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R E P O R T

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# The National Audit Office and Defence Value for Money

## Identifying Financial Savings

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Prepared for the National Audit Office

The research described in this report was prepared for the National Audit Office.

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## Preface

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The National Audit Office (NAO) is the supreme audit institution of the UK and audits the accounts of all central government departments and agencies. The NAO also seeks to ensure that the taxpayer receives value for money from public spending.

The NAO commissioned RAND Europe to investigate the impact of its value for money work with the UK Ministry of Defence. In particular, RAND Europe was asked to identify and validate financial savings that had been achieved as a result of recommendations made by the NAO.

This report provides a brief outline of our approach and a summary of our key findings.

RAND Europe is an independent not-for-profit policy research organisation that aims to improve policy and decision making in the public interest, through research and analysis. RAND Europe's clients include European governments, institutions, NGOs and firms with a need for rigorous, independent, multidisciplinary analysis. This report has been peer-reviewed in accordance with RAND's quality assurance standards.

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## List of Acronyms

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CDEL	Capital Departmental Expenditure Limit
CMA	Chief Management Accounting
DE&S	Defence Equipment & Support
GPC	Government Procurement Card
IPTs	Integrated Project Teams
IRDEL	Indirect Resource Departmental Expenditure Limit
JHC	Joint Helicopter Command
MPR	Major Project Reports
NAO	National Audit Office
PAC	Committee of Public Accounts
RDEL	Resource Departmental Expenditure Limit
VFM	Value for Money

## Summary

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### **What was RAND Europe asked to do?**

The National Audit Office (NAO) Defence Value for Money (VFM) team has written over 35 reports in the last five years relating to the Ministry of Defence (the Department). These reports seek to provide implementable advice and to promulgate good practice.

The purpose of the RAND Europe study was to identify which of these reports are likely to have led to financial savings within the Department and, where practicable, to quantify and validate those savings that have been realised by the Department as a result of NAO recommendations.

### **How did RAND Europe approach the study?**

**Stage 1** comprised an initial sift of all VFM reports published by the Defence VFM team in the period 2002 to 2007. Through a desk review of all reports we identified a long-list of NAO reports for investigation.

**Stage 2** involved a detailed review of the NAO reports on our long-list. We consulted other relevant documents and conducted interviews with NAO personnel. The output of Stage 2 was a shortlist of seven VFM reports for final investigation.

**Stage 3** comprised identification, quantification and validation of savings achieved by the Department due to NAO recommendations in selected VFM reports. Here we conducted a series of semi-structured interviews with relevant personnel from within the Department and forensic review of documentation and financial information from the Department.

### **What were the key findings of the study?**

As a result of our study, we have identified £116.8 million of financial savings that have been achieved by the Department in relation to an NAO study on optimising stock holdings. We have agreed with the Department that it is appropriate to attribute 25 per cent of these savings, £29.8 million, to the NAO Defence VFM team due to the recommendations made in the relevant NAO study. In addition, we have highlighted savings in excess of £100 million that have been achieved by the Department which are related to an NAO study on routine procurement.

The study also identified four other VFM reports that merit further investigation.

## Acknowledgements

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First, we would like to thank the sponsor of this project, Mark Andrews (co-director of the Defence VFM team at the NAO), and members of his team, in particular Tom McDonald, who was the NAO project manager for the study.

In addition, we thank those staffs within the Ministry of Defence who provided relevant documents and essential financial information. Without their assistance it would not have been possible to conduct this study.

Finally, we thank the two quality assurance reviewers, Christian van Stolk and Samir Puri, who provided thoughtful comments and suggestions on our report.

Although the individuals and organisations mentioned here helped us with data collection and analysis, we are fully responsible for the interpretation of the information received and the conclusions drawn, and thus we alone are responsible for any errors.

## CHAPTER 1 **Introduction**

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This chapter provides background to the study, outlines the role of the National Audit Office and gives an overview of the study.

### 1.1 **Purpose of the Study**

The purpose of this study was to follow up conclusions and recommendations made by the National Audit Office (NAO) which may have led to financial savings for the Ministry of Defence. The work was commissioned by the NAO in order to assess the impact it had had with the Ministry of Defence (the Department) and whether or not the impact of its work with the Department had been fully represented in previous investigations by the NAO. In particular, RAND Europe was asked to identify any instances where the Department had made financial savings due to NAO recommendations.

### 1.2 **Background**

The NAO is the supreme audit institution of the UK and audits the accounts of all central government departments and agencies in addition to a wide range of other public bodies. The NAO is independent of government, with its budget set by Parliament and the Comptroller and Auditor General working to Parliament rather than the government of the day. In addition to its role as a financial auditor, the NAO seeks to ensure that the taxpayer receives value for money from government departments and other public bodies. To achieve this objective, the NAO works with departments in three key areas:

- **Economy:** minimising the cost of resources used or required;
- **Efficiency:** the relationship between the output from goods or services and the resources used to produce them;
- **Effectiveness:** the relationship between the intended and actual results of public spending.

