



D/DCRS/BM5

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PS/Secretary of State

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ADDITIONAL FUNDING FOR URGENT OPERATIONAL REQUIREMENTS (UORs)

ISSUE

Securing an increase to the TELIC/HERRICK UOR funding envelope from the Treasury.

RECOMMENDATION

2. The Secretary of State is invited to:
 - a. Write to the Chief Secretary to the Treasury along the lines of the attached letter (Annex A), asking to increase our agreed approvals envelope by £360M to the end of the current Financial Year, and agree in principle to a ring-fenced sum of up to £100M for work to upgrade the protective systems on C130J aircraft, noting that less than £100M of this additional money is expected to be spent in this Financial Year;
 - b. Note that the contents of this letter have been discussed with Treasury officials.

TIMING

3. Routine.

PRESENTATION

4. While specific UORs have attracted press interest, the UOR process as a whole and the financing of UORs has not. That said, specific details of the funding envelope are not in the public domain, primarily as a result of Treasury sensitivity with regard to calls on the Reserve. Standard lines on UORs are, however, already held by the press office.

BACKGROUND

UOR Envelope

5. In June this year, the Chief Secretary agreed to increase the envelope for UORs in Iraq by £62.5M to the end of the Financial Year. The bulk of this – £32.5M – was to provide enhanced armour protection for the FV430 fleet and to procure an identification and tracking system for the Tornado. This increased the current UOR envelope for Iraq to £1111.5M.

6. In July, the Chief Secretary agreed to increase the envelope for Afghanistan UORs by £65M, a rise necessitated both by an uplift in UK Force Levels and by an overall increase in the numbers of UORs generated. This increased the envelope for Afghanistan to £230M (with a further £20M funded from the Equipment Plan) for UORs in Financial Years 05/06 and 06/07.

7. In addition, in July, the Chief Secretary agreed also to a ring-fenced (maximum of) £89.2M to uparmour additional FV430s and procure protected patrol vehicles (Mastiff) in order to “provide our Service men and women with adequate protected mobility”. In August, the Treasury agreed to an Equipment Plan (EP) “bring-forward” of £43M to fund the procurement of Predator B – in essence, an interest-free loan from the Treasury which will be paid back by the MOD over the Comprehensive Spending Review period.

8. After the correspondence on Iraq and Afghanistan, we agreed with the Treasury that the two separate funding envelopes would be combined: this would provide additional flexibility in managing the UOR funding across the two Theatres and reduce bureaucracy in both Departments. This meant a total envelope of £1341.5M (with a further £20M funded from the Equipment Programme) for the two Theatres, up to the end of Financial Year 06/07. This figure does not include the costs of the FV430/Mastiff UOR or the Predator B “bring-forward”, which fall outside the main UOR envelope.

9. Despite being tightly controlled and scrutinised, our requirement for UORs continues at a rate higher than anticipated, and considerably above historical norms. The recent high numbers of requests from Theatre and the subsequent business case approvals have already pushed us to the limit of the combined funding envelope, some 5 months earlier than predicted. There are a number of reasons that can be identified for the increase in UORs:

- the intensity of operations in Afghanistan;
- in Iraq, the pace of transition has been slower than anticipated and we have therefore had to maintain a larger force in Theatre for longer, against a worsening security backdrop;
- the constantly evolving threat in both Theatres, to which we must be responsive and agile. And the increasing desire to ensure equipment solutions are procured to protect against such threats in addition to the protection already provided by tactics, techniques and procedures – e.g. uparmouring logistics vehicles;

- a decreased willingness, at all levels, to “make do” with sub-optimal solutions and uncomfortable living and working conditions now that both operations have become enduring.

Envelope uplift

10. Conscious of the Treasury's desire not to receive drip-feed requests for funding from the Reserve it was hoped that this request to uplift the UOR envelope could be included within a consolidated letter discussing force levels in the round. However, with decisions on future force levels unlikely to be taken imminently, it has been agreed with Treasury officials that Secretary of State should write to the Chief Secretary now to regularise the funding situation (we are currently approving UORs at risk, in agreement with Treasury officials).

11. UORs are, by definition, operation-specific, with demand dependent on the factors discussed above as well as operational tempo, so prediction of spending trends is inevitably an imprecise art. Over the last four months, we have been approving UORs at a rate of some £35M a month (across both Theatres), with no sign of a slow-down, compared to an average of around £5M a month in Iraq in 2005. Indeed, there are currently some 120 UORs in the pipeline – already raised by Theatre, endorsed by PJHQ and now requiring business cases to be drafted and approved. The estimated cost of these is in the region of £360M (approximately 2/3 of this is for Afghanistan) and it is assessed that most, if not all, of these will be approved before the end of this Financial Year: hence the sum requested in the letter.

