



Defence Reform

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Alongside the Strategic Defence and Security Review (SDSR), the government also announced in summer 2010 that it would conduct a full organisational review of the Ministry of Defence. There would be two themes to this review: structural reform which would see the MOD reorganised into three pillars: Strategy and Policy, Armed Forces, and Procurement and Estates; and a cultural shift towards a leaner and less centralised organisation combined with devolved processes which carry greater accountability and transparency.

To oversee implementation, a Defence Reform Unit was established within the MOD to help plan and execute any structural/organisational changes. Lord Levene was appointed Chairman of the Steering Group, comprising internal and external experts, which would also be supported by a civil service implementation team. The [Independent Report into the Structure and Management of the Ministry of Defence](#) was subsequently published on 27 June 2011.

The report has identified 53 recommendations in total on the reorganisation of the MOD. Among its key recommendations are the restructuring of the Defence Board which should be responsible for the strategic direction of defence policy; the Service Chiefs should be empowered to run their individual Services more effectively, and as part of a much clearer framework of financial accountability and control; MOD Head Office should be smaller and more strategic in its role; a new 4-star led Joint Forces Command should be established to strengthen the focus on the development of joint enablers and joint warfare development; while all non-front line posts across defence, beginning at the senior and management levels, should be reviewed in order to move away from the current 'top heavy' structure within the MOD.

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1 Background

Since 1946 successive governments have published the outcome of four independent reviews into the *Central Organisation for Defence*. Outside any wholesale review of defence policy and the structure of the Armed Forces, those reports focused solely on recommendations for change to the organisational structure and management of defence. The first of those reviews was in 1946 and was intended to encompass the lessons learnt during the Second World War (Cm 6923). The second was in 1958 following the Sandys Review (Cm 476). The third was in 1963 and one of its main recommendations was the establishment of a unified Ministry of Defence which would absorb the individual Service Ministries (Cm 2097). The final review was in 1984 (Cm 9315).

Alongside the Strategic Defence and Security Review (SDSR), the government also announced in summer 2010 that it would conduct a full organisational review of the Ministry of Defence. There would be two themes to this review: structural reform which would see the MOD reorganised into three pillars: Strategy and Policy, Armed Forces, and Procurement and Estates; and a cultural shift towards a leaner and less centralised organisation combined with devolved processes which carry greater accountability and transparency.

Therefore, the scope of the Defence Reform review was expected to be wide ranging and examine, in detail, all major areas of defence: policy, strategy and finance; non-front line elements of the Armed Forces; defence acquisition and support; and commercial, estates and corporate services. The Defence Reform Unit was also tasked with examining options for devolving greater responsibility for the running of the Services themselves, including an assessment of whether the current Senior Rank structure across the Services is appropriate for a post-SDSR world.

To oversee implementation, a Defence Reform Unit was established within the MOD to help plan and execute any structural/organisational changes. Lord Levene was appointed Chairman of the Steering Group, comprising internal and external experts, which would also

be supported by a civil service implementation team.¹ The inaugural meeting of the Steering Group was held on 6 September 2010 with a view to completion of a blueprint for reform by the end of July 2011.

The [Independent Report into the Structure and Management of the Ministry of Defence](#) was subsequently published on 27 June 2011.

2 Main Conclusions and Recommendations

Announcing the publication of the report to Parliament, the Secretary of State summarised the overarching proposal of the Steering Group:

Lord Levene's steering group proposes a new, simpler and more cost-effective model for departmental management, with a clear allocation of responsibility, authority and accountability. That will build on the strengths of the individual services within a single defence framework that ensures that the whole is more than the sum of its parts.²

That objective will be underpinned by a number of core themes, including aligning authority with responsibility, strengthening decision making and accountability, and ensuring that affordability is recognised and owned at all levels across the Department.

In order to achieve that vision, the report has identified 53 recommendations in total on the reorganisation of the MOD. Some of those recommendations have already been implemented by the MOD and are noted below.

The key recommendations are as follows:

i. The Defence Board

The strategic direction of defence policy should be determined by Ministers, with the support of the Permanent under Secretary (PUS) and the Chief of the Defence Staff (CDS) and a smaller, more integrated Head Office. That function should be undertaken primarily through the Defence Board, which is currently the highest non-ministerial committee in the MOD responsible for senior level leadership and strategic management across the full range of defence business.

