

Validation of the policy document 'In the Interests of the Netherlands'



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This audit in brief

Reasons for the audit

At the request of the Minister of Finance, we have validated the Dutch government's vision of the future of the armed forces, as set out in the policy document, 'In the Interests of the Netherlands'. The policy document was prepared by the Minister of Defence, in consultation with the Minister of Foreign Affairs, and adopted by the cabinet. The request was made to fulfil an undertaking given in the Coalition Agreement, 'Building Bridges', to develop a vision of the future of the armed forces based on the Netherlands' military ambitions and the available budget. The vision was required because initial plans to replace the F-16 had proved untenable. We present our validation of the vision in this report.

Validation by the Netherlands Court of Audit

As part of its request, the Minister of Finance asked us to express an opinion on the financial feasibility of the measures outlined in the policy document. In the Court of Audit's opinion, subject to the reservations made and, based on current information, the financial underpinning of the policy document provides the best possible financial approximation to take decisions on the choices presented. The framework of the financial underpinning provides assurance but is of only limited durability for *each choice* and this durability differs from one choice to another.

This implies that the Ministry of Defence will have to take further steps to improve the quality of information on the cost of weapons systems, to tighten up control of defence expenditure and to improve the quality of information submitted to the Dutch House of Representatives. The minister wrote in the vision that she intended to take such steps in the years ahead. The Ministry of Finance and the Court of Audit have undertaken to assist her in this. We would stress the importance of including the SPEER¹ project in these steps in order to implement a defence-wide financial and materiel logistics information system.

The policy document better explains the financial uncertainty surrounding the preferred successor to the F-16 in terms of available budgets. This is a significant improvement on the situation in May, when we submitted a letter to the House of Representatives on the information it receives on the replacement. On the basis of current information, we think the financial compatibility of the decision to use budgets for the procurement and operation of 37 JSF aircraft (including the two test aircraft already procured) is fully justified. We do not think the ministry could produce more accurate figures at the moment. This positive development provides no assurance, however, that the Ministry of Defence will be able to keep all expenditure within the financial restraints from year to year. This uncertainty applies both to the procurement and operation of the JSF and to the policy document as a whole. A forecast of the investments in and operation of the fighter aircraft over the next 15 years has benefits but the cash rhythm could be seriously disrupted in the next five years and the cost of operating fighter aircraft when the F-16 is phased out and the JSF is phased in could be higher than the average annual cost currently foreseen.

A study commissioned by the Minister of Defence found that the most relevant military and technological considerations were still the six mission types defined in 2008. The study does not change our observations (2009) on the 2008 comparison of candidates and actually refers to the limitations of the current updated information, concluding

¹

Strategic Process and ERP
Enabled Reengineering.

that it is no longer possible to compare and rank the candidates on all aspects. The study considered developments in all aircraft but, according to the policy document, provided no new insights into the qualities of the various fighter aircraft: the JSF is therefore still regarded as the ‘best aircraft’.

It is not for the Court of Audit, of course, to express an opinion on the suitability or otherwise of the choice for the JSF.

The Minister of Defence’s policy document contains two new elements that further clarify her relationship with parliament: firstly, the investment budget for the replacement of the F-16 is now considered to be a ‘target’; secondly, the minister introduces a long-term forecast of expenditure on weapons systems. We welcome the sizeable risk reserve in the budget for the replacement of the F-16. The minister states in the policy document that favourable cost developments will enable the reserve to be released to procure more JSF aircraft. Conversely, if fewer than 37 aircraft can be procured, the entire project will have to be reconsidered. In our opinion, the number of aircraft named in the policy document, the financial underpinning and the ambitions for the fighter aircraft are so intertwined that the project should be reconsidered not only if fewer aircraft are procured but also if more are. Both the cabinet and the House of Representatives should play a part in any reconsideration. Furthermore, no account has been taken of the new agreements with the Ministry of Finance regarding the end-of-year margin.

The Minister of Defence writes that the policy document will make the armed forces financially and operationally sustainable. To this end, she has lowered the deployability objectives and taken measures so that each service can better achieve the new deployability objectives. We, too, think the ambitions for the armed forces and the ability to achieve them have been brought closer together but they are still not in balance. The actual situation is not as clear-cut as suggested by the policy document. Despite the new measures, there is still a gap between the lowered ambitions and the armed forces’ capabilities. Compromises will therefore have to be made again in either the conduct of operations or the level of personnel training at some point in the future.

The minister describes the deployability of the JSF as follows in the policy document: “With 37 F-35s (= JSF) the uninterrupted simultaneous deployment of four fighter aircraft, as well as the permanent deployment of aircraft to protect national and allied airspace, will still be available to support Dutch ground troops, as was the case earlier in Uruzgan and currently in Kunduz.” The Court of Audit cannot share the confidence of this statement. The ministry’s deployability calculations are incomplete, negotiations with Belgium on joint protection of national airspace have not yet been rounded off and it is uncertain whether the presumed operational savings from the cooperation will indeed be realised. It is also presumed that the JSF will not suffer the same maintenance problems that afflict the armed forces in general and the air force in particular. The reduction in the flight hours of the Chinooks will not only lead to fewer flight hours for army and navy training but also to fewer training hours for helicopter crews. And this will in turn reduce the deployability of the Air Manoeuvre Brigade. The intervention in the navy fleet - not deploying the Joint Support Ship (JSS) - by contrast, will improve the financial feasibility of the ambitions by reducing future operational costs. We warned in the past that decisions were being taken on the ministry’s estate without the ministry having a full understanding of its estate

portfolio (use, operation, utilisation). A robust business case based on a stable and reliable estimate of the estate requirements has not yet been made for the estate proposal in the policy document (including construction work in Flushing).

To make the armed forces financially and operationally sustainable, a more critical look will have to be taken at the relationship between the ambitions on the one hand and money, people, resources and time on the other.

Court of Audit's recommendations

The Court of Audit concludes that the framework of the financial underpinning provides assurance but it has limited durability to each choice and this durability differs from one choice to another. We believe it is both possible and necessary for the Minister of Defence, but not only her, to continue future-proofing both the framework and the various choices. Both the Minister of Defence and the Minister of Finance and, in a number of cases, the cabinet should take near-term measures to address the risks we identified and our related recommendations.

There are risks in, for example, the Ministry of Defence's internal organisation, management, in multiyear estimates with a horizon that is too short for true life cycle costing and the lack of risk management scheme in connection with the risk reserve. Risks may also arise from the new, still uncrystallised rules between the Ministries of Defence and of Finance. It is also uncertain when decisions must be taken by a ministry or by the government as a whole. Furthermore, parliament's right to approve the budget is uncertain when the data sets extend further in time than the regular budget cycle but a decision on them has to be taken now. Similarly, nearly all decisions that are seemingly exclusively financial have direct consequences for the deployability of the armed forces. The House of Representatives should be involved in such decisions.

Some risks will arise in the short term and some in later years. In the short term, for example, the 'overrun' in the Ministry of Defence's investment plan x must be reduced for the 2013 budget and there are still no plans to implement the spending cuts already agreed upon (known as the 'ambition gap'). More structurally, the cash rhythm will be disrupted in the years ahead by inaccuracies in the estimates. And when finally more clarity is reached in these issues phasing-in risks will form a new challenge for the years to follow.

We recommend that the Minister of Defence and the Minister of Finance make proposals to overcome these problems in the foreseeable future. Structural measures still have to be taken by all concerned, including the Court of Audit, to strengthen the Ministry of Defence's control of expenditure.

Response of the ministers and the Court of Audit's afterword

The response of the Ministers of Defence and of Finance responded to the draft version of this report and the Court of Auditors' afterword are presented in chapter 5.

I Introduction

I.1 Request of the Minister of Finance

The Minister of Finance requested us on 30 November 2012:²

- to validate the Minister of Defence's vision of the future of the armed forces;
- to comment on the Ministry of Defence's financial underpinning;
- more generally, to express an opinion on the quality of the information provided to date on investment costs, operational costs and the number of fighter aircraft.

We accepted the Minister of Finance's request by letter of 18 December 2012.³

In answer to the third part of the Minister of Finance's request, we submitted a letter to the House of Representatives on 22 May 2013 entitled 'Information position of the House of Representatives regarding the replacement of the F-16 (reconstruction)' (Netherlands Court of Audit, 2013a).

Earlier in the year, the Minister of Defence had sent the Court of Audit a structure for the vision's financial underpinning for comment and a draft version of the policy document for its audit. The final version of the vision was presented in the policy document adopted by the cabinet, 'In the Interests of the Netherlands'. The policy document was submitted to the House of Representatives together with the draft budget for 2014. In this present report, we present our validation of the policy document to answer the Minister of Finance's first two questions. The correspondence we conducted with the Ministers of Defence and of Finance while conducting the audit is presented in appendices 3 to 5.

I.2 Context

Project to replace the F-16

The Ministry of Defence currently operates F-16 aircraft. The F-16 is a single engine fighter aircraft deployed by the Netherlands and several other countries since 1979. In total, the Netherlands procured 213 F-16s, 68 of which are still in service. The current Dutch F-16 aircraft were taken into service between 1979 and 1992. The Ministry of Defence wishes to replace the F-16s. Since 2002 the Netherlands has therefore participated in an international programme to develop a new fighter aircraft, the Joint Strike Fighter (JSF). The policy document foresees the replacement of the current 68 F-16s with 37 JSF aircraft. The Netherlands' participation in the international JSF programme is part of the project to replace the F-16, which has enjoyed the status of a Large Project since 1999.

Previous reports issued by the Court of Audit on the replacement of the F-16

We have been informing the House of Representatives about the replacement of the F-16 every year since 2005. Our reports have considered developments in procurement preparations and (since 2011) the consequences for the current F-16 fleet. In April 2009, we also sent a letter to the House with observations on the 2008 comparison of candidates to replace the F-16.

²
The Minister of Finance's request is presented in appendix 1. The request is summarised here.

³
See appendix 2.

In the report 'Joint Strike Fighter exit costs' of 25 October 2012, the Court of Audit concluded that each of the three options proposed by the Minister of Defence (continue, partial withdrawal or full withdrawal from the programme) would require a reconsideration of the Ministry of Defence's ambitions because each option would have fundamental consequences for the air force and the other branches of the armed forces.

We launched a web dossier on the replacement of the F-16 on the Court of Audit's website (www.courtofaudit.nl) on 28 March 2013. It contains information from our earlier audits of the replacement of the F-16, the F-16 replacement project, the Lockheed Martin F-35 Lightning II Joint Strike Fighter (JSF) and the international programme to develop the JSF. We periodically update the web dossier and inform the House of Representatives of the updates by letter.

Audit of the Ministry of Defence's budget and annual report

We audit central government's accounts every year and express an opinion on the financial and materiel management conducted and determine whether the information in the annual reports was compiled in accordance with applicable rules.

The Ministry of Defence has been taking measures to put its financial and materiel management into order since 2009. We think this is of great importance. In a letter to the House of Representatives of 21 November 2012, we noted that the minister's expectations were often revised but the management ambitions were not (Netherlands Court of Audit, 2012b). Further to our letter, the minister reviewed the ambitions and informed the House by letter of 14 February 2013 (Ministry of Defence, 2013a).

In our Report on the 2012 Annual Report of the Ministry of Defence (Netherlands Court of Audit, 2013b) we concluded that financial and materiel management had improved in 2012. We wondered, however, whether the wider operational management system had been set up on time to meet the Ministry of Defence's new requirements. Our concern was based in part on the limited progress made with the SPEER⁴ programme up to that date. Operational management in general and information systems in particular must support the achievement of the armed forces' deployment objectives. We wrote in the report that determining whether the deployability goals could be achieved now and in the future required reliable information on operational preparedness and on personnel and materiel costs per weapons system. The current systems do not yet generate appropriate information. We recommended that the minister continue implementing the programme to improve management control and putting the armed forces into order. We also suggested that the policy document, 'In the Interests of the Netherlands', would lead to a new focus on SPEER, with information systems supporting the achievement of the armed forces' deployability objectives.

1.3 Structure of this report

In keeping with our undertaking to the Minister of Finance, we examined the policy document, 'In the Interests of the Netherlands', and its financial underpinning. We looked at the policy document's consistency with the financial conditions set by the government. We consider this in chapter 2. We also examined the decision to replace the F-16 as an integral part of the policy document. We consider this in chapter 3.

⁴ Strategic Process and ERP Enabled Reengineering.

Finally, in chapter 4 we consider the relationship between the policy document's ambitions and the capabilities of the fighter aircraft, the Chinook helicopters, the Joint Support Ship (JSS) and the estate portfolio.

2 Financial feasibility of the policy document

2.1 Financial underpinning

2.1.1 Based on weapons system

The Ministry of Defence decided to base the financial underpinning of 'In the Interests of the Netherlands' on 'weapons systems'. This is new. In the past, administrative systems and budgets had been based on the 'organisational unit' and there was little insight into cost of the armed forces' weapons systems. NATO has been recommending for some time that its members analyse the cost of weapons systems (NATO, 2003). The Court of Audit has also informed the ministry in the past of its poor knowledge of the operational cost of weapons systems. Basing the financial underpinning of the policy document on cost of weapons systems is therefore a significant step forwards as such information is needed for the decisions that have to be taken for the vision of the future armed forces. Doing so, however, inevitably makes it more difficult to generate the necessary financial information. To date, the Ministry of Defence's financial systems and estimation methods had not been designed to work on the basis of the cost of weapons systems.

2.1.2 Life cycle costing not yet applied consistently

The Ministry of Defence incorporated elements of life cycle costing (LCC) in the financial underpinning of the policy document but did not do so consistently. LCC is a set of techniques to model, predict and analyse the cost of a system during every stage of its life cycle (NATO, 2003). It is therefore a key instrument for the Ministry of Defence to gain an understanding of the full life cycle costs of a weapons system.

The spreadsheets for the financial underpinning of the policy document include information on each weapons system, such as date taken into service, replacement date and years in which mid-life updates will be necessary. A start has therefore been made on providing an insight into the current life cycle stages of each weapons system. The Minister of Defence says she is willing to study how and when life cycle costing can be incorporated into the planning and budgeting cycle and the ministry's operational management and how it can be applied in current projects. The policy document contains an action plan to achieve this by 2016.

2.1.3 Horizon extended to 15 years

The policy document's financial underpinning looks back five years (to 2008) and forward 15 years (to 2028). This is an improvement. In the past, the Ministry of Defence had submitted only very brief financial information to the House of Representatives on its plans for the future. Its budget, for example, had included information on only investments in the next five years and no information whatsoever on operational costs. Conversely, the choices made in the policy document will have far longer financial consequences. The replacement of the F-16, for example, will have financial consequences long after 2050. The policy document's financial underpinning considers only the first few years. The Court of Audit pointed this out to the ministry during its assessment of the structure of the financial underpinning.

A 15-year time horizon improves insight into the financial consequences of the policy document but also increases the inherent uncertainty in the financial underpinning. Since the ministry's estimation tools had previously not looked further than ten years ahead, a lot of the data had to be based on extrapolations. Many of the figures in the extrapolations were in turn based on estimates and extrapolations; this inevitably has consequences for the plausibility of the figures in the financial underpinning.

2.2 Budgetary framework

2.2.1 Budgetary framework adopted as agreed

The Coalition Agreement for the Rutte/Asscher government (Ministry of General Affairs, 2013) states that the Minister of Defence's vision of the future of the armed forces should be consistent with the available budget. In a letter to the House of Representatives of 30 November 2012 the Ministers of Defence and of Finance wrote that the vision would be based on 'the current budget in accordance with the Coalition Agreement and the completion of the current programme of spending cuts at the Ministry of Defence, including reorganisations and the 'Armed Forces in Order'-project. Our audit found that the Minister of Defence had adhered to these restrictions almost in full in the financial underpinning. Further agreements had been made with the Ministry of Finance on two points that departed from the budgetary framework:

- unlimited end-of-year margin;
- amendment of the regime.

2.2.2 Unlimited end-of-year margin

Under current budget regulations, a ministry may carry forward no more than 1.0% of the adjusted budgeted total of unspent expenditure to the next year (the end-of-year margin). This is necessary because expenditure can be delayed by circumstances. This regulation prevents the inefficient use of funds at the end of the year.

The Ministry of Defence argues that the time between planning and incurring its investment expenditure is often long and planning and spending are often delayed. In the existing budget system, the ministry does not have the assurance it needs on the availability of the funds at the right time. It has therefore reached agreement with the Ministry of Finance that the existing system of end-of-year margins will be amended for the Investment article (article 6) in the Ministry of Defence's budget. As from the 2013 budget year, the Ministry of Defence may carry forward an unlimited end-of-year margin for investment expenditure. Materiel investment funds that are not spent before the end of the year may be carried forward until the following year.

Appropriations will therefore remain available if a materiel investment project is delayed. The increase in the end-of-year margin is not without conditions:

- the unlimited end-of-year margin applies to materiel investments only; the normal 1% margin applies to all other expenditure;
- the unlimited end-of-year margin is restricted to one year; appropriations for investments will remain available during this time. Normal budget rules apply if an investment is delayed for longer;
- the unlimited end-of-year margin may be carried forward only if there are no problems elsewhere on the budget. If there are still deficits on personnel or materiel articles, the balance on the investment article must first be applied to clear them.

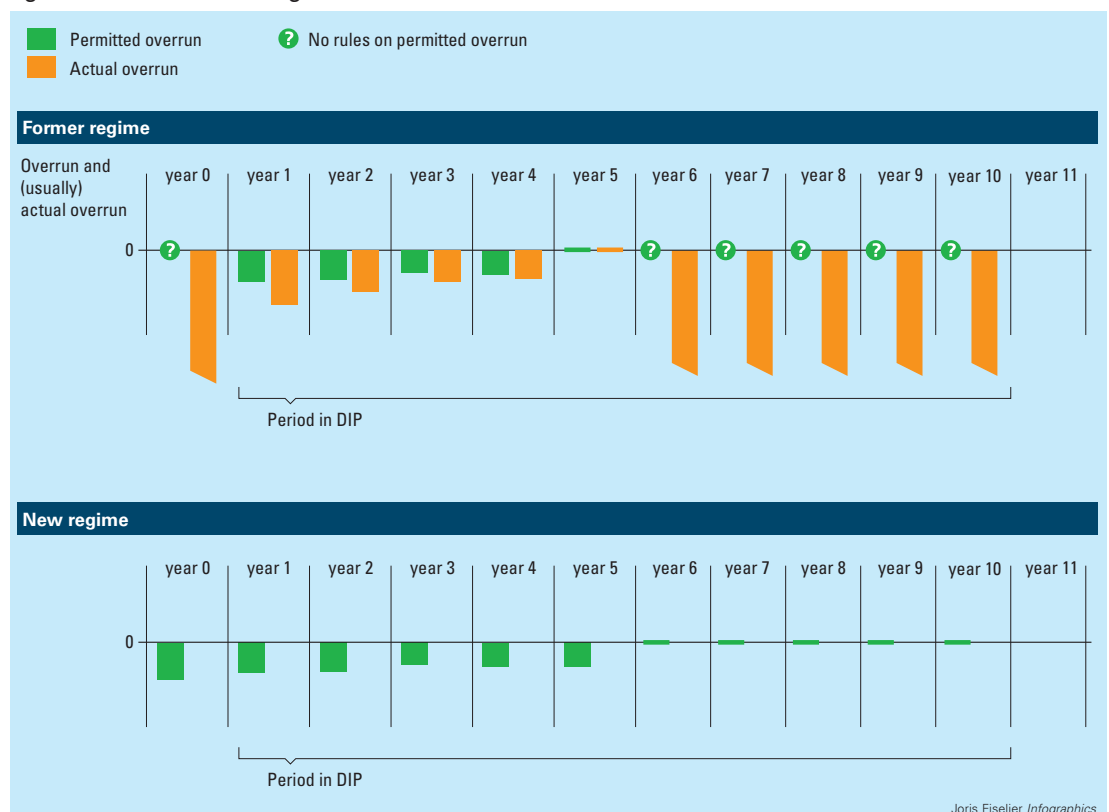
Furthermore, expenditure over the years is assessed twice a year (spring and August) to determine whether it should be amended.

