



Ministry  
of Defence

Ministry of Defence

**Annual Report and Accounts**

**2013-2014**



# **Ministry of Defence Annual Report and Accounts 2013-14**

For the year ended 31 March 2014

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# Part One – Strategic Report

## Preface

### The Defence Vision:

Our vision is to deliver versatile, agile and battle-winning Armed Forces, working effectively with each other, directed and supported by a professional Ministry of Defence, with people ready to lead, accept responsibility and spend wisely, protecting our security in a changing world.

### Defence Priorities

Our priorities for 2013/2014 reflect the Defence Vision. They are:

- to succeed in Afghanistan;
- to continue to fulfil our standing commitments;
- to succeed in other operations we are required to undertake;
- to transform Defence by:
  - restructuring the Armed Forces and their capabilities;
  - implementing the new Defence Operating Model;
  - delivering Defence in the most effective, efficient and sustainable way.

### Report Structure

This report is structured in line with these priorities and the MOD Business Plan which is revised annually and can be found on the internet at the following internet address:  
<https://www.gov.uk/government/collections/mod-business-plan>

### SECTION A:

The first half of the Strategic Report covers our progress on operations and our other major responsibilities.

**Chapter 1 – Operations** details our progress in Afghanistan, the main effort for the MOD. Our Armed Forces are working to protect the UK by creating security and stability in Afghanistan and training members of the Afghan National Security Forces (ANSF). By the end of 2014, the UK will have reduced its force levels in Afghanistan significantly and will no longer be in a combat role but will continue to support the post-2014 mission by providing the ANSF with training, advice and assistance.

**Chapter 2 – Standing Commitments** details how we continue to fulfil our standing commitments, including strategic intelligence, the strategic nuclear deterrent, defence against direct threats to the UK and its overseas territories, counter-terrorism and military aid to the civil authorities. Carrying out these roles is essential to our security and supports key British interests around the world.

**Chapter 3 – Contingent Operations** details our work in providing the defence contribution to the UK's influence throughout the world by succeeding in other operations we are required to undertake at home and overseas, by providing a defence contribution to UK influence (including working with the Department of Business, Innovation and Skills (BIS) to promote defence exports), by defending our interests through projecting power strategically and through expeditionary operations, by providing security for stabilisation, and by providing a defence contribution in support of other government departments.

## **SECTION B:**

The second half of the Strategic Report covers our progress on transforming and delivering Defence.

**Chapters 4 & 5 – Restructuring the Armed Forces** details our work in implementing the Armed Forces' Covenant, developing a New Employment Model for Armed Forces personnel, transforming the role of reserves and our progress towards the Future Force 2020 structure.

**Chapter 6 – The New Operating Model** covers our progress in implementing the Defence Operating Model. Our goal is to create a simpler and more effective organisation whilst significantly reducing our running costs.

**Chapter 7 – Delivering Defence** covers our progress in transforming Defence by delivering Defence in the most effective, efficient and sustainable way by meeting benchmarking, efficiency and Government sustainability development targets.

## **ANNEXES**

**Annex A – Defence in the Public Eye**

**Annex B – Accountability to Parliament**

**Annex C – Trading Fund Performance**

**Annex D – Fraud**

**Annex E – Sustainability**

**Annex F – Annual Data Summary**

**Annex G – Votes A Statement – Statement of Approved Maximum Armed Forces Numbers**



## Foreword by Secretary of State for Defence

The Ministry of Defence exists to keep the United Kingdom safe and protect our national interests overseas. As the Secretary of State for Defence, my highest priority is ensuring the success of our Armed Forces on operations – completing our work in Afghanistan; supporting the government of Iraq against ISIL; and our humanitarian mission to Sierra Leone to help tackle the outbreak of Ebola.

During 2013-14, our role in Afghanistan was increasingly focused on training, advising, and assisting the Afghan National Security Forces as they took on lead responsibility for security across the country. As planned, UK forces were reduced to just over 5,000 personnel in early 2014 and in October this year the UK's involvement in combat operations in Helmand came to an end. I pay tribute to the 7 UK Service personnel who lost their lives and the 10 who suffered serious injury in Afghanistan during 2013-14. The sacrifice of our

servicemen and women has stopped Afghanistan being a launch pad for terrorist attacks in the UK and laid the foundations for a strong Afghan security force, which enabled the first democratic transition of power in the country's history. Our commitment to supporting Afghanistan will continue through institutional development, the Afghan National Army Officer Academy, and development aid.

At the heart of Defence are our people, the men and women of the Armed Forces, as well as the civilian staff and contractors who support them. The moral obligation that the nation owes to our Service personnel, veterans, and their families is reflected in our commitment to the Armed Forces Covenant. I am pleased that the new Help to Buy scheme has already assisted over 1500 service personnel to buy their first home. We are also investing nearly £2Bn in building up our Reserve forces, who are playing an increasingly important and wider role in Defence alongside their regular counterparts.

We are continuing to re-structure and re-equip our Armed Forces to create Future Force 2020, to meet the threats the UK will face in the coming years. The first of our two new aircraft carriers, HMS Queen Elizabeth, was formally launched in July this year and in September we announced an order for 589 Scout vehicles for the British Army. The first of the new 'Rivet Joint' signals intelligence aircraft was delivered in November 2013 and further Typhoons were delivered the following month. And there are many other new platforms and systems arriving all the time as we continue to invest in the best equipment for our forces.

Our reforms also took major steps forward in 2013-14. My predecessor's work to put Defence on a strong and sustainable footing has enabled greater authority to be delegated to the four military Commands to manage their own budgets during the first year of the new delegated operating model. The transition of our Defence Equipment and Support organisation, which became a bespoke trading entity with greatly enhanced freedoms on 1 April this year, opens the way to improved defence acquisition. In parallel, our earlier decision to bring in a private-sector partner to manage the Defence Infrastructure Organisation came into effect on 3 September.

Substantial progress has been made since the 2010 Strategic Defence Review. Although there are many challenges still ahead, I am confident that we are increasingly delivering our vision of versatile, agile, and battle-winning Armed Forces, working together effectively and supported by a professional Ministry of Defence, people ready to lead, accept responsibility, and spend wisely – keeping Britain safe in an uncertain world.

Michael Fallon



## Introduction by Chief of Defence Staff and Permanent Secretary

The demands made on Defence during 2013-14 were at least as great as in previous years. Our overall priorities did not change: to succeed in Afghanistan and in other operations; to meet our standing commitments; and to transform how we deliver Defence. World events continued to pose challenges, however, and our Armed Forces were a necessary part of the UK response. And further important changes were made to how we deliver Defence, including the first year of

delegating greater responsibilities to the individual Armed Services and holding them to account for delivery.

Succeeding in Afghanistan was a key priority. A significant waypoint was reached in June 2013, when the Afghan National Security Force assumed lead responsibility for security across the country. Since then they have been responsible for 99% of operations. As the capabilities of the Afghan forces have built up, the UK has reduced its combat forces in Afghanistan, in line with our planned timetable.

Our drawdown reached its conclusion in October 2014, with the end of operations for Regional Command (Southwest), the UK and US coalition command under the umbrella of NATO's International Security Assistance Force (ISAF). This marked the end of combat operations by the UK's Armed Forces in Helmand province. We thank all the servicemen and women who have served there during the past eight years and pay tribute to those who lost their lives or were seriously injured. Everyone has played a critical role in helping reduce the threat of terrorism from the region and in establishing the foundations of a country that can govern its own lands and secure its own future. Going forward, the UK military role in Afghanistan will be focused on training the next generation of military leaders for Afghanistan. We are leading the development of the Afghan National Army Officer Academy, with the first two intakes of officer cadets arriving in October 2013 and February 2014. This will create an enduring legacy of strong leadership within the Afghan National Army.

As we have drawn down in Afghanistan our capacity to conduct contingent operations has continued to grow, giving the UK greater flexibility to respond to emerging challenges. And Defence continues to undertake a broad range of tasks; for example, disaster relief in the Philippines following Typhoon Haiyan; supporting the UK civil authorities in the aftermath of extreme weather and flooding; and searching for the missing Malaysia Airlines flight MH370 in the South Indian Ocean. These examples and many others like them demonstrated the flexibility and adaptability on which we pride ourselves.

2013-14 was also an important year in changing how we delivered key parts of Defence. The new delegated operating model went live on 1 April 2013, based around seven Top Level Budget (TLB) organisations. As a critical part of this, we have delegated much of our military capability planning and the associated financial responsibilities to the four Command TLBs. The hard work in recent years to establish a balanced budget and an affordable programme was recognised at the end of the year, when HM Treasury substantially increased MOD's financial delegation limit. And we were immediately able to flow almost half of this greater authority down to the Commands under our new operating model.

In December 2013, the then Defence Secretary announced the decision to turn the Defence Equipment and Support organisation into a bespoke trading entity. This was established on 1 April 2014 and was granted unprecedented freedoms to underpin the ambitious change programme now underway. The competition to appoint a private sector strategic business partner to strengthen the executive management team of the restructured Defence Infrastructure Organisation concluded in March 2014 and the Capita-led consortium began work on 3 September 2014.

We delayed publication of this document until now in order to undertake further work to substantiate the balance being reported for infrastructure assets under construction, as explained in the Governance Statement. More broadly, we continue to put in place process improvements to strengthen our control environment. Substantial work on longstanding inventory-related issues has matured to the point where this year MOD has an unqualified audit opinion relating to inventory and capital spares holdings for the first time since 2008.

There is still much to do to deliver Future Force 2020 and transform Defence, however we are increasingly seeing the benefits of an improved MOD and a more resilient, better-equipped Armed Forces. We remain immensely proud of the men and women of the Armed Forces and Civil Service for the contribution each has made to modernising Defence and to protecting the security and interests of the UK at home and abroad.

## Indicators

The MOD has a wide range of responsibilities and the Defence Board uses a comprehensive collection of information to monitor and manage our performance in achieving our goals. Due to the nature of our objectives the best way for us to explain our progress is mainly through the written narrative that follows. A summary of some of the numerical indicators which show aspects of our performance that we believe will be of interest to the public, and that can be released without compromising security, can be found below.

Indicators	FY 2013-14	FY 2012-13	Comment
<b>Input Indicators</b>			
Additional cost of operations in Afghanistan, per Service person deployed.	£233,151	£297,025	<i>This is the Net Additional Cost of Military Operations in Afghanistan (including urgent Operational Requirements) over the year, divided by the average endorsed manpower level (9000 from 1 Apr 13 to 31 Dec 13 reducing to 5200 from 1 Jan 14 to 31 Mar 14). This figure is lower this year due to authorised reductions in manpower and base closures as a result of progress on the ground, increased Afghan National Security Force capability and the rate of transition.</i>
Additional cost of new equipment (Urgent Operational Requirements (UOR)) for operations in Afghanistan, per Service person deployed.	£11,065	£37,000	<i>This is the total spend on UORs over the year, divided by the average endorsed manpower level (9000 from 1 Apr 13 to 31 Dec 13 reducing to 5200 from 1 Jan 14 to 31 Mar 14). This figure is significantly lower this year representing the completion of the major UOR projects (such as protected mobility vehicles) and in line with authorised reductions in manpower and base closures as a result of progress on the ground, increased Afghan National Security Force capability and the rate of transition.</i>
Average percentage by which the cost of the Department's Equipment Programme (EP) varies compared to forecasts in year.	-0.22%	0.26%	<i>This figure is the average percentage by which the forecast costs of the Department's largest equipment procurement projects have varied over the year. This year the figure is negative, meaning that the forecast cost of these projects has fallen on average by 0.22%.</i>
Cost of major Force Elements (FE):			<i>This figure was previously calculated by attributing Defence expenditure to each of the major Force Elements. It can no longer be calculated as a consequence of changes under the delegated operating model. The figures provided for 13/14 are therefore estimates.</i>
Ship	£33.74M	£33.5M	
Brigade	£668M	£654M	
Aircraft (fixed wing)	£7.56M	£8.34M	
Helicopter	£3.74M	£3.62M	
Direct personnel costs, per Service person	£52,553	£55,024	<i>This shows the average costs of each of the armed forces personnel who have been employed on a full time basis over the financial year. It has remained similar between 2012-13 and 2013-14.</i>
<b>Impact Indicators</b>			
Progress towards a stable and secure Afghanistan.	97%	96%	<i>This is the percentage of Afghan National Security Forces against the NATO target.</i>
Number of Service and MOD civilian personnel deployed on all operations in a year.	8,529	11,476	<i>This is the total number of personnel deployed on operations both in the UK and overseas at 30 March 2014.</i>
Percentage of Service personnel that are deployable.	90.5%	91.1%	<i>This is the total percentage of personnel deployed on operations both in the UK and overseas as at 30 March 2014.</i>
Number of Force Elements (FE) (typically ships, ground force sub-units and aircraft) showing critical or serious weakness against the total number of FE for Strategy for Defence (SfD) priorities.	~	8%	<i>This indicator can no longer be calculated as a consequence of changes under the delegated operating model.</i>
Percentage of Service personnel (split by Officers and Other Ranks (OR)) who are satisfied with Service life in general.	58% / 48%	59% / 50%	<i>This drop is likely to be the continued effect of pay restraint and redundancy implementation.</i>
Overall public favourability of the UK Armed Forces.	85%	85%	<i>The 2013-14 figure is consistent with the percentage reported for 2012-13.</i>

All Indicators will be reviewed and updated for Annual Report and Accounts (ARAc) 2014-15.

# **Section A**

## **Operations and other Major Responsibilities**



# 1. Operations

The first Defence Priority, the main effort for the MOD, is to **succeed in Afghanistan**. Our Armed Forces are working to protect the UK by creating security and stability in Afghanistan and training members of the Afghan National Security Forces (ANSF). By the end of 2014, the UK will have reduced its force levels in Afghanistan significantly and will no longer be in a combat role but will continue to support the post-2014 mission by providing the ANSF with training, advice and assistance.



## Overview

**1.1** UK combat forces left Helmand Province on 27 October 2014. Throughout 2013/14 Operation HERRICK has remained Defence's main effort. The Afghan National Security Forces (ANSF) now lead in providing security across the country. As the ANSF have grown in capability, the role of UK troops in Afghanistan has evolved from leading combat operations to training, advising and assisting their Afghan counterparts. Together they have helped reduce the threat of terrorism from the region and establish the foundations of a country that can govern its own lands and secure its own future.

**1.2** The UK has played a substantial role in progress made so far. When operations began in 2001, the Afghan security forces did not exist. Today they are leading operations, protecting the population and taking on the Taliban. Democracy has begun to take root with ordinary Afghans able to cast their vote for the country's next President on 5 April 2014. According to a recent international survey, the majority of Afghans believe the country is heading in the right direction<sup>1</sup>.

## Key Achievements

**1.3** By May 2014, the ANSF led 97% of all security operations, and carried out over 90% of their own training. The only unilateral operations that the UK and our coalition partners conducted from May to October 2014 were for our own security, route clearance and redeployment. The ANSF have nearly achieved their surge strength target size of 352,000 Army, Air Force, and Police personnel. At the end of 2013, the Afghan National Army (ANA) successfully developed sufficient medical capabilities to take over responsibility for dealing with its own casualties that require treatment within 4 hours (known as Category B casualties). By the end of 2014, the ANA will be able to take over the responsibility for all its casualties, including those with Category A injuries.

**1.4** The progress of the ANSF helped drive the pace of transition, enabling us to reduce our military footprint in Afghanistan to 5,200 by early 2014 – down by nearly half from January 2013 when there were around 9,000 UK personnel in Theatre. By the end of this year all British combat troops will have redeployed from Afghanistan. As the nature of the mission has changed and the Afghans have taken the lead responsibility for security across Central Helmand's three Districts, we had significantly reduced the number of British bases from 137 at the height of our engagement, to 13 last January, before closing the final base in October. Following the Afghan elections, having entered the final phase of the HERRICK Campaign, the UK combined its headquarters at Camp Bastion with the US Marine Corps. As at the end of October 2014, we had redeployed 3,400 vehicles and major equipments (VAME) and 4,550 twenty foot equivalent units (TEUs) of materiel from Afghanistan. This represents 95.2% of the total number of VAME and 71.8% of TEUs to be redeployed.

British troops left the Nad-e Ali District of Helmand Province, as Afghan forces provide security for the local population



<sup>1</sup> 2013 Asia Foundation Survey, 5 December 2013.

**1.5** On 18 June 2013 the Afghan Government announced the fifth and final tranche of security transition, with the ANSF assuming the lead for providing security for the entire Afghan population. Last year was also the first fighting season in which the ANSF led the response to the insurgency. They have performed effectively throughout this period, providing coordinated security for a number of large-scale operations including the Afghan Loya Jirga vote in Kabul in November 2013. Their operational successes have improved their confidence and capability and enabled them to dominate the ground in the key populated areas of Afghanistan.

**1.6** UK forces have now completed mentoring the ANSF at Tolay and Kandak level (Army company and battlegroup) and Precinct and District level (Police) – though we continue to support ANSF development at Brigade and Provincial levels. In October 2013, the Afghan National Army Officer Academy opened its doors to the first intake of officer cadets with the second commencing in February 2014. The Academy is currently training around 500 male officer cadets in total. We are training an additional 30 female officers alongside each male intake, with the first cohort starting in June this year. Together, they will form the next generation of military leaders. This will be the UK's lasting legacy to the Afghan Army.

**1.7** In addition to the security gains, Afghanistan's economy has grown rapidly since 2001, at an average of 9% a year. Life expectancy has risen dramatically and nearly 6 million children are now in school compared to just 2 million a decade ago under the Taliban. Around a third of the children in school today are girls, where previously they were denied this basic right. In Helmand, the UK-led Provincial Reconstruction Team has helped deliver real progress. Today 80% of the local population can access healthcare within 10km of their home. There has been a 20% rise in household incomes since 2010, tax revenues increased eightfold between 2004 and 2012, and 260km of roads have been added to the existing network since 2012.

**1.8** Despite progress on security and humanitarian development, significant challenges still remain. On 30 September 2014 the Afghan Government signed a security agreement with the US and international community which will enable a follow-on NATO train and advise mission next year. The insurgency is still capable of launching high profile and mass casualty attacks. Ultimately, a political settlement between the Afghan Government and the Taliban offers the best prospect of a sustainable peace in Afghanistan and the UK will continue to support the efforts of the Afghan

Government and High Peace Council to achieve this important objective.

**1.9** On 26 October 2014, Camp Bastion was handed over to the ANSF, ahead of UK forces ceasing operations in Helmand on 27 October.

**1.10** On 11 November 2014, Royal Air Force Tornado GR4s left Afghanistan after more than five years of operations.

## Casualties

**1.11** There were 7 UK Service personnel killed in Afghanistan between April 2013 and March 2014 (34 in 2012/13 and 44 in 2011/12). A further 10 suffered serious or very serious injuries (43 in 2012/13 and 55 in 2011/12). The total number of deaths from the start of operations in October 2001 to 30 September 2014 stands at 453.

## Equipment

**1.12** This year has seen a slow down in the fielding of new Urgent Operational Requirements (UORs) as the campaign draws towards a conclusion. However, a major upgrade to the UK's Electronic Counter Measures capability to protect against radio controlled initiated improvised explosive devices (IEDs) has been fielded, as well as the roll-out of a number of new niche capabilities. Examples include surveillance and force protection upgrades to the highly successful Mastiff protected mobility vehicle and a mine-rolling capability on the Husky vehicle to provide enhanced protection against IEDs. Further, there have been a number of safety enhancements across the deployed fleets, notably fire survivability improvements for the Warrior Infantry Fighting Vehicle, as well as the installation of safety lighting in troop carrying vehicles to aid personnel in exiting a vehicle if it rolls over in the dark. Timely and cost effective recovery and redeployment of the UK equipment will be a major driver for the remainder of the campaign, with the vast majority of UOR equipment being brought into full time Defence service.



## 2. Standing Commitments

The second Defence Priority is to continue to fulfil our standing commitments, including strategic intelligence, the strategic nuclear deterrent, defence against direct threats to the UK and its overseas territories, counter-terrorism and military aid to the civil authorities. Carrying out these roles is essential to our security and supports key British interests around the world.



**2.1** We are committed to a range of ongoing activities which fall into three broad categories: first, activities directly ensuring the national security of the UK, such as maintaining the deterrent and protection of our airspace; second, enhancing the security of our broader regional and international interests through our involvement with international bodies such as NATO, the UN and the EU; and third, support to regional stability and to reduce the threat of global terrorism in order to protect UK interests through exercises and engagement, capacity building and influence activity.

## Nuclear Deterrence

**2.2** Nuclear weapons provide the ultimate guarantee of the UK's national security. The UK therefore remains committed to an effective, minimum, credible nuclear deterrent. The sole purpose of the UK's nuclear weapons is to deter: preventing nuclear blackmail and acts of aggression against our vital interests that cannot be countered by any other means. They also make a vital contribution to the defence of NATO, which will remain a nuclear alliance while nuclear weapons exist.

**2.3** Throughout 2013/14, we continued to deliver Operation RELENTLESS, the continuous at-sea nuclear deterrent patrols by the VANGUARD Class ballistic missile submarines.

**2.4** We continue to work on the replacement for the VANGUARD submarines. In May 2011, the Secretary of State for Defence announced approval of Initial Gate which confirmed decisions on the broad design, propulsion system and the missile compartment and gave approval to commence the Assessment Phase of the programme.

**2.5** Whilst the Assessment Phase is being led by the MOD, it is being conducted by a highly integrated team comprising MOD employees and staff from the three industrial partners: BAE Systems, Rolls-Royce and Babcock. As the design of the submarine matures, the MOD and Industrial Partners are able to engage with potential equipment suppliers in order to develop more detailed cost estimates. Work done to date has identified over 850 potential UK Suppliers spread across the country.

**2.6** Expenditure to the end of the financial year 2013/14 amounted to £415M, bringing the overall sum spent on the Assessment Phase to £730M, which is in line with plans set out in the Initial Gate Business Case. The forecast cost to Assessment Phase completion remains within the £3Bn approved in

April 2011. The Main Gate decision, finalising the detailed acquisition plans, design and number of submarines will be in 2016, in the next Parliament.

Royal Navy submarine HMS VICTORIOUS departs HMNB Clyde under the Scottish summer sunshine to conduct continuation training.



## Defence of UK Airspace and Waters and UK Overseas Territories

**2.7** In 2013/14, we continued to provide effective support to the defence of UK airspace, territorial waters and overseas territories. The Police and maritime authorities have primacy in protecting the coastline of the UK, but Defence maintains forces to provide support to these authorities if required. Quick Reaction Alert Typhoon aircraft cued by air surveillance and control facilities continued to be used to defend UK airspace. We remained fully and demonstrably committed to the defence of UK Territories in the South Atlantic.

**2.8** In Cyprus we maintained important military facilities in the Eastern and Western Sovereign Base Areas. We bolstered Force Protection in light of tensions in the region and the Sovereign Base Areas continued to provide vital support to operations including Op HERRICK, Afghanistan. In Gibraltar our forces played an important role in demonstrating UK sovereignty in response to increased posturing by Spain and the Royal Gibraltar Regiment has been active in supporting operations in Afghanistan and defence engagement with Morocco.

## Military Aid to the Civil Authorities

**2.9** The Home Secretary is responsible for the safety and security of the UK and its citizens. Under the Civil Contingencies Act 2004, lead Government departments are allocated to deal with the most

likely high-impact, disruptive events. The MOD is not the lead for any civil contingency, but if required can provide support through the Military Aid to the Civil Authorities process. We supported the Civil Authorities in carrying out their functions on over 130 occasions in 2013/14. These ranged from the provision of logistics support to the Police and ambulance services, to having personnel trained and on call to deliver fuel in the event of strike action by tanker drivers, assisting the Department for Communities and Local Government during fire service strike action, as well as the 2014 floods and supporting the 2013 G8 summit. In 2014 we provided assistance to the Commonwealth Games in Glasgow as well as the NATO summit in Cardiff.