That Board should therefore be restructured. It should be smaller (reduced from 12 members to 9) and based around the Secretary of State for Defence who would chair the Board. The Secretary of State would be supported by the Permanent under Secretary and the Chief of the Defence Staff, who would also represent the views of the single Service Chiefs who would no longer sit on the Board. The Board would subsequently comprise:

- Secretary of State (Chair)
- An additional Minister

¹ The Defence reform steering group comprises Lord Levene, Ursula Brennan (the new Parliamentary under Secretary at the MOD), General Sir Nicholas Houghton (Vice Chief of the Defence Staff), Baroness Noakes, George Iacobescu (Chief Executive of the Canary Wharf Group), Raymond McKeeve (a partner in law firm Berwin Leighton Paisner), Björn Conway (Head of Aerospace, Defence, Security and Resilience at Ernst & Young), Dr David Allen (a non-executive Director at the MOD) and Gerry Grimstone (Chairman of Standard Life and Candover Investments plc).

² HC Deb 27 June 2011, c634

- Permanent under Secretary
- Chief of Defence Staff
- Director General Finance
- Chief of Defence Materiel
- Three Non-Executive Directors.

Formal sub-committees to the Board should be established to conduct investment approvals (Investment Approvals Committee), audit (Defence Audit Committee) and to oversee the career management system for senior personnel (Appointments Committee).

The existing Chiefs of Staff Committee,³ which reports directly to the CDS, should remain; while the membership of the Defence Council should be updated to reflect the changes to the Defence Board.⁴

The intention of this restructure is to strengthen top-level decision making and allow the Defence Board to be better at taking difficult resource allocation decisions, while also monitoring the delivery of outputs. In his report Lord Levene notes:

As part of the quinquennial SDSR, they [the Defence Board] should set strategic direction on the military capabilities the country needs and on the types of operations the Armed Forces should undertake, and provide the overall corporate framework.⁵

The Board will meet ten times a year. In his statement to Parliament the Secretary of State revealed that the Board in its new configuration had already been established and had already held its first meeting.

The structure of the Defence Board, prior to the Levene report, is outlined in Appendix One.

ii. The Service Chiefs

The Service Chiefs 'direct' role in departmental strategy, resource allocation and defence management should be reduced, although they should continue to provide operational advice to CDS, and Ministers when required, on their respective Services. Therefore the Service Chiefs would no longer sit on the Defence Board, but would be empowered to run their individual Services more effectively, and as part of a much clearer framework of financial accountability and control. Under the new model, the Service Chiefs would receive clearer strategic direction from the Defence Board, carry out the detailed military capability planning required across equipment, manpower and training, and then propose how best to deliver that strategic direction through the provision of an annual Command Plan. The Service chiefs would continue as Top Level Budget Holders for their Service and PUS would hold them to account for delivering objectives within their delegated budgets, on at least a quarterly basis.

³ The Chiefs of Staff Committee comprises the Vice Chief of the Defence Staff, Chief of the Naval Staff, Chief of the General Staff, Chief of the Air Staff, 2nd Permanent Secretary, Chief Scientific Adviser, Chief of Defence Materiel and Director General Finance.

⁴ The Defence Council is the senior Departmental committee and provides the formal legal basis for conduct of defence in the UK. The membership of the Defence Council has in the past reflected the membership of the Defence Board, minus the non-executives, along with Ministers.

⁵ *Defence Reform*, June 2011, p.17

The intention is then to allow the Service chiefs greater freedom to shift priorities within their own Service in order to deliver what is needed. Following approval of the Command Plans they would set the equipment requirement and budget for Defence Equipment & Support (DE&S) and set out their infrastructure requirements for delivery by the Defence Infrastructure organisation (see below). They would also provide force elements as required to the Permanent Joint Headquarters (PJHQ).

In line with current constitutional convention, the Service Chiefs would still retain direct access to the Prime Minister.⁶

Given these changes, the requirement for the 4 star⁷ posts of Commander-in-Chief of each of the Services is subsequently reduced. Therefore, those posts should be phased out as part of the general reduction in senior posts. The ability of the Service Chiefs to delegate aspects of the running of their respective Commands should be achieved through the existing 3 star structure. In addition, the principal supporting staff of the Service Chiefs should be based at their respective Command HQ, with a much reduced staff, headed at 2 star level, based in Head Office.

