

## SECTION 13.1

### RESOURCES

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## Introduction

1. This Section addresses:

- the cost of the UK's involvement in Iraq;
- the main sources of funding for the UK's involvement, the different arrangements for funding military operations and civilian activities, and how those arrangements changed;
- the estimates of the cost of military operations and civilian activities that were made before the invasion, and the extent to which those estimates influenced key decisions;
- the imposition of controls over the MOD's management of its resources by the Treasury in September 2003;
- the allocations for civilian activities that were made before, during and after the conflict; and
- how expenditure was scrutinised.

2. This Section does not address how departments used the resources available to them. Specifically:

- The provision of military equipment is considered in Sections 6.3 and 14.
- The UK's support for reconstruction is considered in Section 10.
- The UK's support for Security Sector Reform is considered in Section 12.

## The cost of the UK's intervention in Iraq

3. The direct cost to the UK Government of its intervention in Iraq between the UK financial years 2002/03 and 2009/10 was at least £9.2bn in cash terms<sup>1</sup> (£11.83bn in 2016 prices).<sup>2</sup> That comprised:

Category	£bn	Percentage
Military operations	8.20	89
Humanitarian and development assistance <sup>3</sup>	0.58	6
Diplomatic representation <sup>4</sup>	0.30	3
Inter-departmental Pools and peacekeeping	0.16	2
<b>Total</b>	<b>9.24</b>	<b>100</b>

<sup>1</sup> The Government has confirmed that the expenditure figures for DFID and the FCO that were provided by Sir Nicholas Macpherson, Director General in charge of Public Expenditure from 2001 to 2005 and then Permanent Secretary at the Treasury, in his statement to the Inquiry of 15 January 2010, were inaccurate. That statement was published by the Inquiry on 22 January 2010.

<sup>2</sup> 2016 price equivalent calculated using Consumer Price Inflation Time Series Dataset December 2015, Office for National Statistics.

<sup>3</sup> Includes the imputed share of UK contributions to multilateral organisations.

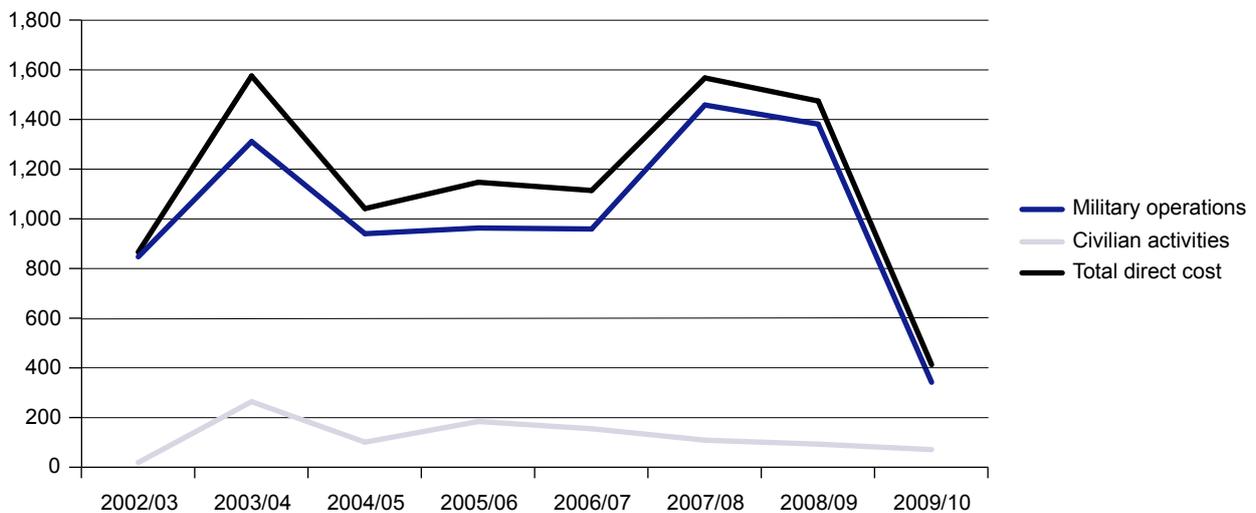
<sup>4</sup> Includes support provided by the FCO to UK secondees to the Coalition Provisional Authority (CPA).

4. In addition, the UK provided £0.95bn in debt relief to Iraq.

5. The figures above do not include expenditure by departments other than the MOD, the FCO and DFID. Although other departments made important contributions to the UK effort, in particular in the post-conflict period, their expenditure was relatively small. The Inquiry has made no estimate of the opportunity cost of the UK's involvement in Iraq.

6. The chart below shows the direct cost of military operations and civilian activities by financial year. A more detailed breakdown of direct costs is provided at the end of this Section.

Figure 1: Direct cost of military operations and civilian activities by financial year (£m)



7. The Inquiry asked Sir Nicholas Macpherson, Director General in charge of Public Expenditure from 2001 to 2005 and then Permanent Secretary at the Treasury, about additional, or indirect, costs such as continuing disability and medical costs for veterans.<sup>5</sup> Sir Nicholas confirmed that such costs were not captured in the information provided to the Inquiry by the Government.

8. In October 2002, the Treasury estimated that the indirect cost of a conflict could more than double the direct cost.<sup>6</sup>

9. Several estimates have been made of the total (direct and indirect) cost of the Iraq War. In their 2007 book, *The Three Trillion Dollar War*, Professor Joseph Stiglitz and Ms Linda Bilmes estimated that the total cost of US involvement in Iraq could be double the direct cost to the US Government.<sup>7</sup> The total cost included: veterans' future costs

<sup>5</sup> Public hearing, 22 January 2010, pages 6-7.

<sup>6</sup> Minute Cunliffe to Chancellor, 22 October 2002, 'Iraqi War: Risks to Treasury Objectives' attaching Paper Treasury, [undated], 'Impact of a War on Treasury Business'.

<sup>7</sup> Stiglitz J and Bilmes L, *The Three Trillion Dollar War*, Allen Lane, 2008. The Inquiry is not able to comment on the methodology used by Professor Stiglitz and Ms Bilmes.

(medical, disability and social security); other social costs; military cost adjustments; interest on debt incurred; and other macroeconomic costs.

**10.** Indirect costs include the costs of the inquiries that have been established to investigate aspects of the UK's intervention in Iraq. Those include:

- The Al-Sweady Public Inquiry, which reported in December 2014, cost £25m.<sup>8</sup>
- The Baha Mousa Public Inquiry, which reported in September 2011, cost £13m.<sup>9</sup>
- The cost of the Iraq Inquiry, which is published on the Inquiry's website.
- The Iraq Historic Allegations Team (IHAT), which was established in 2010, has a budget of £57.2m up to the end of 2019.<sup>10</sup>

**11.** The US Congress appropriated US\$686bn for operations in Iraq between the US fiscal years 2002<sup>11</sup> and 2009.<sup>12</sup> That comprised:

- US\$646bn (94 percent) for the US Department of Defense;
- US\$36bn (five percent) for the US Department of State and the US Agency for International Development (USAID); and
- US\$4bn (one percent) for the Department of Veterans Administration (DVA).

**12.** US Department of Defense figures included costs associated with the Commanders Emergency Response Program (CERPs) and the Iraq Security Forces Fund (ISFF). US Department of State and USAID figures included the cost of reconstruction, foreign aid programmes, and embassy operation and construction. DVA costs included medical programmes for Operation Iraqi Freedom veterans.

## How the UK's intervention in Iraq was funded

**13.** There were three main sources of UK funding for the UK's operations in Iraq:

- departments' baseline spending settlements;
- the Reserve (including the Special Reserve); and
- inter-departmental funds (the Global Conflict Prevention Pool, the Conflict Pool and the Stabilisation Aid Fund).<sup>13</sup>

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<sup>8</sup> Al-Sweady Public Inquiry website, *Inquiry Expenditure and Costs*. The costs of some Core Participants and witnesses were met directly by the MOD; those costs are not included in this figure.

<sup>9</sup> Baha Mousa Public Inquiry website, *Inquiry Expenditure*. The costs of some Core Participants were met directly by the MOD; those costs are not included in this figure.

<sup>10</sup> House of Commons Library, Briefing Paper Number 7478, 22 January 2016, *Iraq Historic Allegations Team*.

<sup>11</sup> The US fiscal year runs from 1 October to 30 September. US fiscal year 2002 began on 1 October 2001 and ended on 30 September 2002.

<sup>12</sup> Congressional Research Service Report, 29 March 2011, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations since 9/11*.

<sup>13</sup> Statement Macpherson, 15 January 2010, pages 1-2.

**14.** A department's budget comprises Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

**15.** In general, DEL covers running costs and all programmed expenditure. It is split into Resource DEL (RDEL) (operating costs) and Capital DEL (CDEL) (new investment). From 2002/03, when full Resource Accounting and Budgeting was introduced, RDEL included 'non-cash' costs. The introduction of Resource Accounting and Budgeting is considered later in this Section.

**16.** Non-cash costs are costs which are not reflected by cash transactions, for example depreciation and provisions for bad debts.<sup>14</sup> They are included in budgets to ensure that the budgets reflect the full economic cost of activities.

**17.** AME relates to expenditure that is demand-led (for example, for the MOD, the payment of War Pensions) and therefore cannot be controlled by departments and accommodated within a structured budget process.

**18.** In the period covered by the Inquiry, the Treasury allowed departments to carry forward unspent funds from one financial year to the next under the End-Year Flexibility (EYF) system. Unspent funds would otherwise have to be returned to the Treasury.

**19.** The EYF system was replaced in 2011/12 by the Budget Exchange system.<sup>15</sup>

### **The roles of the Treasury and the Chancellor, and the Ministerial Code**

The Chancellor of the Exchequer has overall responsibility for the work of the Treasury and is the Government's Finance Minister.<sup>16</sup>

The Treasury is the UK's economic and finance ministry, setting the direction of the UK's economic and fiscal policy. The finance ministry side of the department is responsible for overall fiscal policy, including control of public expenditure and strategic oversight of the UK tax system. The Treasury's economic ministry role includes responsibility for growth, infrastructure, productivity and oversight of the financial services sector. The Treasury is also responsible for the UK's overall macroeconomic strategy, including the setting of the monetary policy framework.

In his statement to the Inquiry, Sir Nicholas Macpherson, Permanent Secretary at the Treasury from 2005, stated that the Treasury had two principal roles in relation to Iraq:

- as an economics ministry, to help ensure the potential economic impacts of war in Iraq were taken into account in economic forecasting and policy-making, help plan the economic reconstruction of Iraq, and provide economic expertise to support the UK's post-conflict reconstruction efforts; and

<sup>14</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, 'Further Queries Relating to Resources'.

<sup>15</sup> Treasury, *2011 Budget*, 23 March 2011.

<sup>16</sup> The Inquiry has drawn on a number of official sources to develop a statement of the responsibilities of the Chancellor of the Exchequer.

- as a finance ministry, to ensure an appropriate level of funding was provided to achieve the UK's objectives in Iraq and that it was used cost-effectively.<sup>17</sup>

This Section describes the Treasury's involvement on Iraq in relation to both those roles. The Treasury's involvement in planning for and supporting Iraq's post-conflict economic reconstruction is described in Sections 6.4, 6.5 and 10.

The version of the *Ministerial Code* that was current in 2003 stated that the cost of a proposal should be calculated and discussed with the Treasury before that proposal was submitted for discussion at Cabinet level:

"It is the responsibility of the initiating department to ensure that proposals have been discussed with other departments and the results of these discussions reflected in the memorandum submitted to Cabinet or a Ministerial Committee. Proposals involving expenditure or affecting general financial policy should be discussed with the Treasury before being submitted to the Cabinet or a Ministerial Committee. The result of the discussion together with an estimate of the cost to the Exchequer (or estimates, including the Treasury's estimate, if the department and the Treasury disagree) should be included, along with an indication of how the cost would be met (e.g. by offsetting savings). The estimate of the cost should identify any impact on other departments."<sup>18</sup>

**20.** Sir Nicholas Macpherson told the Inquiry that departmental settlements were the main source of funding for FCO activity in Iraq, including the UK's diplomatic presence in Baghdad and Basra, and for DFID's contribution to the humanitarian and reconstruction effort.<sup>19</sup> Before the invasion, the Treasury worked with departments to produce estimates of the potential cost of intervention and to ensure that, where appropriate, sufficient funding had been set aside within their existing budgets.

**21.** If departments were unable to fund activities from their departmental settlements, they could bid to the Treasury for additional funding from the Reserve.

**22.** The table below shows the departmental settlements for the MOD, the FCO and DFID from 2002/03 to 2009/10 (under the 2002, 2004 and 2007 Comprehensive Spending Reviews).<sup>20</sup>

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<sup>17</sup> Statement, 15 January 2010, page 1.

<sup>18</sup> Cabinet Office, *Ministerial Code*, 2001.

<sup>19</sup> Statement, 15 January 2010, page 1.

<sup>20</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, 'Further Queries Relating to Resources'. Figures are near cash settlements, in real terms (2008/09 prices). Figures may differ from Comprehensive Spending Review settlement letters due to budget exchange, inter-departmental transfers and other factors.

Table 1: Departmental settlements, 2002/03 to 2009/10 (£bn)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>MOD</b>	28.0	29.0	29.2	29.9	30.2	30.2	30.8	31.1
<b>FCO</b>	1.5	1.5	1.6	1.7	1.7	1.6	1.6	1.6
<b>DFID</b>	3.9	4.0	4.0	4.9	5.3	5.5	5.7	6.6

**23.** The Reserve is a fund held by the Treasury intended for genuinely unforeseen contingencies which departments cannot manage from their own resources.<sup>21</sup>

**24.** Sir Nicholas Macpherson told the Inquiry that the MOD was funded through its departmental settlement to be ready for war, but not to go to war.<sup>22</sup> The costs of going to war – the net additional costs of military operations, or NACMO – were reclaimed by the MOD from the Reserve.

**25.** Sir Nicholas also told the Inquiry that the main call on the Reserve in relation to Iraq had been from the MOD, to pay for NACMO.<sup>23</sup> The Treasury had also accepted “small claims” against the Reserve from DFID and the FCO in relation to expenditure on Iraq that could not be met from their own resources or interdepartmental budgets.

**26.** NACMO included expenditure on Urgent Operational Requirements (UORs). UORs are urgent requirements for military equipment that arise due to the particular demands of a specific operational threat and may need to be delivered within a shorter period of time than is normal for defence procurement.<sup>24</sup>

**27.** The table below shows the size of the Reserve from 2002/03 to 2008/09, the percentage spent on the UK’s intervention in Iraq, and the size of the Special Reserve.<sup>25</sup> The creation of the Special Reserve in November 2002 is described later in this Section.

Table 2: Size of the Reserve, 2002/03 to 2008/09 (£m)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<b>Total Reserve</b>	2,600	4,100	3,300	3,600	3,000	3,600	4,200
<b>Of which spent on Iraq</b>	847	1,456	910	958	962.5	1,458	1,381
<b>% of Reserve spent on Iraq</b>	33	35.5	28	27	32	41	33
<b>Special Reserve (included in Total Reserve)</b>	1,000	2,500	1,200	1,000	1,100	800	–

<sup>21</sup> Statement Macpherson, 15 January 2010, page 2.

<sup>22</sup> Public hearing, 22 January 2010, page 2.

<sup>23</sup> Statement, 15 January 2010, page 2.

<sup>24</sup> Minute Treasury [junior official] to Chief Secretary, 9 January 2007, ‘Increase in the Urgent Operational Requirements Envelope’.

<sup>25</sup> Statement Macpherson, 15 January 2010, page 5.

**28.** The Global Conflict Prevention Pool (GCPP) and the Africa Conflict Prevention Pool (ACPP) were established in the 2001 Spending Review to fund peacekeeping and peace enforcement operations and conflict prevention programmes.<sup>26</sup>

**29.** The two Pools were financed by transfers of existing budgets (and activities) from the MOD, the FCO and DFID and the provision of additional funds by the Treasury.<sup>27</sup> The three departments took decisions collectively on allocations from the Pools.

**30.** The GCPP and ACPP budgets had two elements: programme spending and peacekeeping costs.<sup>28</sup> The peacekeeping budget was used to pay UK contributions to peace support operations mandated by multi-national or inter-governmental organisations. It also covered the costs of deploying UK personnel in both UN and non-UN peace support operations and the UK contribution to international criminal courts. The budget covered both assessed and non-assessed (or voluntary) contributions.

**31.** Sir Nicholas Macpherson told the Inquiry that the Government had intended that the Pools should promote a more co-ordinated approach across departments.<sup>29</sup>

**32.** The budget for the GCPP for 2003/04 was £483m, of which £378m was allocated to fund the UK's contributions to peacekeeping and peace enforcement operations and £105m was allocated for conflict prevention programmes.<sup>30</sup>

**33.** The ACPP and the GCPP were merged in April 2008 to form the Conflict Prevention Pool. A separate funding mechanism, the Stabilisation Aid Fund (SAF), was established in the same year to support stabilisation activity in Iraq and Afghanistan. The SAF was merged into the Conflict Prevention Pool in 2009.

**34.** The UK military also had access to significant amounts of US funding from CERPs, to spend on urgent relief and reconstruction needs.

**35.** The US Congress appropriated US\$3.6bn for CERPs between 2004 and 30 June 2009, to be used by military commanders to address urgent relief and reconstruction needs in their areas of responsibility.<sup>31</sup> Of that, almost US\$3.2bn was spent.

**36.** The US Special Inspector General for Iraq Reconstruction (SIGIR) reported in July 2009 that, by April 2009, the US had spent or allocated to ongoing projects

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<sup>26</sup> Department for International Development, *Evaluation of the Conflict Prevention Pools: Portfolio Review*, March 2004.

<sup>27</sup> Statement Macpherson, 15 January 2010, page 2.

<sup>28</sup> Department for International Development, *Evaluation of the Conflict Prevention Pools: Portfolio Review*, March 2004.

<sup>29</sup> Public hearing, 22 January 2010, pages 46-47.

<sup>30</sup> Department for International Development, *Evaluation of the Conflict Prevention Pools: Portfolio Review*, March 2004.

<sup>31</sup> Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semiannual Report to the US Congress*, 30 July 2009.

US\$351m from CERPs in the four Iraqi provinces comprising Multi-National Division (South-East) (MND(SE)).<sup>32</sup>

**37.** In comparison, between the UK financial years 2003/04 and 2008/09, DFID spent at least £100m in MND(SE)<sup>33</sup> and UK forces spent £38m from UK funds on Quick Impact Projects (QIPs).<sup>34</sup>

**38.** The UK Government has not been able to provide the Inquiry with information on the total amount of CERPs funding available to and used by UK military commanders, but has provided documents that show available CERPs funding in some financial years.<sup>35</sup>

**39.** MOD briefing provided for an October 2005 Parliamentary Question advised that US\$74m of CERPs funding had been “received and expended” by MND(SE) in the financial years 2004/05 and 2005/06.<sup>36</sup>

**40.** MOD briefing for an October 2006 Parliamentary Question advised that US\$66.2m of CERPs funding had been allocated to MND(SE) in the US fiscal year 2005/06.<sup>37</sup>

**41.** In comparison, in the UK financial year 2005/06, DFID spent some £35m on infrastructure and job creation in MND(SE)<sup>38</sup> and UK forces spent £3m from UK funds on QIPs.<sup>39</sup>

## Estimates and arrangements for funding military operations

**42.** Mr Geoff Hoon, the Defence Secretary, wrote to Mr Blair on 31 May 2002 setting out the “preliminary conclusions” from the MOD’s contingency planning for Iraq.<sup>40</sup> A copy of his minute was sent to Mr Gordon Brown, the Chancellor of the Exchequer.

**43.** Mr Hoon described three options for UK military deployment:

- With three months’ notice, the UK could deploy a medium-scale force comprising air and naval assets and a land force of 15,000 personnel. The cost of preparing

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<sup>32</sup> Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semiannual Report to the US Congress*, 30 July 2009.

<sup>33</sup> Paper DFID, January 2010, ‘DFID Non-Humanitarian Spend by Region’. Calculation excludes DFID funding for humanitarian assistance, the World Bank and UN Trust Funds, and programme support costs such as security, accommodation and communications. It is not possible to produce a reliable estimate of the proportion of the funding provided for those purposes that related to the South.

<sup>34</sup> Statement Macpherson, 15 January 2010, page 7.

<sup>35</sup> Email MOD [junior official] to Iraq Inquiry [junior official], 9 June 2014, ‘Iraq Inquiry – Queries Relating to Resources’.

<sup>36</sup> Note, October 2005, ‘PQ1282S: Background Note’.

<sup>37</sup> Note, October 2006, ‘PQ06267S: CERP Funds FY06 (1 Oct 05 – 30 Sep 06)’.

<sup>38</sup> Paper DFID, January 2010, ‘DFID Non-Humanitarian Spend by Region’.

<sup>39</sup> Statement Macpherson, 15 January 2010, page 7.

<sup>40</sup> [Minute Hoon to Blair, 31 May 2002, ‘Iraq’](#), attaching Paper MOD, [undated], ‘Annex B: Iraq Contingency Planning Interim Conclusions’.

that force to the required standard of readiness, including essential work to meet equipment shortfalls, would be between £500m and £800m.

- With six months' notice, the UK could deploy a large-scale force comprising air and naval assets and a land force of 35,000 personnel. The cost of preparing that force would be between £800m and £1.1bn.
- With nine months' notice, the UK could deploy the large-scale force at less risk. The cost of preparing that force would be between £900m and £1.2bn.

**44.** The costs of deployment and campaigning were additional to the cost of preparing those forces.

**45.** Mr William Nye, Head of the Treasury Defence, Diplomacy and Intelligence Team, provided Mr Brown with "some wider context" on 7 June.<sup>41</sup> Mr Nye advised that there would be four elements in the cost of military operations against Iraq:

- preparing for the operation;
- deployment;
- the campaign; and
- any follow-up operation, "e.g. a sustained peacekeeping deployment if part of Iraq was occupied".

**46.** Mr Nye advised that Mr Hoon's minute covered only the first of those elements. The MOD estimated the cost of deploying a large-scale force at £100m, plus a similar amount for bringing it back. Estimating the cost of a campaign was "impossible" in the absence of any concept of operations, but would be "several £100 millions". The MOD had "understandably" given no thought to costs "after the war", but:

"... there must at least be the possibility of some medium-term deployment for peacekeeping or occupation. If on the scale of the Balkans, it would cost several £100 millions a year."

**47.** Mr Nye advised that, while a smaller military contribution would reduce costs, the MOD was "strongly in favour of the more expensive large-scale land contribution ... Ostensibly this is for reasons of strategic influence." Another way to reduce costs would be to provide a more specialised contribution; for example, a land component, or an air component, but not both. The MOD argued that it was premature to close off any option until the US had a clear concept of operations.

**48.** Mr Nye stated that he assumed Mr Brown would not want to comment on Mr Hoon's minute on paper, but that he might want to factor those points into his discussions with Mr Blair.

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<sup>41</sup> [Minute Nye to Chancellor, 7 June 2002, 'Iraq: Potential Costs'](#).

**49.** Mr Brown told the Inquiry:

“I think Mr Hoon wrote [to] me in June – I think the Treasury did a paper in June about these very issues. I was then advised ... to talk to Mr Blair. I told him [Mr Blair] that I would not ... try to rule out any military option on the grounds of cost. Quite the opposite ... we understood that some options were more expensive than others, but we should accept the option that was right for our country.”<sup>42</sup>

**50.** Sir David Manning, Mr Blair’s Foreign Policy Adviser, replied to Mr Hoon’s minute of 31 May on 25 June, stating:

“The Prime Minister has asked for further advice on precisely what steps would have to be taken now, including financial commitments, in order to keep open the possibility of deploying a large-scale force by the end of this year ...”<sup>43</sup>

**51.** Mr Peter Watkins, Mr Hoon’s Private Secretary, replied to Sir David on 26 June, providing an update on the MOD’s understanding of US plans.<sup>44</sup> Mr Watkins stated that Mr Hoon believed that, before committing UK forces, Ministers would want to be clear on four issues including “whether the prospective outcome looks worth the risk, costs and losses”. A key issue, which would determine the need to commit resources, would be whether the UK could “secure adequate influence for a large-scale contribution”.

**52.** On 5 July, prompted by updates on US planning circulated by the MOD, Mr Nye advised Mr Mark Bowman, Mr Brown’s Private Secretary, that Mr Brown should write to the MOD to propose that all options for UK participation in military operations (including smaller and more specialised options) should be costed, so that the Government could assess how much it wished to devote – in terms of risk to UK troops, the opportunity cost of withdrawing from other operations, and the financial cost – to securing a degree of influence over US policy and operations.<sup>45</sup> Mr Nye concluded:

“No.10, MOD, and FCO officials are likely to take as read that the UK should participate if the US decides to go ahead, and on a large scale. Actually, we have some choices ...”

**53.** The Treasury informed the Inquiry that Mr Brown decided not to write to the MOD.<sup>46</sup>

**54.** Mr Blair discussed Iraq with Mr Jack Straw (the Foreign Secretary), Mr Hoon, Lord Goldsmith (the Attorney General), Mr Alastair Campbell (Mr Blair’s Director of Communications and Strategy), Admiral Sir Michael Boyce (Chief of the Defence Staff) and other senior military officers and officials on 23 July.<sup>47</sup> Mr Brown was not present.

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<sup>42</sup> Public hearing, 5 March 2010, page 14.

<sup>43</sup> [Letter Manning to Watkins, 25 June 2002, ‘Iraq’.](#)

<sup>44</sup> [Letter Watkins to Manning, 26 June 2002, ‘Iraq’.](#)

<sup>45</sup> [Minute Nye to Bowman, 5 July 2002, ‘Iraq’.](#)

<sup>46</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 26 February 2010, [untitled].

<sup>47</sup> [Minute Rycroft to Manning, 23 July 2002, ‘Iraq: Prime Minister’s Meeting, 23 July’.](#)

**55.** In a paper prepared for the meeting, the Cabinet Office invited Ministers to “note the potentially long lead times involved in equipping UK Armed Forces to undertake operations in the Iraqi theatre and agree that MOD should bring forward proposals for the procurement of Urgent Operational Requirements”.<sup>48</sup>

**56.** The record of the meeting produced by Mr Matthew Rycroft, Mr Blair’s Private Secretary for Foreign Affairs, included the conclusions that:

- We should work on the assumption that the UK would take part in any military action. But we needed a fuller picture of US planning before we could take any firm decisions ...
- The Prime Minister would revert on the question of whether funds could be spent in preparation for this operation.”<sup>49</sup>

**57.** Mr Rycroft’s record of the meeting was sent to the participants only.

**58.** Mr Campbell described the meeting in his diaries.<sup>50</sup> He recalled that Mr Blair had said that “he did not want any discussions with any other departments at this stage ... He meant the Treasury.”

**59.** Mr Rycroft told the Inquiry that Mr Blair followed up the question of funding for preparing for an operation through “separate contacts” with Mr Brown.<sup>51</sup> Mr Rycroft agreed with the Inquiry that, due to the nature of the relationship between Mr Blair and Mr Brown, matters involving Mr Brown were usually handled personally by Mr Blair, rather than through a letter or note to the Treasury. Mr Rycroft told the Inquiry that the use of that personal channel did not imply that Mr Brown was not aligned with UK policy.

**60.** The MOD provided No.10 with advice on options for a UK contribution to US-led military operations in Iraq on 26 July (see Section 6.1).<sup>52</sup>

**61.** The advice defined three options:

- Package 1 – an “in-place support package” using forces already in the region;
- Package 2 – an “enhanced support package” comprising Package 1 with additional air and maritime forces; and
- Package 3 – a “discrete UK package” based on deployment of an armoured division, in addition to the forces in Package 2.

**62.** Those three options provided the broad framework for discussions within the UK Government until the end of 2002.

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<sup>48</sup> Paper Cabinet Office, 19 July 2002, ‘Iraq: Conditions for Military Action’.

<sup>49</sup> [Minute Rycroft to Manning, 23 July 2002, ‘Iraq: Prime Minister’s Meeting, 23 July’.](#)

<sup>50</sup> Campbell A & Hagerty B. *The Alastair Campbell Diaries. Volume 4. The Burden of Power: Countdown to Iraq.* Hutchinson, 2012.

<sup>51</sup> Private hearing, 10 September 2010, pages 31-32.

<sup>52</sup> [Letter Watkins to Rycroft, 26 July 2002, ‘Iraq’.](#)

**63.** An MOD official advised Mr Watkins on 30 July that in order to respond to a Ministerial decision on operations in Iraq, the MOD would need to submit a “strategic estimate” of additional costs to the Treasury “as soon as practicably possible”.<sup>53</sup>

**64.** Mr Watkins forwarded that advice to Mr Hoon with the comment:

“In principle, it would be sensible to do more staff work to refine costs ... but, pending the PM/Chancellor discussion, it cannot involve financial commitments.”<sup>54</sup>

**65.** Mr Watkins replied to the MOD official the following day, confirming that Mr Hoon had seen the advice and reporting:

“The question of whether funds could be expended in preparation for an operation in Iraq is being considered separately elsewhere. In the meantime, no costs should be incurred ... No estimates should be submitted to Treasury officials. I will minute further once the funding position is clearer.”<sup>55</sup>

**66.** The MOD told the Inquiry that neither Mr Watkins nor any other official wrote to provide further advice on the funding position.<sup>56</sup>

**67.** On 4 September, in advance of a planned meeting between Mr Hoon and Mr Brown, Mr Nye briefed Mr Brown that the MOD officials had done little work to refine their cost estimates for preparing a medium and large-scale force, as they were under no pressure from Ministers to do so.<sup>57</sup> Neither had the MOD done any work to assess the cost of campaign itself. Mr Nye said that it would be useful for Mr Brown to emphasise that the Treasury needed to be involved in some of the discussions on military planning, to enable it “to be kept informed of the context of financial and strategic decisions”.

**68.** The Treasury informed the Inquiry that the meeting between Mr Brown and Mr Hoon was one-to-one and no record was taken.<sup>58</sup>

**69.** Mr Watkins recorded the following day that Mr Hoon had, again, explained to Mr Brown the three options being considered by the UK and alerted him to the likely broad order costs of Package 2.<sup>59</sup>

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<sup>53</sup> [Minute MOD \[junior official\] to PS/Secretary of State \[MOD\], 30 July 2002, ‘Iraq – Enhancements Required for Potential UK Contribution’.](#)

<sup>54</sup> Manuscript comment Watkins to Hoon, 30 July 2002, on [Minute MOD \[junior official\] to PS/Secretary of State \[MOD\], 30 July 2002, ‘Iraq – Enhancements Required for Potential UK Contribution’.](#)

<sup>55</sup> Minute Watkins to MOD [junior official], 31 July 2002, ‘Iraq – Enhancements Required for Possible UK Contribution’.

<sup>56</sup> Email MOD [junior official] to Iraq Inquiry [junior official], 25 September 2013, ‘Iraq Inquiry: Queries Relating to Resourcing – MOD response’.

<sup>57</sup> Minute Nye to Bowman, 4 September 2002, ‘Meeting with Geoff Hoon: Iraq’.

<sup>58</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 26 February 2010, [untitled].

<sup>59</sup> Minute Watkins to DG Op Pol, 5 September 2002, ‘Iraq’.

**70.** A further minute from Mr Watkins stated that, at their 5 September meeting, Mr Hoon and Mr Brown had agreed to “meet periodically ... so that Mr Hoon could keep Mr Brown in touch with our emerging thinking on the options for UK involvement in any military action and the implications for UORs”.<sup>60</sup>

**71.** On 6 September, a Treasury official sent Mr Brown a paper on the global, regional and local (Iraqi) economic impact of war in Iraq.<sup>61</sup> The paper advised that, globally, a conflict could lead to a rise in the oil price of US\$10 a barrel and a consequent reduction in global growth by 0.5 percentage points and a rise in inflation of between 0.4 and 0.8 percentage points. The paper did not consider the impact of a war on the UK economy.

**72.** The paper also considered Iraq’s post-war needs. That analysis is described later in this Section.

**73.** The Inquiry has seen no indication that Mr Brown responded to the paper.

**74.** On 16 September, a Treasury official produced an analysis for Mr Ed Balls (Special Adviser to Mr Brown), at Mr Balls’ request, on the implications of military action in Iraq for UK public spending.<sup>62</sup> The official suggested that a “central estimate” of the cost of “military action” might be £2.5bn, although that could rise considerably if the campaign was protracted or a large-scale occupation was required. The official also suggested that the cost of reconstruction was likely to be in the order of US\$9bn, in addition to International Monetary Fund (IMF) and peacekeeping costs.

**75.** The official continued:

“... **the wider economic impact of conflict could be very significant** ... [R] educed economic growth would hit ... revenues ... and would feed through to higher AME forecasts.

“... this year’s Reserve is already heavily overcommitted. There is a very real risk that we will breach the DEL limit ...

“In summary ... military action is very likely to constrain our TME [Total Managed Expenditure] and fiscal flexibility over this and possibly the next financial year.”

**76.** The analysis was also sent to the Private Offices of Mr Brown and Mr Paul Boateng, the Chief Secretary to the Treasury.

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<sup>60</sup> Minute Watkins to DG RP, 18 September 2002, ‘Iraq: Meeting with the Chancellor: 23 September’.

<sup>61</sup> [Email Treasury \[junior official\] to Bowman, 6 September 2002, ‘What Would be the Economic Impact of a War in Iraq?’](#) attaching Paper Treasury, September 2002, ‘What Would be the Economic Impact of War in Iraq?’.

<sup>62</sup> Minute Treasury [junior official] to Balls, 16 September 2002, [untitled].

**77.** Sir Nicholas Macpherson told the Inquiry:

“I don’t think at a macro level this intervention [Iraq] has had a significant effect on spending elsewhere ... I think the peak year of spending was 2003/04, which was about £1.6bn. When you [the Government] are spending £500bn, £1.6bn is significant and it bears a lot of attention and focus, but it is not going to divert fiscal policy in a massive sense.”<sup>63</sup>

**78.** Mr Brown told the Inquiry:

“I think we managed to meet the requirements of Iraq and Afghanistan without having to cut other services ...

“... it did make my life more difficult, because we had to find £17bn over a period of time, but we thought and believed that these [costs] were manageable, given the priority that we attached to doing the things that we did.”<sup>64</sup>

**79.** The £17bn referred to by Mr Brown represented the NACMO in Iraq and Afghanistan.

**80.** Mr Boateng told the Inquiry that the Treasury’s analyses of the impact of war on the UK’s public finances were not conducted with the intention of “second-guessing” Ministers, but to enable the Treasury to contribute to planning and policy discussions.<sup>65</sup>

**81.** The Treasury provided a more detailed analysis on the potential impact of intervention in Iraq on UK public finances for Mr Brown on 22 October.

## **Agreement on arrangements for funding Urgent Operational Requirements**

**82.** Section 6.3 describes the increasing concern within the MOD over possible delays in procuring and delivering UORs for operations against Iraq arising from the decision in July not to engage the Treasury in military contingency planning.

**83.** On 19 September, in the context of discussions within the MOD on how to secure funding for a number of critical UORs relating to potential UK Special Forces operations in Iraq, the Private Office of Sir Kevin Tebbit, MOD Permanent Under Secretary, advised that Sir Kevin believed that Mr Hoon should discuss the issue of funding for UORs with Mr Brown “as soon as possible”, which would be at their meeting scheduled for 23 September.<sup>66</sup>

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<sup>63</sup> Public hearing, 22 January 2010, page 9.

<sup>64</sup> Public hearing, 5 March 2010, pages 103–105.

<sup>65</sup> Public hearing, 14 July 2010, page 22.

<sup>66</sup> Minute APS/PUS [MOD] to Sec(HSF)2, 19 September 2002, ‘Op ROW: SF Urgent Operational Requirements (UORs)’.

**84.** Mr Watkins wrote to Sir David Manning on 20 September, advising that two issues needed to be addressed quickly:

- what potential UK force contribution should be presented to the forthcoming US Central Command (CENTCOM) planning conference the following week; and
- whether to replace army units already allocated to Operation FRESCO<sup>67</sup> so that they would be available if a land force contribution was approved.<sup>68</sup>

**85.** Mr Watkins advised that Mr Hoon believed that Package 2 (the air and maritime package, plus Special Forces) should be presented to the conference as a potential UK contribution.

**86.** Providing a land contribution in addition to Package 2 was “more complicated”. The option required further development.

**87.** Mr Watkins wrote that Mr Hoon felt it would be “premature” to offer a land contribution on the same basis as Package 2:

“... we should indicate to CENTCOM that we are still considering this option and that they should model two plans in parallel, one including the UK land force contribution and one without it.”

**88.** Mr Blair discussed the contribution that might be offered to the US with Mr Hoon on 23 September (see Section 6.1). Mr Blair agreed with Mr Hoon that Package 2 could be offered as a potential UK contribution but there was a misunderstanding over whether the US should be informed that the UK was still considering a land option (Package 3).

**89.** Following the meeting, Mr Watkins informed officials in the MOD that:

“The Prime Minister is content for us to proceed broadly as set out in my letter of 20 September. The Prime Minister remains very cautious about the viability of Package 3, not least because of its implications for our ability to meet other contingencies and the significant cost premium entailed.”<sup>69</sup>

**90.** In his diaries, Mr Campbell described a meeting between Mr Brown and Mr Blair on 23 September.<sup>70</sup> Mr Campbell wrote that Mr Blair had reported that Mr Brown “was basically just saying we could not afford a military conflict and making clear he had to be consulted on every piece of spending”. Mr Campbell also described the very difficult relationship between Mr Blair and Mr Brown at this time.