**An Electro-Optical (EO) image from a Raptor reconnaissance pod fitted to a RAF Tornado GR4 aircraft of extensive floods in Bourne End, that aid the planning and co-ordination of multi-agency efforts to provide relief to local residents and communities.**



**2.10 Counter-Narcotics.** Defence continues to support HMG strategy and international efforts to tackle the threat from illicit drugs. The Royal Navy has operated with US and other international partners to stem the flow of drugs from Latin America through the Caribbean, and across the Atlantic to the UK and Europe. The Navy has seized or disrupted over 6 tonnes of illicit cocaine and marijuana in the region, worth in excess of £140M had those drugs reached the streets of the UK. The Navy has also achieved good counter narcotics effect in the Indian Ocean, operating under the multi-national maritime coalition Combined Task Force 150. The MOD works closely in support of the National Crime Agency, as UK's lead on countering narcotics and other illicit trafficking activity worldwide. UK forces under NATO in Afghanistan have, in the course of operations, continued to achieve success in disrupting the production and trafficking of significant quantities of drugs. The UK has also mentored the Afghan forces to enable them to lead counter-narcotics operations, and tackle the

narcotics threat within, and emanating from, their country.

**2.11 Search and Rescue (SAR).** The MOD search and rescue service exists to help military aircrew in difficulty. It also contributes to the UK's integrated national SAR framework. Helicopter cover for most of the UK and a large area of the surrounding sea was provided 24 hours a day by the RAF and Royal Navy from eight helicopter bases. This augmented the service provided by a civilian company from a further four bases under contract to the Maritime Coastguard Agency.

**2.12** The RAF also maintained four RAF mountain rescue teams in the north of the UK, who are expert in dealing with aircraft crashes and SAR in remote areas. The UK Aeronautical Rescue Coordination Centre at RAF Kinloss co-ordinated the response of all UK SAR aircraft and mountain rescue teams, and hosted the UK Mission Control Centre for the global satellite-based distress beacon detection system. SAR cover was also provided by the RAF from RAF Akrotiri in Cyprus and in the Falkland Islands – both of which are out of scope of the pending privatisation of the service in the UK from 2015. In 2013/14 Defence SAR services were called out 1,852 times (1,932 in 2012/13) in the UK and came to the aid of 1,555 people. Statistics on Military SAR incidents, callouts and people moved can be found at: [www.gov.uk/government/organisations/ministry-of-defence/about/statistics](http://www.gov.uk/government/organisations/ministry-of-defence/about/statistics)

**2.13 Explosives Ordnance Disposal (EOD).** The MOD provides 24 hours-a-day EOD support to the police in the UK. This includes the provision of operational scientific expertise to deal with complex devices. Routine co-ordination of EOD tasking was conducted by the Joint Service EOD Operations Centre at Didcot which allocated Royal Navy, Army or RAF teams as necessary. EOD teams responded to 695 Improvised Explosive Device Disposal incidents in 2013 (2012 – 569) and 1750 Conventional Munitions Disposal Incidents (2012 – 1725).

## Counter-Piracy

**2.14** An enduring objective for Defence is to ensure that the UK continues to support counter-piracy efforts in the Indian Ocean. While pirate activity levels were lower than in previous years, piracy off the coast of Somalia continued to pose a threat to shipping. No vessel has been seized by pirates since May 2012 thanks to a co-ordinated military effort, and the widespread use of self-defence measures and armed onboard protection teams by merchant vessels.

**2.15** Defence played a key role in the international effort that achieved this improvement, both through inter-Governmental leadership and military contributions to the three international counter piracy coalitions: the US-led Combined Maritime Forces; European Union's Operation ATALANTA; and NATO's Operation OCEAN SHIELD.

**2.16** The UK provided Op ATALANTA with the Operational Commander and the multinational Operational Headquarters at Northwood, plus a significant maritime contribution, including Royal Marines, from the Cougar 13 Task Group during October and November 2013. The Combined Maritime Force has a permanent UK Deputy Commander based in Bahrain and the UK provided the afloat counter-piracy Commander and Staff for the last 4 months of the year; a key piracy season. Ships have been contributed to the mission throughout the year.

## NATO

**2.17** NATO remains the cornerstone of UK Defence and provides the political and military structures through which the UK engages with Allies and Partners on defence, security, operations, crises management, collective defence planning and reform.

**2.18** The NATO-led mission in Afghanistan remained the UK's and the Alliance's main effort with progress in ensuring a seamless transition from International Security Assistance Force (ISAF) to the "Train, Advise, Assist" role of Operation Resolute Support, in which the UK will continue to play a key role. By early 2014, there were 5,200 UK military personnel in Afghanistan. This is a reduction from a high of around 9,000 in early 2013 and demonstrates the gradual drawdown within ISAF as Afghan Security Forces assume increasing responsibility for delivering security. The number of personnel deployed on operations in Afghanistan will continue to reduce throughout 2014.

**2.19** The UK also continued to contribute to NATO's counter proliferation operation in the Mediterranean (Operation Active Endeavour) by assigning warships in transit in the Mediterranean. Elsewhere, the UK remained at the forefront of the NATO Response Force providing both Land and Air Component Commands in 2013 in addition to its standing contribution of warships and combat aircraft.

**2.20** The UK remains committed to support and enhance the NATO Defence Planning Process and

align it with national planning decisions and cycles. UK remains one of the largest contributors to NATO, able to meet a broad range of the Alliance's capability targets. We continue to support NATO efforts to address those critical shortfall areas that were discussed at the 2012 Chicago Summit. Of NATO's major Smart Defence projects, the UK led on four and was involved in half of the remainder. Work continued to build towards NATO Forces 2020 (another major Chicago Summit initiative) to deliver forces configured at high readiness for a range of contingencies. The UK worked to ensure that lessons identified in Afghanistan are learned and the Alliance retains the valuable cohesion and interoperability developed on operations. The UK has implemented this through the Connected Forces Initiative which has a real focus on exercises and interoperability.

**2.21** The UK supported NATO Reform and the need to modernise the Alliance's ways of working and information management (sometimes working with a small group of like-minded Allies). Work continued on implementing a slimmer NATO Command Structure, which is expected to achieve Full Operating Capability in December 2015. UK personnel work in various locations across the Alliance (e.g. NATO HQ, Brussels; Allied Command Operations, Mons; Allied Command Transformation, Norfolk, USA; Joint Force Commands in Brunssum and Naples; Air Command, Ramstein; and Land Command, Izmir, Turkey). The UK hosts and commands the 3\* NATO Maritime Command at Northwood and also provides support to the NATO Force Structure, including through the hosting of the UK-led 3\* HQ Allied Rapid Reaction Corps (HQ ARRC).

**2.22** In September 2014, the UK hosted the NATO Summit in Newport, Wales. The main challenges discussed were further NATO sanctions against Russia; the Reform of NATO; new threats; and the Military Covenant.

## UN

**2.23** The MOD supported four United Nations (UN) peacekeeping operations in 2013/14. The UK deploys approximately 280 military personnel on UN missions, the largest UN deployment continuing to be in Cyprus. We also maintained our commitment to UN-mandated peace support operations, including those personnel involved in operations in Afghanistan in early 2014.

**2.24** We provide four officers to the UN in New York and maintain a Defence section in the UK Mission to the United Nations. We contributed to

extensive multilateral capacity building in Africa through a combination of short-term training teams, British peace support training teams and British military advisory training teams. The MOD continues to support United Nations Security Council Resolution 1325 and its associated resolution on Women, Peace and Security by its actions within the UK National Action Plan. The MOD is also working within the UK Strategic Framework on Women, Peace and Security on support to the Prevention of Sexual Violence Initiative. Details of all this work is contained within the revised UK National Action Plan which was published in Spring 2014.

## Common Security and Defence Policy

**2.25** The UK continues to emphasise the importance of operational effect, promoting efficient and effective application of EU effort wherever possible. At the December 2013 European Council, we agreed moderate, practical measures to improve the EU's contribution to European security that fully recognise the primacy of NATO and that EU activity must be driven by Member States.

**2.26** We continued to provide an Operational Headquarters at Northwood, currently commanding the EU's counter-piracy operation off the Horn of Africa. We have also contributed to the EU's other military operations, in Bosnia and Herzegovina, Mali, and Somalia. The UK led an EU Battlegroup from July to December 2013, working with the Netherlands, Latvia, Lithuania and Sweden to provide a high-readiness force in case a rapid-response EU operation was called for.

Type 23 frigate HMS MONTROSE (bottom right) takes formation with other ships from Norway and Denmark as part of Operation Recsyr (REmoval of Chemical weapons from SYRIA) near Cyprus in February 2014.



## Arms Control

**2.27** The National Security Risk Assessment identified that the consequences from hostile acts by terrorists and states would be greatly magnified if weapons of mass destruction, advanced military technologies, and the systems used to deploy them, reached the wrong hands. The following paragraphs summarise the MOD's contribution in 2013/14 to meeting the Government's wider arms control and counter-proliferation objectives:

**2.28** The MOD continued to provide expertise to strengthen the Chemical Weapons Convention and the Biological and Toxin Weapons Convention. A priority has been to support the international community by, firstly investigating the use of chemical weapons by Syria against its own people, and then in removing from Syria the chemicals in its declared stockpile. The MOD's contributions have included analysis by the Defence Science and Technology Laboratory of samples which provided evidence of the use of chemical weapons by the Assad regime, provision by the Defence Science and Technology Laboratory of technical advice to the relevant UK authorities, provision of equipment to support destruction of Syrian chemicals by the United States, provision of a naval escort vessel to support the operation by Denmark and Norway to remove all the relevant chemicals from Syria, and use of an MOD contract to destroy 200 tonnes of nerve agent precursor chemicals. This has been a highly successful international collaborative effort, and almost all the chemicals declared by Syria have now been destroyed.

**2.29** During the UK's chairmanship in 2013 of the Global Partnership against the spread of weapons and materials of mass destruction, the MOD worked closely with the Foreign and Commonwealth Office and international partners to strengthen international cooperation in the field of biological security. This contributed to the development and implementation of new programmes and projects by partners. The MOD has continued to implement a variety of projects to strengthen biological security primarily in Central Asia, the Caucasus, Middle East and North Africa.

**2.30** In the interest of progressing the objectives of the Nuclear Non-Proliferation Treaty, the MOD has worked closely with FCO to prepare for the 2015 Review Conference, in particular in ensuring we fulfil our obligations under the 2010 Action Plan. The MOD has provided technical input to the Chinese-led initiative on nuclear definitions. The MOD continued to lead HMG's contribution to the UK Norway Initiative on the verification of nuclear

warhead dismantlement, agreeing a joint work plan to 2015.

**2.31** We continued to fulfil our obligations as the national authority responsible for the UK's commitment to the Comprehensive Test Ban Treaty, supporting the Comprehensive Test Ban Treaty Organisation in Vienna. The MOD continues to co-ordinate across Government to develop a sovereign Nuclear Forensics capability to analyse and attribute origin of recovered fissile material.

**2.32** We provided technical support in April 2014 to the expert discussions in Geneva on the possible scope of a Fissile Material Cut-off Treaty, with the aim of informing future negotiation in the United Nations Conference on Disarmament and, working closely with the FCO, ensuring UK equities will be protected.

**2.33** We continue to implement key politically and legally binding Conventional Arms Control agreements on behalf of the UK. During the year, the MOD hosted sixteen verification missions, in compliance with the UK's obligations under the Conventional Arms Control agreements; and led or participated in thirty-four verifications missions in other countries.

**2.34** The UK signed the Arms Trade Treaty on 3 June 2013 and ratified it on 2 April 2014. We continue to work with others to enable its early entry into force. The treaty will oblige all state parties to apply common criteria for assessing the export of conventional arms.

**2.35** Finally, we continued to provide expertise to strengthen the four export control regimes (Missile Technology Control Regime, Nuclear Suppliers Group, Australia Group and Wassenaar Arrangement) to reduce the threat to national interests, including UK Forces operating abroad.

## Key Allies

**2.36** We have continued to consolidate and deepen our pre-eminent defence security and security relationship with the US. Thanks in part to more than a decade of combined operations, our military relationship has remained rock solid. In London on 10 June 2014, for the first time since 1948, US and UK military Chiefs came together collectively to discuss shared future strategic challenges. Collaboration and cooperation on a range of key programmes such as the nuclear weapons enterprise, Joint Strike Fighter and aircraft carriers continues to develop well. Our respective single Services continue to improve inter-operability to ensure that UK and US Armed Forces can operate effectively together in future. We will be working in the year ahead to further develop our cooperation in areas such as cyber, space and science and technology. We have continued to promote bilateral defence trade, and encouraged defence industry on both sides of the Atlantic to make fuller use of the US/UK Defence Trade Co-operation Treaty.

**2.37** UK-French Defence Co-operation continues to grow in depth and breadth in line with the objectives of the 2010 Lancaster House Treaties. At the bilateral Summit on 31 January 2014 Ministers agreed to further equipment collaboration, including on Future Combat Air Systems, complex weapons and maritime mine countermeasures, and to intensify our bilateral security policy dialogue. They noted good progress towards establishing a Combined Joint Expeditionary Force by 2016, and agreed to a pilot exchange on A400M and Voyager which furthered our exchange officer programme, a vital component of our deepening operational collaboration.

# 3. Contingent Operations

The third Defence Priority is to succeed in other operations we are required to undertake at home and overseas, by providing a defence contribution to UK influence (including working with the Department of Business, Innovation and Skills (BIS) to promote defence exports), by defending our interests through projecting power strategically and through expeditionary operations, by providing security for stabilisation, and by providing a defence contribution in support of other government departments.



## Operations

**3.1 Mali** – The UK continues to support EU Training Mission to increase the capacity of the Malian Armed Forces to address Mali's security challenges. The UK has also supported the establishment of the UN mission in Mali (MINUSMA) and plans to extend this commitment in the 2<sup>nd</sup> UN mandate.

The UK assists France to move French Military equipment to Mali, West Africa



**3.2** In addition to these multi-lateral commitments, the UK provides an Operational Liaison Team to Mali enabling interagency operations with the French, EU, UN and Mali Armed forces as well as Non-Government Organisations.

**3.3 Libya** – Until the temporary suspension of operations in August 2014 as a result of the deterioration in the security situation, a wide range of UK Defence support was being delivered under the Security Justice and Defence (SJD) programme. Set up in October 2013, the SJD programme is designed to manage the UK bilateral support to the Libyan government. The package included a Defence Advisory and Training Team, advisors on institutional capacity, control and counter-proliferation of unsecured stocks of arms and ammunition; Explosive Ordnance Disposal training amongst others. The UK also agreed to train 2,000 Libyan Armed Forces troops as part of the General Purpose Force initiative. The first tranche of troops completed a 20 week training programme on 4 November 2014. We are now reviewing all aspects of this training, including disciplinary issues and this will inform NSC decisions about future training programmes for the Libyan security forces. The UK remains committed to supporting the Libyan government as it works to establish stability and security across the country but has no plans for further trainees to travel to the UK. The UK has continued to support international efforts by the UN Support Mission In Libya (UNSMIL), UN Mine Action Service (UNMAS) and the EU Border Advisory Mission (EUBAM), although these missions have also been temporarily withdrawn.

**3.4 Middle East (ME)** – The ME is home to a number of vital UK strategic interests, but is a region susceptible to conflict and instability. UK MOD investment in the region falls under three headings: contingency planning and demonstration of our commitment to the region, logistic support to operations, and Defence Engagement. Our contingency planning in the ME has seen the UK working with coalition partners to develop military responses to a variety of potential crises. Meanwhile the UK has forward deployed key personnel and units to ME bases in order to demonstrate our commitment to the region. ME bases, such as Minhad, are being used for logistical support to the flow of equipment and personnel in and out of theatre; particularly important as the UK withdraws from Afghanistan. On Defence Engagement, the UK Armed Forces have provided military support to a wide range of activities in support of the wider Government's strategy in the ME.

## Conflict Prevention and Defence Engagement

**3.5** The International Defence Engagement Strategy (IDES), launched in February 2013, has been progressed with the Foreign and Commonwealth Office (FCO) and partners across government. Resources have been reprioritised to deliver better effect in line with regional and country strategies and objectives agreed across government, including: additional programme funding specifically to support implementation of IDES; and new Defence Sections opened or due to be opened in Libya, Somalia, Burma, Vietnam, Thailand and Mexico. The Armed Forces has refocused its efforts on international defence engagement including through the Army's regionally-focused adaptable brigades. We have continued to work with FCO and the Department for International Development (DFID) on conflict prevention, capacity building and security sector reform projects across five regional and one thematic programme: Africa; Afghanistan; Wider Europe; South Asia; Middle East & North Africa; and Strengthened Alliances and Partnerships. Of the £216M of programmable Conflict Pool resources available to fund this kind of activity in 2013-14 the MOD led on projects totalling some £50M, including response to crises in Mali, Syria, Central African Republic and South Sudan as directed by the National Security Council.

## Middle East and North Africa

**3.6** In support of operations in **Afghanistan** we conducted pre-deployment training in **Jordan** as well as providing highly valued capacity building

training activities to the Jordanians to assist with their management of border security on the Syrian border.

**3.7** We have continued to increase our engagement in **Lebanon** building on previous success by increasing the construction of border towers and developing the capacity of the border security regiments to help reduce likelihood of the Syrian conflict spreading to other nations.

**3.8** In **Saudi Arabia, Oman, Qatar, The United Arab Emirates, Kuwait** and **Bahrain** we maintained a comprehensive network of Defence Attaches and Loan Service Personnel.

**3.9** We maintained a high tempo of aircraft deployments to the region basing them in facilities constructed by the **UAE** for UK use. Additionally, the major Naval Task Group deployment of 2013 operated East of Suez, further underlining the UK's commitment to the security of the Gulf region. Whilst deployed the Task Group undertook a wide range of Land, Air and Naval exercises and engagement activity with **Saudi Arabia, Oman, UAE, Qatar, Bahrain, Jordan** and **Libya** as well as traditional allies such as the **US** and **France**.

**3.10** Across North Africa the MOD has increased activity; prior to the temporary suspension of operations in August 2014 there was an increase in personnel deployed to support the development of the Libyan MOD and Armed Forces.

**3.11** We have expanded our short term training activities in **Morocco** focussing on developing host nation defence capability and capacity and we have begun planning activities to help the new **Tunisian** Government deal with security challenges.

## South Asia

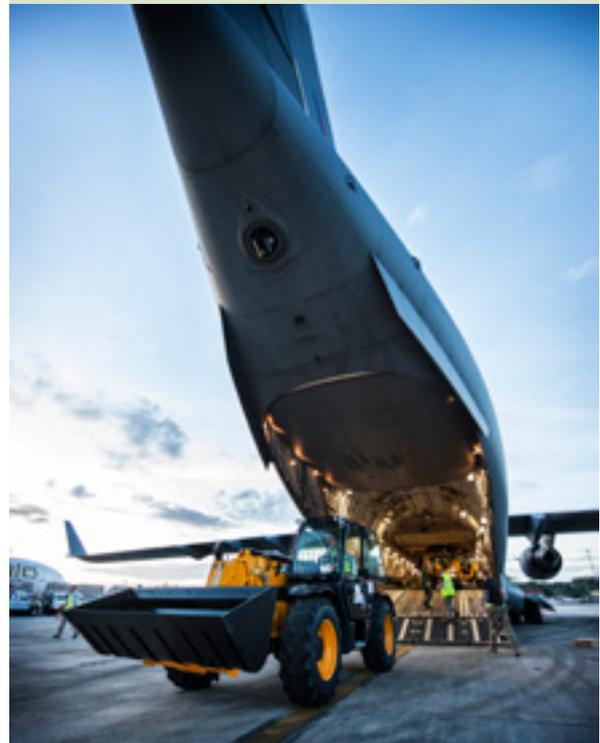
**3.12** We have maintained a wide-ranging relationship with **India** through Ministerial visits, a Permanent Under Secretary-level strategic dialogue and regular military-military contacts. We continue to make progress on a range of collaborative research and development projects. We continue to provide training and support to **Bangladesh's** Armed Forces, particularly with regard to their capacity to react to natural disasters. Our longstanding ties with **Nepal** are focussed around Gurkha recruitment and welfare, and we also assist their army with professional training.

## Asia-Pacific

**3.13** The successful establishment of a Defence Attaché post in Burma in February 2013 allowed much improved engagement with the military in **Burma** on defence reform. We also established new Defence Attaché posts in **Thailand** and **Vietnam**.

**3.14** We participated in exercises and high level strategic dialogues with **Australia, New Zealand, Malaysia, Singapore, Brunei, South Korea** and **Japan**. During HMS Daring's visit to the region she visited 10 countries, including **China**, as well as contributing to **Philippines** disaster relief.

A JCB Digger exits a Royal Air Force 99 Squadron C17 at Cebu Airport in November 2013 to support the Department for International Development mercy mission to the typhoon damaged islands of the Philippines



## Africa

**3.15** The MOD continued to contribute to the UK Government's **Somalia** strategy during 2013-14. We expanded efforts to improve the capacity of the African Union's peace support mission in **Somalia**, including through the provision of training to the **Sierra Leonean** contingents. We also supported **Somali** efforts to establish national armed forces both through bilateral advice and assistance and by participating in multilateral engagement such as the EU training mission.

**3.16** The new International Security Advisory Team made an impressive start to its security sector reform programme for **Sierra Leone** and the Mano River Union region, (replacing the previous International Military Advisory and Training Team). Our resident training teams in East Africa and South Africa continued their long standing capacity building efforts; the latter responding rapidly and effectively to a request from **Malawi** for battlegroup training ahead of its deployment to the **Democratic Republic of Congo**.

## Latin America and the Caribbean

**3.17** We continued to build on strong relations with **Brazil, Chile, Colombia** and **Uruguay** through a combination of high-level visits, joint exercises, ship visits and training programmes. In addition this year we signed a new defence co-operation with **Peru**, established a defence relationship with **Paraguay** and made preparations to open a Defence section in **Mexico**. We continue to provide support to British Overseas territories and other Caribbean partners assisting them in fighting against organised crime and reducing the effects of natural disasters. In the South Atlantic, UK forces continue to deter **Argentina** from any temptation to stray from hostile rhetoric into outright aggression against the **Falkland Islands or South Georgia and the South Sandwich Islands**.

## Europe

**3.18** Following the 2013 re-basing announcement that all UK troops will be withdrawn from **Germany** by 2020, we have continued to enhance our bilateral defence relationship and offset the impact of drawdown through further Structured Dialogue meetings, and significant Ministerial engagement.

**3.19** The UK suspended the vast majority of its bilateral defence cooperation with Russia following the Ukraine crisis (the exception being where there are Treaty obligations or the engagement is of a commemorative nature). Since then working closely with NATO partners, the UK MOD has built on a well-established relationship with the Ukraine and increased cooperation designed to support defence reform, good governance (including anti-corruption) and strategic communications.

**3.20** The UK and **Turkey** signed a military treaty in 2011 to enhance the level of bilateral defence co-operation between the two countries. In early 2014 the Vice Chief of Defence Staff led high level staff talks in Ankara that were both open and

constructive, providing an indication of the close working relationship.

**3.21** In the Western Balkans we maintained our contribution to EUFOR Op ALTHEA – the EU Common Security and Defence Policy mission to **Bosnia & Herzegovina** operating under Berlin Plus arrangements.