The NAO summarises the conclusions and recommendations arising from this work in publicly available reports which seek to provide implementable advice and to highlight good practice.<sup>1</sup>

### 1.3 The NAO’s Role in Improving Value for Money for the Taxpayer

In order to measure the impact of its reports, the NAO works with departments to identify financial savings that have been achieved as a result of NAO recommendations. These financial savings can be redeployed within the departments to deliver higher quality outcomes, or can contribute to public sector efficiency targets. In fact, the NAO has an organisational performance target that every £1 spent by the NAO should result in savings of £9 to the public purse. Consequently, the NAO seeks to demonstrate the impact its recommendations have made by attributing or ‘claiming’ a proportion of the savings that are achieved by departments.

It can be challenging to delineate the impact of the NAO recommendations from internal initiatives within departments or agencies, and potentially from the work of the Office of Government Commerce. However, the work of the NAO can provide an extra degree of focus to the work of other auditors and can increase the impact of their recommendations. To provide rigour to assessing the impact of its work, the NAO has developed an internal guidance framework that is used in identifying savings claims.<sup>2</sup> The criteria for making a claim are illustrated in Figure 1.

Situation	Scope for NAO claim
The NAO recommendation is the same as (and sometimes partly derived from) earlier ones contained in the department’s plans	Only claimable by the NAO if work provides a fresh impetus to the department taking action
The NAO recommendation is similar to an idea being circulated for discussion within the department	Partly claimable by the NAO if the NAO recommendation was instrumental in the idea’s being accepted
The department initiated a review when the NAO disclosed it was starting a study in the area, and the department produced its plans before the NAO report was finalised	Still largely claimable by the NAO if the NAO study was instrumental in the idea being reviewed
Although the NAO originated the idea the normal departmental monitoring process could have led to the policy change in response to changing circumstances	Only claimable by the NAO if marginal benefits were achieved from earlier implementation

**Figure 1: Attributing Impacts to the NAO**

<sup>1</sup> A proportion of the reports generated by the NAO are reviewed by the Committee of Public Accounts (PAC). The PAC is charged with examining the accounts of bodies that have funds voted for by Parliament, and it achieves this task by taking evidence from various government departments and public bodies which are responsible for managing public funds.

<sup>2</sup> *Are YOU making an impact? - A guide to planning for, measuring and recording the financial impact of audit work*, National Audit Office

Consequently, the NAO is required to follow up with departments on financial savings that might be attributed to the NAO. Once potential savings claims have been identified they must be agreed with the department. The internal guidance states that:<sup>3</sup>

*A discussion of attribution to the NAO is usually part of the agreement process for each financial impact. Normal practice is to agree with the department or agency concerned a percentage of the identified saving that could reasonably be attributed to NAO intervention.*

In addition to obtaining agreement from the department, potential savings claims must also satisfy internal audit processes and other checks and balances.<sup>4</sup> It is a prerequisite of all savings claims that an unequivocal link between actual financial savings, departmental action and NAO recommendation is demonstrated and supported by suitable evidence.

#### 1.4 **The NAO's Work with the Ministry of Defence**

The NAO is structured around different Value for Money (VFM) teams, most of which are aligned with a government department. Our study was focused on the work of the Defence VFM team, which considers the Ministry of Defence.

The Department is a large and complex government department with an annual budget of nearly £34 billion and fixed assets of approximately £90 billion.<sup>5</sup> The Defence VFM team in the NAO undertakes studies that assess the value for money spending within the Department. This includes the ability of the Department to support current operations, major equipment acquisitions, business change programmes and support for Armed Forces personnel. In addition, the effectiveness and efficiency of underpinning processes and infrastructure are assessed.

The Defence VFM team has published around 35 reports in the last five years directly related to the Department, which are detailed at Appendix A. However, despite the substantial attention given to the Department over this time, the Defence VFM team has only been able to identify and claim relatively limited savings that can be attributed to their work.

The team can claim savings achieved by the Department within three cost types, namely: capital expenditure (referred to as CDEL or Capital Departmental Expenditure Limit); operating costs (referred to as RDEL or Resource Departmental Expenditure Limit); and indirect costs (referred to as IRDEL or Indirect Resource Departmental Expenditure Limit). Examples of cost centres within which savings can be achieved are shown in Figure 2.

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<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> *Ministry of Defence Annual Report and Accounts 2007-2008*, Ministry of Defence

Cost type	Examples
Capital Expenditure (CDEL)	Infrastructure
	Equipment
	Estate
Operating Costs (RDEL)	People
	Service provisions
	Running costs
	Consumables
	Operational support
Indirect Resource Costs (IRDEL)	Cost of capital
	Depreciation

Figure 2: Classification of MOD Cost Types

### 1.5 Objectives of this Study and Report Structure

The NAO Defence VFM team commissioned RAND Europe to assess whether or not the impact of their work with the Department had been fully represented in the savings claims that had been identified by the NAO. In particular, RAND Europe was asked to identify the potential for attributing additional financial savings where the Department had made financial savings due to NAO recommendations.