We consider the new regulation on the end-of-year margin to be a sensible amendment to mitigate the negative consequences of the Ministry of Defence's cash accounting system. Without it, the ministry would run the risk of having to return funds to the public purse if a project were delayed. We would note, though, that use of the end-of-year margin may not lead to less prudent or inappropriate planning of cash expenditure. We would also note that it is still uncertain how the House of Representatives will be informed when the end-of-year margin is carried forward in a specific case, for example through the supplementary budget or after the event in the Final Budget Act, and whether it will also be informed of any impact on the deployability objectives. This is important because the House of Representatives has the right to approve the budget.

2.2.3 Defence Investment Plan regime amended

The Ministry of Defence's internal Defence Investment Plan (DIP) comprises the planned investments for major materiel, infrastructure and information systems for the entire ministry. To date, the plan's financial consequences have seriously exceeded the ministry's financial ability. This is known internally as the 'DIP overrun'. Here, too, it is argued that delays in investment plans increase planned expenditure beyond the limits permitted by the financial frameworks. Under the agreements made with the Ministry of Finance before the policy document, a very limited DIP overrun was permitted in the first five years after the budget year but there were no rules for the budget year itself or the period as from the sixth year. As a result, the DIP had a planning 'bulge' without it being clear how the plans could be financed from the budget. The policy document changed this situation. The new agreements permit a limited overrun in the budget year and the next five years but not in subsequent years.

Figure 1 former and new DIP regime



In our opinion, this change in the DIP overrun regime is reasonable. The new rule prevents the large bulge in plans in the longer term and slightly increases the short-term flexibility required in the DIP. This is relevant to the House of Representatives because the minister intends to include long-term planning information in the budget in due course.

2.3 Budgetary feasibility of measures in the policy document

2.3.1 Forecast expenditure data sets are consistent but there is still a lot of uncertainty

In section 2.1.1 we wrote that we welcomed basing the financial underpinning on weapons systems but noted that it would be difficult to generate the necessary data. The current financial systems and estimation methods are based chiefly on organisational units. It was therefore no easy task to extract the necessary data from the systems. In most cases they had to be generated by means of specially-formulated allocation rules and estimates. We could not determine the accuracy of all the estimates and allocation rules. We could determine whether they had been applied correctly, whether the figures used were consistent with the underlying systems and whether the steps in the financial underpinning were consistent. We noted that there was an accumulation of extrapolations in some cases (extrapolations of extrapolated figures that were based on estimates). This is inevitable when the financial underpinning looks so far ahead.

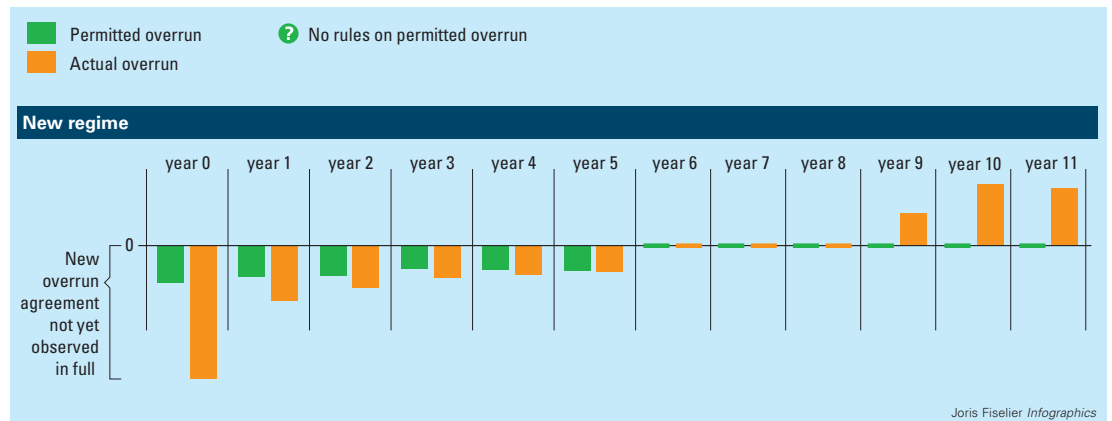
2.3.2 Financial underpinning largely complete

In the Court of Audit's opinion, the policy document's financial underpinning is the best possible financial approximation, based on the data currently available, to take decisions on the choices presented. The framework of the financial underpinning provides assurance but it has limited durability to *each choice* and this durability differs from one choice to another.

Notwithstanding the comments made on the inherently limited accuracy of the figures, we would note that, with a few exceptions, the data sets in the financial underpinning largely remain within the agreed budgetary restraints.

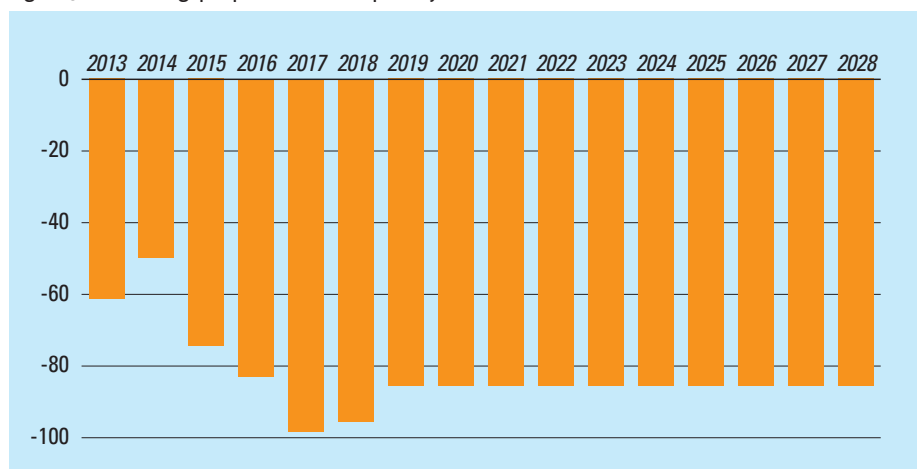
We found that the new agreements on the overrun regime have not been strictly observed: in budget year 2013 planned investments exceed the available budget by 62.8% yet the maximum allowed under the new regime is 30%. The Ministers of Defence and of Finance have agreed that the overrun must be reduced in accordance with the new rules in 2013. It is not the intention to carry the excess forward to 2014, as would have been the case in the past. We have not been able to determine whether this has happened.

Figure 2 DIP overrun, in millions of euros



A second finding is that not all current spending cuts in the budgetary framework have been recognised in the policy document in the form of concrete measures, especially with regard to operation of the weapons systems. This has been overcome by including annual negative amounts (the 'ambition gap') in the data sets although it is not certain how the spending cuts will be effected. During the policy document's horizon, the ambition gap amounts to between € 50 million and € 98 million per annum, with the structural gap for the years after 2009 being estimated at € 80 million negative. This need not have consequence for the financial underpinning, however, because the amount of the spending cuts not effected has already been recognised, but it does represent a control risk.

Figure 3 Ambition gap, operation of weapons systems, in millions of euros



2.3.3 Cash rhythm unrealistic

The financial feasibility is determined not only by the financial consequences of the plans but also by how the expenditure is incurred over time. In central government's cash accounting system, this determines whether expenditure can be incurred as planned. The policy document's financial underpinning initially takes account of this 'cash rhythm' for most data sets, but does not do so consistently in later calculations. Several expenditure items have been adjusted during the process, with averages being included in the data sets. The expected peaks and troughs in these amounts are not recognised. This considerably distorts the cash rhythm already recognised in the figures. The Court of Audit warned the minister during its assessment of the structure of the financial underpinning against the use of averages. It impedes a more accurate determination of the policy document's financial feasibility.⁵

2.3.4 Robustness of the figures

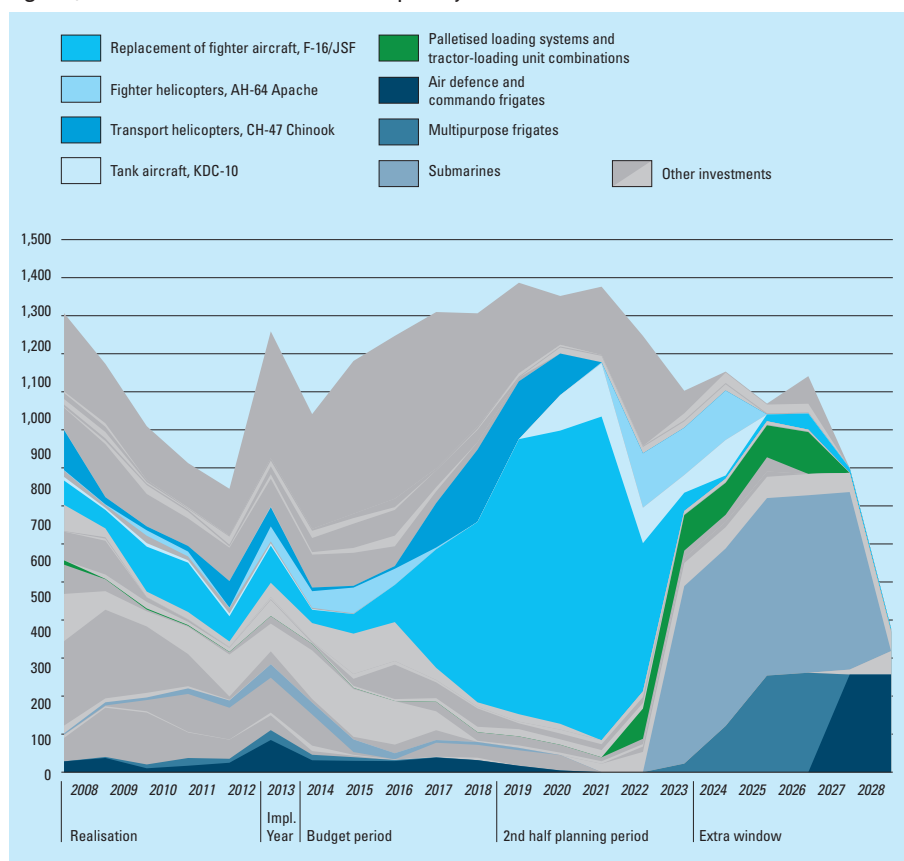
Risk analysis

The Ministry of Defence has gone to reasonable lengths to make the financial underpinning as robust as possible. In other words, it is as independent as possible from changes in circumstances. The ministry determined the financial impact of delays, rephasing, acceleration and cancellation of investment projects on the cost sets. It also carried out customary risks analyses. The risks of weapons systems projects were estimated as low, medium or high depending on such general factors as the country of production, the project's lead time, development issues and international cooperation. The ministry then applied risk reserves of 5%, 7.5% and 10% respectively. In chapter 3 we consider the special risk reserve agreed in the policy document for the replacement of the F-16.

Potential consequences of delays in investments

According to the policy document, the Ministry of Defence will invest more than €18 billion in the next 15 years. Movements in these investments are shown in figure 4.

Figure 4 Movements in investments in weapons systems.



The figure shows that the Minister of Defence has planned investments in major weapons systems in very close succession to each other. It also shows that the investment in the JSF overshadows other investments. It is clear that a delay in the JSF will have a direct impact on the planning of investments in other weapons systems, although it cannot be said in advance exactly how. Our monitoring report on the replacement of the F-16 and our audit of the cost of exiting the JSF (Netherlands Court of Audit, 2012a) found, however, that delays replacing a major weapons system could

entail considerable additional costs to sustain and operate the weapons system to be replaced.

International cooperation

In certain areas, the compatibility of the policy document's plans with the budgetary framework depends on the success of international negotiations and whether they have the desired effect. In our assessment of the structure of the financial underpinning, we warned the Minister of Defence about this dependency and advised that a fallback option be put in place where appropriate. The minister followed this advice in part. The policy measure for international cooperation in transport aircraft, for example, provides a fallback option. In other cases, the estimates are conservative and include a risk reserve. Only in the case of fighter aircraft the expected benefits of international cooperation have already been booked in, especially regarding the cooperation with Belgium on QRA tasks.⁶

2.4 Status of the figures

The policy document states that the data sets are not a one-off exercise to show that the financial underpinning 'is right'. This suggests that the figures will be included in the regular budget process. According to the Ministry of Defence, the figures for 2014 and the subsequent five years have been included in the draft budget for 2014. The Minister of Defence, however, has not yet made clear agreements on the status of the figures for later years and their role even further into the future.

We think the minister's budget should inform the House of Representatives in more detail than in the past about changes in the cost of weapons systems and the financial consequences of investments plans for the future. The data sets in the financial underpinning cannot already be seen as binding on future budgets because parliament still holds the right to approve the budget, whatever choices are taken in the policy document.

Parliament will receive updated estimates in the years ahead. Departures from earlier estimates will be considered in the light of both the inherently limited accuracy of the estimates and the inconsistency of the cash rhythm in the data sets. The minister will have to explain significant departures from the estimates as the figures will have been included in the financial underpinning of the policy document that the government and House of Representatives relied on to make long-term commitments. Information on departures must therefore become a permanent part of the budget process.

We think that the Ministry of Defence has taken strides to improve control of defence expenditure and improve the information provided to the House of Representatives. Many more steps need to be taken, though, and the ministry must base its financial systems and estimation methods on weapons systems and life cycle costs. The minister wrote in the policy document that she intended to take these steps. The Ministry of Finance and the Court of Audit have both undertaken to help Ministry of Defence with them. We think the steps should also incorporate the SPEER project to implement a ministry-wide financial and materiel logistics information system.

6

Quick Reaction Alert: defence of Dutch airspace in which one or more fighter aircraft can be mobilised within a few minutes, for example, to intercept an unknown aircraft above Dutch territory.

3 Options and consequences⁷

3.1 Government opts for the JSF to replace the F-16

By adopting the policy document ‘In the Interests of the Netherlands’, the cabinet has made its final choice for the JSF to succeed the F-16. The cabinet justifies its choice on operational, financial and economic grounds. The policy document states that the Netherlands can procure 37 JSF aircraft within the available financial restraints. The Minister of Defence writes in the policy document that she will use this number for planning purposes and inform its partners in the F-35 programme accordingly.

3.2 Study of the final report on the replacement of the F-16⁸

The Minister of Defence had a civil service study carried out for the policy document. In the ‘Final report with the update on the replacement of the F-16’, which was submitted to the House of Representatives along with the policy document, the information from the 2001 evaluation of candidates and the updated information from the 2008 evaluation was again updated. It concluded that the six mission types defined in 2008 still reflected the most relevant military and technological developments.

On 17 April 2009 we sent a letter to the House of Representatives with observations on the updated 2008 comparison of candidates (Netherlands Court of Audit, 2009). The letter refers to several, partially inherent restrictions and uncertainties in the updated comparison. They include manufacturers not needing to give binding answers, the tight planning window for answers from the manufacturers and the minister’s response to them, and the imbalance between the information on the JSF and the information on other aircraft. The study used chiefly public sources to investigate whether fundamental changes had occurred since the 2001 and 2008 comparisons of candidates. The Ministry of Defence also interviewed several manufacturers of other aircraft, although not all interviews were held before completion of the study. The study does not change our observations on the 2008 comparison of candidates and even refers to the restrictions of the latest update, which make it impossible to compare and position the candidates on all aspects.

The study considers developments with all aircraft but, according to the policy document, provides no new insights into the qualities of the various fighter aircraft: the JSF is therefore still seen as the ‘best aircraft’. The study draws no conclusion on the financial relationship between the candidates because up-to-date verifiable information is available on the JSF only and not on the other five aircraft. In anticipation of the policy document, the Ministry of Defence calculated only how many JSF aircraft could be procured and operated from the available budget

3.3 Financial underpinning for the replacement of the F-16

3.3.1 Criteria for zero budget displacement effects

The Minister of Defence writes in the policy document that the replacement of the F-16 will not be at the expense of the capabilities of the other branches of the armed forces. Three criteria are set in the policy document:

⁷ Title chapter 6 in the policy document, ‘In the interests of the Netherlands’.

⁸ This section was revised on 10 September 2013 in response to cabinet and civil service comments so that the picture it presents better agrees with our findings. The summary has been revised on the same point.

- the replacement investment must be within the reserved investment budget of € 4.521 billion;
- the cost of operating the replacement aircraft must be within the current operational budget for the F-16;
- both the investment budget and the operation budget will apply a risk reserve of 10%.

The minister's decision to replace the F-16 within the € 4.521 billion budget is a new condition. No budget had been set in the past. The sum of € 4.521 billion had been introduced by the Rutte/Verhagen cabinet as a 'reserve' for the replacement of the F-16. The formal status of this 'reserve' had been uncertain, also in relation to the number of aircraft to be procured. We pointed this out in a letter to the House of Representatives on the information provided on the replacement of the F-16 of May 2013 (Netherlands Court of Audit, 2013a).

Our audit of the cost of exiting the JSF programme (Netherlands Court of Audit, 2012a) found that € 4.05 billion was still remaining of the € 4.521 billion reserve, as the Ministry of Defence had already incurred expenditure on the project, including the procurement of two test aircraft.⁹ The figures in the policy document have been updated: as at 31 December 2012, the remaining reserve amounted to € 4.025 billion, as explained in appendix 6.

The Ministry of Defence has calculated the F-16's current operational costs at € 270 million per annum. This is the first time the Ministry of Defence has provided information on this cost item. In the past it had stated that the operational costs of individual weapons systems could not be extracted from the financial systems. The size of the risk reserve - 10% of the investment budget - is based on that part of the budget that has not yet been spent because only that part of the budget is still exposed to risk. The risk reserve for the investments is therefore €402.5 million. The size of the reserve for operational risks is based not on €270 million but on €210 million. The difference of €60 million is roughly equal to the personnel costs at the airbases in Volkel and Leeuwarden. The Ministry of Defence believes it does not run any risks on these costs and they are therefore not provided for in the risk reserve. The operational risk reserve is therefore €21 million. The calculation of the risk reserve is shown in appendix 6.

