

SIR STEPHEN LOVEGROVE, KCB



Ministry
of Defence

MINISTRY OF DEFENCE
FLOOR 5, ZONE D, MAIN BUILDING, WHITEHALL
LONDON SW1A 2HB

Telephone: 020 7218 7975
Fax: 020 7218 3048
E-mail: PUS-PrivateOffice@mod.gov.uk

PERMANENT SECRETARY

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Meg Hillier MP
Chair of the PAC
Sent electronically

Dear Chair,

ARMED FORCES PEOPLE PROGRAMME ACCOUNTING OFFICER ASSESSMENT

It is normal practice for Accounting Officers to scrutinise significant policy proposals or plans to start or vary major projects, and then assess whether they measure up to the standards set out in *Managing Public Money*. From April 2017, the government has committed to making a summary of the key points from these assessments available to Parliament where it involves a project within the Government's Major Projects Portfolio.

The Armed Forces People Programme (AFPP) was established to deliver strategic policy objectives identified in the Strategic Defence and Security Review (SDSR) 2015. It was designed to address several shortcomings associated with the attractiveness and affordability of the present employment offer for Service personnel and issues with access to some key skills.

The Accounting Officer Assessment was initially triggered by a breach of (financial) benefit tolerances as AFPP will not deliver its programmed benefits of £1.2Bn over the period from 2015-2025 coupled with a decision to close the programme (although several of its projects will continue).

This assessment is made by me as the Permanent Secretary (and Accounting Officer), Ministry of Defence (MoD).

Background

The Infrastructure and Projects Authority agreed that AFPP should be closed as a programme with effect from the end of September 2019. This decision reflected the fact that AFPP no longer represented a coherent programme of interdependent work sufficient to justify the overhead of programme-level direction and governance, along with the creation of a new Defence People Portfolio that will oversee significant people-related change and transformation across Defence.

Two of the former AFPP projects (Future Accommodation Model and Enterprise Approach) will continue, with delivery reported through the new Defence People Portfolio and to existing internal governance mechanisms (such as the Defence People Committee and Investment Approvals Committee as required). A third, Early Departure Payment Evolve has been slowed as a project and is being progressed as part of wider Pensions Development work.

The status of projects that were established as part of AFPP is as follows:

- a) Future Accommodation Model (ongoing): This project aims to provide Service personnel and their families with more choice over where they live and who they live with. A pilot phase commenced in September 2019 at Her Majesty's Naval Base (HMNB) Clyde, with Aldershot Garrison following in January 2020 and RAF Wittering in May 2020. This approach was confirmed to Parliament by Ministers on 1 April 2019.
- b) Flexible Service (delivered): Flexible Service was a terms of service modernisation and people retention project. Flexible Service legislation came into effect on 1 April 2019, allowing Regular personnel of the Armed Forces to ask to temporarily work part-time and/or restrict their separation from home base. Applications are decided by the individual's Service, based on operational capability and eligibility requirements.
- c) New Joiner Offer (closed): This project aimed to design and deliver a new employment offer for future recruits that better reflected modern life, thereby sustaining the recruitment and retention of sufficient numbers of capable and motivated Service personnel into the future, whilst reducing the cost to Defence. Following a review, the then Secretary of State agreed that it should be closed in mid-2018 as successful delivery of benefits appeared unlikely. Work dealing with ongoing reform of Service pay is continuing as part of normal pay-policy development by MOD and Pensions Development (see below).
- d) Enterprise Approach (ongoing): aims to strengthen external partnerships with industry to support skills development and preservation within Defence. Defence has established a 'coalition' of willing partners who have co-designed a number of interventions that will be tested throughout 2020. The first will test whether Army drivers can increase their driving skills, gain qualifications and experience not possible in their core defence role by working with the private sector. Second, by developing bespoke, targeted placements, whether Defence can benefit from a reduced time in which it takes to train an individual to a certain skill level in Cyber.
- e) Early Departure Payment Evolve: This is no longer a project but the concept of changing the Early Departure Payment 15 scheme for future joiners is being taken forward under AF Remuneration – Pensions Development. Options include: reform to achieve savings; or modernise to reinvest some savings to mitigate the impact on retention. Modernisation may require a project approach, however, any change will be constrained by the higher priority work to deliver a McCloud judgment remedy.

Assessment against AO Standards

Regularity

Both Flexible Service and the Future Accommodation Model required supporting legislation, and in both cases, this has been enacted. Flexible Service required a small amount of primary legislation to introduce the ability for Regular Service personnel to apply to serve part-time and / or restrict the amount of time they are separated from their home base. This achieved Royal Assent in February 2018. Separately, several Statutory Instruments and other Armed Forces regulations were amended under secondary legislation. Flexible Service was successfully introduced in April 2019, with applications opening ahead of schedule.

