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Extract from Rigsrevisionen's report on  
**the Ministry of Defence's  
implementation of efficiency  
initiatives**

submitted to the Public Accounts Committee



1849  
147.281  
237  
1976  
114.6  
22.480  
908

September 2016

# 1. Introduction and conclusion

## 1.1. PURPOSE AND CONCLUSION

1. This report concerns the Ministry of Defence's management of the efficiency initiatives included in the Danish *Defence Agreement 2013 to 2017*.

The agreement prescribes that appropriations for the Ministry of Defence for the period 2013 to 2017 are to be reduced. The budget cuts are based on the implementation of various efficiency initiatives that are estimated to result in ongoing efficiency gains of DKK 2.4 billion a year, when they have been fully implemented in 2017. The savings are to be achieved through the implementation of a number of initiatives to improve efficiency in procurement, maintenance of materiel, stock and logistics, and through adjustment of wages and employment conditions. The Ministry of Defence has committed to delivering the efficiency savings without adversely affecting the domestic or international operational capabilities of the Defence. Due to the large number of efficiency initiatives and the interdependence of the tasks performed by the Defence, managing the implementation of the efficiency initiatives is a complex and demanding task for the Ministry of Defence.

Section 12 of the Finance Act specifies that the Defence Agreement forms part of the basis upon which appropriations for the Defence are determined, and the Agreement is therefore also being considered by the Danish parliament in connection with the adoption of the Finance Act.

According to the *Agreement for the Acquisition of New Combat Aircraft* of 9 June 2016, the acquisition of the new combat aircraft is to be financed within the budgetary framework of the Defence through further efficiency savings planned for 2018 and onwards. These efficiency gains must also be achieved without adversely affecting the operational capabilities of the Defence.

2. The purpose of the study is to determine whether the Ministry of Defence has managed the implementation of the efficiency initiatives prescribed in the Defence Agreement in a satisfactory manner.

When the political parties entered the Defence Agreement in 2012, Defence Command Denmark, under the Ministry of Defence, had supreme authority over all underlying units.

On 1 October 2014, the organisation was changed and Defence Command Denmark was abolished. It was replaced with the Joint Services Defence Command, the Ministry of Defence Equipment and Procurement Agency, the Ministry of Defence Personnel Agency, the Ministry of Defence Accounting Agency and the Ministry of Defence Building and Establishment Agency. The department took over a number of staff from the defunct Defence Command Denmark.

In the report, references to the Defence include the five above-mentioned agencies and all underlying units.

When the political parties entered into the Defence Agreement, the Ministry of Defence Equipment and Procurement Agency had responsibility for the Danish Defence Workshops. On 1 January 2015, this unit was transferred to the Joint Services Defence Command, which already had the overall responsibility for maintenance of materiel.

First, we have examined if the department has ensured that an adequate framework for managing the implementation of the efficiency initiatives has been established. Such a framework should include pre-determined and relevant methods to monitor how the initiatives to improve efficiency are progressing. This part of our examination is based on the assumption that the Ministry of Defence must render probable that the efficiency gains can be achieved without adversely affecting the operational capabilities of the Defence, as stipulated in the Defence Agreement.

Second, we have reviewed two of the key efficiency initiatives included in the Defence Agreement in order to determine if the Defence has managed their implementation adequately and was able to render probable the achievability of the efficiency targets set for the two initiatives by the end of 2015.

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## CONCLUSION

It is Rigsrevisionen's assessment that the Ministry of Defence has not managed the efficiency initiatives prescribed in the Defence Agreement in a satisfactory manner, since the ministry does not know if the efficiency initiatives are being implemented without adversely affecting the operational capabilities of the Defence, as stipulated in the Defence Agreement 2013 to 2017.

The appropriation for the Ministry of Defence has been reduced in compliance with the Defence Agreement and in 2013 the ministry reduced the Defence's multi-annual budgets for the period 2013 to 2017. However, the department has not established a centralised framework for managing the efficiency initiatives, nor has it ensured that such frameworks were established in the individual units of the Defence that are affected by the efficiency savings. The study also shows that the monitoring procedures established by the department are inadequate and make it impossible for the ministry to determine if the spending cuts will have an adverse effect on the operational capabilities of the Defence. The Ministry of Defence has informed Rigsrevisionen that management is generally delegated to the relevant underlying entities and that the implementation of the efficiency initiatives prescribed in the Defence Agreement is associated with some uncertainty due to the number and complexity of the initiatives. However, it is Rigsrevisionen's assessment that – irrespective of the management model adopted – the department is responsible for providing a framework for managing the initiatives that ensures overall coordination and underpins, in all material aspects, that the efficiency initiatives are implemented in compliance with the provisions of the Defence Agreement.

Rigsrevisionen's review of two key initiatives in the efficiency programme (procurement under the Ministry of Defence Equipment and Procurement Agency and materiel maintenance under the Joint Services Defence Command) shows that the Defence has managed and recorded the results of the efficiency initiatives differently and inadequately. The service units under the Defence have set financial targets for the initiatives. The Equipment and Procurement Agency has defined a financial management model, a baseline and a relevant method of assessment that make it possible to assess how the implementation of the efficiency improvements in procurement is progressing. Materiel maintenance under the Joint Services Defence Command has not taken any such initiatives and its management of the initiatives is inadequate.

It is Rigsrevisionen's assessment that there is a risk that the Defence will not achieve the targets set for these two efficiency initiatives within the timeframe of the current Defence Agreement. The efficiency statement for 2015, prepared by the Equipment and Procurement Agency, included a reduction of stocks worth DKK 200 million, which, however, reflected cost savings and not efficiency improvements. The efficiency target set for 2015 was therefore not achieved. Inadequate management has made it impossible to determine if the targets set for improving efficiency within materiel maintenance under the Joint Services Defence Command have been achieved. Moreover, Rigsrevisionen's findings indicate that cost reductions within materiel maintenance are not being fully implemented.

Last, the study shows that the operational capacities of the Defence were challenged in 2015 in terms of materiel. The Defence does not know if the implementation of the efficiency initiatives and the challenges facing the army's military training activities and preparedness are connected.

With the agreement for the acquisition of new combat aircraft, it was determined that the Defence should implement further efficiency savings in 2018 and onwards. It is essential that these efficiency savings are implemented without adversely affecting the operational capacities of the Defence, and it is therefore crucial that the implementation of efficiency initiatives are managed and monitored more effectively by the ministry in the future.