The Service Boards (The Admiralty Board, the Army Board and the Air Force Board), which are chaired by the Secretary of State and are responsible for the administration and monitoring of the performance of the individual Services, should continue to sit as sub-committees of the Defence Council on an annual basis. This would allow the Service Chiefs to continue to report directly to the Secretary of State.

iii. Strengthening Individual Accountability of Senior Personnel

The Levene report sets out two key recommendations:

- That the number and responsibilities of Ministers should be reviewed in order to align ministerial responsibilities with the MOD's core departmental functions.
- That the roles and responsibilities of the Permanent under Secretary and the Chief of the Defence Staff, including the areas in which they have lead responsibility, should be clarified. PUS and CDS should be jointly responsible for strategy and should chair a new strategy group to support them in delivering this function.

As outlined above, the report recommends that CDS should continue to convene the Chiefs of Staff Committee to both support him in his operational responsibilities, and inform him so that he can represent the views of the Armed Forces on the new Defence Board.

iv. Streamlining Head Office

In order to support the changes to top level decision making and adopt a stronger corporate framework within the Department, MOD Main Building should be smaller and more strategic in its role, leaving the Service Chiefs to manage their own services. Therefore:

- The posts of Vice Chief of the Defence Staff (VCDS) and 2nd Permanent under Secretary of State (2nd PUS) should remain in order to support the expanding roles of the CDS and PUS. VCDS should support CDS in both his operational role and his

⁶ This right was formalised in the 1984 report, *The Central Organisation of Defence*, Cm 9315, Session 1983-84

⁷ See Appendix Three for an explanation of the military ranking structure.

increased role as the single military adviser on the new Defence Board; while 2nd PUS should deputise for PUS, act as head of profession for MOD civil servants, oversee corporate support services, infrastructure and science and technology, and act as the Chief Operating Officer for corporate business.

- The 3 star/Director General structure⁸ should be revised to reflect the new business model. At its core should be four posts responsible for policy, military strategy, finance and capability. This change should enable the reduction of at least one or two 3 star posts. The Chief Scientific Adviser, who is currently a 4 star, should become a 3 star post, in line with practice in other Government departments. The Department should also consider whether the Chief of Defence Intelligence and the Director General Human Resources and Corporate Service posts continue to merit a 3 star ranking given the changes to their responsibilities envisaged by the transfer of intelligence delivery assets to the new Joint Forces Command and the transfer of the People Pay and Pensions Agency to the new Defence Business Services organisation, respectively (see below).
- The post of the Surgeon General and some of the training functions of the Deputy Chief of the Defence Staff (Personnel & Training) should transfer out of Head Office to the Joint Forces Command. However, policy relating to terms and conditions of service and pay should continue to be controlled by Head Office.
- As outlined above, the principal supporting staff of the Service Chiefs should be based at their respective Command HQ, with a much reduced staff, headed at 2 star level, based in Head Office.
- Head Office should produce a Defence Strategy, with the same frequency as the National Security Strategy and Strategic Defence and Security Review. This document should be agreed and managed by the Defence Board and be the single authoritative document for setting out strategic direction to the Department in the longer term. The Defence Engagement Strategy, which is currently being formulated, should form a core part of that broader Defence Strategy.
- A team, or teams, should be established within Head Office to support the Defence Board in planning and resource allocation. That team should be significantly smaller than the current equivalents that are spread across the capability, strategy and finance areas of the Department. Much of the current Deputy Chief of the Defence Staff (Capability) function should transfer to the relevant command.
- Progress in implementing these changes should be evaluated after two years. The proposed role and structure of Head office, and specifically the requirement role and seniority of 2nd PUS and VCDS should be at the centre of that evaluation.
- Enabling functions and services should be delivered as efficiently and effectively as possible. During its work on the defence reform report the Steering Group recommended in early 2011 that two new organisations should be established within the Department to rationalise the corporate services that are currently undertaken within each separate Top Level Budget: Defence Business Services (DBS) and the Defence Infrastructure Organisation (DIO).

⁸ See Appendix Three for an explanation of the military ranking structure.