Subject to these restrictions, the Ministry of Defence has calculated that there are sufficient financial resources, according to current information, to procure 37 JSF aircraft, including the two test aircraft already procured. The calculation shifts part of the investment budget to the operational budget. This is also shown in appendix 6. The shift reflects a transfer from budget article 6 (Armed forces investments) to article 4 (Air force operations) and will not be made until after 2018. It is therefore not yet recognised in the draft 2014 budget.

We found that these budgets (including the budget for the current operation of the F-16) and the size of the risk reserve had been calculated correctly. We also found that the estimates made by the Ministry of Defence for the investment in and operation of 37 JSF aircraft are within the budgets. We did not assess the plausibility or accuracy of the JSF estimates. The assumptions made for the estimates are outside our area of expertise. The figures used, for example, were provided by the United States and 'adapted' by the Ministry of Defence and the TNO organisation for applied scientific

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We consider this in more detail in our report, Joint Strike Fighter exist costs, (Netherlands Court of Audit, 2012a).

research to the situation in the Netherlands. The results of this exercise are therefore a given for us. We only established that the results were included in the estimates correctly.

TNO/Defence calculation model based on US data

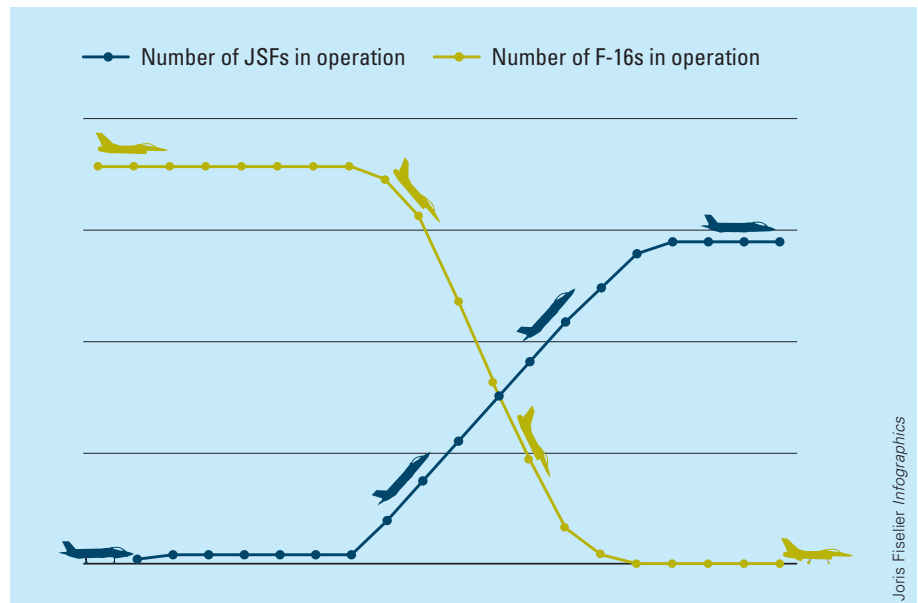
We were unable to verify the accuracy of the figures provided from the United States. Our answers to questions in the House of Representatives on 16 May 2012 (Netherlands Court of Audit, 2012e) noted that, as a partner country in the international JSF programme, the Netherlands was largely dependent on the JSF Program Office of the US Department of Defense for financial and other source information on the JSF. The object of our audit is the Dutch Ministry of Defence. We have no power to investigate the preparation and/or accuracy of the US source information. The US Government Accountability Office (GAO) audits the JSF programme every year. The GAO uses its own source data, some of which are derived from the US Department of Defense. We cannot express an opinion on the objectivity of that information. The GAO, furthermore, is not allowed to provide us with audit information that it has not published. We can, however, use its published audit conclusions and explanations where necessary. We did so for this report. We also used information published by the audit institutions of other partner countries.

We did not review the design and operation of the Defence/TNO calculation model. The audit services of the Ministries of Defence and of Economic Affairs reviewed the model in the context of their assurance reports on the F-16 replacement project and validated its systems. Further information and findings are provided in their reports.

The financial uncertainty regarding the choice of successor to the F-16 is better reflected in the available budgets than in the past. This is true of both the € 4.521 billion investment budget and the margin in which operational costs must remain (up to € 270 million per annum). This is a significant improvement on the situation we described in our letter to the House of Representatives of May 2013 on the information provided to the House on the replacement of the F-16. The Court of Audit does not express an opinion on the desirability of the decision to use this financial capacity for the procurement of the JSF. We concluded, though, that the financial underpinning of the feasibility of the decision, based on current information, is the best possible.

This positive development provides no assurance, however, that the Ministry of Defence will be able to keep all expenditure, both for procurement and operation of the JSF and for the policy document as a whole, within the financial restraints from one year to the next. The figures are not accurate enough to provide such assurance. The cash rhythm in the data sets is too inaccurate and the financial underpinning only provides insight into the next 15 years, whereas the financial consequences of the decision on the JSF will still be felt long after 2050. Furthermore, too little is known about the transitional years when the F-16 is phased out and the JSF is phased in. We must assume that the operational cost of the fighter aircraft will be higher than € 270 million per annum during the transitional period of 2019-2023. The simultaneous operation of two types of fighter aircraft is more expensive than the operation of one type. The Ministry of Defence, however, has not drawn up a transitional plan yet for the phasing in of the 37 JSF aircraft.

Figure 5 phasing out of the F-16 and phasing in of the JSF



3.3.2 Agreements needed on risk reserve

We welcome the presence of a risk reserve for both the investment and the operational costs in the F-16 replacement project. As the Ministry of Defence has not made a risk analysis in the policy document other than the general analysis referred to in section 2.3.4, we cannot express an opinion on the adequacy of the risk reserve. We would note that, under the agreements between the Ministries of Finance and of Defence, the risk reserve may not cover currency risks or inflation risks because other instruments, such as forward currency transactions and indexation, are deemed more appropriate.

We would also note that the policy document provides no information on risk control. Only if there is a robust risk control system can we assume that the risk reserve will be used exclusively for its intended purpose and will it be known whether it is adequate. Many of the risks surrounding the JSF in the United States are outside the Ministry of Defence's control.

In short, the risks must be analysed in advanced. The policy document, however, does not provide a robust analysis. The absence of a systematic analysis specifically tailored to the project's risks and their development will make it difficult to express an objective opinion on when the risks have been eliminated and when the reserve can be released. For the purposes of the policy document, the Ministry of Defence reached agreement with the Ministry of Finance that it would satisfy the Ministry of Finance that the risks had been adequately mitigated but it was not agreed how they would be.

We recommend that the Ministry of Defence carry out a clear risk analysis and periodically inform the House of Representatives of developments in risks, for example in the Ministry of Defence's annual reports on the replacement of the F-16. We would draw the Minister of Defence's attention to the risk reserves formed for the HSL South high speed rail line and the Betuwe route rail line, in which the then Ministry of Transport, Public Works and Water Management (now the Ministry of Infrastructure and the Environment) prepared a table of all the projects' risks and the extent to which they were still relevant (Netherlands Court of Audit, 2007). The table

was used to illustrate the adequacy of the risk reserve, whether it was still necessary and whether it could be released.

3.3.3 Reconsideration of the number of aircraft

The policy document states that the Ministry of Defence will procure more aircraft in the years ahead if the financial framework for the replacement of the F-16 permits. This option will arise, according to the policy document, if the risk reserve is not drawn down in full and if the cost of procuring the JSF is lower than foreseen. In such cases, the funds released from the risk reserve could be applied to procure more aircraft.

We would note that under the agreements made concerning the end-of-year margin (see section 2.2.2) any release must be applied first to clear deficits elsewhere, including those on personnel and materiel operation.

We would also refer to the ordering procedure for the JSF programme, as described in our audit report, *Joint Strike Fighter exit costs* (Netherlands Court of Audit, 2012a). The ordering procedure dictates that contractual and financial commitments must be entered into four years before delivery of the aircraft. The cabinet expects the air force to receive its first aircraft in 2019. This may bring forward the question of how the risk reserve should be applied, subject to the agreed rules, and may make it relevant as early as 2014 or 2015.

The policy document does not explain the consequences if fewer than 37 aircraft can be procured within the current budgets and risk reserve. It states only that the government will reconsider the project subject to the defined financial frameworks if there are significant changes in product, time or money that transcend even the margins that were created in the current framework.

The Court of Audit is of the opinion that the number of aircraft, the financial underpinning and the ambitions for the fighter aircraft are so interrelated that the project should be reconsidered not only if fewer aircraft are procured but also if more are. Such a reconsideration should involve not only the cabinet but also the House of Representatives.

4 Gap between ambitions and capacity

4.1 Ambitions lowered in the policy document

In our report, Joint Strike Fighter exist costs, (Netherlands Court of Audit, 2012a), in which we audited three options for the replacement of the F-16 (continuation, partial withdrawal or full withdrawal from the JSF project), we concluded that each of the options would require a reconsideration of the government's ambitions for the armed forces.

The policy document 'In the Interests of the Netherlands', includes such a reconsideration. The new deployment objectives formulated by the Minister of Defence represent a lowering of the ambitions. The minister writes in the policy document that the Dutch armed forces must remain in a state of preparedness for a wide range of deployment options in all phases of a conflict and, if necessary, far from our national borders. The armed forces must also remain affordable, both now and in the longer term. According to the minister, the armed forces will be able to carry out one larger operation at sea, on land and in the air as well as small missions and national tasks. The minister did not specify the spectrum of conflict at which the armed forces should operate.

The new deployment objectives for the fighter aircraft contrast with the ambitions held in the early years of the F-16 replacement project. Table 1 shows how the deployment objectives have been lowered since 1999 from several squadrons comprising more than 50 aircraft in total, to four aircraft as from the introduction of the JSF.

Table 1 Deployment objectives for fighter aircraft since 1999

Year	Deployment objective	Number of Dutch fighter aircraft
1999 ¹⁰	3 squadrons (of 18 aircraft each) for peace enforcement operations 1 squadron (of 18 aircraft) for peacekeeping operations	From 138 to 120 F-16s
2007 ¹¹	3 squadrons (of about 14 aircraft each) for deployment at a high level of conflict for up to one year 3 task forces (of 18 aircraft each) for deployment at a lower level of conflict for a longer period	From 90 to 87 F-16s
2011 ¹²	1 squadron (of 14 aircraft) for intervention operations 8 aircraft for stabilisation operations	From 87 to 68 F-16s
Until 2023 ¹³	Stand-alone 8 aircraft Long-term 4 aircraft	61 F-16s
As from 2023 ¹⁴	Long-term 4 aircraft	37 JSFs

¹⁰ Defence policy document 2000.

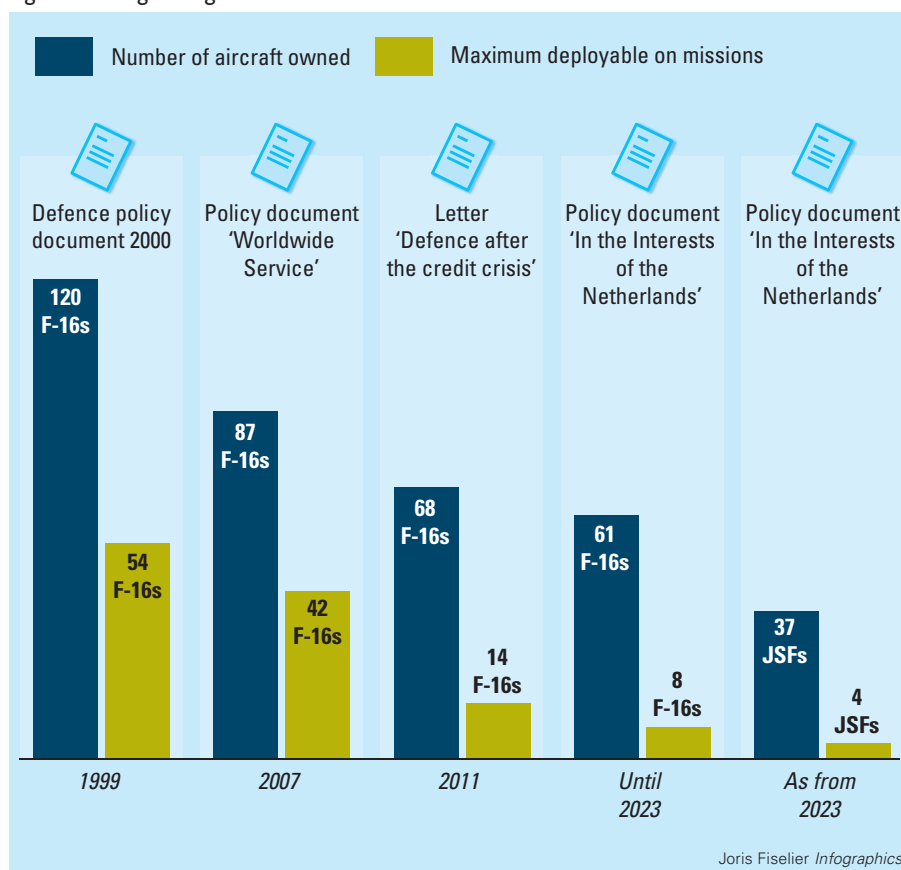
¹¹ 'Worldwide Service' policy document.

¹² 'Defence after the credit crisis' letter.

¹³ 'In the Interests of the Netherlands' policy document.

¹⁴ 'In the Interests of the Netherlands' policy document.

Figure 6 Changes in fighter aircraft ambitions



In our report, 'Joint Strike Fighter exit costs' (Netherlands Court of Audit, 2012a), we observed that the Netherlands had made an undertaking to NATO in 2011 that it would have:

- two squadrons (of 15 F-16s each) for a mission shorter than a year; and/or
- three squadrons (of 15 F-16s each) for a mission of longer than a year.

In the report, we noted that the Netherlands and NATO were negotiating deployment agreements for the period 2014-2019. According to the Minister of Defence, the deployability of the F-16 will decline during this period.

4.2 Ambitions already not achievable for some time

In our monitoring report on the replacement of the F-16 2011 (Netherlands Court of Audit, 2012c) we concluded that the change in deployment objectives in 2011 meant that the Netherlands could no longer fulfil its fighter aircraft undertakings to NATO. We also noted that the deployment objectives could not be met on account of the imbalance between the deployment objectives, the flight hours budget, the number of pilots and the number of F-16s in the air force without making compromises in pilot training. We also referred to the lack of spare parts for the F-16. To keep aircraft deployable, parts were sometimes taken from other aircraft that were (temporarily) grounded.

This present audit found that other branches of the armed forces were also affected by the imbalance, for example the Chinook transport helicopters. These air force helicopters are used chiefly to move personnel and materiel of other services (such as the army's Air Manoeuvre Brigade) from and to a theatre of operations. According to

the Ministry of Defence, the air force has failed to fly half of the necessary annual hours with the Chinook in the past few years, chiefly because of the lack of spare parts owing to its intensive use in recent years, limited maintenance budgets and the budget commitment freeze in 2010. The low number of flight hours affects the training of helicopter crews: in practice the training satisfies between two-thirds and three-quarters of the air force's training standard. The training standard is based on NATO requirements. Comparable problems affect the navy's NH90 frigate helicopter. Maintenance problems are keeping all but one of the eight helicopters delivered out of operation.

4.3 Gap between ambitions and capabilities remains

4.3.1 Policy document meant to close the gap

The minister notes in the policy document that sustainability is a key objective for the armed forces. According to the minister this means that the armed forces must be organised so that they can be deployed without compromising training and the other tasks of the armed forces, such as protecting national borders, and the commitments in the Caribbean part of the Kingdom. The minister has accordingly lowered the ambitions and taken measures for each branch of the armed forces to achieve the new deployment objectives.

4.3.2 Measures in the policy document inadequate to close the gap

For a number of weapons systems, we determined the extent to which the measures presented in the policy document would close the gap between ambitions and capabilities. We found that they were inadequate in three of the four cases studied. The reasons are explained below.

4.3.2.1 Fighter aircraft

Continued lack of balance in the F-16s

To restore the balance between the deployment objectives, the flight hours budget, the number of pilots and the number of F-16s, the minister has decided to reduce the number of annual flight hours of the F-16. The number of flight hours is normally based on the number of available aircraft and the number of hours that can be flown per aircraft each year. In the policy document, the minister dimensions the number of flight hours on 61 aircraft rather than 68. She uses the figure of 68 aircraft to produce the hours. As a result, fewer hours have to be flown per aircraft.¹⁵ The idea is that, as the aircraft will then require less maintenance, their deployment will be higher.

At the same time, the minister bases the calculations on 68 F-16 pilots. The number of available flight hours, however, is not high enough for all these pilots to complete a full training programme and be kept combat ready. This is possible for 40 pilots at the most. If the Ministry of Defence wants the remaining pilots to retain their pilot status, they will have to fly so many hours in the F-16 that the combat ready pilots will receive inadequate training and the F-16s can no longer be deployed. The Ministry of Defence claims it will need the additional pilots to act as flight instructors, managers and liaison officers during the transition from the F-16 to the JSF.

The start of the transition to the JSF is currently planned for 2019. The ministry has so far assumed that five pilots will be necessary for the JSF's operational test phase. It has

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A similar phenomenon occurred when the number of F-16-aircraft was reduced from 85 to 68 in 2011.

not convinced us that it needs a further 23 pilots for the aforementioned functions in all years up to the phasing in of the JSF in addition to the personnel that already fulfil those functions.

Ambitions with fighter aircraft during transition under pressure

Our monitoring report on the status of the replacement of the F-16 as at December 2011 (Netherlands Court of Audit, 2012c) concluded that the former ambition level for the fighter aircraft during the transition from the F-16 to its successor would not be achieved in full. The Ministry of Defence opted quite early in the F-16 replacement project to carry out the transition subject to the existing personnel frameworks. The transition will take place squadron by squadron to avoid temporary duplications of personnel. Fewer ambitions will therefore be achieved during the transition from the F-16 to the JSF between 2019 and 2023. We observed in section 3.3.1 that expenditure on the fighter aircraft would be higher during the transition. The ministry will have to provide further information on both the financial and operational consequences of the transition as soon as a transition plan has been prepared. It has not yet prepared a transition plan for the situation with 37 JSF aircraft.

