



House of Commons  
Defence Committee

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# The Ministry of Defence Main Estimates 2014–15

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**First Report of Session 2014–15**

*Report, together with formal minutes relating  
to the report*

*Ordered by the House of Commons  
to be printed 24 June 2014*

## The Defence Committee

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Ministry of Defence and its associated public bodies.

### Current membership

Rory Stewart MP (*Conservative, Penrith and The Border*)  
Mr Julian Brazier MP (*Conservative, Canterbury*)  
Rt Hon Jeffrey M. Donaldson MP (*Democratic Unionist, Lagan Valley*)  
Mr James Gray MP (*Conservative, North Wiltshire*)  
Mr Dai Havard MP (*Labour, Merthyr Tydfil and Rhymney*)  
Adam Holloway MP (*Conservative, Gravesham*)  
Mrs Madeleine Moon MP (*Labour, Bridgend*)  
Sir Bob Russell MP (*Liberal Democrat, Colchester*)  
Bob Stewart MP (*Conservative, Beckenham*)  
Ms Gisela Stuart MP (*Labour, Birmingham, Edgbaston*)  
Derek Twigg MP (*Labour, Halton*)  
John Woodcock MP (*Labour/Co-op, Barrow and Furness*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at [www.parliament.uk/parliament.uk/defcom](http://www.parliament.uk/parliament.uk/defcom).

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee are James Rhys (Clerk), Karen Jackson (Audit Adviser), Eleanor Scarnell (Committee Specialist), Ian Thomson (Committee Specialist), Christine Randall (Senior Committee Assistant), and Rowena Macdonald and Carolyn Bowes (Committee Assistants).

### Contacts

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# 1 Introduction

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1. The Main Supply Estimates for 2014–15, published on 29 April 2014, are the means by which the Government requests resources from Parliament to meet its expenditure plans for the financial year ahead.<sup>1</sup> This Report covers the Main Estimates of the Ministry of Defence (MoD) and of the Armed Forces Pension and Compensations Schemes.

2. Departments are required to prepare Estimate Memoranda to accompany each Estimate presented to the House.<sup>2</sup> These Memoranda are intended to provide Select Committees with additional information and explanations of the spending proposals being put before the House.

3. The MoD has provided us with an explanation of the key elements of its Estimates in its associated Memoranda.<sup>3</sup> We sought further information about the activities underpinning changes in the Main Estimates in 2014-15 which the MoD provided in a supplementary memorandum.<sup>4</sup> The purpose of this Report is to present the information received from the MoD.

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1 HM Treasury, Central Government Supply Estimates 2014-15 Main Supply Estimates, [HC 1233](#), 29 April 2014

2 Guidance on the content of Estimates memoranda is prepared jointly by the Scrutiny Unit of the House of Commons and the Treasury and published in the [Treasury's Estimates Manual](#) July 2011

3 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI 0001](#))

4 Ministry of Defence Supplementary Memorandum ([MAI003](#))

## 2 The Ministry of Defence Main Estimate 2014-15

### *Resource and Capital Expenditure Requests*

4. The MoD is requesting total resources of some £39.9 billion plus capital of some £7.5 billion for 2014-15. The MoD told us that its spending plans for 2014-15 were based on the final year of the Spending Review agreement in 2010.<sup>5</sup> The main components of the MoD's budget are given in Table 1.

**Table 1: Components of the MoD's budget for 2014-15**

Resource Spending within Departmental Expenditure Limit*	£ million	Percentage
Provision of Defence Capability: Programme Administration	33,732 1,866	93% 5%
Operations	839	2%
<b>Total Resource Departmental Expenditure Limit</b>	<b>36,437</b>	<b>100%</b>
Annually Managed Expenditure*	3,425	
Total Net Request for Resources	39,862	
<b>Capital Expenditure</b>		
Provision of Defence Capability	7,484	100%
Operations	23	-
<b>Total Net Request for Capital Departmental Expenditure Limit</b>	<b>7,507</b>	<b>100%</b>

Notes: \* Departmental Expenditure Limits (DEL) are firm plans for three years for a specific part of a department's expenditure. DEL covers all administration costs and programme expenditure except where some programme expenditure cannot reasonably be subject to close control over a three year period or spending relates to non-cash costs other depreciation and impairments.<sup>6</sup>

Annually Managed Expenditure (AME) is spending that does not fall within DELs. Expenditure in AME is generally less predictable and more difficult to control than expenditure in DEL.<sup>7</sup>