The DIO, which replaces the Defence Estates organisation and was formally established on 1 April 2011, will take responsibility for all defence infrastructure delivery,⁹ will be given all infrastructure funding and be responsible for coordinating the Services' and other TLB's needs into an affordable infrastructure programme. A new Defence Infrastructure Board, which will be chaired by an independent person with property expertise, will direct the work of the DIO. The amalgamation of defence infrastructure-related posts and funding is expected to result in a significant reduction in the number of MOD non-industrial and military posts (approximately 2,500) involved in the management of the defence estate over the next three years. The Levene report also notes for the future, that there is scope for the DIO to take on responsibility for other estate-related functions, such as guarding which is currently provided by the MOD Police and Guarding Agency.

Defence Business Services will be responsible for delivering transactional and other services in the fields of civilian HR, finance, some elements of information and commercial services, and at a later date will also be responsible for security vetting and military HR. This rationalisation is expected to result in the reduction of approximately 2,000 posts by 2014 and a cost saving of £73m per annum by 2014.¹⁰

v. Joint Forces Command

A new 4-star led Joint Forces Command should be established to strengthen the focus on the development of joint enablers and joint warfare development. It is expected to take ownership of crucial operational enablers such as joint education and training, including the Defence Academy and the Development Concepts and Doctrine Centre; training and delivery units of the defence intelligence staff, although the analysis function would remain in Head Office; the Directorate Special Forces, although it would continue to report directly to CDS on the conduct of current operations; Joint Medical Command, and some of the joint capabilities of the future, such as electronic and cyber defence/warfare.

Establishing a new Joint Forces Command would ensure that cross-cutting capabilities are properly prioritised and resourced, and provide balance to single Service core capabilities.

The new Joint Forces Command should include the current Permanent Joint Headquarters (PJHQ) which, in order to simplify roles, should be responsible for all military operations. The report recommends that the Department consider whether those operations not currently run by PJHQ should transfer to it. On operational matters the Chief of Joint Operations would, however, continue to report directly to the Chief of the Defence Staff. The report also recommends that the Department consider whether certain operations, notably the nuclear deterrent, the security of UK airspace and UK resilience should also continue to be led by the single Services.

The report also recommends that the Department undertake a review of joint or potentially joint capabilities and functions across the Services, Defence Equipment and Support and the Central Top Level Budget, to determine which others might also be rationalised, where further joint organisations may be created and which should transfer to Joint Forces Command.

⁹ In this context, infrastructure delivery means the acquisition, development, management and disposal of all fixed, permanent buildings and structures, land, utilities and facility management services, with the exception of IT infrastructure.

¹⁰ MOD press release, 22 March 2011

The Commander JFC should hold similar status to the single Service Chiefs and should sit on the Chiefs of Staff Committee.

It is envisaged that establishing Joint Forces Command would not incur additional costs as the manpower requirements could be delivered through the transfer of personnel from elsewhere, not least the rationalisation of Head Office. Subsequent work would need to be done, however, on the location for the JFC headquarters.

vi. Senior Ranks/Career Management

Senior military and civilian personnel should be utilised more effectively. Therefore those individuals should stay in post for four to five years, as opposed to two years, in order to allow them to establish themselves in that role, invest the necessary time and resources that the post requires and be held to account for their performance. Operational command appointments should remain, however, at two to three years.

All non-front line posts across defence, beginning at the senior and management levels (from OF5 Captain/Colonel/Group Captain and above and civilian posts from Band B/Grade 7 and above), should be reviewed in order to move away from the current 'top heavy' structure within the MOD.¹¹ That review should establish the requirement and criteria for all posts, including whether they need to be military or civilian, and to identify the optimum management structure.

Head Office should continue to set personnel policy, including terms and conditions of service and remuneration. However, within this framework, the single Services should remain responsible for manning, career management and manpower planning. This reflects the greater freedom proposed in the overall corporate model for the Service Chiefs to shift priorities/resources to deliver the most effective and efficient workforce mix.

vii. Financial and Performance Management

The loss of financial control is one of the key strategic issues faced by the Department in recent years. Therefore, financial and performance management throughout the Department should be strengthened; while a shared culture of managing defence within available resources and realistic assumptions should be encouraged.