12. As an indicative illustration, the following are some of the main cost-drivers on the list of UORs awaiting business case drafting and approval: Electronic Counter-Measures for vehicles; Defensive Aids Systems and Infra-Red Counter-Measures for aircraft; additional radios; a suite of equipment to counter the ISTAR shortfall; Environmental Cooling Units for Armoured Fighting Vehicles; UORs associated with bringing additional Chinook to Theatre-entry-level standard to enable an uplift in flying hours from 400 to 500. The UORs on the list mirror the UORs we have been approving in recent months in that the majority are for Force Protection, with C4ISTAR¹ equipment making up much of the remainder. Specific examples have been included in the letter, at Treasury officials' request, in order to give strong justification to our requirement for increased funding.

13. A UOR spend in 06/07 of some £360M across the two Theatres is already forecast. While the letter asks for an increase in what we can approve this financial year, it is anticipated that only £100M of the additional money will be spent in-year. Treasury officials recommend we make this point strongly in the letter to the Chief Secretary, as requests for a large uplift of in-year spend would be more unpalatable. Indeed, some larger and more complex UORs are already being approved whose actual costs will fall next financial year.

¹ Command, Control, Communication and Computers, Intelligence, Surveillance, Target Acquisition and Reconnaissance

However, Treasury officials have nevertheless indicated the potential for their Ministers to push back against this request, primarily because of the requirement for significant additional money to be spent in-year, and because of their concern that the predictions on which our previous requests were based were not more accurate.

Future calls on the Reserve

14. It is important to note that the additional sums requested are those required to keep approving UORs with forces at current levels – any future force uplift would have a requirement for additional UOR funding. Treasury officials are clear that the letter to the Chief Secretary should make reference to any potential future force uplift and other potential future calls on the Reserve.

15. The key potential future calls on the Reserve include the requirement to fit improved Defensive Aids Systems and Missile Attack Warning Systems to a number of fixed and rotary wing aircraft,

and any decision to invest in increased helicopter capability. The Defensive Aids and Missile Warning systems for C130J aircraft alone could cost up to £100M. Although work on the C130J solution and associated costs is not yet mature, it is thought that it will reach maturity in the course of the next month. Due to the current lack of robust cost data this UOR has not been included in the envelope uplift. However, so as not to slow the approvals process, Treasury agreement should be sought in principle for an uplift of up to £100M for this equipment, with the uplift itself only occurring once Treasury officials have approved the business case.

16. Work is ongoing to confirm whether there is a requirement to upgrade the Defensive Aids and Missile Attack Warning Systems for other fixed and rotary wing aircraft; separate letters to the Chief Secretary will be submitted on these, and on the wider issue of helicopter capability, if and when they reach maturity.

[signed]

DCRS-BM5

**DRAFT LETTER FROM THE SECRETARY OF STATE TO THE CHIEF
SECRETARY TO THE TREASURY**

**IRAQ AND AFGHANISTAN – ADDITIONAL FUNDING FOR URGENT
OPERATIONAL REQUIREMENTS**

Against a background of intense operations, evolving threats and the paramount importance of protecting our Service men and women, our commanders in the field in both Afghanistan and Iraq are submitting Urgent Operational Requirements (UORs) at a significantly higher rate than was expected when the UOR ceiling was last increased in July. The majority of these new demands relate to force protection. I am therefore writing to seek an increase in the envelope to approve UORs by £360M this financial year, and also for your agreement in principle to an uplift of up to £100M to upgrade protection on C130J aircraft as a result of our greater understanding of the threat environment and a new surface-to-air missile threat. The bulk of additional spend will fall in Financial Year 07/08.

As you are aware, our military activity in both Iraq and Afghanistan continues to be intense, and I know you need no convincing of the critical importance of what we are trying – and succeeding – to achieve in both. However, the situations in both Theatres are constantly changing; in Afghanistan, the intensity of operations has proved higher than we could have anticipated; and in Iraq, the pace of transition has been slower than expected, forcing us to maintain a larger force in Theatre than originally planned, in a more challenging security environment than could have been envisaged, particularly in Basra. At the same time, the threat in both Theatres is constantly evolving, and in order to reduce the considerable risk to our forces, of which we still receive all-too-frequent reminders, it is essential that we respond to these changing threats rapidly and with agility. It is in this context that I am writing to seek an increase in the envelope to approve Urgent

Operational Requirements (UORs) this financial year – although the bulk of additional spend will fall in Financial Year 07/08.

Our requirement for UORs has continued at a higher rate than predicted, and considerably above historical norms for the reasons outlined above. In line with the ever-changing threats, the bulk of UORs in recent months has been for Force Protection, with Communications, Intelligence, and Surveillance equipment making up much of the remainder. You will understand that responsiveness to new, emerging, and evolving threats both is necessary and comes with associated costs which cannot be predicted: despite extremely close scrutiny of the requirements and management of the funding, this has resulted in our reaching the limit of our agreed approvals envelope for both Theatres.