**3.22** In accordance with the Memoranda of Understanding signed in 2012, we have continued to enhance our defence relationships with both **Denmark** and **Norway**. In 2013, the UK signed MOUs designed to enhance defence co-operation with **Estonia** and **Lithuania**. At the UK's initiative, the **Northern Group**<sup>2</sup> continues to develop into a promising forum for defence and security co-operation in northern Europe.

## Capacity Building and International Defence Training

**3.23** Throughout 2013-14, the MOD has assisted in the development of the Armed Forces of partner nations by providing defence education and training to fifteen countries through the Defence Leadership programme. Through the Strengthened Alliances and Partnerships strategy we contributed to capacity building for peace support operations, especially through 'train the trainer' schemes which build training and teaching capacity in target countries. These teams help other countries become self-sufficient, capable of providing for their own domestic security in an accountable and democratic framework, and of contributing personnel to regional security and global peace support operations.

**3.24** The MOD's Defence Assistance Fund was used to develop further and strengthen bilateral and multilateral defence relationships in support of wider Government objectives, as set out in the International Defence Engagement Strategy (IDES). The money funds defence education in support of security sector reform and capacity building; short term training teams; staff talks, and exchange visits. In addition the new Defence Engagement Provision provided resources to help to implement the IDES across Defence and with partners across government, funding both capital and programme activity.

<sup>2</sup> Established in 2010 at the UK's initiative, the Northern Group is an informal grouping of 12 nations (Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, the Netherlands, Norway, Poland, Sweden and the UK) which can work beyond traditional international institutions to help promote more coherent, efficient and effective defence and security co-operation in Northern Europe.

## Activity and Concurrency Levels

**3.25** The MOD monitored activity and concurrency levels over the year to ensure that meeting its objectives does not put an unsustainable strain on our Armed Forces. We also report on the activity that each of the three Services have carried out in support of the Government's priorities.

**3.26** The total number of Service Personnel committed to operations compared with total force numbers, excluding reservists, is shown below.

	UK Regular Strength as 2013/14	UK Regulars deployed during 2013/14	%
<b>Armed Forces</b>	<b>165,260</b>	<b>41,530</b>	<b>25.1%</b>
Naval Service	33,510	7,420	22.1%
Army	95,750	23,030	24.1%
RAF	36,000	11,080	30.8%

Note. RAF figures include 4,731 personnel in the UK working in Direct Support of Operations.

**3.27** The **Royal Navy** continued to make a significant contribution to global operations in the Persian Gulf, the Horn of Africa, the Mediterranean, the North and South Atlantic and, for the first time since 2011, Asia Pacific. As well as delivering the United Kingdom's continuous at-sea nuclear deterrent patrols, naval forces maintained the security of our territorial waters and economic zones, including those of Gibraltar, the Falkland Islands, the British Indian Ocean Territory (Diego Garcia) and overseas territories in the Caribbean and other Commonwealth nations. The Royal Navy contributed to, and led, counter-piracy operations off the east coast of Africa. Royal Navy and Royal Marines personnel undertook over 900 separate Defence Engagement visits to 87 different countries within the 2013 calendar year. These activities included helping to train and support the security forces of Libya, Somalia, Lebanon, Nigeria, Philippines, and Sierra Leone. HMS DARING was deployed to the Asia-Pacific region, emphasising the UK's interests there, and formed part of the UK's initial response to Typhoon Haiyan; HMS ILLUSTRIOUS then continued relief efforts to remote areas of the Philippines. The Royal Navy supported operations in Afghanistan with the provision of specialist medical, aviation and logistic personnel. The Royal Navy

continued to provide significant support to the civil authorities in search and rescue operations, maritime bomb disposal, counter-narcotics operations, port survey and fishery protection; naval forces also made a significant contribution to the military's response to regional flooding. In 2013, the average percentage of Royal Navy and Royal Marine personnel committed to operations at any one time was 32%, with 69% of the surface fleet routinely deployed from their base port.

**3.28** Royal Fleet Auxiliary WAVE KNIGHT supported by the US Coastguard conducted counter-narcotics operations within the Caribbean region throughout the reporting period.

**3.29** The **Army** continued to make a major contribution to operations globally with the most significant deployment being the continued support to Defence's main priority in Afghanistan. Other operations included participation in UN operations in Cyprus, the Democratic Republic of Congo and South Sudan. The Army also had personnel deployed on operations in Mali, Somalia, Libya and the Middle East in support of strategic objectives. All standing commitments including State Ceremonial and Public Duty were met with Army personnel permanently stationed in Northern Ireland, Cyprus, Brunei, Nepal, the Falkland Islands and Gibraltar. The Army continued to contribute to the Government's counter-terrorism strategy by delivering military advice and building capacity in other countries. This included training assistance to a number of high priority countries in capabilities such as border security, counter-terrorist detention, counter-IED, and logistics. In addition, numerous short term training teams deployed across the world in line with the Defence Engagement Strategy. Support to UK resilience also remained a significant operational commitment with support to various industrial actions, flood relief and the provision of security for several major events including the G8 summit. This year the average percentage of Army personnel deployed in support of operations at any one time is 20%.

**3.30** The **Royal Air Force** has continued to provide a major input to activities in the UK, including maintaining the integrity of UK waters and airspace, air security, nuclear deterrence, search and rescue, counter-narcotics and airborne surveillance and control. In addition, the RAF has provided support to UK floods relief activity, specifically through providing aerial reconnaissance and personnel assisting on the ground. The RAF has also contributed to permanent commitments in Northern Ireland, the Falkland Islands, Ascension Island and Cyprus. It has increased its staffing levels across NATO formations in Europe and supported ongoing arms control and other international peace

and security activities. For another year the RAF has contributed significantly to operations, primarily in Afghanistan but also in assisting French forces in the Central African Republic. The RAF was also able to provide rapid humanitarian aid and disaster relief to the Philippines, and evacuate UK personnel from South Sudan. These operations and a full overseas Exercise programme have helped strengthen UK strategic relationships, particularly with the USA, France, the Middle East and in support of Defence Agreements in the Far East. Additionally, the RAF has supported the UK prosperity agenda, both ongoing defence export activity and a highly successful tour of the Middle East by the RAF Red Arrows for the GREAT Campaign. Overall, all front-line elements of the RAF have been heavily committed, in the UK and internationally, with this year's percentage of RAF personnel committed to operations at any one time being 27.2%<sup>3</sup>.

**Personnel from 5 Force Protection Wing at Camp Bastion patrolling the inner perimeter of the base in a Foxhound Light Protected Vehicle.**



**3.31** The Joint Force Headquarters (JFHQ), which sits within the **Joint Forces Command**, continues to provide the UK's Extreme High Readiness<sup>4</sup> deployable Headquarters (HQ) providing command and control capability for joint national or multi-national operations in response to emerging crises worldwide.

**3.32** JFHQ has worked closely with partners across Government, and has fostered effective relationships with, amongst others: FCO Crisis Management Department; Department for International Development; Civilian Police; Stabilisation Unit; and the 3 single Service staffs.

<sup>3</sup> This includes numbers deployed to overseas Permanent Joint Overseas bases e.g. Falkland Islands.

<sup>4</sup> 48 Hours Notice to Move.

**3.33** Notable achievements in the last 12 months include:

- Contributed to planning and command of UK disaster relief efforts in the Philippines.
- Commanded military force elements on the ground in support of the FCO led evacuation of British and other nationals from Juba in South Sudan.
- Deployed Operational Liaison Reconnaissance Teams or advisers to over 30 countries including Egypt, Israel, Jordan, Lebanon, Libya, Nepal, Thailand, Tunisia, and Sierra Leone.
- Conducted Defence diplomacy tasks, including planning to assist Libyan Security Sector Reform, setting of the initial G8 summit requirements for a Libyan General Purpose Force, and training in Joint Operations for the Omani Armed Forces.
- Certified and commanded the EU Battlegroup as the Force Headquarters, working in close co-operation with Latvia, Lithuania, Netherlands and Sweden, the other troop contributing nations.
- Ongoing collaboration with our French sister Headquarters<sup>5</sup>, to develop a FR/UK Combined Joint Expeditionary Force Headquarters which will undertake a series of concept of validation exercises in 2015 and 2016.
- Training of the first three UK F-35B pilots via a joint training squadron with the US Marine Corps located at Elgin Air Force Base Florida. Additionally, the training of 20 maintainers to support the Test and Evaluation Squadron for the Lightning II that will operate from Edwards Air Force Base from September 2014.

## Funded Readiness

**3.34** As well as succeeding in the operations that we undertake, an enduring priority for the MOD is to maintain a range of forces ready to deal with events that may emerge. In 2013-14 we maintained a graduated readiness system to ensure that the right force elements (typically ships, ground force sub units and aircraft) are ready to deploy to conduct the range of missions that may be required by the Government. Through its Defence Plan and Annual Budget Cycle process, the MOD Head Office sets requirements for the Front Line Commands in terms of the force elements and the readiness

<sup>5</sup> The French equivalent of JFHQ is the Elat Major Interarmees Force Entrainement (EMIA-FE)

levels at which they need to be held, and allocates the resources to achieve this. These requirements are underpinned by specific direction on manning levels, equipment, logistic support, and training, both for individuals and the collective training that units do together to ensure they can fight effectively as part of a larger force.

**3.35** As we draw down from Afghanistan, the process of rebalancing and recuperating forces which may be required for future operations is complex and will take time to complete. As can be seen this year, the Armed Forces is still in high demand despite the demand in Afghanistan to respond to a wide range of potential challenges; response to UK floods and Humanitarian Aid in the Philippines are just two examples of the wide range of tasks asked of the UK Armed Forces. The UK's reputation politically and militarily remains high owing to successful deployments such as these.

**3.36** The Armed Forces' readiness targets are measured against the ability to prepare, deploy, fight and recover against the full range of potential operations. In recent years, however, the Armed Forces have focused on preparing for and sustaining operations in Afghanistan, Libya and Mali. The operations in Libya and Mali showed how forces held at readiness can be deployed at short notice in support of the Government's security and humanitarian priorities. We provided substantial forces at immediate readiness for those operations, deployed them to and sustained them in theatre, and recovered them to their home bases at the end of their tours. Throughout 2013-14 the Armed Forces have continued to generate and sustain high quality, properly trained force elements for other standing military commitments, such as maintenance of the nuclear deterrent and the provision of garrisons in permanent joint operating bases worldwide such as the Falkland Islands.

**3.37** The financial year 2013/14 saw the UK's ability to conduct Contingent Operations beyond Afghanistan continue to grow in line with the Defence Plan. Planning is underway to accelerate the Force Elements held at Readiness to be in a better position to respond to emerging crises. Some of those units at readiness include: the Lead Commando Group (part of 3 Commando Brigade Royal Marines), the Airborne Task Force (drawn from 16 Air Assault Brigade) and the Royal Navy's Response Force Task Group (RFTG) together with a range of enabling and force-multiplying capabilities. This enables a range of scalable force packages to deploy at very short notice.

## Defence Exports

**3.38** Throughout the year we continued to provide dedicated department-wide support to the British defence and security industry in its efforts to secure exports and continue to strengthen the policies underpinning our support to exports by implementing the recommendations in the "National Security Through Technology" White Paper.

**3.39** The UK Trade and Investment Defence and Security Organisation (UKTI DSO), part of the Department for Business, Innovation and Skills, is responsible for promoting defence exports within Government. As a result the MOD has worked closely with DSO to provide MOD expertise and equipment, including the training, validation and know-how of the UK's Armed Forces to help deliver success in UK defence export campaigns.

**3.40** Last year our Armed Forces provided military support to key defence export markets including: capability demonstrations and evaluations, visits, and briefings to potential customers. These activities served to underpin and deepen our successful defence engagement relationships across the world. For example, HMS Daring visited Sydney for the International Fleet Review. As a result the First Sea Lord was able to open and host the Defence and Security Industry Day aboard a Type 45 Destroyer. This was a valuable opportunity for the attending UK companies to showcase their capabilities and gain an enhanced knowledge of the potential requirements of the Royal Australian Navy.

HMS Dragon's Lynx helicopter fires infra red flares during an exercise over the Type 45 destroyer.



**3.41** Exports to the Gulf region have remained a particular focus and the MOD has provided support throughout the year across a range of activities. The RAF delivered a Typhoon Flight Evaluation Trial in the UK for Qatar, allowing Qatari pilots to fly and assess Typhoon's performance across a range of scenarios, and showcase the aircraft's capabilities. In addition the RAF provided several Eurofighter Typhoon aircraft to display at the Bahrain International Air Show in January. The MOD provided dedicated support to BAE Systems' bid to supply Eurofighter Typhoon to the UAE Air Force throughout the period.

**3.42** The MOD's Ministerial support remains a key aspect in delivering a successful export campaign and this year alongside the MOD Ministers, Service Chiefs of Staff and senior officials continued to support defence exports as part of their international engagement. The Minister for Defence Equipment Support and Technology is the lead for the major Eurofighter Typhoon campaigns. All MOD Ministers have been actively supporting exports in the context of wider Ministerial activity as well as leading that support through regular visits to trade exhibitions in the UK and overseas. Recent visits have included the Defence Security and Equipment International, the Royal Australian Navy Sea Power Conference and the Dubai Air Show.

**3.43** The National Security Through Technology White Paper, published in 2012, set out a number of departmental commitments in support of responsible defence exports. We have continued to undertake work to embed 'exportability' into the MOD equipment project plans and policy is now in place which ensures that every project that is submitted to our Investment Appraisals Committee has its export potential considered as part of its business case assessment. The Defence Science & Technology Laboratory (Dstl) is working with the MOD and industry to consider export potential during the early stages of procurement.

# **Section B**

## **Transforming and Delivering Defence**



## 4. Restructuring the Armed Forces

**The fourth Defence Priority is to transform Defence. The first part of this is restructuring the Armed Forces and their capabilities and implementing the outcome of the Strategic Defence and Security Review (SDSR), including re-building the Armed Forces Covenant and developing a New Employment Model.**



**4.1** This year our fourth priority continued to be implementing the changes set out in the 2010 Strategic Defence and Security Review. We set these out as specific commitments in the Business Plan. These included:

- regeneration of Carrier skills and capability
- introduction of new helicopters into service
- making progress to bring the Army back from Germany, delivering the reductions in the RAF Tornado force while building up the Typhoon force
- drawing down the ageing Tristar and VC10 air tanker and transport fleet as the new Voyager aircraft came on line.

**4.2** Under the International Defence Engagement Strategy we also worked to strengthen defence partnerships including through:

- enhanced science and technology cooperation and a range of joint training with the United States;
- training with France on engineering, attack helicopters, Carrier Air and expeditionary air deployments, and agreement of a major programme of bilateral defence cooperation at the UK-French Summit in January 2014; and
- developing the defence relationship with Germany.

**4.3** In the **maritime environment:**

- the carrier-strike programme progressed well, and HMS QUEEN ELIZABETH was officially named by Her Majesty the Queen on 4 July 2014. We also accelerated the Crowsnest airborne surveillance and control programme. Flying from HMS Queen Elizabeth will begin in 2018 once she completes her sea trials. A fourth trial aircraft was delivered, and we announced two Royal Navy and RAF Lightning II squadrons, to be based at RAF Marham;
- the surface fleet saw the decommissioning of HMS EDINBURGH, the last Type 42 destroyer, and entry into service four months ahead of schedule of HMS DUNCAN, the sixth Type 45 Destroyer. We also unveiled the designs for the future Type 26 Frigate and the next generation tankers and placed contracts for the new Sea Ceptor air defence missile and Scan Eagle surveillance system;

- HMS ASTUTE and HMS AMBUSH, the first two new Astute class nuclear fleet submarines, completed their sea trials and became available for operational tasking. The third (ARTFUL) was named and launched, and assembly of the sixth (AGAMEMNON) began;
- the first next-generation anti-submarine maritime patrol Merlin Mk2 helicopters were delivered to the Royal Navy, Merlin Mk3 support helicopters operated with the Royal Marines in the field for the first time, and training began on the new Navy Wildcat helicopters; and
- we announced plans to commission three new offshore patrol vessels, to be built by BAE Systems on the Clyde.

**The interior of a Foxhound Light Protected Patrol Vehicle. Foxhound has been specifically designed and built in Britain to protect against the threats faced by troops in Afghanistan. However, this is an agile and versatile vehicle that will be a mainstay in the Army for years to come.**



**4.4** In the **land environment:**

- under the Army 2020 programme the new Headquarters Force Troops Command achieved initial operating capability; the 3rd Battalion The Yorkshire Regiment was renumbered, the Royal Scots Dragoon Guards re-rolled from tanks to light cavalry, and we launched a major recruitment campaign;
- we invested in a further 24 Foxhound light protected patrol vehicles, taking the total fleet to 400 vehicles;
- the Army took delivery of Terrier, its newest and most advanced engineering vehicle, and of new battlefield radars;
- we ordered further Hellfire and Starstreak missiles;
- we announced a new armour research and development centre;

- the Royal Artillery began live flying training on the Army's Watchkeeper unmanned aerial surveillance and reconnaissance system;
- we remained on course to return all of our personnel from Germany by 2020 and exceed the original target of returning half by 2015; and,
- the Army Basing Programme was established as one of our key change Programmes to deliver the Army Basing Plan announced in March 2013. We announced major redevelopment of Beacon Barracks in Stafford, including investment in new homes for soldiers and their families returning from Germany, as a step towards establishing the town as the home of the Army's signal regiments.

#### 4.5 In the air environment:

- Typhoon force build-up continued with its largest training mission. International agreement was reached on the Meteor air-to-air missile upgrade. Tornado drawdown continued with the disbandment of 12 (Bomber) Squadron and 617 Squadron by April 2014. The latter will reform as the first Lightning II squadron in 2018. As a result of recent operations in Iraq, 2 (AC) Squadron, which was expected to disband in March 2015, will now continue as a Tornado squadron until April 2016;
- the Tristar, VC10 and C130K fleets retired after long service. Build up of the new Voyager Transport fleet continued, with all nine Voyager aircraft available for use by the RAF by the end of May 2014. Voyager was cleared to refuel Tornado and Typhoon aircraft from the summer of 2013. Two aircraft started to fly personnel on the operational airbridge between the UK and Afghanistan in December 2013, months ahead of schedule;
- we agreed to exchange two A400M transport aircraft delivery slots with France at the UK-French summit in January 2014, which will allow the aircraft to enter RAF service earlier than previously planned. RAF personnel are working alongside their French counterparts to acquire first-hand experience of the new aircraft;
- the first of the new Rivet Joint signals intelligence aircraft were delivered early in November 2013;
- the new Chinook MK6 helicopter achieved its first flight with three aircraft being delivered to the UK in December 2013, and training started on the Puma MK2 support helicopters;

- the new Taranis unmanned combat air vehicle demonstrator aircraft successfully completed its first flight trials; and,
- new Air Despatch and Tactical Medical Wing facilities opened at RAF Brize Norton.

A Royal Air Force KC-30 Voyager Air Tanker is flanked by two Tornado GR4 and two Typhoon FGR4 jets.



#### 4.6 In the joint environment:

- in July 2013 we published the Reserves White Paper: *Reserves in the Future Force 2020: Valued and Valuable*. Legislation, equipment, employer engagement and training changes have all made significant progress, and we took rapid action to address teething problems with the recruitment process;
- cyber issues had a high profile, including production of guidance on the defence contribution to cyber operations, partnership with industry on cyber security risks, and the Defence Secretary's announcement of a new Joint Cyber Reserves unit;
- In July 2014 the Defence Secretary announced a £300M investment which will see the world-class defence rehabilitation services currently delivered at Headley Court move to a new purpose-built location at Stanford Hall, near Loughborough;
- we completed new accommodation blocks for Military medical staff;
- we opened a new home for defence language training;

- we began work to transform the former RAF Lyneham in Wiltshire into the new Defence College of Technical Training;
- the creation of a unified headquarters for the Defence Medical Services (DMS) through the Midlands Medical Accommodation Project has transformed the former Whittington Barracks into DMS (Whittington) in a £138M investment and confirmed the Midlands as the centre of excellence for military medicine; and,
- as part of the Programme to Rationalise and Integrate the Defence Intelligence Estate (PRIDE), the Wyton Pathfinder building achieved initial operating capability this year.

**4.7** Reductions in the strength of the Services remained on track. In January 2014 we announced the fourth and final tranche of the Armed Forces Redundancy Programme. In the 12 months to 31st March 2014, 4,280 personnel left the Trained Regular Forces under the programme, including 40 Naval Service, 4,060 Army and 180 RAF personnel.

# 5. Restructuring the Armed Forces – Personnel

**This chapter focuses on progress on the commitments to implement the Armed Forces covenant, develop a new employment model and to transform the role of reserves. It also contains details of our ongoing management of personnel, such as restructuring, manning levels and changes in pay.**



## Armed Forces Covenant

**5.1** The Armed Forces Covenant sets out the moral obligation the nation owes to our Armed Forces personnel, Veterans, and their families. Its key principles are that the Armed Forces Community should face no disadvantage compared to other citizens in the provision of public and commercial services, and that special consideration is appropriate in some cases, especially for those who have given most, such as the injured and the bereaved.

The Armed Forces Day Flag flying high over a Government building.



**5.2** The Armed Forces Act 2011 places a statutory obligation on the Secretary of State to report to Parliament each year on the Armed Forces Covenant. The 2013 Covenant Annual Report was published in December and can be found on the internet<sup>1</sup>. It focused primarily on four issues – healthcare, education, housing, and the operation of inquests. It noted:

- The launch of the Defence Recovery Capability; and the provision of advanced prosthetics;
- An additional £3M for State Schools with Service children; an increase in the Service Pupil Premium to £300 per child; and the impact of changes to the Schools Admissions Code on the ability of Service families to secure school places outside the normal admissions round;
- Progress with our Capital Purchase Programme for the purchase of over 700 high quality homes; and the launch of the £200M Forces Help to Buy Scheme;
- The creation by the Chief Coroner of a specialist cadre of coroners available to investigate the deaths of Service personnel on active service, or while training and preparing for active service; and the implementation of our commitment to double the Funeral Expenses Grant.

<sup>1</sup> <https://www.gov.uk/government/policies/fulfilling-the-commitments-of-the-armed-forces-covenant/supporting-pages/armed-forces-covenant>

**5.3** The 2013 Covenant Annual Report also reflected the full breadth of Covenant-related work, on which we continue to make progress. All 407 Local Authorities in Great Britain have now signed a Community Covenant. The aim of the Community Covenant is to encourage local people to support members of the Armed Forces Community in their area and develop greater public understanding of the issues that affect them. It is supported by the Community Covenant Grant Fund, from which a further £10M was allocated to local projects in 2013-14.

**5.4** In 2013 we launched the Corporate Covenant, enabling businesses and charities to make their own pledges of support for the Armed Forces Community across a range of employment and service issues. More than 230 Corporate Covenants have been signed by big and small organisations alike, including National Express, Barclays, Virgin Media and Cardiff Blues Rugby Club. Liverpool Football Club Foundation was the 100th to sign.

**5.5** The importance of the Covenant is being demonstrated by the Government's continued financial support to Service charities and other good causes. Some £35M from fines levied on banks has already been allocated to 96 projects. In 2014-15, we will have available up to £40M to spend on Veterans' accommodation. The Chancellor has announced that a further £10M per annum will be made available permanently to support the Armed Forces Community from 2015-16.

## Welfare

**5.6** The recovery of injured personnel continued to be a key priority. The **Defence Recovery Capability** reached full operating capability in June 2013 and now includes a Veterans Entry Protocol, which allows potential access to irreducible spare capacity within this capability. By the end of 2013 all the planned Personnel Recovery centres were built and opened, underpinned by substantial investment from both the MOD and its principal partners Help for Heroes and The Royal British Legion.

