



Extract from the report to the
Public Accounts Committee on
the inventory held by the Danish
Defence

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1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the inventory held by the Danish Defence (Defence), which in August 2014 had a value of approximately DKK 28 billion (calculation based on purchase prices). The inventory of the Defence is placed on various locations; the central depot is *Lager Danmark* from which all operational units are allowed to requisition materiel. In addition to Lager Danmark, the Defence holds a substantial inventory of materiel designated to meet the demands of the operational units. This inventory is accessible only to the specific units and providing the materiel support they require to perform their daily tasks. All remaining inventory is held in stores from which materiel cannot be readily requisitioned, for instance, because it is under repair.

The inventory held by the Defence supports both national and international operations with general requirements (including food supplies, clothing and boots), ammunition, communications equipment and spare parts for ships, submarines, aircraft, vehicles, weapons, etc. Managing the defence inventory is a complex task: The inventory must be sufficient to support the military readiness of the Defence in respect to various types of operations, which may change character over time or never be executed. The inventory should be sufficient not only to support operations that are often undertaken at short notice, but also to support potential, unspecified operations that will be undertaken only if specific crises occur.

2. The purpose of the study is to assess whether the Defence manages the inventory efficiently and effectively. The report answers the following questions:

- Is the framework defined for managing the Defence's inventory adequate to support efficient and effective management?
- Is the Defence managing inventory effectively?
- Is the Defence ensuring that materiel that it no longer needs, is identified and disposed of?

Lager Danmark

Inventory of fully functional materiel, available to all operational units.

*The size of the **inventory that is accessible to specific units** is determined on the basis of the estimated quantities of items of materiel and supplies necessary to support the units in the fulfillment of their tasks.*

Military preparedness

The purpose of part of the inventory held by the Defence is to support the preparedness of the Defence to perform unplanned and undefined operations.

Unclassified inventory

Temporary storage of materiel that has been returned from the operational units and is waiting to be transferred to either repairable inventory, serviceable inventory or be disposed of.

CONCLUSION

The value of the Defence's inventory is considerable and at the same time complex with much and very different materiel. In 2014, the inventory comprised approximately 300,000 materiel numbers and approximately 380 million items with a total value of approximately DKK 28 billion. The inventory is subject to special military considerations in respect to, for instance, security of supplies and preparedness. Due to the complexity and financial value of the area, it is essential that the inventory is managed effectively and efficiently by the Defence.

Overall, Rigsrevisionen finds that the inventory is not managed effectively and efficiently by the Defence.

The Defence lacks a framework that defines the purpose of the inventory and the requirements it is intended to cover, including the level of preparedness needed. One of the objectives stated in the procurement policy that was developed by the Defence in 2013, calls for minimizing stock, reducing the amount of money tied up in stock holdings and stocking materiel only if justified for economic or practical reasons.

It appears from the latest defence agreement that the Defence can reap considerable benefits from reducing its excess stock. In 2013, the Defence has therefore taken steps to achieve inventory savings by purchasing less materiel and reducing stocks. Rigsrevisionen welcomes these initiatives, which, however, have so far affected only limited parts of the inventory and therefore have not yet had any major impact on the size of stocks.

The inventory is not managed in an adequately cost-effective manner by the Defence. The Defence is holding large stocks of materiel that is not or only in marginal demand and therefore suffices to cover the requirements for many years ahead. Rigsrevisionen's examination showed that the Defence is purchasing materiel although the inventory held is sufficient to last for several years, or has not moved for at least two years. According to the Defence, stock levels are justified on grounds of military preparedness and long delivery times, yet the Defence is unable to identify the amount of materiel stocked to maintain military preparedness. It should be noted also that, Rigsrevisionen's study shows that the delivery times for 98 per cent of the materiel purchased do not, per se, justify holding inventory that will last for more than one year. Rigsrevisionen's study also shows that the inventory of repairables and the unclassified inventory are not managed effectively by the Defence, which considers neither the economic aspects of placing materiel in repairable storage, nor ensures that materiel is not placed in unclassified storage for longer than necessary. Lastly, Rigsrevisionen's study shows that although the costs associated with running Lager Danmark are considerable, they are not calculated by the Defence and hence not considered in connection with the general management of inventory.

Rigsrevisionen finds it essential that the Defence defines and makes clear distinctions between inventory held for reasons of preparedness and inventory held to sustain daily operations. Rigsrevisionen also recommends that the Defence should take stock and analyse the size, composition, turnover and use of its inventory regularly in order to optimise stock levels, enhance the effectiveness and efficiency of its management and determine the extent to which the objectives of its procurement policy are being achieved.

The Defence has only in recent years taken steps to dispose of and review materiel for disposal. Rigsrevisionen finds that the Defence should continue its efforts to dispose of materiel that it no longer needs to free up storage space and save costs for holding and managing the materiel.