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<sup>67</sup> Op FRESCO was the provision of emergency cover by the Armed Forces in the event of industrial action by civilian firefighters.

<sup>68</sup> [Letter Watkins to Manning, 20 September 2002, 'Iraq: Potential UK Contribution to any Military Action'](#).

<sup>69</sup> [Minute Watkins to DG Op Pol, 23 September 2002, 'Iraq: Meeting with the Prime Minister: 23 September'](#).

<sup>70</sup> Campbell A & Hagerty B. *The Alastair Campbell Diaries. Volume 4. The Burden of Power: Countdown to Iraq*. Hutchinson, 2012.

**91.** There is no official note of the meeting and none of the witnesses referred to it in their evidence to the Inquiry.

**92.** Mr Brown and Mr Hoon met separately on 23 September to agree the process for funding UORs for Iraq.<sup>71</sup>

**93.** Before the meeting, Mr Hoon was advised by Mr Guy Lester, MOD Director Defence Resources and Plans, that it would make sense to use the arrangements in place for Afghanistan: Ministers would agree a “ceiling” on UOR expenditure, within which Treasury officials could authorise expenditure on individual requests without seeking approval from Treasury Ministers.<sup>72</sup> The MOD expected the first and most urgent tranche of UORs to cost £150m.

**94.** Mr Watkins commented on that advice:

“We are told that Treasury officials are happy [to use the Afghanistan model], but Mr Brown may want to clear them [UOR requests] individually himself. This would create a major bureaucratic bottleneck.”<sup>73</sup>

**95.** Mr Watkins’ record of the 23 September meeting stated that Mr Brown’s “initial line” was that he should approve each UOR individually, but “Mr Hoon persuaded him that this would not be practical or sensible”.<sup>74</sup>

**96.** Mr Hoon wrote to Mr Brown on 25 September, to confirm their agreement that the MOD would adopt a similar approach to managing Iraq UORs to that already in place for Afghanistan UORs, with an initial ceiling of £150m.<sup>75</sup> MOD and Treasury officials were tasked to work out the detailed arrangements.

**97.** In response to a request from Mr Brown on “how to handle future requests for Iraq UOR funding”, a Treasury official wrote to Mr Bowman on 8 October 2002, describing how a UOR arrangement might operate and how the Treasury might “reduce the UOR bill” by arguing that UORs were in fact generic enhancements of military capability, and by ensuring that the MOD had not already planned to procure items presented as UORs.<sup>76</sup>

**98.** The Inquiry has seen no evidence that Mr Brown had asked for advice on the specific question of how to reduce the UOR bill.

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<sup>71</sup> Letter Hoon to Brown, 25 September 2002, ‘Iraq: Urgent Operational Requirements’.

<sup>72</sup> Minute Lester to PS/Secretary of State [MOD], 20 September 2002, ‘Iraq: Meeting with the Chancellor: 23 September 2002’.

<sup>73</sup> Manuscript comment Watkins to SoS [MOD], 20 September 2002, on Minute Lester to PS/Secretary of State [MOD], 20 September 2002, ‘Iraq: Meeting with the Chancellor: 23 September 2002’.

<sup>74</sup> [Minute Watkins to D Def RP, 23 September 2003, ‘Iraq: Meeting with the Chancellor: 23 September’](#).

<sup>75</sup> Letter Hoon to Brown, 25 September 2002, ‘Iraq: Urgent Operational Requirements’.

<sup>76</sup> Minute Treasury [junior official] to Bowman, 8 October 2002, ‘Iraq – Urgent Operational Requirements – Next Steps’.

**99.** Mr Brown told the Inquiry that all the MOD's claims for UORs had been met.<sup>77</sup> He also explained that the "ceiling" was not a limit on UOR expenditure, but an estimate of likely expenditure:

"At all times we said, 'Here is the money ... Once you have spent that, then we are prepared – and always were ready to and actually did – deliver more.'"

**100.** Mr Tom McKane, MOD Director General Resources and Plans from September 2002 to January 2006, who was responsible for establishing the arrangements for securing funding for UORs in the period leading up to the invasion, told the Inquiry that he was satisfied with the Treasury's response to the MOD's requests for UORs:

"Inevitably ... there is an anxiety and a concern on the part of the Ministry of Defence to get on with things ... and it did take a month or so after my first engagement in this for the agreements [on UORs] to be reached ... But thereafter, the process operated smoothly.

"There were some, I think, who were probably frustrated at the fact ... that we were given tranches of money ... we would get quite quickly to the point where we had exhausted the first tranche and were then involved in the preparation of ministerial correspondence to secure the release of the next tranche ...

"... but I don't remember it [the use of tranches] being a major obstacle to the preparations."<sup>78</sup>

**101.** The provision of military equipment, including UORs, is described in Sections 6.3 and 14.

**102.** Mr Nye advised Mr Brown on 11 October that Mr Hoon was expected to write to Mr Blair shortly, setting out the military forces required for a campaign.<sup>79</sup> The Treasury had now established good communications with the MOD, and MOD officials had assured the Treasury that Mr Blair would be presented with "cost information".

**103.** While there were still huge uncertainties involved in forecasting costs, the MOD had provided the Treasury with "some indicative breakdowns" which the Treasury was scrutinising. The MOD estimated that Package 2 (predominantly air and maritime forces) was likely to cost up to £1bn, and Package 3 (Package 2 plus ground forces) between £1.5bn and £2bn.

**104.** Mr Nye invited Mr Brown to "consider whether the extra political impact for the UK of Package 3 merits the additional £0.5bn to £1bn cost (and of course the additional risk to British troops)".

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<sup>77</sup> Public hearing, 5 March 2010, page 94.

<sup>78</sup> Public hearing, 2 July 2010, pages 35-36.

<sup>79</sup> [Minute Nye to Chancellor, 11 October 2002, 'Iraq: Decisions Nearing'](#).

**105.** Mr Nye also identified the need to consider long-term, post-conflict military costs. The US appeared to envisage a “quite lengthy occupation/reconstruction effort”. Mr Nye commented:

“Although some in the MOD hope that British participation in the original conflict would exempt us from having to play a large role in the subsequent peacekeeping ... this is not realistic ... the UK may well face a situation like Kosovo, having to be involved in policing an occupied country post conflict: possibly £0.5 billion a year ... for several years.”

**106.** Mr Nye concluded: “If you want to influence the Prime Minister [Mr Blair] in considering the scale of the UK commitment, you should talk to him next week.”

**107.** Mr Hoon wrote to Mr Blair on 15 October, seeking a decision that week on whether the US should be offered Package 3 on the same basis as Package 2, as a possible UK contribution to a conflict.<sup>80</sup> Mr Hoon stated that Package 2 was likely to cost up to £1bn and Package 3 between £1.5bn and £2bn.

**108.** An MOD paper attached to Mr Hoon’s minute stated that the larger the UK’s contribution to military action in the war-fighting phase, the “more plausibly we will be able to argue that we have done our bit”. It also stated that the MOD could not yet estimate the cost of all the components of a campaign: the cost estimates provided in the paper were therefore “ball-park figures”.

**109.** Copies of the letter and attached paper were sent to Mr Brown, Mr Straw and Sir Andrew Turnbull, the Cabinet Secretary.

**110.** The following day, Sir David Manning sent Mr Blair his comments on Mr Hoon’s minute.<sup>81</sup> Sir David described some of the arguments in the minute as “pretty dubious”, including:

“... if we help with the war fighting, we shall be spared the post-conflict washing up. It didn’t work like that in Afghanistan. Experience shows that once you’re in, you’re in deep, without queues of grateful countries waiting to take over when the shooting stops.”

**111.** Sir David suggested that Mr Blair might explore a number of questions with Mr Hoon, including: “Can we afford Package 3?”

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<sup>80</sup> [Minute Hoon to Prime Minister, 15 October 2002, ‘Iraq: UK Military Options’, attaching Paper MOD, 14 October 2002, ‘Iraq: UK Contingency Planning’.](#)

<sup>81</sup> [Minute Manning to Blair, 16 October 2002, ‘Iraq: UK Military Options’.](#)

**112.** Mr Blair, Mr Straw, Mr Hoon and Adm Boyce met on 17 October to discuss military options.<sup>82</sup> Mr Rycroft recorded that Mr Blair acknowledged the arguments in favour of Package 3, but:

“... remained concerned about costs. He concluded that he wanted to keep open the option of Package 3. But we must not commit to it at this stage.”

**113.** Mr Campbell wrote in his diaries that at that meeting, Mr Blair said “it was not no, but it was not yet yes, and he wanted more work done analysing the cost”.<sup>83</sup>

**114.** On 22 October Mr Jon Cunliffe, Treasury Managing Director for Macroeconomic Policy and International Finance, sent Mr Brown a paper on the risks to the Treasury’s objectives arising from a war in Iraq.<sup>84</sup> Mr Cunliffe identified nine main risks and assessed the likelihood and impact of each in four scenarios: no war; a short war; a protracted war; and a war involving weapons of mass destruction (WMD).

**115.** The nine main risks were:

- a substantial rise in public spending;
- lower growth, higher inflation and unemployment;
- negative productivity shock;
- public finances less sound;
- inflation deviates from target;
- loss of insurance capacity/risk of insurance failures;
- more IMF lending leading to higher UK gross debt;
- revival of popular pressure for lower fuel taxes; and
- developing countries knocked by oil prices, leading to lower growth.

**116.** On public spending, Mr Cunliffe assessed that indirect costs could more than double the direct costs. In the protracted war and WMD scenarios, the impact of a worsening economy on AME could match the military costs.

**117.** In his covering minute, Mr Cunliffe advised that the Treasury’s main concern related to its “ability to maintain sound public finances, especially in the more pessimistic cases”. There would be some risk to the “Golden Rule” in all three war scenarios; the risk would be much greater if a war involved WMD. Mr Cunliffe concluded by suggesting that Mr Brown might want to warn colleagues about the risk to public finances.

**118.** Section 6.1 describes the growing pressure from the MOD to offer Package 3 to the US for planning purposes.

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<sup>82</sup> [Letter Rycroft to Watkins, 17 October 2002, ‘Iraq: UK Military Options’](#).

<sup>83</sup> Campbell A & Hagerty B. *The Alastair Campbell Diaries. Volume 4. The Burden of Power: Countdown to Iraq*. Hutchinson, 2012.

<sup>84</sup> Minute Cunliffe to Chancellor, 22 October 2002, ‘Iraqi War: Risks to Treasury Objectives’ attaching Paper Treasury, [undated], ‘Impact of a War on Treasury Business’.

**119.** On 31 October, Mr Blair, Mr Straw, Mr Hoon and Adm Boyce discussed the MOD's wish to offer Package 3 to the US for planning purposes.<sup>85</sup> Mr Blair asked about the additional costs associated with Package 3 and whether they had been discussed with the Treasury. Adm Boyce said that he believed that:

“... if we [the UK] made a major financial contribution to the campaign through Package 3, we would be under less pressure to finance a big share of the post-conflict reconstruction effort.”

**120.** The record of the meeting does not indicate whether Mr Blair's question about the costs of Package 3, and whether they had been discussed with the Treasury, was answered.

**121.** Mr Blair concluded that the MOD should tell the US that the UK was prepared to “put Package 3 on the same basis as Package 2 for planning purposes”.

**122.** A copy of the record of the meeting was sent to Mr Bowman.

**123.** Mr John Dodds, who had replaced Mr Nye as Head of the Treasury Defence, Diplomacy and Intelligence Team, advised Mr Brown on 8 November 2002 that the Treasury's “instinct” was that Package 3 would cost £2.5bn, rather than the £1.5bn to £2bn estimated by the MOD.<sup>86</sup> That did not include any “follow-on” cost, such as peacekeeping or reconstruction.

**124.** Mr Brown received advice from a Treasury official on 17 November on whether to create an allocation in the Pre-Budget Report (PBR) to cover the cost of military action in Iraq.<sup>87</sup> The main advantage would be to enable the Treasury to set out, in a transparent way, the exceptional additional costs of military action, above the underlying state of public finances.

**125.** The allocation would cover the cost of military action in Iraq and the further costs of military occupation and/or a contribution to a stabilisation force. The official added that if Mr Brown was attracted to the idea of making such an allocation, it might be expanded to cover some of the existing costs relating to the war against terror.

**126.** The official also advised that, based on informal discussions with MOD officials, the military costs relating to “occupation and/or a stabilisation force” could be up to £1bn in the first year and up to £500m a year thereafter. The official commented:

“From this it's clear that any future decision on a UK role in post-conflict Iraq should properly factor in the potential costs.”

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<sup>85</sup> [Letter Wechsberg to Watkins, 31 October 2002, 'Iraq: Military Options'](#).

<sup>86</sup> Minute Dodds to Brown, 8 November 2002, 'Iraq: Diplomatic and Military Update'.

<sup>87</sup> Minute Treasury [junior official] to Chancellor, 17 November 2002, 'A PBR Allocation for Iraq?'

**127.** Mr Brown telephoned Mr Hoon on 27 November, to inform him that he would be making an allocation of £1bn in his PBR for “Defence issues”.<sup>88</sup> Mr Brown reassured Mr Hoon that this was not an upper limit on expenditure, but rather a “purely nominal figure: it was neither an upper or lower limit”. The usual process for securing funding from the Reserve would stand.

**128.** Mr Brown announced to Parliament later that day that the Government had “set aside to meet our international defence responsibilities a provision of £1 billion to be drawn on if necessary”.<sup>89</sup>

**129.** Sir Nicholas Macpherson told the Inquiry that the decision to create a Special Reserve was driven by a Treasury assessment that the existing Reserve would not be sufficient to cover other Government contingencies while paying for the costs of Iraq.<sup>90</sup>

**130.** In late November, in the context of a submission to Mr Hoon on UORs, Mr McKane reported that the Treasury had asked the MOD for an estimate of the cost of post-conflict deployments.<sup>91</sup> Mr McKane advised Mr Hoon that, based on experience in the Balkans, the cost might be in the region of £1bn for the first year, and £400m for the following 18 months.

### Agreement on arrangements for reclaiming NACMO

**131.** Mr Hoon wrote to Mr Brown on 28 November to request an increase in the UOR ceiling from £150m to £300m and to secure agreement that the MOD should begin to capture all non-UOR additional costs (the net additional costs of military operations – NACMO), with a view to repayment from the Reserve in due course.<sup>92</sup>

**132.** Mr Brown replied on 9 December, agreeing to increase the ceiling for UORs to £300m and that the MOD should begin to capture NACMO, but adding that those costs should be contained within the UOR ceiling “until any [military] operation is initiated”.<sup>93</sup>

**133.** Mr Blair agreed on 9 December that the MOD should plan on the basis of a possible decision to commit land forces, as early as 15 February 2003.<sup>94</sup> A copy of the letter recording Mr Blair’s decision was sent to Mr Bowman.

**134.** Mr Hoon wrote to Mr Brown on 13 December, warning him that Mr Blair’s decision of 9 December would increase the rate at which the MOD incurred additional costs.<sup>95</sup> Mr Hoon requested an additional £200m for UORs, and also asked that Mr Brown

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<sup>88</sup> Letter Davies to Finance Director, 28 November 2002, ‘Pre-Budget Report’.

<sup>89</sup> House of Commons, *Official Report*, 27 November 2002, columns 318-46.

<sup>90</sup> Statement, 15 January 2010, pages 2-3.

<sup>91</sup> Minute McKane to APS/Secretary of State [MOD], 27 November 2002, ‘Iraq Costs’.

<sup>92</sup> Letter Hoon to Brown, 28 November 2002, ‘Iraq: Urgent Operational Requirements’.

<sup>93</sup> Letter Brown to Hoon, 9 December 2002, ‘Iraq: Urgent Operational Requirements’.

<sup>94</sup> [Letter Rycroft to Watkins, 9 December 2002, ‘Iraq: Military Planning’](#).

<sup>95</sup> Letter Hoon to Brown, 13 December 2002, ‘Iraq: Costs’.

reconsider his position that non-UOR NACMO should be contained within the UOR ceiling.

**135.** Mr Hoon attached a spreadsheet showing the MOD's actual and estimated costs (to April 2003) for "Iraq contingency planning", which totalled £1.65bn.

**136.** Copies of Mr Hoon's letter were sent to Mr Blair and Mr Straw.

**137.** A Treasury official advised Mr Brown on 17 December that he should agree both of Mr Hoon's requests.<sup>96</sup> On UOR costs, the official advised:

"Some of this [UOR] spending is arguably for equipment that would have been bought anyway later ... We should stress that in such cases we will claim back by either docking MOD's EYF, or reducing their Estimates accordingly next year."

**138.** On non-UOR NACMO, the official advised that if preparations were to move forward on the track agreed by Mr Hoon and Mr Blair, access to the Reserve was necessary. Preparing a force would cost about £650m and maintaining it at a state of readiness about £200m a month, whether the UK went to war or not. The official advised Mr Brown that the Treasury should put in place arrangements "that keep the costs clearly on the agenda", and that Mr Brown should ask Mr Hoon for monthly reports on current and planned activities. Those reports would provide the basis for "ongoing joint consideration of the costs of the strategy".

**139.** The official also advised that the £1.65bn figure represented the cost if the military operation was "cancelled end of March, clear up and go home in April". The costs of war-fighting, missiles and ammunition, and "post-conflict stabilisation" would be additional.

**140.** Mr Hoon telephoned Mr Boateng on 23 December to discuss access to the Reserve.<sup>97</sup> Mr Hoon's Private Secretary reported to MOD officials that Mr Boateng had said that any system needed to meet the MOD's needs, take account of "broader financial implications", and enable the Treasury to identify clearly that costs were genuinely additional.

**141.** Mr Boateng wrote to Mr Hoon later that day.<sup>98</sup> Mr Boateng agreed to increase the ceiling for UORs by £200m, to £500m. With regard to non-UOR NACMO, Mr Boateng stated that access to the Reserve was usually only granted once an operation had been "declared". In the current "preparatory phase", he offered to create a "distinct envelope for build-up costs", with four specific Heads of Expenditure (operation-specific training; air/sea charter; spares, maintenance and logistics; and other infrastructure elements), with an initial allocation of £500m. The Treasury would authorise and monitor expenditure within those Heads of Expenditure, rather than as a single block.

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<sup>96</sup> Minute Treasury [junior official] to Chancellor, 17 December 2002, [untitled].

<sup>97</sup> Minute Watkins to MOD DG RP, 23 December 2002, 'Iraq: Briefing the Chief Secretary to the Treasury'.

<sup>98</sup> Letter Boateng to Hoon, 23 December 2002, 'Iraq Costs'.

**142.** Mr Boateng asked that Mr Hoon provide fortnightly forecasts of UOR and non-UOR NACMO. The MOD would provide the first forecast on 16 January 2003.

**143.** Mr Boateng concluded: “Where further decisions are taken – for example over the call up of reserves or the deployment of significant numbers of troops to theatre – Gordon and I will of course stand ready to discuss funding issues.”

**144.** Mr Watkins described that arrangement to MOD officials as “generally acceptable”, and passed on Mr Hoon’s thanks for negotiating it.<sup>99</sup>

**145.** Mr Boateng’s Private Secretary wrote to Mr Watkins on 13 January, to “record the circumstances in which we have agreed that decisions should be cleared with Treasury Ministers”.<sup>100</sup> Expenditure outside the four specific Heads of Expenditure within the non-UOR NACMO envelope, and “any policy decisions that will lead to future costs”, would require Treasury approval.

**146.** Mr Watkins wrote against the proposal that the Treasury should be consulted on any policy decision with cost implications:

“This is a try-on which we will correct in the reply.”

**147.** Mr Boateng agreed an MOD request for “some flexibility” to transfer resources between the four Heads of Expenditure on 15 January.<sup>101</sup>

**148.** Mr Hoon’s Private Secretary replied to the Treasury’s letters of 23 December and 13 January on 16 January.<sup>102</sup> He stated that Mr Hoon “would, of course, continue to include the Chancellor in correspondence on major policy decisions which have expenditure implications”.

**149.** The letter also provided the MOD’s first detailed forecasts of expenditure on UOR and non-UOR NACMO, covering the period up to April 2003.

**150.** The MOD provided its first report on actual expenditure on UORs and non-UOR NACMO to the Treasury on 5 March.<sup>103</sup>

**151.** Section 6.5 describes discussions within the UK Government on whether the UK should take responsibility, in the post-conflict period, for a geographical sector in Iraq.

**152.** On 13 February, Mr McKane wrote to Mr Dodds setting out the MOD’s assessments of the costs of military operations and the aftermath.<sup>104</sup>

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<sup>99</sup> Minute Watkins to MOD DG RP, 23 December 2002, ‘Iraq: Briefing the Chief Secretary to the Treasury’.

<sup>100</sup> Letter Treasury [junior official] to Watkins, 13 January 2003, ‘Iraq: Funding’.

<sup>101</sup> Email Treasury [junior official] to Treasury [junior official], 15 January 2003, ‘Iraq Resource Costs’.

<sup>102</sup> Letter MOD [junior official] to Treasury [junior official], 16 January 2003, ‘Op Telic: Iraq Costs’.

<sup>103</sup> Letter PS/Hoon to PS/Boateng, 5 March 2003, ‘Operation Telic: Iraq Costs Update’.

<sup>104</sup> Letter McKane to Dodds, 13 February 2003, Op Telic: Iraq Costs – Active Operations and the Aftermath’.

**153.** Mr McKane advised that the cost of military combat operations, including “repairs, replenishment and reconfiguration”, could be between £2.5bn and £3bn.

**154.** Mr McKane also provided the MOD’s “outline ‘first thoughts’ projection” of the cost of maintaining a military presence in post-conflict Iraq. Mr McKane advised that the MOD had not yet been assigned “firm tasks” for the post-conflict period and that the size and type of forces required would depend on US plans. With that caveat, the MOD estimated that UK forces might be required for 30 months at a cost of £2.3bn (including a six-month deployment of HQ Allied Rapid Reaction Corps (ARRC), but excluding UORs related to military post-conflict tasks).

**155.** On 19 February, in advance of meetings with Mr John Snow, the US Secretary of the Treasury, and other G7 finance Ministers, Mr Brown received a number of papers on Iraq.<sup>105</sup>

**156.** A paper by Mr Dodds and a junior Treasury official provided the first comprehensive estimate of the cost of the UK’s intervention in Iraq (including military and non-military, conflict and post-conflict costs).<sup>106</sup> The advice on non-military costs is described later in this Section.

**157.** The officials advised that the Treasury’s best estimate of the cost of UK military combat operations was now £3bn over the three financial years from 2002/03, with an associated £400m in RAB costs over the three financial years from 2003/04. The MOD’s estimate remained lower: the Treasury doubted that the MOD had shared with it the full cost of replacing and restocking armaments and equipment used in a conflict.

**158.** The officials advised that the Treasury was “now starting to get some sense” from the MOD on the cost of post-conflict peacekeeping/stabilisation. While no decision had yet been taken on whether to contribute UK forces after a conflict:

“In practice once we are on the ground, unless contributions from other nations are available the political pressure to stay will be intense.”

**159.** There were a number of ways that an “occupation ... force” might be organised. The “biggest commitment, and hence the most expensive” would be if the UK became responsible for a particular geographical sector. The Treasury’s estimate reflected that commitment.

**160.** The MOD had not yet provided firm estimates for how much such an occupation force (including responsibility for a geographical sector) might cost. Internal Treasury work suggested £500m in 2003/04 and £1bn in 2004/05 (in addition to the cost of military combat operations).

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<sup>105</sup> [Minute Treasury \[junior official\] to Chancellor, 19 February 2003, ‘Update on Iraq’.](#)

<sup>106</sup> [Minute Treasury \[junior official\] to Chancellor, 19 February 2003, ‘Update on Iraq’ attaching Paper Treasury, 19 February 2003, ‘Iraq Conflict – Public Expenditure Impact’.](#)

**161.** Mr Brown also received a minute from Mr Dodds which highlighted the potential implications of the UK taking overall responsibility for a geographical sector in Iraq:

“This is a decision that will have substantial public expenditure implications. If there were a UK sector we would find ourselves locked into the management of the aftermath for a substantial period (perhaps as long as five years) rather than allowing other countries – who will not have borne any costs of the conflict itself – to make their contribution. The net additional cost to the UK is difficult to quantify but would certainly be hundreds of millions of pounds a year.”<sup>107</sup>

**162.** Mr Dodds added that there were other reasons why a UK sector would be unattractive. The need to bring in expertise from the widest possible range of sources and to avoid the perception that the UK was occupying “part of the Arab world” argued for a more internationalist approach.

**163.** Mr Dodds advised that Treasury officials were taking every opportunity to stress to FCO and MOD colleagues that Mr Brown would want to have an input to any decision on sectorisation, and recommended that Mr Brown underline that point himself with Mr Blair, Mr Straw and Mr Hoon.

**164.** Mr Brown and Mr Boateng received a further update on military costs from a Treasury official the following day.<sup>108</sup> The official reported that the Treasury now had the MOD’s first estimates of the likely total cost of conflict in Iraq “if a decision is made to stay ... and provide a medium term stabilisation/peace keeping force”. The upper limit, based on what was feasible in military terms, was a two-year commitment at a total cost of £1.6bn. The official commented:

“The extent to which any of this is optional is unclear. We think that, because of our Geneva convention obligations, it will be impossible to resist keeping a substantial force in theatre for at least six months post the end of fighting ... In practice the emerging politics of a post-conflict Iraq point to a much more substantial commitment both in terms of size and length of stay.”

**165.** On 6 March, Mr Blair chaired a meeting on post-conflict issues with Mr Brown, Mr Hoon, Ms Clare Short (the International Development Secretary), Baroness Symons (joint FCO/DTI Minister of State for International Trade and Investment, representing Mr Straw), Sir Michael Jay (FCO Permanent Under Secretary) and “other officials”.<sup>109</sup>

**166.** In an annotated agenda for the meeting, the Iraq Planning Unit (IPU) invited Ministers to take a view on a number of key post-conflict issues, including whether to

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<sup>107</sup> Minute Dodds to Chancellor, 19 February 2003, ‘Iraq – “Aftermath” – UK Role’.

<sup>108</sup> [Minute Treasury \[junior official\] to Chancellor, 20 February 2003, ‘Iraq: Update on Potential Cost and How Should We Present Them?’](#).

<sup>109</sup> [Letter Cannon to Owen, 7 March 2003, ‘Iraq: Post-Conflict Issues’](#).

seek “general UK responsibility for the administration of any geographic area of Iraq in the medium term”.<sup>110</sup>

**167.** Mr Dominick Chilcott, the Head of the IPU from February 2003 to June 2004, told the Inquiry that there was:

“... a great deal of hesitancy within Whitehall about the concept of a British sector mainly because of the resources that would be involved in making a success of it ... the Treasury and DFID both expressing, for slightly different reasons, hesitancy about the assumption that there would be a British sector.”<sup>111</sup>

**168.** Mr Brown received a number of papers from Treasury officials before the meeting.

**169.** A paper produced by Mr Dodds highlighted the financial implications of the assumption in “US/UK military planning” that UK forces would take responsibility for an area of Iraq after the conflict.<sup>112</sup>

**170.** Mr Dodds advised that the Chiefs of Staff had estimated that the UK could sustain a brigade and headquarters (around 10,000 troops) in Iraq indefinitely, and that this force would be sufficient to fulfil the UK responsibilities for Basra Province.

**171.** Mr Dodds advised that the cost of such an ongoing operation was likely to be about £1bn a year. It was a reasonable assumption that the UK’s commitment would last “at least two years and possibly significantly longer”. He continued:

“We have pressed MOD on how these costs might be reduced. The options are:

- a. to tell the US that we feel we have played our part after Phase IVA [immediate post-conflict stabilisation] and that other coalition partners must be found to take on our role ...;
- b. to give up the leadership role and to contribute a small component to the leadership of others;
- c. to lead a sector ... with a range of forces drawn from other countries.

To keep cost to a minimum, we should scale down our commitments as rapidly as possible.”

**172.** Mr Dodds summarised his arguments:

- On public finance grounds there is a strong case for stepping back from military leadership in the aftermath and allowing other countries to take on this role.
- If Ministers want Britain to continue to be in a leadership position there will be significant costs ...

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<sup>110</sup> [Paper IPU, 5 March 2003, ‘Planning for the UK’s Role in Iraq after Saddam’.](#)

<sup>111</sup> Public hearing, 8 December 2009, page 28.

<sup>112</sup> [Paper Treasury, 4 March 2003, ‘Iraq – the Aftermath – Military Options’.](#)

...

- There are risks that our taking on military leadership will result in our being sucked into wider responsibilities for reconstruction with even higher costs.”

**173.** Mr Dodds told the Inquiry why he had written that paper:

“... I think we had a specific request ... from the Chancellor’s Office for a piece of advice on the aftermath and I think what had happened was that it had become clear, quite suddenly really, to the Chancellor ... to the Treasury, that there was a set of options being considered for the role that the UK [military] might play ... in Phase IV ...”<sup>113</sup>

**174.** Mr Dodds told the Inquiry that the Treasury’s earlier work had focused on the major conflict phase of operations, using a three-year planning framework. However:

“... it suddenly became clear to us ... if we had been wiser, we might have kind of anticipated this, but it was a bit of a surprise ... that there were discussions going on between parts of the UK Government and others around the role that the UK might play, which had the potential to see us in Iraq for significantly longer than we had been initially supposing.

“... the Treasury wasn’t in the loop before early ... March, around this thinking, and .... when this thinking emerged, there ... appeared to have been an assumption on behalf of some other parts of government that this was another thing where ... the Treasury would just sign the cheques ... without being involved in the strategic decision.”

**175.** Mr Brown also received a paper from a Treasury official on the potential impact of all military and non-military expenditure in Iraq on public expenditure.<sup>114</sup> The best estimate of the cost of UK military combat operations was £3.1bn. Maintaining a “medium-term stabilisation/peace-keeping force” might cost up to £1bn a year for two years. The official advised that:

“... whilst the costs of the actual fighting are now pretty inescapable ***we still have a window of opportunity to exert some influence over the scale of this post-conflict commitment.***”

**176.** The 6 March meeting is described in detail later in this Section.

**177.** The 14 March meeting of the Ad Hoc Group on Iraq (AHGI)<sup>115</sup> was advised that the IPU was considering how best to approach other donors for support on reconstruction,

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<sup>113</sup> Public hearing, 14 July 2010, pages 13-16.

<sup>114</sup> Minute Treasury [junior official] to Chancellor, 4 March 2003, ‘Iraq - Potential Public Spending Impact’.

<sup>115</sup> From 20 September 2002, the Ad Hoc Group on Iraq (AHGI) co-ordinated all non-military cross-government work on post-conflict issues.

and that the FCO was considering whether there was scope to approach other countries to contribute to UK military campaign costs (though the prospects were not good).<sup>116</sup>

### Cash contributions to Operation GRANBY

There was precedent for approaching other governments to contribute to UK military costs. Other governments pledged over £2bn to the UK to cover the costs incurred on Operation GRANBY, the UK contribution to the international response to Iraq's invasion of Kuwait in 1990.<sup>117</sup> The cost of Op GRANBY was some £2.5bn.

**178.** Treasury officials advised Mr Boateng on 14 March that the MOD's estimate for infrastructure costs within the NACMO envelope included £10m for:

"CIMIC – Civilian-Military co-operation. This spend is for force protection with the goal of pacifying local, potentially aggressive populations ... This is an integral part of military operations and is still within agreed control totals – due to over-forecasting in other areas ..."<sup>118</sup>

**179.** The MOD subsequently referred to that allocation as being for QIPs.<sup>119</sup>

**180.** On 17 March, Cabinet took collective responsibility for the conclusion that:

"... the diplomatic process was now at an end. Saddam Hussein would be given an ultimatum to leave Iraq; and the House of Commons would be asked to endorse the use of military action against Iraq to enforce compliance, if necessary."<sup>120</sup>

**181.** Mr Brown told the Inquiry how he had responded to advice from Treasury officials that he should raise the issue of the cost of the military options being considered by the Government:

"I ... made it clear that the military option had to be one that was best for the military, and that the Treasury would not in any way interfere and suggest that there were cost grounds for choosing one option against another. That was not our job. The Treasury was there to advise on how we could deal with the financial issues that arose from the military decisions and the political decisions that were made.

"So there was no time from June [2002] when the Treasury said, 'This is a better military option because it is cheaper or less costly'. At every point, I made it clear that we would support whatever option the military decided upon with the Prime

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<sup>116</sup> Minute Dodd to Manning, 17 March 2003, 'Ad Hoc Group on Iraq'.

<sup>117</sup> Ministry of Defence, *Statement of the Defence Estimates*, 1991, Cm 1559-I.

<sup>118</sup> Minute Treasury [junior officials] to Chief Secretary, 14 March 2003, 'Iraq Funding'.

<sup>119</sup> Minute Dodd to Manning, 17 March 2003, 'Ad Hoc Group on Iraq'; [Minute Straw and Hoon to Blair, 19 March 2003, 'Iraq: UK Military Contribution to Post-Conflict Iraq'](#).

<sup>120</sup> [Cabinet Conclusions, 17 March 2003.](#)

Minister and the Cabinet and that there would be no financial barrier to us doing what was necessary to be done.<sup>121</sup>

**182.** Mr Blair described the Government’s planning for a post-Saddam Iraq in his 14 January 2011 statement to the Inquiry. He wrote that, on funding:

“... the Chancellor [Mr Brown] had throughout made it clear resources would not be an obstacle. The Treasury had made certain calculations of the cost both of the initial action and the aftermath. The Chancellor was present at Cabinet meetings in the run-up to the conflict. Throughout he made it clear resource was not a constraint. Subsequently he was part of the War Cabinet. Of course the Treasury queried and questioned costings. They always did. But at no point did anyone say to me: the Treasury are stopping us doing what need. So I see in evidence to the Inquiry that resource issues were being raised with some frustration by officials. I can only say that had such frustrations been raised with me, I would have acted on them and I believe the Chancellor would have been fully supportive.”<sup>122</sup>

## Estimates and allocations for non-military activities

### Humanitarian assistance and reconstruction

**183.** A Treasury official sent Mr Brown a paper on the global, regional and local (Iraqi) economic impact of “war” in Iraq on 6 September 2002.<sup>123</sup> The official’s analysis of the global economic impact of war is described earlier in this Section.

**184.** As part of his analysis of the local (Iraqi) economic impact, the official assessed the contribution that the IMF, the World Bank, bilateral donors, the UN and the Paris Club (through debt relief) had made to meeting the “post-war challenge” in the Federal Republic of Yugoslavia (FRY), East Timor and Afghanistan, under five headings: reconstruction; institution-building; economic stabilisation; economic transition; and peacekeeping.

**185.** The official concluded that the cost of “putting a country back on its feet” could be high. The FRY had already received US\$10bn in support (excluding IMF support). Iraq could be “even more expensive”, given:

- the possibility that a conflict could cause significant damage, and the existing poor state of Iraq’s infrastructure;
- the need to stabilise the economy, including by addressing Iraq’s huge external debt;

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<sup>121</sup> Public hearing, 5 March 2010, pages 25-26.

<sup>122</sup> Statement, 14 January 2011, pages 15-16.

<sup>123</sup> [Email Treasury \[junior official\] to Bowman, 6 September 2002, ‘What Would be the Economic Impact of a War in Iraq?’ attaching Paper Treasury, September 2002, ‘What Would be the Economic Impact of War in Iraq?’.](#)

- the need for a large peace-keeping force “to keep a lid on the ethnic and religious tensions that Saddam’s dictatorship has hidden for so long”; and
- the pressure for a “generous [reconstruction] package, given the perception in the region that invading Iraq is of dubious legality and worth”.

**186.** On who would pay for that generous package, the official assessed that:

“... the US might expect Iraq to pick up the bill after a short ‘bridging’ period, especially as – with investment – oil revenues could quickly exceed US\$20 billion per year.

“But it is more likely that strong pressure will come to bear on the US and its allies to pay the lion’s share, given their role in the war ...”

**187.** The official did not consider what the UK’s contribution to meeting post-war costs might be.

**188.** The Inquiry has seen no evidence that Mr Brown responded to this analysis, or that it was circulated outside the Treasury.

**189.** Mr Brown told the Inquiry that the Treasury was among the first to consider the challenges involved in reconstruction.<sup>124</sup>

**190.** From 20 September 2002, the Ad Hoc Group on Iraq (AHGI) co-ordinated all non-military cross-government work on post-conflict issues (see Section 6.4). The AHGI was chaired by the Cabinet Office.

**191.** Mr Alistair Fernie, Head of DFID’s Middle East and North Africa Department, circulated a draft paper on the potential humanitarian implications of conflict in Iraq to members of the AHGI on 11 October, with the caveat that the paper had not yet been seen by Ms Short or other departments.<sup>125</sup>

**192.** The draft paper stated that:

“Any large-scale UK humanitarian response would require additional funding from the Central Reserve. DFID’s existing small (£6m) humanitarian programme in Iraq is fully committed; available humanitarian funds within CHAD [DFID’s Conflict and Humanitarian Affairs Department] are likely to be grossly insufficient and most of DFID’s Contingency Reserve has already been allocated.”