Financial management recommendations are as follows:

- As outlined above, Director General Finance should be a member of the new Defence Board and chair its Investment Approvals Committee which would continue to scrutinise major investments. Within a strict approvals process, DG Finance should delegate some authority for smaller projects to Directors of Resources in the relevant Top Level Budgets. Those Directors of Resources would replace the current Command Secretary and should be jointly appointed by DG Finance and the Top Level Budget holders. Those individuals should have formal membership of the top level budget management/operating board and of the Service Board.
- The annual planning round is resource intensive and fails to focus on outputs or true costs and is not sufficiently strategic to keep the forward programme in balance. The Department should therefore align its planning cycles with the Government's intention to publish a new Strategic Defence and Security Review every five years. As the

¹¹ A list of military ranks is available at: <http://www.dasa.mod.uk/modintranet/UKDS/UKDS2009/c2/table225.html>

report notes “in the absence of unforeseen strategic shocks we see no need for a major reassessment of priorities and overhaul of resource allocation more than once every five years with minor adjustments in the interim”.¹²

- Responsibility and budgets for detailed capability planning should pass to the Service Chiefs and the Commander Joint Force Command. At the outset of each planning cycle Head Office should set out high level capability requirements for each TLB. The Commands would then submit a detailed proposal setting out how those requirements would be delivered. Once agreed those proposals would be enshrined in the Command Plan presented to the Defence Board every year (see above). That plan should provide the number and readiness of force elements to be delivered, the ownership and maturity of key investment projects, a risk plan which sets out how the Command would deal with unforeseen events and costs and any delegated budgets. Service Chiefs would be able to shift priorities within their budgets, as long as they continued to deliver on the overall outputs sets out in the Command Plan.

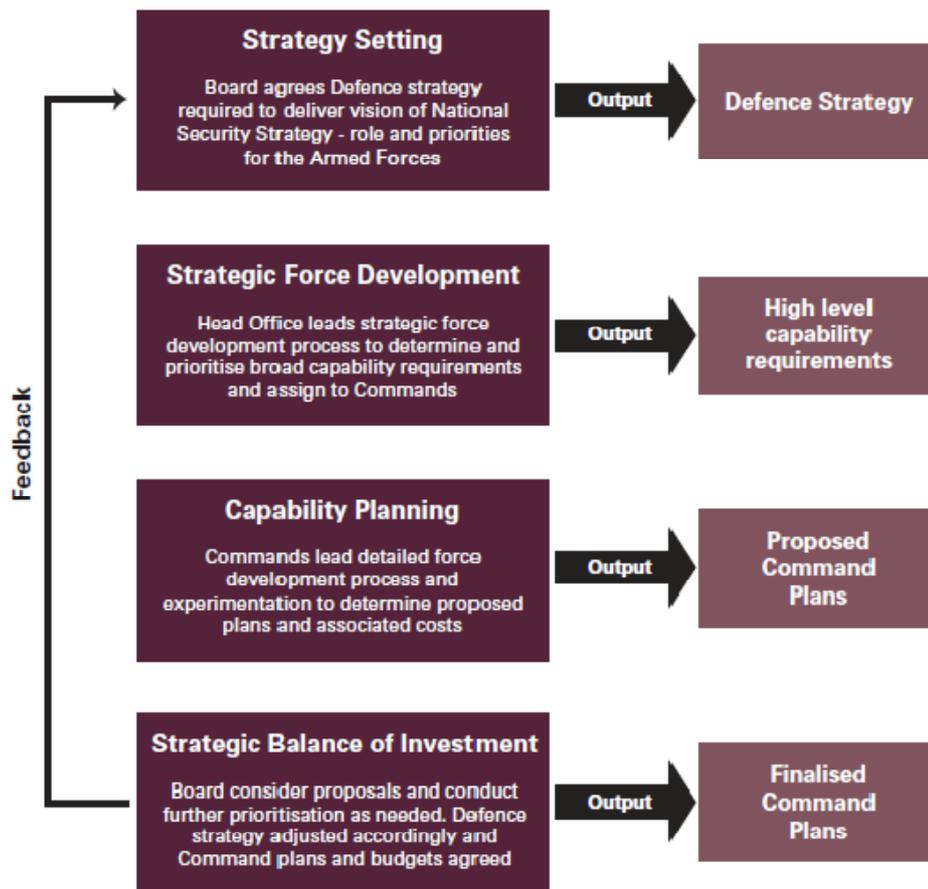
It is accepted that the scale and volatility of some projects may drive costs that the individual Commands would be unable to absorb within their budgets. The Department should therefore consider whether it should hold a contingency against the largest programmes for these instances, and, if so, whether this is best held centrally or whether it is better held within each top level budget.