The specific study objectives for RAND Europe were to:

- Review the conclusions and recommendations made by the Defence VFM team;
- Identify potential financial savings within the MOD resulting from any implementation of these conclusions and recommendations;
- Validate the identified savings with the Department and determine what proportion can be attributed to the recommendations and conclusions of the NAO.

This report provides a brief summary of our approach, results and conclusions. The structure of this document is as follows:

- **Chapter 2: Results** This chapter summarises our approach and the outcome of our assessment of over 35 reports published by the NAO in relation to the Department.
- **Chapter 3: Conclusions and Scope for Future Work** This chapter provides a short summary of lessons learned from our study and outlines potential further work.

## CHAPTER 2 **Results**

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This chapter provides a summary of our approach and the key findings of the study.

### 2.1 **Summary of Methodology**

The primary objective of the study was to identify and quantify any financial savings that had been achieved by the Department as a result of NAO recommendations. However, within the time and resource constraints of our study it was not possible to conduct a forensic examination of every report published by the Defence VFM team since 2002. Consequently, we developed a three-stage approach to identify those reports that were most likely to have led to financial savings within the Department.

- **Stage 1** comprised an initial sift of all VFM reports published by the Defence VFM team in the period 2002 to 2007. Through a desk review of all reports we identified a long-list of NAO reports for investigation.
- **Stage 2** involved a detailed review of the NAO reports on the long-list identified in Stage 1. We consulted other relevant documents and conducted interviews with NAO personnel. The output of Stage 2 was a shortlist of seven VFM reports for final investigation.
- **Stage 3** comprised identification, quantification and validation of savings achieved by the Department due to NAO recommendations in selected VFM reports. Here we conducted a series of semi-structured interviews with relevant personnel from within the Department and forensic review of documentation and financial information from the Department.

A diagrammatic summary of the methodology is included at Figure 6.

### 2.2 **Selection of NAO Reports**

In the period between 2002 and 2007, the Defence VFM team in the NAO has published some 35 reports relating to the Department, most of which have also been reported on by the Committee of Public Accounts. These reports can be categorised into three groups:

- **Major Project Reports (MPR)** The MPR is published annually to report performance of the 20 highest value defence procurement projects against cost, time and quality.

These reports were not considered in our study as their focus is on assessing progress rather than providing specific efficiency recommendations.

- **‘Gold Standard’ reports** In order to help the Department improve its performance, the NAO has also published studies assessing project control and effective contracting. Both types of study compare current defence performance to a theoretical ‘gold standard’. The recommendations in these reports are intended to bring improvements in defence acquisition performance to help ensure all defence projects routinely adopt practices closer to this ‘gold-standard’. However, the specific impacts of this work are difficult to track individually due to the strategic nature of the recommendations. Consequently, these reports were not considered in our study.
- **Value for Money (VFM) reports** These reports examine the economy, efficiency and effectiveness of spending within the Department. VFM reports typically evaluate major acquisition/change programmes or other thematic areas. A key component of all VFM reports is a set of specific recommendations designed to improve economy, efficiency and/or effectiveness; consequently, VFM reports can often lead to financial savings within the Department. As a result, we focused on the 23 VFM reports published by the Defence team between 2002 and 2007 during our study. In addition we also considered two other reports, which had made recommendations that have been adopted by the Department, making a total of 25 VFM reports.<sup>6</sup>

A full list of reports is presented at Appendix A.

### 2.3 Stage 1: Initial Sift of VFM Reports

During Stage 1 we conducted an initial sift of all VFM reports published by the Defence VFM team in the period 2002 to 2007. The purpose of this research stage was to identify which of the reports published by the NAO were most likely to have resulted in significant financial savings within the Department. The output of this research stage was a long-list of those reports that could potentially have resulted in significant cost savings within the Department.

The first step in this initial sift was to exclude those reports for which the NAO had already agreed a financial saving with the Department. Consequently, reports relating to the management of defence research and technology and to compensation claims were excluded from further study.<sup>7</sup>

The second step was to assess each report against two criteria, designed to highlight those reports which were most likely to have resulted in quantifiable savings:

- **Does the report identify quantifiable savings or one which is well bounded and able to be calculated?** We only pursued reports that satisfied this criterion.

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<sup>6</sup> *The Wider Markets Initiative*, 2006, National Audit Office, and *Improving the Efficiency of the Procurement of Routine Items*, 1997, National Audit Office

<sup>7</sup> *The Management of Defence Research and Technology*, 2004, National Audit Office, and *Compensation claims*, 2003, National Audit Office

- **Is this an area where the Department is likely to have achieved significant efficiency savings?** We only pursued reports for which it was reasonable to assume that savings in excess of £1 million could have been achieved.

The results of our assessment against these criteria are illustrated in Figure 3 and 4. A simple ‘traffic light’ was employed to indicate this assessment.