**193.** On 4 November, Mr Fernie invited Ms Short to agree that a revised version of the paper should be shared with the US as a work in progress.<sup>126</sup> He advised that the

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<sup>124</sup> Public hearing, 5 March 2010, page 19.

<sup>125</sup> Letter Fernie to Dodd, 11 October 2002, ‘Iraq: Humanitarian Contingency Planning’ attaching Paper [draft] DFID, 11 October 2002, ‘Iraq: Potential Humanitarian Implications’.

<sup>126</sup> [Minute Fernie to Private Secretary/Secretary of State \[DFID\], 4 November 2002, ‘Iraq: Contingency Planning: Humanitarian Paper’ attaching Paper DFID, 5 November 2002 \[sic\], ‘Iraq: Potential Humanitarian Implications’.](#)

revised paper incorporated her comments on an earlier draft. On funding, in place of the statement above, the paper stated:

“A large-scale regional response ... would certainly test the already stretched human resource and monetary capacity of many agencies and donors.”

**194.** Mr Fernie’s minute was copied to the Private Office of Mr Suma Chakrabarti, DFID Permanent Secretary.

**195.** Ms Short agreed that the paper could be shared with the US, subject to the inclusion of an explicit reference to DFID’s lack of financial resources to cover the humanitarian contingencies considered in the paper.<sup>127</sup>

**196.** Ms Short held a meeting with DFID officials on 18 November to discuss Iraq.<sup>128</sup> Ms Anna Bewes, Ms Short’s Private Secretary, recorded that the meeting had agreed that it would be important to cost each military option, including both military and “realistic humanitarian” costs. Ms Short was concerned that not only was no money set aside for humanitarian activity, but the issue was not even being considered.

**197.** Mr Fernie set out his understanding of Ms Short’s concern in an email to DFID colleagues the following week:

“... HMT [the Treasury] have been talking to MOD only about the military costs without taking into account the costs to the international community of any humanitarian response, post-Saddam transitional administration and/or reconstruction ... The SoS [Ms Short] is particularly keen to make clear that DFID cannot find substantial funds for any such work from our existing budgets.”

“We [DFID] are trying to cobble together some figures of possible costs – all a bit speculative ... but the point at this stage is to get others in Whitehall thinking about it.”<sup>129</sup>

**198.** On 3 December, Mr Fernie reported to Dr Nicola Brewer, DFID Director General Regional Programmes, that there had been no progress in interesting the Cabinet Office or the Treasury in costing “various scenarios”.<sup>130</sup> Mr Jim Drummond, Assistant Head (Foreign Affairs) of the Cabinet Office Overseas and Defence Secretariat (OD Sec), and the AHGI had both given a “clearly negative response”. The “Cabinet Office line” was that if DFID thought it would incur unaffordable extra costs, it should bid to the Treasury. Mr Dodds had expressed some concern over international burden-sharing, but had shown “little interest” in Ms Short’s concerns and had thought that there would be “no appetite” in the Treasury for producing “Whitehall-wide” costings. DFID’s Conflict and

<sup>127</sup> [Manuscript comment Short, 4 November 2002, on Minute Fernie to Private Secretary/Secretary of State \[DFID\], 4 November 2002, ‘Iraq: Contingency Planning: Humanitarian Paper’.](#)

<sup>128</sup> Minute Bewes to Miller, 19 November 2002, ‘Iraq’.

<sup>129</sup> Email Fernie to Sparkhall, 26 November 2002, ‘Iraq – Expenditure Implications across Whitehall’.

<sup>130</sup> [Minute Fernie to Brewer, 3 December 2002, ‘Iraq: Contingency Planning’.](#)

Humanitarian Affairs Department (CHAD) was working up preliminary costings, but had “no consumer for this product”.

**199.** Mr Fernie asked Dr Brewer for her advice on how to proceed:

“Do we need to take this up at a higher level in CO [the Cabinet Office] or HMT [the Treasury]? Or do as CO says and start circulating some large-ish figures around Whitehall?”

**200.** Dr Brewer replied on 5 December.<sup>131</sup> She advised that she had spoken to Mr Peter Ricketts, the FCO Political Director, who had been:

“... slightly more willing to acknowledge that the likely costs ... should be factored into the decision-making process. But I got no sense at all that the FCO would either push for this or support us in doing so. Their sense is that the Prime Minister’s mind will be made up by other factors.”

**201.** Dr Brewer suggested that the issue could be raised by Mr Chakrabarti with Sir David Manning and Permanent Secretaries, or by Ms Short at Cabinet.

**202.** DFID officials reported the lack of progress to Ms Short on 10 December.<sup>132</sup> Ms Short agreed that officials should raise US and DFID cost estimates at the next AHGI, and directed that DFID officials should intensify discussions with the Treasury on costings.

**203.** There is no reference to a discussion on this issue in the records of the 13 December 2002 and 10 January 2003 meetings of the AHGI.<sup>133</sup>

**204.** The Inquiry has seen no indications that DFID raised this issue again.

**205.** In mid-December 2002, a DFID official advised Ms Short that the MOD did not seem to have recognised that, for a period after any conflict, the UK military would “find themselves in the frontline in caring for injured and vulnerable civilian populations”.<sup>134</sup> The military would need to be resourced to fulfil this responsibility. Dr Brewer said that she would speak to the MOD.

**206.** At the end of December 2002, the focus of the Chiefs of Staff and UK military planners switched from northern to southern Iraq, creating a contingent liability that the UK would be responsible for the post-conflict occupation and administration of a UK Area of Responsibility (AOR) in the region around Basra.

**207.** The Cabinet discussed Iraq on 16 January 2003.<sup>135</sup>

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<sup>131</sup> [Minute Brewer to Fernie, 5 December 2002, ‘Iraq: Contingency Planning’.](#)

<sup>132</sup> [Minute Bewes to Fernie, 13 December 2002, ‘Iraq’.](#)

<sup>133</sup> Minute Dodd to Manning, 19 December 2002, ‘Ad Hoc Group on Iraq’; Minute Dodd to Manning, 13 January 2003, ‘Ad Hoc Group on Iraq’.

<sup>134</sup> [Minute DFID \[junior official\] to Fernie, 13 December 2002, ‘Iraq’.](#)

<sup>135</sup> [Cabinet Conclusions, 16 January 2003.](#)

**208.** Ms Short said that work on post-conflict issues needed to be taken forward urgently and emphasised the need for extra resources, the potential effect of chemical and biological weapons on civilians and the importance of involving the UN.

**209.** Summarising the discussion, Mr Blair said that the “priorities for the immediate future” included preparatory work on planning the aftermath of any military action.

**210.** On 21 January, at Ms Short’s request, Mr Fernie provided advice on “how to maximise the chances of securing additional funding from the Treasury to cover the costs of [a] DFID humanitarian response”.<sup>136</sup>

**211.** Mr Fernie recommended that Ms Short should speak, rather than write, to Mr Brown. A letter would invite a formal response, and Treasury officials were likely to caution Mr Brown against providing any broad assurance on funding and might recommend that DFID “unpick” its 2003/04 spending plan, to be agreed shortly, in order to provide more funding for Iraq.

**212.** Mr Fernie continued:

“Mr [Mark] Lowcock’s [DFID Director Finance and Corporate Performance] advice is that the best time to extract maximum funds from the central Reserve is when the political pressure is at its height. We might guess that such a time will come in a month or so – by which time budgets for our existing programmes would be more secure, with our 2003/04 framework finalised and on its way to publication.”

**213.** Ms Short commented: No – I don’t want to ring Ch X [the Chancellor of the Exchequer] ... I wanted to put humanitarian considerations into Gov[ernment] mind not just to squeeze some money.”<sup>137</sup> Rather than write or speak to Mr Brown, she would write to Mr Blair. That letter was sent on 5 February.

**214.** Ms Short described DFID’s preparations to respond to a humanitarian crisis in Iraq in the House of Commons on 30 January.

**215.** Ms Short’s briefing for the debate included, at her request, a figure for the UK’s “responsibility within the international system” for contributing to humanitarian relief efforts.<sup>138</sup> The briefing stated that the UK’s Gross National Income (GNI) was 5.5 percent of the total GNI of members of the Organisation for Economic Co-operation and Development (OECD) in 2000. The UK would not expect to contribute much more than that percentage to any international humanitarian relief effort.

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<sup>136</sup> Minute Fernie to PS/Secretary of State [DFID], 21 January 2003, ‘Iraq Contingency Planning: Financial Provision’.

<sup>137</sup> Manuscript comment Short, 22 January 2003, on Minute Fernie to PS/Secretary of State [DFID], 21 January 2003, ‘Iraq Contingency Planning: Financial Provision’.

<sup>138</sup> Minute Fernie to PS/Secretary of State [DFID], 28 January 2003, ‘Iraq: Contingency Planning – Commons Debate on Thursday’ attaching Briefing, [undated], ‘House of Commons Opposition Debate, Thursday 30 January 2003: Humanitarian Contingency Planning in Iraq’.

**216.** During the debate, Ms Short reported that the US had committed to fund in full the recent UN appeal for US\$137m to enable UN agencies to prepare their responses to a humanitarian crisis.<sup>139</sup>

**217.** In response to a question from Mr Crispin Blunt about the resources available to DFID, Ms Short stated that:

“... the UK’s contribution to any humanitarian crisis throughout the world, as determined by the Organisation for Economic Co-operation and Development, is just over 5 percent – that is all.”

Ms Short continued:

“... my department’s budget has virtually doubled since 1997, but is under strain ... We have a Contingency Reserve and Iraq would be prioritised. However, I have just been in Africa, where there is a real fear about resources being taken away from southern Africa, the horn of Africa, the Afghan people, the West Bank and Gaza – that would be wrong and we would not contemplate it. We will play our part in the international system, but the department is not flush with resources – I must frankly warn the House that they are short.”

**218.** On 31 January, a DFID official provided advice to Ms Short, at her request, on how much the UK might be expected to contribute to “humanitarian relief/reconstruction” in Iraq in the event of military action.<sup>140</sup>

**219.** The official provided a draft DFID paper which considered in detail Iraq’s possible post-war needs under a number of scenarios. The paper used current Oil-for-Food (OFF) programme expenditure plans as a “benchmark” for a future humanitarian and reconstruction programme, and then considered how those plans would be affected by a number of factors including the nature of any conflict, the availability of Iraqi oil revenues, and how Iraq’s external debt and reparation claims would be resolved.

**220.** The official advised that FCO and Treasury officials had seen an earlier draft of the paper, and that the Treasury was using roughly similar figures in assessing the total cost to the UK of military engagement in Iraq (an issue in which there was increased Ministerial interest).

**221.** In her covering minute, the official summarised the main conclusions of the paper:

- Total humanitarian costs could reach US\$12bn in the first year after any conflict, if the OFF programme collapsed.

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<sup>139</sup> House of Commons, *Official Report*, 30 January 2003, columns 1057-1058.

<sup>140</sup> Minute DFID [junior official] to PS/Secretary of State [DFID], 31 January 2003, ‘Iraq: Cost of Humanitarian Relief/Reconstruction and Potential UK Contribution’ attaching Paper DFID [draft], [undated], ‘Draft: Iraq: Relief and Reconstruction: Implications for UK Government’.

- Reconstruction could cost between US\$2bn and US\$10bn a year over a two to three-year period, depending on the impact of the military conflict, the level of forgiveness secured on debt and other claims, and oil revenues.
- If the UK provided 5.6 percent<sup>141</sup> of the total humanitarian/reconstruction costs (in line with the UK's share of OECD GNI), the UK's contribution to "total humanitarian/reconstruction costs" could reach US\$640m (£400m) a year for the next three years, under a "high case military/low case oil revenue scenario".

**222.** The draft paper stated that DFID had, "traditionally' (Balkans/Afghanistan)", contributed between eight and 10 percent of total relief/reconstruction costs. On that basis, under a high case military/low oil revenue scenario, the UK contribution could be in excess of US\$1bn a year.

**223.** The official also provided advice on how to raise awareness across the UK Government about the potential costs of a major humanitarian operation, "without committing DFID's budget at this stage or jeopardising other programmes".

**224.** The official recommended that DFID should continue to discuss funding with other departments at official level, but seek to postpone discussions on the detailed financial implications for DFID until its 2003/04 spending plans had been agreed. DFID's Iraq team and DFID's Finance Department would continue to work closely together "on tactics to avoid early discussion about the implications [of a UK contribution] for DFID's budget, bearing in mind Mr Lowcock's earlier advice". The Treasury would be keen to share the burden across the international community, to minimise the UK contribution.

**225.** Ms Short commented on that advice:

"Let us be clear ... we have [a] Contingency Reserve of £100 mill[ion] and all our systems strained [we] cannot take money from other poor countries. We are not asking for or promising money. DFID prob[ably] has no more than £50 mill[ion]. If HMG wants to provide more – so be it but DFID limited."<sup>142</sup>

**226.** Ms Short wrote to Mr Blair on 5 February to provide an update on humanitarian planning.<sup>143</sup> In that context, she advised that a "fair share" for the UK of a major humanitarian/reconstruction operation would be around 5.6 percent, equal to the UK's share of OECD GNI. Under one scenario, that could equate to £440m a year for three years.

**227.** The letter did not describe that scenario or provide a cost for any others.

**228.** Ms Short also advised that DFID's resources and those of the international system were already under severe strain.

<sup>141</sup> Rather than the 5.5 percent used in Mr Fernie's minute of 28 January 2003 to Ms Short.

<sup>142</sup> Manuscript comment Short on Minute DFID [junior official] to PS/Secretary of State [DFID], 31 January 2003, 'Iraq: Cost of Humanitarian Relief/Reconstruction and Potential UK Contribution'.

<sup>143</sup> Letter Short to Blair, 5 February 2003, 'Iraq: Humanitarian Planning'.

**229.** Ms Short concluded:

“The immediate question is how big a part the UK should play in humanitarian preparations. It would be helpful to know whether you think the UK should remain modest or aim higher in terms of our humanitarian contribution to resolving the Iraq crisis. If you want the UK to take more of a lead ... then I would be willing to do that. But it would need to be an effort on behalf of the whole Government, not just my department.

“I think the way in which you could best help is to make clear across the system that you want humanitarian considerations to be given more weight. In addition it would help if we could settle the financial questions.”

**230.** Ms Short announced in Parliament on 10 February that she had provided £3.5m to support UN humanitarian contingency planning.<sup>144</sup>

**231.** On 11 February, a Treasury official invited Mr Brown’s comments on officials’ “first thoughts” on Treasury policies in a post-Saddam Hussein Iraq.<sup>145</sup> The official identified the Treasury’s “two main finance ministry interests” in Iraq as ensuring its prosperity and stability while fairly sharing the costs of achieving this. The costs of ensuring Iraq’s prosperity and stability were “potentially massive”, and comprised peacekeeping costs (the UK contribution to peacekeeping in the FRY had peaked at £325m in 1999/2000), humanitarian assistance, environmental costs, reconstruction and economic stabilisation (including IMF lending). An “emerging policy position” would be to:

- maximise the Iraqi contribution, initially by maintaining the OFF programme;
- push for debt rescheduling, to ensure that Iraqi contributions were not knocked off course by having to resume crippling debt service. The cost would “conveniently fall to probable non-combatant countries”;
- maximise contributions from development banks;
- push for bilateral contributions “to take into account military contributions”, assuming that the UK military contribution was significant; and
- ensure a finance ministry/international financial institution (IFI) lead on financing issues, with a clear understanding that no money was committed until needs were properly understood.

**232.** The Treasury told the Inquiry that Mr Brown did not comment.<sup>146</sup>

**233.** Mr Blair convened the first Ministerial meeting on humanitarian issues with Mr Straw, Mr Hoon, Ms Short, Adm Boyce and No.10 officials in the margins of Cabinet

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<sup>144</sup> House of Commons, *Official Report*, 10 February 2003, column 526W.

<sup>145</sup> [Minute Treasury \[junior official\] to Chancellor, 11 February 2003, ‘HMT Policy on Post-Saddam Iraq’ attaching Paper Treasury, 11 February 2003, ‘Post-War Iraq: International Financing Policy’.](#)

<sup>146</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 26 February 2010, [untitled].

on 13 February.<sup>147</sup> Sir Michael Jay, Sir Kevin Tebbit and Mr Chakrabarti were not present.

**234.** In advance of the meeting, Mr Desmond Bowen, Deputy Head of the Cabinet Office Overseas and Defence Secretariat, advised Sir David Manning that:

“The Prime Minister will ... want to seek Clare [Short]’s engagement in the potential humanitarian relief operation and reconstruction – which will need funding and the commitment of human resources as a priority.”<sup>148</sup>

**235.** IPU briefing for Mr Straw set out three objectives for the meeting, including:

- encourage Ms Short to engage fully in planning;
- persuade Ms Short that she should allow DFID money to finance small scale [reconstruction] projects in the area administered by a UK commander.”<sup>149</sup>

**236.** At the meeting, in response to a question from Mr Blair about whether the UK should “take the lead on humanitarian action in the southern zone”, Ms Short said that she was in favour.<sup>150</sup> The UK could do an “exemplary job” in the zone on both the military and humanitarian fronts.

**237.** Mr Blair concluded that the UK should seek to take the lead on humanitarian issues in the southern zone of Iraq.

**238.** Ms Short wrote to Mr Blair the following day, 14 February, to provide an update on humanitarian preparations and the role of the UN.<sup>151</sup> Ms Short confirmed that, within an agreed international framework set out in a second resolution, there was a “great opportunity” for the UK to play an exemplary humanitarian role in the South:

“But as I made clear in my letter of 5 February, my department has tight budgetary constraints ... Without some understanding on finance, I cannot responsibly commit DFID to the exemplary partnership with MOD which we discussed.”

**239.** Mr Blair wrote on his copy of the letter: “We must get the US to accept the UN role.”<sup>152</sup>

**240.** On 17 February, a DFID official sought Ms Short’s views on the implications of the decision that “the UK should take the lead on humanitarian issues in the southern zone of Iraq, and do an exemplary job on both the military and humanitarian front”, and in particular how it should balance its limited human and financial resources between

<sup>147</sup> [Letter Cannon to Bewes, 13 February 2003, ‘Iraq: Humanitarian Issues’.](#)

<sup>148</sup> Minute Bowen to Manning, 13 February 2003, ‘Meeting on Iraq: Humanitarian Follow-up’.

<sup>149</sup> [Minute Iraq Planning Unit to Private Secretary \[FCO\], 12 February 2003, ‘Meeting on Iraq Day After Issues Before Cabinet 13 February’.](#)

<sup>150</sup> [Letter Cannon to Bewes, 13 February 2003, ‘Iraq: Humanitarian Issues’.](#)

<sup>151</sup> [Letter Short to Blair, 14 February 2003, ‘Iraq: Humanitarian Planning and the Role of the UN’.](#)

<sup>152</sup> [Manuscript comment Blair on Letter Short to Blair, 14 February 2003, ‘Iraq: Humanitarian Planning and the Role of the UN’.](#)

playing an exemplary role in the South and supporting the UN and wider international effort across the country and the region.<sup>153</sup>

**241.** The official recommended that DFID prepare for four roles:

- “• Support humanitarian needs nationally and in the region, primarily through the UN and Red Cross/Red Crescent movement;
- Work alongside and influence humanitarian action by US DART [Disaster Assistance Relief Teams];
- Work alongside the UK military;
- Undertake DFID bilateral humanitarian action.”

**242.** The official identified a number of “further pre-deployment steps which we need to initiate now to be adequately prepared to play these roles effectively”:

- Establish a forward base in Kuwait to allow DFID to build its capacity for deployment into Iraq as humanitarian needs arose and security allowed. A forward base would give DFID an “immediate response capability”.
- Deploy a Humanitarian Adviser to Jordan to liaise and work with humanitarian partners.
- Undertake regional assessment missions, including to Cyprus, Egypt, Turkey and Iran.
- Deploy a civil-military Humanitarian Adviser to 1 (UK) Div in Kuwait, and undertake regular visits to CENTCOM in Qatar.
- Second consultants and provide equipment to support humanitarian co-ordination, initially to the UN Humanitarian Information Centre (HIC) in Cyprus.

**243.** The official warned:

“If we do not have people and assets in place and ready in time, we will not be able to respond quickly and as may be needed. Once conflict has begun logistical constraints will make it extremely difficult to respond unless we have put the preparations in place.”

**244.** The official concluded by considering resource constraints. Until DFID received any indication from the Treasury or No.10 that further funds would be forthcoming in the event of conflict, it was planning on the basis that it could access a substantial share of DFID’s Contingency Reserve to supplement its CHAD emergency funds and its Iraq programme funds.

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<sup>153</sup> [Minute DFID \[junior official\] to PS/Secretary of State \[DFID\], 17 February 2003, ‘Iraq – Contingency Planning: Deployment Plan’.](#)

**245.** If a total of £60m was available from those sources in 2003/04, DFID planned initially to commit £35m to meet immediate relief needs. Exactly how that amount should be allocated would depend on the nature of the conflict and other factors, but an indicative allocation might be:

- £20m to support the work of UN agencies, the Red Cross and NGOs across Iraq;
- £5m to fund QIPs delivered by the UK military, to help generate stability within communities; and
- £10m for DFID's own rapid response capacity.

**246.** The official commented:

“Under many scenarios, £35 million is unlikely to be perceived as an adequate UK contribution to any immediate relief effort, particularly if OFF collapses. Leaving £25 million for further humanitarian need, medium-term rehabilitation and reconstruction could also look very sparse. Action in response to the Secretary of State's previous two letters [Ms Short's letters of 5 and 14 February] to the Prime Minister on this rests with No.10.”

**247.** The official also advised:

“If the military is involved in the direct delivery of humanitarian assistance, there will be an issue about who pays. MOD claim to be financially stretched and are keen for DFID to pay.”

**248.** Ms Short held a meeting the following day to discuss that advice, attended by Dr Brewer, Mr Fernie and other DFID officials.<sup>154</sup> Mr Chakrabarti did not attend, but a copy of the record of the meeting was sent to his Private Office.

**249.** Ms Short said that she was concerned that much of what was proposed in the submission “pre-supposed the financial comfort we had so far failed to receive from the Treasury”. She was “unwilling, without a clear financial package, to plan to do more than support the UN, key international agencies, and perhaps provide some funding to the UK military for QIPs”. She had repeatedly made it clear (to Mr Blair in person and in writing, and in the House of Commons) that DFID did not have the financial resources to play a major role.

**250.** Within those constraints, Ms Short was content for officials:

- to start discussions about possible support to non-governmental organisations (NGOs) not yet involved in Iraq that had specific technical expertise in areas such as water and sanitation;

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<sup>154</sup> [Minute Bewes to DFID \[junior official\], 19 February 2003, 'Iraq Contingency Planning: Update'](#).

- to work closely with the US on a humanitarian response, but only if there was an overarching UN mandate and financial cover; and
- “in principle”, to make money available to the UK military for QIPs, to be re-examined if there was no UN mandate and the UK military was “working under a US lead”.

**251.** Ms Short did not agree to establish a forward base in Kuwait on the grounds that it would imply that military action was a certainty. DFID could make scoping visits to the region and arrange for vehicles to be ready for transportation, but the equipment should not be pre-positioned in the region. Ms Short “accepted that this would mean that DFID would not be prepared for an immediate response in the event of military action or a humanitarian crisis on the ground”. She suggested that DFID consider providing more funds to the International Committee of the Red Cross (ICRC), which was undertaking similar preparations to those recommended by DFID officials.

**252.** Ms Short also rejected the deployment of DFID staff to Jordan and the HIC in Cyprus, on the grounds that it pre-supposed a significant role for DFID, which it was as yet unable to promise.

**253.** The meeting agreed that DFID:

“... should work through the range of different scenarios within which we might have to act and in each case consider how we would respond in terms of financial support and the channels through which it could be provided.”

**254.** In the context of discussion on those scenarios, Ms Short stated that without additional resources, DFID “would not be able to take up the exemplary role, working with the UK military, that the PM had asked us to”.

**255.** Dr Brewer told the 19 February Chiefs of Staff meeting that Ms Short, while working towards full commitment through the UN, would not be seeking additional resources beyond DFID’s £100m Contingency Reserve.<sup>155</sup>

#### THE FIRST COMPREHENSIVE ESTIMATE OF COSTS, 19 FEBRUARY 2003

**256.** On 19 February, in advance of meetings with Mr Snow and other G7 finance Ministers, Mr Brown received a number of papers on Iraq.<sup>156</sup>

**257.** In a covering minute to those papers, a Treasury official warned that on reconstruction:

“Our sense is that momentum ... is developing very fast, and there is a risk that the financing agenda could be set by policy decisions taken in Foreign and Defence Ministries. Sharing ideas with Mr Snow may be a useful way to begin to redress

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<sup>155</sup> Minutes, 19 February 2003, Chiefs of Staff meeting.

<sup>156</sup> [Minute Treasury \[junior official\] to Chancellor, 19 February 2003, ‘Update on Iraq’.](#)

this balance. An additional approach would be to write round Whitehall colleagues sharing your concerns (for instance, about the economic and financing implications of foreign and defence policy decisions).”

**258.** A paper by Treasury officials identified three “pitfalls” to putting Iraq “on a path to stability and prosperity whilst fairly sharing the financing burden for this”.<sup>157</sup> Those pitfalls were:

- UN cover. Without this, the UK would have to contribute more to the reconstruction effort, IFIs would find it hard to engage, and the international community would be unable to resolve crucial financing issues such as debt rescheduling.
- Being realistic about the decisions a transitional Iraqi Government could take. It could be illegitimate and destabilising for the transitional Government to take decisions on Iraqi economic policy.
- The implications of establishing administrative sectors in Iraq: “If the UK takes on one, the cost – in terms of money and administrative burden – could rocket, and our stay lengthen.”

**259.** A paper by Mr Dodds and a junior Treasury official provided the first comprehensive estimate of the cost of the UK’s intervention in Iraq (including military and non-military, conflict and post-conflict costs).<sup>158</sup> The advice on military costs is described earlier in this Section.

**260.** The officials advised that the best estimate of the cost of military (combat and post-conflict) operations was now more than £5bn. In addition:

- The UK might spend between £100m and £250m on humanitarian aid in the first year after any conflict (based on a “typical” UK contribution of 10 percent of total international aid).
- The UK might spend between £100m and £500m on reconstruction in the first year after any conflict (again, based on 10 percent of total international aid).
- It was impossible to estimate costs falling to the Export Credit Guarantee Department (ECGD), including through claims or losses arising from political and economic instability, and from any decisions to write off debt for political reasons.
- Mr Boateng had already agreed to provide an additional £5m to the FCO from the Reserve for a “flat-pack” Embassy. There might be other costs, though the Treasury was pressing the FCO to absorb those within its budget.

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<sup>157</sup> [Minute Treasury \[junior official\] to Chancellor, 19 February 2003, ‘Update on Iraq’ attaching Paper Treasury, 19 February 2003, ‘Iraqi reconstruction: pitfalls and process’.](#)

<sup>158</sup> Minute Treasury [junior official] to Chancellor, 19 February 2003, ‘Update on Iraq’ attaching Paper Treasury, 19 February 2003, ‘Iraq Conflict – Public Expenditure Impact’.

- There might be further indirect costs, including in relation to an increase in people seeking asylum.

**261.** The officials summarised the “big numbers” in a table which is reproduced in full below.

Table 3: The Treasury’s estimate of the direct cost of conflict, February 2003 (£bn)

	2002/03	2003/04	2004/05	2005/06
Military costs – war and immediate aftermath	1.0	1.5	0.5	–
Military – RAB costs	–	0.1	0.15	0.15
Military – aftermath	–	0.5	1.0	?
Humanitarian aid	–	0.1-0.25	?	?
Reconstruction aid	–	0.1-0.5	?	?
ECGD	–	?	?	?
<b>Total</b>	<b>1.0</b>	<b>2.3-c3.0</b>	<b>1.7+</b>	<b>?</b>

**262.** The officials advised that any DFID contribution to humanitarian and reconstruction costs would be constrained by DFID’s commitment to spend 90 percent of its bilateral resources in low-income countries. Ms Short had already written to Mr Blair (on 5 February) asking for advice on the approach that DFID should take and the potential for extra resources. It was “quite credible to imagine DFID putting [in] a bid for several hundred million pounds”.

**263.** Mr Brown and Mr Boateng received a further update on military post-conflict costs from a Treasury official the following day.<sup>159</sup> In that context, the official commented that the Treasury would also need to take account of the costs of humanitarian assistance and reconstruction:

“Our line to date has been that departments (mainly DFID) should meet these [costs] through budget reprioritisation. We would welcome your steer on this but, based on past conflicts, we suspect it is unlikely to be a sustainable line in the long term.”

**264.** The US inter-agency Rock Drill from 21 to 22 February confirmed the scale of the shortcomings in US post-conflict planning, including the deficiencies of the US Office of Reconstruction and Humanitarian Assistance (ORHA) and the continuing gap between UK and US positions on the role of the UN (see Section 6.5).

**265.** Ms Short held a meeting on Iraq with DFID officials, including Dr Brewer and Mr Fernie, on 24 February.<sup>160</sup> The meeting identified the “increased recognition across

<sup>159</sup> Minute Treasury [junior official] to Chancellor, 20 February 2003, ‘Iraq: Update on Potential Cost and How Should We Present Them?’.

<sup>160</sup> [Minute Bewes to Miller, 25 February 2003, ‘Iraq Contingency Planning: Update’.](#)

Whitehall of the likely scale of post-conflict activity, and the essential nature of UN involvement and authority if this was to be effectively addressed”.

**266.** The meeting also reviewed ORHA’s state of preparedness in the light of the Rock Drill:

- Humanitarian plans were the most advanced, but ORHA did not yet have sufficient funds, staff or capacity to deliver them.
- Reconstruction plans were “not nearly as well advanced as they should have been at this point”.
- Civil administration plans were the least advanced, and “would not be ready by the six week deadline they had been set”.

**267.** The meeting concluded that ORHA’s state of preparedness was “extremely worrying”.

**268.** The meeting also considered financial issues. The MOD and FCO appeared to be more aware of DFID’s financial constraints, but DFID had not yet received a “clear response to the issue of the limitation of DFID’s engagement imposed on it by our financial situation”. Ms Short told the meeting that Mr Brown “had indicated to her, in a private conversation, that he ‘would do what he could to help’”.

**269.** Dr Brewer wrote to Mr Bowen on the same day to summarise Ms Short’s position; copies of the letter were sent to the MOD, FCO and Treasury.<sup>161</sup> The letter reflected the conclusions of Ms Short’s meeting with DFID officials on 18 February and Dr Brewer’s presentation to the Chiefs of Staff on 19 February. Dr Brewer stated that:

“Although [Ms Short] would be keen for DFID to support an exemplary humanitarian effort in any UK-controlled sector, our [DFID’s] role will be constrained by the extent of the UN mandate and the financial resources available to us. We have a strong commitment to the UN agencies, and would want to allocate significant funding to them under most scenarios. Drawing heavily on our Contingency Reserve and existing humanitarian aid and Iraq budget lines is unlikely to release more than £60-70m for humanitarian assistance to Iraq in 2003/04. Given our predictions of the humanitarian needs, with this level of funding we would not be able to play the exemplary role [in the South] the Prime Minister has asked for, and it would be irresponsible of us to plan to do so.”

**270.** Mr Jeremy Heywood, Mr Blair’s Principal Private Secretary, sent Mr Bowman a paper on financing Iraqi reconstruction on 24 February.<sup>162</sup> Mr Heywood said that Mr Blair wanted to share the paper, prepared by the No.10 Policy Directorate, with the

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<sup>161</sup> [Letter Brewer to Bowen, 24 February 2003, \[untitled\]](#).

<sup>162</sup> [Letter Heywood to Bowman, 24 February 2003, ‘Iraq: Reconstruction’ attaching Paper, \[undated\], ‘Financing the Reconstruction of Iraq’](#).

US as soon as possible. The letter was copied to the FCO, DFID, the DTI and the Cabinet Office.

**271.** The No.10 paper stated that the cost of “reconstruction and nation building” in Iraq would be between US\$30bn and US\$105bn, excluding the direct cost of conflict and post-conflict peacekeeping. Only an administration enjoying the legitimacy provided by the UN would be free to engage with the financial markets to secure funding for Iraq’s long-term future.

**272.** Mr Bowman replied on 25 February, stating that the Treasury “fully supports the main message of the paper, that, in the absence of a UN mandate, the financing costs of reconstructing Iraq will be significantly higher”.<sup>163</sup> Mr Bowman offered detailed comments on the text and advised that the Treasury was already involved in complementary work alongside the IPU and in liaison with the US and Australia.

**273.** A revised draft was prepared, but not shared with the US.<sup>164</sup>

**274.** Mr David Johnson, Head of the MOD Iraq Secretariat, wrote to Mr Hoon’s Private Office on 26 February about humanitarian assistance during the early stages of a military conflict.<sup>165</sup> The MOD and DFID believed US plans for humanitarian assistance were inadequate, in particular because they relied on delivery by NGOs, who would not be on the ground in Iraq in numbers early on. The UK military would therefore need:

“... immediate access to sufficient expertise and resources to ... make good the deficiencies in the US plans. In particular ... DFID experts deployed in theatre, who can advise what is actually required ... (as opposed to soldiers making it up as they go along) ... There are lead-times associated with this ... Waiting till after a second SCR [resolution] is leaving it too late. We know DFID haven’t got any money. That is why they need to ask for some, now.”

**275.** Mr Blair told Cabinet on 27 February that he would continue to push for a second Security Council resolution.<sup>166</sup>

**276.** Ms Short said that a UN legal mandate was “essential” for the humanitarian and reconstruction tasks that lay ahead; without that, “proper preparation was impossible”. She also advised that it would be “difficult” to accommodate action in Iraq within DFID’s Contingency Reserve: “Greater resources were likely to be needed.”

**277.** After that meeting, Mr Boateng asked Treasury officials for a note on progress towards financing Iraq’s reconstruction.<sup>167</sup> Mr Boateng commented:

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<sup>163</sup> [Letter Bowman to Heywood, 25 February 2003, \[untitled\]](#).

<sup>164</sup> [Manuscript comments Manning and Drummond on Email Heywood to Manning, 3 March 2003, ‘Financing the Reconstruction of Iraq’](#).

<sup>165</sup> Email Sec(O)-Iraq to SofS-PS [MOD], 26 February 2003, ‘Humanitarian Assistance’.

<sup>166</sup> Cabinet Conclusions, 27 February 2003.

<sup>167</sup> Manuscript comment Boateng on Letter Bewes to Heywood, 25 February 2003, ‘Iraq: Reconstruction – Letter to Mark Bowman (HM Treasury), 24 February 2003’.

“Clare [Short] asked for more resources in Cabinet (‘I can’t take resources away from Ethiopia’) and the PM looked at me with one of his smiles – what does she want/need – and what might we offer?”

**278.** Mr Hoon’s Private Office sent Sir David Manning an update on military planning on 28 February.<sup>168</sup>

**279.** The section on “Day After” planning identified five UK concerns, including funding for reconstruction. US planning assumed the rest of the world would pick up 75 percent of the bill for reconstruction. That was “possibly hopelessly optimistic”. As an Occupying Power, the UK would be at the front of the queue of countries the US would approach to make up any deficit.

**280.** Copies of the paper were sent to the FCO, Treasury and Cabinet Office, but not to DFID.

**281.** A Treasury official advised Mr Boateng on 5 March that, with little clarity on the scale of the humanitarian response that would be required and on the UK’s contribution to it and no actual bid for resources from DFID, it was difficult to respond substantively to the concerns expressed by Ms Short in her 5 February and 14 February letters to Mr Blair.<sup>169</sup>

**282.** The official recommended that Mr Boateng write to Ms Short, setting out the Treasury’s two main concerns:

- that funding for reconstruction should be an international effort; and
- that Ministers should be aware that the Reserve was “not in a position to fund large amounts of new expenditure”.

**283.** The Treasury has informed the Inquiry that it has no record of Mr Boateng writing to Ms Short as a result of that advice.<sup>170</sup>

**284.** Ms Short held a meeting with DFID officials on 5 March to discuss Iraq and in particular the legality of “reconstruction work” without a covering UN mandate.<sup>171</sup> Ms Short concluded that without a clear mandate for reconstruction, DFID could only legally fund or undertake humanitarian work. DFID would not undertake reconstruction work, or fund others to do so. DFID “should move away” from any expectation that it would undertake an exemplary role, or that it would focus on any one area.

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<sup>168</sup> Letter Williams to Manning, 28 February 2003, ‘Iraq: Military Planning and Preparation’ attaching Paper, 28 February 2003, ‘Iraq: Military Planning Update – 28 February 2003’.

<sup>169</sup> Minute Treasury [junior official] to Boateng, 5 March 2003, ‘Iraq: Letter from Clare Short on Humanitarian Planning’.

<sup>170</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, ‘Further Queries relating to Resources’.

<sup>171</sup> [Minute Bewes to Fernie, 6 March 2003, ‘Iraq Update: 5 March’](#).

**285.** On funding, Ms Short agreed that if DFID was involved in humanitarian work only, it would draw on its Contingency Reserve. In the event that a “wider DFID role” was possible, “should we [DFID] be asked by No.10 or others how much funding DFID would need, we should mention an initial sum of £100 million”.