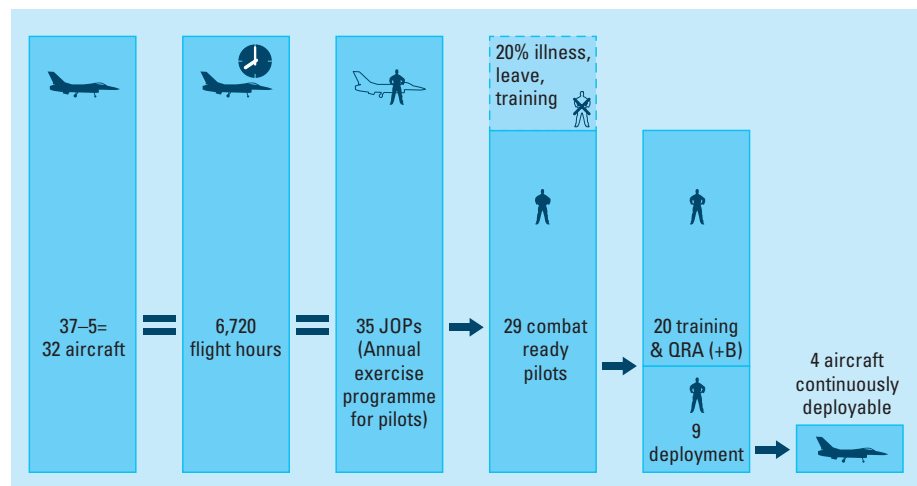
Imbalance also regarding the future JSF

The minister assumes that 6,720 hours will be flown with the JSF each year as from 2023, when the JSF is currently expected to be fully phased in to the air force. The 6,720 flight hours is dimensioned on 37 JSF aircraft, less the hours flown by the five aircraft that will be stationed in the United States. This is considerably fewer than the flight hours budgeted for the F-16, which, according to the policy document, amount to 11,500 hours.

According to the Ministry of Defence, the number of flight hours is sufficient for 37 pilots to complete their training programmes and be made combat ready. This is equal to 29 deployable pilots, based on the air force's rule of thumb that only 80% of pilots can actually be deployed owing to training, sickness, leave and the performance of national and international staff functions. According to the Ministry of Defence, there are enough flight hours to complete training programmes, protect national airspace (provided that this will be done in cooperation with Belgium) and deploy four JSF aircraft on missions. In principle, deployment will not be restrained by time limits, provided it is properly organised.

Figure 7

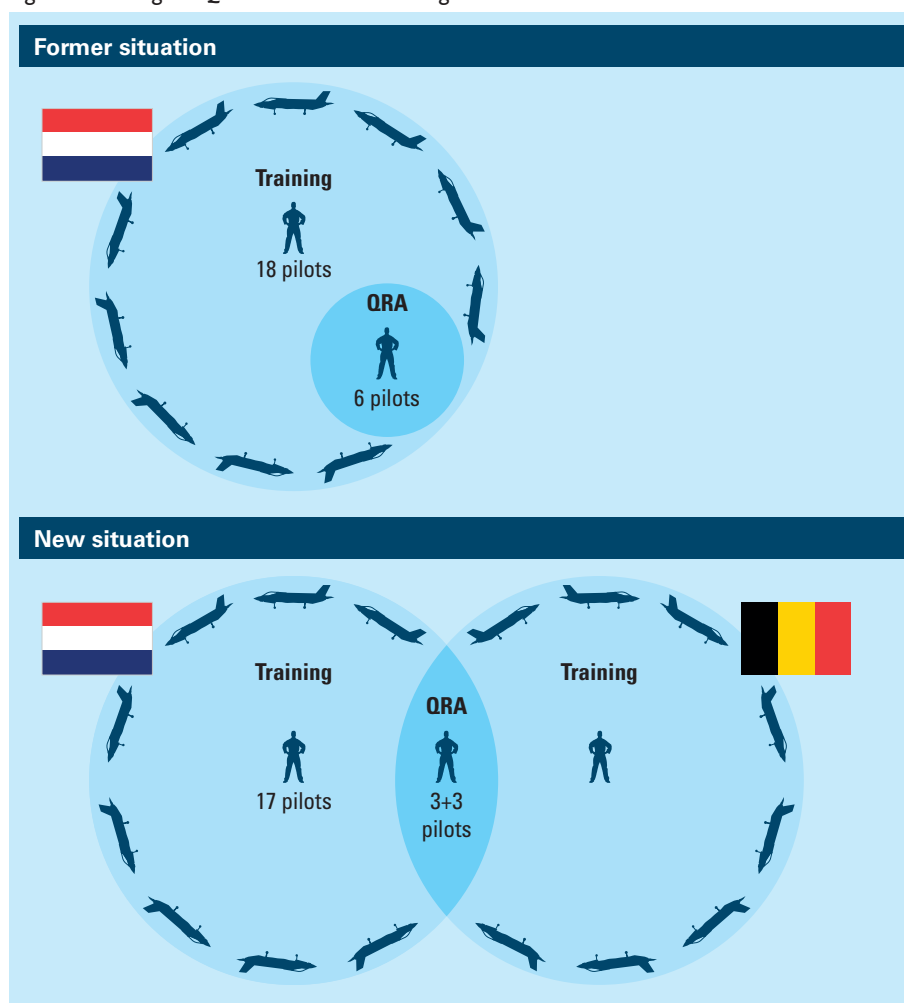
Systematic calculation of deployment based on 37 aircraft (according to the Ministry of Defence)



Our audit found that the Ministry of Defence's calculations were incomplete. The calculations are in principle identical to those we presented in our report, Monitoring the replacement of the F-16, status in 2011 (Netherlands Court of Audit, 2012c), which were based on data from the Ministry of Defence. The calculations in the policy document, however, omit one category of flight hours: the hours necessary to keep personnel trained who cannot be deployed on operations but who must have a certain degree of flight experience, an important category in the 2011 calculation for the F-16. It is not known how many flight hours are involved. In our 2011 monitoring report we noted that a substantial number of hours had been reserved for 2011 (Netherlands Court of Audit, 2012c, page 38). The Ministry of Defence acknowledges the omission of this category in its calculations. It informed us that it wanted to keep the group requiring these flight hours as small as possible. In our opinion, nevertheless, the deployment of four aircraft on missions cannot be achieved with the stated number of JSF aircraft and related flight hours budget without compromising training or other tasks carried out by the air force.

The policy document assumes that protection of national airspace (the QRA task) will in future be carried out in collaboration with Belgium. According to the Ministry of Defence, this will produce a saving of four pilots. The ministry has put the number of combat ready pilots necessary for the QRA and the training programme at 20. Without cooperation with Belgium, the Netherlands would thus need 24 combat ready pilots. So many pilots are needed for the QRA because the tasks must be combined with training. The QRA also performs a 24-hour, 365-days-a-year task with two aircraft that requires six pilots.

Figure 8 Training and QRA with and without Belgium



The expectation that joint QRA will produce a saving of four pilots is not based on experience with a similar arrangement. Negotiation with Belgium on a joint QRA is still ongoing.

It is stated on page 20 of the policy document 'With 37 F-35s (= JSF) the uninterrupted simultaneous deployment of four fighter aircraft, as well as the permanent deployment of aircraft to protect national and allied airspace, will still be available to support Dutch ground troops, as was the case earlier in Uruzgan and currently in Kunduz.' For the following three main reasons, the Court of Audit cannot share the confidence of this statement.

- the ministry's calculations are incomplete;
- it is still uncertain whether the negotiation of the joint protection of national airspace with Belgium will deliver the intended operational saving;
- it is assumed that the maintenance problems that the armed forces, especially the air force, have suffered for many years will not affect the JSF.

4.3.2.2 Chinook

Measures reduce Chinooks' deployability

Measures have been taken both inside and outside the policy document to overcome the capacity problems of the Chinook helicopters. The Ministry of Defence expects a lot from a new parts delivery contract with Boeing. The contract was negotiated last year and took effect in July 2013 with a term of five years. This performance based

maintenance contract, according to the air force, will significantly improve lead-time planning for major overhauls and sufficient spare parts will again be supplied. The benefits are expected to feed through into the available flight hours as from 2014. The ministry has also increased the maintenance budget slightly and taken measures to improve maintenance management.

The minister announced measures in the policy document to reduce the number of Chinook flight hours. One of the measures is that the Chinook will no longer carry marines from sea to land (heavy amphibious helicopter capacity). Another is that one of the three battalions of the Air Manoeuvre Brigade will make only limited use of the Chinooks for training purposes.

The reduction in flight hours also means that fewer hours will be available for the army and navy to train helicopter crews. The air forces' own training is closely related to training flights performed for the army and navy. One of the consequences of this is that the Chinooks will provisionally no longer be deployable at the highest levels of conflict. This will have consequences for the army, which relies on the Chinook. Without an alternative (for example helicopter support from other countries) the Air Manoeuvre Brigade will no longer be deployable at the highest level of conflict.

4.3.2.3 Joint Support Ship (JSS)

Expensive improvement to balance the navy

A remarkable announcement in the policy document is that the navy will not take the Joint Support Ship (JSS) into service. The JSS is being built at a cost of € 408 million to meet three different needs: to supply other ships at sea (tanker function), strategic transport of heavy weapons systems, and provision of heavy amphibious helicopter capacity. The minister states in the policy document that only the tanker function is really necessary. As the ambition has been lowered, the JSS is no longer necessary. It has therefore been decided to sell the ship immediately as it is commissioned and to develop a smaller supply ship more in keeping with the ambition. This measure entails a considerable non-recurring loss for the Ministry of Defence (estimated at about € 250 million) but the navy's future operational costs will be structurally lower.

4.3.2.4 Estate

Estate measures not underpinned

The Minister of Defence states in the policy document that the construction of new navy barracks in Flushing will enable it to concentrate at fewer locations and further reduce its demands on public space. The Van Ghent barracks in Rotterdam will be closed and sold when the Flushing barracks are opened.

In our letter to the House of Representatives of 18 December 2012 on the Ministry of Defence's estate portfolio (Netherlands Court of Audit, 2012d) we warned that the Ministry of Defence had presented the potential savings from the sale of estate too optimistically. We concluded that the Ministry of Defence did not have a full understanding of its estate portfolio. It did not always know who used which barracks or what the utilisation rates were. We recommended that the Ministry of Defence carry out a quantitative analysis of its portfolio before announcing new measures. We again find that a business case based on a stable and reliable estimate of the estate portfolio

has not been prepared for the plans in the policy document. The estimate should also take account of the potential of the estate already in the portfolio. A good insight into the estate portfolio (use, management, utilisation) is a prerequisite. The plans are therefore not underpinned.

4.4 Sustainable armed forces?

The Minister of Defence writes in the policy document that it will make the armed forces financially and operationally sustainable. To achieve this, the minister has lowered the deployment objectives and taken measures so that each service will be able to achieve the new objectives. We think ambitions and capabilities have been brought closer together. This does not mean, however, that they are in balance. Reality is not as clean-cut as the policy document suggests. Even with the measures presented in the policy document, there will be a gap between the lowered ambitions and the armed forces' capabilities. Continuous compromises will have to be made in the conduct of operations or in the training objectives. To make the armed forces financially and operationally sustainable, an even more critical look will have to be taken at the balance between ambitions on the one hand and money, people, resources and time on the other.

5 Response of the ministers and the Court of Audit's afterword

We submitted the draft of this report to the Ministers of Defence and of Finance for comment on 5 September 2013. We revised our draft report on 10 September and asked the ministers to respond to the revised version.¹⁶ The ministers responded to the draft report on 13 September 2013. Their response is presented in full in section 5.1. We provide our afterword in section 5.2.

5.1 Response of the Ministers of Defence and of Finance

"As announced in the Coalition Agreement the Minister of Finance asked the Court of Audit to validate the Minister of Defence's policy document on the future of the armed forces and its financial underpinning. We are grateful to the Court of Audit for its input to the preparation of the policy document during the year. We hereby present our official response to the report we received from you on 5 September and the revised version we received on 10 September 2013. Our response follows the order of the report.

Financial feasibility of the policy document

The policy document on the future of the armed forces and - as an integral part of it - the decision on the replacement of the F-16 has set the course towards operationally and financially sustainable armed forces. The Ministries of Defence and of Finance have worked closely together on the robust financial underpinning of the policy document and the measures it contains. Never before has the Ministry of Defence managed to compile so much detailed financial information on the main weapons systems. The Court of Audit is of the opinion that, subject to its reservations, the policy document with the information available at present provides the best possible financial underpinning to take a decision on the choices presented.

The policy document's financial horizon is 15 years (until 2028), i.e. ten years longer than customary in previous budgets. The Ministry of Defence has thus provided a first insight into the investments planned for this period. Furthermore, the financial information on the weapons systems no longer relates to just the investments but also to operations. The Court of Audit welcomes this improvement but has also identified a number of uncertainties that are partly inherent in the financial underpinning looking so far forward into the future. The Ministries of Defence and of Finance will continue their efforts to strengthen the financial underpinning in the years ahead, to increase insight into investments in and operation of the weapons systems and to improve the information provided to the House of Representatives. The House will receive an action plan ahead of the debate of the 2014 budget. The first contours of the financial insight into the main weapons systems will be presented in the draft budget for 2015. As the Court of Audit recommends, the Ministry of Defence will draw on the experiences gained from major government infrastructure projects.

Replacement of the F-16 and preference for the F-35

The replacement of the F-16 fighter aircraft is one of the policy document's main topics. The government decided when it took office that it would appoint a ministerial

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'Track changes' version
available on our website
www.rekenkamer.nl.

committee to ensure the procedure is conducted as carefully and as objectively as possible.¹⁷ The committee assessed the option for a new fighter aircraft and the other choices in the policy document against the ambitions and the need for financial feasibility. The policy document outlines the armed forces' ambitions, both nationally and internationally, and the necessary qualitative and quantitative operational capabilities. It also explains that the level of conflict is difficult to predict and that the armed forces must have sufficient escalation dominance. This means that basic capabilities, including fighter aircraft, must continue operating effectively if the security situation deteriorates. The Dutch armed forces must therefore be deployable at all levels of conflict and in all strategic functions. Given these principles, it was concluded that the F-35 was the only aircraft able to perform the necessary tasks. The F-35 offers the most and best capabilities. It is the only aircraft that can undertake all six mission types and is therefore the most appropriate choice for the diffuse threats and risks we will face in the decades ahead. In this context, we would note for the sake of completeness and by way of comparison with the earlier objectives presented in table 1 of your report that the phrase 'if necessary at the highest level of conflict' could be added to the deployment objectives for fighter aircraft until and as from 2023.

In the light of this in-depth consideration, the ministerial committee found that an update of the comparisons made in 2001 and 2008 would be adequate to determine whether there had been meaningful changes in the intervening years that would justify a revision of the earlier quality and affordability conclusions. The committee was aware, of course, that the outcome of such an update based on public sources would be narrower in nature than the outcome of a new comparison of candidates. In the committee's opinion, the information available on the abilities and restrictions of the various aircraft provides sufficient assurance to arrive at a conclusion.

The financial feasibility of the successor to the F-16 is an important consideration in the policy document. This makes high demands on the financial underpinning of the choice. In the Court of Audit's opinion, the financial feasibility of the procurement and operation of 37 F-35 aircraft is underpinned as well as possible given the available information. In a large project such as the procurement of a fighter aircraft that will remain in service until after 2050, there are limits to the assurance that can be provided on the financial consequences. The Court of Audit noted that the available budgets recognise this uncertainty better than in the past. It also concluded that it is not probable that extra efforts would lead to more accurate figures at this moment.

Financial feasibility is the main reason for the government's choice to form a risk reserve of 10% on both the investment budget and the operational budget for the F-35. The Court of Audit approves the formation of a risk reserve. The number of 37 aircraft remains a given, and unexpected cost variations can be dealt with through the risk reserves. The House will be informed of this system at the appropriate moments in the budget cycle and through the annual reports.

¹⁷

The ministerial committee comprises the Prime Minister, the Deputy Prime Minister, the Minister of Finance, the Minister of Foreign Affairs, the Minister of Economic Affairs and the Minister of Defence.

Like the Court of Audit, the Ministry of Defence recognises the risk of higher operational costs during the transition to the F-35. These risks will therefore be an important factor in the further elaboration of the transition plans. A release from the risk reserves that enables the procurement of more aircraft will be considered only if there are sufficient assurances on the actual procurement and operational costs of the F-35. This will not be the case in the near future. If it is known before the first order

date that we will not be able to procure 37 aircraft within the restraints of the available investment and operational budgets, the project will be reconsidered within the defined financial frameworks.

The procurement of 37 F-35s will enable the armed forces to protect Dutch airspace 24 hours a day seven days a week and permanently carry out a mission anywhere in the world with four aircraft. The government thinks this is an ambitious but feasible goal. The legislative procedure to enable joint air protection with Belgium will take about two years. This means that cooperation will be in place before the F-35 is introduced. Conservative assumptions were chosen to calculate the potential savings.

Balance between ambitions and resources

The structural affordability of the armed forces requires a balance between ambitions and available financial resources. The sustainability restraints, the disposal of capabilities and the resultant significant lowering of ambitions were therefore inevitable. The choices made in the policy document will reduce the size of the armed forces but set realistic ambitions. More than ever before, international cooperation is the appropriate means to realise the ambitions.

The Court of Audit found that the ambitions and capabilities of the armed forces had been brought closer together but identified risks, especially in the longer term. In the government's opinion, the choices taken and the revision of ambitions will strike a balance that allows deployment of the armed forces without compromising training or the conduct of operations. We agree with the Court of Audit about the need to keep a keen eye on the balance and take additional measures where necessary. In this light, the Ministry of Defence recently reached agreement with the House of Representatives on the submission of a periodic report on the deployment objectives so that imbalances between ambitions and resources can be identified quickly and measures can be taken promptly.

The Court of Audit states that better insight is needed into the estate portfolio. The Ministry of Defence acknowledges this and has recently established a steering group.

In conclusion

We take the Court of Audit's recommendation to heart and will make proposals to mitigate the risks in future-proofing the financial framework and the choices made, and we will inform the House accordingly. The recent intensive contact between the ministries and the Court of Audit form a solid basis for further improvement of the House's financial insight and the provision of information to it. Both elements are closely related to the goal of financial and operational sustainability, the main topics of the policy document on the future of the armed forces."

5.2 Court of Audit's afterword

We read with pleasure that the Ministers of Defence and of Finance would continue their efforts in the years ahead to further strengthen the financial underpinning, to increase long-term insight into the investment in and operation of the weapons systems and to improve the information provided to the House of Representatives. We have undertaken to assist them in their efforts. We assume that the ministers' undertaking to draw on the experience gained from large infrastructure projects also

covers systematic control of the two proposed risk reserves. Periodic reports to parliament on the progress made would help improve the provision of information.