- Figure 3 highlights those reports that were thought to have the most potential for quantifiable cost savings, and were worthy of inclusion on our long-list of reports for further investigation.
- Figure 4 contains the reports which were assessed not to offer a high potential for quantifiable savings, and were therefore excluded from our long-list of reports.

NAO report <sup>8</sup>	Year of publication	Quantifiable savings?	Potential size of savings
<i>Transforming logistics support for fast jets</i>	2007		
<i>Progress in Reducing Stocks</i>	2002		
<i>Improving the Efficiency of the Procurement of Routine Items<sup>9</sup></i>	1997		
<i>The Wider Markets Initiative</i>	2006		
<i>Recruitment and Retention in the Armed Forces</i>	2006		
<i>Improving Service Delivery: The Veterans Agency</i>	2003		
<i>Major Repair and Overhaul of Land Equipment</i>	2002		
<i>The construction of nuclear submarine facilities at Devonport</i>	2002		
<i>Managing the Defence Estate: Quality and Sustainability</i>	2007		
<i>Managing the Defence Estates</i>	2005		
<i>Battlefield Helicopters</i>	2004		
<i>The Joint Services Command and Staff College</i>	2002		

**Figure 3: Initial Sift – Long-list of Reports with Potential for Cost Savings**

<sup>8</sup> Reports detailed in Appendix A

<sup>9</sup> Published outside time range of other reports, but included on the basis of its high potential for savings

NAO report <sup>10</sup>	Year of publication	Quantifiable savings?	Potential size of savings
<i>Reserve Forces</i>	2006		
<i>Quality of Housing Services to Service Families Overseas</i>	2005		
<i>The Rapid Procurement of Capability to Support Operations</i>	2004		
<i>Helicopter Logistics</i>	2002		
<i>The privatisation of QinetiQ</i>	2007		
<i>Leaving the Services</i>	2007		
<i>Operation TELIC - United Kingdom Military Operations in Iraq</i>	2003		
<i>Progress in Combat Identification</i>	2006		
<i>Delivering digital tactical communications through the Bowman CIP programme</i>	2006		
<i>Assessing and Reporting Military Readiness</i>	2005		
<i>Exercise Saif Sareea II</i>	2002		
<i>Building an Air Manoeuvre Capability: The Introduction of the Apache Helicopter</i>	2002		
<i>Combat Identification</i>	2002		

**Figure 4: Initial Sift – Reports Excluded due to Limited Potential for Cost Savings**

<sup>10</sup> Reports detailed in Appendix A

## 2.4 Stage 2: Constructing a Short-list

The purpose of Stage 2 was to produce a short-list of 5 to 10 reports for final investigation. This research stage involved a more detailed review of the NAO reports on our long-list and other relevant documents including PAC hearings, Treasury minutes and Parliamentary debates. We also conducted interviews with NAO personnel who had been involved in preparation of the relevant reports.

The reports on the long-list generated through the initial sift were assessed against two further criteria:

- **Is it possible to construct a counterfactual case for the report?** In order to quantify financial savings achieved by the Department, it was necessary to compare the savings with a theoretical counterfactual case. This *ex post counterfactual* was necessary to establish what costs would have been had the Department not implemented the NAO recommendations. The relevant NAO guidance states that:<sup>11</sup>

*... [we] should attempt to quantify the efficiency gain that has been realised. It is important to note, however, that doing so does not involve a simple 'before and after' comparison. Rather, the appropriate comparison is against a counterfactual (unobserved) situation, namely the situation that would have obtained had the recommendation not been acted upon.*

Two reports on our original long-list were excluded due to the challenges of constructing a counterfactual case: those relating to the Joint Services Command and Staff College, and to the construction of nuclear submarine facilities at Devonport.

- **Would any savings claims conflict with ongoing NAO work?** In discussion with the NAO it was agreed that our study should exclude any recommendations that were the subject of ongoing NAO work. Consequently three reports were excluded: those relating to Defence Estates and the report on recruitment and retention of Armed Forces personnel. These reports may be worthy of further investigation by the NAO at a future point in time.

## 2.5 Stage 3: Detailed Investigation of Selected Reports

The objective of the third stage of our study was to identify and quantify potential savings achieved by the Department due to NAO recommendations and to validate these savings with the Department.

During this research stage we conducted a series of semi-structured interviews with relevant personnel from within the Department, a thorough review of internal documents provided by the Department and analysed financial data provided by the Department.

Due to the relatively resource-intensive nature of this research phase it was not possible to investigate all of the reports on our short-list in forensic detail. Consequently, we selected

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<sup>11</sup> *Are YOU making an impact? - A guide to planning for, measuring and recording the financial impact of audit work*, National Audit Office

three reports for detailed investigation on the basis of the criteria addressed in Stages 1 and 2. The three reports selected were:

- ***The Wider Markets Initiative;***
- ***Progress in Reducing Stocks;***
- ***Improving the Efficiency of the Procurement of Routine Items.***

The results of our detailed investigation are presented in the following sections.

We did not conduct a detailed investigation of the other reports on our short-list in this study. However, an evaluation of the prospect for further investigation of the following reports is provided in Chapter 3.