**286.** Ms Short wrote to Mr Blair on the same day:

“You must ... be aware that without resources larger than my whole Contingency Reserve – just under £100m ... it would be impossible for DFID to take a leading role in humanitarian delivery in the South–East about which we spoke.”<sup>172</sup>

Copies of Ms Short’s letter were sent to Mr Brown, Mr Straw and Mr Hoon.

### MR BLAIR’S 6 MARCH 2003 MEETING ON POST-CONFLICT ISSUES

**287.** On 6 March, Mr Blair chaired a meeting on post-conflict issues with Mr Brown, Mr Hoon, Ms Short, Baroness Symons, Sir Michael Jay and “other officials”.<sup>173</sup> The meeting is described in detail in Section 6.5.

**288.** Mr Brown received a number of papers from Treasury officials before the meeting. Mr Dodds’ advice on military operations in the post-conflict period is described earlier in this Section.

**289.** A Treasury official provided Mr Brown with a draft “DFID paper rewritten by the Treasury” on humanitarian relief and reconstruction costs.<sup>174</sup> The draft paper stated that it was a “first attempt at charting the likely costs of the first three years of the Iraqi reconstruction”. It adopted a different methodology from the draft DFID paper submitted to Ms Short on 31 January, but reached broadly similar conclusions.

**290.** The draft paper stated that cost estimates would remain “very rough” until the IFIs had completed a full needs assessment. However, an analysis of international precedents indicated that:

- In the first year after a conflict, humanitarian costs could be between US\$2bn and US\$12bn, depending on the scale of the humanitarian crisis and the extent to which oil exports were disrupted (the estimates assumed that the OFF programme would continue).
- In the second and third years after a conflict, total reconstruction costs (before Iraq’s oil revenues were taken into account) could be between US\$2bn and US\$15bn per year. The upper limit was not based on an analysis of international precedents, but reflected the potential for “political pressure to spend as much as the OFF [programme] does now (if not more)”.

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<sup>172</sup> [Letter Short to Blair, 5 March 2003, ‘Post Conflict Iraq: UN and US Roles’.](#)

<sup>173</sup> [Letter Cannon to Owen, 7 March 2003, ‘Iraq: Post-Conflict Issues’.](#)

<sup>174</sup> Email Dodds to Private Office [Treasury], 4 March 2003, ‘Iraq: Ministerial Meeting on Thursday Morning’ attaching Paper DFID, March 2003, ‘Draft: Iraq Relief and Reconstruction Costs: an Overview’.

- Oil revenues could pay for most of Iraq’s reconstruction – but only if oil production levels and prices were favourable, Iraq did not have to repay its debts, and the rehabilitation of Iraq’s oil infrastructure was “cheap”.

**291.** The draft paper stated that sources of financing for relief and reconstruction remained uncertain. Significant assistance from the international community including the IFIs would be extremely unlikely without a UN mandate.

**292.** A slightly revised version of that paper was sent to Mr Boateng the following day.<sup>175</sup>

**293.** Mr Brown also received advice from a Treasury official on the potential impact of all military and non-military expenditure in Iraq on public expenditure.<sup>176</sup> The official’s advice on military expenditure is described earlier in this Section.

**294.** The official advised that it remained difficult to assess the scale of the humanitarian and reconstruction response that would be needed. However, based on a “typical” UK contribution of 10 percent of total aid, the UK might spend up to £1.35bn on humanitarian assistance and reconstruction in the two years after a conflict.

**295.** The official concluded:

“DFID have yet to make any formal approach to us on these costs but, ***if you’re minded to, the [6 March Ministerial] meeting might be a good opportunity to dampen their expectations.***

“... we have said that departments should meet new costs through re-prioritisation. It is not clear though how long this position will hold.”

**296.** The IPU prepared an annotated agenda for the meeting, in consultation with other departments.<sup>177</sup>

**297.** With the invasion possibly only weeks away, the IPU stated that US and UK planning assumed that, in the “medium term after the conflict”, Coalition Forces would be “re-deployed into six or seven geographical sectors in order to provide a secure environment for the civil transitional administration to conduct humanitarian assistance and reconstruction work”. The US expected the UK Division in Iraq to be responsible for a geographical sector. That would be “very expensive and could have wider resource implications”. The IPU concluded that: “Ministers need urgently to take a view on this before the military planning assumptions become a fait accompli.”

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<sup>175</sup> Minute Treasury [junior official] to Chief Secretary, 5 March 2003, ‘Iraq: Letter from Clare Short on Humanitarian Planning’ attaching Paper DFID [draft], March 2003, ‘Iraq Relief and Reconstruction Costs: an Overview’.

<sup>176</sup> Minute Treasury [junior official] to Chancellor, 4 March 2003, ‘Iraq – Potential Public Spending Impact’.

<sup>177</sup> [Paper IPU, 5 March 2003, ‘Planning for the UK’s Role in Iraq after Saddam’.](#)

**298.** The IPU asked Ministers a number of specific questions, including:

- Whether they agreed “that the UK does not have the resources to make an ‘exemplary’ effort in providing for basic humanitarian needs in the area controlled by the UK Division”. The cost of making a “significant difference” in a UK Area of Operation (AO) was estimated at between US\$400m and US\$2.4bn for the first year.<sup>178</sup> That was well beyond the financial and implementing capacity of DFID and the MOD, and could become a significant medium-term commitment if the local population became dependent on UK assistance. The alternative to an exemplary effort was to give UK assistance to UN agencies and NGOs, supplemented by support for QIPs in the UK’s AO.
- To choose between options for a post-conflict military presence in the medium term. The cost of maintaining a military force to provide security in a geographic area (which might be based on Basra) would be in the order of £1bn a year.
- Whether to follow the US plan to administer Iraq as a whole and not seek general UK responsibility for the administration of any geographic area in the medium term. In any area where the UK took responsibility for security, it could, with a UN mandate, also take on wider responsibility for reconstruction (including humanitarian assistance and aspects of civil administration), but that would “very likely be beyond the resources of the UK alone and have implications for domestic departments”.

**299.** At the 6 March meeting:

- Ms Short said that the “DFID contingency fund” would prioritise Iraq. The funding available to DFID would not, however, provide for a humanitarian response on the scale of Kosovo. Ms Short also repeated her view that a UN mandate was essential for post-conflict humanitarian and reconstruction operations, both to provide legal cover for reconstruction and to encourage other countries and international organisations to participate.
- Mr Brown said that the military operation would be “very costly”. Estimates for a major humanitarian operation were running at US\$1.9bn to US\$4bn. The burden of reconstruction should not be borne by the US and UK alone; other countries and Iraqi oil revenues should be tapped. In the longer term, Iraqi oil should fund the country’s reconstruction. Mr Brown said that he was particularly concerned that UK funds should not be used to repay Iraq’s substantial debts to Germany, France and Russia.
- Mr Hoon referred to the importance of humanitarian action in the immediate wake of the arrival of UK forces. Ms Short said that DFID had £70m available “for rapid disbursement” on humanitarian activities.<sup>179</sup>

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<sup>178</sup> The paper assumed that the UK’s AO would comprise Basra province and that Basra province contained around 20 percent of Iraq’s population. The figures represented 20 percent of estimated total humanitarian costs in the first year after a conflict (US\$2bn to US\$12bn)

<sup>179</sup> [Letter Cannon to Owen, 7 March 2003, ‘Iraq: Post-Conflict Issues’.](#)

**300.** Mr Blair concluded that:

- “(a) DFID and MOD should draw up a plan for immediate humanitarian action in the area of operations of British forces.
- (b) Planning for medium-term post-conflict action should continue on the assumption that a UN mandate (the ‘third/fourth resolutions’) would be forthcoming ... The FCO should prepare a Phase IV plan with other departments, including the key decisions for Ministers to take.
- (c) The Chancellor should draw up a funding plan, including securing funding from wider international sources, in particular the IFIs.
- (d) The Prime Minister was prepared to pursue with President Bush our need for a UN mandate for a post-conflict administration.”<sup>180</sup>

**301.** Mr Blair stated that the issue of “sectorisation” (whether to seek general responsibility for the administration of a geographic area of Iraq) would need to be addressed and should be covered in the Phase IV plan.

**302.** The record of the meeting did not report any discussion on whether the UK had the resource to make an exemplary effort in providing for basic humanitarian needs in the area controlled by the UK Division.

**303.** The ‘UK overall plan for Phase IV’ was shown to Mr Blair on 7 March.<sup>181</sup> Much of the plan, prepared by the IPU, was drawn from the annotated agenda prepared for the meeting on 6 March.

**304.** The plan stated that, “very soon” after the start of hostilities, the UK needed “**to agree what our medium-term contribution to Iraq should be (say from the autumn onwards). For this will shape our conduct in the short term.**”

**305.** The Inquiry has seen no response to the Phase IV plan.

**306.** On 14 March, in response to Mr Blair’s request for a funding plan, Mr Bowman sent No.10 a Treasury paper on financing reconstruction.<sup>182</sup> The paper was copied to the Cabinet Office, the Office of the Deputy Prime Minister, the MOD, the FCO and DFID.

**307.** The Treasury advised that the total cost of humanitarian relief and reconstruction in Iraq could be up to US\$45bn over the first three years. Iraqi oil might only pay for a fraction of that. The UK’s approach should be to spread the burden as widely as possible.

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<sup>180</sup> [Letter Cannon to Owen, 7 March 2003, ‘Iraq: Post-Conflict Issues’.](#)

<sup>181</sup> Minute Rycroft to Prime Minister, 7 March 2003, ‘Iraq: Weekend Papers’ attaching Paper IPU, 7 March 2003, ‘The UK overall plan for Phase IV’.

<sup>182</sup> [Letter Bowman to Cannon, 14 March 2003, attaching Paper Treasury, March 2003, ‘Financing Iraqi Reconstruction’.](#)

**308.** An effective burden-sharing arrangement required the “political legitimacy” that would follow UN endorsement of the transitional arrangement for governing Iraq. If the UN was involved, the burden-sharing arrangement should comprise:

- other bilateral donors, with non-combatant nations showing “disproportionate generosity”;
- maximising contributions from the IMF, the World Bank, other IFIs and the EU;
- preventing Iraqi revenues being “side-tracked” into paying debt and compensation claims; and
- maximising Iraq’s own contribution from oil revenues.

**309.** If the UN did not endorse the transitional arrangements, many of those approaches would be more difficult, and there would be pressure on the UK to contribute more.

**310.** The Treasury advised:

“A substantial UK financial contribution to the reconstruction efforts is unlikely to be affordable within existing spending plans unless the [UK] Government chose to divert spending from other domestic programmes. In the first instance DFID’s unallocated departmental provision (£88m for 2003/04) should provide for immediate requirements. The UK will, however, come under considerable pressure to contribute much more as its share of immediate humanitarian and reconstruction costs, let alone what would be required as part of an ‘exceptional response’. Substantial further support from central funds though is unlikely to be affordable: the costs of military activity in Iraq and elsewhere have already fully committed the 2003/04 Reserve; and the overall deterioration in the fiscal position severely limits the Government’s discretion to make additional spending allocations.”

**311.** The 14 March meeting of the AHGI was informed that the IPU was considering how best to approach other donors for support on reconstruction, and that the FCO was considering whether there was scope to approach other countries to contribute to UK military campaign costs (though the prospects were not good).<sup>183</sup>

## HUMANITARIAN ASSISTANCE IN THE UK’S AREA OF OPERATIONS

**312.** A junior official in the Permanent Joint Headquarters (PJHQ) wrote to the MOD on 5 March to alert it to PJHQ’s concerns over the provision of humanitarian assistance in the UK AO in the immediate aftermath of any conflict.<sup>184</sup> PJHQ had planned to “piggy-back” on US arrangements for the provision of humanitarian relief. It was now apparent, however, that the US plan depended heavily on international organisations and NGOs, which were unlikely to be present in the first weeks after any conflict.

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<sup>183</sup> Minute Dodd to Manning, 17 March 2003, ‘Ad Hoc Group on Iraq’.

<sup>184</sup> Minute PJHQ [junior official] to MOD Sec(O) 4, 5 March 2003, ‘Op TELIC: Resourcing of Humanitarian Assistance’.

**313.** PJHQ had also assumed that DFID would be responsible for providing “national humanitarian assistance”. It was now clear that the UK military would be unable to rely on “DFID support for UK troops”. Dr Brewer’s letter of 24 February to Mr Bowen had implied that DFID would not provide funding to the UK military for humanitarian operations without a second UN resolution. Even if there was a second resolution, DFID’s commitment to supporting UN agencies at a national level would constrain what DFID would do in the UK’s AO with the UK military and other partners. DFID’s view was that the most effective way to distribute humanitarian assistance was through international organisations and NGOs, and DFID intended to focus its resources on areas of greatest need (rather than necessarily on the UK’s AO).

**314.** PJHQ estimated that between £30m and £50m a month for two months would be required to cover the provision of humanitarian assistance in the UK’s AO in the immediate aftermath of any conflict.

**315.** An MOD official submitted advice on the issue to Mr Hoon on 7 March.<sup>185</sup> The official rehearsed the background set out in PJHQ’s note of 5 March, but suggested that only £10m a month would be required:

“... DFID have only just engaged on this issue in detail, [and] it has not been possible to get their expert advice on what might be required ... That said, the current working assumption is that there will be a particular requirement for supplies of drinkable water, medical supplies and fuel ... It has been suggested that the total requirement could amount to as much as £10m a month ...”

**316.** Two camps for internally displaced persons might also be required, at a “one-off” cost of £10m each.

**317.** The official provided a draft letter for Mr Hoon to send to Ms Short, seeking her agreement “to channel aid – funds – through our forces”. That agreement was needed urgently to ensure supplies could be procured and delivered on time.

**318.** Mr Hoon wrote to Ms Short on the same day, seeking her agreement that “an approach is made to the Chief Secretary” for funding as a matter of urgency.<sup>186</sup>

**319.** Ms Short replied on 12 March, agreeing that Mr Hoon should urgently discuss funding with the Treasury.<sup>187</sup> She added that DFID would not be able to inherit the “indefinite obligation” to spend £10m a month from the military without adequate finance to cover it. Copies of Mr Hoon’s and Ms Short’s letters were sent to Mr Brown.

**320.** Ms Short wrote to Mr Blair on the same day, setting out her misgivings about the state of humanitarian planning; copies of her letter were sent to Mr Hoon, Mr Straw,

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<sup>185</sup> Minute MOD D/Sec to PS/Secretary of State [MOD], 7 March 2003, ‘OP Telic: DFID Involvement and the Funding of Immediate Humanitarian Assistance’.

<sup>186</sup> Letter Hoon to Short, 7 March 2003, ‘Iraq: Immediate Humanitarian Assistance’.

<sup>187</sup> Letter Short to Hoon, 12 March 2003, [untitled].

Mr Brown and Sir Andrew Turnbull.<sup>188</sup> DFID preparations were well in hand; those of the UN humanitarian agencies and US and UK military were not. Ms Short stated that “UK Armed Forces are not configured or supplied to provide substantial humanitarian relief”.

**321.** Ms Short identified the three “critical steps” which would help joint DFID/MOD planning for humanitarian action. Those included “clarity over the scale of resources my department will have to support the provision of humanitarian and reconstruction assistance in Iraq”; DFID had earmarked £65m for humanitarian relief and reconstruction.

**322.** Treasury officials advised Mr Boateng on 14 March that DFID should cover any “early humanitarian” costs, given its responsibility for humanitarian issues and to incentivise it to become more engaged in planning and delivery of immediate post-conflict humanitarian assistance.<sup>189</sup> The Treasury’s “option B” was that the MOD claimed its expenditure on humanitarian relief from the Reserve, as part of NACMO.

**323.** Mr Boateng commented on the advice: “Option B is my strong preference in the current climate.”<sup>190</sup>

**324.** Mr Boateng wrote to Mr Hoon on 17 March, two days before the invasion, agreeing that the MOD could spend up to £20m to assist displaced persons and up to £10m to provide humanitarian assistance for one month.<sup>191</sup> The arrangement would be reviewed after that period.

**325.** The military’s preparedness to deliver humanitarian assistance in the UK’s AO is considered in Section 6.5.

#### DFID SECURES ADDITIONAL FUNDING FROM THE RESERVE

**326.** Ms Short told the House of Commons on 13 March that she had provided a further £6.5m to support humanitarian contingency planning by UN agencies and NGOs, in addition to the £3.5m for UN humanitarian contingency planning announced on 10 February.<sup>192</sup>

**327.** £3.5m of the £6.5m was provided to UN agencies, bringing the total amount provided by DFID to UN agencies to £7m.<sup>193</sup> A DFID official advised Ms Short that £7m represented 8.5 percent of the UN’s updated funding requirements for humanitarian preparedness (as set out in their 14 February appeal for US\$123.5m).

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<sup>188</sup> Letter Short to Blair, 12 March 2003, [untitled].

<sup>189</sup> Minute Treasury [junior officials] to Chief Secretary, 14 March 2003, ‘Iraq Funding’.

<sup>190</sup> Manuscript comment Boateng on Minute Treasury [junior officials] to Chief Secretary, 14 March 2003, ‘Iraq Funding’.

<sup>191</sup> Letter Boateng to Hoon, 17 March 2003, ‘Op TELIC Funding – Humanitarian Aid and Additional UORs’.

<sup>192</sup> House of Commons, *Official Report*, 13 March 2003, column 21WS.

<sup>193</sup> [Minute DFID \[junior official\] to PS/Secretary of State \[DFID\], 4 March 2003, ‘Iraq: Humanitarian Agencies Preparedness Funding Needs’](#).

**328.** On 17 March, at Ms Short’s request, DFID officials prepared a paper on shortcomings in humanitarian preparations and steps needed to address them.<sup>194</sup>

**329.** Officials identified seven problems:

- “• UN funding needs insufficiently met. Preparedness incomplete ...
- Red Cross Movement preparing but requires substantial funding support ...
- NGOs beginning to establish presence but not fully prepared ...
- US preparedness for response lacks local experience and based on optimistic assumptions ...
- How to maintain the Oil-for-Food (OFF) programme ...
- How to support humanitarian agencies [to] gain early access to Iraq ...
- How Coalition Forces can provide effective humanitarian response ...”

**330.** The proposed solution for the first three problems was provision of “immediate additional funds to DFID”.

**331.** Ms Short sent the paper to Mr Blair on 17 March with the comment:

“This summarises what needs to be done to improve humanitarian preparedness. Perhaps we could really focus on this next week.”<sup>195</sup>

**332.** The military role in providing humanitarian assistance was summarised in a joint minute from Mr Straw and Mr Hoon to Mr Blair on 19 March.<sup>196</sup> Mr Straw and Mr Hoon advised:

“The military task will be to facilitate a secure environment ... to enable immediate humanitarian relief to be conducted. To help UK forces win hearts and minds, HMT [the Treasury] have allocated them £30m for humanitarian purposes in the first month as well as £10m for quick win projects. (Clare [Short] has allocated £20m for UN agencies’ preparations and earmarked another £60m from DFID’s Contingency Reserve for humanitarian operations. But this is a drop in the ocean; in the worse case, if the Oil-for-Food programme ground to a halt, Iraq could need as much as a billion dollars a month for humanitarian aid).”

**333.** The Coalition began military action against Iraq on the night of 19/20 March.

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<sup>194</sup> [Minute DFID \[junior official\] to Private Secretary/Secretary of State \[DFID\], 17 March 2003, ‘Iraq: Humanitarian Assistance’ attaching Paper, \[undated\], ‘Iraq: What is lacking in terms of being prepared for an effective humanitarian response and what would it take to address that?’](#)

<sup>195</sup> [Manuscript comment Short on Minute DFID \[junior official\] to Private Secretary/Secretary of State \[DFID\], 17 March 2003, ‘Iraq: Humanitarian Assistance’.](#)

<sup>196</sup> [Minute Straw and Hoon to Prime Minister, 19 March 2003, ‘Iraq: UK Military Contribution to Post-Conflict Iraq’.](#)

**334.** The International Committee of the Red Cross (ICRC) and International Federation of Red Cross and Red Crescent Societies (IFRC) launched humanitarian appeals on 20 March, each for approximately US\$80m.<sup>197</sup>

**335.** Ms Short wrote to Mr Boateng the following day to request an additional £120m from the Reserve for humanitarian assistance for Iraq.<sup>198</sup>

**336.** Ms Short advised that she could provide £80m for humanitarian assistance from DFID's core budget in 2003/04 (£75m from its Contingency Reserve of £90m and £5m from the existing Iraq programme). That was in addition to the £10m already provided from DFID's 2002/03 budget to UN agencies and NGOs. From the £80m available, she had:

- earmarked £65m for the UN's forthcoming initial Flash Appeal, which was expected to seek US\$1.9bn to cover the first six months of the crisis; and
- agreed to provide £10m to support further preparations by the World Food Programme, the Red Cross and NGOs.

**337.** Ms Short stated that with only £5m left, and with demand for funding expected to accelerate fast as humanitarian agencies moved from preparing to delivering, she now needed an extra £120m from the Reserve:

- £35m for the Red Cross appeals launched on 20 March;
- £20m for NGO programmes;
- £15m for DFID's bilateral effort, to deliver direct emergency support to fill gaps in the international response and to second UK relief professionals to UN agencies; and
- a further £50m for the UN initial Flash Appeal: "Given the UK's role in the Iraq crisis, we cannot conceivably avoid meeting less than a 10 percent share of the UN humanitarian appeal. My initial contribution of US\$100million [£65 million] will need quickly to be followed up to get us closer to a 10 percent share."

**338.** Ms Short added that her bid did not include any funds for reconstruction: that would need to be considered "in the longer term".

**339.** A Treasury official advised Mr Boateng on 25 March that Ms Short's letter "does not really make a case in terms of actual humanitarian impact ... DFID's argument is in essence about the need to be seen to commit funds".<sup>199</sup> There was little detail on how the money would be spent.

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<sup>197</sup> United Nations, June 2003, *Humanitarian Appeal for Iraq: Revised Inter-Agency Appeal 1 April – 31 December 2003*.

<sup>198</sup> [Letter Short to Boateng, 21 March 2003, 'Iraq Humanitarian Funding: Reserve Claim'](#).

<sup>199</sup> Minute Treasury [junior official] to Chief Secretary, 25 March 2003, 'Iraq Humanitarian Funding: Reserve Claim'.

**340.** The official recommended two options, depending on “political and presentational requirements”:

- agree the claim subject to further detail on how and when the money would be spent; or
- provide £55m to cover immediate needs. That figure comprised the amounts requested for NGOs and for DFID’s bilateral effort (both of which would be “politically difficult” to resist), and £20m for the UN Flash Appeal.

**341.** Mr Bowman advised the Treasury official on 26 March that Mr Brown’s view was that the Treasury should agree to provide £100m to DFID. He asked the official for a revised draft reply for Mr Boateng to send to Ms Short justifying that as a reasonable figure.<sup>200</sup>

**342.** Later that day, Mr Bowman advised the Treasury official that Mr Brown had, after further reflection, decided to provide the full amount requested by Ms Short (£120m).<sup>201</sup>

**343.** Mr Boateng replied to Ms Short on 27 March, agreeing her bid in full, subject to further detail on how and when the money would be spent.<sup>202</sup>

**344.** By 27 March, the UK Government had earmarked £240m for humanitarian relief:

- £30m for the UK military to provide humanitarian relief in the UK’s AO, from the Reserve;
- £90m from DFID’s own resources; and
- £120m for DFID from the Reserve.

**345.** The Inquiry asked Ms Short and Sir Suma Chakrabarti whether DFID had had the resources to deliver, with the MOD, an exemplary humanitarian effort in the South.

**346.** Ms Short told the Inquiry:

“... I had written a number of letters saying, ‘All we [DFID] have got is our Contingency Reserve and I’m supposed to keep that for other emergencies in the world ... if we mean this [the exemplary approach in the South], there has got to be some money on the table’, and what we were getting from the Treasury was no answer, nothing and it was this period of stand-off. Gordon Brown was pushed out and marginalised at the time ...

“So after a lot of delay and a number of efforts, the Treasury ... came with a letter saying, ‘There is no money. Money is very tight, and, therefore, we have got to have a UN Resolution so we can get the World Bank and the IMF and all the others in’.

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<sup>200</sup> Email Bowman to Treasury [junior official], 26 March 2003, ‘Iraq Humanitarian Funding: DFID Reserve claim’.

<sup>201</sup> Email Bowman to Treasury [junior official], 26 March 2003, ‘Iraq Humanitarian Funding: DFID Reserve claim’.

<sup>202</sup> Letter Boateng to Short, 27 March 2003, ‘Iraq Humanitarian Funding: Reserve Claim’.

“That was a Treasury response, and we only got any extra money from the Treasury, I think, after the invasion had started. So how you can plan an exemplary role when it is that late ...”<sup>203</sup>

**347.** The Inquiry concludes that the Treasury letter referred to by Ms Short was Mr Bowman’s letter of 14 March to No.10.

**348.** Sir Suma told the Inquiry:

“We [DFID] were very concerned about the resource position. This was one of the biggest constraints on planning because we didn’t know what our financial envelope would be in the end. We first raised the resource issues with the Treasury at official level in December 2002 and then it was raised in various letters from Clare Short to the Prime Minister.”<sup>204</sup>

**349.** Mr Brown rejected those criticisms. He told the Inquiry that the Treasury’s concern had been to ensure that DFID used its Contingency Reserve before it secured additional funding from the Reserve.<sup>205</sup>

**350.** The UN launched a ‘Flash Appeal’ for Iraq on 28 March, seeking US\$2.22bn to provide six months of food and non-food aid for Iraq.<sup>206</sup>

**351.** DFID committed £65m to support the UN Flash Appeal on 1 April.<sup>207</sup>

**352.** The UN reported in June 2003, in the context of launching its revised humanitarian appeal for Iraq, that almost US\$2bn of the requested US\$2.22bn had been made available to UN agencies since the launch of the Flash Appeal.<sup>208</sup> That comprised US\$1.1bn in resources available within the OFF programme and US\$870m in donor contributions and pledges. The major donors were:

- the US (who had provided US\$483m, some 56 percent of total donor contributions);
- the UK (US\$108m – 12 percent); and
- Japan (US\$87m – 10 percent).

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<sup>203</sup> Public hearing, 2 February 2010, page 70.

<sup>204</sup> Public hearing, 8 December 2009, pages 27-28, 30.

<sup>205</sup> Public hearing, 5 March 2010, pages 97-98.

<sup>206</sup> United Nations, *Flash Appeal for the humanitarian requirements of the Iraq crisis: six-month response*, 28 March 2003.

<sup>207</sup> Report DFID, 1 April 2003, ‘Iraq humanitarian situation update No.8 (Internal)’.

<sup>208</sup> United Nations, *Humanitarian Appeal for Iraq: Revised Inter-Agency Appeal 1 April – 31 December 2003*, June 2003.

## Funding for a British Embassy and security

**353.** Contingency planning in the FCO, including for the procurement of armoured vehicles, portable accommodation and equipment to support the re-opening of a UK Office in Baghdad, had begun by September 2002.<sup>209</sup>

**354.** Mr Straw wrote to Mr Boateng on 17 February 2003, seeking £6.3m from the Reserve to cover costs incurred in preparing for possible conflict or regime change in Iraq.<sup>210</sup> That comprised:

- £3m for a ‘container’ Embassy in Baghdad;
- £1.2m for Chemical Biological Warfare (CBW) suits and air monitors;
- £740,000 for armoured cars, and for additional guards and security across the region;
- £668,000 for communications equipment for Baghdad;
- £380,000 for additional staffing costs in London; and
- £316,000 for an increased public diplomacy and information campaign.

**355.** Mr Straw stated that, in the event of a conflict, the FCO would have to make a further claim.

**356.** Mr Boateng replied two days later, agreeing the bids for the Embassy, CBW suits and air monitors, armoured cars and additional security, and communications equipment (a total of £5.62 million).<sup>211</sup> He rejected the bids for additional staffing in London and the public diplomacy and information campaign, arguing that “these were of a size and nature that we would expect the FCO to absorb”.

## Accuracy of pre-conflict estimates of costs

**357.** Sir Nicholas Macpherson told the Inquiry:

“Forecasts for the overall net additional costs of military operations, as well as estimates for UOR expenditure, were produced by the Ministry of Defence in consultation with the Treasury. The estimates were based on historical data coupled with assumptions on the anticipated operational tempo, activity and conditions for the forthcoming 12 months.”<sup>212</sup>

**358.** Addressing the accuracy of those estimates, Sir Nicholas Macpherson told the Inquiry:

“We [the Treasury] were making estimates through the autumn of 2002. The Treasury doesn’t always get forecasts right, and it didn’t get this forecast totally

<sup>209</sup> [Minute Collecott to Jay, 27 September 2002, ‘Iraq Contingency Measures’.](#)

<sup>210</sup> Letter Straw to Boateng, 17 February 2003, ‘Iraq and Terrorism Costs’.

<sup>211</sup> Letter Boateng to Straw, 19 February 2003, ‘Reserve Claim for Iraq and Terrorism Costs’.

<sup>212</sup> Statement, 15 January 2010, page 3.

right, but it wasn't that far off. We started from looking at the previous Iraq war. My recollection of it was the British intervention was on a larger scale, but obviously there had been quite a lot of inflation since then and I think we always assumed that the actual conflict itself would cost around £2.5 billion, and that estimate proved pretty accurate."<sup>213</sup>

**359.** Sir Nicholas explained:

"This wasn't some private Treasury estimate, we had an interest of working very closely with the Ministry of Defence, the Foreign Office, the International Development Department [DFID] ... at that time we could see a scenario where the war would cost something like 6 billion [pounds] and that was looking to the end of ... 2005/06, and, again, that's not hugely wide of the mark."<sup>214</sup>

**360.** Mr Trevor Woolley, MOD Director General Resources and Plans from July 1998 to August 2002 and subsequently MOD Finance Director, told the Inquiry:

"What we tended to do was to look at what the expected force level in theatre was and to focus the forecast round the numbers of people who were going to be out there [in Iraq] ... But, of course, the reality was sometimes that the force levels were different from those at the time of forecast and, therefore, the costs would be different and, of course, there were some costs that were either greater or less than one might have expected with that level of force level anyway."<sup>215</sup>

**361.** The estimates of military conflict and post-conflict and non-military costs which the Treasury provided to Mr Brown on 19 February were reasonably accurate, given the major uncertainties at that point.

**362.** Military costs relating to the conflict totalled some £2.2bn, against an estimate of £3.0bn (not including RAB costs).

**363.** Military post-conflict costs in 2004/05 were £0.9bn, against an estimate of £1.0bn.

**364.** The UK allocated £210m and spent £110m on humanitarian assistance in 2003/04, against the £100m to £250m range of likely expenditure identified by the Treasury.

**365.** The UK spent £99m on reconstruction in 2003/04, less than the £100m to £500m range identified by the Treasury. The £99m included a contribution of £70m to the UN and World Bank Trust Funds, which would only be disbursed by the UN and World Bank in subsequent years.

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<sup>213</sup> Public hearing, 22 January 2010, page 5.

<sup>214</sup> Public hearing, 22 January 2010, page 3.

<sup>215</sup> Public hearing, 2 July 2010, pages 77-78.

## Funding for military operations in the post-conflict period

### Cost of the UK's post-conflict military presence

**366.** Most of the issues raised at Mr Blair's meeting on 6 March, including the role of the UN, sectorisation and the nature of the UK's post-conflict contribution in Iraq, remained unresolved as the invasion began (see Section 6.5).

**367.** Mr Hoon and Mr Straw sent Mr Blair a joint minute on the UK military contribution to post-conflict Iraq on 19 March.<sup>216</sup> The minute, copies of which were sent to Mr Brown, Ms Short and Sir David Manning, invited agreement to five propositions including:

“In broad terms the MOD will need to draw down its scale of effort to nearer a third of its commitment by the autumn.”

**368.** That reduced commitment would equate to “a maximum of around one brigade, a two star headquarters and possibly a contribution to higher level command and control, air and maritime components, and support enablers”.

**369.** The joint minute gave little detail of what UK forces would be required to do immediately after the invasion:

“The expectation is that UK forces would be responsible for a task focused on Basra and other key military objectives in the south east of Iraq ... This task is broadly proportionate to the size of the UK's contribution to overall Coalition land forces ...”

**370.** The joint minute stated that US planning remained “sensibly flexible” once the initial phase was over and “a major part of Iraq has been stabilised”. It would be premature to take a view on the merits of sectorisation for that stage.

**371.** Mr Rycroft informed the FCO and the MOD on 21 March that Mr Blair agreed to the Straw/Hoon recommendations, subject to further urgent advice on the size of any UK sector, the duration of the UK commitment and the exit strategy.<sup>217</sup>

**372.** Mr Dodds provided advice to Mr Brown on the joint minute on 24 March.<sup>218</sup> Mr Dodds reported that the picture looked “rather different to that presented in the correspondence”:

“The Defence Chiefs say that a ‘medium size’ deployment (ie 10,000-15,000) is the most we could sustain in the medium term without lasting damage to our forces. MOD officials tell us they had intended the submission [the joint minute] to pose the question ‘do you want us to do as much as we can (ie this medium size deployment)

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<sup>216</sup> [Minute Straw and Hoon to Prime Minister, 19 March 2003, ‘Iraq: UK Military Contribution to Post-Conflict Iraq’.](#)

<sup>217</sup> [Minute Rycroft to McDonald and Watkins, 21 March 2003, ‘Iraq: UK Military Contribution to Post-Conflict Iraq’.](#)

<sup>218</sup> [Minute Dodds to Chancellor, 24 March 2003, ‘Iraq: UK Military Contribution to Post-Conflict Iraq’.](#)

or as little as we can get away with (ie less)?’ The question is not posed in that form and hence is not answered. **The choice is essentially political, but it is essential to note that the cost of a deployment on this medium scale is about £1bn a year.”**

**373.** Mr Dodds also reported that the MOD understood that the US now intended to create four, two-star (Divisional) commands in Iraq; the MOD’s “ambition” was to secure one of those commands. However:

“... we should not be too ready to take on a ‘two-star command’ without the necessary guarantees. The military will balk at this – a ‘2-Star command’ would provide a seat at the top table in the aftermath. But the risks that it brings of costs that we cannot afford both militarily and financially mean that it comes at potentially a high price.”

**374.** Mr Dodds advised that, given that this was an issue on which the Treasury and the MOD differed, Mr Brown’s input “could be invaluable”.

**375.** Mr Dodds also advised that Mr Brown might have a view on “whether to press for a smaller commitment than the £1bn ‘medium’ scale deployment that MOD/FCO have offered”.

**376.** Mr Dodds concluded by stating that it would be useful if Mr Brown could “urge caution at Cabinet in taking on post-conflict commitments without assurances from the US on a further UN resolution and about military support to any UK-led post-conflict command”.

**377.** Section 8 describes how the UK took responsibility for a sector of Iraq, which would become Multi-National Division (South-East) (MND(SE)).

**378.** At the 27 March meeting of Cabinet, Mr Brown reported that he was making available an additional £120m for humanitarian relief and raising the allocation of funds for the conflict from £1.75bn to £3bn.<sup>219</sup>

**379.** In his 9 April Budget statement to the House of Commons, Mr Brown announced that he had set aside £3bn in a “Special Reserve” available to the MOD, so that UK troops could be properly equipped and resourced.<sup>220</sup>

**380.** Mr Brown told the Inquiry that represented £1bn a year for three years.<sup>221</sup>

**381.** £1bn was the cost of a medium-scale military commitment in the post-conflict period, as estimated by Mr Dodds in his 24 March minute to Mr Brown.

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<sup>219</sup> Cabinet Conclusions, 27 March 2003.

<sup>220</sup> House of Commons, *Official Report*, 9 April 2003, columns 271-88.

<sup>221</sup> Public hearing, 5 March 2010, page 90.

**382.** Mr McKane directed MOD colleagues on 15 April to start turning their “broad estimates” of post-conflict and recuperation costs into a more detailed claim to the Treasury.<sup>222</sup>

**383.** Two weeks later, on 30 April, the MOD reported to the Treasury that:

- actual and forecast expenditure relating to Phase I (preparation of military forces) and Phase II (deployment) was £807m;
- actual and forecast expenditure to 30 April relating to Phase III (war-fighting) was £681m;
- forecast expenditure relating to Phase IV (post-conflict) for 2003/04 was £982m; and
- forecast expenditure for Phase V (recuperation) for 2003/04 was £400m.<sup>223</sup>

**384.** The MOD advised that the figures for Phases III, IV and V were their “first forecast” and “necessarily imprecise at this stage”. The MOD also confirmed that the overall cost of Op TELIC would remain within the £3bn announced by Mr Brown on 9 April.

### Impact on operations of the MOD’s financial position, 2002 to 2004

**385.** In the light of the publicity surrounding the funding and management of the defence programme in 2003 and 2004, the Inquiry examined two related questions:

- the size of the MOD’s core budget and whether it imposed constraints on operations in Iraq; and
- whether the imposition of controls on the MOD’s management of its resources by the Treasury in September 2003 had an impact on operations in Iraq.

**386.** The 1998 Strategic Defence Review (SDR) signified a major shift towards expeditionary armed forces, involving the rapid deployment of sustainable military force often over long distances.<sup>224</sup> The SDR recognised that while the collapse of the Warsaw Pact had removed a direct military threat to the UK, indirect threats still persisted. Countering those threats would require more mobile, responsive and flexible armed forces.