Legislation required for Future Accommodation Model to exempt accommodation allowances paid to Service personnel from tax was included in the Finance Bill announced in the Chancellor's Autumn Statement 2018 and the tax legislation was laid on 11 June 19 and came into effect on 2 July 2019.

Enterprise Approach is not presently expected to require any legislation to deliver and legislative requirements for changing the Early Departure Payment scheme will depend on the nature/scope of any changes ultimately proposed.

There is an overall approvals process for each of the remaining projects that is compliant with MoD policy and Managing Public Money. This typically involves assurance, scrutiny and sign-off of overall proposals and policy designs by senior Boards up to and including the Defence People Committee with input from Service Chiefs of Staff and agreement of the Investment Approvals Committee where the financial implications are significant (e.g. for Future Accommodation Model). Her Majesty's Treasury has also been closely engaged with the relevant projects and represented at key project meetings.

In summary, there are no significant changes or issues to report from a regularity perspective.

Propriety

All the ongoing former AFPP projects comply with relevant internal MoD annual budget, financial, project management and commercial management processes.

The Future Accommodation Model project has an appointed Senior Responsible Officer and overall progress is monitored by the FAM Board which is chaired by Head Accommodation and reports the Defence People Committee and Investment Approvals Committee. It is expected that the project will also join the Government Major Projects Portfolio in mid-2020.

The other on-going projects have project boards (or similar) with progress scrutinised and approved by more senior boards in Defence People, up to and including the

Defence People Committee.

There are no significant changes or issues in propriety terms.

Value for Money

The originally programmed financial benefits for AFPP due to be delivered over the period 2015-2025 stem from two of its projects: Future Accommodation Model (£519m) and New Joiner Offer (£660m).

Future Accommodation Model is still expected to deliver significant savings of approximately £300m over the period 2015-2025 and has a forecast savings profile over the following 25 years of £75m per annum once fully rolled out (from 2035 onwards). Financial benefits will be reviewed and confirmed following the pilots and may change depending on the exact model ultimately selected.

New Joiner Offer was reviewed in early 2018, at which point it was concluded that none of the options then under consideration would meet the £660m savings target without significant reductions in remuneration for Service personnel and consequent risk to recruitment and retention. Based on this assessment, and advice from the Defence People Committee and Senior Responsible Officer, the then Secretary of State agreed in May 2018 that the New Joiner Offer project was unlikely to represent value for money and should close.

In terms of wider benefits, modernising and improving the attractiveness of the current offer, and the way in which we manage and develop key skills, should play an important role in addressing recruitment and retention issues in the Armed Forces. For example, the successful delivery of the Flexible Service scheme has been a cost-neutral way of helping demonstrate the Armed Forces are an attractive modern employer. Flexible Service has increased awareness, discussion and uptake of existing flexible working options too, some of which have been in place since 2005. The planned introduction of the Reserve and Rejoiners Portal will allow, for the first time, opportunities for these cohorts to be found in a single place and sent directly to those with the right skills for specific roles. This is expected to increase the efficiency and effectiveness of the department's ability to attract people into these cohorts.

Overall, the remaining projects from AFPP still provide good value for the required investment (estimated to be ~£100m, over the same period) in terms of modernising the present accommodation offer to Service personnel, addressing key skills risks and providing significant financial savings (and potential cost avoidance) during the 2015-2025 period and well beyond.

Feasibility

With the exception of New Joiner Offer and Early Departure Payment Evolve, the projects that formed part of AFPP continue to make steady/good progress.

Flexible Service has been delivered and we are monitoring its early results carefully. Enterprise Approach will shortly start its first trials. In September 2019, the Future Accommodation Model project launched the first of three pilots, upon which the future roll out of the wider project is predicated. The outcome of pilot and trials work will help us assess and confirm overall delivery feasibility and, critically, confirm likely financial and non-financial benefits with a final decision on full rollout expected in 2021.

The outlook for changes to the Early Departure Payment scheme (the paused Early Departure Payment Evolve project) is more uncertain and will depend on the impact of recent litigation affecting all public sector pension schemes and the spending review.

Conclusion

My overall assessment is that the individual former AFPP projects still underway remain deliverable with acceptable risk, remain value for money and should continue.

Continuing to address affordably the recruitment and retention challenges that the Armed Forces face now, and in the future remains an important priority for MOD and will be addressed as part of wider ongoing work on a new Defence People Strategy and Transformation Programme.

As the Ministry of Defence Accounting Officer, I considered this assessment of AFPP and approved it on 17 March 2020. I have prepared this summary to set out the key points which informed my decision. If any of these factors change materially, I undertake to prepare a revised summary, setting out my assessment of those factors.

This summary will be published on the government's website (www.gov.uk). Copies will be deposited in the library of the House of Commons and sent to the Comptroller and Auditor General and Treasury Officer of Accounts.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Stephen Lovegrove', written in a cursive style.

STEPHEN LOVEGROVE