

The use of information to manage the defence logistics supply chain

The Ministry of Defence (the Department) sends supplies to forces deployed overseas for military operations, such as in Afghanistan and Libya, and to personnel stationed in permanent bases or taking part in training exercises. Staff deployed on operations determine what supplies are needed by front line troops, which are then sent to them through a supply chain that stretches back to manufacturers. The Department spent at least £347 million in 2010-11 on transporting supplies overseas, but this underestimates the full cost as the cost of military supply flights is not included. Some 130,300 individual deliveries were made to Afghanistan alone in 2010.

A new report from the Public Accounts Committee assesses the Department's performance in managing the supply chain to front line troops. It says that the Department rightly puts a strong emphasis on ensuring troops get the supplies they need. Equally, providing an efficient supply chain would release resources for the front line.

"We believe the Department must place greater emphasis on securing value for money and that there is room for it to find efficiencies in the supply chain without jeopardising operational effectiveness. Over decades our reports have identified persistent problems with late deliveries, unnecessary costs and missed targets. At present, the Department does not have the information to identify where savings could be made. It does not know the full costs of its current activities or the cost of alternative supply options, information it needs if it is to begin improving value for money. The failure to collect basic data about where supplies are stored has directly contributed to the Department's accounts being qualified for three consecutive years."

Successive reports by this Committee have identified significant problems with the Department's logistics information. Since 1986, the Department has repeatedly assured us that it was aware of the gaps in its information and was introducing better systems to close them. Despite these efforts, the same problems persist.

The Department is now seeking to resolve these information problems through a major initiative known as the Future Logistics Information Services project, expected to be implemented by 2014. Until then, the Department will continue to store data in systems that are at critical risk of failure. Against the background of repeated failures to get to grips with asset tracking and allied information systems for logistics, it is vital that the MOD sustains its programme in order to secure value for money. Should this not be the case, the PAC will return to the issue.

Supplies are delayed because manufacturers miss their delivery schedules. In the six months to November 2010, over 40% of deliveries were 30 days or more overdue. The PAC points out that in past reports on the Typhoon it has highlighted that lack of supplies led to cannibalisation of other aircraft. The Department has yet to demonstrate that this is the best way to employ constrained resources.

Other measures which could improve the efficiency of supply operations include putting more pressure on suppliers to deliver on time, keeping stocks at lower levels to reduce the risk of them deteriorating, and benchmarking performance against relevant comparators such as other armed forces. It is important that the Department retains key skilled staff on the supply chain so that it can make improvements of this kind.

The principal conclusions and recommendations of the report are :

1. The Department has put a low emphasis on value for money in managing its supply chain. The Department rightly gives primary importance to ensuring that the supply chain supports the military's operational effectiveness, but we believe there is scope to make efficiency gains without jeopardising operational effectiveness. In its evidence to us, the Department was unduly dismissive about whether savings could be made across its supply operations given it has done little analysis to identify possible savings. However, we welcome Bernard Gray's clear acceptance of his

personal responsibility for failures of supply chain performance and look to him to deliver improvements. As a matter of priority, the Department should implement measures to capture the full cost of its supply operations, quantify the full range of potential savings it could make, and take the actions necessary to manage the supply chain more cost-effectively.

2. The Department has made little progress in resolving long-standing problems with its supply chain information, despite previous assurances to this Committee. Over the past 25 years, our reports have highlighted persistent problems with late deliveries, missed targets and inadequate cost and performance information. We welcome the Department's commitment to bringing together and upgrading many of its IT systems through the Future Logistics Information Services project, and the information provided to us since the hearing about the project's milestones and costs. However, past plans to upgrade these systems have come to nothing as the Department has focused on other priorities. To ensure progress is made this time, we will hold the Department to its promise to report back to us on progress in six and twelve months' time.

3. The Department does not know the full cost of its supply chain routes. The Department sets target times for deliveries based on how urgently supplies are required. However, it does not have the cost information it needs to make informed decisions about alternative ways of running its supply operations. For example, the Department knows the cost of some of the air and surface supply routes into Afghanistan, but without more complete information it is not able to compare the relative costs of different delivery routes. The Department should collect comprehensive information on the cost of all potential supply routes and use this information to identify the most cost-effective routes for both urgent and lower priority deliveries.

4. Deliveries for operations in Afghanistan are often late due to delays in receiving goods from suppliers. Failure to receive goods in time can have adverse knock-on effects. For example, we have heard of instances in other operations where delays in receiving spare parts for equipment such as Typhoon aircraft have resulted in other planes being cannibalised to ensure sufficient parts are available. The Department should set the terms of its contracts with suppliers so that manufacturers are better incentivised to deliver supplies in good time.

5. The Department often holds large stockpiles of supplies on operations, which results in some supplies deteriorating before they are used. The Department acknowledged to us that it does not collect data on the amount of stock that may be damaged in such circumstances. The Department should measure the condition of stocks in theatre and their deterioration rates to inform decisions about appropriate stock levels.

6. While the Department does some benchmarking against the private sector, it does not benchmark its supply chain performance against other armed forces. Benchmarking against comparator organisations can identify better ways of working. The Department should seek to benchmark the cost and performance of its supply chain against other nations which maintain armed forces of similar complexity, such as the USA and France.