**387.** Section 6.3 describes progress in implementing the shift in military capability required by the 1998 SDR.

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<sup>222</sup> Minute McKane to DG Resources, 15 April 2003, ‘OP TELIC: Recuperation Costs and the Cost of Lessons Learned’.

<sup>223</sup> Letter PS/Hoon to PS/Boateng, 30 April 2003, ‘Operation Telic: Iraq Costs Update’.

<sup>224</sup> Ministry of Defence, *Strategic Defence Review Command Paper 3999*, 8 July 1998.

**388.** Speaking to *The Independent on Sunday* in 2007, Lord Guthrie, Chief of the Defence Staff from 1997 to 2001, said that he came close to resigning during the negotiations over the 1998 SDR:

“We had taken the Treasury by the hand through it all and thought we were home and dry ... Then at the last moment [Mr] Brown tried to take a lot more money out of it. If he had, the whole thing would have unravelled.”<sup>225</sup>

**389.** Mr Hoon told the Inquiry that when he arrived at the MOD, in October 1999, there was “quite a strong feeling that it [the MOD programme implementing the 1998 SDR] was not fully funded”.<sup>226</sup>

**390.** Sir Kevin Tebbit, MOD Permanent Under Secretary from July 1998 to November 2005, told the Inquiry that when he arrived at the MOD he estimated that the department was “about half a billion short” of being able to implement the SDR, although his colleagues did not agree the shortfall was that large.<sup>227</sup> The MOD had tried but failed to “recover the position” in the 2000 Spending Review.

**391.** Sir Kevin told the Inquiry that the MOD’s resource position in 2002 had not affected the decision to mount a large-scale operation in Iraq:

“While I think the core budget was insufficiently funded to deliver the SDR force structure, that doesn’t mean to say that I felt that the funding wasn’t there to conduct the [Iraq] operation, or indeed to sustain our objectives in Iraq, on the basis that we were planning to hand over, on the basis that we were not intending to stay ... beyond a certain period ...”<sup>228</sup>

**392.** Mr Woolley told the Inquiry that the SDR set out a high-level strategy, and it was a question of judgement whether a particular level of funding was sufficient to deliver that strategy.<sup>229</sup>

**393.** Mr Woolley identified three factors which, in his view, caused the “budgetary pressure” that the MOD faced in 2002:

- the year-on-year efficiency savings that the 2000 Spending Review had required;
- the cost of salaries, fuel and equipment rising faster than inflation; and
- exchange rate fluctuations.

**394.** The SDR New Chapter, published in July 2002, continued the shift towards expeditionary capability.<sup>230</sup>

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<sup>225</sup> *Independent on Sunday*, 11 November 2007, *Tony’s General turns defence into an attack*.

<sup>226</sup> Public hearing, 19 January 2010, page 127.

<sup>227</sup> Public hearing, 3 February 2010, page 3.

<sup>228</sup> Private hearing, 5 May 2010, page 38.

<sup>229</sup> Public hearing, 2 July 2010, pages 10-12.

<sup>230</sup> Ministry of Defence, *The Strategic Defence Review: A New Chapter*, July 2002.

**395.** In early 2002, Mr Hoon wrote to Mr Brown to request an additional £500m for 2002/03 above the MOD's 2000 Spending Review settlement.<sup>231</sup> He argued that the inadequate size of the MOD's 2000 Spending Review settlement, and the cost of expeditionary warfare, had produced a £770m hole in the MOD's budget. The MOD was prepared to absorb £270m of that.

**396.** No.10 wrote to the Treasury on 19 March 2002 to record that the MOD and Treasury had reached agreement that the bid would be considered sympathetically within the context of the 2002 Spending Review (which was already under way).<sup>232</sup>

**397.** Mr Blair attended a meeting with the Chiefs of Staff, Mr Hoon and Sir Kevin Tebbit on 21 May, to discuss current operations and resources.<sup>233</sup> Adm Boyce said that the Armed Forces had "been under-resourced since the SDR" and they "could not continue to make do".

**398.** Mr Boateng wrote to Mr Hoon on 10 July, confirming the MOD's settlement in the 2002 Spending Review.<sup>234</sup> Mr Boateng stated that the settlement represented 1.2 percent annual average real growth in the MOD's total DEL, and 1.7 percent annual average real growth in the MOD's near-cash DEL (the previous budgeting basis), and that it would permit the phased implementation of the SDR New Chapter. The table below summarises the settlement.

Table 4: 2002 Spending Review: MOD settlement, £bn

	2002/03	2003/04	2004/05	2005/06
<b>Total DEL</b> <sup>235</sup>	29.3	30.9	31.8	32.8

**399.** The settlement also provided an additional £500m in 2002/03 to "sustain activity levels and retention levels, and help offset the wider impact of the rate of military operations".

**400.** Annex A to the settlement letter confirmed that: "In general, the Ministry of Defence will have unlimited ability to move funds between separate resource and capital sub-programmes within its budget."<sup>236</sup>

**401.** Budgets allocated in the 2002 Spending Review reflected, for the first time, the implementation of full Resource Accounting and Budgeting (RAB).

<sup>231</sup> Letter Hoon to Brown, 31 January 2002, 'The Defence Budget in 2002/03'.

<sup>232</sup> Letter Heywood to Bowman, 19 March 2002, 'Defence Spending – 2002/03'.

<sup>233</sup> Note Rycroft, 21 May 2002, 'Prime Minister's Meeting with Chiefs of Staff'.

<sup>234</sup> Letter Boateng to Hoon, 10 July 2002, 'SR2002: Ministry of Defence'.

<sup>235</sup> Defined in the settlement letter as RDEL plus CDEL minus depreciation.

<sup>236</sup> Letter Boateng to Hoon, 10 July 2002, 'SR2002: Ministry of Defence: Annex A: Spending Plans'.

## Resource Accounting and Budgeting

Resource Accounting and Budgeting (RAB) has two key elements. First, costs are recorded when resources are consumed rather than when the cash is spent. Second, to provide a more accurate and transparent measure of the full economic costs, RAB incorporates non-cash costs including:

- depreciation – the consumption of capital assets over their useful economic life;
- impairments, such as stock write-offs; and
- a cost of capital charge – the opportunity and financing costs of holding capital.

The introduction of RAB by the Government was intended to create an incentive for departments to reduce non-cash costs, for example by reducing the amount and value of assets and stocks held.

Under RAB, the total Departmental Expenditure Limit (DEL) comprised three elements: a resource budget (RDEL); a capital budget (CDEL); and adjustments to reflect non-cash costs.

**402.** While the 2002 settlement was presented in RAB terms, in order to allow reconciliation back to previous settlements and to aid public presentation, the letter also gave an estimate of the cash spending associated with the settlement. The table below presents that estimate.

**403.** The change from cash accounting to RAB presented an opportunity for the MOD significantly to increase its available cash by reducing its non-cash costs (depreciation and the cost of capital).

Table 5: 2002 Spending Review, MOD settlement, cash spending estimate, £bn

	<b>2002/03 (Baseline)</b>	<b>2003/04 Plans</b>	<b>2004/05 Plans</b>	<b>2005/06 Plans</b>
<b>Resource DEL</b>	31.4	33.0	33.8	34.7
<b>Capital DEL</b>	5.5	6.0	6.3	6.9
<i>Less depreciation</i>	7.6	8.1	8.3	8.8
<i>Less cost of capital</i>	5.1	5.2	5.3	5.4
<i>Less other changes</i>	–	0.1	–	–
<b>Estimated cash spending</b>	24.2	25.6	26.5	27.4

**404.** Mr Hoon replied to Mr Boateng’s letter of 10 July on the same day, welcoming the proposed increase in defence spending but pointing out that, in terms of what the UK was expecting its Armed Forces to do, it was a “taut” settlement.<sup>237</sup>

<sup>237</sup> Letter Hoon to Boateng, 10 July 2002, ‘SR2002: Ministry of Defence’.

**405.** Sir Nicholas Macpherson told the Inquiry that negotiations on the MOD's 2002 settlement had not appeared to be acrimonious:

"... I didn't get the sense that the MOD was being starved of resource. Indeed, the 2002 settlement gave them small real increases ...

"... it is open to the Secretary of State, it is indeed open to the Chief of Defence Staff ... to approach the Prime Minister and raise concerns. The Secretary of State could have taken it to Cabinet and he could have held out. They didn't ..."238

**406.** Sir Kevin Tebbit told the Inquiry that the MOD had welcomed the 2002 settlement because it had been done on a resource accounting basis, rather than on a cash basis:

"The problem ... for the Treasury was that, whereas in most departments the transition from cash to accruals [RAB] didn't make very much difference, in the case of defence it made a huge difference, because our asset base was something between 70 and 90 billion pounds, a massive amount of money.

"Now, the amount of ... depreciation, capital charging, write-off allowance that was in [the MOD's] settlement, was a prudent figure ...

"But it did mean, as it transpired, that we had the headroom to achieve what I felt we had always failed to achieve before in my previous three years there, to actually fund the defence programme properly ..."239

**407.** Mr Woolley told the Inquiry that Mr Boateng's letter of 10 July 2002 had:

"... made no reference to there being a separate limit on the non-cash element of the overall resource budget ...

"So we made the assumption that there was no separate limit within our budget for non-cash, that we were to regard all resource budgets as available for whatever resource purpose it was required and ... we planned on a full resource basis without making any distinction between non-cash and near cash spend."240

**408.** Mr Woolley agreed with the Inquiry that, in practice, the change to RAB meant that by bearing down on non-cash costs the MOD would be able to increase cash expenditure.

**409.** Mr Woolley also drew attention to the "volatility" of MOD non-cash costs, resulting from periodic revaluation of assets, the number of write-offs of assets and stocks in a particular year, and delays in bringing new equipment into service (which would reduce the charge for depreciation).

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<sup>238</sup> Public hearing, 22 January 2010, page 37.

<sup>239</sup> Public hearing, 3 February 2010, pages 4-6.

<sup>240</sup> Public hearing, 2 July 2010, pages 59-61.

**410.** Mr Bruce Mann, MOD Director General Financial Management from May 2001 to February 2004, told the Inquiry that the MOD and the Treasury had worked together for many years before 2002, better to understand that volatility.<sup>241</sup>

**411.** By early April 2003, the Treasury had become concerned about the MOD's plans to transfer £1bn a year in 2003/04, 2004/05 and 2005/06 from non-cash to cash.<sup>242</sup> That would increase UK Public Sector Current Expenditure (PSCE) by the same amount, which the Treasury judged to be unaffordable.

**412.** The Treasury acknowledged that the MOD should be able to redeploy non-cash savings released through genuine efficiency gains to cash, but was concerned that:

- the size of the non-cash savings had come “as a bolt from the blue”;
- the MOD had over-estimated its non-cash costs (making it easier subsequently to identify and claim savings); and
- some elements of the savings were due to “windfall gains or creative accounting”, for example as the MOD changed the depreciation profiles on equipment and wrote down the value of equipment.

**413.** Sir Kevin Tebbit warned Mr Hoon on 14 April that Treasury officials had questioned the planned transfer of some £3bn from non-cash to cash over the next three years, which they regarded as undermining Mr Brown's fiscal projections.<sup>243</sup> Treasury officials had said that they could give no assurances that the MOD's budget would not be reduced, and had indicated that they would take account of the MOD's increased cash spending in deciding how to deal with “other issues in-year”. Sir Kevin described that as “code for our claims on the Reserve” in respect of operations in Iraq.

**414.** Sir Kevin concluded that the MOD had acted in good faith within the terms of the 2002 settlement, which allowed “unlimited flexibility to move funds between separate resource and capital sub-programmes”.

**415.** Discussions between MOD and Treasury officials continued through the summer, leading to a reduction in the MOD's planned transfer from £3bn to £2bn (£490m in 2003/04, £631m in 2004/05 and £948m in 2005/06).<sup>244</sup>

**416.** A Treasury official advised Mr Boateng on 19 August that he should “rebut” the MOD's entire £2bn transfer as neither legitimate nor affordable and against the “whole ethos of RAB”:

“The big picture is that the MOD have acted in bad faith. RAB sets out guidelines and principles, but cannot cover every eventuality ... Treasury is ultimately

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<sup>241</sup> Public hearing, 2 July 2010, page 63.

<sup>242</sup> Minute Dodds to Chief Secretary, 2 April 2003, ‘Draft: MOD Cash and Non-Cash Costs’.

<sup>243</sup> Minute Tebbit to Hoon, 14 April 2003, ‘Defence Budget’.

<sup>244</sup> Email Treasury [junior official] to Bowman, 4 July 2003, ‘MOD Budget – Submission – DDI/Treasury to CST’.

responsible for refining the guidelines over this transitional phase [of RAB implementation]. Equally, we need to be able to trust departments to work within the spirit of RAB and check with us wherever clarification is obviously required. If we cannot trust departments to behave in a co-operative manner, we will have to consider tighter controls – undoubtedly a backward step.”<sup>245</sup>

**417.** The official summarised the MOD’s position:

- It was working within the RAB framework, which rewarded lower non-cash costs.
- It claimed that the Treasury had focused it on DEL totals, and had told it that cash management was irrelevant.
- The MOD’s settlement letter in the 2002 Spending Review specified that it had unlimited flexibility to move funds between sub-programmes.

**418.** The official also set out the Treasury’s arguments against the MOD position:

- “• These switches [from non-cash to cash] are not affordable ...
- MOD have generated this improved cash flow from a mixture of accounting charges, exploitation of the transitional phase between RAB Stage I and II, and ineffective management of procurement contracts. Thus this cash windfall has nothing to do with the RAB principles of efficiency or improved asset utilisation ...
- MOD has consistently reassured us ... that non-cash forecasts in SR2002 were understated, not overstated. It would appear that they have misled us.
- ... it was always understood (although admittedly not put in writing) that significant movements in cash/non-cash would have to be agreed with HMT [the Treasury].
- The quality of MOD’s forecasting remains poor and does not instil confidence ...
- It is not credible that MOD can really have believed that cash was not relevant ...”

**419.** The Treasury’s analysis of the MOD’s planned £2bn transfer indicated that:

- 35 percent was the result of changes in accounting treatment which had been designed to produce non-cash savings.
- 23 percent was the result of delays in procurement.
- 33 percent was the result of exceptional write-offs.
- 10 percent could not be accounted for.<sup>246</sup>

**420.** The Treasury judged that only the second category (delays in procurement) represented legitimate non-cash savings.

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<sup>245</sup> Minute Treasury [junior official] to Chief Secretary, 19 August 2003, ‘c£2bn MOD Cash Increase over SR2002’.

<sup>246</sup> Figures sum to 101 percent due to rounding.

**421.** Mr Boateng wrote to Mr Hoon the following day, saying that he was unable to agree any transfer from non-cash to cash within the MOD's budget. Mr Boateng stated that, given the very tight fiscal position, the Government could not afford an unplanned increase to public sector net expenditure of the magnitude proposed by the MOD.<sup>247</sup> Copies of the letter were sent to Mr Blair and Mr Brown.

**422.** Mr Hoon replied to Mr Boateng on 3 September.<sup>248</sup> Mr Hoon argued that he had agreed the MOD's 2002 Spending Review settlement on a RAB basis, including that the MOD had unlimited flexibility to move funds between separate resource sub-programmes within its budget. The Treasury was now proposing "to move the goalposts". Mr Hoon challenged Mr Boateng's description of the transfers as resulting from "windfalls" and "transitional effects".

**423.** Mr Hoon stated that while it was not possible to say precisely where cuts would fall, cuts in training:

"... would soon cut into long-term military capacity and our ability to continue to sustain our operations in Iraq ..."

**424.** Mr Boateng and Mr Hoon met on 15 September to discuss the non-cash to cash transfers.<sup>249</sup> Mr Hoon told Mr Boateng that the MOD needed to transfer £870m from non-cash to cash in 2003/04 (rather than the £490m the MOD had previously estimated).

**425.** The following week, MOD officials told Treasury officials that their total additional cash requirement for 2003/04 had grown from £870m to £1,152m.

**426.** On 26 September, in advance of a meeting with Mr Brown, Mr Dodds produced a note summarising the exchanges between the Treasury and the MOD and reflecting on "how MOD had got into this position". On that question, he concluded:

"MOD say they believed that under ... RAB, cash was not a control. It is an open question whether this is stupidity or cunning."

**427.** Mr Brown wrote to Mr Blair later that day, reporting the exchanges between the MOD and the Treasury on the MOD's "legitimate questions" and highlighting his particular concern over the MOD's most recent requests:

"Until a fortnight ago, Paul Boateng was discussing with Geoff Hoon whether it was acceptable for up to £490 million of non-cash ... to be redeployed as cash spending ..."

**"However, it has now become clear that we are dealing with an issue of a completely different scale, which is being driven by a complete lack of**

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<sup>247</sup> Letter Boateng to Hoon, 20 August 2003, 'Implementation of the SR2002 Settlement'.

<sup>248</sup> Letter Hoon to Boateng, 3 September 2003, 'Implementation of the SR2002 Settlement'.

<sup>249</sup> Paper Treasury, 26 September 2003, 'Summary of Issues for Meeting with Chancellor – 3pm Friday 26 September'.

**budgetary control within the MOD. MOD's unforeseen requirement for £1,152 million of extra cash represents a very serious failure.** This is not a RAB problem, it is a basic control problem.

"Given the gross loss of control by MOD, I must disallow immediately any flexibility for MOD to move resources between non-cash and cash ... I must ... also impose on MOD a fixed cash control total to ensure that it remains within the SR2002 settlement.

"... I require an urgent externally led review of MOD's financial control arrangements, and assurance that the MOD will immediately focus on cost control ..."<sup>250</sup>

**428.** Mr Brown wrote that he was "anxious" that these changes would not affect the special arrangements that the Treasury had agreed with the MOD to fund operations in Iraq, and committed himself to ensuring that that funding continued.

**429.** Mr Boateng wrote to Mr Hoon the same day, reiterating Mr Brown's argument.<sup>251</sup>

**430.** Mr Brown told the Inquiry that he acted to impose additional controls on the MOD because:

"The purpose of resource accounting was to make sure that the assets of different departments were used more efficiently. So there had to be proof that the assets were being used more efficiently for that to be able to release cash ...

"If we had allowed every department to do what the Ministry of Defence were doing, then we would have an extra cost of £12 billion ..."

"I wrote to the Prime Minister about this because it was obviously an issue about the cash expenditure of the Government."<sup>252</sup>

**431.** Mr Hoon replied to Mr Boateng on 29 September.<sup>253</sup> He rejected the charge that the MOD had lost control of its budget and argued that the emergence earlier that month of additional costs was due to a lack of defined Treasury controls rather than a lack of control by the MOD.

**432.** Mr Hoon reported that in order to comply with Mr Brown's demand that the MOD reduce its cash expenditure by £1.1bn in the current year, there would have to be a moratorium on uncommitted expenditure. He had agreed measures that would reduce cash expenditure by up to £500m in the current year (which would have "serious and just manageable" consequences for defence), but would not agree any further measures until Mr Blair had had a chance to consider the issue.

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<sup>250</sup> Letter Brown to Blair, 26 September 2003, 'Ministry of Defence Budget'.

<sup>251</sup> Letter Boateng to Hoon, 26 September 2003, 'Ministry of Defence Budget'.

<sup>252</sup> Public hearing, 5 March 2010, pages 126-127.

<sup>253</sup> [Letter Hoon to Boateng, 29 September 2003, 'Ministry of Defence Budget'](#).

**433.** Mr Hoon also challenged the assurances offered by Mr Brown and Mr Boateng that operations in Iraq would not be affected:

“... to suggest that cuts to the core Defence Budget will have no impact on military capability or morale reveals a lack of understanding about how defence works. The net additional military costs are only one element, and a relatively small element, of what goes into creating the military capability deployed in Iraq. Cuts in core equipment, logistics and training programmes will inevitably affect operations in Iraq. The only question is how quickly. The effect on morale will be more or less immediate.”

**434.** Mr Hoon wrote to Mr Blair in similar terms on the same day.<sup>254</sup>

**435.** On 6 October, Mr Hoon’s Private Secretary sent Mr Heywood a list of the main measures the MOD was taking to meet Mr Hoon’s commitment to save up to £500m in the current financial year.<sup>255</sup> Those were:

- further reductions in activity, especially overseas exercises;
- paring back logistic support;
- deferring plans to buy a fifth C-17 strategic lift aircraft; and
- delaying or reducing spend on other future equipment programmes, including the Battlefield Light Utility Helicopter, the Nimrod MRA4 and the Watchkeeper Unmanned Aerial Vehicle (UAV).

**436.** Mr Hoon’s Private Secretary wrote:

“These measures would not directly impact on operations in Iraq, but would begin to cut into training and support needed for motivated Armed Forces capable of sustaining the operations there, especially if the situation on the ground escalates, or in responding to new crises.”

**437.** The procurement of UAVs for Iraq is considered in Section 14.1.

**438.** Mr Heywood attempted to broker an agreement between the MOD and the Treasury. He advised Mr Blair on 7 October:

“In brief, MOD are requesting an extra £650/1000/1275m over the next three years ...

“There is no plausible reason why MOD’s non-Iraq spending should need to increase by 9 percent in the current year; and the Government’s Chief Accounting Adviser, Sir Andrew Likierman, is absolutely clear that there has been an unacceptable breakdown in financial control in the department (with too much money allocated out to budget-holders and the central finance function too weak to control what they

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<sup>254</sup> [Letter Hoon to Blair, 29 September 2003, ‘Ministry of Defence Budget’.](#)

<sup>255</sup> Letter Davies to Heywood, 6 October 2003, ‘Ministry of Defence Budget’.

are doing). The MOD have been completely unable to explain what the additional £650m this year is to be spent on.

“I know your instinct will be to back the MOD on this. But frankly I do not think they have much of a case.”<sup>256</sup>

**439.** Mr Heywood provided an update on negotiations to Mr Blair on 10 October.<sup>257</sup> Mr Brown had “grudgingly acquiesced” to provide an additional £250m in 2003/04 (and nothing for 2004/05 and 2005/06), “despite the rapidly deteriorating fiscal position”.

**440.** Mr Heywood concluded that providing an additional £350m to £375m for 2003/04 would be a reasonable compromise, with additional funding for the following years to be considered after a review of the MOD’s financial controls.

**441.** Mr Blair met Mr Brown and Mr Hoon separately in mid-October to discuss the issue.<sup>258</sup>

**442.** Mr Hoon wrote to Mr Blair on 17 October, identifying the short- and medium-term consequences of the imposition of cash controls.<sup>259</sup> Those included a reduction in the preparedness of the military to conduct operations, cuts and delays in equipment programmes, delays to planned pay increases, cuts in force structure, and a freeze on recruitment in some areas. Mr Hoon argued that to avoid those consequences, he would need authority to transfer more than the £400m “which is being suggested” for 2003/04, and agreement now for similar levels of transfers in subsequent years.

**443.** Mr Heywood passed that letter to Mr Blair, advising that he had almost brokered a deal between the MOD and the Treasury which involved:

- an additional £385m to £400m for the MOD in 2003/04;
- an external review of the MOD’s financial control systems; and
- a decision on funding in future years in the light of the findings of that review.<sup>260</sup>

**444.** Mr Heywood described that deal as “exceptionally generous”, given that the Reserve was already fully spent and the UK was heading for a “massive fiscal overshoot”. He concluded:

“I very much hope that you will endorse the compromise ... This also means overruling GB [Mr Brown]. He is currently refusing to countenance an offer of more than £250m. But his officials know that that will not wash!”

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<sup>256</sup> Minute Heywood to Prime Minister, 7 October 2003, ‘MOD Spending’.

<sup>257</sup> Minute Heywood to Prime Minister, 10 October 2003, ‘MOD Spending’.

<sup>258</sup> Letter Heywood to Watkins, 21 October 2003, ‘Defence Budget’.

<sup>259</sup> Minute Hoon to Blair, 17 October 2003, ‘Defence Budget’.

<sup>260</sup> Minute Heywood to Prime Minister, 17 October 2003, ‘Defence Budget’.

**445.** Mr Heywood wrote to Mr Hoon's Private Secretary on 23 October:

"The Prime Minister shares the Chancellor's – and Sir Andrew Likierman's – concern about recent financial developments within MOD ...

"However, given the late stage of the financial year and so as to minimise the disruption to front line defence and morale at this critical time, the Prime Minister and Chancellor are prepared to agree a one-off cash uplift of £400m for 2003/04 ..."<sup>261</sup>

**446.** That uplift was conditional on MOD agreement to an externally led review of its financial control arrangements, and an assurance it would make maximum use of savings generated by its efficiency programme to ensure that cash and resource spending were properly controlled. Once the review had made its recommendations and any changes to the MOD financial controls had been implemented, the Treasury would look again at Mr Hoon's request for extra cash for 2004/05 and 2005/06.

**447.** Sir Kevin Tebbit told the Inquiry that it was the MOD's normal practice to appeal to Mr Blair on funding issues:

"... given the particular nature of the Blair Government, the MOD tended to look to ... the Prime Minister for understanding and support in the budgetary context. Some other departments went direct to the Chancellor. We usually tried to operate through Number 10 because we were always coping with the problem of a policy ambition which the Prime Minister subscribed to, which was never quite matched by the financial attitude of the Chancellor."<sup>262</sup>

**448.** The external review of the MOD's cash management arrangements (the Likierman review), which was undertaken by Cap Gemini Ernst and Young, issued on 25 November.<sup>263</sup>

**449.** Mr Woolley forwarded the review to Mr Hoon and Sir Kevin Tebbit the following day.<sup>264</sup> He commented:

"While not a report we would ourselves have written ... [it] provides only very limited support to the criticisms levelled at the department [the MOD] by the Chancellor and the Chief Secretary."

**450.** Mr Woolley said that the review confirmed that RAB did not require departments to control net cash or near cash, which was "the kernel of our case".

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<sup>261</sup> Letter Heywood to Watkins, 21 October 2003 [sic], 'Defence Budget'.

<sup>262</sup> Private hearing, 6 May 2010, pages 40-41.

<sup>263</sup> [Report Cap Gemini Ernst and Young, 25 November 2003, 'Review of MOD Cash Management Arrangements'](#).

<sup>264</sup> Minute Woolley to Hoon, 26 November 2003, 'PSX 26 November – CGEY Report'.

**451.** Mr Dodds forwarded the Likierman review to Mr Boateng on 28 November.<sup>265</sup> He summarised its main findings:

- Since the 2000 Spending Review, the MOD had had no systems that provided effective control over its net cash requirement (the actual cash required by the MOD to carry out its business).
- The MOD was not aware of its near cash position.
- Treasury guidance could have been clearer in defining the controls that departments needed to maintain. The MOD had set out its argument to the review team: that it had not controlled cash or near cash because it was not required to do so under full RAB.

**452.** Mr Dodds recommended that Treasury and MOD officials should develop a framework to control the transfer of non-cash savings into cash spending. The framework could allow transfers where they resulted from efficiency gains and subject to a cap. Decisions on the MOD's budget for 2004/05 and 2005/06 should await the conclusion of those discussions.

**453.** Mr Hoon wrote to Mr Brown on 17 December, proposing that the Treasury allow the MOD to transfer £750m from non-cash to cash in both 2004/05 and 2005/06.<sup>266</sup> Mr Hoon stated that the cash controls imposed by the Treasury had required the MOD to reduce planned expenditure in the current financial year (2003/04) by £800m, and would require the MOD to reduce planned expenditure by £1bn a year in future years.

**454.** Mr Hoon cited the Likierman review in support of this request:

“I was pleased, but not surprised, that the CAP Gemini Ernst and Young Report [the Likierman review] gave the MOD a clean bill of health. It confirmed that the Resource Accounting and Budgeting framework does not require control of net cash or near cash ... the MOD was following the terms of the settlement letter and your rules.”

“Given the outcome of the ... review, I can expect restoration of the freedom to flex more than £1bn per year from non-cash to cash – which is what is required to maintain the direction envisaged at the time of SR2002 and the SDR New Chapter. However, I do recognise ... the fiscal position and our collective responsibilities in this area. I accordingly propose that we agree to flex £750 million in 2004/05 and £750 million in 2005/06.”

**455.** Mr Hoon wrote again to Mr Brown on 25 February 2004, highlighting the implications of the cash controls imposed by the Treasury.<sup>267</sup> The £800m reduction in planned expenditure in 2003/04 had been achieved largely by reducing planned

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<sup>265</sup> Minute Dodds to Chief Secretary, 28 November 2003, ‘MOD – Cash/Non-Cash’.

<sup>266</sup> Letter Hoon to Brown, 17 December 2003, ‘Defence Budget’.

<sup>267</sup> Letter Hoon to Brown, 25 February 2004, ‘Defence Budget’.

expenditure on new equipment and logistic support for the Armed Forces, “with obvious consequences for operational capability in future years”. Retaining the cash controls in future years would cause huge damage to military capability, the loss of jobs in industry and damage to the Government’s credibility.

**456.** Sir Kevin Tebbit provided advice to Mr Hoon on 5 March on the specific reductions in programmes and capability in 2004/05 and 2005/06 that would be required by the Treasury’s cash controls.<sup>268</sup>

**457.** Mr Hoon wrote to Mr Blair on 8 March, highlighting some of those reductions and stating that he could accept authority to transfer £500m (rather than £750m) from non-cash to cash each year.<sup>269</sup>

**458.** Mr Hoon submitted the MOD’s bid for funding to the 2004 Spending Review on 26 April.

**459.** On 6 July, as negotiations on the outcome of the 2004 Spending Review reached a conclusion, and with the MOD’s bid under pressure, Sir Michael Walker, Chief of the Defence Staff, wrote to Mr Brown:

“Were the [MOD’s] bid not to be met ... I would be unable to present the outcome to the Armed Forces as being consistent with policy and other than the consequence of inadequate funding.”<sup>270</sup>

**460.** Mr Hoon echoed that warning in a letter to Mr Blair on 9 July:

“... a settlement around this level is essential for the Chiefs of Staff to support it. I could not rule out the Chiefs speaking out in public, not least because I would not expect them to be able to explain a poor settlement in positive terms to their people.”<sup>271</sup>

**461.** On 11 July, in an accompanying letter to the MOD’s 2004 Spending Review settlement, the Treasury agreed that the MOD could transfer £350m from non-cash to cash in both 2004/05 and 2005/06.<sup>272</sup> A new regime would be established from 2006/07, under which transfers would be at least in part conditional on efficiency improvements.

## THE MOD REFLECTS ON THE REASONS FOR ITS INCREASED CASH REQUIREMENT

**462.** In June 2004, in response to a request from Sir Kevin Tebbit for an explanation of how the MOD’s cash requirement had grown from £490m to £870m to £1,152m during the course of September 2003, Mr Lester sent him a chronology of the dispute

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<sup>268</sup> Minute Tebbit to Hoon, 5 March 2004, ‘STP/EP 04: Years 1 and 2’.

<sup>269</sup> Letter Hoon to Blair, 8 March 2004, ‘Defence Budget’.

<sup>270</sup> Letter Walker to Brown, 6 July 2004, ‘Defence Budget’.

<sup>271</sup> Letter Hoon to Blair, 9 July 2004, ‘SR 04: Defence Budget’.

<sup>272</sup> Letter Boateng to Hoon, 11 July 2004, ‘Ministry of Defence: 2004-05 and 2005-06 Budgets’.

which had been produced towards the end of 2003.<sup>273</sup> Mr Lester commented that the chronology had been produced to clarify the MOD's internal understanding, and was not to be handed over to the Treasury.

**463.** The chronology showed:

- In December 2001, the MOD estimated that it would have an Annually Managed Expenditure (AME) “surplus” of £500m a year (compared with its previous estimate).
- The MOD had “serious doubts” about that estimate (some of the figures were “clearly wrong”), so used its previous (higher) estimate as the basis for its 2002 Spending Review bid.
- Further estimates in April and June 2002 increased the MOD's confidence that it would have a £500m a year AME surplus, though it was still not certain. The MOD assumed that the Treasury would scrutinise its AME figures as part of the 2002 Spending Review; if it had, the MOD would probably have reduced its bid. But the Treasury did not scrutinise the figures.
- When the MOD agreed its 2002 Spending Review settlement in July 2002, while it still did not trust its exact AME figures, it was confident that “there would be scope to bear down on ... costs ... That was why we were able to recommend acceptance of the settlement.”
- Prompted by continuing doubts about the accuracy of its AME figures, the MOD conducted a “detailed scrutiny” in December 2002. That exercise confirmed the AME surplus. The surplus was “reinvested” for cash expenditure the following month.
- MOD Top Level Budget-holders (TLBs) continued to refine their AME figures, revealing further significant reductions in their requirement. The forecast surpluses were reinvested for cash expenditure in February 2003.
- Analysis of the forecasts provided by MOD TLBs in late August revealed further reductions in their AME requirement.
- The MOD warned the Treasury on 12 September that the MOD's cash requirement had increased from £490m to £870m.
- The MOD warned the Treasury on 24 September that the MOD's cash requirement had increased to £1,152m.

**464.** Mr Lester's covering note advised:

“PUS [Sir Kevin Tebbit] asked why we ‘got it wrong’ as the headline numbers rose from £490m to £870m to £1,152m during the course of September 2003. This is not easy to explain ... the Treasury's key accusation – that we lost control of TLBs expenditure – is wrong. What did happen was that we found it very difficult

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<sup>273</sup> [Email Lester to PS/PUS \[MOD\], 18 June 2004, ‘Non-Cash Chronology’ attaching Paper, \[undated\], ‘Chronology of Non-Cash Debate with the Treasury in 2003’.](#)

to re-invent the non-cash and near-cash split in TLBs budgets, having made the transition to full RAB.”<sup>274</sup>

**465.** Mr Lester identified the main reasons behind the increase in the MOD’s cash requirement from £490m to £870m:

- “late technical refinements” by MOD TLBs (£200m);
- a reassessment by FLEET (the Royal Navy’s operational Command) of its requirements (£122m); and
- policy decisions (£40m).

**466.** The main reason behind the increase in the MOD’s cash requirement from £870m to £1,152m was the discovery that the MOD had issued its TLBs with over £200m more near-cash than it had available. That error had been caused by the absence of a near-cash control total in the 2002 Spending Review settlement.

**467.** Lord Boateng told the Inquiry that he doubted that Mr Hoon and Sir Kevin Tebbit had been aware of the particular opportunities created by full RAB for the MOD when they had welcomed the MOD’s 2002 settlement:

“I think this was an opportunity that became available later, and they saw the opportunity and they took it ...

“A fair enough wheeze perhaps, if not one that could be tolerated.”<sup>275</sup>

## THE IMPACT OF THE TREASURY CONTROLS

**468.** Mr Hoon told the Inquiry that the imposition of cash controls “caused quite a lot of problems”, because the MOD had been spending at a rate which assumed an unlimited flexibility to transfer non-cash to cash, and had made plans which assumed this unlimited flexibility.<sup>276</sup>

**469.** Mr Hoon also told the Inquiry that although the MOD’s forward equipment programmes, including its helicopter programmes, had been affected, he doubted whether this had “immediate consequences” for the UK’s operations in Iraq:

“I don’t believe that it was relevant to helicopters in Iraq ... I suppose it is reasonable to assume that by now [January 2010], had that budget have been spent in the way that we thought we should spend it, then those helicopters would probably be coming into service any time now.”<sup>277</sup>

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<sup>274</sup> [Email Lester to PS/PUS \[MOD\], 18 June 2004, ‘Non-Cash Chronology’ attaching Paper, \[undated\], ‘Chronology of Non-Cash Debate with the Treasury in 2003’.](#)

<sup>275</sup> Public hearing, 14 July 2010, page 52.

<sup>276</sup> Public hearing, 19 January 2010, page 195.

<sup>277</sup> Public hearing, 19 January 2010, pages 196-197.

**470.** Sir Kevin Tebbit told the Inquiry that Mr Brown’s decision to impose cash controls meant that the MOD:

“... had to go in for a very major savings exercise in order to cope with what was effectively a billion pound reduction in our finances.”

“... the way we went through this exercise was to preserve resources for Iraq, for the operational scenarios that we were currently engaged in, and to make cuts and savings in the areas which were least likely to be called upon ...”<sup>278</sup>

**471.** In response to a question from the Inquiry, Sir Kevin said that it was “very difficult to say” that the reduction had had a long-term impact on UK operations in Iraq.<sup>279</sup>

**472.** Mr Brown told the Inquiry that the MOD had more funding available to it in 2002/03, 2003/04 and 2004/05 than it had secured in the 2002 Spending Review:

- the additional £500m for 2002/03, which had been confirmed by Mr Boateng in July 2002; and
- authority to transfer £400m from non-cash to cash in 2003/04 and 2004/05.<sup>280</sup>

**473.** Mr Brown also emphasised that the size of the MOD’s core budget had “really not much to do with Iraq, because Iraq was being funded completely separately”.<sup>281</sup>

**474.** Sir Kevin Tebbit agreed with that analysis:

“I really do not believe that our activities in Iraq were constrained by the overall size of the MOD budget. My own view was that Afghanistan was – putting the two together was where the strain came subsequently.”<sup>282</sup>

**475.** Sections 6.3 and 14 describe how the MOD prioritised key military capabilities.

## MR BROWN’S EVIDENCE TO THE INQUIRY ON INCREASES IN THE MOD’S CORE BUDGET

**476.** In October 2009, the House of Commons Library published a note showing defence expenditure in near-cash terms between 1955/56 and 2008/09.<sup>283</sup> The use of near-cash terms allowed comparison between years before and after the transition from cash accounting to RAB. The table below shows those figures for the period from 2001/02 to 2008/09.