It appears from the ministers' response that they do not fully agree with our conclusions on the balance between the ambitions and resources for the armed forces. The government still seems to think that a balance can be achieved by the choices made and the revised ambitions that will enable deployment of the armed forces without compromising training or the conduct of tasks. Perhaps the difference lies in the phrase, 'can be achieved'. We believe there are real problems that cannot be resolved across the breadth of the armed forces merely by means of the measures announced in the policy document. The ministers stress that the Dutch armed forces are and will remain deployable at all levels of conflict but do not comment on our conclusion that this is currently not the case with the Chinook transport helicopters or with the army units that rely on the Chinook. The ministers are confident that, with 37 JSFs, the armed forces will be able to protect Dutch airspace and carry out a lengthy mission elsewhere in the world with four aircraft. They do not respond to our conclusion that we cannot share their confidence, if only because the total of 37 JSFs will eventually be reduced by peacetime losses.

We appreciate the appointment of a steering group to improve insight into the Ministry of Defence's estate portfolio. We presume that the steering group will give priority to assessing and reassessing the benefit and need of ongoing estate operations. The group should be fully aware, of course, of major estate operations at other ministries and the consequences of the coincidence of operations at local and regional level.

Appendices 1 - 5 are translations of correspondence between the Court of Audit and parliament, the Minister of Finance and the Minister of Defence.

Appendix I

Letter from the Minister of Finance to the Court of Audit

Date 30 November 2012
 Subject Request to the Court of Audit

Dear Ms Stuiveling,

The cabinet announced in the Coalition Agreement that it would take a decision on the replacement of the F-16 before the end of 2013. The decision will have to be taken with the greatest possible care as it entails not only the procurement of a replacement fighter aircraft and its introduction into the fleet but also a vision of the armed forces of the future, which - subject to budgetary restraints - allows the Netherlands to undertake international and NATO commitments and the armed forces to participate in international crisis management operations. The vision of the armed forces will be worked out in the months ahead. I attach great importance to a sound financial underpinning of the vision and would like to put the plans to you for validation in due course.

It is necessary to have an insight into the costs (both investment and operational) of the weapons systems, not only those of the fighter aircraft. This is a precondition for financially sound decisions that produce the envisaged armed forces of the future within the available defence budget.

The Court of Audit concluded in its report 'Joint Strike Fighter exit costs' and in other communications that the Ministry of Defence does not have financial figures on the operation of each weapons system and that it is necessary to improve insight into the financial information available on the operational and investment costs of weapons systems.

The Ministry of Defence and the Ministry of Finance will together prepare a financial template in the near future to clarify the cost of each weapons system and will submit it to you for assessment. A proposal will also be made to restructure the Defence Investment Plan (DIP) and the Defence Operational Plan (DEP) so that they break down the defence budget (including recent changes further to the Coalition Agreement) into investment and operational costs. The Ministry of Defence will first provide insight into the investment and operational costs incurred for the 30 or so largest weapons systems. This expenditure accounts for about 80% of total expenditure on weapons systems.

The Ministry of Defence and the Ministry of Finance would appreciate your opinion on the template, the new DIP and the new DEP and any proposals you may have for improvement. The template will be adapted in response to your opinion and the cost of each system in the aforementioned subset of weapons systems will be clarified so that the choices made for the vision of the armed forces are financially sound.

This letter was translated into English at the request of the Court of Audit. The translation has been made with the greatest care but was not discussed with the author of the letter; no rights may be derived from the translation. In the event of textual inconsistencies between the English and the Dutch versions, the latter shall prevail in all cases.

Your Board periodically informs the House of Representatives of the status of the project to replace the F-16 and intends to provide the information by means of a web dossier. The Coalition Agreement recognises the importance of a good information supply. I would appreciate it if you could inform the House of Representatives more broadly of your opinion on the quality of the information provided to date regarding the development of investment costs, operational costs and the number of fighter aircraft.

J.R.V.A. Dijsselbloem
The Minister of Finance

Appendix 2

Letter from the Court of Audit to the Minister of Finance

Date 18 December 2012
Subject Requested audit of the vision of the armed forces and the replacement of the F-16

Dear Mr Dijsselbloem,

In your letter of 30 November 2012, you asked the Court of Audit to assess the government's intention to take a decision on the replacement of the F-16 at the end of 2013. Your request comprised three parts:

1. In anticipation of the decision, the Minister of Defence, in consultation with the Minister of Foreign Affairs, will develop a vision of the future of the armed forces. The replacement of the F-16 will form an integral part of the decision. You asked us to validate the vision and its financial underpinning.
2. In consultation with your ministry, the Minister of Defence will prepare a financial template to clarify the cost of each weapons system. It will also make a proposal to restructure the Defence Investment Plan (DIP) and the Defence Operational Plan (DEP) in order to organise the defence budget by investment and operational expenditure. You asked us to express an opinion on the template and on the new DIP and DEP and to make proposals for improvement where appropriate.
3. Thirdly, you asked us to inform the House of Representatives more broadly - in addition to the web dossier we are preparing on the replacement of the F-16 - of our opinion on the quality of information provided to it to date on developments in investment costs, operational costs and the number of aircraft.

We are willing to accept your request. We have already discussed a series of sequential steps with civil servants at your ministry that we will need to take. The Ministry of Defence, for example, will have to propose a financial template and a restructuring of the DIP and DEP. In our opinion, this will not be an isolated undertaking but a fundamental change in the accounting systems and operational and investment plans for the weapons systems. Such a restructuring will provide an insight into the total life cycle cost of each weapon system. Such an insight is a necessary precondition for the financial underpinning of the vision of the armed forces and the choice of aircraft to succeed the F-16. The restructuring will also facilitate the provision of information to the House of Representatives. We will officially inform your ministry and the Ministry of Defence of our opinion on the proposed financial template and any proposals we may have to improve it. We will also inform the House of Representatives.

We will commence our validation of the vision of the armed forces and its financial underpinning once we have received the vision and the underpinning from the ministers concerned. We are currently discussing the planning with your civil servants. We expect to inform the House of Representatives of our opinion three months after the vision is completed.

We are currently preparing a web dossier on the replacement of the F-16 that will be made public in due course. The dossier will present, among other things,

developments in investment costs, operational costs and the necessary number of fighter aircraft, as stated by the Ministry of Defence in information provided to the House of Representatives. We have consistently assessed the quality of this information in the reports and letters we have submitted to the House of Representatives concerning the monitoring of the replacement of the F-16 and the procurement of the Joint Strike Fighter. We will combine these opinions in a non-time-bound form in a letter to the House of Representatives when the web dossier is launched. The web dossier and the letter will be available in around March 2013.

We will inform the House of Representatives in the customary manner of your request for this validation and our undertaking to carry it out.

We have sent a copy of this letter to the Ministry of Defence.

Netherlands Court of Audit

Saskia J. Stuiveling
President

Ellen M.A. van Schoten
Secretary

Appendix 3

Letter from the Minister of Defence to the Court of Audit

Date 17 January 2013
Subject Request to validate financial templates prepared for the vision of the armed forces

Dear Ms Stuiveling,

The government announced in the Coalition Agreement that it would take a decision on the replacement of the F-16 at the end of 2013. As noted by the Minister of Finance in his letter of 30 November 2012, I present, in consultation with the Minister of Finance, the financial templates for your validation. I would like to use the templates to obtain the insight necessary into the investment and operational expenditure in the defence budget and for each weapon system.

The Ministry of Defence and the Ministry of Finance look forward to your response and any proposals you may have for improvement. Following your validation, the templates will be used to clarify the cost per weapons system and to underpin financially the choices that will be made for the vision of the armed forces.

We will continue to work on the vision of the armed forces in the months ahead. I attach great value to a soundly underpinned vision and look forward to your response.

J.A. Hennis-Plasschaert
Minister of Defence

This letter was translated into English at the request of the Court of Audit. The translation has been made with the greatest possible care but was not discussed with the author of the letter; no rights may be derived from the translation. In the event of textual inconsistencies between the English and the Dutch versions, the latter shall prevail in all cases.

Appendix 4

Letter from the Court of Audit to the Minister of Defence

Date 18 April 2013
Subject Template for the financial underpinning of the vision of the armed forces

Dear Ms Hennis,

Further to our meeting on 18 March 2013, we are replying to your letter of 17 January 2013 (received on 21 January 2013), in which you asked us to assess the financial templates prepared for the vision of the armed forces of the future so that they can be used for the financial underpinning of the vision.

Introduction

This request was made further to the Minister of Finance's letter of 30 November 2012 (received on 3 December 2012) asking us to validate the Ministry of Defence's vision of the armed forces of the future, with particular regard for the validation of its financial underpinning. The request had been agreed upon in the Coalition Agreement of the Rutte/Asscher government.

The aforementioned letter from the Minister of Finance said that along with the financial templates we would receive a proposal for a restructuring of the Defence Investment Plan (DIP) and the Defence Operational Plan (DEP). In your letter of 17 January 2013, you state that you would use the financial templates to support the choices that will be made for the vision of the armed forces. Since we have not yet received the proposal to restructure the DIP and DEP, we have reviewed the templates' suitability for the financial underpinning of the vision of the armed forces. We would note that this serves a different purpose than the templates' original purpose: a fundamental revision of the Ministry of Defence's estimation system and financial systems. At our meeting with you, we therefore discussed template A, which you suggested could be a presentation form for the financial underpinning of the vision of the armed forces, and template B, which would be developed in due course for a more fundamental revision of the Ministry of Defence's estimation system and financial systems. The choices in the vision will probably require a reorientation of the systems. Operational management in general and information systems in particular must be supported if the armed forces are to achieve their deployment objectives. This will have consequences for the organisation, operational management and - for example - the further implementation of the SPEER project. Since template B has not yet been produced, we do not consider it further in this letter. References to 'the template' in the remainder of this letter are therefore references to template A.

We have reviewed the template with regard to the organisation of the adoption of the vision of the armed forces of the future. Our comments relate to the organisation.

Opinion on the template and structure

Our review of the template and the organisation of the vision of the armed forces of the future considered five aspects:

1. project control
2. economic aspects
3. calculation technique
4. military/operational aspects
5. general usefulness of the template

Project control

The vision is being constructed from 13 building blocks. We found that control of the building blocks had been poorly worked out and documented. We believe there are risks that the building blocks will not fit together to produce a comprehensive vision. We also believe there are risks to the quality of the financial underpinning and its validation.

We would note that the proposal has opted for a sequential approach to the building blocks: the roles and tasks are formulated after the ambitions. Only then are the necessary capabilities considered. The project organisation currently working on the vision, however, is not organised for a sequential approach as they are expected to commence their work more or less simultaneously, after which an iterative process will build up the blocks. The iterative process to select particular ambitions and weapons systems is not documented. There is therefore a risk that discussion and formulation of the principles and rules for the choices may lead to deadlock and delays.

In the Court of Audit's opinion, the organisation also harbours the risk that roles and tasks will be formulated on the basis of deployment objectives set in the past, not on the needs identified in the environmental analysis. The necessary capabilities would then be formulated on the basis of past wishes instead of the new deployment objectives. In the case of the F-16, this led to financially unachievable capability requirements and a dilution of preparedness in recent years (with varying definitions of 'preparedness').

Economic aspects

As well as a number of general expenditure items, the template breaks down the expenditure on 27 separate weapons systems in the past five years and the next 15 years. A 28th group is formed for the other weapons systems. You stated that the 27 weapons systems were the largest weapons systems: together they account for 80% of materiel operational costs. We did not receive an overall statement of all weapons systems and their materiel operational costs from you and therefore could not determine whether the selected weapons systems actually made up this percentage. We found that the 27 weapons systems selected were distributed proportionately across the three armed services, which might be a different selection to one based purely on percentages. It is also uncertain whether proportionate cost allocation across the weapons systems is in step with the future vision of the armed forces as a whole. We would note that an insight is ultimately required into expenditure on all weapons systems. We would also note that the use of a percentage to select the weapons systems, as referred to in the template, can weaken the template's usefulness for the financial underpinning of the vision: it is not known in advance that the weapons

systems selected will provide the information necessary for the underpinning. It may be that a weapon system in the 20% of the 28th group is taken out of service or modified.

The extension of the time horizon from ten years (as used in the DIP and the DEP) to 15 years provides a better insight into the financial durability of the vision but is still too short. Known expenditure after 2028 is not recognised in the financial underpinning. This is the case, for example, with the operational costs of the successor to the F-16 after 2028. By setting a limit at 2018, there is also no insight into any peak expenditure in other items of the financial underpinning. The system is unable to reveal potential camel's noses.¹ A longer horizon for the financial underpinning does not need to be detailed; a general overview of cost developments in all items of the financial underpinning would suffice, especially for the longer term.

We would note that the template is very detailed, especially per weapon system. The level of detailing suggests that the financial information has a high degree of accuracy and reliability. It is known, however, that the underlying systems cannot generate information of that quality, partly because they have not yet been designed to do so. The absence of a scenario-based approach, one that takes account of potential future developments (for example optimistic, neutral or pessimistic expectations regarding the price of the successor to the F-16) weakens the robustness of the financial underpinning of the vision.

There are risks in the decision-making procedure in the waterfall method used to bring the financial consequences of the vision within the budgetary restraints in accordance with the 'Supplementary management amendments for the building blocks'. In the waterfall method, overruns are accounted for firstly within the weapons system and secondly within the armed service concerned, and only if this is not possible within other branches of the armed forces. This is appropriate to deal with budgetary problems when choices have already been made but not when new 'clear indicative choices' are being made, as in the case of the vision.

Calculation technique

We have so far gained only a limited insight into the rules that will be used to allocate expenditure to individual weapons systems. We presume that the audit trail will be available for the forthcoming validation of the vision. We would point out now that a clear distinction should be made in the item 'personnel' between staff establishment and actual staff numbers. Furthermore, in so far as the concept of life cycle costs is applied, annual fluctuating expenditure, such as periodic technical updates, should not be averaged as 'costs' over a series of years as this would eliminate any insight into financial durability.

Military/operational aspects

The template does not show how account is taken of the scale limits of weapons systems: below what limit is the air force or navy effective? How big can a sustainment facility (such as units of the Woensdrecht Logistics Centre) be before it is no longer viable? Limits on the number of weapons systems of one particular type can form a tipping point for military and operational deployment. There are also interrelationships between weapons systems, such as the significance of the army's logistics systems to the armed forces as a whole and the use of air support for ground troops.

¹ In a camel's nose, only the beginning of expenditure is shown and the main bulk of inevitable future expenditure is not revealed.

Apart from scale limits, international commitments (mainly for NATO) set operational restraints: does the Netherlands have the capabilities it needs to fulfil its commitments? How such considerations were taken into account when balancing the ambitions, people/resources, time and budget has not been documented. The template does not provide for the documentation of such restraints. This can be done relatively simply by documenting the current agreements on the Netherlands' participation in NATO operations for each weapons system.

A fallback option should be put in place in case the negotiation of reduced participation in NATO operations or international cooperation does not achieve the desired financial durability. There is always a risk that the negotiations will not produce the desired result on time.

Finally, we would note that the template provides no information on the cost and income of the disposal, scaling down or deferment of weapons systems and investments in them. This is a shortcoming because such financial consequences should be known before decisions are taken. In many cases, the disposal or scaling down of weapons systems does not reduce operational costs proportionately. In some cases, new costs even arise. These cost effects are not restricted to weapons systems: other items in the template can have similar financial consequences.

General usefulness of the template

In the light of the above, we are of the opinion that the template by itself is insufficient for the financial underpinning of the vision of the armed forces of the future. It does not allow for information that is of critical importance for the financial underpinning of the vision. Furthermore, the level of detail suggests a degree of accuracy and reliability that cannot be achieved by the underlying systems. The extent to which these shortcomings can be rectified during the preparation of the vision and its financial underpinning is open to question. A first look at the organisation of this process found that it, too, harboured risks concerning the quality of the financial underpinning of the vision.

Conclusion and recommendation

In view of the current stage of the preparation of the vision of the armed forces of the future, it is probably not meaningful to depart from the template as a model for the financial underpinning of the vision. We recommend that you generate the information necessary for the underpinning where it is not provided for by the template, in particular the life cycle consequences for all weapons systems considered in the vision, taking account of all cost items, even if they are not expenditures, of scale limits and of scaling down and disposal costs. Scenarios should also be considered for future developments and fallback options should international negotiations not lead to the results anticipated in the vision. This, too, assumes a longer time horizon than 15 years. We are aware that a high level of accuracy cannot be guaranteed, but it is not necessary.

We also recommend that a method for budgetary durability be used that is appropriate to the vision and that the audit trail for the preparation of the vision be documented as fully as possible. If it is not, it will be considerably more difficult to validate the vision and its financial underpinning.

Further steps in the validation of the vision of the armed forces

Our review the template can be considered a review of the organisation of how the vision of the armed forces and its financial underpinning were prepared. We have informed you of a number of risks we identified in the organisation orally and by means of this letter. We will inform your civil servants of the findings underlying this letter and provide further clarification if necessary.

The review of the template is therefore just one step in our validation of the financial underpinning of the vision. We are currently following the preparation of the vision and will be able to assess its financial underpinning more substantively as soon as we receive the vision from you. We will pay particular attention to the risks identified in the organisation, the soundness of the financial underpinning and the balance between ambition, people/resource, time and money. The date on which we can report to the House of Representatives will depend on when we receive the vision from you. We will need eight weeks (including the customary clearance procedure) before we can report.

We will send a copy of this letter to the Minister of Finance as he is involved in the financial underpinning of the vision of the armed forces of the future.

Netherlands Court of Audit

Saskia J. Stuiveling
President

Ellen M.A. van Schoten
Secretary

Appendix 5

Letter from the Court of Audit to the President of the House of Representatives

Date 22 May 2013
Subject Information position of the House of Representatives regarding the replacement of the F-16 (reconstruction)

Dear Ms van Miltenburg,

The Minister of Finance asked us by letter of 30 November 2012 to review the vision of the armed forces of the future and its financial underpinning and the replacement of the F-16. He also asked us to express an opinion on the quality of the information provided to date regarding the development of investment costs, operational costs and the number of fighter aircraft in the F-16 replacement project. This letter considers the last part of his request. In advance of this report, we launched a web dossier on the replacement of the F-16 on 28 March 2013. It is available from our homepage, www.courtofaudit.nl or directly at <http://vervangingf16.nl/>.

Netherlands Court of Audit

Saskia J. Stuiveling
President

Ellen M.A. van Schoten
Secretary

INFORMATION POSITION OF THE HOUSE OF REPRESENTATIVES REGARDING THE REPLACEMENT OF THE F-16
(RECONSTRUCTION)

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1 Introduction

At the request of the Minister of Finance we have reconstructed the provision of information to the House of Representatives regarding the replacement of the F-16. At the minister's request this historical reconstruction focuses on the information the House received from the government regarding aircraft numbers and the budget for their procurement. The reconstruction includes information on the operational cost of the successor to the F-16 but it is only mentioned in passing in this reconstruction because it has not featured prominently in the debate between the government and the House. Operational costs will feature more prominently in the vision of the armed forces and the Court of Audit's validation of its financial underpinning.

We have divided the provision of information to the House of Representatives regarding the investment costs, operational costs and number of aircraft into three periods between 1996 and 2012.

