VALUE FOR MONEY STUDY INTO THE SUPPORT TO AND ENTITLEMENTS OF MINISTERS, SENIOR OFFICERS AND SENIOR OFFICIALS

A Joint Paper by ACDS(S&P) and D S&R

1. This paper summarises the outcome of a study into the support provided to and entitlements of the Department’s Ministers and senior staff.

BACKGROUND

2. This study of entitlements was commissioned against the background of public and media scrutiny of MPs expenses, and conducted by the Defence Business Improvement team.

3. The study focussed on the entitlements of Ministers and the department’s 2*, 3* and 4* officers and officials and, where appropriate - for example when examining the entitlement to residences - some 1* staff. The study covered the following areas:
   - Outer Office support;
   - Travel – staff cars and drivers/commercial air travel/communications fleet;
   - Official Service Residences and associated costs; and
   - Official Entertainment.

4. This work resulted in a number of conclusions and recommendations for change which are discussed in detail below.

CONDUCT OF THE STUDY

5. In undertaking the study, the team considered the relevance and appropriateness of these entitlements when set against a backdrop of the tough economic climate and a society with changing expectations. It was important to balance these factors with the expectations of our own people, in particular the military, given that at least one of the areas under study impacted their personal as well as professional lives. In taking forward the work, the team were looking to identify change that would bring about a set of entitlements that were driven by the business need and that were clear, appropriate and comprehensive. Finally, the team looked at governance arrangements, to examine whether appropriate measures were in place to ensure that these entitlements were being applied in a consistent manner across the Department.

6. The team were aware that there were both internal and external presentational issues that should be considered.
STUDY FINDINGS

Outer Office support

7. A survey of 4*, 3*, 2*, and a sample of 1* offices was undertaken to ascertain the make-up of these support arrangements across all TLBs. The results returned information on the outer offices of six Ministers and 206 senior staff. Capitation rates were then used to develop a cost profile and an extrapolation to full cost for the whole of the MOD. This exercise revealed that support to staff at 1* and above across the Department costs at least £76M; as this is an extrapolation of sample data caveats need to be placed on the accuracy of the figure.

8. A clear business requirement for the provision of outer office support was identified. Comparisons with other government departments showed that Ministers’ offices compared well in terms of average staff numbers. There was no single template for outer offices of senior officers and officials and there were a number of variances across the TLBs, however, there was a general tendency for military outer offices to be larger and significantly more expensive than those of civilians. Overall, and notwithstanding the need to recognise the Department’s particular security challenges, the cost of outer offices across defence is higher than comparators. This is partly because of numbers and partly because of the greater cost of military staff providing this support.

9. A number of models were generated that illustrated the potential to make savings through a process of reduction and civilianisation of support staff, although it is accepted that one model will not suit every circumstance and there will be necessary variances driven by the business need. The Department should use one of the proposed models as a baseline that will be appropriate in most cases, with a Business Case being required for any additional Outer Office support. Model B provides the lowest cost option, with potential to secure annual savings of £37M (Model B). Model A retains more expensive SO2/3 staff to provide support.

<table>
<thead>
<tr>
<th></th>
<th>Current Situation</th>
<th>Indicative 'As Is'</th>
<th>Totals for both Models A&amp;B</th>
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Recommendation 1: That the Board recognise that the cost of private offices is significant and should be reduced, and directs adoption of either Model A or B as the standard approach for Defence, accepting that there will be necessary variances driven by business need, supported by business cases.
Travel – Staff Cars and Drivers

10. The Department operates a fleet of Staff Cars that are procured through the White Fleet Contract. These cars are available to Ministers (except the Secretary of State, whose secure vehicle is provided by the Government Car and Despatch Agency), to senior officers and officials and to officers of lower rank who are in command appointments. There are two types of Staff Car:

- Grade A Staff Cars which are mid-range saloon cars with a superior standard of interior and generally provided with a driver\(^1\). Most of these 70-plus vehicles are permanently allocated to senior staff, although senior civilian staff and Ministers in Main Building have recently moved to a pool car arrangement.

- Grade B Staff Cars which are of a similar size to Grade A but with standard interiors. There are estimated to be between 140 and 160 of these vehicles and they may have a driver or be self-driven.

11. The estimated (comprehensive data on actual costs is not currently collected) annual cost of running this fleet of vehicles is some £10.4M. Moreover, if, as it is assumed, the 52 officers at 2\(^{nd}\) rank who recently lost their entitlement to a Grade A car are subsequently allocated a Grade B vehicle with driver, this cost would rise to some £13.6M.

12. Overall responsibility for Staff Car matters lies with 2\(^{nd}\) PUS. She is supported by the Defence Movement and Transport (DMT) Division within DE&S, and governance is exercised through the Staff Car Review Group (SCRG) which is currently chaired by D Land Equipment. Although there is only a small differential in the cost of the two classes of Staff Car, particularly if both have drivers, the way they are treated is markedly different. Apart from the civilian and Ministerial pool in the Head Office, the remaining Grade A Staff Cars are permanently allocated to individuals through a Staff Car Allocation List (SCAL), whereas there is little central governance of Grade B Staff Cars and for this reason the full number of vehicles in this class cannot be accurately stated.