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<sup>278</sup> Public hearing, 3 February 2010, pages 7 and 10.

<sup>279</sup> Public hearing, 3 February 2010, page 11.

<sup>280</sup> Public hearing, 5 March 2010, pages 127-128. Mr Heywood confirmed in October 2003 that the MOD could transfer £400m from non-cash to cash in 2003/04. Mr Boateng confirmed in July 2004 that the MOD could transfer £350m from non-cash to cash in both 2004/05 and 2005/06.

<sup>281</sup> Public hearing, 5 March 2010, page 128.

<sup>282</sup> Private hearing, 6 May 2010, page 42.

<sup>283</sup> House of Commons Library Standard Note, 16 October 2009, *Defence Expenditure*.

Table 6: Defence expenditure in near-cash terms, 2001/02 to 2008/09 (£bn)

	Near-cash expenditure	Near-cash expenditure at 2008/09 prices <sup>284</sup>	£bn change on previous year, in real terms	% change on previous year, in real terms
2001/02	26.1	31.4	2.4	8.4
2002/03	27.3	31.8	0.5	1.5
2003/04	29.3	33.2	1.4	4.4
2004/05	29.5	32.5	- 0.7	- 2.1
2005/06	30.6	33.1	0.6	1.8
2006/07	31.5	33.0	- 0.1	- 0.2
2007/08	33.5	34.2	1.2	3.6
2008/09	36.4	36.4	2.2	6.5

**477.** Mr Brown told the Inquiry on 5 March 2010 that the defence budget had risen in real terms (i.e. after adjusting for inflation) every year during the period covered by the Inquiry;<sup>285</sup> and that the budgets allocated in the 2002, 2004 and 2007 Spending Reviews had provided increases in “real terms spending” of 1.2 percent, 1.4 percent and 1.5 percent respectively.<sup>286</sup>

**478.** Mr Brown wrote to the Inquiry on 17 March 2010, to clarify that while defence expenditure had risen every year in cash terms, it had not risen every year in real terms.<sup>287</sup> Mr Brown provided figures for the MOD’s core budget in near-cash and real terms, and total defence expenditure (including NACMO) for the period 2001/02 to 2009/10. Those figures are set out in the table below (the percentage variations between years have been added by the Inquiry).

**479.** The figures provided by Mr Brown show that:

- The MOD’s core budget fell between 2001/02 and 2002/03 and between 2006/07 and 2007/08, and rose in all other years.
- Defence expenditure, which includes a number of significant additional factors, including NACMO, fell between 2003/04 and 2004/05 and between 2005/06 and 2006/07, and rose in all other years.

<sup>284</sup> Adjusted using GDP deflator as at June 2009.

<sup>285</sup> Public hearing, 5 March 2010, page 120.

<sup>286</sup> Public hearing, 5 March 2010, page 119.

<sup>287</sup> Letter Brown to Chilcot, 17 March 2010, [untitled].

Table 7: Total defence expenditure, 2001/02 to 2009/10 (£bn)

	MOD core budget			Actual defence expenditure (inc. NACMO)		
	Near cash budget	Real terms (2008/09 prices)	Real terms % change on previous year	Cash outturn + ops <sup>288</sup>	Real terms (2008/09 prices)	Real terms % change on previous year
2001/02	23.57	28.44	0.32	24.87	30.02	3.31
2002/03	24.20	28.29	- 0.53	26.99	31.56	5.12
2003/04	25.58	29.08	2.79	29.34	33.36	5.72
2004/05	26.48	29.29	0.72	29.52	32.66	- 2.09
2005/06	27.60	29.97	2.32	30.60	33.24	1.76
2006/07	28.66	30.23	0.87	31.45	33.18	- 0.17
2007/08	29.97	30.15	- 0.26	33.49	34.33	3.47
2008/09	30.76	30.76	2.02	36.43	36.43	6.12
2009/10	31.92	31.30	1.76	39.87	39.08	7.27

## New arrangements for funding Urgent Operational Requirements, July 2007

**480.** The Inquiry concludes in Section 9.8 that, from July 2005 onwards, decisions in relation to resources for Iraq were made under the influence of the demands of the UK effort in Afghanistan. Although Iraq remained the stated UK Main Effort, the Government no longer had the option of a substantial reinforcement of its forces there.

**481.** The funding approved for Urgent Operational Requirements (UORs) increased significantly in 2006/07, as security in Iraq deteriorated, expenditure on Afghanistan increased, and the Government provided new equipment to protect deployed personnel (see Section 14.1).

**482.** The table below shows the funding approved by the Treasury for UORs relating to Iraq from 2002/03 to 2009/10.<sup>289</sup> Information on actual expenditure on UORs was not captured separately until 2008/09.

Table 8: Funding approved for UORs for Iraq, 2002/03 to 2009/10 (£m)

	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	Total
UOR approvals (£m)	500	180	130	100	420	450	40	5	1,825

<sup>288</sup> Figures provided by Defence Analytical Services and Advice (DASA).

<sup>289</sup> Letter Quinault to Aldred, 1 March 2010, [untitled].

**483.** The increase in funding approved for UORs drove an increase in overall NACMO from 2007/08. The table below shows the funds drawn by the MOD from the Reserve to cover NACMO, including UORs, in relation to Iraq.<sup>290</sup>

Table 9: Total NACMO for Iraq, 2002/03 to 2009/10 (£m)

	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	Total
Total NACMO	847	1,311	910	958	956	1,458	1,381	342	8,163

**484.** The arrangements for funding UORs which had been agreed between the MOD and the Treasury in September 2002 continued to operate until autumn 2006.

**485.** In autumn 2006, the UOR envelopes for Iraq and Afghanistan were combined, with a view to providing additional flexibility in managing UOR funding and to reduce bureaucracy in the MOD and the Treasury.<sup>291</sup>

**486.** Mr Des Browne, the Defence Secretary, was advised by an MOD official on 24 November 2006 that he should write to Mr Stephen Timms, Chief Secretary to the Treasury, to request an increase of £460m in the combined UOR envelope.<sup>292</sup> Despite tight controls, the requirements for UORs continued “at a rate higher than anticipated, and considerably above historical norms”, because of:

- the intensity of operations in Afghanistan;
- the slow drawdown of forces from Iraq;
- the constantly evolving threat in both theatres; and
- “a decreased willingness, at all levels, to ‘make do’ with sub-optimal solutions and uncomfortable living and working conditions now that both operations [Afghanistan and Iraq] have become enduring”.

**487.** The size of the request prompted Mr Browne’s Assistant Private Secretary to do “a little digging” into the MOD’s UOR system.<sup>293</sup> He reported to Mr Browne that:

“The UOR system – the people who make bids on it and those who sanction bids within it – are changing their attitude. There is greater willingness to ask for technical solutions to reduce risk and discomfort and less inclination to block such bids. Partly this is because there is a perception (rightly or wrongly) that the political environment has changed, and money is no longer the constraint it was ...

<sup>290</sup> Letter Quinault to Aldred, 1 March 2010, [untitled]; Letter Cabinet Office [junior official] to Aldred, 1 July 2011, ‘Iraq Inquiry: Request for Further Information on Funding’; Letter Cabinet Office [junior official] to Aldred, 13 September 2011, ‘Iraq Inquiry: Request for Further Information on Funding’.

<sup>291</sup> [Minute MOD \[junior official\] to PS/Secretary of State \[MOD\], 24 November 2006, ‘Additional Funding for Urgent Operational Requirements \(UORs\)’.](#)

<sup>292</sup> [Minute MOD \[junior official\] to PS/Secretary of State \[MOD\], 24 November 2006, ‘Additional Funding for Urgent Operational Requirements \(UORs\)’.](#)

<sup>293</sup> [Minute MOD \[junior official\] to Browne, \[undated\], ‘UOR Funding – Iraq and Afghanistan’.](#)

“The other factor is that our aspirations are rising and the harder we fight the better we want to do it.”

**488.** Mr Browne’s Assistant Private Secretary suggested to Mr Browne that they should discuss the UOR culture that was forming, and “whether we need to re-steer a little or accept that this is the new price of doing business”.

**489.** The MOD told the Inquiry that it has no record of a discussion between Mr Browne and his Assistant Private Secretary on that issue.<sup>294</sup>

**490.** Mr Browne wrote to Mr Timms on 4 December to request an increase of £460m in the combined UOR envelope for Iraq and Afghanistan.<sup>295</sup>

**491.** Mr Timms was advised by a Treasury official on 9 January 2007 that:

“At official level, MOD have indicated that the underlying reason for the sustained high level of UORs is linked to a Ministerial judgement that soldiers must be provided with the optimum equipment, especially where force protection is at stake.

“HMT [the Treasury] have never refused a request to fund a UOR. Once forces are deployed and commanders are generating requirements it is difficult to deny the resources ... It follows that the mechanism for limiting the total cost of operations is to resist any expansion of troops committed to operations, rather than UORs to supply the troops already deployed in theatre.”<sup>296</sup>

**492.** Mr Timms agreed Mr Browne’s request in full on 15 January.<sup>297</sup>

**493.** Mr Browne wrote to Mr Timms on 29 March to request a further increase of £450m in the combined UOR envelope for Iraq and Afghanistan, to cover the first four months of the financial year 2007/08.<sup>298</sup>

**494.** Mr Paul Taylor, MOD Director General Equipment, met Mr James Quinault, Head of the Treasury’s Defence, Diplomacy and Intelligence Team, on 19 April to discuss that request.<sup>299</sup>

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<sup>294</sup> Email MOD [junior official] to Iraq Inquiry [junior official], 25 September 2013, ‘Iraq Inquiry: Queries Relating to Resourcing – MOD Response’.

<sup>295</sup> Letter Browne to Timms, 4 December 2006, ‘Iraq and Afghanistan – Additional Funding for Urgent Operational Requirements’.

<sup>296</sup> Minute Treasury [junior official] to Chief Secretary, 9 January 2007, ‘Increase in the Urgent Operational Requirements Envelope’.

<sup>297</sup> Letter Timms to Browne, 15 January 2007, ‘UOR Uplift’.

<sup>298</sup> Letter Browne to Timms, 29 March 2007, [untitled].

<sup>299</sup> [Minute Taylor to PS/SofS \[MOD\], 24 April 2007, ‘Treasury Reaction to Requested Increase in UOR Funding’.](#)

**495.** Reporting the Treasury's "emerging response" to Mr Browne, Mr Taylor said that Mr Quinault had made clear:

- The current, high level of UOR approvals was generating significant financial pressure on the Reserve, such that Treasury officials viewed the current UOR mechanism as "unsustainable".
- A key Treasury concern was that there was no incentive within the current UOR mechanism for the MOD to manage demand or reprioritise equipment plans.
- In the shorter term, Treasury officials were keen to modify the UOR mechanism so that the Treasury agreed a smaller envelope to cover smaller UORs, while larger UORs would be agreed individually with Treasury officials.
- In the longer term, a new UOR mechanism should be considered as part of the forthcoming Comprehensive Spending Review.

**496.** Mr Quinault had also told MOD officials that he would be recommending to Mr Timms that he should ask the MOD to find the resources for two UORs which he perceived as general capability enhancements.

**497.** Mr Taylor concluded:

"All that said, Quinault accepted that Treasury Ministers may take a different view given the evident sensitivities, so we should not assume anything about the formal Treasury response until the Chief Secretary [Mr Timms] has written ..."

**498.** A Treasury official advised Mr Timms on 20 April that the "step change" in the level of UOR funding made the current UOR arrangement "unsustainable".<sup>300</sup> The Treasury had provided £2.1bn to fund UORs relating to Iraq and Afghanistan since 2001, of which over half had been provided in the last two years:

"We [the Treasury] do not question the military judgment that there is a current operational need – but we believe that many of these items seek to provide a general capability that could have been provided through the Equipment Programme. Many items appear to be kitting out the Army while the Equipment Programme has invested in ships and aircraft ... As such we think the UOR scheme is becoming a straightforward supplement to the EP [Equipment Programme] in a way that it was never intended to be, bailing out MOD of the need to prioritise in the kit they purchase and compensating for bad decisions in the past."

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<sup>300</sup> Minute Treasury [junior official] to Timms, 20 April 2007, 'Increase in the Urgent Operational Requirements Envelope'.

**499.** The official advised that the UOR regime was not ideal for the UK military either, as:

- Despite accelerated procurement, UORs were frequently not available until several months after a need had been identified. It would be better to plan to have the capability in advance.
- That would also enable soldiers to be trained on new equipment before their deployment to theatre, and for new equipment to be properly incorporated into military doctrine.
- After one year, the ongoing costs of UORs reverted to the core defence budget. Those unplanned costs could be difficult to accommodate.

**500.** The official recommended that Mr Timms agree a £200m increase in the combined UOR envelope, and signal a need for a new UOR regime to be negotiated within the forthcoming Comprehensive Spending Review.

**501.** Mr Timms replied to Mr Browne on 9 May:

“We discussed that the UOR regime has drifted from its original intentions. We agreed we need a different arrangement for the funding for UORs in the future ... I propose we seek to develop this as part of our discussions around the CSR [Comprehensive Spending Review].”<sup>301</sup>

**502.** As an “interim solution”, Mr Timms agreed to increase the UOR ceiling by £200m. For expenditure above that ceiling, and (in line with existing arrangements) for all individual UORs above £10m, the MOD should seek Treasury approval on a case-by-case basis.

**503.** The MOD and Treasury have told the Inquiry that they have no record of that discussion between Mr Timms and Mr Browne.<sup>302</sup>

**504.** From June 2007, the Treasury cleared every UOR individually (rather than only those above £10m).<sup>303</sup>

**505.** The outline of a new UOR regime was agreed in late July, as part of the MOD’s settlement in the 2007 Comprehensive Spending Review:

- The Reserve would pay for the “first element” of total UOR costs each year.

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<sup>301</sup> Letter Timms to Browne, 9 May 2007, ‘Urgent Operational Requirements (UOR) in Iraq and Afghanistan’.

<sup>302</sup> Email MOD [junior official] to Iraq Inquiry [junior official], 25 September 2013, ‘Iraq Inquiry: Queries Relating to Resourcing – MOD Response’; Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, ‘Further Queries Relating to Resources’.

<sup>303</sup> Minute Lester to Woolley, 30 October 2007, ‘Approach to UOR Funding Following the CSR07 Settlement’.

- The MOD and Treasury would share equally any costs in excess of this amount (with the Treasury meeting those excess costs up front, and then reclaiming them from the MOD on a rolling three-year basis).
- The MOD would receive £200m to assist with its first payments under this new arrangement.
- The MOD would review its equipment programme with the intention of “rebalancing spend towards ... the current operating environment”.<sup>304</sup>

**506.** Discussions continued between MOD and Treasury officials over the detail of the new arrangement, including the size of the “first element”.

**507.** Mr Lester advised Mr Woolley on 30 October that:

“The agreed aim is that the new arrangements should be cost neutral to Defence, albeit with changed incentives, and Quinault professes to mean this.”<sup>305</sup>

**508.** Mr Lester continued:

“The Treasury have indicated that their intention is to drive the lump sum [first element] as far down as possible in an attempt to change our UOR spending behaviour (they have indicated that they see this as a vehicle to shift our EP [equipment programme] towards current operations). Their prejudice is that MOD does not make real prioritisation decisions on UORs ...”

**509.** Mr Lester also reported that the arrangements which had been in place since June, whereby the Treasury cleared each UOR individually, had not proved to be unduly constraining, though the Treasury was “increasingly pushing back”.

**510.** Agreement on the size of the first element was reached in mid-December 2007, at £500m for 2008/09, based on the MOD’s “central estimate” of UOR expenditure of £900m.<sup>306</sup>

**511.** Mr Woolley told the Inquiry that the change in the UOR regime:

“... was intended to give a little bit greater certainty to the Treasury of what the UOR bill was likely to be and it was effectively an attempt to incentivise us [the MOD] to forecast in advance what the UOR spend in ... the forthcoming year – would be.”<sup>307</sup>

**512.** Mr Woolley said that the change had not affected operations in Iraq, which were by that time generating fewer demands for UORs.

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<sup>304</sup> Letter Burnham to Browne, 24 July 2007, ‘Comprehensive Spending Review 2007: Ministry of Defence Settlement’.

<sup>305</sup> Minute Lester to Woolley, 30 October 2007, ‘Approach to UOR Funding Following the CSR07 Settlement’.

<sup>306</sup> Letter Woolley to Quinault, 18 December 2007, ‘CSR07: UOR Funding Arrangements’.

<sup>307</sup> Public hearing, 2 July 2010, pages 56-57.

## Funding for civilian activities in the post-conflict period

### Initial funding for reconstruction

**513.** At Prime Minister's Questions on 19 March 2003, Mr David Rendel asked for an assurance that sufficient funds for post-conflict reconstruction would be made available quickly.<sup>308</sup>

**514.** Mr Blair replied:

“... we will ensure that funds are available – indeed, funds have already been earmarked for the purpose and the Secretary of State for International Development, the Ministry of Defence and the Treasury are doing all they can to make sure that we co-ordinate with American allies and also with other UN partners to ensure that the funds are available ... so that in the post-conflict situation in Iraq the people of Iraq are given the future that they need.”

**515.** The Coalition began military action against Iraq on the night of 19/20 March. At that time, the Government had made no provision for funding for reconstruction.

**516.** Ms Short wrote to Mr Boateng on 21 March, to request £120m from the Reserve for humanitarian relief in Iraq.<sup>309</sup> Ms Short advised that her bid did not include any funds for reconstruction:

“In the longer term, we will need to consider reconstruction costs. We agree with you that there should be broad international burden sharing of any financing gap unmet by oil revenues, with a major role for the IFIs. But we will need to discuss these issues further at the appropriate time in the coming weeks, once the post-conflict situation is clearer and we have an IFI led needs assessment.”

**517.** Mr Straw sent Mr Blair four FCO papers in advance of Mr Blair's meeting with President Bush at Camp David on 26 and 27 March, including one on post-conflict Iraq (see Section 10.1).<sup>310</sup> The FCO stated that Ms Short was considering where the UK might help with “reform and reconstruction”; however:

“Public finances are tight. If we are to keep Armed Forces in Iraq, the scope for a major effort on reform and reconstruction will be limited.”<sup>311</sup>

**518.** In his 9 April Budget statement to the House of Commons, Mr Brown announced that he had set aside “an additional US\$100 million” to “back up the UN and the work of reconstruction and development”.<sup>312</sup>

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<sup>308</sup> House of Commons, *Official Report*, 19 March 2003, column 930.

<sup>309</sup> [Letter Short to Boateng, 21 March 2003, 'Iraq Humanitarian Funding: Reserve Claim'](#).

<sup>310</sup> Minute Straw to Blair, 25 March 2003, 'Camp David: Post-Iraq Policies'.

<sup>311</sup> [Paper FCO, 25 March 2003, 'Iraq: Phase IV Issues'](#).

<sup>312</sup> House of Commons, *Official Report*, 9 April 2003, columns 271-288.

**519.** The Treasury told the Inquiry that it has no record of any department requesting that allocation.<sup>313</sup>

**520.** On the same day, a Treasury official advised Mr Boateng that, as DFID still had £95m available for humanitarian work, and given that the UN did not yet have a presence on the ground in Iraq and the reconstruction effort had not yet started, he should write to Ms Short “to impose some safeguards” on the additional US\$100m.<sup>314</sup>

**521.** Mr Boateng wrote to Ms Short on 15 April to clarify how DFID could access those funds.<sup>315</sup> He understood that DFID did not need the additional funds immediately, given that humanitarian and reconstruction work was at a very early stage and that DFID had £95m of uncommitted resources. He fully expected DFID to bid for additional funding for Iraq “in the next few months”. Mr Boateng asked that, before DFID looked to access the new funds, Ms Short should write to him setting out her proposals for how the additional funding would be spent.

**522.** Ms Short agreed on 23 April that other departments should be given access to the US\$100m allocation, to pay for their secondments to the US-led Office of Reconstruction and Humanitarian Assistance (ORHA).<sup>316</sup> That would mean that they, rather than DFID, would have to pass the Treasury’s tests on value for money and effectiveness.

**523.** Mr Boateng wrote to Mr Straw on 2 May to endorse the “broad consensus” that £4.8m of the US\$100m/£60m allocation should be ring-fenced for the inter-departmental Iraq Planning Unit (IPU), to cover the cost of UK secondees to ORHA.<sup>317</sup>

**524.** On 2 May, Ms Short’s Private Secretary sent Mr Rycroft an “Interim DFID Strategy” for the next three to six months as Iraq transitioned from “relief/recovery to reconstruction”.<sup>318</sup>

**525.** The strategy stated that the expected humanitarian crisis had not materialised, and set out the “immediate recovery tasks” and “broader [reconstruction] agenda” that now needed to be addressed.

**526.** The strategy stated that DFID had earmarked £210m for “relief, recovery and reconstruction activities” in the current financial year (2003/04). That allocation comprised the £90m provided by DFID from its own resources and the £120m provided from the Central Reserve on 27 March, for humanitarian assistance. The US\$100m announced by Mr Brown on 9 April had been “earmarked” for DFID; it had subsequently been agreed that the costs of secondments to ORHA could be met from that allocation.

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<sup>313</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, ‘Further Queries Relating to Resources’.

<sup>314</sup> Minute Treasury [junior official] to Chief Secretary, 9 April 2003, ‘Iraq: Budget Funding’.

<sup>315</sup> Letter Boateng to Short, 15 April 2003, ‘Budget Announcement on Iraq’.

<sup>316</sup> Minute Bewes to Miller, 24 April 2003, ‘Iraq: 23 April’.

<sup>317</sup> Letter Boateng to Straw, 2 May 2003, ‘Funding ORHA Secondees’.

<sup>318</sup> [Letter Bewes to Rycroft, 2 May 2003, ‘Iraq Rehabilitation’ attaching Paper DFID, \[undated\], ‘Iraq: Interim DFID Strategy’.](#)

**527.** Based on contemporaneous sources and figures provided to the Inquiry, the Inquiry estimates that DFID had committed £117.8m to the humanitarian assistance effort by May 2003, of which £89m had been disbursed. That comprised:

- £78m to UN agencies (of which £64m had been disbursed);
- £32m to the International Committee of the Red Cross (ICRC) and the Iraqi Red Crescent (of which £18m had been disbursed);
- £6.2m to NGOs (of which £5.4m had been disbursed); and
- £1.6m for DFID’s bilateral effort (all of which had been disbursed).<sup>319</sup>

**528.** The Inquiry estimates that £90m was therefore available to DFID for “recovery and reconstruction” or for further contributions to the humanitarian assistance effort.

**529.** The balance of the US\$100m announced by Mr Brown on 9 April that would not be spent on secondments to ORHA was also available for reconstruction and development.

**530.** The Annotated Agenda for the 15 May meeting of the Ad Hoc Ministerial Group on Iraq Rehabilitation (AHMGIR) stated that the scale of the reconstruction challenge was “enormous”.<sup>320</sup> Large projects would fall to ORHA and subsequently the Iraqi authorities. But there was a case now for “smaller refurbishment projects”. Of the £10m available to the UK military for QIPs only £50,000 had been spent, and of the £30m available to the UK military for humanitarian relief operations in the UK’s AO, only £3m had been committed and £1m spent. The remainder could be used for other purposes.

**531.** In discussion, Mr Boateng agreed that the MOD could spend the balance of the £10m allocated for QIPs, but said that “other funds for reconstruction” had been allocated to DFID.<sup>321</sup> The MOD and DFID needed to discuss the issue.

## Initial funding for Security Sector Reform

**532.** Mr Straw, Ms Short, Mr Boateng and Mr Adam Ingram, Minister for the Armed Forces, agreed on 11 March 2003 that the Global Conflict Prevention Pool (GCPP) should retain a large reserve (of £10m) and a large Quick Response Fund (£5m) to “allow for” an Iraq Strategy focused on conflict prevention.<sup>322</sup>

**533.** On 10 April, Ms Philippa Drew, FCO Director Global Issues, informed Mr Dominick Chilcott, the Head of the IPU, that her Directorate – which managed the GCPP, the FCO’s Environment Fund and the FCO’s Global Opportunities Fund (GOF) – was now receiving requests for funding for Iraq.<sup>323</sup> It was difficult to assess those requests in the absence of an “agreed post-conflict strategy” for Iraq and “some idea of where other

<sup>319</sup> Letter Amos to Boateng, 10 September 2003, ‘Iraq Reconstruction Funding: Reserve Claim’; Paper DFID, 4 November 2009, ‘Iraq – DFID Timeline and Financial Commitments: 2003 – 2009’.

<sup>320</sup> Annotated Agenda, 15 May 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

<sup>321</sup> Minutes, 15 May 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

<sup>322</sup> Minute Drew to Gass, 26 March 2003, ‘Iraq and the Global Conflict Prevention Pool’.

<sup>323</sup> Minute Drew to Chilcott, 10 April 2003, ‘Iraq: Applications for Funds’.

HMG funding might be going”. Ms Drew asked whether there were plans to develop a strategy.

**534.** The FCO told the Inquiry that it could find no response from the IPU to Ms Drew’s minute.<sup>324</sup>

**535.** The first Iraq project (on prison reform) was agreed for funding under the GCPP Quick Response Fund by the end of April.<sup>325</sup> An FCO official commented that the GCPP Fund was a global allocation, and there were already other calls on it. It would take some months to draw up a GCPP Strategy for Iraq that would allow officials to access the main GCPP budget.

**536.** Ms Drew chaired a meeting on 1 May to discuss how to handle funding requests relating to Iraq.<sup>326</sup> Officials from various FCO departments, the IPU, DFID and the MOD attended. The meeting identified several FCO funds that might provide funding for Iraq:

- The GOF Engaging with the Islamic World Programme. A “small amount” was available.
- The GOF Counter-Terrorism Programme. £4m was available in the current financial year.
- The GOF Climate Change and Energy Programme.
- The GCPP. Objectives for the current financial year had already been agreed and did not include Iraq.
- The GCPP Peacekeeping Budget. All funds were committed in the short term.
- The Human Rights Project Fund. A “very small sum” had been put aside for Iraq.
- The Public Diplomacy Challenge Fund. Funds should be available for Iraq.

**537.** The meeting agreed that all proposals should be passed through the IPU, to be assessed against wider UK priorities.

**538.** In a separate record of the meeting, an FCO official reported: “It was clear that within FCO little detailed thought has been given specifically to an Iraq programme and how it might be funded.”<sup>327</sup>

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<sup>324</sup> Email FCO [junior official] to Iraq Inquiry [junior official], 25 September 2013, ‘Iraq Inquiry: Queries Relating to Resourcing’.

<sup>325</sup> Email FCO [junior official] to FCO [junior official], 29 April 2003, ‘GCPP-Iraq’.

<sup>326</sup> Minute FCO [junior official] to Drew, 2 May 2003, ‘Co-ordination Meeting to Discuss Miscellaneous Funding Requests for Projects in Iraq’.

<sup>327</sup> Minute FCO [junior official] to Link, 2 May 2003, ‘Iraq: Post Conflict Programme and Funding’.

**539.** FCO, DFID and MOD Ministers were invited to agree a GCPP Strategy for Iraq on 1 August.<sup>328</sup> The strategy aimed to provide a coherent framework for UK activities aimed at preventing conflict in Iraq. It comprised three elements:

- Security Sector Reform (SSR). This would be the “initial focus of activity”. Ministers were invited to agree that expenditure on SSR activities could start immediately while work continued to define the other elements of the strategy.
- Assistance to “Iraqi Governorates and local administrations within the British AO [Area of Operations] as they develop to ensure that policy decisions are made strategically and with an understanding of conflict prevention issues”.
- Further studies and analyses to assist in the development of UK conflict prevention strategies.

**540.** The estimated cost of the strategy was £7.5m in both 2003/04 and 2004/05. Of the £15m total, £9.5m was allocated for SSR, £4m for local governance and £1.5m for further studies and analyses.

### Pressure for additional funding, autumn 2003

**541.** On 3 June 2003, following a visit to Iraq at the end of May, Mr Blair chaired a meeting attended by Mr Hoon, Baroness Amos (the International Development Secretary), Sir Michael Jay (in Mr Straw’s absence) and No.10 officials.<sup>329</sup> Mr Blair said he had returned from Iraq convinced that “an enormous amount needed to be done”. The Government should go back to “a war footing” for the next two to three months to avoid “losing the peace in Iraq”.

**542.** Section 10.1 describes how, in July 2003, the Government took on the leadership of Coalition Provisional Authority (South) (CPA(South)) without considering the significant strategic, resource and reputational implications of such a decision.

### PRESSURE FOR ADDITIONAL FUNDING FOR DIPLOMATIC REPRESENTATION AND SECURITY

**543.** Mr Straw wrote to Mr Boateng on 18 July, seeking £30.4m from the Reserve to cover additional costs incurred by the FCO relating to Iraq for 2003/04.<sup>330</sup> Mr Straw stated that he had been reluctant to put in a Reserve claim, “not least because of Gordon’s [Mr Brown’s] strictures about the pressure on it”. The FCO had, however, reached the limit of its ability to manage the constant new demands on its resources:

“... the continuing need to fund Afghanistan operations in Kabul and London; Iraq costs; and the costs of increased security around the world in the light of the Al-Qaida threat, heightened by Britain’s role in Iraq ...

<sup>328</sup> Minute IPU [junior official] to PS/Baroness Symons, 1 August 2003, ‘Global Conflict Prevention Pool – Iraq Strategy’.

<sup>329</sup> [Letter Cannon to McDonald, 3 June 2003, ‘Iraq: Prime Minister’s Meeting, 3 June’.](#)

<sup>330</sup> [Letter Straw to Chief Secretary to the Treasury, 18 July 2003, ‘Iraq-Related Costs’.](#)

“This has required cuts into the muscle of our operation – including the closure or localisation of nearly a dozen diplomatic posts.”

**544.** The £30.4m bid comprised:

- £5.3m for costs associated with the British Office in Baghdad and the UK Special Representative in Baghdad;
- £2.1m to establish a British Office in Basra;
- £7.7m to improve security for FCO staff in Baghdad;
- £4m to improve security for FCO staff in Basra;
- £2.7m to improve the security of FCO posts outside Iraq;
- £8.5m to support and provide security for UK secondees to the CPA, including costs associated with Sir Hilary Synnott; and
- £138,000 to support Ms Ann Clwyd, the Prime Minister’s Envoy on Human Rights in Iraq.

**545.** Mr Straw also requested that £28m be added to the FCO’s budget for 2004/05 to cover the continuing costs of those activities.

**546.** Sir Hilary Synnott arrived in Basra on 30 July, to lead CPA(South).<sup>331</sup>

**547.** Sir Hilary wrote in his memoirs that his arrival established “some sort of British Fiefdom” in the South, but one which was “still entirely dependent on American resources for its lifeblood”.<sup>332</sup>

**548.** In late August the FCO increased its bid for support and security for staff seconded to the CPA from £8.5m to £15.5m, bringing the total FCO bid to the Reserve for 2003/04 to £38m.<sup>333</sup>

**549.** Treasury officials advised Mr Boateng on 4 September that he should:

- Accept the bid relating to support and security for staff seconded to the CPA (£15.5m). That could be funded from the US\$100m/£60m allocation announced by Mr Brown on 9 April.
- Provide £6m of the £7.7m requested to improve security for FCO staff in Baghdad.
- Reject the other bids (totalling some £15m), as those related to “costs that the FCO knew about but chose not to make contingency arrangements for”.

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<sup>331</sup> Synnott H. *Bad Days in Basra: My Turbulent Time as Britain’s Man in Southern Iraq*. I B Tauris & Co Ltd., 2008.

<sup>332</sup> Synnott H. *Bad Days in Basra: My Turbulent Time as Britain’s Man in Southern Iraq*. I B Tauris & Co Ltd., 2008.

<sup>333</sup> Minute Treasury [junior officials] to Chief Secretary, 4 September 2003, ‘FCO Reserve Claim for Iraq Costs’.

**550.** Treasury officials commented that it was the third year in a row that the FCO had made claims on the Reserve for “apparent shocks”.

**551.** Mr Boateng replied to Mr Straw on 9 September, in line with the advice provided by officials.<sup>334</sup>

**552.** Mr Simon Gass, FCO Director Finance, called on Mr Jonathan Stephens, the senior Treasury official dealing with the FCO, the following day.<sup>335</sup>

**553.** Mr Gass reported to Sir Michael Jay that he had rehearsed the FCO’s arguments for additional funding and challenged Mr Stephens on whether the MOD and DFID were being asked to absorb costs arising from Iraq to the same extent as the FCO. He reported that:

“He [Mr Stephens] was evasive and uncomfortable ... He argued weakly that the decision was taken on the basis of capacity and ability to absorb ... I pointed out that DFID and MOD both had much greater capacity to absorb not only because of the size of their budgets but also because of the strain on FCO expenditure ...

“They [the Treasury] are certainly stung by accusations that the FCO is being singled out for harsher treatment than other Government departments and this should be part of the Foreign Secretary’s line with the Chief Secretary.”

## PRESSURE FOR ADDITIONAL FUNDING FOR RECONSTRUCTION

**554.** Security in Iraq deteriorated in August 2003. Concerns about progress on reconstruction in the South and the implications for the level of consent enjoyed by UK forces led the Government to seek rapid and visible improvements in essential services.

**555.** Section 10.1 describes the subsequent development of the US\$127m Essential Services Plan, to improve delivery of essential services in the South.

**556.** Mr Hilary Benn, Minister for International Development, told the 4 September meeting of the AHMGIR that DFID would contribute £20m (US\$30m) to the Essential Services Plan, to improve delivery of essential services in the South.<sup>336</sup> The UK should continue to seek the balance of the funding from the CPA, but must be prepared to act fast on its own if necessary.

**557.** Mr Benn wrote to Mr Blair later that day to confirm DFID’s commitment.<sup>337</sup> Mr Benn advised that:

“We [DFID] have held back from committing to meet the full cost [of the Essential Services Plan], to avoid giving the impression to the CPA that HMG wants to take

<sup>334</sup> [Letter Boateng to Straw, 9 September 2003, ‘Iraq Reserve Claim’.](#)

<sup>335</sup> Minute Gass to PS/PUS [FCO], 10 September 2003, ‘Iraq: Discussion with the Treasury’.

<sup>336</sup> Minutes, 4 September 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

<sup>337</sup> Letter Benn to Blair, 4 September 2003, ‘Iraq: Restoring Essential Services in the South’.

on full responsibility for the South of the country including the future funding of all infrastructure. Such a commitment would be financially and logistically enormous, and well beyond DFID's budget. We need to keep pressing [Ambassador] Bremer to make more effective use of CPA resources ..."

**558.** Baroness Amos wrote to Mr Boateng on 10 September to request an additional £6.5m from the Reserve to cover immediate further needs in Iraq, and that a further £33.5m should be "ear-marked" within the Reserve for anticipated requirements later in the financial year.<sup>338</sup> Those anticipated requirements included £20m for a future contribution to the Essential Services Plan if CPA funding proved insufficient.

**559.** Baroness Amos advised that the £40m she was requesting represented the balance of the US\$100m/£60m announced by Mr Brown in his 9 April statement to Parliament, to "back up the UN and the work of reconstruction and development".

**560.** The following day, in a letter to Mr Blair, Baroness Amos advised that:

"... our overall approach has been predicated on CPA delivering more than it has, and we have had negligible influence on them, or the Pentagon, to try and turn it around. Immediate measures are now needed to maintain the Iraqi population's consent."<sup>339</sup>

**561.** The Essential Services Plan would help, but solving the underlying problems in infrastructure would require billions of dollars and an Iraqi government to set policy. Systemic problems within the CPA continued to delay the transfer of promised CPA resources to the South. Baroness Amos concluded:

"If CPA HQ and [the] US Government fail to get its act together quickly, then we can only plug the gap if my earlier Reserve claim ... is approved."

**562.** A Treasury official provided advice to Mr Boateng on 18 September on how the Treasury intended to deal with the expected surge in Iraq-related claims on the Reserve.<sup>340</sup>

**563.** Departments had seen Mr Blair's call for a step change in the UK effort in Iraq (on 3 June) as "a legitimate invitation" to bid for more resources. They were developing or considering seven bids. The largest of those was a bid being prepared by DFID for around £250m, as the UK's additional contribution to Iraq's reconstruction.

**564.** It was vitally important to maintain pressure on departments, both at Ministerial and official level, not to submit claims in the first place. The Treasury would also continue to push for greater co-ordination between departments in funding Iraq programmes.

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<sup>338</sup> Letter Amos to Boateng, 10 September 2003, 'Iraq Reconstruction Funding: Reserve Claim'.

<sup>339</sup> [Telegram 1 DFID London to IraqRep, 11 September 2003, 'Iraq Reconstruction: Cabinet Discussion on 11 September'](#).

<sup>340</sup> [Minute Treasury \[junior official\] to Chief Secretary, 18 September 2003, 'Iraq Funding FY 2003-04: Dealing with Reserve Claims'](#).

**565.** Beyond that, the Treasury would continue to scrutinise claims on a case by case basis, in terms of value for money, impact, and robustness of the costing, and the robustness of the risk management. Departments would also have to provide “clear evidence” on the extent to which they had reprioritised their existing resources to accommodate Iraq:

“The emphasis will be on satisfying ourselves over the degree of re-prioritisation that has taken place to accommodate Iraq-related pressure within existing baselines. DFID received an eight percent real terms budget increase over the SR2002 period, the FCO nearly three percent and the MOD received their most generous settlement for nearly 20 years. We are therefore far from convinced that further re-prioritisation within existing baselines is not possible.”