The first period, the *tentative budget period*, runs from 1996 to 2006. The second Kok government and the first and second Balkenende governments did not set a budget for the replacement of the F-16, but the government stated in April 1999 that the replacement of F-16 would cost at least NLG 10 billion. Amounts were also given in 2002 for the procurement and operation of 120 and 85 replacement aircraft. The budget, however, was tentative, as was the number of aircraft.

The second period, *tension between planning number and budget*, runs from 2006 to 2010. The third and fourth Balkenende governments wanted the Ministry of Defence to announce how much the procurement of 85 aircraft would cost and to cover that amount in its budget and financial plans. According to the Ministry of Defence, the budget has therefore been tentative rather than fixed since 2006. Tension has grown, however, between the planning number of 85 aircraft and the money available. By December 2010, considerable cost increases in the JSF programme in the United States meant the cost of 85 aircraft could no longer be covered by the ministry's budget.

The third period, *incompatible variables*, runs from 2010 to the end of 2012. The review of the F-16 replacement project prompted the Rutte/Verhagen government to issue the policy letter 'Defence after the credit crisis'¹ in April 2011. The government reserved €4.5 billion in the letter for the replacement of the F-16 and retained the planning number of 85 aircraft even though the reserve was far from adequate to procure that number. The available money and the planning number of 85 aircraft had thus become incompatible variables.

These three periods are considered in separate chapters below. We first explain the frameworks in place for the provision of information to the House of Representatives. For each period we reconstruct the information the House actually received and assess its quality.

¹

Defence after the credit crisis, smaller armed forces in a turbulent world, House of Representatives, 2010-2011, Parliamentary Papers 32 733, no. 1, The Hague, Sdu.

Our web dossier provides a summary of the most important information provided regarding the F-16 replacement programme since 1996. The web dossier provides the House of Representatives and other interested parties with all the information we have on the F-16 replacement project in a systematic fashion. The information in the web dossier is presented by theme: decision-making on the F-16 replacement project, financial aspects, consequences for industry, the international JSF programme and the F-16 itself. We drew on official documents such as the Memoranda of Understanding signed by the partner countries, Parliamentary Papers and the official websites of participating countries. We also used our own audit findings and reports issued by the supreme audit institutions of other countries. The web dossier is, of course, kept up to date. We will inform you of the updates by letter as from the summer. The web dossier can be found at through our home page, www.courttofaudit.nl.

2 Frameworks for the provision of information to the House of Representatives

The provision of information on the F-16 replacement project is laid down in two regulations: the Defence Materiel Process (DMP) and the Large Projects Regulation (RGP). The main points of these regulations are summarised below.

2.1 Defence Materiel Process (DMP)

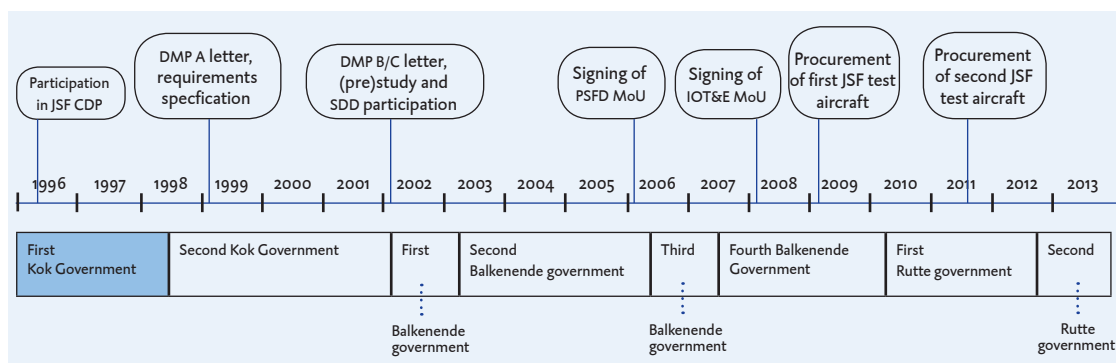
The Ministry of Defence has introduced special rules in the Defence Materiel Process for the procurement of military materiel that costs more than €5 million. The DMP regulates both the procurement process within the Ministry of Defence itself and the way in which the Minister of Defence informs the House of Representatives about a procurement proposal. The DMP states that a materiel procurement project begins with a specification of the requirements, known as the A phase. Materiel is then selected that satisfies the requirements (the B and C phases) before a final decision is taken on the procurement (D phase). Larger procurement processes are concluded with an evaluation (E phase). Each phase (at least in a project as large as the replacement of the F-16) closes with a letter to the House of Representatives. The letter presents the results of the phase just concluded and the steps proposed for the next phase.

2.2 Large Projects Regulation (RGP)

Under the Large Projects Regulation (RGP), the House of Representatives can classify a project as a Large Project. A minister must then send specific information on the project to the House in a basic document as well as the information required under the DMP and subsequently inform the House by means of periodic progress reports. Specific agreements can also be made under the RGP to regulate communication between the House and the minister. The House of Representatives classified the replacement of the F-16 as a Large Project in 1999 and made agreements with the state secretary on how it would be informed of the project.

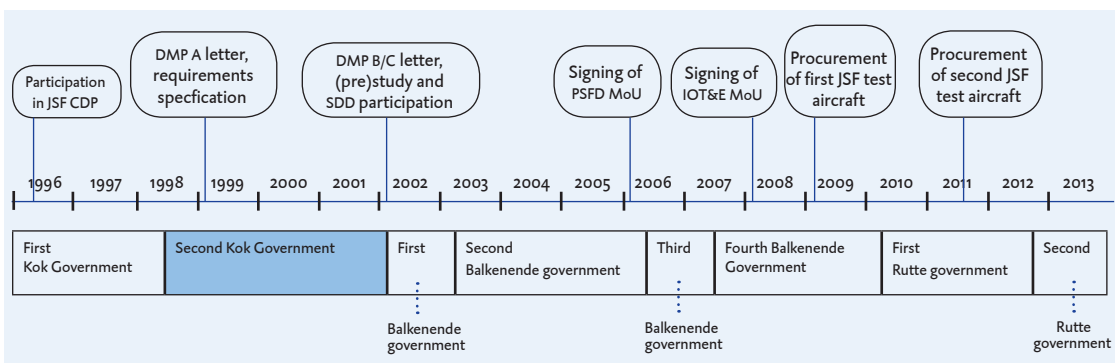
3 Information provision 1999 - 2006: tentative budget period

3.1 First Kok government: participation in the design phase of the JSF and subsidy for the Dutch aviation industry



At the instigation of the State Secretary for Defence, the first Kok government decided in 1996 that the F-16 fighter aircraft had to be replaced. The Netherlands became a partner in the initial design phase of the JSF, the Concept Demonstration Phase (CDP), in 1997. The first Kok government provided a subsidy to the Dutch aviation industry during this period so that it could compete for orders arising from the JSF programme. The government informed the House of Representatives of both participation in the CDP² and the subsidy³ before they were into effect. The government then turned to working out the requirements.

3.2 Second Kok government: 'A' letter on the requirements for the replacement of the F-16 and classification as Large Project



² See for example, House of Representatives, 1996-1997, Parliamentary Papers 25 000 X, no. 44, The Hague, Sdu.

³ House of Representatives, 1998-1999, Parliamentary Papers 25 820, no. 3, The Hague, Sdu.

⁴ House of Representatives, 1998-1999, Parliamentary Papers 26 488, no. 1, The Hague, Sdu.

The second Kok government was sworn in in August 1998. It worked out the requirements for the replacement of the F-16 in the autumn of 1998 and in the first few months of 1999. On 9 April 1999, the State Secretary of Defence began the F-16 replacement project by sending the A letter to the House of Representatives.⁴ The letter on the requirements for the replacement of the F-16 marked the start of the DMP process. The state secretary wrote in it that nothing could be said about the number of aircraft necessary to replace the F-16. A decision, he wrote, would have to be taken in the longer term. Regarding the financial consequences of replacing the F-16 he noted that 'it has been assumed for planning purposes that the replacement of the F-16 would cost at least NLG 10 billion (1998 prices)'. Following the political debate of the requirements, the F-16 replacement project entered the initial study and final study phases, the B and C phases.

In 1999 the House of Representatives' Permanent Defence Committee decided to classify the replacement of the F-16 as a Large Project pursuant the Large Projects Regulation. The Permanent Defence Committee accordingly asked the state secretary to prepare a basic document setting out the project's objectives. By letter of 23 September 1999, the Permanent Defence Committee specifically requested that the minister use the quantitative and qualitative requirements in the basic document to express the project's strategic objectives in terms of final materiel choice. The Permanent Defence Committee wanted to know how many fighter aircraft would be necessary in the light of the strategic objectives, the financial planning, the underpinning of the cost estimates, budgetary durability, the financial risks and the level of contingencies. The State Secretary of Defence submitted the basic document to the House of Representatives on 15 March 2000.⁵ He wrote that the B and C letters would provide more clarity on both the required number of aircraft, and the financial planning and budgetary durability on completion of the combined initial/final studies.

3.3 Third Kok government: B/C letter on the requirements for the replacement of the F-16 and participation in the development of the JSF

The government informed the House of the completion of the initial/final study by letter of 11 February 2002, the B/C letter. It was signed by the Minister and State Secretary for Defence, the Minister of Economic Affairs and the Minister of Finance on behalf of the second Kok government.⁶ In the B/C letter, the government justifies its choice for the JSF and participation in its development. The second Kok government concluded from the combined initial/final study that the JSF was the best aircraft at the best price and that the State would participate in its development to an amount of USD 800 million.

The letter also explained that the government had asked the potential suppliers to provide information regarding the procurement of 120 aircraft. Agreement was reached with the potential suppliers on that number of aircraft and on the related financial analyses made by the Ministry of Defence. The ministry then carried out calculations for 'a more realistic number of 85 aircraft'. The letter does not explain whether this number was thought to be more realistic on operational or on financial grounds. It does state that 'further insight into the price of fighter aircraft has led to 85 aircraft being selected for the calculations and the decision on whether to co-develop or 'buy off the shelf'. The letter included the following estimate of the JSF's investment costs, operational costs and life cycle costs in comparison with the other candidates that had been evaluated.

⁵
House of Representatives,
1999-2000, Parliamentary
Papers 26 488, no. 3, The
Hague, Sdu.

⁶
House of Representatives,
2001-2002, Parliamentary
Papers 26 488, no. 8, The
Hague, Sdu.

Table 1 Life cycle cost analysis of the JSF and other candidates in the B/C letter

European candidates						American candidates					
	Rafale		Eurofighter		Gripen	F/A-18 E/F		Adv. F-16		JSF	
Unit price	95.4		51.6		42.3	53.2		46.0		41.4	
Number	120	85	120	85	-	120	85	120	85	120	85
Investment costs	10,733	7,936	8,802	6,403	-	8,822	6,383	9,504	7,052	8,131	6,065
Operational costs, 30 years	8,783	7,853	7,820	7,011	-	9,766	8,635	7,885	7,157	7,602	7,024
Life cycle costs, 30 years	19,516	15,789	16,622	13,414	-	18,588	15,018	17,389	14,209	15,733	13,089

Amounts in million of euros, 2000 prices, €1 = USD 1.15

Based on a bare unit price and 85 aircraft, procurement of the JSF, according to the B/C letter, would cost €3.52 billion. Including the other investments costs (simulators, spare engines, initial stock of spare parts, infrastructure modifications, modifications during production phase, measurement and testing equipment, documentation and initial training, transport costs, VAT and import duties), the total investment cost would come to €6.1 billion. The summary in the B/C letter is not an estimate of the investment cost but a life cycle cost analysis made specifically for the comparison of candidates and intended chiefly to back up the government's position that the JSF was both 'the most effective' and 'least expensive aircraft in both unit price and life cycle cost terms'.

Regarding the relationship between the amounts shown in the table above and the amount stated in the A letter of at least NLG 10 billion (1998 prices, equal to €4.5 billion) for the replacement of the F-16, the government wrote in the B/C letter that the NLG 10 billion was not a set project budget. 'It is a tentative estimate and does not take account of the number of aircraft or prices'. The letter also notes that 'with a basically constant budget and higher aircraft prices, the ultimate number of aircraft to be procured will be lower'.

Regarding the expected number of aircraft to be procured, the second Kok government declared in the B/C letter that the Ministry of Defence would carry out a 'numbers study' only as part of a government procurement decision (to be included in a D document) in order to determine the actual requirement for replacement aircraft. A future government would then take a final decision on the number of aircraft to be procured and submit the procurement decision to parliament for debate. At the time of the B/C letter, such a decision was expected in 2006 or 2007. Until then, the government would work with a 'planning number' (see box below).

Planning number

During the initial study phase for the B/C letter, the second Kok government had the choice of co-developing the JSF as a partner or buying the aircraft off the shelf. A business case was developed to work out the options, with the financial consequences of co-development for the State being based on the procurement of 85 aircraft. The number of 85 aircraft has since been referred to as the 'planning number'. The planning number was intended solely as a reference for the calculation of the business case but the government stressed that the planning number '[could] also be a realistic number in operational terms but this does [not] prejudice the quantitative requirement'. The second Kok government and all subsequent governments declared that the number of 85 aircraft was unrelated to the actual number of aircraft the Minister of Defence required, although it was the decisive reference number for the political deliberation of the business case and thus for the government's decision on the co-development of the JSF.

Further to the B/C letter, the House asked 456 questions on, for example, the relationship between the available financial resources in the defence budget and the defence plans on the one hand and the Ministry of Defence's ambitions and quantitative requirements on the other. The House also asked for an explanation of why the number of aircraft was 85 and about the possibility of procuring the JSF in phases or batches.⁷

In answer to the questions on the number of 85 aircraft and possible procurement in batches, the minister and state secretary replied, 'A decision does not need to be taken yet on [...] the precise number of aircraft required to replace the F-16. The appropriate moment is the procurement decision, which will not be reached for several years. The number of 85 aircraft has been used for calculations and to decide on co-development or procurement off the shelf. It does not anticipate the quantitative requirement, which will be decided by the operational requirement. However, a financial framework will apply that is appropriate to the Netherlands' ambitions.'

Procurement in batches

According to the Ministry of Defence, procurement in batches would mean that the JSF production aircraft would be procured in several phases, as had been the case with the F-16. The government and the House would then take separate decisions on the procurement of a first phase and possible subsequent procurements in later phases. In the policy letter, *Worldwide service* (Parliamentary Papers 31 243, no. 1), the Minister of Defence wrote: 'Phased procurement creates an opportunity for Defence to adapt to the international security situation and to technological advances in the air force over a series of years and decide at a future date whether more aircraft are needed and, if so, how many.' Successive governments could not indicate in advance how many JSFs would be required to replace the F-16 if they were procured in batches, as the total would depend on future decisions on the numbers in the batches and the number of batches.

The House of Representatives also asked the government whether it thought its decision was responsible since it had no insight into the actual number of aircraft required and, moreover, had not set a budget (see box below).

⁷

House of Representatives, 2001-2002, Parliamentary Papers 26 488, no. 9, The Hague, Sdu.

House question 108 on the B/C letter⁸

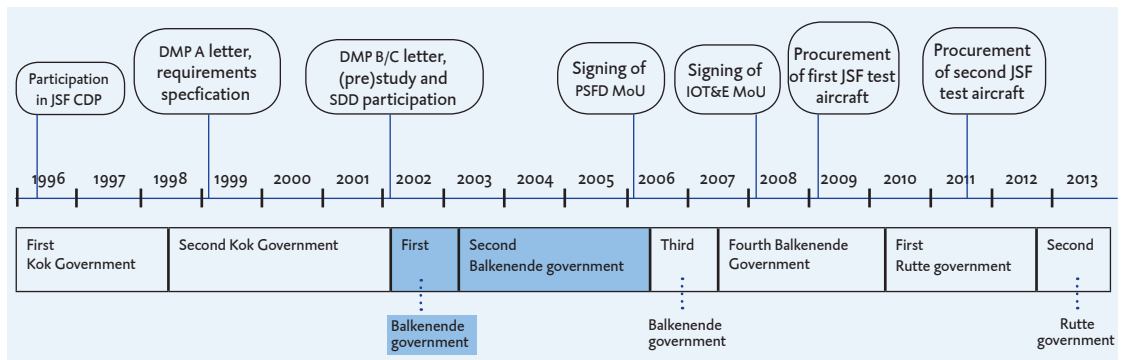
Question from the House of Representatives: The letter states, 'A decision does not need to be taken on the precise number of aircraft yet' and 'a project budget has not been set'. Does the government think the decision to participate in the SDD phase was responsible given that there is no set budget and no set quantitative requirement? Can the government explain this?

Government answer: The letter of 11 February 2002 explains how the government prepared its decision. A responsible decision was then taken on that basis. The matters referred to were not necessary for an SDD decision. The government thinks that by retaining some flexibility in the decision on the ultimate size of the Dutch JSF project, it has additional assurance that decision-making will be responsible.'

The government's answers to the 456 questions did not persuade the House to agree to the government's proposal in the B/C letter to participate in the development of the JSF for USD 800 million.

The second Kok government fell on 16 April and left office on 21 July 2002. The government postponed further debate of the B/C letter until after the elections to be held on 15 May 2002. The outgoing government informed the House on 3 May 2002 that the US government would allow it to postpone signing of the SDD MoU until 12 June 2002.⁹ On 30 May 2002, two weeks after the elections, the new Permanent Defence Committee decided to continue the debate of the B/C letter and the signing of the SDD MoU with the outgoing Kok government. The House then approved the B/C letter and the government's decision that the Netherlands become a partner in the co-development of the JSF for NLG 800 million on 4 June 2002. This completed the A, B and C phases of the DMP process to replace the F-16. The project then entered the procurement preparation phase, the D phase, which is still ongoing to this day.

3.4 First and second Balkenende governments: participation in the JSF programme



The first Balkenende government took office in July 2002 and stood down in October of the same year. The second Balkenende government was sworn in in May 2003. It deferred a procurement decision on the replacement of the F-16 and the related D letter until 2006. In the years that followed, information on the replacement of the F-16 was provided by means of annual reports prepared for the RGP for the years 2002 to 2006 and by means of answers to questions asked by the House of Representatives to the State Secretary for Defence. The questions considered, among other things, delays and cost rises in the JSF programme during these years and the size of orders for Dutch industry.