- ***Major Repair and Overhaul of Land Equipment;***
- ***Transforming logistics support for fast jets;***
- ***Battlefield Helicopters;***
- ***Improving Service Delivery: The Veterans Agency.***

#### 2.5.1 **The Wider Markets Initiative**

The *Wider Markets Initiative* (2006) report was a cross-government study that made wide-ranging recommendations on maximising income from public assets. The report highlighted a number of examples of good practice that had been observed in the Ministry of Defence, but noted that there was scope for improvement.

During a semi-structured interview, the Director of Finance Policy within the Department recognised that the NAO report had helped maintain progress on wider markets. However, the Department does not keep financial records in sufficient granularity to quantify and attribute the level of income from wider market activities. Without these financial records, it was not possible to quantify the financial impact of the NAO report on wider markets.

#### 2.5.2 **Progress in Reducing Stocks**

The focus of the NAO report *Progress in Reducing Stocks* (2002) was to identify areas where the Department had undertaken specific actions to reduce stocks and to highlight areas where there was further potential for optimising the stocks held by the Department. In particular, the NAO report recommended that the Department should assess the scope for stock reductions and take full account of the large volumes of slow moving stock, particularly consumables.

Interviews with staffs responsible for stock optimisation within the Department confirmed the impact that the NAO report had had in providing fresh impetus to stock optimisation. In particular, the NAO recommendations were highlighted in internal guidance that was issued to all IPTs (Integrated Project Teams) involved in stock management regarding the potential for disposal of obsolete, obsolescent, slow or non-moving stock.<sup>12</sup> This guidance stated that:

*The Defence Logistics Organisation (DLO) has over recent years been criticised by the National Audit Office (NAO) and the Public Accounts Committee regarding excessive inventory*

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<sup>12</sup> *IPT inventory Review – Depot Rationalisation Programme, SCS/Inventory Optimisation/DSDA Version 6.0, 21 July 2006*

*holdings. Although the DLO has made significant progress in reducing inventory levels no longer required for business purposes it is widely recognised in the organisation that there is still significant scope for further, targeted reduction and process improvement.*

*The NAO state in their Report on Progress in Reducing Stocks (HC 898 dated June 2002), that 'reducing stocks will lead to significant financial savings and contribute to depot rationalisation'. This assertion still holds good today.*

Interviews were also conducted with senior staffs from the Chief Management Accounting (CMA) team within the Defence Equipment & Support (DE&S) organisation. These interviews and the following discussion confirmed that stock holdings had been reduced since the internal guidance and that these reductions were due, in part, to the NAO recommendations. During FY07/08, the Department had achieved audited financial savings of £116.8 million as a result of stock optimisation relating to defence equipment and support.

On the basis of discussions with the CMA team, and comparison with previous NAO savings claims, we assessed that 25% of the £116.8 million savings achieved by the Department in FY07/08 could be attributed to the NAO recommendations and conclusions relating to stock management.

A savings claim of £29.2 million has been agreed between the NAO and the Department. Further details on this savings claim are presented at Appendix B.

### 2.5.3 Improving the Efficiency of the Procurement of Routine Items

The *Improving the Efficiency of the Procurement of Routine Items* report (1997) assessed routine procurement within the Department. The report made a number of recommendations relating to improvements in efficiency or effectiveness, including the introduction of corporate purchasing cards to reduce process costs and improve management information.

Following the publication of the report, the Department has enthusiastically introduced the Government Procurement Card (GPC) and published guidance on its use.<sup>13</sup> The use of the GPC has led to efficiency savings in the Department, by reducing transaction and audit costs. These savings were quantified by the Department in a recent response to a parliamentary question:<sup>14</sup>

*Since its implementation in the MOD, the GPC has achieved total process and administration cost savings of £101,894,044 based on the NAO savings figure of £28 per transaction.*

RAND Europe has recommended that the NAO pursue the opportunity for a savings claim with the Department based on these overall savings. The breakdown of these savings over time is illustrated in Figure 5.

<sup>13</sup> JSP 332, *Low Value Purchasing Manual*, May 2006

<sup>14</sup> Bob Ainsworth, Minister of State for the Armed Forces, *Hansard* 28 Apr 2008: Column 56W – Departmental Credit Cards

<b>Financial year</b>	<b>Savings (£)</b>
99/00	61,824
00/01	844,340
01/02	1,716,288
02/03	6,376,300
03/04	11,255,440
04/05	17,556,168
05/06	20,005,188
06/07	21,121,212
07/08	22,957,284
<b>Total</b>	<b>101,894,044</b>

**Figure 5: Financial Savings Achieved by Department due to Government Procurement Card**

## 2.6 Summary

This chapter has summarised the main elements of our approach and the most significant outcomes of our study. We constructed a three-stage ‘sift’ to develop a short-list of NAO reports that were most likely to have had a quantifiable financial impact within the Department.