**566.** The availability of CPA funding was key. Some officials in CPA(South) had stated that it was easier to secure funding from London than from CPA(Baghdad). The Treasury should therefore continue to push for CPA(Baghdad) to fund initiatives in the South, rather than providing a significant increase in UK funding.

**567.** Treasury officials had considered but rejected another approach – the creation of a “pooled arrangement” for future Iraq claims, with one pool for military activity and one for “reconstruction and related” activity. The idea had been raised by some (unnamed) departments. Such an arrangement might help ensure more effective prioritisation of activities and prevent a “piecemeal stream” of bids to the Reserve. Treasury officials had assessed, however, that creating a pooled arrangement now might encourage departments to allocate money “prematurely”, before the outcome of the Madrid Donors Conference was known and before the effect of the anticipated increase in the flow of funding from CPA(Baghdad) to CPA(South) was clear. The potential demand for funds was so great that a pool could quickly be emptied, prompting further claims to the Reserve. The official commented that the Treasury might wish to revisit the idea of an Iraq pool in the future, if the situation changed.

**568.** Mr Boateng replied to Baroness Amos on 25 September, agreeing to provide an additional £6.5m from the Reserve to cover immediate further needs in Iraq, but rejecting the request to earmark £33.5m for DFID’s anticipated future needs, citing “recent reports that ... [US] sources of funding are now starting to be unblocked”.<sup>341</sup>

**569.** Sir Nicholas Macpherson told the Inquiry that although it was “totally open” to Baroness Amos to challenge that response, she did not.<sup>342</sup> He pointed out that the US\$100m announced by Mr Brown in his 9 April Budget statement was never fully claimed by departments.

**570.** In his evidence to the Inquiry, Sir Suma Chakrabarti suggested that this exchange had not occurred in isolation:

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<sup>341</sup> Letter Boateng to Amos, 25 September 2003, ‘Iraq: Reconstruction Funding: Reserve Claim’.

<sup>342</sup> Public hearing, 22 January 2010, page 22.

“We had discussions [with] the Treasury but it was quite obvious to us that they weren’t going to give any more than they already had ... They had put some money in upfront [in March 2003, for humanitarian assistance], but, after that, they said it is time to reprioritise.”<sup>343</sup>

**571.** The CPA allocated the balance of the funding for the Essential Services Plan the following month.

**572.** Mr Straw wrote to Mr Boateng on 6 October, requesting £13.9m from the Reserve to improve the content and professionalism of the Iraq Media Network, the CPA’s main channel of communication with the Iraqi people.<sup>344</sup>

**573.** Mr Straw stated that the issue was a priority for Mr Blair. The FCO could not fund a new priority that had emerged halfway through the financial year from its existing, very small programme budgets: the FCO’s Public Diplomacy Challenge Fund had an allocation of £2.5m in 2003/04, of which all but £50,000 had already been allocated.

**574.** A Treasury official advised Mr Boateng that he should reject the bid:

“The FCO have not considered any other means to fund this strategy ... They have not even conserved a partial contribution from their own DEL ... they have not engaged the British Council, they have not looked to the Global Conflict Prevention Pool (GCPP), and have not sought to reconcile their media work with DFID’s.

“The Prime Minister views an effective CPA media strategy as vital, therefore the FCO believe we cannot resist a Reserve Claim and have abdicated responsibility for ensuring that this package represents VFM [value for money].”<sup>345</sup>

**575.** The official also advised Mr Boateng that the FCO was holding up agreement to a UK pledge at the Madrid Donors Conference until the bid was agreed.

**576.** Mr Boateng replied to Mr Straw on 16 October, rejecting the FCO’s bid on the grounds that he was not convinced the proposal would deliver value for money, and that the FCO had not fully explored the use of its existing resources.<sup>346</sup>

**577.** Mr Straw responded on 20 October:

“You repeat the mantra that we must look for existing resources within the FCO, the GCPP and other departments ... But it is not clear to me whether the Treasury has a view as to how much the FCO can reprioritise without damaging the delivery of other Government priorities overseas in a way which is self-defeating. In the

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<sup>343</sup> Public hearing, 22 January 2010, page 39.

<sup>344</sup> Letter Straw to Boateng, 6 October 2003, ‘Reconstructing the Iraqi Media Network: Claim on the Reserve’.

<sup>345</sup> [Minute Treasury \[junior official\] to Chief Secretary, 14 October 2003, ‘FCO Reserve Claim for Iraq Media Strategy Costs’](#).

<sup>346</sup> [Letter Boateng to Straw, 16 October 2003, ‘Iraq Reserve Claim: Reconstructing the Media Network’](#).

last two years, the FCO has entered three claims on the Reserve in respect of the events in Afghanistan and Iraq – none of which were predictable within the Spending Review cycle. The total FCO claims for these reserves were £105 million. The Treasury did not dispute the unforeseeable and emergency nature of these costs and yet the Reserve met only £54.5 million ...

“... I have consistently rejected knee-jerk claims from officials that they need more resources when in fact they have done insufficient to reprioritise. But the FCO budget is now substantially overstretched ... The Government needs to decide what priority it places on delivery of the Government’s overseas agenda – including the direct costs to the Exchequer if we fail.”<sup>347</sup>

**578.** When Mr Boateng’s decision was discussed in the Iraq Senior Officials Group on 20 October, Sir Jeremy Greenstock commented that it would be difficult for him to return to the CPA without any UK funding, and that more generally “the absence of financial flexibility was making our work harder in Baghdad”.<sup>348</sup>

**579.** Mr Boateng and Mr Straw discussed the bid after Cabinet on 23 October.<sup>349</sup>

**580.** The Treasury briefing for Mr Boateng rehearsed the reasons why the bid had been rejected, dismissed any suggestion that bids from the FCO were treated differently from those of other departments, and argued that the FCO had chosen not to reprioritise adequately to match the increasing demands of Iraq:

**“At the end of last financial year and earlier this year, decisions could have been taken within the FCO to reallocate greater contingency funding to match this government priority [Iraq]. This never happened.**

**“Other departments, such as DFID, have shown themselves to be more flexible in re-prioritising to assist with the Iraq effort. FCO should be able to match this.”<sup>350</sup>**

**581.** After the meeting, Mr Boateng informed Treasury officials that he had received an assurance from Mr Straw that he would not pursue the bid further, and that they had agreed officials should continue to work to identify ways of funding media proposals from within existing resources.<sup>351</sup>

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<sup>347</sup> [Letter Straw to Boateng, 20 October 2003, ‘Iraq Reserve Claim: Reconstructing the Media Network’.](#)

<sup>348</sup> Minute Dodd to Sheinwald, 20 October 2003, ‘Iraq: Senior Officials Group’.

<sup>349</sup> Email Treasury [junior official] to Treasury [junior official], 23 October 2003, ‘FCO £15m Iraq Media Strategy: Speaking Note/Draft Letter from CST to Jack Straw’.

<sup>350</sup> Briefing Treasury, 22 October 2003, ‘Reserve Claim: Iraq Media Strategy: Speaking Note: CST to Jack Straw’.

<sup>351</sup> Email Treasury [junior official] to Treasury [junior official], 23 October 2003, ‘FCO £15m Iraq Media Strategy: Speaking Note/Draft Letter from CST to Jack Straw’.

**582.** The FCO wrote to No.10 on 5 November, providing an update on its efforts to secure funding for the Iraqi Media Network.<sup>352</sup> The FCO had undertaken a “quick audit” of the UK Government’s support for the Iraqi media and had, with Treasury colleagues, pressed other departments to do more. Funds available from FCO programme budgets, the British Council and possibly the World Service totalled between £1.5m and £2m.

**583.** In his statement to the Inquiry, Mr John Buck, FCO Director Iraq from September 2003 to July 2004, wrote:

“... I remember spending a significant amount of time ... trying to find several hundred thousand pounds to finance the purchase of a transmitter in southern Iraq for the Iraq Media Network ... I tried the FCO finance people and was told that purchase of a transmitter wasn’t really a proper call on FCO funds and that this should come from the Treasury’s Reserve. I went to the Treasury and was told that this should really come out of the FCO’s existing allocation, but perhaps it was worth trying DFID. I had a meeting with DFID, who took the view that they didn’t really do media. I then went back to the FCO who did then find the money.”<sup>353</sup>

**584.** The Inquiry asked Mr Buck why, for an initiative for which Mr Blair had expressed his support, and in a situation where Mr Straw was chairing the AHMGIR, the FCO had not been able to secure a relatively small amount of funding from the Treasury, and why the FCO had not tried to go “back up the chain” to Mr Straw or Mr Blair when funding was blocked.<sup>354</sup>

**585.** In response, Mr Buck highlighted the (in his view) favourable treatment enjoyed by the Treasury due to “broader politics within the Government”.

**586.** Two further FCO bids to the Reserve during the CPA period, for £2m and £9.4m to improve security for staff seconded to the CPA, were agreed in full on 8 December 2003<sup>355</sup> and 30 January 2004 respectively.<sup>356</sup>

**587.** In May 2005, in the context of work to develop a new GCPP Iraq strategy for 2005/06, a DFID official involved in managing the GCPP Iraq strategy assessed the performance of that strategy in the previous year:

“There was and is still no medium term [UK] roadmap ... In this environment, it is not surprising that ... the GCPP was used according to the priorities of the day, despite ministerial endorsement of its medium-term strategy. GCPP programming therefore lurched in tandem with evolving Iraqi and HMG priorities ...

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<sup>352</sup> Letter FCO [junior official] to Rycroft, 5 November 2003, ‘Enhancing the Iraq Media Network’.

<sup>353</sup> Statement, 26 July 2010, page 2.

<sup>354</sup> Public hearing, 31 January 2011, pages 53-55.

<sup>355</sup> [Letter Boateng to Straw, 8 December 2003, ‘Iraq Reserve Claim’](#).

<sup>356</sup> Letter Boateng to Straw, 30 January 2004, ‘Iraq Reserve Claim’.

“Despite the political importance in the UK of the conflict in Iraq, very little funding has been made available to address ... counter-insurgency and post-conflict nation-building. London and Post have both tended to turn towards GCPP as a primary funding source – in some cases to fund programmes that fit neither the GCPP strategy nor even its conflict prevention mandate (i.e. weapons for ISF [the Iraqi Security Forces], Basra poetry festival). Special Advisers and Ministers without budgets are also drawn to the Pool to fund activities in their areas of interest.”<sup>357</sup>

### Debt relief

The Treasury was the lead department within the UK Government on securing debt relief for Iraq.<sup>358</sup> It worked closely with the FCO and other departments to achieve that objective.

Paris Club creditors agreed on 21 November 2004 to reduce Iraq’s official debt by 80 percent.<sup>359</sup> The deal would be delivered in three stages: 30 percent immediately; 30 percent on approval of a standard IMF programme; and 20 percent on completion of the standard IMF programme. The deal would write off US\$31.1bn of the US\$38.9bn owed to Paris Club creditors.

The UK’s share of that write-off was approximately US\$1.39bn,<sup>360</sup> or £954m (£337m in UK financial year 2004/05, £337m in UK financial year 2005/06 and £280m in UK financial year 2008/09).<sup>361</sup>

Section 10.3 describes the Government’s role in the negotiations leading up to that agreement.

## Funding military equipment for the Iraqi Security Forces

**588.** A DFID review of the GCPP and ACP, published in March 2004, stated that the issue of funding military equipment and minor military operations had been controversial.<sup>362</sup> The position agreed in May 2003 was that:

- The supply of military equipment will only be funded if essential to the success of strategies. Weapons and ammunition will only be provided on an exceptional basis, subject to Ministerial agreement.
- Major military operations will not be funded from the Pools.
- Only peace-support-type minor military operations will be considered for Pool funding ...”

<sup>357</sup> Paper DFID, 31 May 2005, ‘GCPP Iraq 2004-05’.

<sup>358</sup> Paper Treasury, 2010, ‘Iraq Briefing – Debt’.

<sup>359</sup> Paris Club, Press Communiqué, 21 November 2004, *Restructuring the Iraqi debt - Agreement between the Paris Club and Iraq*.

<sup>360</sup> Briefing Treasury, [undated], ‘Brief: meeting with Barham Saleh, Deputy Prime Minister of Iraq’.

<sup>361</sup> Letter Cabinet Office [junior official] to Aldred, 13 September 2011, ‘Iraq Inquiry: Request for Further Information on Funding’.

<sup>362</sup> Department for International Development, *Evaluation of the Conflict Prevention Pools: Portfolio Review*, March 2004.

**589.** FCO, DFID and MOD Ministers agreed in September 2004 to fund the provision of £2.5m of military equipment for the Iraqi Security Forces (ISF) from the GCPP.<sup>363</sup> In a letter to Mr Benn, Mr Straw stated that although the purchase of the equipment “only just” met the published eligibility criteria for the supply of military equipment from the GCPP, it was “of broader importance to HMG”.

**590.** Section 12.1 describes Prime Minister Ayad Allawi’s requests to Mr Blair in September and October 2004 for increased support for the ISF.

**591.** In response, the MOD began to develop a proposal to provide US\$107m (£70m) in additional support to the ISF, including the provision of armoured vehicles, transport vehicles, other equipment and weapons.<sup>364</sup> The MOD’s proposal would become Project OSIRIS.

**592.** A Treasury official advised Mr Boateng’s Private Secretary on 12 October that following Prime Minister Allawi’s requests, No.10 was pushing for resources to be allocated “outside the traditional spending categories of the UK military operation (MOD) and reconstruction (DFID)”.<sup>365</sup> The official continued:

“Partly in light of tight spending controls within MOD centre, MOD theatre and FCO/DFID have been using No.10 interest as an opportunity to try and circumvent MOD Finance and HMT [Treasury] spending controls. They have managed to get some political buy-in to ideas which have not been properly costed, scrutinised or prioritised.”

**593.** The resulting spending pressures were “significant, mounting and have critical mass”. So far, the GCPP had filled the “growing gap”, providing £22m of its £100m budget to fund such ad hoc priorities. However, with much of the GCPP contractually committed, it could not absorb many more demands.

**594.** As Mr Boateng would not be able to attend the forthcoming meeting of the Ad Hoc Ministerial Group on Iraq, the official recommended that he should write to Ministers, proposing the creation of a ring-fenced allocation for Iraq within the GCPP for 2004/05. That would comprise £10m of new money from the Reserve, and up to £15m in new money to match reprioritisation within the GCPP.

**595.** The Ad Hoc Ministerial Group on Iraq discussed the MOD proposal on 14 October.<sup>366</sup> Ministers agreed that the proposal should, in principle, be funded, and that the MOD should put a costed proposal to the Treasury “with a view to achieving swift agreement”. Mr Straw and Mr Benn both commented that the GCPP had neither

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<sup>363</sup> [Letter Straw to Secretary of State for International Development, 4 October 2004, ‘Global Conflict Prevention Pool – Iraq Strategy’.](#)

<sup>364</sup> [Minute Quarrey to Prime Minister, 1 October 2004, ‘Iraqi-isation’.](#)

<sup>365</sup> Email Treasury [junior official] to Treasury [junior official], 12 October 2004, ‘Iraq Spending Threats: Letter from CST to Hoon’.

<sup>366</sup> Minutes, 14 October 2004, Ad Hoc Ministerial Group on Iraq meeting.

the budget nor the mandate to fund that type of assistance. Mr Hoon said that funding should come from the “Op TELIC reserve”. Mr Stephens, representing the Treasury, said that some money could come from the Reserve but that the Treasury would also want to look at the GCPP.

**596.** Mr Boateng’s Private Secretary wrote to Mr Hoon’s Principal Private Secretary on 18 October, proposing the creation of a ring-fenced allocation for “ad hoc security proposals” within the GCPP.<sup>367</sup> Copies of the letter were sent to Mr Straw’s and Mr Benn’s Private Offices.

**597.** By 22 October, No.10, Mr Hoon’s Private Office and Mr Benn’s Private Office had all responded to that letter, rejecting the Treasury’s proposal.<sup>368</sup> No.10 commented that it was imperative that the MOD proposal be funded in full as soon as possible.

**598.** Mr Boateng advised the 28 October meeting of the Ad Hoc Ministerial Group on Iraq that, of the US\$107m worth of equipment requested by the MOD, US\$29m would be funded by the US.<sup>369</sup> The remaining US\$78m (some £40.6m) could be funded by the Treasury from the Reserve on a “one-off” basis.

**599.** A Treasury official advised Mr Boateng in mid-November that there had been three separate occasions where “Ministers and officials from FCO and No.10” had made promises of military equipment to various organisations “without proper analysis of the requirement or clarifying the availability of UK funding”.<sup>370</sup> Normally effective MOD internal scrutiny processes had been bypassed. Treasury officials were working with the MOD to ensure that such proposals were scrutinised, but for this to be effective the FCO and No.10 needed to “work with the process”.

**600.** A Treasury official advised Mr Boateng on 1 December that the Treasury had received the MOD’s first request for funding in relation to the MOD proposal, totalling £15m.<sup>371</sup> The request was “basically a list of kit that £15m will buy”, but it was not the right time to “dig our heels in”. The MOD had promised that future requests for funding would meet UOR standards.

**601.** In a Note to President Bush on 10 January 2005, Mr Blair described the Iraqisation of security forces as critical but said that he was not convinced that the plan to deliver this was robust enough.<sup>372</sup> Mr Blair confirmed that he had authorised “an extra \$78m from our MOD for the Iraqi Forces in the South”. Although he could not be sure that funding was essential, “I’ll take the risk rather than find six months later it was.”

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<sup>367</sup> Letter PS/Boateng to Baker, 18 October 2004, ‘Iraq Security Proposals’.

<sup>368</sup> Letter Malik to Rosenfield, 21 October 2004, [untitled]; Letter Rogers to Rosenfield, 21 October 2004, ‘Iraq Security Proposals’; Letter Baker to Rosenfield, 22 October 2004, ‘Iraqi Security Proposals’.

<sup>369</sup> Minutes, 28 October 2004, Ad Hoc Ministerial Group on Iraq meeting.

<sup>370</sup> Briefing Treasury, [undated], ‘Iraq Ministerial Meeting – Thursday 11 November 2004’.

<sup>371</sup> Minute Treasury [junior official] to Chief Secretary, 1 December 2004, ‘£40m Equipment for Iraqi Forces’.

<sup>372</sup> [Letter Sheinwald to Hadley, 10 January 2005, \[untitled\] attaching Note Blair to Bush, 10 January 2005, ‘Note’.](#)

**602.** In June 2005, PJHQ advised Dr John Reid, the Defence Secretary, that discussions were under way with the Treasury for an additional £38m to fund a successor programme to Project OSIRIS.<sup>373</sup> The Treasury had taken “a close interest” in the bid and was keen to ensure that there was “no duplication” with funding allocated to the FCO and DFID.

**603.** Mr Des Browne, the Chief Secretary to the Treasury, wrote to Dr Reid on 23 August, approving £16m from the Reserve for the package of vehicles, infrastructure and communications equipment that had been presented by MOD officials.<sup>374</sup> Mr Browne continued:

“Looking ahead, I hope that it will be possible for you to find other means of funding the remaining elements [of the £38m programme] – either by negotiating with Baghdad, for a larger share of what is available ... or by encouraging our allies – most of whom are spending far less than we are in maintaining forces on the ground – to play a bigger role.”

**604.** Dr Reid wrote to Mr Browne on 30 November, seeking a further £19.6m (for 734 Iraqi Police Service vehicles and 11 ISF infrastructure projects).<sup>375</sup> Dr Reid advised that the MOD had secured funding from the US, Australia, Italy and Japan, reducing the amount that the MOD needed to provide.

**605.** Mr Browne replied on 20 December, approving an additional £19.6m from the Reserve.<sup>376</sup>

**606.** Section 12.1 describes the equipment provided to the ISF under Project OSIRIS.

## **Better Basra Plan, July 2006**

**607.** In June 2006, Mr Blair asked Mr Des Browne, the Defence Secretary from May 2006, to focus on the situation in Basra.<sup>377</sup>

**608.** Mr Browne sent Mr Blair an update on Basra, including details of the additional projects needed to deliver a “better Basra”, on 4 July.<sup>378</sup> Mr Browne reported that departments had not yet found the £30.7m, “a relatively small sum given the strategic importance of Basra”, required to fund the projects. Section 10.2 describes the development of the Better Basra Plan.

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<sup>373</sup> [Minute Scholefield to PS/Secretary of State \[MOD\], 15 June 2005, 'Funding for a Further Programme of Security Sector Reform and a Civil Effects Fund for MND\(SE\)'. The full request was for £58m, £20m of which was for a Civil Effects Fund.](#)

<sup>374</sup> Letter Browne to Reid, 23 August 2005, 'Iraq: Funding for Security Sector Reform and for a Civil Effects Fund for MND(SE)'.

<sup>375</sup> Letter Reid to Browne, 30 November 2005, [untitled].

<sup>376</sup> Letter Browne to Reid, 20 December 2005, 'Security Sector Reform'.

<sup>377</sup> [Minute Sheinwald to Banner, 8 June 2006, 'Iraq and Afghanistan'.](#)

<sup>378</sup> [Letter Browne to Blair, 4 July 2006, \[untitled\] attaching Paper, \[undated\], 'Annex A – Background on Additional Basra Work'.](#)

**609.** Discussions on funding the Better Basra Plan – the first of three Better Basra Plans – continued into August.

**610.** Mr Browne wrote to Mr Timms on 10 August to inform him that departments had agreed to provide a total of £20.4m from existing resources to fund the Plan, now costed at £26.5m because of the later start for some of the work.<sup>379</sup> A total of £7m would come from the GCPP Reserve and £1.4m from FCO-managed programmes. The MOD, the FCO and DFID would each contribute £4m. Mr Browne asked Mr Timms to agree a further £4m from the Reserve.

**611.** A Treasury official advised Mr Timms that Treasury officials had facilitated that deal.<sup>380</sup> Negotiations had been difficult, with the MOD offering “considerable resistance” to the need to find its contribution from the core defence budget.

**612.** The official concluded that the deal was a good one for the Treasury, because:

- It had held the line that the cost of the Better Basra Plan should not be an automatic call on the Reserve.
- It had succeeded in getting departments to reprioritise their existing resources to fund the project.

**613.** Mr Timms replied to Mr Browne on 15 August, welcoming the successful conclusion of negotiations and agreeing to provide an additional £4m for the Plan from the Reserve.<sup>381</sup>

**614.** The Better Basra Plan also attracted US\$80m in US funding.<sup>382</sup>

**615.** Mr Dominic Asquith, British Ambassador to Iraq from 2006 to 2007, reflected on the UK’s funding mechanisms in his evidence to the Inquiry:

“I think in terms of being able to switch funds, or find extra funds that were required at short notice ... it wasn’t a particularly flexible or effective system. That came out rather visibly in 2006, when it was clear that we needed to put greater effort into building up the capabilities in Basra ... The calculation ... was somewhere in the region of £30 million, which ... was required to come out of our current resources ... which struck me at the time as being certainly a peculiar way of approaching what we were directed was a high priority, but we weren’t being given the extra resources, to deliver it.”<sup>383</sup>

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<sup>379</sup> Letter Browne to Timms, 10 August 2006, [untitled].

<sup>380</sup> [Minute Treasury \[junior official\] to Timms, 15 August 2006, ‘Better Basra Plan’](#).

<sup>381</sup> Letter Timms to Browne, 15 August 2006, ‘Better Basra’.

<sup>382</sup> Minute DFID [junior official] to Private Secretary [DFID], 6 October 2006, ‘Iraq: Future for DFID Programme from 2007’.

<sup>383</sup> Public hearing, 4 December 2009, pages 23-24.

## New funding mechanisms for civilian operations

**616.** A cross-government review of the UK's approach to post-conflict reconstruction began in summer 2003 (see Section 10.3). Following that review, the inter-departmental Post-Conflict Reconstruction Unit (PCRU) was established in September 2004. It became operational during 2005.

**617.** The remit of the PCRU was to facilitate integrated planning for the military and civilian components of an intervention, including by identifying resources from existing government budgets.<sup>384</sup>

**618.** From June 2006, departments and in particular the FCO sought to develop new mechanisms to fund civilian stabilisation operations.

**619.** Sir Michael Jay and senior FCO officials, the Chiefs of Staff, Dr Nemat Shafik, DFID Director General Programmes, and Mr Jim Drummond, DFID Director UN Conflict and Humanitarian Division, agreed on 6 June 2006 that officials should work up a joint FCO/MOD/DFID proposal on how to ensure a comprehensive approach to funding for “stabilisation/reconstruction campaigns”.<sup>385</sup> The FCO would lead that work.

**620.** During the meeting, officials agreed that as the Treasury would strongly oppose any bid to relax the rules on access to the Reserve, the focus of the proposal should probably be on increasing the size of the GCPP, for example by creating a new funding line for “quick impact development projects” in semi-permissive environments.

**621.** Air Chief Marshal Sir Jock Stirrup, Chief of the Defence Staff, suggested an allocation for that new line of £50m.

**622.** Sir Michael Jay commented that the Iraq and Afghanistan context might make the Treasury (and No.10) more receptive to a proposal.

**623.** Discussions continued between the FCO, the MOD, DFID and PCRU until mid-September, but did not produce a consensus on how any “QIP Fund” should be managed or delivered on the ground, or on the criteria that might be used to determine funding from it.<sup>386</sup> There was consensus that the £50m allocation proposed by ACM Stirrup at the 6 June meeting was too large, given the need and the difficulties of disbursing funds effectively.

**624.** The Inquiry has seen no indications that Treasury officials were aware of or engaged in those discussions.<sup>387</sup>

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<sup>384</sup> [Paper \[Cabinet Office\], 20 July 2004, 'DOP paper on the Post Conflict Reconstruction Unit'](#).

<sup>385</sup> Minute Powell to Pattison, 7 June 2006, 'PUS/COS Lunch, 6 June'.

<sup>386</sup> Paper FCO, 1 August 2006, 'Quick Impact Projects: Discussion Paper 01 August 2006'.

<sup>387</sup> Letter Link to Williams, 10 July 2006, 'Quick Impact Projects (QIP) – Iraq and Afghanistan'; Letter Laurence to Link, 19 July 2006, 'Quick Impact Projects – Iraq and Afghanistan'; Letter Teuten to Link, 21 July 2006, 'Quick Impact Projects (QIP) – Iraq and Afghanistan'; Minute Mosselsmans to Link, 21 July 2006, 'Quick Impact Projects'; Letter Pattison to Laurence, 18 September 2006, 'Quick Impact Projects (QIPs)'.

**625.** Mr Stephen Pattison, FCO Director International Security, wrote to Rear Admiral Tim Laurence, MOD Assistant Chief of the Defence Staff (Resources and Plans) on 18 September to provide a formal response to the tasking given at the 6 June meeting.<sup>388</sup>

**626.** Mr Pattison advised that for Afghanistan, departments had agreed to create a ring-fenced budget for QIPs within the GCPP Afghanistan Strategy, using existing funding from that strategy and an additional £3m from DFID.

**627.** In Iraq, UK commanders had been able to secure an “unusually generous” proportion of US CERPs funding since the 6 June meeting. The GCPP Iraq Strategy had also been boosted by additional funds from the GCPP Reserve and departments to support the Better Basra Plan. If additional funding for QIPs was required, departments had agreed to “follow the Afghanistan model”. That would mean seeking additional funding first through the GCPP Iraq Strategy and from the GCPP Reserve, before approaching the Treasury for additional funds.

**628.** Rear Admiral Laurence had earlier advised the FCO, in response to sight of a draft of Mr Pattison’s letter, that the first reaction of the Chiefs of Staff might be that departments had ducked a battle with the Treasury.<sup>389</sup>

**629.** Ministers agreed on 9 January 2007 that the UK needed a capability to intervene to prevent conflict and build capacity after conflicts.<sup>390</sup>

**630.** In response, on 15 February, the Cabinet Office produced a paper which considered how to improve the UK civilian contribution to conflict management and prevention.<sup>391</sup>

**631.** The Cabinet Office advised that funding “high priority and Ministerial endorsed policy objectives which cross the boundaries of existing responsibilities” had been a particular challenge. Funding for civilian activity in Iraq and Afghanistan, such as the Better Basra Plan:

“... had to be negotiated across a range of departments and budget holders, with time consuming turf battles, diverting effort that would have been better deployed on developing effective policies, and delaying delivering.”

**632.** Conflict prevention activities were currently resourced in an “ad-hoc fashion in and between departments”, with limited transparency. There was no mechanism to “generate the analysis to support a process of setting strategic priorities or to inform balance of

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<sup>388</sup> Letter Pattison to Laurence, 18 September 2006, ‘Quick Impact Projects (QIPs)’.

<sup>389</sup> Letter Laurence to Link, 10 August 2006, ‘Quick Impact Projects’.

<sup>390</sup> [Paper Cabinet Office, 15 February 2007, ‘Nation Building and Conflict Prevention: Improving UK Capabilities’.](#)

<sup>391</sup> [Paper Cabinet Office, 15 February 2007, ‘Nation Building and Conflict Prevention: Improving UK Capabilities’.](#)

investment decisions”. As a result, it was difficult to make decisions about the marginal utility of extra expenditure on one activity compared to another.

**633.** The Cabinet Office offered a number of recommendations to improve decision-making within Government and to increase civilian capability. On resources, the Cabinet Office recommended that the GCPP and the ACPP and possibly other funds which supported conflict prevention activities should be brought together and “managed as a single ‘budget’”.

**634.** The Inquiry has seen no indications that the paper was formally considered by Ministers or officials.

**635.** Mr Quinault provided advice to Mr Timms on 13 February 2007 on FCO and DFID bids to the Reserve in respect of Afghanistan.<sup>392</sup> In that context, Mr Quinault commented:

“... we [the Treasury] have managed to hold the line that in keeping with the traditional approach to these things, while MOD do get access to the Reserve ... the other departments have to reprioritise within their own budgets. Arguably this can lead to perverse outcomes on occasion if it incentivises decision-makers to prefer military responses to civilian ones. But it is a useful safety net for us [the Treasury] and not to be given up without careful thought.”

**636.** The “lines to take” attached to the briefing set out the Treasury’s response to the challenge that it was “perverse that MOD gets its operational costs paid ... from the Reserve whereas essential civilian measures have to be paid for from FCO and DFID budgets”:

- Arrangements on costs of military operations are of long standing and reflect the difficulty of planning for the large unplanned costs of operations;
- In any case [the] Reserve is spent, cannot consider more funding ...;
- That is, unless MOD agree clearly that what you [FCO and DFID] are proposing is sufficiently vital to rank above more troops in the pecking order?”

**637.** Mrs Margaret Beckett, the Foreign Secretary, wrote to Mr Timms on 1 March to present the FCO’s bid to the 2007 Spending Review.<sup>393</sup> She confirmed her interest in working with the Treasury to identify a better mechanism for funding civilian deployments in “hot” post-conflict situations such as Afghanistan and Iraq. She proposed that, ideally, bids to the Reserve should include both military and civilian costs. If that was not possible, she suggested establishing a “ring-fenced, multi-year contingency fund” from which the FCO could draw.

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<sup>392</sup> Minute Quinault to Chief Secretary, 13 February 2007, ‘DOP Meeting on Iraq and Afghanistan, 14 February’.

<sup>393</sup> Letter Beckett to Timms, 1 March 2007, ‘2007 Comprehensive Spending Review: FCO Submission’.

**638.** The Treasury told the Inquiry that it has no record of a response to Mrs Beckett on that point.<sup>394</sup>

**639.** Mr Pattison commented to FCO colleagues on 11 July that Mrs Beckett’s proposal “didn’t get past first base” with the Treasury.<sup>395</sup>

**640.** Mr Mark Lyall-Grant, FCO Political Director, advised Mr David Miliband, the new Foreign Secretary, on 9 July that he should try to secure the support of Mr Browne and Mr Douglas Alexander, the new Development Secretary, for a new funding mechanism to support the civilian elements of the UK’s comprehensive approach in Afghanistan and Iraq.<sup>396</sup>

**641.** Mr Lyall-Grant described the problem:

“There is no satisfactory Whitehall method to resource high priority, non-military work in conflict areas, in support of Ministerially-agreed policy objectives. Afghanistan and Iraq are cases in point. Ministers have long agreed that a comprehensive approach is required ... But there is no mechanism to fund in-year priorities for this. The MOD can call on the Reserve for additional military expenditure. HMT [the Treasury] tell other departments that their expenditure ... must be funded from re-prioritisation. At best this significantly slows down our ability to respond. In real terms it often means the non-military elements of the campaign are under-funded, with a direct impact on the length of time the military need to remain.”

**642.** Mr Lyall-Grant identified two main possible solutions: allowing bids to the Reserve to include both military and civilian costs; or establishing a ring-fenced, multi-year contingency fund from which DFID, the FCO and others could draw.

**643.** On 23 July, a Treasury official invited Mr Andy Burnham, the new Chief Secretary to the Treasury, to agree to establish:

- A single Conflict Pool, combining the GCPP and the ACPP. The Conflict Pool would be managed by DFID, with advice from the MOD and FCO. A single Pool would “drive a more consistent and coherent approach to conflict prevention and poverty reduction, and ... improve the management of the Pools overall”.
- A Stabilisation Fund, which would be “owned by the MOD but managed jointly with DFID and FCO”. Experience in Iraq and Afghanistan had highlighted the need for resources to be available for “immediate civilian support to military operations (QIPs, shorter-term development issues etc)”. Mrs Beckett (the previous Foreign Secretary) and military commanders had repeatedly

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<sup>394</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, ‘Further Queries Relating to Resources’.

<sup>395</sup> Email Pattison to Lyall-Grant, 11 July 2007, ‘Funding the Comprehensive Approach in Afghanistan and Iraq’.

<sup>396</sup> Minute Lyall-Grant to Foreign Secretary, 9 July 2007, ‘Funding a Comprehensive Approach in Iraq and Afghanistan’.

highlighted that need. Funding for such activities had typically been found from the GCPP, crowding out other planned spending. The allocation for the Stabilisation Fund would be £65m in 2008/09, £65m in 2009/10 and £115m in 2010/11. In total, £50m/£50m/£100m of that allocation would be ring-fenced within the MOD's 2007 Spending Review settlement. The balance (£15m in each year) would be transferred from the GCPP. Any unspent funds could be switched to core defence spending.<sup>397</sup>

**644.** The Treasury told the Inquiry that it had no record of a response to that advice.<sup>398</sup>

**645.** Mr Burnham wrote to Mr Browne the following day (24 July), to record the outcome of the 2007 Spending Review for the MOD.<sup>399</sup> Mr Burnham stated that the MOD's settlement included £50m in 2008/09, £50m in 2009/10 and £100m in 2010/11 for a "Reconstruction Fund". Mr Burnham described the Reconstruction Fund as "one step in a planned re-ordering of the way the Government handles planning and expenditure on the prevention and stabilisation of conflict".

**646.** Following a conversation between Mr Miliband and Mr Alexander, Mr Miliband's Private Secretary wrote to Mr Alexander's Private Secretary on 26 July setting out the challenges faced by the FCO in securing funding for its work in Iraq and Afghanistan, and expressing the hope that DFID and the FCO could work together to develop a mechanism which would more effectively support the comprehensive approach.<sup>400</sup> In the letter, which was not copied to any other department, Mr Miliband's Private Secretary rehearsed the arguments made in Mr Lyall-Grant's submission of 9 July.

**647.** DFID has told the Inquiry that it does not have any record of replying to that letter.<sup>401</sup>

**648.** Mr Burnham wrote to Mr Miliband in October, to record the outcome of the 2007 Spending Review as it affected the Conflict Prevention Pools.<sup>402</sup> Mr Burnham stated that the Review provided a "healthy increase" in the funds available for conflict prevention and stabilisation, and set out key reforms in the way that conflict issues were handled within Government:

- From 2008/09, the GCPP and ACPP would be merged into a single Conflict Prevention Pool.

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<sup>397</sup> [Minute Treasury \[junior official\] to Chief Secretary, 23 July 2007, 'CSR2007 – Conflict Prevention and Post-Conflict Stabilisation'](#).

<sup>398</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, 'Further Queries Relating to Resources'.

<sup>399</sup> Letter Burnham to Browne, 24 July 2007, 'Comprehensive Spending Review 2007: Ministry of Defence Settlement'.

<sup>400</sup> Letter FCO [junior official] to DFID [junior official], 26 July 2007, 'Funding a Comprehensive Approach in Iraq and Afghanistan'.

<sup>401</sup> Email DFID [junior official] to Iraq Inquiry [junior official], 8 April 2013, 'Inquiry Query'.

<sup>402</sup> Letter Burnham to Miliband, October 2007, 'Comprehensive Spending Review 2007: Settlement for the Conflict Prevention Pools and Stabilisation Aid Fund'.

- A new Stabilisation Aid Fund (SAF) would be established to “take on” funding for stabilisation and reconstruction activity in “hot’ conflict zones” from the Conflict Prevention Pool.
- New governance and programme management arrangements for the Conflict Prevention Pool and the SAF would be introduced to ensure that activity was based on a common strategy, and that expenditure was prioritised effectively against that strategy.