**5.7** We continued to work with the Department of Health (DH) to bring the **Veterans' Information Service** to full operation following the recommendation of Dr Andrew Murrison MP's Fighting Fit report. This service contacts Veterans 12 months following their discharge, signposting them to the Royal British Legion (RBL) knowledge base, as well as NHS services. In March 2014, 78,800 emails and letters had been issued to Service personnel discharged between October 2010 and January 2013.

**5.8** To improve the support offered to veterans, on 4 February 2014, we re-launched the **Veterans' UK Helpline**, which is run by our Service Personnel and Veterans Agency. Improvements included the following: a new freephone telephone number **0808 1914 2 18**, reflecting the dates of the First World War; the extension of opening hours to 07:30 to 18:30 on working days (17:00 on Fridays); and the ability to directly connect callers in need to Combat Stress or the Samaritans outside normal hours of operation.

**5.9** Greater co-operation between the MOD and Service Charities was explored in a **Ministerial Charities Summit** held on 14 October 2013 with the Executive members of The Confederation of Service Charities.

**5.10** Projects to understand better **mental health** issues in Armed Forces personnel were commissioned in 2013, including a further phase of the Kings' Centre for Mental Health Research longitudinal study and work to understand the stigma associated with mental health in the UK Armed Forces.

**5.11** We worked with the Department of Health to create a **Veterans Prosthetic Panel** designed to ensure that veterans are able to access the best possible prosthetics prior to the upgrading of nine NHS facilities to provide access to the latest technology and highest quality of prosthetic care. The panel continues to meet on a monthly basis to consider applications for prosthetic components for veteran amputees.

**5.12** Our **MoneyForce** programme (MoneyForce.org.uk) in conjunction with the Royal British Legion continued to provide benefit in improving knowledge about personal finance. We now provide training to new recruits and there have been 84,000 unique visitors to the website. The **Defence Discount Service** now has 180,000 members, of which 52,000 are Defence Privilege Card holders.

## Future Reserves 2020

**5.13** On 3 July 2013 the Secretary of State announced to Parliament the White Paper *Reserves in the Future Force 2020; Valuable and Valued*, setting out how the Government intends to structure, support and utilise the Volunteer Reserves as part of the Future Force 2020. The White Paper built on the proposals laid out in the 2012 Green Paper, confirming the size of the Future Reserve as having a trained strength of 35,000; and laying out the improved "offer" for both reservists and their employers. At the same time the Secretary of State

announced changes to the structure and basing of the Army Reserve, designed to improve their ability to pair, train and integrate with their Regular counterparts.

**5.14** In December 2013 the Defence Secretary, in a Written Statement to Parliament, laid out interim trained strength targets as milestones to achieving the overall target strength by 2018. The targets set and achieved for 1 April 2014 were: Maritime Reserve 1,780; Army Reserve 18,800, and Royal Auxiliary Air Force 1,200.

**5.15** Subsequent to the White Paper, activity has included: implementing the necessary legislative changes; early steps to enact changes to terms and conditions intended to improve integration of the reserve and regular forces; and activity to improve recruitment and retention in each of the three Services.

**5.16** In accordance with the White Paper, clauses implementing required changes to the Reserve Forces Act 2006 were included in the Defence Reform Bill, which received Royal Assent on 14 May 2014. The clauses cover the re-naming of the Territorial Army as the Army Reserve; the terms of call-out for members of the Reserves; improving payments to the employers of reservists; and improving the protection of reservists against unfair dismissal.

**5.17** From 1 April 2013 a new commitment bonus was introduced for direct entrant Army Reserve junior officers and certain ex-regulars in the early years of their reserve service; and an increase in the amount payable was announced in March. From November 2013 we delivered a paid leave entitlement for all reservists (backdated to 1 April 2013); and Standard Learning Credits are available to reservists from April 2014. Mobilised reservists saw an increase in the rate of their X-factor to 14.5%, keeping them on the same rate as their Regular colleagues. The White Paper included a commitment to give reservists defined pension contributions for all service under the new Armed Forces Pension Scheme 2015.

**5.18** We have also made progress in building a more mature and open relationship with employers and giving greater predictability of reservist's activities. From January 2014 we carried out the first programme of providing improved advanced notification of reservists' training commitments to their employer. This will be conducted annually. Employers will also be notified if a reservist is being held in higher readiness states and therefore potentially deployable. We are looking forward to the new National Relationship Management

Organisation gaining operational capability from April 2014. The Defence Reform Bill will enable us to fulfil our commitment to provide new financial awards to small and medium sized enterprises when their employees are mobilised, in addition to the existing financial assistance. We have created an anti-disadvantage website for reservists to report problems arising as a direct result of their reserve service, which will enable us to monitor whether there are any wider issues and build a better relationship.

**5.19** The three Services have focussed recruitment activity this year on improving recruitment and retention of reservists to reverse the declines that have been experienced in recent years and enable us to build numbers towards the future requirement. Recruitment for the Army Reserve in particular has been affected by the issues arising from teething problems (now being overcome) with the Recruiting Partnering Project contract (the overall Army recruitment programme) but these issues have been and are being addressed; and we fully expect to achieve the overall programme target. We have also launched dedicated recruitment campaigns for the public sector, beginning with central government departments, working closely with the Cabinet Office.

**5.20** The single Services have taken the lead on the reforms of their respective Volunteer Reserves.

**5.21** In addition to taking forward the commitments in the White Paper to review the Reserves Training Bounty (which encourages personnel to complete their annual training commitment); and Reservists' Award (which seeks to ensure reserves are not financially disadvantaged on mobilisation), the New Employment Model programme is also considering what other elements of Reserves Terms and Conditions of Service might usefully be reviewed either in the short term or as the Services' use of Reserves evolves, to encourage recruitment and retention, both from civilian life and those potentially transferring from Regular to Reserve service. In doing this, we are working from the principle that Conditions of Service for Regulars and Reserves should be broadly equivalent for comparable levels of commitment, and any difference in treatment would need to be justified.

## Maritime Reserve

**5.22** The Navy Command Future Reserves 2020 Programme is charged with delivering three benefits.

**5.23** First, increased Maritime Reserve (MR) (Royal Naval Reserve (RNR) and Royal Marines Reserve (RMR)) Trained Strength of 3,100 personnel by December 2018. Actions taken have broadly

stabilised the historic decline and the MR is on track to achieve the required growth profile.

**5.24** Second, more capable MR. In light of evolving priorities, Navy Command is conducting a further review to provide better capability that supports the delivery of the Navy Command elements of Defence outputs.

**5.25** Third, more satisfied MR. Significant work has been completed to deliver improvements to the MR estate, to provide a more welcoming and functional environment for new joiners and existing MR members alike. Modern information technology and infrastructure is allowing better delivery of reservist training. Relocation of some remote sites to centres of population have been completed in Scotland (HMS Dalriada to Govan, RMR Scotland to Rosyth) and improvement work and collocation of the London University Royal Naval Unit to HMS President has been achieved. Further substantial infrastructure works are planned for other MR units in the next few years including two new facilities which will open in the coming year in Nottingham and Edinburgh.

## Army Reserve

**5.26** Activity is progressing well to deliver the integrated Army Reserve capability as outlined in Army 2020 and the July 2013 White Paper. A major focus is to improve the training experience of Army reservists with pilot studies currently ongoing to identify best practice for training integration between the Regulars and Reserves, and this includes feasibility assessments of reaching the required capability overseas (in places such as Kenya and Cyprus). Additionally there are a number of overseas training exercises (22 each for financial years 2013-14 and 2014-15) that will re-invigorate the Reserves experience while helping to cultivate an expeditionary mindset.

**5.27** With regards to equipment the Army Reserve is progressively being provided with equipment to ensure commonality with their Regular counterparts. The Royal Wessex Yeomanry have been issued 15 Wolf scout vehicles; and gun towing variants are being delivered to the two Reserve light gun regiments. Dismounted close combat equipment procurement was originally programmed for delivery from 2015, but due to an opportunity this year, £48M of equipment will be delivered in 2014 to the Army Reserve. The delivery includes equipment currently fielded to the Regulars as part of the future integrated soldier technology programme and the procurement of additional equipment that is currently fielded as an urgent operational requirement.

**5.28** Culturally, the Reserves proposition requires a change in mindset across the Army to deliver a balanced and resilient capability, integrated at every level, which delivers operationally effective units at readiness. At unit level, in most cases, it is delivered through pairing, a formal partnership spanning the conceptual, moral and physical components of fighting power, between specified Regular and Reserve units. This is being achieved by the changes to the structural and basing changes announced with the White Paper.

## Royal Auxiliary Air Force

**5.29** The Future Reserves 2020 target for the Royal Auxiliary Air Force is to increase Trained Strength to 1,800 by 31 March 2016 and to increase the footprint in the UK. A total of three squadrons have been established: 611 (West Lancashire) Sqn stood up at RAF Woodvale on 1 October 2012; 502 (Ulster) Sqn stood up at Joint Helicopter Command Flying Station Aldergrove on 1 January 2013, and 614 (Glamorgan) Sqn stood up at Ty Llewellyn Reserves Centre, Cardiff on 1 September 2013; all 3 squadrons were stood up ahead of schedule.

## Joint Cyber Unit (Reserve)

**5.30** An important element of the Defence Cyber Security Programme is the increased recruitment of people with the right skills and increasingly we are looking to the reserves to provide this capability. There has been high interest in the new Joint Cyber Unit (Reserve), which has led to a healthy number of applications. These reservists will work alongside regular forces to protect critical computer networks and safeguard vital data at times of rising tension or national emergency. A number of cyber reservist applicants have been selected and are now going through single service recruiting processes, with many more being invited to an interview. The next two years will see the Cyber Reserve fully operational, with personnel recruited, trained and operating alongside their regular and civilian colleagues in the Joint Cyber Units at Corsham and Cheltenham, and also Information Assurance units. In September 2013 the MOD launched two brand new part-time postgraduate courses at Cranfield University which will lead to cyber masters degrees. Reservists are among the personnel undergoing these courses which help them develop an understanding of cyber operations and threats.

## New Employment Model (NEM)

**5.31** The New Employment Model (NEM) Programme, announced as part of the Strategic Defence and Security Review (SDSR) October 2010,

is the biggest review of Service personnel Terms and Conditions of Service (TACOS) since the 1970s.

**5.32** The NEM is a strategic programme looking out to 2020 and beyond. It will update the current package of TACOS which is costly, complex and does not align sufficiently with the expectations of Service personnel and their families, as evidenced by recent trends in the Armed Forces and Families' Continuous Attitude Surveys. The NEM sets a direction of travel towards a modernised 'offer' which will need to be implemented incrementally, from 2014 onwards into 2020. The result will be a measured shift, over time, in the nature of the overall employment offer, delivered in an affordable and realistic way, whilst maintaining the confidence of existing personnel.

**5.33** Work over the last year has focused on consultation with Service personnel; further work on defining policy detail; and preparation for the launch of the Forces Help to Buy (FHTB) scheme.

## NEM Consultation

**5.34** In June last year we launched a six-month programme of consultation with Service personnel and their families. During that time, we were able to engage with around 3,000 Service personnel. We have analysed the results of the consultation in order to provide Service personnel with detailed feedback on the outcome of their engagement with results published in July 2014.

**5.35** The consultation team, which included personnel from across the three Services, MOD civil servants and external professional researchers, delivered 182 detailed presentations, both in the UK and overseas, to approximately 14,000 Service Personnel. As the primary means of gathering qualitative feedback, over 800 Service personnel (and some spouses and partners) were involved in focus groups and interviews. To ensure all Service personnel had the opportunity to share their views on the NEM an online questionnaire was made available between June and October 2013, which elicited 12,000 detailed responses. In November 2013, a quantitative survey was launched with questions designed to gather data to support feedback gathered through the focus groups and interviews. This ran until January 2014 and almost 8000 responses were received. Feedback from all elements of the consultation is being used to aid design of components and inform the business case. It is our intention to engage further with Service personnel and families during 2014 and into 2015.

## Accommodation

**5.36** We announced in September 2013 that "Forces Help to Buy" would be introduced a year earlier than originally planned, on 1 April 2014. The scheme, which offers Regular personnel loans of up to 50% salary, capped at £25,000, interest-free and repayable over a 10-year period, will be trialled for 3 years, allowing evaluation of both take-up by personnel and impacts on the demand for Service accommodation. In the recent Tranche 4 redundancy statement the Secretary of State announced that those leaving service as a result of this final round of redundancies will be able to apply for an advance of their lump sum payment to enable them to buy a home before leaving service.

**5.37** Work continues on our review of the grading system that is applied to assessing charges for Service-provided accommodation. The new 'Combined Accommodation Assessment System' will substantially simplify and modernise the current approach while continuing to take account of scale, condition and location factors. As now, the Armed Forces Pay Review Body will make recommendations to the Department on the level of charges that should be applied.

## Partner Employment

**5.38** Consultation with Service personnel and families last year directed further work on support to partner employment towards better understanding of barriers to employment, best practice in international organisations, and options for overcoming them. We are also looking at childcare support and best practice in this area. As part of this project we are exploring opportunities for spouses to develop their job readiness – in the first instance the MOD is supporting two pilot programmes that were rolled out to spouses in October 2013: the Royal British Legion Industries Lifeworks employability workshops and the University of Wolverhampton business start up courses. We are also considering ways to help to create opportunities for spousal employment, initially by building relationships with employers that show their support for the Armed Forces Community and have signed the Corporate Covenant.

## Pay & Allowances

**5.39** Work continues on a new pay system, potentially for introduction in 2016. The new system would provide greater pay predictability and remove some unpopular and divisive features of Pay 2000, while retaining the fundamental characteristics of rank-based pay progression. The Allowances

structure will be simplified and Service personnel will continue to be compensated for expenses incurred in the course of their duty and to provide a degree of lifestyle choice.

## Training & Education

**5.40** The NEM is examining a number of different ways to deliver training more effectively and efficiently. Training, education, skills and personal development will remain an extremely important part of Service life and one aspect that makes a career in the Services an attractive proposition. Through-career training and education is being reviewed to ensure that we offer Service personnel the best opportunities for career development.

**5.41** The Personal Development Pathway will provide a tailored, needs based, personally oriented pathway with reviewed progress that is equally available and applicable to Regulars and Reserves. Personal Development will equip personnel earlier and progressively through their career with skills that can be deployed within Service, thereby maximising their employability, and which have a vocational focus that adequately prepares them for a successful second career.

**5.42** In order to provide more stability for Service Personnel we will try, where possible, to reduce time spent away from home on courses by expanding the amount of career training that can be delivered at regional centres, home units or via distance learning/e-learning. This should allow Service Personnel to spend more time at their home base rather than being away from their family on courses.

## Terms of Service

**5.43** Work is ongoing that will see us offering new, Regular members of the Armed Forces a three stage career, regardless of the Service they choose to join. The first stage will, in most cases, be for a period no less than twelve years and will attract a resettlement grant on leaving. For those that wish to serve for longer, and for whom there is a Service need, individuals will be offered service for no less than twenty years or to age 40, whichever is later. This length of service will attract an Early Departure Payment through the Armed Forces Pension Scheme 15. Service to age 60 will be possible, subject to there being a Service need, but in most cases this will be achieved in incremental stages.

**5.44** Career Streaming will provide the opportunity for focused professional development of officers from OF3 upwards, matching training and education, assignment lengths and reward to the

developmental and employment needs of those with potential for senior leadership roles, and those valued for their depth of expertise. We will also introduce a set of Career Management Principles which will remain under single-Service control enabling greater predictability of employment, increased emphasis on supporting domestic stability and realistic lifestyle choice.

## Remuneration

### Service Pay

**5.45** In his Autumn Statement on 29 November 2011, the Chancellor announced that all public sector pay awards will be kept to a 1% average for the two years following the 2-year pay freeze. In the Budget Statement on 20 March 2013, the Chancellor further announced that this period of pay restraint would be extended from two to three years.

**5.46** On 26 June 2013 in his statement on the Spending Round 2013 the Chancellor announced that automatic pay progression in the Civil Service would end by 2015-16 and that the Government would also be working to remove automatic pay rises in schools, NHS, prisons and the police. However, annual progression for Service Personnel will not be affected by these reforms and so, subject to satisfactory performance, all Service Personnel who are not at the top of their pay range will continue to receive an increment in pay each year in addition to any annual pay rise recommended by the Armed Forces' Pay Review Body (AFPRB).

**5.47** In their annual report published on 13 March 2014, the AFPRB recommended that all Service personnel should receive a 1% pay award from 1 April 2014, the second year of pay restraint following the public sector pay freeze. The Government accepted this recommendation in full. The Government also accepted in full the AFPRB targeted increases, including financial incentives for specific trades and higher levels of compensation to those with greatest levels of separation during their military careers. In addition, as announced on 18 March 2014, an additional £50M in financial incentives have been earmarked over the next four years to support recruitment and retention of the Army Reserves.

### Armed Forces Pension Scheme

**5.48** A new Armed Forces Pension Scheme (AFPS) will be introduced with effect from 1 April 2015. The scheme, which will be known as the AFPS 2015, will deliver on the recommendations set out in Lord Hutton's Independent Public Service Pensions

Commission to reform public service pension schemes and ensure that they are more affordable and sustainable in the long-term. The scheme (which is a CARE scheme) will replace all current schemes with benefits protected for those transferring, it will continue to be non-contributory. Service personnel will still receive the Early Departure Payment (EDP) if they leave the Armed Forces at age 40 having served the required number of years. The scheme will feature an accrual rate of 1/47th, a Normal Pension Age of 60 and the deferred pension age linked to the individual's Stage Pension Age. Rights to pension benefits accrued in the current Armed Forces pension schemes will be protected. Service personnel will be able to draw these benefits at the same age as in the current schemes and they will be linked to the final pensionable salary/rank at the date of leaving the Services – not the salary/rank at the time of transfer to the new scheme.

### The Armed Forces Compensation Scheme (AFCS)

**5.49** The Armed Forces Compensation Scheme (AFCS) continues to provide no fault compensation for members of the Armed Forces where illness, injury or death is caused by Service. Medical and scientific aspects are scrutinised by an Independent Medical Expert Group (IMEG), an advisory Non-Departmental Public Body set up on the recommendation of Lord Boyce's Review of the AFCS, to ensure the Scheme reflects contemporary medical and scientific understanding. The IMEG approach is evidence-based through an examination of literature, discussion with military and civilian experts, and importantly through meetings with injured service personnel, their clinicians and other health professionals. The aim is that IMEG conclusions should be scientifically sound, fair to service personnel and in line with the intentions of the Scheme. Findings and recommendations and the reasons for them are set out in reports to ministers.

**5.50** The IMEG report of 17 May 2013 reviewed hearing loss, mental health, facial disfigurement and recognised diseases, including asthma, multiple sclerosis, epilepsy, meningitis and encephalitis. Minister (DPWV) accepted the recommendations made by IMEG and work is now progressing on their implementation. Those that have resulted in AFCS Tariff changes, including additional or revised descriptors and awards, have been incorporated in legislation from April 2014. This is an important part of ensuring that the Scheme remains equitable and supports Service personnel.

## Allowances

**5.51** The Department remains on track to achieve savings of £250M per year on Service allowances by 2014-15 through the introduction of Strategic Defence and Security Review (SDSR) savings measures in May 2011. In introducing these measures we have sought to ensure that no group is disproportionately affected. The Services have monitored closely the effects of the allowance changes on Service personnel and have responded to surveys and feedback which indicated that the second stage of the changes was having a disproportionate impact on some personnel. As a result, following consultation with the Service Chiefs, it was decided to enhance three allowances where the changes have had a greater impact on Service personnel than originally intended. These enhancements took effect from 1 December 2013 and covered the Disturbance Expense (formerly Disturbance Allowance), Service Children's Visits and Local Overseas Allowance (LOA) for dependents in tertiary education. The Get You Home (Seagoers) allowance was also enhanced at the same time. To balance the financial impact of these enhancements, two parallel savings measures were introduced on 1 January 2014. These were the withdrawal of the Get You Home (Travel (Privately Maintained Property)) allowance and a reduction in the Exercise or Field Conditions Rate of LOA. The substantial allowance package that remains will continue to reimburse Service personnel for justifiable expenditure incurred when on duty and compensate for the unique nature of Service life.

## Manpower

### Redundancy

**5.52** As part of the SDSR reductions each Service has to reduce their headcount. In addition to using other workforce control measures, the Armed Forces Redundancy Programme (AFRP) is expected to deliver around 15,000 redundancies across the three Services and should be completed by 30 June 2015.

**5.53** Around 9,820 Armed Forces personnel had left MOD by 31 March 2014 under AFRP Tranches 1, 2 and 3. On 12 June 2014, around 1,060 personnel were notified of their selection for redundancy in the Tranche 4 of the AFRP, of whom 72% were applicants. There is no requirement for a further tranche of redundancy to meet the SDSR 10 personnel targets. Further details on redundancy numbers can be found at <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>.

**5.54** Those serving in Operational Allowance earning locations (such as Afghanistan) on the notification dates are exempt from redundancy, unless they apply. Similarly, those preparing for or recovering from such operations are exempt. Personnel who are assessed as being permanently below the level of fitness required to remain in the Forces will not be considered for redundancy, and will instead leave through the medical discharge route at the appropriate stage in their recovery.

### Manning levels

**5.55** Overall manning levels for the Armed Forces are published in the UK Defence Statistics, and can be found at <http://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>

### Operational Pinch Points (OPPs)

**5.56** We are also committed to publishing data on Operational Pinch Points (OPPs) which is defined as a branch specialisation, sub-specialisation or area of expertise, where the shortfall in trained strength (Officers or Other Ranks) is such that it has a measurable, detrimental impact on operations. OPPs may result from adherence to single Service harmony guidelines, under-manning and/or levels of commitment that exceed the resourced manpower ceiling for the trades or areas of expertise involved.

**5.57** The management and mitigation of OPPs is a priority, with the focus being on incentivising personnel to join (and/or retrain) and remain within pinch point trades. OPPs are managed by the single Services. Personnel in OPPs are always excluded from Redundancy. The position as of 1 April 2014 is set out in the OPP table on page 44. This table excludes information that might jeopardise operational security.

### Naval Service

**5.58** The number of Naval Service OPP trades has remained at 15. Critical OPPs are centred on the General Service and Submarine Engineer Branches. As previously reported, personnel in these areas are attractive to external organisations and are a challenge to replace due to long training pipelines. Short term focused Financial Retention Incentives are being considered; longer term solutions will require maximising retention, measures to reduce current unsustainable Voluntary Outflow rates and increased training pull through to deliver adequate Senior Rates.

## Army

**5.59** As at 1 April 2013, the Army currently has 25 OPPs; this is a decrease of one since the last report. The principal shortage areas are centred on trades within the Army Medical Services, Intelligence Corps and the Royal Engineers. Despite the reduced footprint in Afghanistan, all OPPs will not be resolved quickly.

## RAF

**5.60** The number of RAF OPPs has increased from one to three since the last report. The OPPs are caused by the current high levels of commitment rather than a long term shortage of personnel. Each of these OPPs is monitored monthly and subject to the application of manning levers including extensions of service, retention incentives and offers of permanent commissions. Furthermore, all of the identified OPPs are utilising Reserves to mitigate manpower shortfalls. Consequently, the overall impact is being mitigated successfully.