8

House of Representatives, 2001-2002, Parliamentary Papers 26 488, no. 9, The Hague, Sdu

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House of Representatives, 2001-2002, Parliamentary Papers 26 488, no. 16, The Hague, Sdu

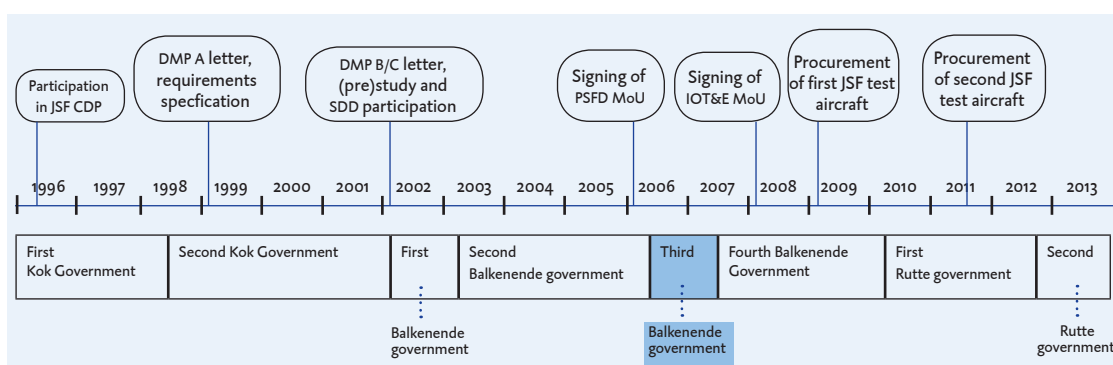
3.5 Second Balkenende government: official studies from 2005 not submitted to the House of Representatives

The Ministry of Defence said in 2004 and 2005 that the second Balkenende government would take a decision on the replacement of the F-16. It was therefore making preparations for a procurement decision in the form of a draft D document. The ministry would use the document to explain the relationship between the planning number of 85 aircraft and the tentative budget of €4.5 billion (NLG 10 billion) referred to in the A letter. The studies carried out by the ministry concluded that 85 aircraft could not be procured for €4.5 billion. The second Balkenende government did not inform the House of Representatives of the findings of these studies.

When the existence of these studies became known four years later, via the television programme Reporter of 6 September 2009, the House of Representatives asked the fourth Balkenende government why they had not been sent to the House at the time. The government answered in letters to the House of 7 September 2009¹⁰ and 28 October 2009¹¹ that the fall of the second Balkenende government meant there was no longer a definite proposal for a procurement decision and therefore no reason to inform the House of the studies, which had been intended to support a procurement decision. The fourth Balkenende government also saw no reason to do so in 2009.

4 Provision of information 2006 - 2010: tension between planning number and budget

4.1 Third Balkenende government: 85 aircraft in the PSFD MoU



The second Balkenende government fell in June 2006 and the transitional third Balkenende government took office in early July 2006. Under this government, the Netherlands became a partner in the production phase of the JSF programme. The State Secretary for Defence signed the MoU for *Production Sustainment and Follow-on Development* (PSFD) with the US government on 14 November 2006 on behalf of the government. The Netherlands is required to state every year how many aircraft it expects to procure in appendix A of the MoU. Statement of a number in appendix A of the PSFD MoU does not mean that the Netherlands has committed itself to procure 85 JSF aircraft. The third Balkenende government used 85 aircraft as the provisional Dutch requirement, a number that is still being used today.

¹⁰

House of Representatives, 2008-2009, Parliamentary Papers 26 488, no. 196, The Hague, Sdu.

¹¹

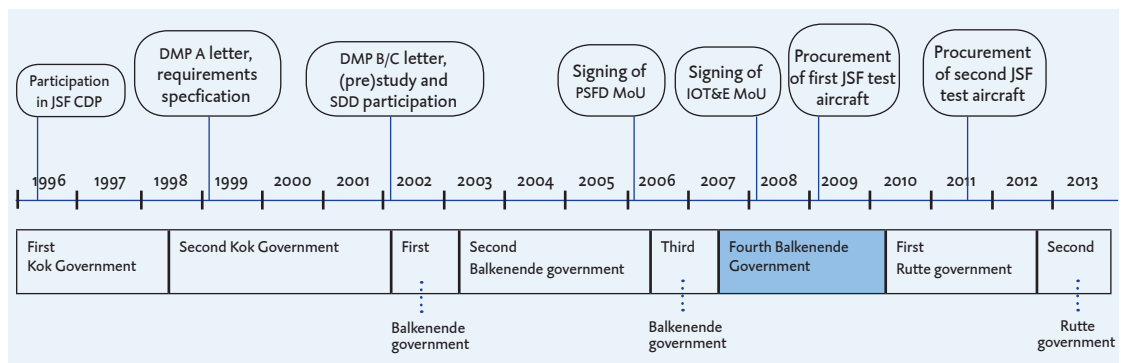
House of Representatives, 2008-2009, Parliamentary Papers 26488, no. 202, The Hague, Sdu.

The third Balkenende government decided that as from the signing of the PSFD MoU the House of Representatives would be informed of the estimated investment costs for the planning number of 85 aircraft at least once a year and that the estimate would be included in the budget and defence investment plans. The estimates for the procurement of 85 JSFs (bare unit price plus other investment costs) declined between

2002 and 2006 from €6.1 billion to €5.5 billion, chiefly on account of movements in the plan dollar exchange rate, but could still not be covered by the €4.5 billion stated in the information provided to with the House. The government therefore decided at the end of 2006 to set a project budget for the replacement of the F-16 of €5.5 billion (2005 prices)¹² instead of €4.5 billion. This new figure is included in the five-year budget period (2007-2011) and in the internal defence investment plan (DIP) for the following five years (2012-2017). The number of aircraft in the estimate therefore agreed with the planning number in the MoU and with the number in the Cofinancing Agreement (MFO) agreed with industry.

The established line that the planning number was not the number the Ministry of Defence expected to procure was continued throughout this period. A decision on the number would be taken only when an actual procurement budget was set for the replacement of the F-16.

4.2 Fourth Balkenende government: decision on the replacement of the F-16 in 2010



The fourth Balkenende government, which took office in February 2007 following elections on 22 November 2006, adopted the same position as the third Balkenende government. Its Coalition Agreement stated that the Netherlands would participate in the international test phase of the JSF Programme in 2007, that the business case with industry would be reviewed in 2008, that a decision on the procurement of two test aircraft would be taken in 2009 and that the government would put a decision on the replacement of the F-16 to the House of Representatives in 2010, based on the review and on a comparison of the price, quality and delivery time of other candidate aircraft.¹³

¹²

House of Representatives, 2006-2007, Parliamentary Papers 26 488, no. 58, The Hague, Sdu.

¹³

CDA, PvdA and Christian Union Coalition Agreement, Parliamentary Papers 30 891, no. 4, The Hague, Sdu.

¹⁴

House of Representatives, 2006-2007, Parliamentary Papers 26 488, no. 51, The Hague, Sdu.

4.3 Court of Audit starts F-16 replacement monitoring project

In October 2006, the Court of Audit published a monitoring report on the status of the F-16 replacement project as of September 2006.¹⁴ The report was the first in a series of reports and letters on the project between 2006 and 2010. They were compiled to improve the provision of information on the project and contained details on the project that had not previously been available to the House. They did so, for example, by summarising the cost of replacing the F-16 and emphasising the importance of cost comparability over the years. They also highlighted the importance of annual updates of estimates, price levels and the plan exchange rate. They also refer to costs that are not covered by the project definition for the replacement of the F-16 but are related to it. They created an insight into the costs the State would incur if the Netherlands were to withdraw from the project.

During this period, the House of Representatives reconsidered what information it required for the F-16 replacement project, after which the government adopted a large number of proposals to improve the information provided in its annual reports on Large Projects.

4.4 Fourth Balkenende government: 85 aircraft in the review of the Cofinancing Agreement

We noted above that the planning number of 85 aircraft served as a reference for the business case for participation in the SDD phase in 2002. The business case found that co-development of the JSF would be more expensive to the State than buying the aircraft off the shelf. Since co-development was thought to be profitable for Dutch industry, it was agreed in a Cofinancing Agreement (MFO) with the Dutch aviation industry that the industry would contribute part of the revenue it earned on JSF orders to the State to compensate it, and indirectly the taxpayer, for the additional cost of co-development. The MFO would be reviewed and the industry's contribution reset on 1 July 2008. In advance of the review, in 2007 and, especially, around 1 July 2008, the ministers and state secretaries of the fourth Balkenende government discussed and exchanged correspondence on the status of the planning number of 85 aircraft and the funding available in the Ministry of Defence's budget during the planning period. The correspondence did not lead to a change in the planning number. The government's intentions were to procure the aircraft in batches and to include the number of 85 aircraft in the Ministry of Defence's financial plans.

4.5 Fourth Balkenende government: 85 aircraft in the defence budget and financial planning

In the period 2006-2010, the Ministry of Defence included the estimated investment cost for 85 JSF aircraft in its budget and financial planning. The budget's multiyear forecasts look forward five years and the ministry's internal financial plans ten years. The Ministry of Defence had to adjust the cost estimates upwards several times between 2006 and 2010 owing to delays and cost increases in the JSF programme in the United States. The investment cost for the bare unit price and other investments rose from €5.5 billion (2005 prices) to €6.25 billion in April 2010 (plan dollar exchange rate: USD 1 = €0.83, 2009 prices).¹⁵ The operational costs in the same estimate rose to €10.6 billion (plan exchange rate USD 1 = €0.83, 2009 prices, VAT: 19%). The replacement of the F-16 would therefore require an even greater proportion of the Ministry of Defence's available resources.

We referred in section 3.5 to the official studies carried out in 2006 of the relationship between numbers and budget, the existence of which was revealed by Reporter in 2009. The minister had argued in 2009 that the studies had not been submitted to the House of Representatives because the procurement decision for which the studies had been carried out had not been taken. Separately from these studies, the House frequently asked the Minister of Defence about the durability of the budget for the replacement of the F-16 during these years. In response, the government generally referred to the use of a planning number and procurement in batches and to the fact that there would not be a decision on the number of aircraft to be procured or on the available budget until a procurement decision had been taken. In his letter of 7 May 2008 answering the House's questions on the annual report for 2007, the State Secretary for Defence wrote that there was no reason for concern about the budgetary durability of the planning number of 85 aircraft.¹⁶

¹⁵

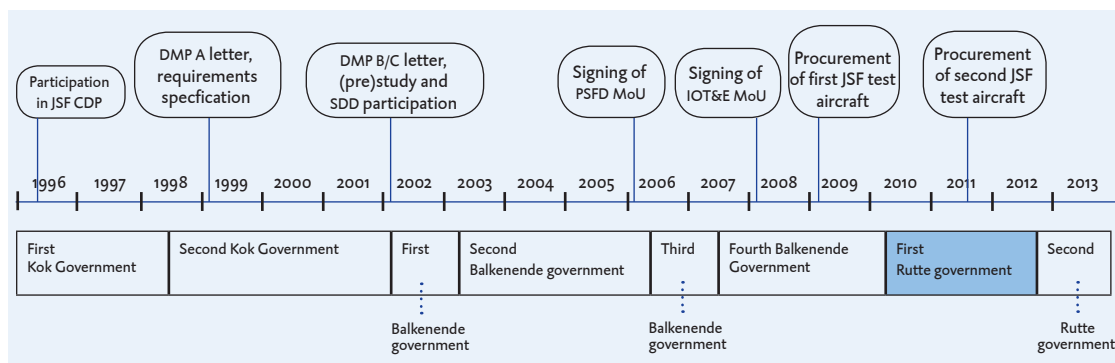
House of Representatives, 2008-2009, Parliamentary Papers 26 448, no. 232, The Hague, Sdu.

¹⁶

House of Representatives, 2007-2008, Parliamentary Papers 26 448, no. 68, The Hague, Sdu.

5 Provision of information 2010 - 2012: incompatible variables

5.1 Rutte/Verhagen government: planning number of 85 aircraft and reserve of €4.5 billion



The fourth Balkenende government fell on 20 February 2010 and called for a new election, after which the State Secretary for Defence resigned from the outgoing government for personal reasons on 14 May 2010. The position of State Secretary for Defence was left vacant and the minister performed the duties until the new government took office after the election. The election was held on 9 June 2010 and the Rutte/Verhagen government was sworn in on 14 October 2010.

On 2 December 2010 the Minister of Defence informed the House of Representatives that the €6.2 billion estimate of the Netherlands' investments costs for 85 aircraft had risen to €7.6 billion¹⁷ (both at a plan dollar exchange rate of USD 1 = €0.83, 2010 prices, VAT: 19%). The minister did not unveil a new estimate of the operational costs but he did announce a review of the F-16 replacement project. The Ministry of Defence thereafter no longer included the estimated investment cost of €7.6219 billion in its budgets and financial plans.

In the report *Monitoring the replacement of the F-16, status in December 2010* (published on 24 March 2011), the Court of Audit concluded:

No decision on the budget and the number of aircraft

'To date no decision has been made on a replacement for the F-16. This means that there are a number of important uncertainties relating to the Replacement of F-16s project. As no formal decision has yet been taken, the budget for the project has not yet been finalised and it is necessary to work with 'estimates of a tentative budget' and a 'planned number' of 85 JSFs to replace the F-16s.

This uncertainty has consequences for the auditability of the steps that can or must be taken in the meantime. Without a procurement decision, the House of Representatives cannot ask the minister to account for changes in the budget or numbers of aircraft, as they do not formally exist. At the same time, with the completion of the study phase (phase C) in which the JSF emerged as the best aircraft for the best price, the Ministry of Defence must move forward with preparations for the arrival of the JSF. As the procurement decision has been postponed, this ambiguous situation is likely to continue in the coming period and possible exit costs will probably rise further.'

¹⁷

House of Representatives, 2007-2008, Parliamentary Papers 26 448, no. 249, The Hague, Sdu.

The minister wrote in the policy letter of 8 April 2012 that the Rutte/Verhagen government would not take a decision on which aircraft would succeed the F-16. He

also abandoned the budget for the replacement of the F-16 and introduced a 'project reserve' of €4.5 billion. At the same time, he retained the planning number of 85 aircraft, which, according to his letter to the House of December 2010, would require an amount of €7.6 billion. That number was also retained as the Netherlands' estimated requirement in the PSFD MoU. The minister said in response to questions from the House on the relationship between the reserve and the planning number that the Rutte/Verhagen government would not take a decision on the replacement of the F-16 and that the numbers and budgets were therefore not yet relevant.

In the Permanent Defence Committee's meeting with the government of 20 April 2011¹⁸ the minister said of the planning number and the budget, 'We have lowered the amount reserved. There are indications that we can come to decisions in the future where the bar is higher than it had originally been. Nevertheless, we are still adhering to the planning number because that is the number we originally started with. We will leave responsibility for finding the necessary resources to the next government.'

The Rutte/Verhagen government fell on 23 April 2012 and called new elections. The House of Representatives continued its debate of the replacement of the F-16 in the following months. At the beginning of July 2012, it passed a motion asking the Minister of Defence to withdraw from the JSF programme. This is considered further in the following section. On 13 September 2012 a parliamentary committee meeting was held with the government on the replacement of the F-16, at which the outgoing minister said regarding the planning number and the budget, 'You are right that the number of aircraft to be procured - look at the number of F-16s we currently have - will be lower than the planning number. It is a very formalistic answer but this government has decided not to take a decision on the number. So we won't be taking a decision on new numbers. In this sense we have created a *fait accompli* in that we have lowered the reserve.'¹⁹

Ahead of the debate of the Ministry of Defence's budget for 2013, the House of Representatives put written questions to the outgoing Minister of Defence.²⁰ Question 155 was, 'How many F-35s can be procured from the current project reserve?' The minister replied that he thought, 'operationally acceptable deployment would be possible with 56 F-35 fighter aircraft'. According to the minister it would not be possible to procure and operate 56 JSF aircraft within the current reserve of €4.5 billion or within the current operational expenditure for the F-16. The minister wrote that the current reserve of €4.5 billion would be enough to procure 43 or 35 aircraft, depending on whether the sustainment costs for the JSF fleet were recognised in full.

5.2 Court of Audit: continuation of policy not possible, choices inevitable

The House of Representatives passed a motion on 6 July 2012 asking the government to take all necessary steps to withdraw from the JSF programme.²¹ The Minister of Defence subsequently asked the Court of Audit to determine the cost of withdrawing from the JSF programme. He asked the Court of Audit to assume that 68 JSF aircraft would be procured. The request did not mean that the Minister of Defence was abandoning the planning number of 85. 68 was merely a better number to reflect the fact that the F-16 was being replaced; the number of F-16s in service at the time was 68.

In our report published on 25 October 2012, we concluded that the policy on the replacement of the F-16 would have to be amended no matter what.²² If it were

¹⁸

House of Representatives, 2010-2011, Parliamentary Papers 26 448, no. 273, The Hague, Sdu.

¹⁹

House of Representatives, 2011-2012, Parliamentary Papers 26 448, no. 304, The Hague, Sdu.

²⁰

House of Representatives, 2012-2013, Parliamentary Papers 33 400, no. 8, The Hague, Sdu.

²¹

Eijssink and van Dijk motion, House of Representatives, 2011-2012, Parliamentary Papers 26 448, no. 298, The Hague, Sdu.

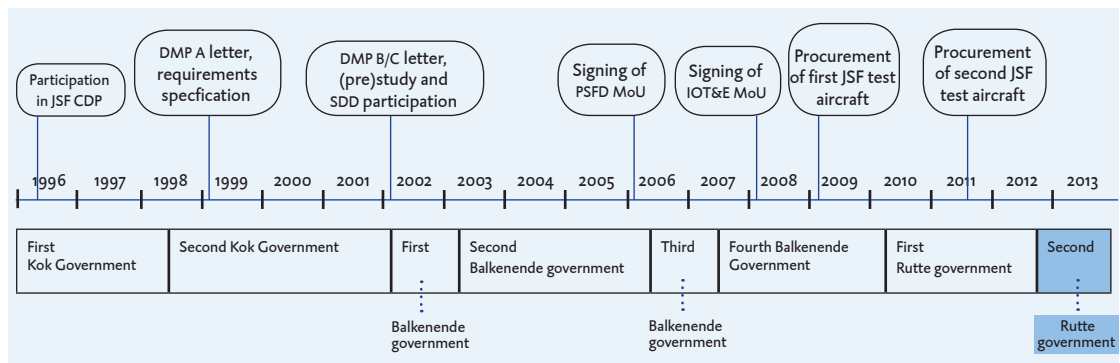
²²

House of Representatives, 2011-2012, Parliamentary Papers 26 448, no. 305, The Hague, Sdu.

continued without change, the budget would have to be higher than the €4.05 billion still available at the time. An increase in the budget would have consequences for all the armed forces and the ambitions held for them. If the number of JSF aircraft were lowered, the ambitions for the air force would have to be reformulated at the very least. If the Netherlands were to withdraw from the JSF programme and subsequently buy the JSF off the shelf, the cost per aircraft would be higher. If the Netherlands decided to buy a different aircraft off the shelf, the Ministry of Defence would have to reformulate its deployment ambitions. We therefore concluded that continuing the policy of procuring 85 aircraft without change was not an option and that every other option would have consequences for the air force and for the armed forces as a whole.