**649.** In December, the PCRU was renamed the Stabilisation Unit (SU), reflecting the emergence of the broader concept of stabilisation and the Unit’s new role managing the SAF.<sup>403</sup>

## Reflections on the allocation of funding

**650.** The table below shows the departmental settlements for the MOD, the FCO and DFID from 2002/03 to 2009/10 (under the 2002, 2004 and 2007 Comprehensive Spending Reviews).<sup>404</sup>

Table 10: Departmental settlements, 2002/03 to 2009/10 (£bn)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>MOD</b>	28.0	29.0	29.2	29.9	30.2	30.2	30.8	31.1
<b>FCO</b>	1.5	1.5	1.6	1.7	1.7	1.6	1.6	1.6
<b>DFID</b>	3.9	4.0	4.0	4.9	5.3	5.5	5.7	6.6

**651.** The Inquiry describes earlier in this Section how the MOD reclaimed the net additional costs of military operations (NACMO) from the Reserve under an established procedure.

**652.** All other departments sought to cover additional costs by reprioritising within their existing budgets and, if and when that proved insufficient, bidding to the Treasury to secure additional funding from the Reserve.

## Differences in funding military operations and civilian activities

**653.** In his evidence to the Inquiry, Sir Mark Lyall-Grant described the different levels of funding available to departments:

“... you have the MOD which can call on the Reserve for unforeseen military expenditure. You have DFID, who have a large amount of programme money, but

<sup>403</sup> [Paper Stabilisation Unit, December 2007, ‘Stabilisation Unit’.](#)

<sup>404</sup> Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, ‘Further Queries Relating to Resources’. Figures are near cash settlements, in real terms (2008/09 prices). Figures may differ from Comprehensive Spending Review settlement letters due to budget exchange, inter-departmental transfers and other factors.

can only spend it in certain ways constrained by the ODA Act [sic], and you have the Foreign Office that doesn't have any money."<sup>405</sup>

**654.** Sir Nicholas Macpherson, Director General in charge of Public Expenditure from 2001 to 2005 and then Permanent Secretary at the Treasury, told the Inquiry that, in time of conflict, it was not the role of the Treasury to try to limit military spending:

"... the Treasury may have a view on some areas of spending, but on the whole, when a war is in prospect, the narrow Treasury view that public spending is a bad thing tends to be put to one side ... and you start signing the cheques."<sup>406</sup>

**655.** Lord Boateng, the Chief Secretary to the Treasury from May 2002 to May 2005, told the Inquiry that there was a distinction between the way the Treasury responded to military and non-military situations.<sup>407</sup> While the military did not have a "blank cheque":

"... when you have established that you need it, you are going to get [it] ... Because, at the end of the day, the lives of Servicemen and women and the security of the state would be at risk if you got other people in the Treasury second-guessing and doing what we do normally, which is actually to ensure that, first and foremost, the public purse is protected."

**656.** The Inquiry asked Lord Boateng what the rationale had been for the allocation of funding between departments (non-military expenditure had been approximately one-eighth of military expenditure). Lord Boateng told the Inquiry that:

"... this balance arose partly as a result of the funding mechanism deployed, in the sense that the Ministry of Defence had an access to the Reserve that was on a different scale from the others [DFID and FCO].

"... did anyone sit down and say, 'Well, this is the sum of money that we have, this ought to be the balance?' No, I don't think they did. Should they have done? Maybe, but actually it is ... very difficult to do.

"Is the way in which we fund post-conflict reconstruction work optimal? Then, no, I don't think it was. Did this mean that our effectiveness suffered? No, I don't believe it did, but I do believe that it led to considerable pressure on one of the two other departments, namely, the FCO, who are in a different position ... from DFID because their resource base was so very different."<sup>408</sup>

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<sup>405</sup> Public hearing, 20 January 2010, page 35.

<sup>406</sup> Public hearing, 22 January 2010, page 3.

<sup>407</sup> Public hearing, 14 July 2010, pages 25 to 27.

<sup>408</sup> Public hearing, 14 July 2010, page 41.

**657.** Lord Boateng highlighted the need for the UK Government to examine how it funded the MOD, DFID and the FCO to work together in post-conflict situations:

“... at the moment, we have a very, very dangerous imbalance, an imbalance made all the more difficult by the requirements of law in relation to DFID, that makes it very, very difficult to pool resources ...”<sup>409</sup>

**658.** Mr John Dodds, Head of the Treasury Defence, Diplomacy and Intelligence Team, told the Inquiry that, in his personal view, there was a “tension” between the way that military and non-military activities were funded, and that there was the potential for some “sub-optimal” decisions:

“... the cost of a military solution to a conflict problem ... was probably about ten times the cost of a non-military solution ...

“I think that ... potentially the funding mechanisms that we had ... tended to create incentives for more military intervention and less non-military intervention, but I don’t think that’s an issue ... which is really relevant to Iraq. I think it is ... a piece of broader reflection ...”<sup>410</sup>

**659.** In his evidence to the Inquiry, Sir Mark Lyall-Grant suggested that there could be different approaches to allocating funding, such that:

“... you wouldn’t take decisions on the basis of how much you could afford, but Ministers would sit round the table, take the decisions that they think are the right decisions to take in a strategic environment, and then the funding would follow from that.

“What happens at the moment is that the Ministers take the decisions, then the departments get together [to consider] ‘How are we going to fund it?’, and end up by saying ‘Well, actually, we can’t fund it’.”<sup>411</sup>

## Funding civilian activities

**660.** During his farewell call on Mr Straw in mid-February 2004, Sir Hilary Synnott, the departing Head of CPA(South), made a number of criticisms of the FCO’s support for his office (see Section 10.1).

**661.** Mr Buck addressed those criticisms in a minute to Sir Michael Jay of 16 February.<sup>412</sup> He argued that the FCO had learned several lessons, including on funding civilian post-conflict operations. A “genuinely flexible” budget allocation similar to that provided for military operations would have saved the “huge amounts of time and energy required to wrangle over funding”, and helped to “prevent the Treasury from

<sup>409</sup> Public hearing, 14 July 2010, page 62.

<sup>410</sup> Public hearing, 14 July 2010, pages 27-31.

<sup>411</sup> Public hearing, 22 January 2010, page 37.

<sup>412</sup> [Minute Buck to FCO \[junior official\], 16 February 2004, ‘FCO Response to Iraq’.](#)

playing one Government department off against another". The Ad Hoc Ministerial Group could have been controlled the budget.

**662.** Mr Neil Crompton, the Head of IPU, reflected on the availability of funding in his May 2005 valedictory minute to Mr John Sawers:

"HMG (and the FCO) took a long time to wake up to the scale of the task we had taken on. Demands from No.10 and Ministers for action have always exceeded the resources available. The Treasury have played hard ball, exploiting different departments' own internal reasons for not wanting to make claims on the Reserve to kill off initiatives. No.10's unwillingness to intervene with HMT [the Treasury], except once, has compounded the problem, and undermined the morale of officials tasked with running an 'exemplary operation' without the resources to do so.

"It is naive to expect the Treasury to behave differently. But Ministers (and the FCO) need to recognise that in a conflict we cannot afford the luxury of ensuring expenditure is subject 'to the same rigorous criteria as anywhere else', as we have occasionally been told."<sup>413</sup>

**663.** Mr Crompton recommended that, in future, the Ad Hoc Ministerial Group or equivalent should be allocated a budget to fund immediate priorities not covered by departments' core budgets or by funds such as the GCPP. That would avoid the need for "extended negotiations" with the Treasury.

**664.** In his response to Mr Crompton, Mr Sawers, FCO Political Director, agreed that the FCO needed to give a much higher priority to an issue when it "prevails over all others", in terms of both money and people.<sup>414</sup> The FCO had done that in the pre-conflict phase, but it had been less apparent in the post-conflict phase.

**665.** A June 2005 FCO Conflict Issues Group paper drawing together post-conflict lessons for the FCO concluded:

"We need to make it clear to other government departments the true cost of what they are asking us to achieve. We can spend too much time trying to secure extra resources and fail to secure them in a timely manner. Policy without resources is usually futile. All OGDs [other government departments] need to be required to allocate resources to tasks which the Cabinet rules to be important."<sup>415</sup>

**666.** An FCO review of lessons to be learned from the UK's experience in Basra, produced in late 2008, concluded:

"... The FCO was constantly scrambling after resources. **Risk management should ensure that realistic estimates of resources are made at an early stage,**

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<sup>413</sup> [Minute Crompton to Sawers, 4 May 2005, 'Iraq: Reflections'](#).

<sup>414</sup> [Minute Sawers to Crompton, 9 May 2005, 'Iraq: Reflections'](#).

<sup>415</sup> Paper FCO CIG, June 2005, 'Post Conflict Lessons Learned Exercise'.

**including worst case scenarios; Ministers should clearly understand the need to identify and secure those resources** before the UK takes on a similar commitment in future.”<sup>416</sup>

**667.** FCO officials complained of a mismatch between the Government’s expectations and the resources available to the FCO to meet them. While the MOD had funds for QIPs and DFID for longer-term strategic programmes, the FCO was “somehow expected” to take on elements of both “with neither the resources nor the means”. The Foreign Affairs Committee had commented on more than one occasion that it was necessary and appropriate that costs incurred by the FCO in Iraq (and Afghanistan) that were additional to its mainstream diplomatic and consular roles should be funded from the Reserve. The review commented: “It is not clear whether the FCO itself formulated and presented a sufficiently strong case for extra funding to support additional work in the field.”

**668.** On 25 March 2009, Mr Miliband chaired a meeting with “former and current key decision-makers on Iraq” to consider that review and identify the lessons for the FCO from Iraq.<sup>417</sup>

**669.** The meeting concluded that the civilian operation in Iraq had been slow to get started, and had been:

“... hampered in the UK by a shortage of resources – particularly in comparison with the military effort – and an inability to extract what meagre resources were available from HMT [the Treasury] ...”

**670.** Lord Jay, FCO Permanent Under Secretary from 2002 to 2006, described his experience of securing funds for operations in Iraq, and the lessons he had drawn from it, in his evidence to the Inquiry:

“I never felt I had sufficient resources to do anything I was doing in the Foreign Office ... You are constantly – it was a constant battle throughout the five years I was there of allocating scarce resources to the priorities that mattered and, over the years we were dealing with Iraq, we were constantly spending more money and more resources on Iraq. Some of those we were getting – we got extra provision from the Treasury, often it was a question of reprioritising the resources within the Foreign Office.

“At the worst, that meant closing posts in parts of the world which were less important in order that we could put people into Baghdad, Basra, Kabul and other places which were of growing importance.”<sup>418</sup>

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<sup>416</sup> Paper FCO, [undated], ‘Reflections on Basra and the Lessons to be Learned from the FCO’s Experience in Iraq’.

<sup>417</sup> Minute FCO [junior official] to PO [Miliband], 25 March 2009, ‘Iraq Retrospective’.

<sup>418</sup> Public hearing, 30 June 2010, page 6.

**671.** Lord Jay also told the Inquiry:

“... when there is a crisis of the same magnitude as Iraq, which affects a number of different departments, then the Treasury needs to look, not at the budgets of individual departments, but at the overall need and to ensure that each department concerned in the operation gets the funds that it needs to carry it out ... But it doesn’t seem to me at all sensible to be thinking of giving large sums of money for a military operation, if you are not giving similar sums of money for the diplomatic support that that military operation needs, and those need to be looked at together, and I don’t think they were, and I think they should be in the future.”<sup>419</sup>

**672.** Mr Dodds told the Inquiry that bids from the FCO were assessed with the same rigour as bids from other departments:

“... our starting position was that we would want the Foreign Office to ... look for the potential to reprioritise ... I think our perspective would be that that wasn’t ... their first response to this sort of situation. I think there was an expectation on the part of the Foreign Office that ... the Reserve should provide them with new money ...

“But ... the Foreign Office had a ... significant budget ... and a significant global footprint and I think it wasn’t unreasonable to be looking to the Foreign Office ... at least on a temporary basis, to move some resources ... to support the activity on this high priority [Iraq].

...

“Generally speaking, they were able to successfully reprioritise, but ... their first reaction was to look for resources from the Reserve, but it was only after they were ... pushed back that they ... then were successful in reprioritising.”<sup>420</sup>

**673.** Sir Suma Chakrabarti told the Inquiry that Iraq was DFID’s largest bilateral programme in 2003/04 (when DFID spent £209m, of which £110m was spent on humanitarian relief and £99m on development activities), and DFID’s 10th largest bilateral programme in 2004/05 (when DFID spent £49m, of which £21m was spent on humanitarian relief and £28m on development activities).<sup>421</sup>

**674.** The Inquiry asked Sir Suma whether DFID had considered seeking additional funding from the Treasury for Iraq.<sup>422</sup> He told the Inquiry:

“We had discussions [with] the Treasury but it was quite obvious to us that they weren’t going to give any more than they already had ... They had put some money in upfront [in March 2003, for humanitarian assistance], but, after that, they said it is time to reprioritise.”

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<sup>419</sup> Public hearing, 30 June 2010, page 54.

<sup>420</sup> Public hearing, 14 July 2010, pages 33-36.

<sup>421</sup> Public hearing, 22 January 2010, page 38.

<sup>422</sup> Public hearing, 22 January 2010, pages 38-40.

**675.** Sir Suma also told the Inquiry that Ministers had considered reallocating funding to Iraq from low-income countries, but had decided that that would not be consistent with DFID’s mission to maximise its impact on poverty. Ministers had instead decided to reallocate funding to Iraq from DFID programmes in other middle-income countries:

“... that meant closing some programmes ... in Eastern Europe, Central Europe, and also Latin America ... in order to help finance the Iraq programme.”

**676.** The Inquiry describes earlier in this Section the creation of the Global Conflict Prevention Pool (GCPP) in order to promote a more joined-up approach to funding peacekeeping and peace enforcement operations and conflict prevention programmes.

**677.** Sir Mark Lyall-Grant told the Inquiry that while he agreed that the principle behind the GCPP was a good one, decisions about how to spend relatively small sums of money had led to “huge disputes between Government departments”, which had consumed significant amounts of senior officials’ time.<sup>423</sup> He concluded that Pools (the GCPP and the ACP) had “essentially collapsed” under the pressure of rising costs, and had been “a failed experiment”.

**678.** Sir Peter Ricketts, FCO Permanent Under Secretary from 2006 to 2010, told the Inquiry:

“I wouldn’t have said that they are a failed experiment, but they are certainly under real stress because of rising costs, particularly of assessed contributions to the UN and other international organisations ... That has required some difficult prioritisation decisions ... But I think the Pools have been useful in bringing the three departments together and forcing us to make choices about what our top priorities are ...”<sup>424</sup>

## Scrutiny of UK expenditure in relation to Iraq

**679.** This section describes the Government’s mechanisms for scrutinising UK expenditure, and how those mechanisms were engaged in relation to Iraq. The Inquiry has not conducted its own audit of any element of UK expenditure in relation to Iraq.

**680.** A number of bodies contribute to the scrutiny of government expenditure, including:

- The Public Accounts Committee (PAC). The main work of the PAC is the examination of the reports produced by the National Audit Office (NAO). The Committee typically examines 50 value for money reports each year, as well as reports on some departments’ resource accounts.
- Departmental select committees. The core tasks of the select committees include examining and reporting on estimates, annual expenditure plans and accounts, and monitoring performance against targets in the Public Service Agreements.

<sup>423</sup> Public hearing, 20 January 2010, pages 36-37.

<sup>424</sup> Public hearing, 2 February 2010, pages 21-22.

- The NAO. The NAO audits the accounts of all government departments and agencies, and many other public bodies. The NAO also produces around 60 value for money studies each year on the economy, efficiency and effectiveness of public expenditure.
- Departments' own internal audit units.<sup>425</sup>

**681.** The estimates cycle is the process by which Parliament approves departments' resources and cash provision for the year. Departments submit Supply Estimates which set out how they plan to spend their funding and seek approval from Parliament for the necessary funds.

**682.** Because of the unpredictable nature of military operations, the MOD does not provide an estimate of NACMO to Parliament at the beginning of each financial year, as part of its Main Estimates.<sup>426</sup> Between 2002/03 and 2005/06, the MOD sought Parliament's approval for NACMO expenditure in February (towards the end of the financial year) as part of the Spring Supplementary Estimates.

**683.** The MOD Estimates are reported on by the House of Commons Defence Committee (HCDC).

**684.** In its report on the MOD's 2005/06 Spring Supplementary Estimates, the HCDC called for the MOD to provide estimated NACMO for "commenced operations" as part of its Main Estimates, if necessary with a large element for contingency.<sup>427</sup> The HCDC stated that, for the MOD:

"... Parliamentary approval seems to be regarded as a rubber stamp. For this, Parliament must take some of the blame: for too long we have allowed Parliamentary approval of the Estimates to be taken for granted. **MOD must recognise that the agreement of the Treasury is not a substitute for Parliamentary approval, and that providing information to the Treasury is not enough.**"

**685.** From 2006/07, in response to that criticism, the MOD presented initial estimated NACMO to Parliament in November as part of its Winter Supplementary Estimates, before seeking formal approval of expenditure as part of the Spring Supplementary Estimates the following February.<sup>428</sup>

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<sup>425</sup> Committee Office Scrutiny Unit, March 2007, *Financial Scrutiny Uncovered*.

<sup>426</sup> Tenth Report from the Defence Committee, Session 2006-2007, *Cost of military operations: Spring Supplementary Estimate 2006-07*, HC 379.

<sup>427</sup> Fourth Report from the Defence Committee, Session 2005-2006, *Cost of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005-06*, HC 980.

<sup>428</sup> Tenth Report from the Defence Committee, Session 2006-2007, *Cost of military operations: Spring Supplementary Estimate 2006-07*, HC 379.

**686.** The HCDC welcomed the MOD's decision to provide earlier estimates of NACMO, but maintained its view that the MOD should include the cost of commenced operations in its Main Estimates at the beginning of the financial year.

**687.** The Inquiry is aware of two interventions by the PAC/NAO in relation to expenditure in Iraq.

**688.** The FCO's Financial Compliance Unit (FCU) visited Baghdad in April/May 2005 to review the Embassy's financial controls.<sup>429</sup> The FCU found no evidence of fraud, but did identify write-offs totalling approximately £13,000 relating to mobile phone bills, where either the phone had been lost and subsequently used or the individual user could not now be identified. In addition, Iraqi staff had incurred charges totalling more than £24,000 on personal calls from mobile phones. The FCU concluded that was unlikely to be recoverable, and should be paid for by the Embassy.

**689.** The FCO's phone service provider alerted the FCO at the end of June 2005 that they had concerns over the level of activity logged against one FCO satellite phone.<sup>430</sup> As a precaution, the service provider had barred the phone on 24 June. The FCO switched off all its active satellite phones in Iraq on 15 July, and terminated the associated line rental agreements.

**690.** Sir Michael Jay reported to the PAC on 15 February 2006 that the FCU was investigating a loss of £594,000 as a result of two satellite phones being stolen or misappropriated.<sup>431</sup> Sir Michael outlined some of the weaknesses in FCO systems that had already been identified, highlighting the failure of officials in London to challenge the bills which they received, and some of the improvements which had already been made.

**691.** At the request of the PAC, the NAO reported to it in July 2006 on the outcome of the FCU's investigation (in the context of the NAO's report on the FCO's 2005/06 Resource Accounts).<sup>432</sup> The FCU had found that the IPU had ordered 10 satellite phones in September 2003 for use in Iraq. The phones had been made ready for use before being dispatched. Weaknesses in the controls over the physical location, storage, billing and payment for the phones had led to the loss of two of the phones (together with another that had been rented previously) remaining undetected until June 2005. Despite extensive enquiries the FCU had not been able to establish who was responsible for the theft and subsequent misuse of the phones. The FCU had calculated the full extent of the loss at £594,370; the bill for one phone for June 2005 had been over £212,000.

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<sup>429</sup> Minute Major to Chaplin, 5 May 2005, 'Financial Compliance Unit (FCU) Visit to Baghdad: 19 April – 5 May'.

<sup>430</sup> Comptroller and Auditor General, *Theft and Misuse of Satellite Phones in Iraq*, 18 July 2006.

<sup>431</sup> Public Accounts Committee, Session 2005-2006, *Foreign and Commonwealth Office Resource Accounts 2004-05*, 15 February 2006. Uncorrected transcript of Oral Evidence given by Sir Michael Jay KCMG, Mr Dickie Stagg CMG and Mr Ric Todd.

<sup>432</sup> Comptroller and Auditor General, *Theft and misuse of satellite phones in Iraq*, 18 July 2006.

**692.** The FCU's investigation had highlighted numerous failures in the FCO's internal control system, which had allowed the theft of the phones and their subsequent misuse to continue undetected for a period of some 18 months. The FCU had identified, and agreed with the NAO, actions to reduce the risk of another similar incident.

**693.** The NAO visited the DFID Iraq team in London in May 2007, to undertake a review of internal financial control procedures as part of its audit of DFID's 2006/07 Resource Accounts.<sup>433</sup> The NAO team was unable to visit Iraq due to the security situation.

**694.** The NAO concluded that, overall, DFID was operating good controls over transactions through the local (Iraqi) imprest and bank account, and that budgetary control, asset management and corporate governance controls were operating effectively. Projects had been properly approved, and there was evidence that project outputs and outcomes were being monitored.

**695.** Mr Martin Dinham, DFID Director Europe, Middle East and Americas, told the Inquiry:

“... a National Audit Office investigation ... said that the systems that we had in place were sensible, suitable, that all the various safeguards that they would have liked to have seen were there. So we got – remarkable in the circumstances – we got a very clean bill of health from the NAO, which ... is completely independent of the system.”<sup>434</sup>

**696.** The Inquiry is also aware of one major fraud perpetrated against a DFID programme.

**697.** DFID's Southern Iraq Employment and Services Programme (SIESP) was approved in July 2004, providing £10m for infrastructure services and £6m for employment generation.<sup>435</sup> A total of £0.5m was allocated for programme administration.

**698.** In May 2005, the DFID Office in Basra closed the employment generation component of the SIESP after an assessment identified “worrying issues”. The Office asked DFID's Internal Audit Department (IAD) to visit Basra to review the SIESP and identify lessons for other programmes.

**699.** The IAD identified several flaws in the design of the component. It concluded that:

- A “key driver” of the SIESP had been “political (and consequent senior management) pressure in Whitehall and beyond to achieve visible results ... In retrospect, these pressures appear unreasonable but at the time were generally irresistible.” Warnings against proceeding with a programme of “such high fiduciary risk and intangible benefit” had not been heeded.

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<sup>433</sup> National Audit Office, *2006/07 Audit Visit – DFID Iraq*.

<sup>434</sup> Public hearing, 17 December 2009, page 109.

<sup>435</sup> [Report DFID Internal Audit Department, 11 August 2005, 'Visit Report: Basra, Iraq 26<sup>th</sup> – 31<sup>st</sup> July 2005'](#).

- Implementation had been undermined by the lack of physical monitoring due to the security situation.
- Weaknesses in the DFID Office in Basra had contributed to the problems within the SIESP. The Office had been set up “hastily under pressure from UK and locally to show a DFID presence”. It had proved very difficult to recruit staff for Iraq, leading to the appointment of staff with “little or no experience in managing programmes or staff”.
- The DFID Office in Basra had established “good controls” over SIESP finances. The Office’s decision to close the employment generation component immediately after its initial assessment had saved £3m (the amount remaining in the employment generation budget).

**700.** Of the £3m that had been spent, the IAD estimated that over £2m had been spent in a way “that did not meet [the SIESP’s] objectives”. The lack of physical monitoring made it difficult to be more precise.

**701.** In May 2006, DFID conducted an internal review in order to determine the extent of the loss from the SIESP employment component.<sup>436</sup> The review concluded that:

- £254,105 had been spent on projects where there was clear evidence of full or partial misuse of money, based on monitoring by DFID staff.
- £296,187 had been spent on projects where there was “**no clear evidence of either good use or misuse of money** (because there was no monitoring information on file) but where anecdotal evidence from interviews suggested that some percentage of the projects were not successfully completed”.
- £1,021,223 had been spent on projects which DFID was “reasonably confident” had been successfully completed, based on information on file (in the form of photographs or visit reports) or anecdotal evidence.

**702.** Dr Nemat Shafik, DFID Permanent Secretary from March 2008, told the Inquiry:

“We have a zero tolerance policy on corruption and we act on it immediately. The then Provincial Council was very unhappy with us as a result... But on that, we don’t compromise.

“[The SIESP] is ... the only case that we are aware of, where we had a significant fraud, which, given the scale of the funds that we were disbursing, and given the context, is, I think, a pretty good track record.

“In the case of the Iraq portfolio ... we actually had a higher level of scrutiny than our normal portfolio because of the risks involved. So we would get monthly reporting on risks, security risk, staff risk, risks to our money ...”<sup>437</sup>

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<sup>436</sup> Minute Hendrie to Dinham, 19 May 2006, ‘SIESP Employment Generation Project’.

<sup>437</sup> Public hearing, 13 January 2010, page 54.

**703.** The fraud is described in more detail in Section 10.2.

### **US oversight of expenditure on reconstruction**

In contrast to the UK Government, the US Government established new bodies to oversee US expenditure on reconstruction in Iraq.

When the US Congress appropriated £18.4bn for Iraq relief and reconstruction in November 2003, it also passed legislation to create a specialised Inspector General – the Inspector General of the Coalition Provisional Authority (CPA-IG) – to provide accountability for the use of those funds.<sup>438</sup>

The CPA-IG was re-designated as the Special Inspector General for Iraq Reconstruction (SIGIR), with a modified mandate, in October 2004.<sup>439</sup> SIGIR's mandate was, with respect to US relief and reconstruction plans, programmes, and operations in Iraq, to provide independent and objective:

- oversight and review through comprehensive audits, inspections and investigations;
- advice and recommendations on policies to promote economy, efficiency and effectiveness;
- prevention, detection and deterrence of fraud, waste and abuse; and
- information and analysis to Congress, the US Secretary of State, the US Secretary of Defense and the American people.<sup>440</sup>

SIGIR's jurisdiction extended to the Iraq Relief and Reconstruction Fund (IRRF), the Iraq Security Forces Fund, and the Commanders' Emergency Response Program (CERPs), and assistance for the reconstruction of Iraq under the Economic Support Fund, the International Narcotics Control and Law Enforcement account or any other provision of law.

SIGIR published its final report in March 2013.<sup>441</sup> It recorded that:

- SIGIR had undertaken 220 audits and 170 inspections, which had led to 82 convictions and over US\$191m in financial penalties.
- Those audits had questioned US\$641m in costs and identified an additional US\$974m in funds which could be put to better use – a combined potential financial benefit of US\$1.61bn. As at September 2012, the savings to the US Government from renegotiated contracts, refunds and operational savings resulting from SIGIR's work were US\$645m.
- At its peak in 2008, SIGIR had 35 auditors permanently stationed in Baghdad.
- SIGIR's budget was on average US\$25m a year over its lifetime.

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<sup>438</sup> Public Law 108-106, Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004.

<sup>439</sup> Special Inspector General for Iraq Reconstruction website, *About SIGIR*.

<sup>440</sup> Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semiannual Report to the US Congress*, 30 July 2009.

<sup>441</sup> Special Inspector General for Iraq Reconstruction, *Learning from Iraq*, March 2013.

The report also recorded that SIGIR had developed innovative oversight practices:

- a focus on producing rapid “performance reviews” rather than slow-moving financial audits; and
- a focus on converting findings from audits and investigations into lessons for colleagues on the ground, consolidated in nine “lessons learned” reports.

The report offered a number of lessons for future stabilisation and reconstruction operations, including the need to provide a “robust in-country team of auditors, inspectors, and investigators from the operation’s outset”. Such a team would detect or deter fraud, waste and abuse, improving mission efficiency and effectiveness. The absence of a strong team early in the Iraq operation had allowed too much fraud, waste and abuse to occur.

SIGIR convened the Iraq Inspectors General Council in March 2004, to enhance collaboration and co-operation among the inspectors general of the agencies that oversaw Iraq reconstruction funds.<sup>442</sup> The Council met quarterly to exchange details about current and planned audits, identify opportunities for collaboration and minimise redundancies. Council members included: CENTCOM Inspector General; Department of Defense Office of Inspector General; Department of State Office of Inspector General; Government Accountability Office; USAID Office of Inspector General; and the US Army Audit Agency.

## Analyses of expenditure

### Total direct cost (by financial year)

**704.** The direct cost of the UK’s intervention in Iraq was at least £9.2bn between the UK financial years 2002/03 and 2009/10. The table below provides a detailed breakdown by financial year.

**705.** That figure does not include expenditure by departments other than the MOD, the FCO, and DFID. Although other departments made important contributions to the UK effort, in particular in the post-conflict period, their expenditure was relatively small.

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<sup>442</sup> Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semiannual Report to the US Congress*, 30 July 2009.

Table 11: UK expenditure in Iraq, 2002/03 to 2009/10 (£m)

	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	Total
<b>Military operations<sup>443</sup></b>									
NACMO (inc. UORs)	847	1,311	940	963	959	1,458	1,381	342	8,201
<b>Humanitarian and development assistance<sup>444</sup></b>									
Humanitarian assistance	19	110	21	5	10	20	16	8	209
Development assistance		99	27	82	39	20	17	13	297
Imputed share of multilateral aid		11	11	6	14	9	14	8	73
<b>Sub-total</b>	<b>19</b>	<b>220</b>	<b>59</b>	<b>93</b>	<b>63</b>	<b>49</b>	<b>47</b>	<b>29</b>	<b>579</b>
<b>Diplomatic representation and support for the CPA<sup>445</sup></b>									
Diplomatic representation		10	45	64	60	38	20	30	267
Support for the CPA <sup>446</sup>		29							29
<b>Sub-total</b>	<b>0</b>	<b>39</b>	<b>45</b>	<b>64</b>	<b>60</b>	<b>38</b>	<b>20</b>	<b>30</b>	<b>296</b>
<b>Interdepartmental Conflict Pools and peacekeeping<sup>447</sup></b>									
GCPP		5	16	15	20	16			72
Stabilisation Aid Fund							19		19
Conflict Pool								11	11
Peacekeeping			11	17	15	6	7	1	57
<b>Sub-total</b>		<b>5</b>	<b>27</b>	<b>32</b>	<b>35</b>	<b>22</b>	<b>26</b>	<b>12</b>	<b>159</b>
<b>Total</b>	<b>866</b>	<b>1,575</b>	<b>1,041</b>	<b>1,147</b>	<b>1,114</b>	<b>1,567</b>	<b>1,474</b>	<b>413</b>	<b>9,235</b>
<b>Debt relief<sup>448</sup></b>									
Debt relief <sup>448</sup>			337	337			280		954
<b>Total inc. debt relief</b>	<b>866</b>	<b>1,575</b>	<b>1,378</b>	<b>1,484</b>	<b>1,114</b>	<b>1,567</b>	<b>1,754</b>	<b>413</b>	<b>10,189</b>

<sup>443</sup> Statement Macpherson, 15 January 2010; Letter Cabinet Office [junior official] to Aldred, 1 July 2011, 'Iraq Inquiry: Request for Further Information on Funding'; Letter Cabinet Office [junior official] to Aldred, 13 September 2011, 'Iraq Inquiry: Request for Further Information on Funding'.

<sup>444</sup> Letter Cabinet Office [junior official] to Aldred, 1 July 2011, 'Iraq Inquiry: Request for Further Information on Funding'.

<sup>445</sup> Letter Cabinet Office [junior official] to Iraq Inquiry [junior official], 1 December 2011, 'Iraq Inquiry: Funding'.

<sup>446</sup> The FCO received £29.2m from the Reserve in 2003/04 to provide security, hardened accommodation and life support to UK secondees to the Coalition Provisional Authority (CPA). DFID provided an additional £28m to support secondees to the CPA (that amount is included in the figures for development assistance).

<sup>447</sup> Letter Cabinet Office [junior official] to Iraq Inquiry [junior official], 1 December 2011, 'Iraq Inquiry: Funding'.

<sup>448</sup> Letter Cabinet Office [junior official] to Aldred, 13 September 2011, 'Iraq Inquiry: Request for Further Information on Funding'.

## Cost of accommodation, security, medical services and life support

**706.** From 1 July 2004, responsibility for providing accommodation, security, medical services and life support (defined by the FCO as catering, laundry and cleaning) was provided by the FCO and charged to other departments and agencies under a Service Level Agreement (SLA).<sup>449</sup> Charges were based on the number of personnel each department and agency had in Iraq. The table below shows expenditure under the SLA.<sup>450</sup>

Table 12: Cost of accommodation, security, medical services and life support (£000s)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
British Council	1,107	547	472	458	426	299
DFID	24,083	20,680	10,368	5,538	5,580	3,013
FCO	27,102	31,734	30,186	21,671	22,605	17,857
MOD	6,128	9,799	6,716	7,080	5,542	4,628
UKBA						183
UKVisas	110	328	330	433	306	
GCPP	1,773	5,909	12,766			
<b>Total</b>	<b>60,307</b>	<b>69,001</b>	<b>60,841</b>	<b>35,182</b>	<b>34,461</b>	<b>25,981</b>

**707.** Of the £296m spent by the FCO on diplomatic representation in Iraq and support for UK secondees to the CPA, £192m (65 percent) was spent on security.<sup>451</sup> The table below shows FCO expenditure on security by financial year.

Table 13: FCO expenditure on security 2002/03 to 2008/09 (£m)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Diplomatic representation/ support for the CPA	39	45	64	60	38	20	30	<b>296</b>
<i>(of which security)</i>	28	36	48	22	23	18	17	<b>192</b>

<sup>449</sup> Paper DFID, 21 December 2011, 'A note on DFID Iraq programme admin spend for the Iraq Inquiry'.

<sup>450</sup> Email FCO [junior official] to Iraq Inquiry [junior official], 23 May 2013, 'Iraq – breakdown of charges to depts. under Service Level Agreement'.

<sup>451</sup> Paper FCO, 11 November 2011, 'FCO Funding for Iraq 2002 – 2010'; Letter Cabinet Office [junior official] to Iraq Inquiry [junior official], 1 December 2011, 'Iraq Inquiry – Funding'.

**708.** The Inquiry asked Lord Jay, FCO Permanent Under Secretary from 2002 to 2006, how he and the FCO Board reached a view of the balance between the value of the activities and the cost of achieving them.<sup>452</sup> Lord Jay told the Inquiry:

“... there are always judgments that you have to make as to whether people are secure and how much you spend on that, but my judgment is that ... if we had felt on the [FCO] Board in London that we were not able to afford the security for people, then we shouldn't have people on the ground.”

**709.** Mr Jim Drummond, DFID Director Iraq, was briefed in advance of his appearance before the International Development Committee (IDC) on 16 November 2004 that DFID had, to date, spent approximately £16.9m on staff security in Iraq, including armed protection, armoured vehicles, hostile environment and emergency first aid training, and posting Security Managers in Iraq and the UK.<sup>453</sup> That security spending had supported project spending of £32.1m; security spending therefore comprised approximately one-third of total project spending.

**710.** The briefing stated:

“Quantifying the costs and benefits associated with a reform programme is heavily subjective. So there is no specific point at which security costs make projects become unviable. However, given the very high costs of operating at present the programme is kept tightly focused on work that needs to be done now, and that has very high rates of return. For example, our economic work has been focused on assisting the Iraqi Government in agreeing an IMF programme, which is the first step in moving towards debt relief. Clearly with debts of US\$120bn the economic benefits of this work outweigh the costs.”

**711.** The NAO published its report ‘DFID: Operating in insecure environments’ in October 2008.<sup>454</sup>

**712.** The NAO reported that “in extreme circumstances”, security and administrative costs could outweigh “actual projects costs”. It offered as an example DFID’s Technical Advisory Team Programme in Iraq. Of the total £7m allocation, £1.9m had been spent on consultancy work and more than £5m on security and related expenses.

**713.** The NAO reported that DFID did not systematically collate or analyse the extra costs of running its business in insecure environments. Significant security costs in Iraq and other countries were categorised by DFID as programme, rather than administrative, expenditure, making them more difficult to identify. Security costs incurred by DFID’s implementing partners would also be categorised as programme expenditure.

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<sup>452</sup> Public hearing, 30 June 2010, page 64.

<sup>453</sup> Briefing DFID, [undated], ‘Preparations for IDC Evidence Session, 16 November 2004’.

<sup>454</sup> National Audit Office, *Department for International Development: operating in insecure environments*, 16 October 2008.

**714.** The NAO recommended that “DFID needs better management information on its costs to inform its decisions and achieve value for money [in insecure environments]”.

**715.** The Inquiry asked Mr Hilary Benn, the International Development Secretary from 2003 to 2007, if the high security costs in Iraq had undermined DFID’s ability to deliver value for money, and whether the funds spent on Iraq could have been better used elsewhere.<sup>455</sup> He told the Inquiry:

“No, because we had a particular responsibility ... [and] our duty to fulfil that responsibility. Because what we were trying to do ... was to assist Iraq to build something better for itself, and this was a very important objective. And it would have been wrong to say, ‘Well, we will get up and walk away’ ...”

**716.** Mr Benn also told the Inquiry that DFID funding for Iraq had been reallocated from other middle-income countries, rather than from low-income countries.

**717.** Section 15 considers the steps taken by the UK Government to provide security for civilian staff in Iraq.

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<sup>455</sup> Public hearing, 2 February 2010, page 46.