## Voluntary Outflow (VO)

**5.61** Current overall VO levels are above the 10 year Long Term Average and are broadly in line with the pre-credit crunch level of 2008. As the economy worsened, VO fell to a minimum in 2010 but has been steadily rising since. This increase in overall VO is due in part to higher VO within cohorts excluded from the Armed Forces Redundancy Programme, as well as the use of manning levers such as limiting approvals to withdraw VO applications. In addition, the perception of improving external economic conditions, pay and allowances constraint, overstretch in some areas and erosion of conditions of service are also potential factors in the increase in VO. However, during this manpower drawdown period, the increase in VO has positively contributed to the Services reaching their manpower levels required under SDSR and in some areas has reduced the number of compulsory redundancies required. Latest VO data can be found at: <https://www.gov.uk/government/collections/uk-armed-forces-monthly-manning-statistics-index>

## Harmony

**5.62** As at 1 April 2014 the proportion of Service personnel serving in breach of harmony guidelines was 0.7% for the Naval Service, 3.9% for the Army and 1.4% for the RAF. In April 2013 the MOD standardised the way in which Harmony Guideline breaches are calculated and each Service now reports over the same 3 year period<sup>2</sup>. The nature of short term operational and force structure requirements is such that it is unlikely that the MOD would be able to reach a point where no Armed Forces personnel are in breach of harmony guidelines; the best we can achieve is to seek to reduce the number of unnecessary breaches to a minimum consistent with meeting operational and force structure requirements.

	Apr 10	Jul 10	Oct 10	Jan 11	Apr 11	Jul 11	Oct 11	Jan 12	Apr 12	Jul 12	Oct 12	Jan 13	Apr 13	Jul 13	Oct 13	Jan 14	Apr 14
<b>Naval Service Harmony</b>	1.4	1.1	1.0	0.9	0.8	0.6	0.7	0.7	0.5	0.6	0.7	1.0	0.9	0.8	0.6	0.7	0.7
<b>Army Harmony</b>	5.6	5.4	5.4	4.9	5.2	5.0	5.2	5.0	5.5	5.3	5.7	5.2	5.1	4.7	5.1	4.9	3.9
<b>RAF Harmony</b>	3.0	2.8	2.7	2.6	2.7	2.8	3.0	3.1	3.2	3.1	3.4	3.7	3.6	3.5	3.7	4.0	1.4

Source: Defence Statistics (Tri Service), Defence Statistics (Army), Defence Statistics (Air) and Defence Statistics (Navy)

Percentages have been calculated from unrounded data.

Figures are for Trained UK Regular Forces, and therefore exclude Gurkhas, Full Time Reserve Service personnel and mobilised reservists.

Until April 2014 for the **RAF**, percentages are calculated as a proportion of average strength for the 24 month period. From April 2014 percentages are calculated in the same way as the Naval Service and Army.

If the average trained strength is recorded as being lower than the number of people having experienced separated service (arising as a result of reductions in the size of certain branches and trades) within the timeframe, the percentage is calculated using unrounded data.

<sup>2</sup> Naval Service 660 days, Army 498 days and RAF 468 days over a 3 year rolling period.

## Breaches of harmony guidelines, split by Service

**5.63** For the **Naval Service**, personnel on trained strength are considered to be in breach of harmony guidelines on a particular date if they have spent more than 660 days away from home during the preceding 36 month period.

**5.64** Until April 2014 **Army** Personnel on trained strength are considered to be in breach of harmony in the final month of the specified reporting period if they have spent more than 415 days away in the 30 month period preceding. From April 2014

Army Personnel on trained strength are considered to be in breach of harmony in the final month of the specified reporting period if they have spent more than 498 days away in the 36 month period preceding.

**5.65** Until April 2014 **RAF** Personnel on trained strength are considered to be in breach of harmony if they have spent more than 280 days away in the 24 months. From April 2014 Army Personnel on trained strength are considered to be in breach of harmony in the final month of the specified reporting period if they have spent more than 468 days away in the 36 month period preceding.

## Operational Pinch Points

Naval Service Operational Pinch Point Groups Quarter 4 2013/14 (1 Apr 14)		Liability	Shortfall	% Shortfall.
1	Marine Engineer General Service – Rank: Petty Officer ET	565	195	35%
2	Weapon Engineer General Service – Rank: Petty Officer ET	390	175	45%
3	Category A2 Nuclear Watch Keepers	140	25	15%
	Category B Nuclear Watch Keepers	330	35	15%
4	Strategic Weapon System Control and Monitoring Panel Watch Keeper. Rank: OR4-OR8	220	55	25%
5	Tactical Weapon System Control and Monitoring Panel Watch Keeper. Rank: Chief Petty Officer/Petty Officer	265	50	20%
6	Marine Engineer General Service – Rank: WO2ET(ME)	130	20	15%
7	Mine Warfare - Rank: Leading Rate to Petty Officer	155	50	30%
8	Warfare – Rank: Leading Hand	315	30	10%
9	Medical Assistant (Submarines) – Rank Senior Rate	30	~	+15%
10	Phalanx Maintainers – Rank: Senior Rate	-	-	-
11	Coxswain – Rank: Chief Petty Officer	20	~	~
12	Warfare Specialist Sensors Submarine – Rank: Able Rate	110	20	+15%
13	Hydrographic Specialists – Rank: Leading Hand	25	~	25%
14	Underwater Warfare Specialist. Rank; OR2-OR5	280	80	30%
15	Catering Specialists – Rank: Leading Hand/Able Rate	520	100	20%
Army Operational Pinch Point Groups Quarter 4 2013/14 (1 Apr 14)		Liability	Shortfall	% Shortfall.
1	Royal Engineers - Engineer Logistic Specialist – Rank: Sergeant	50	20	45%
2	Royal Engineers - Engineer Logistic Specialist – Rank: WO2	15	~	30%
3	Royal Engineers - Engineer Logistic Specialist – Rank: WO1	~	~	60%
4	Royal Engineers Armoured – Rank:Cpl	50	20	40%
5	Royal Engineers Armoured – Rank:Sgt	40	20	50%
6	Royal Signals – Electronic Warfare System Operator – Rank: Corporal	150	55	40%
7	Royal Signals – Electronic Warfare System Operator – Rank: Sergeant	80	35	40%
8	Royal Signals – Formal of Signals (Info Systems) – Rank: Staff Sergeant to Warrant Officer One	85	30	35%
9	Royal Logistic Corps - Vehicle Support Specialist – Rank: Private to Corporal	95	30	35%
10	Royal Logistic Corps Movement Controller – Rank: Cpl/Sgt	135	30	20%
11	Army Medical Services – Radiologist – Rank: Major and above	~	~	15%

Army Operational Pinch Point Groups Quarter 4 2013/14 (1 Apr 14)		Liability	Shortfall	% Shortfall.
12	Army Medical Services - Emergency Nurse – Rank: Corporal to Captain	100	30	30%
13	Army Medical Services - Intensive Care Unit Nurse – Rank: Corporal to Captain	85	30	40%
14	Army Medical Services - Theatre Nurse – Rank: Lieutenant to Captain	35	20	50%
15	Army Medical Services - General Surgeon – Rank: Lieutenant Colonel	20	10	45%
16	Army Medical Services – Infection Prevention Control Nursing Officer – Rank: Captain to Major	10	~	40%
17	Army Medical Services - Burns and Plastics Nurse – Rank: Corporal to Major	10	~	45%
18	Army Medical Services – Trauma and Orthopaedics Nurse – Rank: Corporal to Major	10	~	20%
19	Military Provost Staff – Rank: Sergeant	80	15	20%
20	Military Provost Staff – Rank: Staff Sergeant	30	~	10%
21	Intelligence Corps Operator Military Intelligence – Rank: Corporal	470	85	20%
22	Intelligence Corps – Rank: Captain	145	~	~
23	Intelligence Corps Operator Military Intelligence (Linguist) – Rank: Private to Warrant Office Two	230	100	45%
24	Defence HUMINT Organisation - HUMINT Operator (Class One and Two) – Rank: Private to Major	185	55	30%
25	Defence HUMINT Organisation - Defence Interrogators – Rank: All	60	10	20%
RAF Operational Pinch Point Groups Quarter 4 2013/14 (1 Apr 14)		Liability	Shortfall	% Shortfall.
1	Intelligence Officers (OF1-3)	250	10	~
2	TG8 Royal Air Force Police (RAFP)	1080	30	~
3	TG8 RAF Regiment Gunner.	2135	235	10%

Notes:

\* Figures have been rounded to 5 in order to prevent unnecessarily obscuring the data. However, to prevent disclosure any numbers less than 5 are shown as '~'.

\* Where rounding has been used, totals and sub-totals have been rounded separately and so may not equal the sums of their rounded parts.

## Recruiting

**5.66** Regular recruiting in 2013/14 has been more challenging than in previous years as a combination of factors have been brought to bear on the recruiting environment, the requirement and the processes. The current, tougher recruiting environment reflects the effect of economic upturn, Service redundancies (which create a false impression that the Armed Forces are not recruiting) and withdrawal from Afghanistan. Additionally, recruiting requirements returned to historical levels (an increase of 20-30% on recent years in the case of the RN and RAF) as the Services have completed the required adjustments in their manpower and the number of potential recruits who were previously held in the early stages of the recruiting have been called forward using up the contingency that existed in the pipeline.

**5.67** Overall, RN and RAF regular recruiting is forecast to achieve targets within tolerable risk levels (circa 90%), albeit with some specific shortages – principally engineering and medical branches

and trades. Army regular recruiting is forecasting a 30% (2940) shortfall in soldier entrants caused by a combination of the environmental factors and the effect of the initial implementation of a new outsourced recruiting process. The under-performance in Army recruiting will impact over the next 1-5 years but this has been taken into account in manpower forecasting and planning and will not impact on ability to fulfil current operations. Critically, the known shortfall in inflow in 2014/15 has been taken into account in Tranche 4 Redundancy planning. Active national recruiting campaigns, sponsorships and media partnerships have largely been successful in increasing recruiting activity throughout the year and on into 2014/15.

## Future Reserves 2020

**5.68** The Reserves recruiting operation has responded to the increased targets generated by the Future Reserves 2020 manning requirement. In the first year of fully coordinated national recruiting, the decline in Reserves numbers has been largely arrested. The acknowledged difficulties with the

Army reserves recruiting process highlighted in the Written Ministerial Statement in December 2013 have been addressed and performance is expected to improve in 2014/15 as the new measures take effect. A number of new initiatives have also been scoped and implemented including a bespoke Civil Service Reserves campaign and enhanced employer engagement on a national scale. Forecast achievement for Reserves recruiting varies by Service and branch, but the range of achievement is between 60-90% of the requirement. The shortfall has been taken into account in manpower planning and recruiting activity for 2014/15 and beyond.

## Contributions by Civilians

**5.69** MOD civilians play a vital role directly supporting the success of military operations. They deploy alongside the military to operational theatres, and undertake a range of important roles in support of the mission. Throughout 2013/14 there were approximately 180 civilians in around 20 different roles supporting operations in Afghanistan, as well as a small number of deployed posts in the broader Middle East. Civilian roles include: policy advisors, finance and commercial staffs, intelligence analysts, and scientific advisers; over half the deployed civilians are engineering specialists from the Defence Support Group (DSG). A marked achievement this year for the civilian effort in Afghanistan was the Ministry of Defence Police withdrawal from Lashkar Gah, having completed valuable work mentoring, training and developing the Afghanistan Uniformed Police (AUP). In addition to these developments, there were approximately 200 MOD civilian visits to Afghanistan in 2013/14. Visitors carry out work to meet urgent operational requirements, such as conducting vital maintenance on equipment.

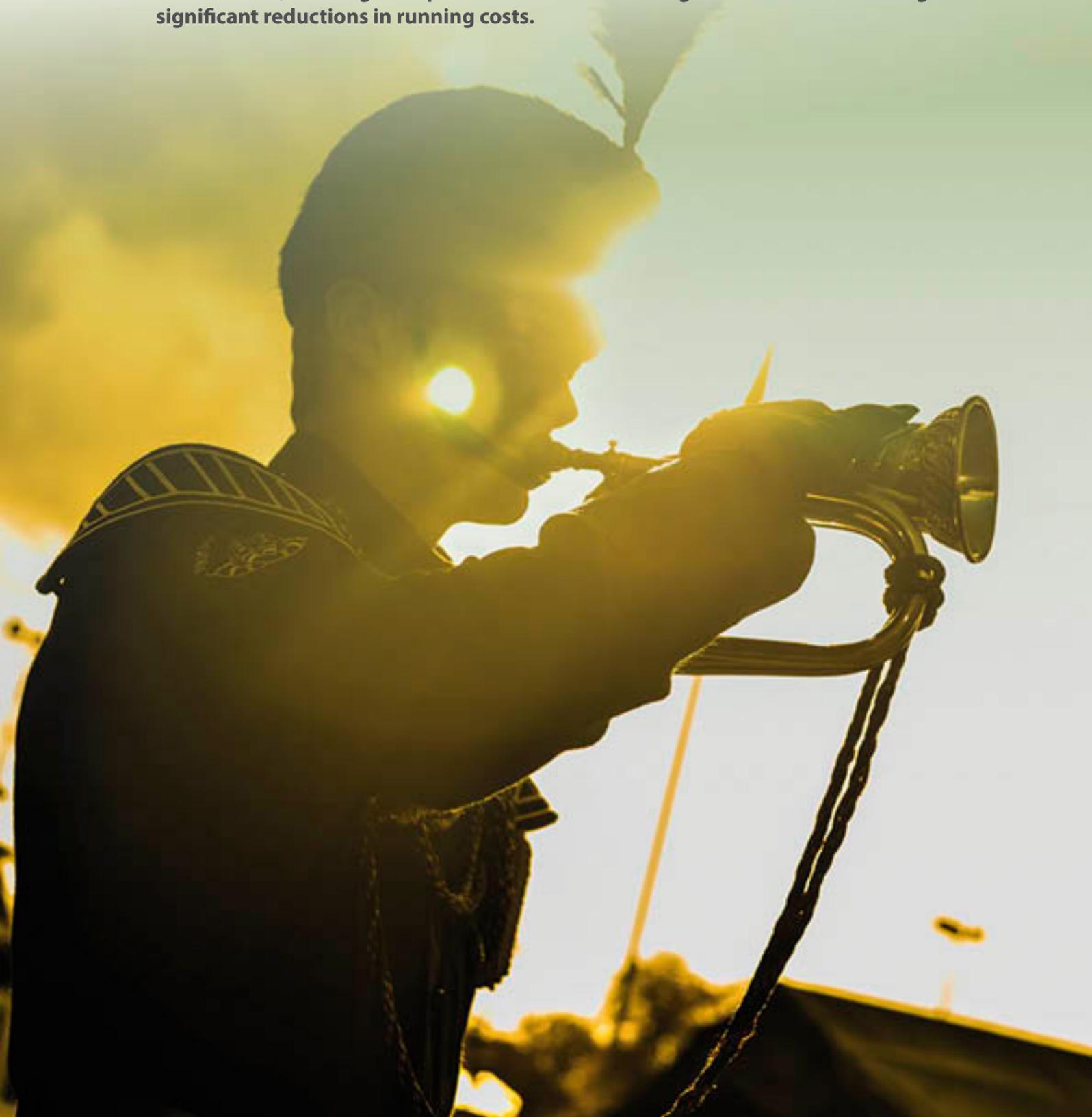
**5.70** Depending on the location and nature of their role, civilians must undertake appropriate training either through Reinforcements Training and Mobility Centre Chilwell or the "SAFE" course delivered by Pilgrims PLC. While in-theatre deployees and their families have welfare support available to them via the Employee Wellbeing Service. An allowance package recognises the long hours and difficult conditions of the civilian work force. Like their military colleagues, it is mandated that civilians complete a decompression programme prior to returning home; this includes a structured programme in Cyprus and post tour leave, allowing a period for rest and personal reflection before returning to "normal life". Advice is also available to line managers on how to assist deployees returning to work. Deployees have the opportunity to reflect on their experiences at bi-annual returnee's days and a reception hosted by PUS. The contribution that civilians make to operations in Afghanistan is recognised through the award of the Operational Service Medal and the Accumulated Service Medal in appropriate circumstances.

**5.71** At home in the UK, provision of direct support to current and contingent military operations takes precedence over all other work. From 2012 the Defence Board vested authority in a small team (Defence Main Effort Civilian – DMEC) to divert civilians to priority posts to help meet surge requirements in a range of UK-based roles in support of various crises. Civilian manpower resources are diverted to support the Government's priorities, including ensuring that the Cabinet, military commanders and senior officials are fully supported with appropriate policy advice and briefing at all stages of a crisis; and that internal MOD priorities are quickly and effectively resourced.

**5.72** Over the last financial year, in addition to occasional operational surges, many programmes or teams were resourced with additional civilian staff with the right skills to enable them to deliver, including Future Reserves, the Defence Bill Team, the NATO Summit, and Judicial Enquiries.

## 6. The New Defence Operating Model

The second part of the fourth Defence Priority is to transform defence by implementing the New Defence Operating Model, in response to the Defence Reform Unit's review, creating a simpler and more effective organisation and delivering significant reductions in running costs.



**6.1** We are transforming the department and delivering the new operating model through a complementary set of programmes centred around the Defence Reform Programme to implement Lord Levene's recommendations, supplemented by the Corporate Services Transformation Programme, the Defence Infrastructure Transformation Programme, and the Materiel Strategy. As set out in the MOD Business Plan, our key objectives for the year were to implement the holding-to-account regime in order to enable delegation under the new Defence operating model, and to close successfully the Defence Reform Programme and transition the new operating model to business as usual.

## Defence Reform

**6.2** We continued to make good progress delivering the **Defence Reform** programme. The new operating model launched in April 2013 as planned. Under this:

- the Head Office has become smaller and more strategic, reducing in size by some 500 posts (over 20%);
- the Joint Forces Command achieved Full Operating Capability in April 2013;
- we delegated manpower planning to the Commands and Top-Level Budgets (TLBs), empowering them to manage this key resource to deliver their outputs;
- we delegated military capability planning and financial responsibility to the four military Commands, and over 120 equipment capability planning staff transferred from London to the Command Headquarters. As part of the delegation process Commands and TLBs had authority during 2013/14 to approve projects and programmes valued below £100M without coming to the Centre, increased to £250M from April 2014;
- the first stages of new mechanisms were put in place to hold Top-Level Budget holders formally to account against their Command Plans;
- we appointed a Chief Information Officer at Director General level in January 2014, responsible from April 2014 for delivering all the Departments Information and Communications Technology requirements; and
- from April 2014 the Chief of Defence Personnel became responsible for civilian and well as

military HR policy, in support of the Whole Force Concept to ensure we have the most cost-effective balance of regular and reserve military personnel, civil servants and contractors.

**6.3** Under these new arrangements we have continued to balance the defence budget. The core Equipment Plan remains affordable within the resources we expect to be available, and in line to deliver the Future Force 2020 capabilities we require. The National Audit Office has recognised the progress in achieving and maintaining affordability, including through inclusion of a contingency provision and greater protection of a core of prioritised projects. Under its 'earned autonomy' programme the Treasury have now increased our financial delegation limit for projects and contracts from £100M to £600M.

**6.4** In November 2013 in his second Annual Review of progress implementing his recommendations, Lord Levene concluded that there was clear evidence of much coming to fruition, with substantial progress achieved in implementing the spirit and letter of his recommendations, and that combined with the readiness to take tough financial decisions and implement radical change the Department is now viewed as a more professional and responsible organisation. But he stressed that it was important not to lose momentum with the formal closure of the Defence Reform programme in April 2014, particularly in the area of behavioural change. He also stressed the continuing need to improve the Department's management information.

**6.5** This work enabled us to close the Defence Reform programme successfully on 1 April 2014, as planned, on achieving Full Operating Capability for the new Defence operating model. Details of the new model are set out in the 'How Defence Works' document, awarded the Plain English Campaign's Crystal Mark for clarity, published on [www.gov.uk](http://www.gov.uk) and available online through the innovative Defence Interactive Operating Model at <https://interactiveopmodel.mod.uk/>.

**6.6** We have a continuing programme in hand to build on this and maintain the momentum of reform. Its key strands include work on:

- **Behavioural change.** Lord Levene said that the success of the new operating model would depend on the right leadership and behaviours. We have made progress but our staff surveys clearly show there is more yet to do. Lasting change will depend on strong leadership in every area of the business, from the top and at all

levels. Getting better at leading and managing change and improving engagement is one of the Permanent Secretary's top five priorities and we have a continuing programme to drive improvement at both senior and middle management levels;

- **Management Information.** The work to achieve what Lord Levene called "a single version of the financial truth" has made progress, but more is needed. We are therefore taking forward programmes to develop a more coherent approach to identifying and managing risks, a more coherent understanding of the performance of our projects and programmes, and a better knowledge of the expected costs of Defence outputs and activities;
- The **Whole Force Concept.** Work is well underway against an agreed framework developed during the year, with the Chief of Defence Personnel responsible for both military and civilian personnel policy from April 2014; and,
- **Head Office** Lord Levene's annual review identified the need for further work to establish the Head Office as a single corporate entity, overseen by the Permanent Secretary's Head Office Management Group, and for continuing work by the responsible Defence Authorities to streamline, simplify and clarify the department's processes.

**6.7** In parallel with the Defence Reform Programme we have been taking forward work to draw on private sector expertise to improve how we do business, particularly in the areas of transactional support to the business (the Corporate Services Transformation Programme), management of the Defence Estate (the Defence Infrastructure Transformation Programme), and acquisition (the Materiel Strategy):

- **Corporate Service** improvements are being driven by Defence Business Services (DBS). The 2011 appointment of Serco as Strategic Business Partner to run the organisation has delivered many changes which are already realising benefits. We took a further step to integrate Shared Service delivery when DBS and the Service Personnel and Veterans Agency (SPVA) merged in April 2014 to form an organisation that provides HR services for all our Service and Civilian workforce. In advance of our contract with Serco ending in 2016 we have also started to look at how the Department will receive DBS' services in the future;

- Under the **Defence Infrastructure Transformation Programme** the Defence Infrastructure Organisation's new Operating Model began in April 2013, reaching full operating capability by March 2014. Following a competition for a Strategic Business Partner (SBP) to bring in private sector expertise to facilitate better planning and delivery of our infrastructure strategy, Capita was awarded the contract and began its role as the Executive Management team of DIO in September 2014.

## The Materiel Strategy

**6.8** The Materiel Strategy continues to examine how Defence Equipment and Support (DE&S) can operate differently to become more effective and more efficient. The Department had been pursuing 2 options: a Government Owned, Contractor Operated (GoCo), and DE&S+, which would retain the organisation wholly within the public sector. In July 2013 an Invitation to Negotiate was issued to 3 potential bidders led by KBR, Bechtel and CH2M Hill respectively. The withdrawal of involvement by the KBR consortium prompted the Department to review the situation with HM Treasury and the Cabinet Office and this work concluded that a competition with two bidders in addition to DE&S+ was viable but that a further withdrawal by a commercial bidder would require reconsideration. When the Bechtel group provided the only detailed proposal on 15 November, it became necessary to review the situation again. That review concluded that there was insufficient competitive tension and that the risks of proceeding with one bidder were too great and unlikely to provide value for money. Accordingly, on 10 December 2013, the then Defence Secretary announced the end of the GoCo competition, and confirmed that DE&S would instead be set up as a bespoke trading entity.

**6.9** The new organisation was launched as planned on 1 April. DE&S is now an Arm's Length Body to the rest of the MOD, with a separate governance and oversight structure. It has significant freedoms and flexibilities, agreed with HM Treasury and Cabinet Office, around how it will operate, particularly around the management of its civilian workforce. To assist the transformation of the business, we are also bringing in support from the private sector through a series of contracts known as Managed Service Providers. These will deliver key changes to systems and processes, focused on the areas of project delivery, management information and human resources.

