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submitted to the Public Accounts Committee

# **The Ministry of Defence's financial management of the defence agreement funds in the period from 2018 to 2023**

# 1. Introduction and conclusion

## 1.1. Purpose and conclusion

1. This report concerns the Danish Ministry of Defence's financial management of the funding agreed on in the *Agreement for Danish Defence 2018 – 2023* (the defence agreement).

2. Under the agreement, it was agreed to increase defence spending under the Ministry of Defence by DKK 12.8 billion (2018 prices) over the years from 2018 to 2023. The objectives set for the agreement include increasing Denmark's contribution to NATO's collective deterrence and defence and strengthening the contribution made by the Defence to national security. The increased defence budget facilitates the deployment of more operational units and soldiers by the end of the agreement period. Initiatives referred to in the agreement include the establishment of a brigade, capabilities for anti-submarine warfare and a strengthening of the focus on cyber security and cyber defence. Additionally, the initiatives include measures to improve efficiency in various specific areas. As a supplement to the defence agreement, the parties to the agreement entered into a supplementary agreement in 2019 concerning an additional appropriation of DKK 1.5 billion (2019 prices) in 2023 for an expansion of Denmark's capabilities in the Arctic.

3. Following the Russian invasion of Ukraine in 2022, the Social Democratic Party, the Liberal Party, the Socialist People's Party, the Social Liberal Party and the Conservative Party entered an agreement to allocate additional funds to defence in 2022 and 2023 and the subsequent agreement period. The agreement aims to increase Denmark's expenditure for defence and security to 2% of its GDP (gross domestic product) permanently towards the end of 2033.

4. The report was requested by the Danish Public Accounts Committee in January 2022, following an announcement by the Ministry of Defence to the parties to the defence agreement and the public about postponement of the implementation of several of the initiatives in the defence agreement to the next defence agreement period. See the committee's questions in appendix 1.

This report was submitted to the Danish Public Accounts Committee together with the report on the Ministry of Defence's building of a deployable brigade.

### **Agreement for Danish Defence 2018-2023**

This is a political multi-annual agreement aiming to safeguard the economy and political objectives set for Denmark's defence over a longer period. The parties to the agreement were initially the Liberal Party, the Liberal Alliance, the Conservative Party, The Social Democratic Party, the Danish People's Party and the Social Liberal party. In March 2022, the circle of parties to the agreement was expanded with the Socialist People's Party, The New Right and the Christian Democrats.

### **Inspection**

In September 2022, the Ministry of Defence carried out the first part of a general critical inspection of the ministerial remit in order to identify the challenges facing defence that would need to be resolved in the coming defence agreement.

5. In December 2022, the Ministry of Defence carried out the 1st part of a critical general inspection of the ministerial remit. The inspection showed that an additional number of initiatives included in the defence agreement had fallen behind schedule since November 2021. The inspection also identified substantial economic problems that affected the general economy of defence. The economic challenges concern the ministry's basic management of equipment, IT and property. Based on the outcome of the inspection, the ministry established a need to strengthen the group management team and particularly planning and implementation, cross-sectoral management and financial control. The findings presented in the report confirm this need.

6. The purpose of the study is to assess whether the financial management of the Ministry of Defence ensures transparency in the use of the defence agreement funds in the period from 2018 to 2023.



## Main conclusion

**The financial management of the Ministry of Defence has not ensured transparency in the use of the defence agreement funds in the period from 2018 to 2023. The ministry has no overview of the link between progress and the economy during the implementation of the defence agreement. This is not considered satisfactory by Rigsrevisionen. The consequence of the lack of transparency is that the ministry is neither able to fully explain how the funds have been spent nor whether the planned efficiency gains have been achieved at this point. Following the inspection of the state of affairs in the ministry, the ministry established a need to strengthen management, planning and implementation, going forward.**

The defence agreement is a framework agreement which, according to the Ministry of Defence, means that the initiatives in the agreement are to be implemented within the financial framework of the finance act and the ministry, therefore, is neither legally nor politically required to follow up on the economy of the individual initiatives of the agreement or the overall economy according to the agreement.

Rigsrevisionen assesses that the Ministry of Defence should adhere to basic principles for financial management in the public sector. These principles should be adhered to despite the fact that the ministry's financial management of the defence agreement funds is not in conflict with the appropriation regulations governing the area, and even though the wording of the defence agreement does not include an obligation to follow up separately on the economy of the initiatives. The ministry's failure to follow the principles reduces the ministry's opportunities to manage the progress of the implementation of the defence agreement and make informed decisions about priorities.

**The regulations governing funds appropriated for the Ministry of Defence allow the ministry wider leeway than other ministries in deciding how the funds should be administered**

The appropriations for the Ministry of Defence in the finance act are generally neither allocated for specific purposes nor purposes specifically related to the defence agreement. At the same time, the regulations governing the administration of funds appropriated for defence allow the ministry to reprioritise operations appropriations across the ministerial remit. This flexibility allows the ministry to reorder economic priorities and reallocate funds between the agencies. Rigsrevisionen compared the terms of administration under which the Ministry of Defence works to three other ministries and overall neither of these had the same level of leeway.

**With the exception of the funding covered under applications for funding submitted to the Danish Finance Committee, the Ministry of Defence is unable to explain in what way the funds have been spent to solve the tasks and achieve the goals set in the defence agreement**

The defence agreement funds have increased the overall budget of the Ministry of Defence, and the efficiency gains have reduced the budget. The ministry's financial management is not ensuring transparency of the connection between progress against the plan and resources spent on implementing the defence agreement. Nor does the financial management support transparency regarding the extent to which the expected efficiency gains have been achieved. The ministry is, therefore, not able to fully explain what it costs to implement the initiatives of the defence agreement in the present and coming agreement period. Neither can the ministry explain in what way the funds have been spent nor the extent to which the efficiency gains have been realized or had an impact on the operational capabilities of defence. However, the ministry is aware that the implementation of several of the initiatives in the agreement is behind schedule and has been postponed to the next defence agreement period.

**The delayed investments in equipment can have consequences for the achievement of the goal to increase the defence budget's share of Denmark's GDP**

It is the Ministry of Defence's assessment that delayed investments in equipment, seen in isolation, will not have an impact on the economy of the ministry, but will have consequences for the operational capabilities. Unless defence catches up on the delays, or similar investments are made in other equipment, the delays will affect defence spending's share of GDP and the share of the defence budget that is used for investments in equipment.