As a result of a detailed investigation of three VFM reports, we have identified financial savings relating to stock optimisation totalling £116.8 million. We have agreed with the Department that it is appropriate to attribute 25% of these savings, £29.8 million, to the NAO Defence VFM team. In addition, we have highlighted savings in excess of £100 million that are related to an NAO study on routine procurement.

The key elements of our study are summarised in Figure 6.

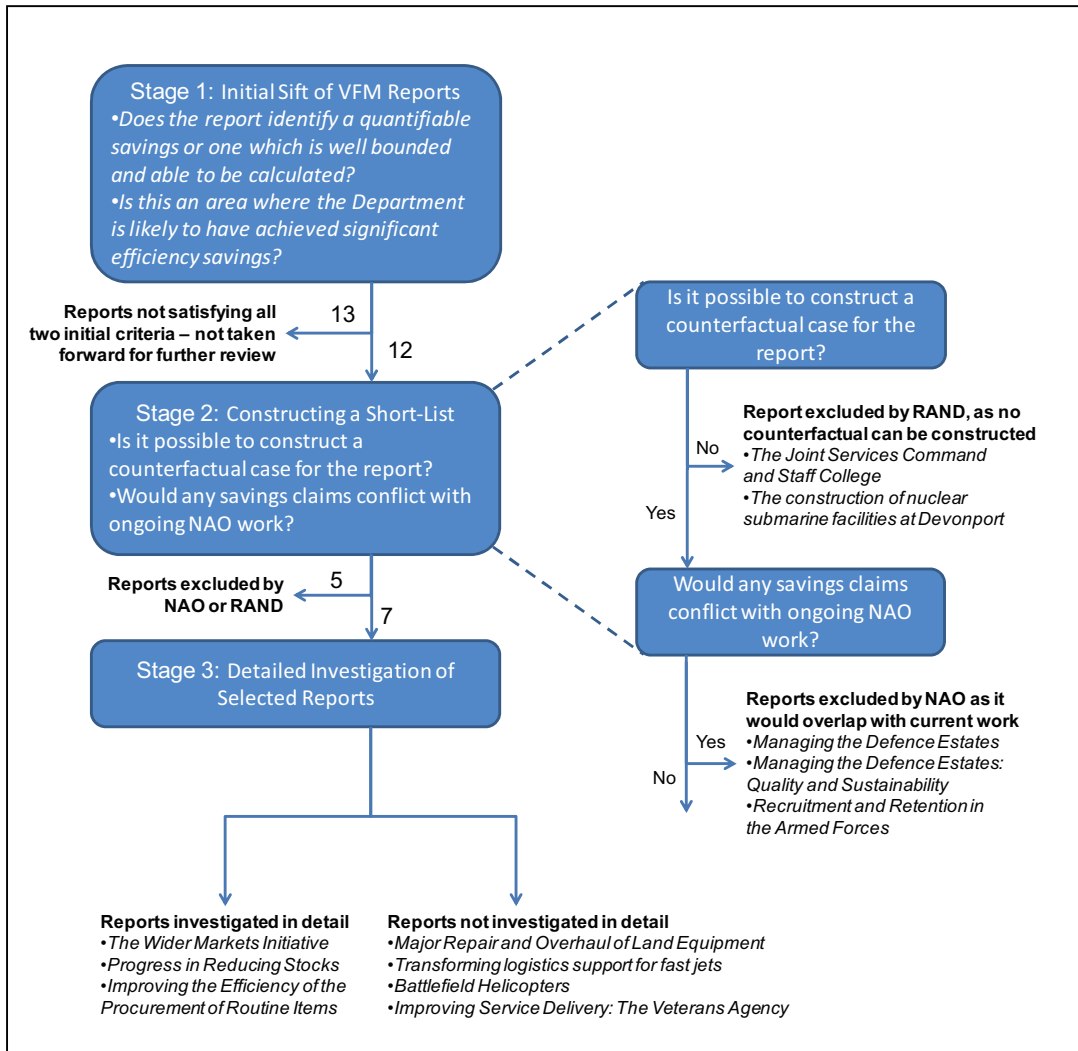


Figure 6: Summary of Methodology and Down-Selection of Reports

## CHAPTER 3 **Conclusions and Scope for Future Work**

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This chapter presents a summary of lessons learnt from this study and identifies those NAO reports which offer scope for further investigation.

