more than £80 billion for the taxpayer over 10 years. I am being clear that there are plenty of examples, which are public, of reductions and withdrawals of various capabilities from service. There is a reduction in military personnel, and there is a reduction in service personnel. If you have 20% fewer military colleagues over 10 years, you need fewer bases, and therefore you need fewer service personnel. So you have a reduction of outputs and there are some efficiency measures; it is a combination of things. If your real questions are whether we have enough people, whether it is a bit fragile and whether we are going quite quickly, those questions could all definitely be debated.

Q134 John Woodcock: Yes, I understand that, and I will close. You raise, absolutely rightly, the scale of the challenge. The Committee, Parliament and the public need to understand the gravity of what is happening to the Department and to our defence capability. The more open you can be about the things that we were doing that we can no longer do because of reductions, whether they are inevitable or not, the better for us.

Jon Thompson: Well, I can certainly give that some thought and give you a written answer.

John Woodcock: Sure. That would be helpful.

Chair: I think your approach, if I may diffidently say so, is one of openness, and we appreciate that.

Q135 Derek Twigg: Why do you think there is low confidence among civilian staff in the leadership of the MOD?

Jon Thompson: This is a long-standing issue, to be up front about it. The "Your Say" annual civilian staff survey was on a downward trajectory for the four years up to 2012. One of the big pushes I have tried to make as the Permanent Secretary is to be much more transparent: to be more open, to communicate a lot more, to do a significant number of staff events and to encourage all of the senior civil service to do that. In 2013, we saw a 17% increase in participation rates and a 2% increase in the engagement score.

Q136 Derek Twigg: Wasn't it a 13% increase?

Jon Thompson: It was a 17% increase, I think, in the participation rate and 2% in the overall engagement score. On leadership and change it went up by 4%, but in absolute terms it is still very low, and my challenge is to be more transparent within the organisation about what we are doing and why we are doing it, and to engage people more. I cannot do that on my own; it is for all members of the senior civil service to go out and do that and talk to their people—

Q137 Derek Twigg: My question is: why is it so low? You did start off by saying it had been low for a while, but it would be useful to know, in your opinion, the answer to that specific question. What has gone wrong?

Jon Thompson: We did some focus group work on why it is so low—I think it is something like 27%. Actually, when you sit down and talk to people, they all have rather good stories about a change that has gone wrong. I think that the age of the average civilian in the Ministry of Defence is 49 and the majority of them will have worked there a long time. That the average age is 49 surprised me—I am bang on the average.

Many of the people have worked at the Ministry of Defence for a long time, so they are very committed. One of the scores that we get that is very positive, with more than 90% endorsement, is for what we are about, but they have all got a story about some past change programme that went wrong and that plays into how they assess the management and leadership of change. I think it will take some time to turn that one around and make it more positive, because there is a lot of history with a lot of people about the change programmes that we have been on that have gone wrong in the past.

Q138 Derek Twigg: So it is down to their age.

Jon Thompson: No, it is down to their memory of what has happened in the past, which has not gone very well.

Q139 Derek Twigg: Memory and history, then.

Jon Thompson: Yes. If you sit and talk to people, a lot of it is—

Q140 Derek Twigg: So it is not to do with the leadership in the Department.

Jon Thompson: No, I am not denying that—

Q141 Derek Twigg: It is quite interesting, because if you look at the survey, “I feel that MoD as a whole is managed well” gets 24%. Where it says, “Overall, I have confidence in the decisions made by MoD senior managers and leaders”, you get 22%; and it goes on: “I feel that change is well managed in the MoD” gets 14%. The interesting thing is that those scores are all significantly lower than in the rest of the civil service. It is not just that they are low generally, but that they are lower than the rest of the civil service.

Jon Thompson: What I am trying to put forward to you is the context. If for four years in a row it goes down, then in October 2013 we at least saw a reversal of that for the first time in five years and every indicator is slightly up, at least what we are trying to do is beginning to make a little bit of impact. But I am absolutely not denying that significantly more needs to take place. All members of the senior civil service need to lead people, explain to them, be transparent, communicate and listen to their concerns for people to understand what the change programme is. I am not denying that; I understand your point.

Q142 Derek Twigg: So you accept that an important change needs to be made in leadership and the way the place is managed.

Jon Thompson: Sure.

Q143 Derek Twigg: As part of that, it was interesting that, for “I think it is safe to challenge the way that things are done in the MoD”, only 33% said that that was the case, and only 23% said: “I have the opportunity to contribute my views before decisions are made that affect me.” As you said, there has been a little improvement in that, but that is a very low figure. Does that not suggest that there is a culture of the management somehow keeping things close to themselves and not involving staff or not giving them the confidence to come and give their views on improving things? Isn't there is a problem with culture?

