Meg Hillier MP  
Chair of the Public Accounts Committee  
Sent electronically

Dear Chair,

CLARIFICATION REGARDING 4 JUNE EVIDENCE SESSION

You will be aware that the NAO have been undertaking a value for money study on the civilian workforce at MOD. We are in the process of clearing the report findings on a factual basis.

As part of the review and clearance process, my attention has been drawn to a possible misinterpretation of an assurance I gave you when explaining the basis upon which the Department is delivering civilian workforce savings in the Skill Shortages in the Armed Forces hearing of June 2018. I want to clarify the basis of that assurance as soon as it was brought to my attention and to ensure that this clarification is available for public record.

By the time of my appearance before the Committee, we had already embarked on work to develop our new approach to transformation, including in relation to the way we manage and deploy our whole workforce.

In the SDSR 15 settlement, we agreed to deliver a further £310m of savings from civilian workforce reductions. The settlement assumed that any projects already planned at this point were part of our financial baseline and that the new target should come from additional initiatives. It subsequently became clear that this target risked the department pursuing projects that delivered gross savings to the civilian pay bill, but were inherently inefficient, could have eroded military capability, and failed to deliver value-for-money to the taxpayer. For example, the target in principle incentivised MOD to outsource up to 4,000 civil service posts even if the contracts provided poorer outputs, at greater risk and cost and thus with the potential need for compensating savings elsewhere in front line capability.
When I reviewed progress against the target in 2017, I therefore sought to formally reconsider with Whitehall colleagues the assumptions underpinning the saving. I argued that we should, of course, continue to find savings from the civilian budget equating to £310m but to do this in a way that provided sustainable net efficiency improvements to MOD while preserving military capability, rather than blunt cuts to numbers. In making this case, my overall aim was to establish a more mature and effective basis on which MOD could drive and demonstrate efficiency, not just in the people area but across all aspects of Defence business.

The case for moving away from crude input savings and towards sustainable efficiency was accepted and recognised in the outcome of the MDP, where the Department stated: “we now plan to strengthen the performance of the whole force… …This will have implications for the size and shape of our future workforce, which will be worked through in detail. The outcomes of that work will therefore supersede the civilian workforce assumptions made in SDSR15”

This was the evolving context in which I made my remarks to the Committee, saying:

*The number of civilians is not high in comparison with what it was. The number of civilians we have lost from defence over the past 10 years is in the tens of thousands. I am very happy to provide the Committee with further information on that. We are looking at whether the timing of the 30% target is fully appropriate at the moment. It is certainly within the scope of Modernising Defence. I can assure the Committee that we are certainly on track to save the associated financial target of £310 million from civilian personnel.*

With hindsight, in giving this final assurance I should have made clear more of the context above, and explained the basis on which I judged that we were on track. This was twofold:

- In May 2018 I received an independent external review to assure our approach and financial baseline for efficiency savings including opportunities for cross cutting transformation within the Department (including TLB level savings) which stated we could ultimately meet our overall efficiency targets; this included confirmation that workforce savings would be a significant source of future efficiencies, both through automation of back-office activities and logistics, and through creating a more agile and flexible workforce; and

- That the work of the MDP would include within its scope more enduring ways of getting at the financial savings anticipated, provided we adopted a new approach to transformation.

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2 The report states how significant efficiencies could be delivered through four key areas, including People and use of automation. It states that adopting this new approach should allow an £8.4 billion efficiency shortfall to be delivered over 10 years.
I should also have explained the further conclusion of the independent review that the £310m saving would not be delivered by its target date of 2020, which was a risk the department flagged when the target was agreed. However, I recognise that my remarks were open to misinterpretation and apologise for any misunderstanding.

Yours sincerely,

STEPHEN LOVEGROVE