**6.10** The Bespoke Trading Entity is expected to drive significant improvements in DE&S as well as delivering the mechanisms that will give the organisation a robust performance baseline. That will ensure a robust public sector comparator should the MOD, at a future date, decide to re-test the market's appetite for continuing the DE&S evolution into a GoCo model. In parallel with its creation, responsibilities for the Naval Bases were transferred to Navy Command, and for Information and Communications Technology to Joint Forces Command. The Defence Reform Bill took forward proposals from the Better Defence Acquisition White Paper to strengthen the arrangements governing single source procurement.

**6.11** In parallel, the Customer Design programme has been reinvigorated to strengthen the Commands as Intelligent Customers. The programme has supported the establishment of DE&S as a Bespoke Trading Entity. In addition, the programme has established arrangements to develop by April 2015 a disciplined and structured interface between the Commands and DE&S and develop the capabilities the Commands need to perform the Customer role effectively.

**6.12** These reforms will represent a real change to how the Ministry of Defence conducts its business, delivering a more effective way of providing the equipment and capabilities the Armed Forces need to keep the United Kingdom secure.

## Quality Assurance of Analytical Models

**6.13** As required by the Macpherson Review, our governance statement must confirm that we have an appropriate quality assurance framework for analytical models. So we asked each Arm's Length Body who have one or more business-critical models to confirm their arrangements are appropriate in their annual Assurance Statement.

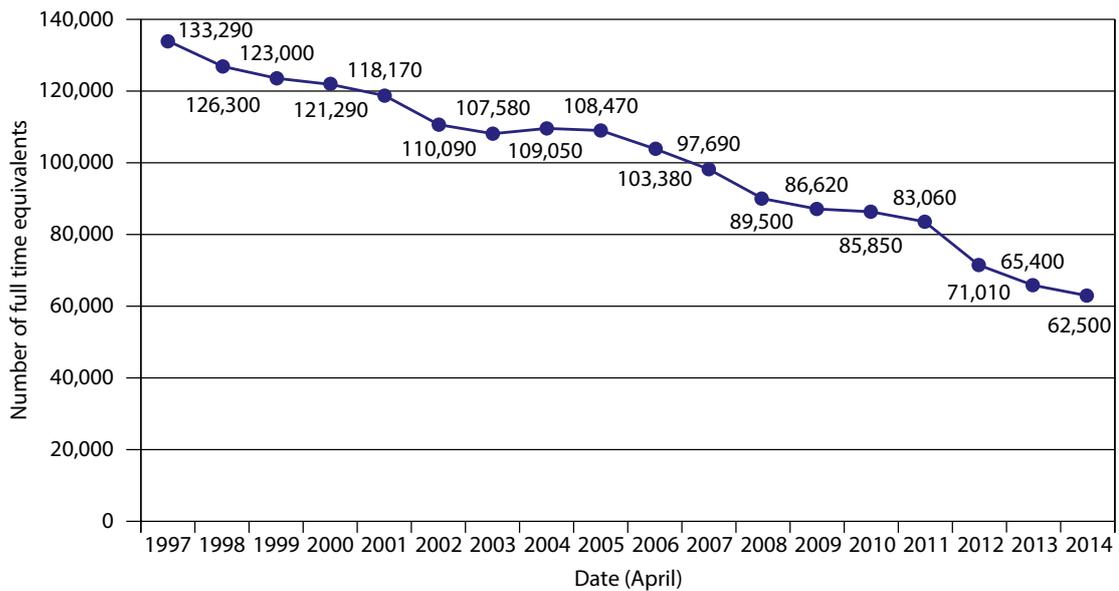
**6.14** The MOD has well established arrangements already. To further strengthen our processes and documentation – as well as our culture and the environment in which quality assurance takes place – we have agreed an Action Plan with the Defence Audit Committee and others. For example, we are:

- improving our governance arrangements, for example ensuring each business-critical model has a Senior Responsible Owner;
- ensuring our processes and guidance are clear and cover quality assurance arrangements;
- promoting a pro-quality assurance culture, for example by using Modelling Champions in key organisations and, where appropriate, including quality assurance as a work objective for staff; and,
- promoting transparency by publishing a list of our business critical models.<sup>3</sup>

**6.15** We are exploring ways to strengthen our Action Plan further. So we have asked the Defence Science Advisory Council to review our implementation and give us their recommendations. We are considering their report and will make further improvements based on these.

<sup>3</sup> <https://www.gov.uk/government/publications/business-critical-models-in-the-ministry-of-defence>

Figure 6.1 – MOD Civilian Workforce – Full Time Equivalent Numbers



## Civilian Workforce Numbers

**6.16** The total civilian workforce fell by about 2,900 during the year, to around 62,500 on 1 April 2014. This represents a total reduction since 1 April 2010 of around 23,350 (see figure 6.1)<sup>4</sup>. Civilian personnel numbers will continue to reduce as MOD implements the SDSR and are expected to be under 60,000 by 2015, a forecast reduction of over 27,000 since 2010.

## Civilian Voluntary Early Release Schemes (VERS)

**6.17** The first VERS covered the 2011/12 financial year and was originally intended to secure up to 4,000 individual releases. Interest in the scheme, however, exceeded expectations and the allocated funding was re-profiled to enable the Department to maximize the numbers that could be released. A total of 13,940 individuals applied and 5,950 offers were accepted – all of whom had left by 31 March 2012.

**6.18** The second VERS was launched in November 2011 and invited applications for release during the two financial years from April 2012 up to March 2014. A total of 10,880 applied, of which 4,920 offers were accepted. Offers were issued at quarterly intervals to align with pre-set release dates, with all leaving by 31 March 2014.

**6.19** The remainder of the overall reduction has been achieved through the balance of normal

outflows (resignations, dismissals, retirements etc) combined with the recruitment restrictions that have been in place since May 2010. Moreover, some redundancies arise as a result of site closures, relocations and draw-downs where affected staff cannot be redeployed.

## Recruitment

**6.20** The restrictions on external recruitment to the Civil Service, which were first imposed in May 2010, remained in place. They continue to affect civil service recruitment, with only limited exceptions for frontline and business critical staff, requiring approval from Directors of Resources (Senior Civil Servants) or Agency Chief Executives, and with Top Level Budget (TLB) holders accountable to the Defence Board.

**6.21** The intake to the Department (excluding Trading Funds) in 2013-14 was 3,050, compared to only 1,500 in 2012-13, reflecting the increased requirement to recruit specialists and frontline personnel for the restructured workforce. Non-Industrial intake increased from 1,290 to 2,590, while Industrial intake increased from 210 to 460.

**6.22** In accordance with our obligations to the Civil Service Commissioners' Recruitment Principles Table 6.1 shows the use of permitted exceptions to the principles of fair and open competition and selection on merit in 2013-14.

<sup>4</sup> The civilian workforce numbers refer to the published 'Level 0' definition which is a measure of all civilian staff.

Table 6.1 – Permitted exceptions to the Civil Service Commissioners Recruitment Principles

Exception	Non-Industrial	Industrial
Short-term appointments up to a maximum of two years to meet short term needs	156	13
Appointments of people with highly specialised skills and experience for up to 2 years	0	0
Inward secondments of up to 2 years	0	0
Reappointment of former Civil Servants	1	0
Transfer of an organisation into the Civil Service (Inward TUPE)	0	0
Transfers of individuals into the Civil Service (e.g. COSOP)	0	0

## Equality and Diversity

**6.23** The Chief of Defence Staff and Permanent Secretary have written to TLB Holders, informing them of the establishment of the Defence Diversity and Inclusion Programme with the aim of increasing the diversity of the workforce, both military and civilian. While there is already significant activity to progress diversity and inclusivity, particularly in each of the 3 Services, this has not delivered the traction and consistency that is required and the demographics of the workforce remains misaligned with that of society. The programme aims to deliver a step change in diversity and inclusivity, without which it will become increasingly difficult to deliver Defence outputs.

**6.24** Against a backdrop of increased recruitment and lower numbers leaving under the voluntary early release scheme, the percentage of women working in the MOD has marginally increased, as has the percentage of civilians declaring their ethnicity as Black Minority Ethnic. The percentage for Lesbian, Gay & Bisexual personnel and non-Christian personnel remains unchanged.

Table 6.2 – Changes to civilian personnel strength by protected characteristic

Civilian personnel strength by protected characteristic		
	01 April 2013	01 April 2014
		Headcount
<b>Civilian Total<sup>1</sup></b>	<b>49,470</b>	<b>47,970</b>
<b>Gender</b>		
Female	18,370	18,100
<i>Percentage Female</i>	37.1	37.7
<b>Ethnicity<sup>2</sup></b>		
Black & Minority Ethnic	1,650	1,620
<i>Percentage Black and Minority Ethnic</i>	3.8	3.9
<b>Sexual Orientation<sup>2</sup></b>		
Lesbian, Gay, Bisexual	550	540
<i>Percentage Lesbian, Gay, Bisexual</i>	1.7	1.7
<b>Religion or Belief<sup>2</sup></b>		
Non Christian Religion	1,710	1,620
<i>Percentage Non Christian Religion</i>	5.1	5.1
Secular	8,210	8,110
<i>Percentage Secular</i>	24.7	25.5
Christian	23,350	22,050
<i>Percentage Christian</i>	70.2	69.4

Source: Defence Statistics (Civilian)

1. Totals include all industrial and non-industrial personnel but exclude all Trading Funds, Royal Fleet Auxiliaries and Locally engaged civilians for whom declaration data are not available.
2. Percentages are calculated from known declarations of ethnicity, sexual orientation and religion / belief and exclude personnel whose declarations are unknown or who have chosen not to declare.

**6.25** Against a backdrop of reduced numbers through redundancy, the percentage of female Service Personnel has increased marginally as has the percentage of non-Christians. The percentage of Service Personnel declaring their ethnicity as Black Minority Ethnic remains unchanged.

UK Regular Forces <sup>1</sup> by protected characteristic		
	01 April 2013	01 April 2014
<b>UK Regular<sup>1</sup> Total</b>	<b>170,710</b>	<b>159,630</b>
<b>Gender</b>		
Female	16,610	15,840
<i>Percentage Female</i>	9.7	9.9
<b>Ethnicity<sup>2</sup></b>		
Black & Minority Ethnic	12,030	11,200
<i>Percentage Black and Minority Ethnic</i>	7.1	7.1
<b>Religion or Belief<sup>2</sup></b>		
Non Christian Religion	3,100	2,990
<i>Percentage Non Christian Religion</i>	1.8	1.9
Secular	27,670	28,780
<i>Percentage Secular</i>	16.4	18.2
Christian	138,400	126,550
<i>Percentage Christian</i>	81.8	79.9

Source: Defence Statistics (Tri Service)

1. UK Regular Forces comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists.
2. Percentages are calculated from known declarations of ethnicity and religion / belief and exclude personnel whose declarations are unknown or who have chosen not to declare. Percentages are calculated from unrounded data

## High-Paid Off-Payroll Appointments

**6.26** The tables below provide information on the MOD's most highly paid off-payroll appointments as required following the outcome of the Chief Secretary to the Treasury's Review of the Tax Arrangements of Senior Public Appointees (published on 23 May 2012).

Table 6.3 – For all off-payroll engagements as of 31 March 2014, for more than £220 per day and that last for longer than six months

	Main department	Arms Length Bodies
<b>No. of existing engagements as of 31 March 2014</b>	<b>246 (Note 1)</b>	<b>(Note 2)</b>
Of which...		
No. that have existed for less than one year at time of reporting.	119	
No. that have existed for between one and two years at time of reporting.	68	
No. that have existed for between two and three years at time of reporting.	16	
No. that have existed for between three and four years at time of reporting.	5	
No. that have existed for four or more years at time of reporting.	38	

Note 1: Of the number quoted, 152 are no longer engaged by the MOD.  
 Note 2: The MOD's three Trading Funds (the Defence Support Group, the Defence Science and Technology Laboratory and the UK Hydrographic Office) are outside the MOD's Departmental Accounting Boundary and are reporting their High-Paid Off-Payroll Appointments in their own Annual Reports and Accounts. No other MOD Arms Length Body has off-payroll appointments within scope of disclosure.

Table 6.4 – For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014, for more than £220 per day and that last for longer than six months

	Main department	Arms Length Bodies
<b>No. of new engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014</b>	<b>299 (Note 1)</b>	<b>(Note 2)</b>
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	263	
No. for whom assurance has been requested	263	
Of which...		
No. for whom assurance has been received	157	
No. for whom assurance has not been received	106 (Note 3)	
No. that have been terminated as a result of assurance not being received.	0	

Note 1: Of the number quoted, 249 are no longer engaged by the MOD.  
 Note 2: The MOD's three Trading Funds (the Defence Support Group, the Defence Science and Technology Laboratory and the UK Hydrographic Office) are outside the MOD's Departmental Accounting Boundary and are reporting their High-Paid Off-Payroll Appointments in their own Annual Reports and Accounts. No other MOD Arms Length Body has off-payroll appointments within scope of disclosure.  
 Note 3: Of the number quoted, 103 are no longer engaged by the MOD. Assurance of compliance with tax legislation is being sought for the 3 off-payroll engagements that are still current. In the interests of good governance, we are also seeking assurance from 36 appointees engaged under legacy contracts which have not been amended to include a specific assurance clause because they have lapsed. The Department is referring cases to HM Revenue & Customs where assurance has been requested but not received.

**6.27** The table below restates the position on the off-payroll arrangements in 2012-13 to correct earlier omissions. These have arisen mainly as the result of subsequent clarification of the intended scope of the governance and disclosure requirements and the consequent re-examination of off-payroll engagements by the MOD.

**Table 6.5 – Restatement of Table 6.3 in the Ministry of Defence’s 2012-13 Annual Report and Accounts: For all new off-payroll engagements made between 23 August 2012 and 31 March 2013, for more than £220 per day and more than 6 months in duration**

	MOD	DSTL	DSG	UKHO	Total
No. of new engagements	101	51	4	11	167
Of which...					
Number for whom assurance in relation to income tax and National Insurance obligations has been requested and received	59	49	4	10	122
Number for whom assurance has been requested but not received	42 (Note 1)	2 (Note 2)	0	0	44
Number of engagements that have been terminated as a result of assurance not being received	0	0	0	1	1

Note 1: Of the number quoted, 35 are no longer engaged by the MOD. We are seeking assurance from the remaining 7 subsequently brought within scope of the Treasury’s governance and disclosure requirements.

Note 2: One individual had not yet exceeded the timescale for responding and one individual was to leave contract early and be replaced by a permanent member of staff.

# 7. Delivering Defence

**The third part of the fourth Defence Priority is to transform Defence by delivering it in the most effective, efficient and sustainable way, including by meeting benchmarking, efficiency and Government sustainability development targets, building on the Defence Reform review.**



## Defence Budget and Spending

### Management Commentary

**7.1** The Government's Spending Review 2010 announced the Defence Spending Plans and budgets for 11-12 to 14-15<sup>5</sup> and the MOD Main Estimate, in April 2013, set out the plans for 13-14. The Supplementary Estimate (SE), in January 2014, updated these plans and returned £800M of Near Cash<sup>6</sup> budgets to HM Treasury, which will be added to our plans in 2014-15 (£100M) and 2015-16 (£700M). This reflected updates to these original plans and captures the realism of spending, in some equipment capabilities.

The Statement of Parliamentary Supply, as detailed in the Accounts Section, compares the final outturn of the Department against the SE.

**7.2** The following narrative explains the main variances to the detailed plans published in the SE.

**7.3** Total Departmental Variance – £3,435M Underspend<sup>7</sup>

This figure includes all Departmental Budgets and can be broken down into the relevant areas as follows:

**7.4** Core Departmental Spending Variance – £3,006M Underspend

**7.5** Near Cash Variances – Total £135M Underspend

- Cash Resource DEL – £31M Underspend
- Capital DEL – £104M Underspend

This represents a final variance to outturn of -0.4% to the SE. This has been a successful outcome against many challenging circumstances and reflects the strong financial discipline across the Department. The variances by Commodity Block can be seen in Note 2 to the accounts.

**7.6** Ring Fenced (Non Cash) Resource DEL – Total £1,055M Underspend

At the time of preparing the SE the non cash resource forecast was £9,900M. However, at this time the review of asset impairments was not finished. On completion of this review the Department did not need to make as many impairments as was originally provided for and hence the under spend against estimate. This does not impact on Defence spending power as it relates to value of asset holdings.

**7.7** Annually Managed Expenditure (AME) – Total £1,816M Underspend

- Resource AME – £1,637M Underspend

This outturn included changes in accounting estimates for Assets under Construction due to the removal of application of Modified Historic Cost Accounting. The under spend was due to various impairment reviews that did not materialise and other impairment reversals that created a negative charge against budgets.

- Capital AME – £179M Underspend

This relates to a favorable movement on provisions that had previously been provided for by the Department.

Both the above variances do not impact on Defence Spending power as they are non cash accounting adjustments.

**7.8** Operational Spend – Total Variance £429M Underspend

The Department is voted additional resources to cover the net additional costs of Operations and Peacekeeping Programme Expenditure<sup>8</sup>. The expenditure does not include costs that the Department would have incurred in any case, for example the majority of salaries of Service personnel.

The Department has to make provision to ensure that there are sufficient funds to cover the costs of all operations and therefore under spends are not uncommon. This under spend reflects the on going draw down of forces in Afghanistan.

<sup>5</sup> Defence Budget cut by eight per cent - Announcements - GOV.UK

<sup>6</sup> Near Cash – represents the spending power of the Department, namely Non Ring Fenced RDEL & CDEL

<sup>7</sup> Statement of Parliamentary Supply.

<sup>8</sup> See Table 7.1

Table 7.1 – Net Additional Cost of Operations (£m)

	Afghanistan			Wider Gulf			DMAP			Conflict Pool			Total		
	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn
	2013-14	2013-14	2012-13	2013-14	2013-14	2012-13	2013-14	2013-14	2012-13	2013-14	2013-14	2012-13	2013-14	2013-14	2012-13
Personnel	158.72	120.52	212.38	6.66	2.17	7.42	-	-	-	-	19.94	18.75	165.38	142.63	238.55
Infrastructure	138.55	147.26	158.96	6.43	14.81	4.36	-	0.01	-	-	1.97	0.61	144.98	164.04	163.94
Inventory/ Other Consumption	450.85	394.61	562.60	4.64	0.97	-5.01	-	0.07	-	-	-2.34	-0.41	455.49	393.30	557.18
Equipment Support	409.39	332.14	411.27	14.37	12.88	10.94	-	-	-	-	-3.38	0.16	423.76	341.64	422.37
Research & Development	25.00	17.14	-	-	-	-	-	-	-	-	-	-	25.00	17.14	-
Other Costs	197.89	212.85	369.60	7.90	6.03	7.97	25.00	0.06	-	-	33.79	25.03	230.79	252.72	402.60
Receipts and Other Income	-24.78	-26.79	-25.72	-	0.03	0.03	-	-	-	-	-0.34	-0.13	-24.78	-27.10	-25.81
Cash Release of Provision	3.98	2.98	1.98	-	-	-	-	-	-	-	-	-	3.98	2.98	1.98
<b>Total Cash Resource</b>	<b>1,359.60</b>	<b>1,200.70</b>	<b>1,691.08</b>	<b>40.00</b>	<b>36.88</b>	<b>25.70</b>	<b>25.00</b>	<b>0.13</b>	<b>-</b>	<b>55.79</b>	<b>49.65</b>	<b>44.01</b>	<b>1,480.39</b>	<b>1,287.35</b>	<b>1,760.79</b>
<b>Total Non Cash Resource</b>	<b>621.27</b>	<b>550.37</b>	<b>499.28</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>621.27</b>	<b>550.37</b>	<b>499.28</b>
<b>Total Resource</b>	<b>1,980.87</b>	<b>1,751.06</b>	<b>2,190.35</b>	<b>40.00</b>	<b>36.88</b>	<b>25.70</b>	<b>25.00</b>	<b>0.13</b>	<b>-</b>	<b>-</b>	<b>49.65</b>	<b>44.01</b>	<b>2,045.87</b>	<b>1,837.72</b>	<b>2,260.07</b>
<b>Total Capital Costs</b>	<b>285.44</b>	<b>122.63</b>	<b>473.97</b>	<b>5.00</b>	<b>2.97</b>	<b>31.64</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>290.44</b>	<b>125.60</b>	<b>505.61</b>
<b>Total Annually Managed Expenditure</b>	<b>3.52</b>	<b>3.17</b>	<b>8.91</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.52</b>	<b>3.17</b>	<b>8.91</b>
<b>Total Costs</b>	<b>2,269.83</b>	<b>1,876.87</b>	<b>2,673.23</b>	<b>45.00</b>	<b>39.85</b>	<b>57.34</b>	<b>25.00</b>	<b>0.13</b>	<b>-</b>	<b>55.79</b>	<b>49.65</b>	<b>44.01</b>	<b>2,395.62</b>	<b>1,966.49</b>	<b>2,774.58</b>

Notes:

DMAP: Deployed Military Activity Pool - In 13-14 a £25M HMT Reserve was made available in addition to the MOD funding of the same amount.

The Conflict Pool is Transferred annually from DFID on a block Resource basis as reflected in the published Supplementary Estimate.

In 12-13 £17.4M was spent on Mali as a specific operation.