The minister said in response to the report that the procurement of the JSF - both investment and operation costs - could be covered by his ministry's budget if the number were reduced to 56. He thought fewer aircraft would be feasible if they were deployed less often and if the Netherlands cooperated internationally. It was inevitable, according to the minister, that other investment projects for the armed forces would have to be postponed, delayed, scaled down or even scrapped.

5.3 Rutte/Asscher government: vision of the armed forces based on the available budget



Elections were held on 12 September 2012 and the Rutte/Asscher government was sworn in on 5 November 2012. The government stated in the Coalition Agreement, 'the original intentions for the replacement of the F-16 are not feasible without amendment or without reprioritisation within the overall defence budget. [...] In cooperation with the Minister of Foreign Affairs, the Minister of Defence is developing a vision of the armed forces of the future based on the available budget.'²³

The government later asked the Court of Audit to validate the financial underpinning of the vision. We will commence the validation when the vision is available.

6 Conclusion on the information position of the House of Representatives

On important aspects of this Large Project, the House of Representatives' information position lagged behind the explicit information requirements it had formulated. Pursuant to the RGP, at the start of the project the House had asked the government to inform it how a final materiel choice would be taken based on the quantitative and qualitative requirements in order to achieve the project's strategic objectives. The House asked how many fighter aircraft would be needed for the strategic objectives, what the financial planning was and how the Ministry of Defence's budget would cover the objectives. Successive ministers and state secretaries gave no direct answer but

²³

Coalition Agreement, Building bridges, House of Representatives, 2011-2012, Parliamentary Papers 33 410, no. 15, The Hague, Sdu.

systematically referred to the forthcoming procurement decision (the D letter), which would somehow balance the ambitions, numbers and budget. They therefore formally complied with the requirements of the RGP and DMP but the House's information position was materially incomplete in important areas.

That the questions were answered largely as a matter of form can be explained by the fact that the required number of replacement aircraft and the available budget had not been decided. The planning number of 85 JSF aircraft has had three meanings to date. In 2002, firstly, it was a reference number to calculate the financial difference to the State between co-development of the JSF and procurement off the shelf. In the PSFD MOU, secondly, it served as the possible number of aircraft the Netherlands would procure, and through the main contractors in the US it influenced the order flow for Dutch industry. Thirdly, it was an indication of how many aircraft the Ministry of Defence thought it needed, although the actual decision still had to be taken.

The planning number of 85 aircraft led to a ten-year political impasse between the interests of the air force (Ministry of Defence), Dutch industry (Ministry of Economic Affairs) and the budget (Ministry of Finance) during successive governments, government formations and between the government and the House of Representatives. The impasse was more than evident when, forced in part by circumstances, the spotlight was turned on the budget in April 2011. Although balancing the project reserve budget of €4.5 billion with the planning number of 85 aircraft was again deferred to a following government in April 2011, it cannot have escaped the House of Representatives and certainly not the defence spokesmen that the balancing act would inevitably have consequences. The Court of Audit's monitoring report, barely two weeks old, perhaps unnecessarily included a statement of the estimated cost to procure 85 aircraft in December 2010: €7,617,520.²⁴

Adherence to the planning number of 85 aircraft and the project reserve budget of €4.5 billion in the communications with all parties concerned was therefore a political *fait accompli*. All concerned could or should have known from at least 2006 that it would be impossible to balance these two variables in practice.

7 Response of the Ministers of Defence and of Finance and the Court of Audits afterword

7.1 Response of the Ministers of Defence and of Finance

We submitted a draft of this letter to the Ministers of Defence and of Finance for comment. We received their joint response to the draft letter on 13 March 2013. It is presented in full below.

'You forwarded your draft letter (reference 13002356R) on the review of the House of Representatives' information position regarding the project to replace the F-16 on 25 April 2013. We read the letter with interest and present our response below.

In accordance with the Coalition Agreement, the Minister of Finance asked the Court of Audit to review the development of the financial prospects for the procurement and operation of the successor to the F-16 and the provision of information on it in the recent past. The request arose from questions asked during the government formation regarding the relationship between the budget reserved for the replacement of the F-16

²⁴ Netherlands Court of Audit, Monitoring the replacement of the F-16, status in December 2010, The Hague, Sdu.

and the desired planning number of fighter aircraft in the past 15 years. Your draft letter presents a reconstruction of the information provided to the House of Representatives to date. The reconstruction is a valuable contribution to the dossier because it provides an overview of the changes in investment costs, operational costs and the number of fighter aircraft in the project to replace the F-16 since 1998.

The government agrees with your finding that the tentative budget reported at the beginning of the project had no direct relationship with the planning number. The House was informed of this at the time. Between 2006 and the end of 2010, the estimated investment expenditure was directly related to the planning number and this was recognised in the budget. This was considered in detail in the annual reports. The investment budget and numbers were consistent with each other during this period. To this end, the investment budget was raised on several occasions.

The consequences for the Netherlands of cost increases in the United States became known at the end of 2010. The updated estimate of the Dutch investment costs rose by €1.4 billion. In April 2011, Minister Hillen's policy letter explained that, in view of the financial state of the Ministry of Defence and in anticipation of a procurement decision by a later government, €4.5 billion would be reserved in the investment statement for the replacement of the F-16. In anticipation of a decision on the replacement of the F-16, the number of aircraft and the necessary budget, no change was made to the planning number. The statement of cost developments continued to be used in the annual reports on the replacement of the F-16. The updated investment and operational costs of the project were recognised in the reports. To enable comparisons with earlier information, the reports were based on 85 aircraft because a decision had not been taken on another planning number.

You clearly state in your letter that information was provided to the House on planning numbers, the budget and the ambitions held for the deployment of the armed forces largely as a matter of form and had little substance owing to the lack of a decision on the replacement of the F-16. We take your conclusion to heart. The relationship between numbers, budget and required deployment will be explained as clearly as possible in the information provided to the House. Since the second Rutte government took office, the financial durability of the successor to the F-16 in the vision of the armed forces of the future has been back on the agenda. The government is determined that the vision of the armed forces of the future will be based on realistic ambitions and capabilities for the armed forces and will take a decision on the replacement of the F-16 this year. In keeping with earlier recommendations made by the Court of Audit, particular attention will be paid to both the investment and the operational expenditure. The financial durability of the successor to the F-16 is a key factor in the vision. The value the government attaches to it is evidenced by the request made to the Court of Audit to validate the vision and its financial underpinning.

7.2 Afterword

Optimal democratic parliamentary scrutiny is directly dependent on the government's fulfilment of its duty to provide information (both passively and actively). The way in which parliament deals with the information is of equal importance. For more than 16 years, the relationship between the government and parliament regarding the

replacement of the F-16 has been dominated largely by the provision of information as a matter of form and with little substantive content. We sincerely hope that this period has come to an end.

The new vision announced for the future of the armed forces will lead to a decision. Its implementation will have to be supported by the development of new accounting methods at the Ministry of Defence. Relevant information can then be generated from the accounting records so that parliament can monitor its implementation. In our opinion, this enticing situation can be achieved within the current government's term of office. We are not the only ones looking forward to it.

Appendix 6 Transfer and risk reserves

This appendix considers:

- the calculation of the size of the risk reserves for the replacement of the F-16;
- the transfer of funds from the investment budget for the replacement of the F-16 to the operational budget.

Court of Audit's presentation of the transfer, in mln €

Investment component	Before transfer	After transfer
Opening balance, gross investment budget	€ 4,521	€ 4,521
Expenditure incurred as at 31-12-12 (including two test aircraft)	€ -496	€ -496
Opening balance, net investment budget	€ 4,025	€ 4,025
Opening balance, net investment budget	€ 4,025	€ 4,025
Project reserve 10%	€ -402.5	€ -402.5
Available for commitment, net investment budget	€ 3,622.5	€ 3,622.5
*Estimated expenditure on JSF aircraft (x37) (based on 210 flight hours per aircraft)	€ 3,843	€ 3,843
*Expenditure incurred as at 31-12-12 (including two test aircraft)	€ -496	€ -496
* Estimated expenditure on JSF aircraft (x35) (based on 210 flight hours per aircraft)	€ 3,347	€ 3,347
Available for commitment, net investment budget	€ 3,622.5	€ 3,622.5
Estimated expenditure on JSF aircraft (x35)	€ -3,347	€ -3,347
**Remaining net investment budget	€ 275.6	
** Transfer		€ -275.5
Remaining net investment budget		-0

* The estimated investment component is based on 37 aircraft, from which expenditure already incurred for the other two aircraft is deducted. In consequence the expenditure for 35 aircraft is estimated.

** The remaining € 275.6 million is transferred to the operational budget to keep block upgrades within the operational budget of € 270 million.

Court of Audit's presentation of the transfer, in mln €

Operational component	Before transfer	After transfer
Opening balance, net operational budget	€ 270	€ 270
Personnel expenditure, Volkel and Leeuwarden airbases (no risk)	€ -60	€ -60
Basis for project reserve 10%	€ 210	€ 210
Opening balance, net operational budget	€ 270	€ 270
Project reserve 10%	€ -21	€ -21
Available for expenditure, net operational budget	€ 249	€ 249
Estimated expenditure on JSF aircraft (x37)	€ 259	€ 259
Available for expenditure, net operational budget	€ 249	€ 249
Estimated expenditure on JSF aircraft (x37)	€ -259	€ -259
Overrun, net operational budget (structural as from 2023)	€ -10	
*Transfer: operational gap from the DIP		€ 9.2
Overrun, net operational budget (structural as from 2023)		€ -0.8

* The remaining balance of € 275 million will be transferred to the operational budget over 30 years as from 2023 in annual tranches of € 9.2 million (275 / 30).

Appendix 7 Abbreviations and definitions

DIP	Defence Investment Plan. The DIP contains the planned investments for major materiel, infrastructure and information systems for the entire ministry.
F-35	The official name of the Joint Strike Fighter is the Lockheed Martin F-35 Lighting II. Three versions of the aircraft are being developed. The Netherlands is interested in the conventional version that uses runways. This version is known as the F-35A or CTOL (Conventional Take Off and Landing).
JSF	Joint Strike Fighter. See: F-35.
JSS	Joint Support Ship. A vessel developed by the navy to fulfil three functions: supplying other ships at sea, strategic transport of heavy weapons systems and providing heavy amphibian helicopter capabilities.
LCC	Life Cycle Costing. A set of techniques to model, predict and analyse the cost of a weapons system during every phase of its life.
QRA	Quick Reaction Alert. Protection of Dutch airspace where one or more fighter aircraft can be mobilised within minutes, for example to intercept an unknown aircraft above Dutch territory.
SPEER	Strategic Process and ERP Enabled Reengineering, a programme to implement a Defence-wide financial and materiel logistic information system.

Appendix 8 Audit methodology

Problem definition

We formulated the following problem definition for this audit:

To what extent does the vision of the armed forces match the financial conditions set by the government? To what extent does the vision strike a balance between ambitions, time, people and resources and money?

This problem definition was broken down into the following audit questions.

Audit questions

Budgetary framework:

- a. What, according to the Ministry of Defence, is the financial framework for the entire term of the vision, taking account of the Coalition Agreement and the completion of the current spending cuts at the Ministry of Defence, including reorganisations and the 'Armed forces in order' project? How was it set? How has the budget been set for the years after the first five years of the vision? What assumptions and principles were applied?
- b. How do the outcomes relate to the understandings of the Ministry of Finance and of ourselves?
- c. How do we assess the soundness and robustness of the adoption of the financial framework, both by process and by outcome? Account must be taken of all relevant and known budgetary consequences for the budget and the plausibility and underpinning of the assumptions and principles applied.
- d. To what extent is there a reliable audit trail? It must be possible to reconstruct the assumptions, principles, considerations and choices from the files.
- e. To what extent does the text of the vision ensure that the House of Representatives is adequately informed of the assumptions, principles, considerations and choices applied to set the budgetary framework of the vision?

Financial underpinning of the vision:

To what extent is the financial underpinning of the vision balanced and comprehensive?

- a. To what extent does the expenditure in the financial underpinning agree with the financial conditions? To what extent does it agree throughout the term of the vision? What reasons and solutions does the Ministry of Defence provide where they do not agree?
- b. To what extent does the financial underpinning of the vision account for all relevant and predictable expenditure per item?
 - Were life cycle costs calculated for the weapons system? Is the current point in each weapons system's life cycle known?
 - How were the future cost developments of the weapons systems and of the other items in the financial underpinning determined? Is the future cost development per item recognised in the average cost or in actual expenditure per annum (cash flows)?
 - How reliable is the allocation of costs to weapons systems? Specific cost items include personnel, maintenance, etc. To what extent are all costs of weapon systems accounted for, even if they do not immediately lead to expenditure (e.g.

use of ammunition)? Has account been taken of the cost of weapons systems being scaled down, delayed or disposed and of the consequences for other weapons systems or other items in the financial underpinning? Consider also the VAT, etc.

- To what extent did the determination of robust cost sets use risk analyses, scenario strategies and risk reserves? To what extent was account taken of necessary flexibility? If cost sets depend on the success of negotiations, to what extent is there a fallback option?
- c. Do the financial data agree with the data in the Ministry of Defence's financial records or estimation systems? Is there any reason to doubt the accuracy of the data in the Ministry of Defence's financial records or estimations systems? If so, why?
- d. Does the financial underpinning satisfy the applicable standards/criteria?
- e. To what extent is there a reliable audit trail? It must be possible to reconstruct the assumptions, principles, considerations and choices from the files.
- f. To what extent does the text of the vision ensure that the House of Representatives is adequately informed of the assumptions, principles, considerations and choices applied to set the budgetary framework of the Vision?

As not all these questions can be answered for all parts of the financial underpinning, we asked them for the underpinning as a whole and on a selective basis for individual parts of the underpinning. This is permissible because if a part of the financial underpinning is not reliable, the entire underpinning will not be reliable.

Policy choices for the armed forces – deployability objectives

Have clear, indicative choices been taken in the vision on the national and international tasks of the armed forces? (Caution: a systematic analysis will not be made for questions a-e, only a preliminary screening).

- a. What choice does the vision consider for the armed forces?
- b. What is the relationship between the choices and the statutory tasks of the armed forces and agreements on their deployability, for example with NATO other countries, other ministries and civil parties?
- c. Are the choices based on a sound analysis of international developments?
Aspects to be taken into consideration:
 - Analysis shared by the Ministries of Defence and of Foreign Affairs?
 - Relationship with the vision of NATO, other countries?
 - Consideration for international cooperation and sharing of tasks? Account taken of feasibility of such cooperation?
- d. Are there indications to doubt the reasons for the policy choices? If so, what are they?
Aspects to be taken into consideration:
 - Plausibility of assumptions? Reasoning?
 - Scenario strategy?
 - Topicality?
 - Other indications?
- e. To what extent is the vision worked out evenly?
- e. To what extent are clear and well-defined deployability objectives set in the vision?
- g. How does the Ministry of Defence relate the deployability objectives to the necessary capabilities and is its reasoning sound?

Audit of a limited number of weapons systems

This part of the audit builds on the answers to question 3. The Ministry of Defence should have an insight into the extent to which the vision of the armed forces strikes a balance between ambition, time, people and resources and money.

Questions per weapons system:

- h. What is the ambition/deployability objectives set in the vision for the weapons system in question?
- i. How much time, money, people and resources are necessary to achieve those ambitions?
- j. How much time, money, people and resources are available?

A comparison of question 2 and 3 provide an insight into potential differences between the desired and the actual operational deployability and will also answer the main question.

Replacement of the F-16

Main question: *‘To what extent is the replacement of the F-16 adequately reasoned as an integral part of the vision of the armed forces?’*

This part leans heavily on the outcomes of the previous question and the findings of completed and future audits by the Court of Audit. However, in view of the context, the Coalition Agreement and the Minister of Finance’s request to us, and the special role that the replacement of the F-16 plays in the vision of the armed forces, this question should be answered separately. The following aspects of the previous parts of the audit are considered here:

- k. What choices regarding the national and international tasks of the armed forces affect decision-making on the replacement of the F-16? Ask the questions under point 3, for these choices.
- l. What conclusions on necessary capabilities does the vision draw for the replacement of the F-16?
- m. What is the relationship between the reasons for the necessary capabilities for the replacement of the F-16 and the demands set in the DMP and in the Large Projects Scheme. What is the relationship between the reasons and the findings and messages issued from our previous audits?
- n. How have the consequences for other parts of the armed forces been dealt with?
- o. How sound is the financial underpinning for this part of the vision? Ask the same questions as under 2.
- p. Are policy ambitions, money, people and resources and time in balance for the replacement of the F-16, taking account of the entire armed forces?
- q. On the basis of the information and the choices in the vision, to what extent can a responsible decision be taken on the replacement of the F-16?

Method

For this report, we held interviews with staff at the following organisations:

- Ministry of Defence
- Ministry of Foreign Affairs
- Ministry of Finance
- Ministry of Economic Affairs
- institutions and organisations outside central government

We also carried out a desk study consisting of an analysis of:

- documents available to the House of Representative
- internal reports and memo's of the three ministries concerned
- files from the three ministries concerned and of the working groups responsible for the reparation and financial underpinning of the Vision
- public information from national and international sources

Limitations of the validation

The financial underpinning of the vision consists of a numerical time series of the expenditure the ministry expected to incur in the next 15 years. Since the existing financial systems and estimation methods are based chiefly on organisational units, while the financial underpinning was based on weapons systems, the Ministry of Defence had difficulty extracting the necessary data from its systems. In many cases, they had to be generated by specially-formulated allocation rules and estimates. We could not determine the accuracy of all these estimates and allocation rules but we could assess their correct application and the consistency of the figures with the underlying systems and the various steps in the financial underpinning.

To calculate the expected expenditure for the replacement of the F-16, the Ministry of Defence used figures from the United States and applied them to the situation in the Netherlands with the aid of a calculation model developed by the Ministry of Defence and the TNO organisation for applied scientific research. We were not able to verify the accuracy of the figures from the United States. We explained in response to questions in the House of Representatives on 16 May 2012 (Parliamentary Papers 31 300, no. 29) to the fact that, as a partner country in the international JSF Programme, the Netherlands is largely dependent on the JSF Program Office and the American Department of Defense for financial and other source information on the JSF. The object of our audit was the Dutch Ministry of Defence; we have no power to audit the preparation and/or accuracy of the US source information. The US Government Accountability Office (GAO) audits the JSF Programme every year, using its own source data, which are largely derived from the US Department of Defense. We therefore cannot express an opinion on the objectivity of this information. The GAO is not authorised to provide us with audit information it has not published, although we can make use of its published (and where necessary, clarified) audit conclusions. We did so in this report. We also used information from the supreme audit institutions of other partner countries.

We did not review the structure and operation of the Defence/TNO calculation model. The audit services of the Ministries of Defence and of Economic Affairs reviewed the model as part of their assurance report on the F-16 replacement large project and validated the system. We referred to these reports for their findings. We did review the consistent processing of the data produced by the model.

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