Jon Thompson: Yes, I would say that there was a problem with the culture, for sure. That is why you get four years of decline. To be really up front with you, I have gone a very long way in trying to shift the nature of the role of Permanent Secretary to be more like the chief executive of the Ministry of Defence, if you like. On average, I do three staff engagements a week—I was in Shrivenham all day last Thursday—to engage people, listen to them, reflect their views, explain and be very open. When I started as Permanent Secretary in September 2012, I launched a weekly blog: 80,000 people a week read it. Around 500 people respond to it every week on an interactive blog site. Everyone can e-mail me—I am trying to be as open as I can as much as I can in order to try to explain what we are doing and reflect on people's concerns, and sometimes change our policy.

All I can do is try to do something about my leadership of the Ministry of Defence. I have taken my senior civil service colleagues with me, and they are all up for that. They have had significant additional personal support to do this, because it is incumbent on senior members of the civil service to lead, not just to be subject matter experts. I accept

your point that the numbers are too low. I am simply trying to say that we accept your point completely and we are trying to do something about that—we have been for about two months.

Q144 Derek Twigg: But do you accept that, for instance, only 29% say that they believe that the actions of senior managers and leaders are consistent with MOD values?

Jon Thompson: Yes.

Q145 Derek Twigg: So it is quite a deep-seated problem, isn't it?

Jon Thompson: Yes.

Q146 Derek Twigg: How long do you think it is going to take to sort it out?

Jon Thompson: I can't honestly answer that question. All I can try to do is make it better. I am suggesting to you that there is at least some initial evidence that it is better, that we recognise the problem and that we are trying to do something about that. When I started, there were 51 directors in the senior civil service. There are now 45. That is six fewer, but the actual churn is that 16 people have left because, in the end, it seems to me that it is incumbent on directors to lead their people. If they are not prepared to engage on your question and with the people they need, I do not think that they are the kind of people that the Ministry of Defence should employ as senior civil servants.

Q147 Derek Twigg: People shouldn't be worried about being able to challenge things that are being done in the MOD?

Jon Thompson: No.

Derek Twigg: Clearly, there is a worry.

Jon Thompson: People should not be afraid to challenge it. As I said, I stood up in front of 200 band Bs and did an open Q and A session last Thursday for two hours. I had no idea what they were going to ask me; they were perfectly able to challenge me, and they did. Topics were hotly debated. I am completely fine with that—I think that that is the sign of a good culture in the organisation. I am not sure whether my predecessors did that, but I am certainly committed to it.

Q148 Derek Twigg: You should be drilling down into the various parts of the department where the figures were particularly bad.

Jon Thompson: Yes, one of the groups that we—

Q149 Derek Twigg: So you are going to be doing that—you will be drilling down?

Jon Thompson: Yes, we can do it at deputy director level. We can rank, as it were, deputy directors to say, “These people are performing well and getting high scores; these people are not performing so well. How does one learn from the other, or how do we support the people who are not doing so well?” We can do that. We have done that analysis and given people targeted help to try to improve this issue. I am with you that it is a concern, and we are trying to do something about it.

Q150 John Woodcock: Just to return to the subject that we started on, the Crimea, it is possibly my confusion, but if you could clear it up that would be great. To your knowledge, have Ministers requested up-to-date advice on meeting our international obligations in the light of recent events in the Crimea?

Jon Thompson: I cannot answer the question on that particular point. If you need me to give you an answer swiftly, I am happy to commit to doing so.

Q151 John Woodcock: If you could, that would be great.

Just as a final follow-on, we recognise that there is an internal staffing issue taking up a lot of your time, which legally you do not feel you can talk about currently.

Jon Thompson: Yes.

John Woodcock: Do you think that it is acceptable that you cannot answer the Committee’s question, given the gravity of the current situation in Crimea?

Jon Thompson: My view is that the implementation of the National Security Council by this Government was definitely a good invention. What sits underneath that is the National Security Council for officials. There is one seat available at that meeting, and it seemed to me better for Mr McKane—who is the subject matter expert, is deeply rooted in this

area, was previously the director general of strategy and is now director general of security policy, and who leads on such matters—to attend. That was my judgment.

Q152 John Woodcock: But you could still have been able to come here and answer the question?

Jon Thompson: I could have done if I had thought that that was what you were going to try to ask me about. I have been very transparent with the Committee about where I am and that my judgment was that a very experienced director general was the best person to attend that meeting and give that advice to the Secretary of State. That is my take on it. You can query my judgment, but that is what it was.

Chair: You have been open with us and we appreciate that. We will now draw this evidence session to an end. To those members of the advanced strategic leadership studies programme who have enjoyed—or not—this meeting, please stay behind because we would very much like to meet you and chat with you.