Table 7.2 – Reconciliation of Resource Expenditure Between Estimates, Budgets and Accounts

	2013-14 £000	2012-13 £000
Net Resource Outturn (Estimates)	37,411,572	37,740,973
Prior period adjustments	-	-
<b>Net Resource Budget Outturn</b>	<b>37,411,572</b>	<b>37,740,973</b>
of which:		
Departmental Expenditure Limits (DEL)	36,448,453	35,874,176
Annually Managed Expenditure (AME)	963,119	1,866,797
	<b>37,411,572</b>	<b>37,740,973</b>
Adjustments:		
Adjustment for changes to discount rates included in resource outturn but not passing through net operating costs	(32,547)	28,000
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts but treated as off-SoFP for Estimates and Budgets.	109,635	81,006
Income in respect of donated assets treated as Capital income	(4,300)	(108,948)
Loss / (gain) on foreign exchange contracts in respect of Capital purchases	20,675	56,584
Adjustment for impairments and impairment reversals included in resource outturn but not passing through Net Operating Cost	(15,404)	(24,931)
Add Capital grants included in operating costs but excluded from resource outturn	2,527	3,029
Write on of capitalised provision not passing through Resource outturn	-	(71,466)
<b>Net Operating Cost (Accounts)</b>	<b>37,492,158</b>	<b>37,704,247</b>

Table 7.3 – Total departmental spending , 2007-08 to 2016-17

	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Plans	2015-16 Plans	2016-17 Plans	£'000
<b>Resource DE</b>											
Provision of Defence Capability Service Personnel Costs	8,787,857	8,818,819	9,270,207	9,687,233	9,822,628	9,400,516	9,046,632	8,816,134	8,723,307	-	
Provision of Defence Capability Civilian Personnel Costs	633,541	627,152	776,422	1,353,353	214,603	200,829	192,110	454,277	181,354	-	
Provision of Defence Capability Infrastructure costs	4,122,192	4,532,692	4,575,357	4,130,436	4,365,665	4,428,812	4,545,389	4,482,642	4,500,000	-	
Provision of Defence Capability Inventory Consumption	1,851,609	1,922,549	1,851,181	1,560,057	1,740,806	1,749,176	1,765,487	1,835,871	1,881,882	-	
Provision of Defence Capability Equipment Support Costs	5,186,947	5,417,481	6,066,863	5,721,074	5,625,988	5,161,399	6,065,557	6,441,312	6,368,195	-	
Provision of Defence Capability Other Costs and Services	906,281	1,379,233	1,310,353	2,590,215	1,339,556	1,500,622	1,790,894	1,907,141	2,438,244	-	
Provision of Defence Capability Receipts and other Income	-1,813,209	-1,698,504	-1,744,595	-1,280,177	-1,283,873	-1,248,867	-1,169,263	-1,114,126	-1,023,000	-	
Provision of Defence Capability Depreciation and Impairments Costs	7,464,384	6,388,871	7,901,575	10,626,669	9,291,756	8,958,447	8,911,223	9,449,975	9,621,000	-	
Provision of Defence Capability Cash Release of Provisions Costs	486,912	316,031	273,437	242,598	176,464	203,010	175,030	241,911	-	-	
Provision of Defence Capability Research and Development Costs	-	-	-	-	833,485	944,069	971,008	1,041,647	913,890	-	
Provision of Defence Capability Administration Civilian Personnel Costs	1,931,902	1,947,330	1,929,833	1,355,224	2,673,630	2,134,313	2,112,064	1,844,102	1,746,200	-	
Provision of Defence Capability Administration Other Costs and Services	-	-	-	-	18,316	44,548	17,139	22,104	20,000	-	
Operations Service Personnel Staff Cost	162,053	174,953	187,477	204,898	278,285	197,449	108,909	55,025	-	-	
Operations and Peacekeeping Civilian Personnel Staff Costs	52,615	56,804	60,870	23,043	25,570	22,421	13,777	6,803	-	-	
Operations Infrastructure Costs	343,360	367,614	366,443	312,144	214,071	164,921	162,069	62,134	-	-	
Operations Inventory Consumption	645,706	910,319	719,429	786,590	794,614	562,911	395,649	170,525	-	-	
Operations Equipment Support Costs	599,008	847,896	806,205	629,133	630,108	427,032	345,016	199,402	-	-	
Operations Other Costs and Services	134,065	136,399	155,714	560,059	492,251	378,161	218,930	133,313	-	-	
Operations Receipts and other Income	-27,710	-28,090	-58,486	-33,245	-42,806	-27,686	-26,764	-9,264	-	-	
Operations Depreciation and Impairment Costs	266,467	358,109	385,679	308,591	532,998	499,275	550,366	152,810	-	-	
Operations Cash Release of Provisions Costs	-	-	7,379	11,093	2,827	1,976	2,980	2,926	-	-	
Operations Research and Development Costs	-	-	-	-	-	-	17,137	522	-	-	
Conflict Pools Resource Costs	-	-	-	59,705	46,212	44,009	49,648	64,405	-	-	
Non Departmental Public Bodies Costs	63,272	238,811	193,386	186,203	186,791	126,833	187,466	174,907	165,478	-	
IFRS/PFI and other costs	-	-	-117,360	-	-	-	-	-	-	-	
<b>Total Resource DEL</b>	<b>31,797,252</b>	<b>32,714,469</b>	<b>34,917,369</b>	<b>39,034,896</b>	<b>37,979,945</b>	<b>35,874,176</b>	<b>36,448,453</b>	<b>36,436,498</b>	<b>35,536,550</b>	-	
<b>Resource AME</b>											
Provision of Defence Capability Depreciation and Impairment Costs	68,589	352,890	838,438	7,098,741	509,557	1,062,365	-208,143	1,949,205	1,209,412	-	
Provision of Defence Capability Provisions Costs	491,843	441,309	548,128	17,925	-467,009	307,375	141,371	541,177	255,258	-	
Provision of Defence Cash Release of Provisions Costs	-486,912	-316,031	-273,437	-242,598	-342,499	-237,141	-200,392	-241,911	-	-	
Movement On Fair Value of Financial Instruments	-	-1,177,064	202,354	50,481	347,133	-182,527	368,147	299,271	300,000	-	
Provision of Defence Capability AME Capital Fiscal	-709,000	-	-	-	-	-	-	-	-	-	
Operations Provisions	11,695	-324	7,168	39,575	6,799	10,884	6,152	5,573	-	-	
Operations Cash Release of Provisions Costs	-	-	-7,379	-11,093	-2,827	-1,976	-2,980	-2,926	-	-	
War Pensions Benefits Programme costs	1,014,616	1,000,400	980,294	935,066	915,683	907,817	858,964	874,985	851,000	-	
<b>Total Resource AME</b>	<b>390,831</b>	<b>301,180</b>	<b>2,295,566</b>	<b>7,888,097</b>	<b>966,837</b>	<b>1,866,797</b>	<b>963,119</b>	<b>3,425,374</b>	<b>2,615,670</b>	-	
<b>Total Resource Budget</b>	<b>32,188,083</b>	<b>33,015,649</b>	<b>37,212,935</b>	<b>46,922,993</b>	<b>38,946,782</b>	<b>37,740,973</b>	<b>37,411,572</b>	<b>39,861,872</b>	<b>38,152,220</b>	-	
<b>Capital DEL</b>											
Provision of Defence Capability Other Costs and Services	-2,299	1,603	-1,695	-	25,000	-	-	-	-	-	
Provision of Defence Capability Receipts and other Income	-4,840	-	-	-	-	-	-	-	-	-	
Provision of Defence Capability Capital Single Use Military Equipment	4,567,698	4,517,457	4,488,004	4,851,719	4,828,748	4,395,170	4,455,379	3,656,000	2,900,000	-	

Table 7.3 – Total departmental spending , 2007-08 to 2016-17

	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Plans	2015-16 Plans	2016-17 Plans	£'000
Provision of Defence Capability Other Capital (Fiscal)	3,211,965	3,361,494	3,197,059	3,432,350	3,536,232	3,008,738	3,037,505	4,344,823	4,621,000	-	-
Provision of Defence Capability Fiscal Assets / Estate Disposal	-	-87,324	-16,386	-32,154	-149,657	-63,685	-43,573	-342,000	-525,000	-	-
Provision of Defence Capability New Loans and Loan Repayment	-61,802	-101,127	-55,176	-71,903	-5,469	-5,519	-5,573	-177,468	-	-	-
Operations Capital Single Use Military Equipment	526,998	1,148,685	807,357	598,026	454,911	372,970	72,533	13,296	-	-	-
Operations Other Capital (Fiscal)	308,878	77,057	728,431	485,571	322,068	132,636	53,070	9,861	-	-	-
Conflict Pools Resource Costs	-	-	-	694	-	-	-	-	-	-	-
Non Departmental Public Bodies Costs	744	-	-	851	2,223	3,029	2,527	2,414	-	-	-
<b>Total Capital DEL</b>	<b>8,547,342</b>	<b>8,917,845</b>	<b>9,147,594</b>	<b>9,265,154</b>	<b>9,014,056</b>	<b>7,843,339</b>	<b>7,571,868</b>	<b>7,506,926</b>	<b>6,996,000</b>	-	-
<b>Capital AME</b>											
Provision of Defence Capability Provisions Costs	-	75868	-4690	-	-9,615	-35352	-128612	-	-	-	-
Provision of Defence Capability AME Capital Fiscal	-	-	9773	-	-	-	-	-	-	-	-
<b>Total Capital AME</b>	<b>-</b>	<b>75,868</b>	<b>5,083</b>	<b>-</b>	<b>-9,615</b>	<b>-35,352</b>	<b>-128,612</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Capital Budget</b>	<b>8,547,342</b>	<b>8,993,713</b>	<b>9,152,677</b>	<b>9,265,154</b>	<b>9,004,441</b>	<b>7,807,987</b>	<b>7,443,256</b>	<b>7,506,926</b>	<b>6,996,000</b>	-	-
<b>Total departmental spending <sup>1</sup></b>	<b>33,485,209</b>	<b>35,529,058</b>	<b>37,994,285</b>	<b>38,116,370</b>	<b>37,176,648</b>	<b>35,210,412</b>	<b>35,214,346</b>	<b>35,514,512</b>	<b>34,017,808</b>	-	-

<sup>1</sup> Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Table 7.4 – Outturn year, 2013-14

	£'000							
	2013-14 Original Plans		2013-14 Adjusted Plans <sup>†</sup>		2013-14 Final Plans		2013-14 Outturn	
	Resource	Capital	Resource	Capital	Resource	Capital	Resource	Capital
<b>Spending in Departmental Expenditure Limits (DEL)</b>								
<b>Voted expenditure</b>	<b>36,075,531</b>	<b>9,753,970</b>	<b>36,646,745</b>	<b>9,834,785</b>	<b>37,798,415</b>	<b>7,840,900</b>	<b>36,448,453</b>	<b>7,571,868</b>
<i>Of which:</i>								
Provision of Defence Capability Service Personnel Costs	8,675,056	-	8,675,056	-	9,138,562	-	9,046,632	-
Provision of Defence Capability Civilian Personnel Costs	195,884	-	195,884	-	173,804	-	192,110	-
Provision of Defence Capability Infrastructure costs	3,980,557	-	3,980,557	-	4,480,567	-	4,545,389	-
Provision of Defence Capability Inventory Consumption	1,706,542	-	1,706,542	-	1,726,947	-	1,765,487	-
Provision of Defence Capability Equipment Support Costs	6,034,902	-	6,622,090	-	5,933,100	-	6,065,557	-
Provision of Defence Capability Other Costs and Services (see details)	1,607,297	-	1,648,282	-	1,963,320	-	1,790,894	-
Provision of Defence Capability Receipts and other Income	-1,060,808	-	-1,117,767	-	-1,215,381	-	-1,169,263	-
Provision of Defence Capability Depreciation and Impairments Costs	8,966,464	-	8,966,464	-	9,966,464	-	8,911,223	-
Provision of Defence Capability Cash Release of Provisions Costs	207,150	-	207,150	-	210,693	-	175,030	-
Provision of Defence Capability Capital Single Use Military Equipment	-	5,719,000	-	5,719,000	-	4,519,000	-	4,455,379
Provision of Defence Capability Other Capital (Fiscal)	-	3,879,511	-	3,879,511	-	3,201,332	-	3,037,505
Provision of Defence Capability Fiscal Assets / Estate Disposal	-	-161,137	-	-161,137	-	-161,137	-	-43,573
Provision of Defence Capability New Loans and Loan Repayment	-	-11,545	-	69,270	-	-11,545	-	-5,573
Operations Service Personnel Staff Cost	175,102	-	175,102	-	145,102	-	108,909	-
Provision of Defence Capability Research and Development Costs	986,423	-	986,423	-	963,940	-	971,008	-
Provision of Defence Capability Administration Civilian Personnel Costs	2,072,325	-	2,072,325	-	2,132,325	-	2,112,064	-
Operations and Peacekeeping Civilian Personnel Staff Costs	19,471	-	19,471	-	20,281	-	13,777	-
Operations Infrastructure Costs	128,488	-	128,488	-	144,988	-	162,069	-
Provision of Defence Capability Administration Other Costs and Services	23,267	-	23,267	-	23,267	-	17,139	-
Operations Inventory Consumption	419,071	-	419,071	-	455,485	-	395,649	-
Operations Equipment Support Costs	620,256	-	620,256	-	423,756	-	345,016	-
Operations Other Costs and Services	447,212	-	447,212	-	230,798	-	218,930	-
Operations Receipts and other Income	-24,782	-	-24,782	-	-24,782	-	-26,764	-
Operations Depreciation and Impairments Costs	621,267	-	621,267	-	621,267	-	550,366	-
Operations Cash Release of Provisions Costs	3,983	-	3,983	-	3,983	-	2,980	-
Operations Capital Single Use Military Equipment	-	160,773	-	160,773	-	145,773	-	72,533

Table 7.4 – Outturn year, 2013-14

	£'000							
	2013-14 Original Plans		2013-14 Adjusted Plans†		2013-14 Final Plans		2013-14 Outturn	
	Resource	Capital	Resource	Capital	Resource	Capital	Resource	Capital
Operations Other Capital (Fiscal)	-	164,669	-	164,669	-	144,669	-	53,070
Conflict Pools Resource Costs	61,000	-	61,000	-	55,792	-	49,648	-
Non Departmental Public Bodies Costs	209,404	2,699	209,404	2,699	199,137	2,808	187,466	2,527
Operations Research and Development Costs	-	-	-	-	25,000	-	17,137	-
<b>Total Spending in DEL</b>	<b>36,075,531</b>	<b>9,753,970</b>	<b>36,646,745</b>	<b>9,834,785</b>	<b>37,798,415</b>	<b>7,840,900</b>	<b>36,448,453</b>	<b>7,571,868</b>
<b>Spending in Annually Managed Expenditure (AME)</b>								
<b>Voted expenditure</b>	<b>2,650,621</b>	<b>-</b>	<b>2,673,532</b>	<b>-</b>	<b>2,600,621</b>	<b>50,000</b>	<b>963,119</b>	<b>-128,612</b>
<i>Of which:</i>								
Provision of Defence Capability Depreciation and Impairment Costs	1,213,828	-	1,236,739	-	1,213,828	-	-208,143	-
Provision of Defence Capability Provisions Costs	466,201	-	466,201	-	419,744	50,000	141,371	-128,612
Provision of Defence Cash Release of Provisions Costs	-207,150	-	-207,150	-	-210,693	-	-200,392	-
Movement On Fair Value of Financial Instruments	277,456	-	277,456	-	277,456	-	368,147	-
Operations Cash Release of Provisions Costs	-3,983	-	-3,983	-	-3,983	-	-2,980	-
War Pensions Benefits Programme costs	896,769	-	896,769	-	896,769	-	858,964	-
Operations Provisions	7,500	-	7,500	-	7,500	-	6,152	-
<b>Total Spending in AME</b>	<b>2,650,621</b>	<b>-</b>	<b>2,673,532</b>	<b>-</b>	<b>2,600,621</b>	<b>50,000</b>	<b>963,119</b>	<b>-128,612</b>
<b>Total</b>	<b>38,726,152</b>	<b>9,753,970</b>	<b>39,320,277</b>	<b>9,834,785</b>	<b>40,399,036</b>	<b>7,890,900</b>	<b>37,411,572</b>	<b>7,443,256</b>
<i>Of which:</i>								
Voted expenditure	38,726,152	9,753,970	39,320,277	9,834,785	40,399,036	7,890,900	37,411,572	7,443,256

† Figures for Adjusted Plans have been adjusted for machinery of government changes effected during 2013 to reflect the Final Plans structure where applicable

Table 7.5 – Administration budget, 2007-08 to 2016-17

	£'000									
	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Plans	2015-16 Plans	2016-17 Plans
<b>Resource DEL</b>										
Provision of Defence Capability Service Personnel Costs	777,450	736,361	735,986	670,788	-	-	-	-	-	-
Provision of Defence Capability Administration Civilian Personnel Costs	1,931,902	1,947,330	1,929,833	1,355,224	2,673,630	2,134,313	2,112,064	1,844,102	1,746,200	-
Provision of Defence Capability Administration Other Costs and Services	-	-	-	-	18,316	44,548	17,139	22,104	20,000	-
Non Departmental Public Bodies Costs	63,272	238,811	193,386	186,203	-	-	-	-	-	-
<b>Total administration budget</b>	<b>2,772,624</b>	<b>2,922,502</b>	<b>2,859,205</b>	<b>2,212,215</b>	<b>2,691,946</b>	<b>2,178,861</b>	<b>2,129,203</b>	<b>1,866,206</b>	<b>1,766,200</b>	<b>-</b>

Table 7.6 – Assets and Liabilities

	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 outturn	2011-12 outturn	2012-13 outturn	2013-14 outturn	2014-15 Plans	2015-16 Plans
	£m	£m	£m						
<b>Assets and liabilities in the Statement of Financial Position at year end:</b>									
<b>Assets</b>									
Non-current assets	111,376	119,142	121,827	116,863	120,890	119,495	118,067	119,838	121,636
Property, plant and equipment	82,434	89,877	91,653	88,300	92,070	91,519	92,331	93,716	95,122
Intangible assets	26,718	27,959	29,134	27,529	27,851	27,418	24,918	25,292	25,671
Financial Assets	256	217	158	147	142	136	103	105	106
Receivables due after more than one year	1,968	1,088	883	887	828	422	715	726	737
Current assets	8,581	11,027	11,086	11,306	10,647	12,416	10,534	10,271	10,014
<b>Liabilities</b>									
Current Liabilities	-8,840	-9,078	-9,278	-10,252	-10,920	-10,800	-9,558	-9,701	-9,847
Non-current liabilities	-10,252	-11,045	-11,103	-11,025	-10,730	-10,610	-10,894	-11,057	-11,223
<b>Capital employed within main department</b>	<b>100,866</b>	<b>110,045</b>	<b>112,533</b>	<b>106,892</b>	<b>109,887</b>	<b>110,500</b>	<b>108,149</b>	<b>109,350</b>	<b>110,579</b>
NDPB total assets less liabilities	613	608	819	842	844	915	882	895	909
<b>Total capital employed in dept'l group</b>	<b>101,478</b>	<b>110,653</b>	<b>113,352</b>	<b>107,734</b>	<b>110,731</b>	<b>111,415</b>	<b>109,031</b>	<b>110,245</b>	<b>111,488</b>

## Defence Equipment and Support (DE&S)

### Value of New Equipment Delivered

**7.9** A major priority for the Department this year has been to continue to deliver equipment to the Armed Forces. The DE&S organisation delivered new equipment valued at £5.0Bn, which includes £0.2Bn of Urgent Operational Requirements (UORs). Further details on UORs are provided in paragraph 7.16 below.

**7.10** Total programmed capital expenditure for DE&S in 2013-14 was £6.7Bn. Capital expenditure covers money spent on acquisition less any capital receipts.

**7.11** As the single balance sheet owner for military equipment, at the end of FY 2013-14, DE&S was responsible for £57.3Bn of capital assets. This was a decrease of £1.6Bn over the course of the year. Depreciation of assets on operations was £311.3M. Items of equipment procured through the UOR process were depreciated in the same way as other assets but the expected life was adjusted to reflect the harsh environment in which they operated. DE&S also owns the majority of non-property assets and equipment under construction, which increased by £1.1Bn (6%) from £16.9Bn to £18.0Bn during the year.

**7.12** Key contracts and Achievements for the Royal Navy:

- Significant progress continues to be made with the Queen Elizabeth (QE) Class Aircraft Carrier project, with the First of Class, HMS QUEEN ELIZABETH, achieving a Complete Structure in December 2013 on target, and construction work on the majority of blocks of the second ship, HMS PRINCE OF WALES, well underway. In November 2013, the Defence Secretary announced that the contract with the Aircraft Carrier Alliance had been extensively reviewed and improved to deliver more effectively the QUEEN ELIZABETH Carrier project. The new agreement reflects the realistic target cost of delivering these vessels, strengthens the cost control and management of the programme and delivers a more equitable shareline position for the MOD. The agreement will ensure the programme is placed on a firm footing to deliver an operational carrier in 2020. In July 2014, Her Majesty the Queen officially named HMS QUEEN ELIZABETH at a ceremony in Rosyth. Shortly after, the ship left the dock and is now alongside Rosyth for the test, integration and commissioning stage of her programme.

In parallel, the first main blocks of the second ship, HMS PRINCE OF WALES arrived in Rosyth during August, with assembly work beginning in September.

- The Department has also reviewed the wider warship-building programme. In order to address the gap in production work between the completion of the QE Class and the start of the planned Type 26 Global Combat Ship, and to maintain key shipbuilding skill sets, three new Offshore Patrol Vessels (OPVs) will be built to replace three in-service River Class OPVs. The new ships, which will play a key role in counter-terrorism, counter-piracy and anti-smuggling operations, will be built by BAE Systems at their shipyards on the Clyde. In March, the MOD confirmed a commitment of £20M to the programme, to enable BAE Systems to begin work on 'long lead' parts such as the engines and gearboxes. This was followed with the placing of the contract for the three vessels in August, at a total value of £348M (this includes the earlier £20M commitment). The first OPV is expected to be delivered to the Royal Navy in 2017.
- In May 2013 the first Helicopter Maritime Attack variant of Wildcat was delivered to the Royal Navy. Wildcat represents a significant increase in capability over the existing Lynx aircraft in terms of its projected availability rates, improved performance and integrated sensor fit. The aircraft has a more powerful engine and is also equipped with a more robust and easily maintained fuselage structure, a high tech interactive cockpit display, enhanced crash protection and survivability, an advanced electro optical sensor and a new radar system.
- A contract worth £500M for Future Anti-Surface Guided Weapon (Heavy) anti-ship missiles was signed in March 2014, which marks a significant step in joint working on complex weapons between the UK and French Governments. The MOD will contribute £280M toward the development of these complex weapons, which use sophisticated homing technology to neutralise small and medium sized targets. They will be carried by the Royal Navy's new Wildcat helicopters, providing them with unparalleled strike capabilities.
- A £330M contract was placed in December 2013 to modify 25 Merlin M3/3a medium lift helicopters to a new Merlin Mk 4/4a standard in order to fulfil the primary Commando Helicopter Force Medium Lift Asset role, under command of Joint Helicopter Command. The programme

consists of a Life Sustainment Programme to address the obsolescence and extend the Out of Service Date, and a Ship Optimisation Programme to equip the aircraft for operations from Royal Navy ships

- BAE Systems continue to deliver the ASTUTE Class submarines with HMS ASTUTE and AMBUSH being accepted into service. HMS ARTFUL was officially named and launched this year.
- All six Type 45 Destroyers are now in-service with the final Type 45, HMS DUNCAN, entering service in December 2013, three months ahead of schedule.
- In May 2013, the £600M Sensors Support Optimisation Project (SSOP) Contract was signed with Thales and will provide equipment support for the majority of the Royal Navy's sonar, periscopes and electronic surveillance equipment across a wide range of vessels. SSOP replaced two long-term Thales contracts and, having benefitted from the application of the new single source pricing regulations developed by Lord Currie, has saved the MOD around £140M compared to extending the previous arrangements. SSOP is an availability-based contract and will safeguard the capability delivered by much of the Fleet.
- A contract worth £250M was placed with MBDA in September 2013 to manufacture Sea Ceptor missiles. These missiles will initially be fitted to Type 23 Frigates, and, in future, the Type 26 Global Combat Ship. Sea Ceptor is capable of travelling at over 2000mph, and has the capability to intercept multiple targets and defend from a range of airborne threats. Sea Ceptor will provide protection to an area out to 25km in range.
- The Ice Patrol Ship, HMS PROTECTOR, was purchased in September 2013 along with a one year Contractor Logistics Support contract. HMS PROTECTOR will continue to provide a sovereign and reassuring presence in the UK's largest Overseas Territory – the British Antarctic Territory. She will help to deliver the UK's commitments under the Antarctic Treaty, support science programmes and ensure that expeditions and vessels are meeting their international environmental obligations.
- The Sting Ray Insensitive Munition Warhead (IMW) Project achieved its In Service Date in May 2013, three months ahead of schedule. The Warhead design, which is incorporated into Sting Ray Mod 1 Torpedoes, provides improved capability, handling and storage characteristics, and reduces

safety risks. The Royal Navy has welcomed this vital capability for UK operations and military interventions around the world.

- Detailed design of the 4 naval tankers for the Royal Fleet Auxiliary was finalised and the first steel cut on 24 June 2014. These vessels will deliver bulk consumables to the Royal Navy through replenishment at sea activities.