- A strong corporate and financial management framework would be supported by a smaller, more strategic Head Office.
- The Defence Board should take an active role in monitoring the delivery and risks in major investment programmes. The report therefore supports the MOD’s decision to establish the Major Projects Review Board which will look specifically at the top 50 major projects and hold individuals to account for their delivery.¹³ The report also supports the plan to provide Parliament with an annual assessment of the affordability of the equipment and support plan and for that assessment to be audited by the National Audit Office.

The Levene report envisages the division of responsibilities within the quinquennial strategy review and resource allocation process, as follows:

¹² *Defence Reform*, June 2011, p.37

¹³ The Board met for the first time on 13 June 2011 and will continue to meet every quarter. Details of programmes that continue to suffer time delays or cost increases will be made public. For further information see: [MOD’s Major projects Review Board Stands Up](#), 13 June 2011



Performance management recommendations are as follows:

- The current system of reporting to the existing Defence Board and annual sessions with the top level budget holders and process owners will not be sufficient for the operating model that is proposed in the Levene report. Therefore, there should be a strengthened role for PUS in holding TLB holders to account. The delivery of specific and pre-agreed objectives within the delegated budget, the effective management of risk and compliance with corporate rules and standards should therefore be assessed by PUS, supported by Director General Finance, on a quarterly basis. If the performance of the budget holder does not meet requirements they should be removed from post.
- The Department should consider, as part of the implementation process, whether the multiple audit committees and supporting staffs who sit within each top level budget, should be replaced by a single centrally-run audit process. A Head Office-based team should take full responsibility for this function throughout the organisation.
- The current number of non-executive Director appointments throughout the organisation is excessive and should therefore be significantly rationalised. Preferably those positions should be limited to the primary operating board within each top level budget.

3 Next Steps

In his statement to the House the Secretary of State outlined that the MOD accepted all of the recommendations in the Levene report. As outlined above, work on some of those recommendations has already been taken forward. However, as the Levene report notes:

It is the people in the organisation, at all levels, who will need to make it work. The design of the future Defence operating model only takes the Department part of the way towards the organisation it needs. How our proposals are implemented, and how change is led will be crucial. As Annex G sets out, the Department's record on implementing major reforms is mixed; it has tended to water down recommendations, or to ignore more radical proposals. It is therefore crucial that the further work the Department must undertake to develop and implement our package of proposals is coordinated and driven from the very top.¹⁴

The report therefore makes a number of recommendations on how implementation should be taken forward. Specifically, it recommends that the Secretary of State chair a group responsible for overseeing implementation; that a four-star officer be appointed to lead the implementation process and that annual progress on implementation should be reported to Parliament over the next three years.

The MOD has outlined its intention to publish an implementation plan, setting out how the Defence Reform Unit's review will be delivered, in September 2011, with a view to overall implementation being completed by April 2015.¹⁵