There is no sign of significant slow-down in the rate of UOR generation and approval. There are currently some 120 UORs in the pipeline – already raised by Theatre and endorsed by the Permanent Joint Headquarters, and being processed as business cases. Again, the considerable majority of these are for Force Protection and Communications, Intelligence, and Surveillance equipment. To give you a sense of the UORs currently in the pipeline, I have set out below some illustrative examples which are among the key cost-drivers:

- In Iraq, the evolving situation has required an upgrade to the Electronic Counter-Measure suites to counter the
improvised explosive devices.

- :
Hitherto, HS125 tasks such as the
movement of senior visitors and high-value passengers have been carried
out by using other aircraft (such as the C130) outside their proper
operational role, thereby placing a strain on an already limited resource,
:

and the transport

requirement remains.

- Our forces deployed in Afghanistan are now, as a result of the concept of operations adopted over the summer, often operating from small bases where the enemy is not confined to any particular direction of attack. Such attack has often proved intense, well-directed and hard to counter, and necessitates procurement of weapon-locating radar in order to provide both warning of incoming attack and time to take cover and return rapid and accurate counter-fire.
- The relatively thin dispersal of our troops in Iraq as we move towards 'operational overwatch', and also in Afghanistan, has increased our need for improved intelligence and surveillance (ISTAR) capability. ISTAR is critical in leveraging our existing strike capability and allowing relatively small numbers of deployed forces to dominate large areas of territory.
- Forces deployed in Iraq have experienced serious heat stress casualties, and even fatalities, particularly in the summer months, and the number of casualties has now increased as a result of the thermal loading experienced by soldiers operating in the latest body armour, but confined (because of the increased threat) for longer periods inside armoured fighting vehicles. To reduce injuries and increase combat effectiveness of the crews and eventually disembarked infantry, it is planned to fit environmental conditioning units to all deployed armoured fighting vehicles.

The estimated cost of the known pipeline requirements (including those mentioned above) is in the region of £360M (approximately 2/3 of which is for Afghanistan) and most, if not all, of these are likely to be approved before the end of this financial year. I am therefore asking for our approval envelope to be increased by this sum – £360M – to the end of this financial year. We expect that not more than £100M of this will actually be spent this year, with the remainder falling to the Reserve in Financial Year 07/08. As is currently the case, all UORs over the value of £10M will continue to be scrutinised by your officials as well as mine.

UORs are, by definition, operation-specific and depend on current threats and operational tempo, so prediction of spending trends is inevitably an imprecise art. However, because we already know which UORs are in the pipeline, my officials believe that our forecast is now more robust than it has been historically, though the risk of unexpected requirements – for example to counter a new threat – always remains. Only in some months' time will we have more clarity on how we envisage UORs to be moving in Financial Year 07/08 – at which point I shall write again.

The sums I am requesting here are required to keep our operations continuing at a steady state and do not take account of any possible changes to force levels in Afghanistan, for which there would inevitably be financial implications. On the other hand, transition in Iraq should lead to force level reductions in the next six months. Provided we can adjust our posture to move into 'operational overwatch' as the Iraqis take control of the security situation, a smaller force should be required, as identified by force level review. I shall keep you, and Cabinet colleagues, closely informed.

There is also work in train to consider the requirement for an improved Defensive Aids System and Missile Warning System for a significant number of our fixed wing aircraft and helicopters. The reason for this is two-fold: firstly, a better understanding of the threat environment has

A helicopter solution for Iraq has been identified, at a cost of some £30M, and has been included in the UOR uplift I am requesting here. However, our understanding of the requirement with regard to helicopters in Afghanistan is still developing, and work on a solution for fixed wing aircraft in both Theatres is not yet mature, although is continuing with urgency. Initial estimations suggest that solutions for C130J aircraft alone could cost in the region of £100M, and should reach maturity by

Christmas. As these cost data are not yet fully robust, we have not included this UOR in the £360M uplift. However, due to the short timescales involved and the urgency of this work, and so as not to slow the approvals process, I am also requesting your agreement in principle for an additional uplift of up to £100M for this protective equipment for C130J aircraft. The uplift itself will only occur once your officials have approved the business case and will be 'ring-fenced' for this particular equipment. Because of the complexity of this issue, we expect the vast majority of costs to fall outside this financial year. Any impact in-year has been included in our aforementioned estimate of additional spend for 05/06. Work is ongoing to determine whether there is a requirement for additional protective systems for other aircraft, and for helicopters in Afghanistan. In addition, you may be aware that we are also looking at the wider question of helicopter capability in Theatre; I shall keep you informed as to how both these strands of work develop.

Our two Departments have been working together very closely on Urgent Operational Requirements, doing much to facilitate our Armed Forces' ability to deliver success on the ground. I have every confidence that this excellent relationship will continue into the future.

I am copying this letter to the Prime Minister, Margaret Beckett and Hilary Benn, and to the Cabinet Secretary.