Source: MoD Main Estimate<sup>8</sup> and MoD Memorandum<sup>9</sup>

5. The overall Resource Departmental Expenditure Limit (DEL) for 2014-15 is some one per cent more than that for 2013-14 and the Capital Departmental Expenditure Limit is

5 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI 0001](#))

6 Public Expenditure Statistical Analyses 2011 ([Cm 8104](#)) page 205

7 *Ibid*, page 202

8 HM Treasury, Central Government Supply Estimates 2014-15 Main Supply Estimates, [HC 1233](#), 29 April 2014

9 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI 0001](#))

some 23 per cent less. A comparison of estimated expenditure for 2014-15 and 2013-14 is given in Table 2.

**Table 2: Comparison of the Request for Resource and Capital Expenditure**

	2014-15 £ million	2013-14 £ million	Percentage change
<b>Resource spending</b>			
Defence capability	33,732	31,508	7%
Administration	1,866	2,096	-11%
Operations	839	2,651	-68%
<b>Total Resource DEL</b>	<b>36,437</b>	<b>36,255</b>	<b>1%</b>
Annually Managed Expenditure	3,425	2,471	39%
<b>Total Resource spending</b>	<b>39,862</b>	<b>38,726</b>	<b>3%</b>
<b>Capital spending</b>			
Defence capability	7,484	9,429	-21%
Operations	23	325	-93%
<b>Total capital DEL</b>	<b>7,507</b>	<b>9,754</b>	<b>-23%</b>

Source: MoD Main Estimate<sup>10</sup> and memorandum<sup>11</sup>

6. In its memorandum on the Main Estimate, the MoD provided information about the cost of its Resource DEL split by type of expenditure such as personnel costs, which total some £8.8 billion for the Armed Forces and a further £2.3 billion for civilian personnel. The split of MoD planned expenditure by function for 2014-15 is given in Table 3 below. We note that the 2014-15 Estimate for Defence Equipment Support costs increased by some eight per cent from 2013-14. The MoD told us that this increase was due to the following:

The Equipment Support Programme costs have increased with provision, for example, to reflect the entry into service of the A400M, an increase in the number of Voyager Aircraft and flying hours, T3 Typhoon additions and a major infrastructure build programme at Atomic Weapons Establishment.<sup>12</sup>

10 HM Treasury, Central Government Supply Estimates 2014-15 Main Supply Estimates, [HC 1233](#), 29 April 2014

11 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI0001](#))

12 Ministry of Defence Supplementary Memorandum ([MAI003](#))

**Table 3: Planned expenditure by function in the Main Estimate for 2014-15**

Cost Type	Total £million
<b>Direct Resource DEL</b>	
Service Personnel Costs	8,816.1
Civilian Personnel Costs	2,298.4
Infrastructure Costs	4,482.6
Inventory Consumption	1,835.9
Equipment Support Costs	6,441.3
Other Costs and Services	1,929.3
Research and Development	1,041.6
Receipts and other income	(1,114.1)
Cash release of provisions	241.9
Arms Length Bodies	171.9
<b>Total non-ring fenced Direct Resource DEL</b>	<b>26,144.9</b>
Depreciation and Impairments–MoD	9,450.0
Depreciation and Impairments–Arms Length Bodies	3.0
<b>Total</b>	<b>9,453.0</b>
<b>TOTAL ESTIMATED DEL COSTS</b>	<b>35,597.9</b>

Source: Ministry of Defence<sup>13</sup>

### **Additional costs of military operations**

7. The additional costs of military operations are met from the Treasury Reserve and not from the MoD core budget. The Treasury has asked the MoD to request only 80 per cent of the cost of operations in Afghanistan in the Main Estimate and to request any remaining funds at the time of the Supplementary Estimates. The MoD told us that the Treasury agreed that it would fund any additional costs at the time of the Supplementary Estimate:

The costs of operations are significantly driven by the tempo of operations, affecting equipment support cost, attrition, fuel and ammunition consumption. In addition, exchange rates, fuel prices and actual costs incurred with contractors can all also vary during the financial year. MoD has involved HMT [Treasury] in formulating the estimate to reassure them of the rigour applied and to inform forecasts of wider Government spending. The ME [Main Estimate] provides funding now for 80% of the forecast net additional costs of operations in Afghanistan this year, recognising that the costs are subject to change due to the reasons outlined above. There is

explicit agreement with the HMT, however, that they will fund in full any additional costs at SE [Supplementary Estimate].<sup>14</sup>