The Department should regularise allocation of all vehicles and drivers by setting out a common set of regulations and expanding the SCAL to include all Grade B vehicles and any other type that has a full time non-operational driver. Furthermore, given the sensitivity of the issue, it would be more appropriate for policy responsibility to rest in Head Office rather than DE&S. With transfer of responsibility a complete review of current policy should be undertaken which recognises the increasing use and flexibility of car pools.

Those with a clear business need for a permanently allocated staff car should continue to have one. But we envisage that such a review would conclude that a proportion of the roughly 270 senior staff who currently have a permanently allocated staff car would be adequately served through the use of (possibly expanded) car pools. Finally, the study reviewed recent changes to the arrangements for the provision of cars to some senior staff in Main Building and recommends that a VFM cost-comparator exercise should be undertaken between cars being managed by the in-house service or by the Government Car and Despatch Agency, to determine the most appropriate service provision option.

This exercise should assess the continued security needs of senior military staff, and a requirement for drivers trained in anti-hostage techniques.

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\(^1\) Drivers may be military or civilian and their rank and grade can vary considerably.
13. The Board will be aware of the Chancellor’s announcement, now implemented, to cut Ministerial cars, and that expenses of senior military figures (including official cars) are to be published as part of proactive disclosure.

**Recommendation 2:** That the Board agree to: transfer policy responsibility for staff cars to Head Office; task the DOB to review current policy, including to recognise the increasing use and flexibility of car pools; expand the Staff Car Allocation List to include all Grade B vehicles and any other type that has a full time non-operational driver; and to undertake a VFM exercise (on GCDA verses in-house) to determine the most appropriate and effective method for providing cars to senior staff in Main Building.

**Travel - Commercial Air Travel**

14. Annual Departmental spend on commercial air travel across all grades for FY 08/09 was £83.8M at a rate of nearly £7M or 25,000 transactions per month. Of this amount some £445K is First Class, over £27M is Business Class, over £4M is Premium Economy and over £51.5m is Economy Class.

15. Analysis revealed that the total cost of flying by Ministers and 4*s in FY 08/09 amounted to just over £1M, with around 63% of the Department’s First Class travel being undertaken by these grades. Air travel for 2*s and 3*s cost £3.6M of which 1.5% was First Class. The study uncovered problems with the integrity of some of the data on flights, which are being addressed by the Defence Travel Management Organisation.

16. Although the cost of first class air travel is a very small proportion of the Department’s overall expenditure this is an area that attracts considerable public scrutiny and requires an approach that can be fully justified. Therefore, the study concludes that the Department should follow OGDs and the recent cross Whitehall review of expenses, led by Jon Thompson, in setting out entitlements to air travel on a business need basis rather than by entitlement by grade. This would ban first class air travel, and that only flights above four hours could be premium economy or business class, and then only if there is a clear business need.

17. The Board should note that MOD no longer operate the Washington trooper (which was exclusively contracted with Virgin), but instead London to Washington travel is now from a number of operators with discounted rates, and spot ticket prices.

**Recommendation 3:** That the Board maintain commitment (as effectively agreed in May 13 Defence Board) to implement the recommendations of the cross Whitehall review of expenses on air travel, that entitlements to air travel should be based on business need rather than grade and that first class air travel will be banned.

**Travel - Communications Fleet**

18. There is a requirement for small and medium sized passenger aircraft to transport personnel and equipment to and from operational theatres. This service, together with an element of Non-Operational flying in the UK, is provided by a Communications Fleet.

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² The Civil Service Review of Expenses covered other issues too, including the use of first class travel on trains (where it also recommended the replacement of rank based entitlements with business need). The review is currently out for consultation with the civil service unions. How the MOD implements that review in totem will be covered in a separate VFM study on business travel.
consisting of fixed and rotary wing aircraft (the rotary wing operate in a Non-Operational capacity only).

19. The study concludes that the clear operational role of BAe 125 and 146 aircraft fully supports the requirement for a Non-Operational element of flying to enable pilots to maintain currency and for training. Since these activities are necessary, it makes sense to combine the requirement with the transport of senior officers and officials on business at marginal cost.

20. The rotary wing element of the Communications Fleet, which comprises three A109s, is used far more frequently than the fixed wing within the UK but has no operational role. The case for retaining these aircraft specifically for a non-operational role is far less strong given the current fiscal environment and the PR10 decision not to replace them on expiry of their contract in 2011. This course of action would realise an annual saving of around £2.4M. However, rotary wing transport does support timely movement between inaccessible UK locations within the day, and for occasional VIP travel this might be met from the existing (or slightly expanded) Lynx fleet, in conjunction with pilot currency and training hours.

Recommendation 4: To confirm the PR10 decision of the May 13 Defence Board not to fund replacement of the A109 contract. To undertake action to identify whether the requirement for occasional VIP travel within the UK can be met from within the current (or slightly expanded) UK based operational fleet of Lynxs.