### 3.1 **Conclusions**

As discussed earlier in this report, the NAO Defence VFM team has a broad remit which guides their work with the Department. Reports will not always have a focus on efficiency or the identification of financial savings. However, where the impact of the report is best expressed in terms of financial savings achieved by the Department, there appears to be a number of characteristics associated with successful savings claims. Whilst not exhaustive, our experience of working with the NAO and the Department on this study suggests the following areas of good practice for the VFM team:

- **Develop specific, actionable recommendations for the Department.** Quantifying financial benefits realised by the Department as a consequence of NAO reports is only realistic when these reports contain specific recommendations. In many cases we found that it was very challenging to track progress against recommendations contained in the VFM reports.
- **Identify key stakeholders in the Department.** It is likely that recommendations made by the NAO are most likely to be implemented where there is a clear Department owner(s) the action. In addition, this enables the NAO to review progress with the Department, which provides the opportunity to track financial benefits.
- **Develop a collaborative approach.** RAND Europe was able to interact with the Department and the NAO objectively and develop a collaborative approach. In simple terms, the Department and the NAO have a common interest in quantifying and validating financial savings achieved by the Department that relate to NAO reports.
- **Build evidence base against sound counterfactual.** One key element of quantifying savings claims for the NAO is to obtain robust financial data and compare it with a sound counterfactual case. The NAO should only conduct a detailed investigation following a critical assessment of whether data can be obtained and whether a robust counterfactual can be constructed.

## 3.2 **Scope for Further Investigation**

There are four NAO reports that met the criteria we developed, but that it was not possible to investigate within the current study. A brief summary of each of these reports is presented with a qualitative assessment of the scope for further investigation. The reports are ordered in terms of priority for any follow up work.

### 3.2.1 ***Transforming Logistics Support for Fast Jets (2007)***

This report presents a number of specific recommendations on improving the efficiency of support arrangements for fast jets. In particular: maximising the benefits of contracting for availability and improving internal organisational efficiency. The primary reason why this report was not considered in the current study was its recent publication date. In our assessment, this report is the most likely of those shortlisted to have led to significant financial savings within the Department. We recommend that the NAO prioritises this report for further investigation.

### 3.2.2 ***Battlefield Helicopters (2004)***

This report examined the progress made by the Department since the inception of the Joint Helicopter Command (JHC) in 1999. The report identified areas in which further efficiency savings could be achieved by the Department. In our assessment, the specific recommendations relating to streamlining joint initial pilot training and to harmonising airworthiness across the three services are likely to have contributed to financial savings. We recommend that the NAO works with the JHC to assess progress against these recommendations and to quantify financial savings that have been realised as a result.

### 3.2.3 ***Major Repair and Overhaul of Land Equipment (2002)***

This report recommends a number of improvements, primarily relating to contractor logistic support and increasing the amount of work that is competed and contracted out. In our assessment, it is likely that these recommendations will have led to tangible financial savings to the Department. However, these might prove challenging to quantify given the time elapsed since the report organisational restructuring that has occurred since the report: particularly the merger of the Army Base Repair Organisation with the Defence Aviation Repair Agency in April 2008 to form the Defence Support Group. We suggest that the NAO works with the Defence Support Group to assess to what extent the recommendations in the report have been implemented.

### 3.2.4 ***Improving Service Delivery: The Veterans Agency (2003)***

This report considered the efficiency and effectiveness of service delivery by the Veterans Agency, which was responsible for administering the War Pensions Scheme. The report recommends that the cost of processing claims should be monitored, which may have driven efficiencies in service delivery and led to financial savings. However, given the relatively small operating costs of the Agency (£35 million in 2003) it is unlikely that major cost savings would have been possible while maintaining the same levels of service. It should be noted that since publication of the NAO report, the Veterans Agency has been merged with the Armed Forces Administration Agency to form the Service Personnel and Veterans Agency. Given the relatively small size of the potential savings, and the additional

challenges presented by the merger, we recommend that this report should be the lowest priority for the NAO to follow up.

## Appendix A: NAO Reports Investigated

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The following table provides a list of NAO reports published by the Defence VFM team that were investigated in this study.

NAO report	Year of publication
<i>Ministry of Defence: Major Projects Report 2007</i>	2007
<i>The privatisation of QinetiQ</i>	2007
<i>Leaving the Services</i>	2007
<i>Transforming logistics support for fast jets</i>	2007
<i>Managing the Defence Estate: Quality and Sustainability</i>	2007
<i>Ministry of Defence: Major Projects Report 2006</i>	2006
<i>Recruitment and Retention in the Armed Forces</i>	2006
<i>Delivering digital tactical communications through the Bowman CIP programme</i>	2006
<i>Using the contract to maximise the likelihood of successful project outcomes</i>	2006
<i>Reserve Forces</i>	2006
<i>Progress in Combat Identification</i>	2006
<i>Driving the Successful Delivery of Major Defence Projects: Effective Project Control is a Key Factor in Successful Projects</i>	2006
<i>Ministry of Defence Major Projects Report 2005</i>	2005
<i>Assessing and Reporting Military Readiness</i>	2005
<i>Managing the Defence Estate</i>	2005
<i>Quality of Housing Services to Service Families Overseas</i>	2005
<i>The Rapid Procurement of Capability to Support Operations</i>	2004
<i>Ministry of Defence: Major Projects Report 2004</i>	2004
<i>Battlefield Helicopters</i>	2004
<i>The Management of Defence Research and Technology</i>	2004
<i>Ministry of Defence: Major Projects Report 2003</i>	2003
<i>Operation TELIC - United Kingdom Military Operations in Iraq</i>	2003