¹⁴ *Defence Reform*, June 2011

¹⁵ Ministry of Defence, *Business Plan 2011-2015*

Appendix One – Current Structure of the Defence Board

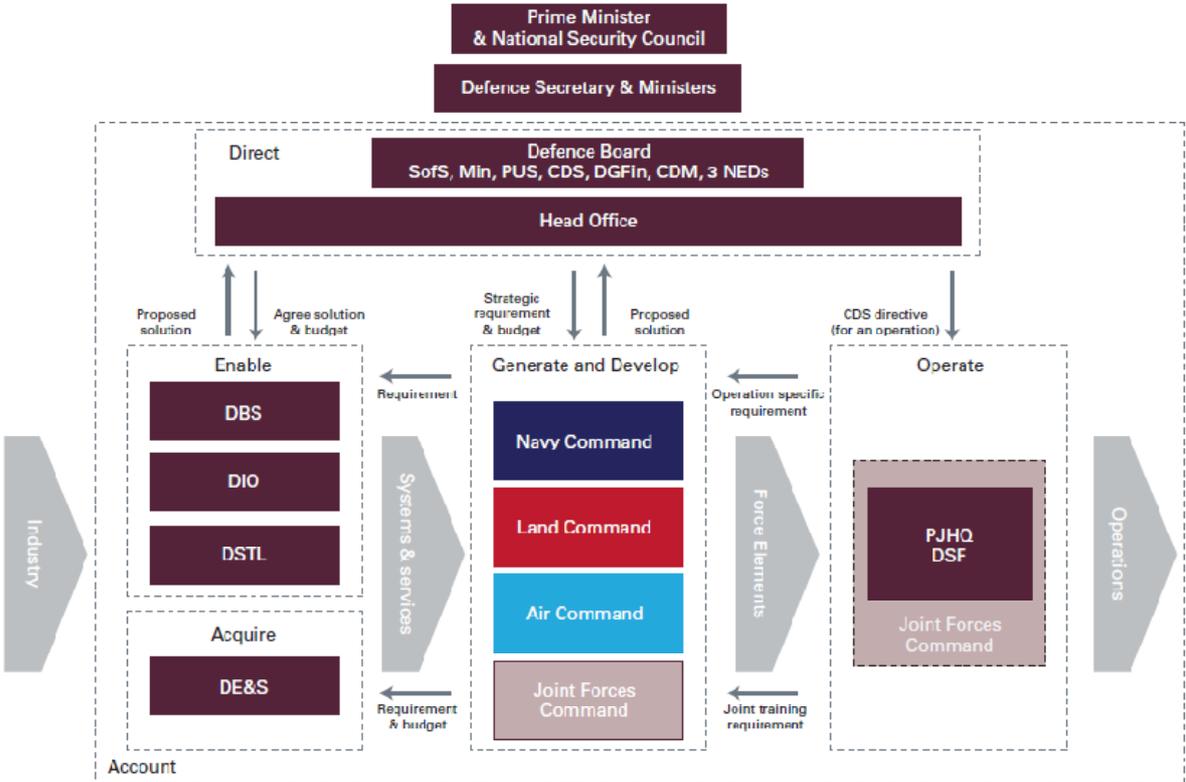
The Defence Board is currently a non-ministerial committee that is responsible for providing senior level leadership and strategic management across the full range of defence business, other than the conduct of operations. The core tasks of the Board are:

1. To define and articulate the department's strategic direction, and provide a clear vision and set of values for defence.
2. To establish the key priorities and defence capabilities needed to deliver the strategy.
3. To ensure that defence priorities and tasks are appropriately resourced.
4. To manage corporate performance and resources in-year to deliver the required results.

The membership of the Board is as follows:

- Chair – Permanent Under Secretary
- Chief of the Defence Staff
- First Sea Lord
- Chief of the General Staff
- Chief of the Air Staff
- 2nd Permanent Under Secretary
- Vice-Chief of the Defence Staff
- Chief Scientific Adviser
- Chief of Defence Materiel
- Director General Finance
- Two Non-Executive Members

Appendix Two - Future Operating Model



Appendix Three – Glossary and Definition of Terms

CDS – Chief of the Defence Staff

DBS – Defence Business Services

DE&S – Defence Equipment and Support

DG – Director General

DIO – Defence Infrastructure Organisation

JFC – Joint Forces Command

PJHQ – Permanent Joint Headquarters

PUS – Permanent under Secretary

2nd PUS – 2nd Permanent under Secretary

SDSR – Strategic Defence and Security Review

TLB – Top Level Budget

VCDS – Vice Chief of the Defence Staff

4 Star/ 3 Star Military Ranks – The most senior ranks in the military are also referred to by their 'star' ranking:

- 1 star – Commodore, Brigadier or Air Commodore. The ranks are often directors of operational capability, such as the Director of the Veterans Policy Unit.
- 2 star – Rear Admiral, Major General or Air Vice Marshal. These ranks hold senior staff appointments within the MOD and other HQ.
- 3 star – Vice Admiral, Lieutenant General or Air Marshal. These ranks hold very senior staff appointments in the MOD and other HQ.
- 4 star – Admiral, General, or Air Chief Marshal. These ranks hold the most senior appointments, such as the Chief of the Defence Staff and each of the Service Chiefs. The Commander-in-Chiefs of each of the Services are currently 4 star posts.