



**140 Leadenhall Street  
London EC3V 4QT**

**Tel: +44 20 7398 5087**

**Fax: +44 20 7398 7853**

**email: [peter.levene@starrcompanies.com](mailto:peter.levene@starrcompanies.com)**

30 November 2012

The Rt Hon Mr Philip Hammond MP  
Secretary of State for Defence  
Ministry of Defence  
MoD Main Building  
Whitehall  
London SW1A 2HB

*Dear Secretary of State,*

**DEFENCE REFORM STEERING GROUP – FIRST ANNUAL REPORT**

In my report on Defence Reform, published in June last year, I recommended that the Defence Reform Steering Group should take stock of progress each year, for three years, and report its findings to you. Your predecessor agreed to report in turn to Parliament. I have now completed the first annual stock-take, and set out the findings below. Given the many commitments of my fellow Steering Group members, there has been limited opportunity to seek their input, so I take full responsibility for the following conclusions.

During this review of the Department's progress in implementing the 53 recommendations of the Defence Reform Report, I have seen sufficient evidence to assure myself that, despite the complexity of this programme, strong progress is being made in implementing the specific recommendations of the Report and to support my belief that this programme of work is now being driven with genuine urgency from the very top of the organisation. In support of this assessment I note with approval the specific structural and process reforms that have been, or are intended to be, delivered, as summarised in Annex A. However, there is much still to be done, and it will be very important to ensure that the new model actually works in practice in the ways we intended it to when we prepared our recommendations. In particular, in implementing the new arrangements for holding budget holders to account, the 'spirit' of delegation and freedom of action within a corporate framework must not be constrained by overly bureaucratic reporting mechanisms – in next year's review, I will look for evidence that the TLBs have been truly empowered to meet the outputs required by the Board within the resources available, and that the centralist tendencies of the Department have been overcome. Equally, I will look for evidence that TLBs are genuinely accepting responsibility and being held accountable for their delivery of these outputs.

I am confident that the large majority of our recommendations will have been completed in time for the MOD to transition to the new Operating Model in April next year, but I am concerned that the Department has yet to pursue, with sufficient rigour, our recommendations for the management of its Human Capability in the era of the Whole Force Concept. In addition to reviewing progress across the 53 recommendations, there are a number of specific issues to which I will return in my stock-take next year:

- *Key Recommendation 2 - The number and responsibilities of MOD Ministers should be reviewed to align with the new Model.* I understand that the number and roles of Ministers in the MOD was reviewed by the Prime Minister at the recent Government reshuffle. I note the decision not to reduce the



- number of Ministers at this stage, but there may well be a case for a reduction in due course as the new Operating Model beds in, so the position should be kept under close review.
- *Key Recommendations 5 and 6 - the focus of the Service Chiefs should be on running their Service, including the development and generations of forces within their allocated budget, combined with their existing responsibility for the custodianship of their Service, and they should be empowered to perform their role effectively.* Until the model is implemented, I will be unable to make a clear judgement on whether current proposals for delegation will provide sufficient freedoms and empowerment for the Service Chiefs to realise the full benefits of the model by being held accountable for the delivery of outputs, and that the burden of reporting on them is not disproportionate.
- *Recommendation 6f - Financial management in the Department should be based on a single version of the financial truth. The Department should develop and resource a strategy for all management information, encompassing clear governance, processes and training, and it should invest in improving core information systems by bringing together financial, personnel and other management information in one place.* I recognise that the delivery of improved MI and systems will take time, but continue to believe that good decision-making is being hampered by poor quality management information: in my judgement this is a critical short-coming and must be addressed as a priority.
- *Recommendation 9c - The Department should consider whether making CDM an additional Accounting Officer for expenditure on equipment and support would usefully strengthen his authority.* While the focus in CDM's area has been on the Materiel Strategy, this recommendation remains important and should be addressed; I do not believe it to be dependent on any decisions on the future business model for DE&S.
- *Key Recommendation 12c - The Department should move to a model where most individuals stay in post for longer and most senior civilian and military posts, as a rule, for 4 to 5 years.* I recognise the latency in the system, but remain concerned that there is insufficient evidence of leaving sufficient people in post for longer.

I congratulate the department on the strong progress it has made to date, but would re-iterate that in implementing the specifics of the Defence Reform report it should not lose sight of the over-arching principles of delegation, responsibility and accountability on which the new Operating Model is based. I look forward to discussing this report and how you would like us to return to review progress next year at a mutually convenient point in the near future.

Yours sincerely,  
The Lord Levene