<i>Compensation claims</i>	2003
<i>Through Life Management</i>	2003
<i>Improving Service Delivery: The Veterans Agency</i>	2003
<i>The Construction of Nuclear Submarine Facilities at Devonport</i>	2002
<i>Ministry of Defence: Major Project Reports 2002</i>	2002
<i>Building an Air Manoeuvre Capability: The Introduction of the Apache Helicopter</i>	2002
<i>Exercise Saif Sareea II</i>	2002
<i>Progress in Reducing Stocks</i>	2002
<i>Helicopter Logistics</i>	2002
<i>Major Repair and Overhaul of Land Equipment</i>	2002
<i>Implementation of Integrated Project Teams</i>	2002
<i>Combat Identification</i>	2002
<i>The Joint Services Command and Staff College</i>	2002
<i>Improving the Efficiency of the Procurement of Routine Items</i>	1997

In addition we also considered the following report that was published by the Cross Government and Public Administration team:

<i>The Wider Markets Initiative</i>	2006
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## Appendix B: Evidence for Savings Claim due to Stock Optimisation

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The following table provides the evidence upon which the NAO has agreed a savings claim with the Department, in relation to the 2002 report *Progress in Reducing Stocks*.

This is based on the standard NAO form for saving claims as presented in the NAO guidance document *Are YOU making an impact? - A guide to planning for, measuring and recording the financial impact of audit work*.

<b>Report/Account title:</b>	Ministry of Defence, <i>Progress in Reducing Stocks</i> , Report by the Comptroller and Audit General, HC 898 Session 2001-2002: 20 June 2002
<b>Summary of Impact:</b>	<p>The NAO report <i>Progress in Reducing Stocks</i> made the following recommendations:</p> <ul style="list-style-type: none"> <li>• <i>The Department recognises that whilst surplus stocks remain on the books, they represent a drain on resources which could otherwise be used to help make good current capability gaps or fund future procurements. Much effort is being expended on tackling these issues. We have identified examples of good practice as well as our own suggestions for areas of future work that should help the Department dispose of significant volumes of stocks.</i> <ul style="list-style-type: none"> <li>○ <i>The Department should revisit its stock reduction targets and ensure that these take full account of the large volume of slow moving stock, particularly the high volumes of consumable items</i></li> <li>○ <i>In setting targets the Department should clearly define the target, establish robust baselines and ensure consistency in measuring achievements.</i></li> </ul> </li> </ul> <p>These recommendations have been implemented by the MOD. As noted in <i>IPT inventory Review – Depot Rationalisation Programme, SCS/Inventory Optimisation/DSDA Version 6.0, 21 July 2006</i>:</p> <ul style="list-style-type: none"> <li>• <i>The Defence Logistics Organisation (DLO) has over recent years been criticised by the National Audit Office (NAO)</i></li> </ul>

	<p><i>and the Public Accounts Committee regarding excessive inventory holdings. Although the DLO has made significant progress in reducing inventory levels no longer required for business purposes it is widely recognised in the organisation that there is still significant scope for further, targeted reduction and process improvement.</i></p> <ul style="list-style-type: none"> <li><i>The NAO state in their Report on Progress in Reducing Stocks (HC 898 dated June 2002), that ‘reducing stocks will lead to significant financial savings and contribute to depot rationalisation’. This assertion still holds good today.</i></li> </ul> <p>Since this MOD publication, three sites have been, or are being, closed, to further optimise stock holdings.</p> <p>Following discussions with the RAND Europe team, the Department identified overall savings due to stock optimisation amounting to £116.8 million. This comprises RDEL, IRDEL and CDEL savings of £5.7 million, £110.6 million and £0.5 million, respectively.</p> <p>It was agreed with the Department that 25% of these savings (£29.2 million) could be attributed to the NAO due to the extra impetus the NAO report generated within the Department. The final savings are detailed below.</p>
<p><b>Brief details of external validation:</b></p>	<p>Savings are derived from the DE&amp;S Power Steering database, and have been internally audited by the MOD.</p> <p>In terms of linking the NAO report to the savings achieved by the Department, RAND Europe conducted a series of interviews with key DE&amp;S personnel to verify the progress made by the Department against the original NAO recommendations.</p>
<p><b>Name and grade of person agreeing impact externally</b></p>	<p>Georgina Benzies, Director (Chief Management Accounting)</p>
<p><b>Value of Impact (£)</b></p>	<p>£29.2 million (£1.4 million RDEL; £27.7 million IRDEL; £0.1 million CDEL)</p>
<p><b>Is this a one-off impact?</b></p>	<p>Yes (although there may be scope to examine in future whether some of these savings are recurring)</p>
<p><b>Is this the first year of claiming impact?</b></p>	<p>Yes</p>
<p><b>If 2<sup>nd</sup> or subsequent year, when was the impact first claimed?</b></p>	<p>N/A</p>

<p><b>How many years in total have you agreed to claim this impact?</b></p>	<p>One</p>
<p><b>If this impact will be claimed again next year what will be the likely value?</b></p>	<p>N/A</p>