8. The MoD identified the costs of operations in Afghanistan separately in its memorandum. The amount requested for these operations in 2014-15 is some £775 million, a reduction of some £1,495 million from the sum requested for 2013-14.<sup>15</sup> The reduction in planned expenditure reflects the withdrawal of UK Forces in Afghanistan by January 2015. There is no planned expenditure in the Operations section of the Main Estimate other than that for Afghanistan.<sup>16</sup>

9. The concept of the Deployed Military Activity Pool (DMAP) was introduced for the first time in the 2013-14 Main Estimate. The MoD described the DMAP as follows:

The DMAP is a new joint Treasury and MoD initiative to make available resources to fund the initial and short term costs of any unforeseen military activities, as authorised by the National Security Council. As with the policy for Afghanistan and the Wider Gulf, only the net additional costs of certain activities are charged. The Special Reserve element is £25 million and is matched by £25 million available within the MoD's allocation for Defence Capability.<sup>17</sup>

10. A summary of the cost of operations in Afghanistan and planned expenditure on the conflict pool and the deployed military activity pool is given in Table 4 below.

**Table 4: Main Estimate 2014-15 forecast costs for operations in Afghanistan, the Wider Gulf, the Conflict Pool and the Deployed Military Activity Pool**

Operation	Total Estimate 2013-14 £million	Direct Resource DEL £million	Non cash Resource DEL £million	Capital DEL £million	Total Main Estimate AME request £million	Total Main Estimate 2014-15 £million
Afghanistan	2,269.8	596.4	152.8	23.2	2.6	775.0
Wider Gulf	45.0	0	0	0	0	0
Conflict Pool	55.8	64.4	0	0	0	64.4
Deployed Military Activity Pool	25.0	25.0	0	0	0	25
<b>Total</b>	<b>3,195.3</b>	<b>1,849.8</b>	<b>621.3</b>	<b>325.4</b>	<b>3.5</b>	<b>2,800</b>

Source: Ministry of Defence<sup>18</sup>

14 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI 0001](#))

15 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI 0001](#))

16 Ministry of Defence Supplementary Memorandum ([MAI003](#))

17 MoD Main Estimate 2013-14, Second Report of 2013-14 ([HC 571](#)) Ev 1

18 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI 0001](#))



11. The estimated cost of operations in Afghanistan as at the time of the Main Estimate for 2014-15 broken down between the main cost headings, such as personnel costs, is shown in Table 5 below.

**Table 5: The Estimated Cost of Operations in Afghanistan in the Main Estimate for 2014-15**

Cost Type	Total for Afghanistan in 2014-15 £million
<b>Direct Resource DEL</b>	
Civilian Personnel	6.8
Military Personnel	55.0
Stock/Other Consumption	170.6
Infrastructure Costs	199.4
Equipment Support Costs	620.2
Other Costs and Services	108.9
Receipts and other income	(9.3)
Cash release of provisions	2.9
<b>Total Direct Resource DEL</b>	<b>596.4</b>
Non cash Resource DEL	152.8
<b>Total Resource DEL</b>	<b>749.2</b>
<b>Capital DEL</b>	
Capital Additions—single use military equipment (SUME)	13.3
Capital Additions—fiscal	9.9
<b>Total Capital DEL</b>	<b>23.2</b>
<b>TOTAL ESTIMATED DEL COSTS</b>	<b>775.0</b>

Source: Ministry of Defence<sup>19</sup>

12. The MoD told us that operational costs in Afghanistan reflect the planned UK force levels in theatre in support of the NATO-led international mission in Afghanistan for 2014-15. The costs are significantly driven by the tempo of operations which affects equipment support costs and fuel and ammunition consumption.<sup>20</sup> The MoD also told us that the net additional costs of the UK's contribution to the Afghan National Army Officer Academy and the institutional development of the Afghan National Security Forces were funded from the HM Treasury Special Reserve and were part of the planned operational costs. The estimated costs of this support in 2014-15 are £14.5 million.<sup>21</sup>

19 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI 0001](#))