Official Service Residences and associated costs

21. Official Service Residences (OSRs) are Type I or II Service Families Accommodation (SFA) enhanced to a superior standard in terms of furniture, fittings and equipment. There are currently 32 OSRs, mostly in the UK, but also overseas, that had a total running cost of some £5.13M in FY 08/09. They have reduced in number considerably since the last major review by Sir Peter Cazalet in 1995. OSRs vary in size and profile from flats to properties “inside the wire” of large establishments and country houses; several are listed buildings and they each require significant amounts of periodic maintenance. They range in value from £500K to £3.5M but there is no correlation nor link by entitlement between the status of the occupant and value of the property.

22. OSRs are justified solely by their use as venues for representational hosting of senior figures, including dignitaries from overseas, and it is the post of the resident rather than the individual that attracts the status. In FY 08/09 the pattern of hosting was variable, with seven OSRs not being used for this type of entertainment at all. Staff costs for residences over the same period amounted to £3.4M of the total £5.13M. In the course of the study it became apparent that significant levels of domestic assistance, including some House Managers, are allocated to officers in Command appointments who live in non-OSR Type I & II SFA. Although the regulations for OSRs are clear and tightly drawn this is not the case for Type I&II SFA. The study, therefore, recommends that the rules on domestic assistance are reviewed and applied consistently across the department.

23. The study team heard a variety of views on the value of entertaining in the home and concludes that, given the staff costs involved and the current fiscal environment, the case for OSRs is open to question and likely to attract public scrutiny. It is, therefore, recommended that the specific OSR designation is removed as current incumbents leave post, and that the properties involved should revert to Type I or II SFA. It is not
recommended that any of the specialist furnishings are removed and that readjustments should only be made on the need for replacement. The facilities and opportunity to entertain will remain, but should be staffed on an event-by-event basis. Savings resulting from this measure will, in themselves, not be significant and the move is largely presentational.

24. However, the Department does need to revise and improve arrangements for capturing the costs for all remaining Type I and II SFA – some 381 properties, including 24 former OSRs. These vary considerably in size and cost an estimated £31M to run in FY 08/09 (over £80K each). A review of them should be undertaken with a view to disposing or changing the use of the most expensive to deliver a cheaper and more appropriate property portfolio.

Recommendations 5: That the Board agree: to remove the Official Service Residence designation, placing all Service Families Accommodation on a consistent basis; that the costs of the Type I and Type II estate should be gathered with a view to disposing of properties that are expensive to maintain, or putting them to alternative use; that the levels of domestic assistance being provided to the occupants of Service Families Accommodation should be reviewed and applied consistently across the Department, ensuring acceptable levels of security can be achieved where and when events are held.

Official Entertainment

25. Official Entertainment (OE) by Ministers is usually funded from the Protocol Budget and Hospitality Fund. OE undertaken by senior officers and officials represented some £200K, or 5% of the Departmental spend of £4.2M during FY 08/09 and is the smallest of the four areas of entitlement examined during this study. OE is a method which the Department appropriately supports and facilitates the achievement of MOD objectives through the entertainment of internal and/or external personnel.

26. The conclusions of the study are that OE spend levels are not excessive but that expenditure incurred may not always be appropriately targeted. In particular, the OE classification ‘Hosting UK Dignitaries/Officials’ is likely to attract public scrutiny and be open to question when it is used to entertain other Defence personnel at public expense. The Department should, in conjunction with OGDs and preferably with cross Whitehall consistency, consider carefully whether this designation is still appropriate and define clearly the circumstances under which such entertainment could be justified.

27. The current practice of reimbursing expenditure on a ‘cost per person’ basis results in an overly bureaucratic system that often leaves hosts out of pocket. A move to a ‘cost per event’ model based on that used by the Canadians is recommended. Finally, in terms of governance, the current paper based system does not enable central scrutiny or transparency of expenditure in a way that will best protect individuals and the Department’s reputation. A low cost, electronic system using software already available to current DIIF users would reduce the administrative burden and improve central transparency. This should be put in place, resources permitting.

Recommendation 6: That the Board agree to: task the DOB to consider, in conjunction with OGDs and preferably with cross Whitehall consistency, whether it is appropriate to continue the Official Entertainment category of ‘hosting UK dignitaries/officials’ when it is used to entertain other Defence personnel at public
expense; and to move from a ‘cost per person’ to a ‘cost per event’ model for Official Entertainment, to avoid hosts being left out of pocket.

CONCLUSION

28. The study is supported by a comprehensive body of data and numerous field interviews and visits. Where possible it has made comparisons across Government and overseas. All the entitlements considered are being appropriately applied and claimed in accordance with the current regulations. But there are areas where current regulations are confusing, lack consistency of application and require greater central control. The question of whether the senior entitlements remain “relevant and appropriate to modern Defence” is inevitably more subjective. There needs to be a balance between what we ask of our senior officers and providing them with the means to deliver. It is believed that the recommendations strike such a balance and are commensurate with the aim of modernising process and practice, promoting value for money and sending a positive signal, both internally and externally, about the Department’s willingness to recognise the realities of UK today.