20 Ministry of Defence Main Estimate 2014-15 Memorandum ([MAI 0001](#))

21 Ministry of Defence Supplementary Memorandum ([MAI003](#))

## Armed Forces Pension and Compensations Schemes Main Estimate 2014-15

13. The Armed Forces Pension and Compensation Schemes came into force in April 2005. The Compensation Scheme provides compensation for injury, illness or death which is caused by service on or after 6 April 2005. For injury or illness, the Scheme provides a tax-free lump sum for pain and suffering, the size of which reflects the severity of the injury or illness. Payments range from £1,200 to £570,000. For those personnel with more serious injuries and illnesses, the Scheme also provides an income stream known as the Guaranteed Income Payment. This is a tax-free, index-linked monthly payment which is paid for life from the point of discharge.<sup>22</sup>

14. The Schemes' spending plans for 2013-14 are based on the expected take-up of pensions of retired Service personnel and the expected claims under the Compensation Scheme, taking account of anticipated mortality within the existing pensioner population. This Estimate covers the payment of pensions and compensation; the costs of administering the Schemes fall to the MoD Main Estimate.<sup>23</sup> This Estimate requests provision of Net Resources of £6,749 million leading to a Net Cash Requirement of £2,418 million. The number of pensioners in the scheme has increased from 398,840 in 2010 to 412,402 in 2013,<sup>24</sup>

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22 [http://www.veterans-uk.info/pensions/afcs\\_overview.html](http://www.veterans-uk.info/pensions/afcs_overview.html)

23 Armed Forces Pension and Compensation Schemes Main Estimate 2014-15 Memorandum ([MAI002](#))

24 *Ibid*

## 3 Conclusion

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15. The House should be aware that the MoD is requesting net resources of some £39.9 billion and capital expenditure of some £7.5 billion in its Main Estimate and net resources for the Armed Forces Pension and Compensation Schemes of £6.7 billion for 2014-15. Within the total requested the MoD has asked for some £0.8 billion to cover the cost of operations, some £1.5 billion less than in 2014-15 reflecting the drawdown of troops. Resource expenditure is also in line with the agreed Spending Review 2010. We recommend that the Main Estimates for the MoD and the Armed Forces Pension and Compensation Scheme are approved by Parliament.

# Formal Minutes

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**Tuesday 24 June 2014**

Members present:

	Rory Stewart, in the Chair	
Mr Julian Brazier		Sir Bob Russell
Mr James Gray		Bob Stewart
Mr Dai Havard		Ms Gisela Stuart
Mrs Madeleine Moon		Derek Twigg

Draft Report (*Ministry of Defence Main Estimates 2014-15*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

*Resolved*, That the Report be the First Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

[Adjourned till Wednesday 25 June at 2.00 pm]

## Published written evidence

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The following written evidence was received and can be viewed on the Committee's inquiry web page at [www.parliament.uk/defcom](http://www.parliament.uk/defcom).

- 1 Ministry of Defence (MAI 001)
- 2 Ministry of Defence (MAI 002)
- 3 Ministry of Defence (MAI 003)

# List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the Committee's website at [www.parliament.uk/defcom](http://www.parliament.uk/defcom).

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2013–14

First Report	MoD Supplementary Estimate 2012–13	HC 291 (HC 644)
Second Report	Ministry of Defence Main Estimates 2013–14	HC 517 (HC 670)
Third Report and First Joint Report	Scrutiny of Arms Exports and Arms Control (2013): Scrutiny of the Government's UK Strategic Export Controls Annual Report 2011 published in July 2012, the Government's Quarterly Reports from October 2011 to September 2012, and the Government's policies on arms exports and international arms control issues	HC 205 (Cm 8707)
Fourth Report	The Armed Forces Covenant in Action? Part 3: Educating the Children of Service Personnel	HC 586 (HC 771)
Fifth Report	The Armed Forces Covenant in Action? Part 4: Education of Service Personnel	HC 185 (HC 759)
Sixth Report	The Defence Implications of Possible Scottish Independence	HC 198 (HC 839)
Seventh Report	Towards the Next Defence and Security Review: Part One	HC 197 (HC 1175)
Eighth Report	Ministry of Defence Annual Report and Accounts 2012–13	HC 653 (HC 1198)
Ninth Report	Future Army 2020	HC 576
Tenth Report	Remote Control: Remotely Piloted Air Systems—current and future UK use	HC 772
Eleventh Report	Deterrence in the twenty-first century	HC 1066
Twelfth Report	UK Armed Forces Personnel and the Legal Framework for Future Operations	HC 931
Thirteenth Report	Afghanistan—Camp Bastion Attack	HC 830
Fourteenth Report	Intervention: Why, When and How?	HC 952
Fifteenth Report	Afghanistan	HC 994

## Session 2014–15

First Report	MoD Estimate 2014–15	HC 469
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