### 7.13 For the Army:

- A £430M contract was placed for the maintenance and support of the British Army's Apache attack helicopter for the next five years, enabling the MOD to maintain the availability of the Apache fleet while driving down cost. The contract includes deep maintenance, repair and overhaul of the aircraft and its major components. It also covers the delivery of technical support, including technical advice, technical publications to support flying and maintenance activities, and includes the provision of spares.
- In addition to delivering the planned programme, Soldier System Programmes have procured an additional £55M of surveillance and targeting equipment for the dismounted soldier above the programme forecast. This includes £46M of Night Vision, Laser Targeting and Weapons Sighting equipment for the Army Reserve that is in line with that of their Regular counterparts.
- In September 2013 a £23M contract to provide an additional 24 Foxhound vehicles was awarded; these vehicles will bring the total fleet size up to 400 and bolster the British Army's capability far into the future. By the end of March 2014, 376 Foxhounds had been delivered.
- The TERRIER Armoured Engineer Tractor achieved its In Service Date of April 2013 with the delivery of the first 20 vehicles. Final Acceptance was achieved in February 2014, and in March 2014, the first of the vehicles to be used in British Army Training Unit Suffield (BATUS) were delivered ready for 26 Engineer Regiment to begin training.
- The Scout Specialist Vehicle (SV) project passed its first key anchor milestone; and with the design now much matured, the first prototype was unveiled at Defence Vehicle Dynamics in June 2014. As the Army's top equipment priority, Scout SV is central to the delivery of the Army 2020 Armoured Infantry Brigade capability. Scout SV will provide the Army's first comprehensively digitised vehicle, providing a persistent all weather ground surveillance capability and a

powerful information processing hub applicable to a broad range of future operations, and matched with high levels of physical protection and tactical mobility. In September 2014 the Prime Minister announced that the MOD had awarded a contract for the delivery of 589 Scout SV platforms to the British Army.

- Warrior Capability Sustainment Programme (WCSP) passed its latest milestone – Preliminary Design Review – in December 2013, and the programme is now progressing towards a series of integration and firing trials. Under WCSP, vehicles will be fitted with an upgraded turret including a new weapon system, and an enhanced electronic architecture. The upgraded vehicles will be the cornerstone of the Armoured Infantry Brigade of the future until 2040.
- The Army Reserves have been supplied with over 16,000 Quadrails and Downgrips for their SA80 Assault Rifles, thus equipping them to the same standard as their Regular counterparts. The contract was awarded in September 2013 at a cost of approximately £5.8m with all items being delivered before the end of March 2014.

#### 7.14 For the RAF:

- The delivery of the Voyager Strategic Transport and Air to Air Refuelling service has continued with all nine aircraft in the Core Fleet now delivered. An enhancement to the defensive aids capability has been delivered enabling Voyager to replace Tristar on the Afghanistan airbridge three months early. Voyager is also delivering the Falkland Islands airbridge, and Air to Air Refuelling services for fast jet and heavy aircraft are in place. In a ceremony at RAF Brize Norton on 30 July 2014, the Voyager Project graduated to RAF Air Mobility. The VC10 and Tristar aircraft fleets retired from service in September 2013 and March 2014 respectively.
- The A400M Atlas is the RAF's future tactical and strategic airlift platform. UK deliveries are due to commence imminently, ahead of the In-Service Date in March 2015. In parallel, preparatory work to ensure the safe operation and support of these brand new aircraft is well advanced. Training for the first UK aircrew and maintenance personnel has commenced in Spain, and the establishment of the UK A400M Training Service at RAF Brize Norton is progressing well with the handover of the schoolhouse training facility occurring in May 2014.
- Airseeker is the UK's new Signals Intelligence system that replaces the capability previously delivered by the Nimrod R1. It is being procured through a Foreign Military Sales (FMS) arrangement with the US Government. The first RC-135W 'Rivet Joint' aircraft was delivered to the UK ahead of schedule in November 2013. An operational capability has been delivered and the aircraft is being used in support of live operations in theatre. Training of aircrew is being undertaken as part of the co-manning arrangement between the RAF and United States Air Force (USAF) and will contribute to the declaration of the Full Operating Capability, in the Gulf.
- The Certificates of Design for Meteor were approved in November 2013, which signalled the conclusion of the development of a complex and highly capable Beyond Visual Range Air-to-Air missile in partnership with five other European Nations. In addition, a multi-national contract was signed for integration of Meteor on Typhoon, and agreement reached on Joint Strike Fighter (JSF) integration.
- The initial Release to Service for the Puma Mk2 was signed in August 2013 and the aircraft fielded for training to the RAF's Puma Force at RAF Benson in September 2013. As part of the £339M Life Extension Programme (LEP) (placed in 2009) the Puma MK2 has been kitted out with a new digital glass cockpit including a state of the art Automatic Flight Control System (AFCS), an enhanced, secure communications suite and improved ballistic protection for crew and passengers.
- The UK took delivery of its third F-35 Lightning II in June 2013 and placed an order for its fourth aircraft in September 2013. The UK has taken delivery of three F-35 Lightning II aircraft, which are currently operating from Eglin Air Force Base in Florida USA. UK Pilot and Aircraft Maintainer training is making good progress as we look to build the UK Lightning II force.
- The Tornado Availability Support Contract (ATTAC) was extended in March 2014. This amendment known as ATTAC B, secured support to the RAF Tornado GR4 through to its out of service date in 2019. It has also secured jobs in the UK defence sector, significantly reduced the costs of this support by approximately £90M and incentivised both Industry and the RAF/MOD to seek further efficiencies to reduce support costs and increase aircraft availability
- The Tornado GR4 Capability Upgrade Strategy (Pilot) programme achieved initial operating capability in March 2013 and has since achieved embodiment on 24 aircraft. All aircraft deployed

on Op HERRICK were upgraded to this standard by November 2013, delivering vital capability enhancements to front line crews.

- The future Typhoon radar programme has recently let an Extended Assessment Phase contract with BAE Systems worth over £70M. This is a package of work that will focus on further development and advanced studies relating to an electronically scanned array radar and is a significant step forward in the future capability of the aircraft.
- Following on from the successful delivery of first element of the Typhoon Tranche 2/3 multi-role upgrade in December 2013, work is now focused on pan-Defence Typhoon upgrade activity, which will see up to 36 Tranche 2 aircraft and synthetic training systems upgraded to full capability standard required to deliver the RAF capability for Interim Force 15.
- In December 2013 the first Typhoon Tranche 3A aircraft was delivered, to time and cost within the July 2009 approval. The 40 Tranche 3A aircraft being delivered to the RAF by 2018, along with the 67 Tranche 2 aircraft, will be the core of the Typhoon fleet through to its out of service date. Flight trials are continuing on Tranche 3A aircraft.

#### 7.15 Across Defence:

- Chief of Defence Materiel launched the Inventory Management Transformation in November 2012, with the mandate to reduce inventory held and develop a detailed structural change to the way the Department operates. At the end of the financial year 2013/14 the total Gross Book Value of DE&S inventory held in current and non-current assets was £34.4Bn, which, when measured over two years, represents a reduction of around £6Bn. During this period, gross savings on Raw Materials and Consumables (RMC) purchases of £1Bn have also been achieved. The primary focus has been on disposing of obsolete stock and providing support to Project Teams to optimise purchasing and reduce inventory. Future transformation continues with Information Management organisational changes, a review of Logistics Information Systems requirements, improvement of IM processes and holding contractors firmly to account.
- In June 2013 a six-year, £367M contract was placed to provide engine support for the Army's Apache helicopters and the Merlin helicopters used by the Royal Navy and RAF. By simplifying the supply chain, improving technical support

and increasing availability of spare parts, the new contract will help reduce the number of major repairs needed on the airframes, thereby improving availability for tasking.

- Deployable Maritime MilSat (DMM) has been fitted and commissioned to four operationally deployed Mine Counter Measure Vessels (MCMV). This new MilSat communications capability was delivered within 19 months from concept to Full Operating Capability (FOC). The £19.4M project has deployed a more resilient and highly improved communications capability to Op KIPION MCMV, in the Gulf.
- A full technical refresh of the UK's primary command and control system in Afghanistan (OVERTASK) was implemented in parallel with the decoupling of the UK domain from the NATO run Afghan Mission Network. This huge undertaking, including the rebuild of 1500 computers and the migration of a substantial amount of operational data and over 2300 user accounts, delivered significant improvements to the reliability and flexibility of the system. This major change programme was completed on a live system, vital to operational activity in Afghanistan, without detrimental impact to the user.
- The provision of the Defence High Frequency Communication Service (DHFCs) has been secured until June 2021. High Frequency communication is a key enabling capability in support of Command and Control (C2) of air and maritime assets. An investment of £3.4M in new High Frequency transmitters and Message Handling System has enabled the contractor to deliver efficiency savings.
- DE&S played a key role in the move of Task Force Helmand (TFH) Headquarters from Lashkar-Gah to Camp Bastion. The project was led within Service Operations by the Operational Plans Team and developed from an initial austere move into a major operation which proved to be the most technically complex move of a Land HQ in recent times.

## Urgent Operational Requirements (UORs)

**7.16** The UOR process is used for the rapid purchase of, or modification to, equipment in order to address urgent and unforeseen capability gaps in support of current or imminent military operations. Where a requirement meets these criteria and is specific to a particular operational theatre, it will be funded from the Government Special Reserve

rather than the Defence budget. Over £8.1Bn of expenditure has been approved through the UOR process since 2001, of which over £6.1Bn has been for emerging requirements for Afghanistan.

**7.17** For 2013-2014, the Department agreed an estimate with HM Treasury for Reserve expenditure on UORs of up to £248M. The final outturn against this estimate, based on operational demand, was £89M. The difference reflects both the changing operational requirements of UK Forces in Afghanistan since the original estimate was put in place, and the Department's efforts actively to reduce the cost of UORs without compromising their urgency or quality.

**7.18** In 2013-14, the MOD successfully delivered 25 UORs, all of which were either early or on time, against their approved delivery date. This included the continuation of existing UAS surveillance capability to protect troops on the ground in Afghanistan, additional Foxhound protected patrol vehicles, enhanced Improvised Explosive Device (IED) detection and protection systems, vehicle safety enhancements, additional BAe 146 aircraft, Tornado GR4 capability enhancements and a capability to identify enemy locations. During 2013-2014 a number of business cases have been approved to bring Urgent Operational Requirements into the MOD Equipment Programme.

## Logistics Management and Support to Operations

**7.19** Support to the NATO-led International Security Assistance Force (ISAF) mission in Afghanistan remains the Department's main logistic commitment and challenge. The transition process to hand over responsibility for security to the ANSF is in its final stages and the number of UK military personnel deployed in Afghanistan is now reduced to 5,200 from a previous force level of 9,000.

**7.20** The redeployment phase of the operation commenced on 1 October 2012, and the base closure programme and the return of equipment and materiel are at an advanced stage. NATO's involvement in combat operations will cease at the end of 2014, and it is the aim of ISAF to have completed redeployment by this date.

**7.21** The redeployment plan is the most challenging logistic task for a generation. It is designed to facilitate an orderly withdrawal of equipment and materiel in a way that achieves good order and represents value for money. Multiple Strategic Lines of Communication are being enabled with ISAF partners. Personnel from

all three Services, MOD civilians and commercial partners are actively engaged in processing and recovering the equipment and materiel in order to enable the transition to supporting future contingent operations.

## Support Chain Operations and Movements

**7.22** Defence Support Chain Operations and Movements (DSCOM) has enabled, in conjunction with PJHQ, Front Line Commands and commercial contractors, various lines of communication in support of operations. The main effort has been in support of operations in Afghanistan. Approximately 90,000 individuals have moved between the UK and Afghanistan in 2013/14, a figure that has reduced as a result of lower force numbers. There were approximately 300 military flights delivering personnel to Afghanistan and 80 charter flights to the United Arab Emirates.

**7.23** Air freight amounting to approximately 16,000 tonnes to support operations in Afghanistan was delivered through a combination of C17 aircraft and commercial air charter. Approximately 65% of this was delivered through the use of chartered 747 aircraft.

**7.24** In Afghanistan there were seven dedicated repatriation flights returning nine fatalities, and 13 casualty evacuation flights were flown by C17 aircraft. There were a further eight non-routine casualty evacuation flights by Tristar aircraft.

**7.25** In the financial year 2013/14, the cost of air charter in support of operations in Afghanistan was £84M. The reduction in spending (from £154M) reflects the deployment of less materiel to Theatre and a smaller requirement for chartered passenger flights as a result of reduced troop numbers and the introduction of the RAF Voyager aircraft.

**7.26** Significant changes have been made to the forward support chain (FSC) arrangements to Afghanistan; due to a reducing footprint and sustainment requirement, nearly all of the FSC activity can now be supported by the Air Line of Communication (ALOC), with a minimal amount of FSC freight being moved to Afghanistan by ground lines of communication – primarily food and fuel. All Reverse Support Chain routes remain active to support Redeployment activity, with the surface route through Pakistan seeing increasing volumes of materiel and equipment transiting, equivalent to those seen at peak levels in 2011.

**7.27** Redeployment from Afghanistan is calculated from 1 October 2012. As at 31 March 2014, we had redeployed 1,977 vehicles and major equipments (VaME) and 2,959 twenty-foot equivalent units (TEUs) of materiel from Afghanistan.

**7.28** Attention is now also focussing on Defence's Return to Contingency planning after the Afghanistan campaign and the role of DE&S in supporting future operations.

## Disposals

**7.29** The Disposal Services Authority (DSA) achieved £44M in Net sales during 2013/14. This included over 10,000 disposal declarations with a size in excess of 91,000 tonnes, of which less than 3% was sent to land fill. Major activities included the sale of Tyne engines to Brazil and Pakistan for £4M, the recycling of Ark Royal and Type 22 Frigates for £6M, and sales of various military spares through specialised contractors for £23M.

**7.30** The DSA is successfully operating a contract with Agility Logistics to conduct disposals in Afghanistan. It has also successfully started to market ammunition through Government to Government sales.

**7.31** The Weapons Operating Centre (WOC) disposed of over 8000 standard NATO pallets of life-expired or excess munitions from Defence Munitions depots. This included the Multi Launch Rocket System (MLRS) fired M26 cluster munitions that the Department was required to demilitarise by international convention.

## Defence Infrastructure

**7.32** The MOD is one of the largest landowners in the United Kingdom, with an estate of some 230,000 hectares, about 2% of the UK mainland. Some 73,000 hectares of this comprises a varied built estate including naval bases, airfields, living accommodation for military personnel, scientific facilities, storage and distribution centres, communications facilities and offices, making the MOD the UK's largest property manager. Reflecting the long history of the Armed Forces, the estate contains 815 listed buildings and over 700 scheduled monuments. The rural estate (some 157,000 hectares) comprises mainly training areas and ranges, on undeveloped land which is in places of particular environmental or archaeological significance. The MOD has rights to use a further 204,000 hectares in the UK, mainly for training. In addition, the MOD manages an overseas estate comprising the garrisons and training facilities in

Germany, Cyprus, the Falkland Islands and Gibraltar, as well as facilities in Ascension Island, Belize, Brunei, Nepal, Singapore and the United States. The Armed Forces regularly use major training facilities in Canada, Cyprus, Germany, Norway and Kenya. As at 31 March 2014 estate related Defence assets were valued at some £24.5 Bn.

## Defence Infrastructure Organisation (DIO) Transformation Programme

**7.33** To deliver the Defence Infrastructure Organisation (DIO) mandated SDSR outcomes a new organisation structure and business processes have been implemented and an Infrastructure Management System (IMS) is being rolled out through a series of phased capability releases. A number of IMS capabilities have already been deployed into the business with further released being designed, built and deployed during FY14/15 and FY15/16.

**7.34** The appointment of a Strategic Business Partner (SBP) to work with DIO has been a key element of the transformation programme. Three consortia submitted bids in June 2013 to address both unincorporated and incorporated SBP options while, in parallel, a Value for Money benchmark was developed. After conclusion of bid evaluation and the Investment Appraisal, the main gate business case was presented to the Investment Appraisal Committee in January 2014. The approvals process concluded in March and on 10 March 2014, Capita, who are working in conjunction with URS and PA Consulting, were announced as the preferred bidder. The Contract was signed on 3 June 2014, and the Contract Effective date started in September 2014, with the Partner beginning their role as the Executive Management Team of the Defence Infrastructure Delivery.

## The Footprint Strategy for Defence

**7.35** In 2010 the National Audit Office carried out a review of the Defence Estate concluding not only that substantial further reductions in cost should be sought but also that a more robust and systematic approach to estate rationalisation was required. In response DIO has established an Estate Strategy Team to take a structured approach to future estate rationalisation. A Footprint Strategy for the future lay-down of the Defence Estate is being developed, it reflects the revised Defence requirement under Future Force 2020 and includes enabling basing plans for both Regular and Reserve Forces, a

series of infrastructure optimisation studies and a comprehensive quantitative study of future service personnel accommodation, which is in progress.

## Future Force 2020 Basing

**7.36** The Army Basing Plan was announced by the Defence Secretary on 3 March 2013 following an extensive period of joint planning between the Army and DIO. The plan will deliver the infrastructure changes to match the Army 2020 force structure which entails its transformation into Reactive and Adaptable Brigades plus a number of Force Troops Brigades. The plan will simultaneously deliver the rebasing of 50% of the British Army from Germany by 2015 and the remainder by 2020, which will save Defence an annual figure from Germany costs building up to some £240M per annum.

## Reserves Basing Announcement

**7.37** The Reserves Basing Plan was announced by the Defence Secretary on 5 July 2013. This is complementary to the Regular Basing Plan and supports the transformation of the Territorial Army into the Army Reserve. For the first time, there is now a formal pairing and sharing arrangement between Regular and Reserve units with both elements falling under a single chain of command. Minor infrastructure changes will occur across the Maritime and Royal Auxiliary Air Forces with significant changes on the existing Army Reserve estate. The key driver of the new Future reserves structure is to support the growth and increased recruiting across the Reserves by 2018. As a consequence of the plan, a total of 51 Reserve Sites were declared 'surplus to requirement' consisting of 48 Army reserve and 3 Navy reserve sites. Steps will be taken to identify the future use or disposal of these sites once adequate provision has been made for any affected lodger units and cadets on those sites. The whole Reserve Basing Plan will take between now and 2018 to deliver at an estimated cost of £114M.

## Infrastructure Optimisation

**7.38** The Future Force 2020 Basing announcements made in the House in 2013 effectively set the baseline for future optimisation of the estate, largely in the 2020-2030 eras. As part of the Footprint Strategy, Infrastructure Optimisation propositions that may deliver military capability more efficiently or effectively are being identified and assessed. Project Initiation Documents (PIDs) for the first 11 propositions were reviewed in May 2014. Those with a robust value for money case are being assessed for affordability and priority against

the core programme. The propositions will enable requirement for the delivery of Future Forces 2020 and are likely to result in some reduction in estate holdings, increased utilisation of the remaining estate, and reduced running costs.

## Living Accommodation Strategy Review

**7.39** The Living Accommodation Strategy Review (LASR) is identifying the future baseline requirement for Service Personnel living accommodation (Single Living Accommodation (SLA) and Service Families Accommodation (SFA)) under Future Force 2020, and is assessing the extent to which the current Defence estate and planned capital investment in it will meet this future requirement. In so doing LASR is identifying areas of under and over supply; determining a baseline position against the extant Defence Accommodation Management Strategy (DAMS) 2009 targets; presenting indicative costed options on how demand and supply can be balanced and on how agreed targets for condition can be met and sustained; and is providing a baseline against which the New Employment Model (NEM) programme can model potential policy changes that could impact on demand in order to determine an updated set of Departmental policies that will deliver a balanced, affordable accommodation offer.

## Army Basing Programme

**7.40** The Army Basing Programme (ABP) is a key enabler of Army 2020. It facilitates Regular Army unit moves in support of the Army 2020 future operating model, designed around a Reaction Force that is ready for the most demanding scenarios and an Adaptable Force capable of engagement at home and overseas, both of which will be supported by specialist Force Troops. The ABP will provide a UK basing lay down that best supports the generation of military capability in an effective and efficient way whilst honouring the SDSR commitment to return all personnel from Germany by 2020 and deliver significant savings to the Department.

**7.41** Since the announcement of the plan last year there has been good progress in establishing the Programme. A formal Programme structure and delivery organisation has been established, with joint Army and DIO resourcing and participation. Detailed planning has continued on all aspects of delivery including engagement with relevant local authorities. In preparation for planned infrastructure work the Department has commenced environmental and habitat studies on

sites, undertaken almost 50 Assessment Studies to consider potential options for delivery, and started master planning and public consultation around Salisbury Plain. We have also undertaken the first enabling and early works, where possible taking advantage of other infrastructure plans and delivery, for example reconfiguring existing facilities to provide additional bed spaces on Salisbury Plain.

**7.42** Unit moves and structural changes in support of Army 2020 took place in 2013/14 continuing the drawdown from Germany and UK rebasing, for example the move of 7 Force Logistic Regiment from Bielefeld in Germany to Cottesmore as part of the Army's Preliminary Moves initiative. This and some internal unit moves within Germany meant we could close and hand back to the Federal authorities the Rheindahlen Military Complex in December 2013. Furthermore, following the move of 2 YORKS to Cyprus we were able to close Oxford Barracks, thereby completing the hand back of Münster Station in November 2013. By the end of 2013 Army personnel numbers in Germany had reduced from 20,000 in 2010 to 13,500. 22 unit and sub-unit moves took place in 2014. These were primarily UK to UK moves, some of which will enable a series of unit moves out of Germany in 2015.

## Next Generation Estates Contract

**7.43** The Financial Year 2013/14 has seen the Next Generation Estate Contracts (NGEC) continue to mature towards the contract award phase of the programme. The Regional & Nation Prime contracts (consisting of Regional Prime Scotland and Northern Ireland, Regional Prime Central, Regional Prime South East, Regional Prime South West, National Housing Prime and National Training Estate Prime) have completed their final tender evaluations. Approval of the Treasury Clearance Note and Main Gate Business Case was received from Chief Secretary to the Treasury on 23 April 2014. Contracts were awarded in May 2014. The NGEC team and DIO are working towards mobilisation and demobilisation of the new and existing contracts. The value of the benefits to be realised are likely to be greater than initially anticipated. Contracts have been awarded for the National Framework and Regional Framework East in November and December 2013.

## Sustainability of the Estate

**7.44** DIO is responsible for the policy and delivery of sustainable development across the estate infrastructure. DIO has continued to lead the way for MOD energy efficiency and sustainable practices during the Financial Year 2013/14. The MOD achieved a 15% estate energy reduction (2013/14) against a 2009/10 baseline. The Greening Government Commitment Target is to achieve a 25% reduction by 2015. Water consumption across the estate has been reduced by around 9% since 2009/10 against a 7% target thereby achieving the target early and waste generation has reduced by 13% against a 25% reduction target. The MOD has met the Government target to achieve 95% of its Sites of Special Scientific Interest in 'favourable' or 'recovering' condition. There are 74 MOD heritage assets currently included on the English Heritage 'At Risk' list; 22 have been removed since 2009.

**7.45** The MOD has also progressed against the Government Flexible Framework targets for embedding sustainable development within estate contracts and is addressing how it can report against the recently released reporting requirements under the Government Buying Standards. The MOD continues to lead across Government on its approach to assessing risks to the resilience of its estate from extreme weather events and climate fluctuations. It has a target to conduct climate impact risk assessments on 80 of its most critical and high risk priority operational sites by 2015, which it is on track to achieve (68 completed as at end of 2013/14). When complete the assessments create a risk register that manages and informs short to medium term estate maintenance, Business Continuity and longer term strategic planning.

## DIO Training Estate

**7.46** The DIO Training Estate supplies the majority of the military training areas, ranges and facilities for the Armed Forces in the UK, Germany, Canada, Kenya and Belize. The estate supports individual and collective training in support of operations and contingency readiness, as well as training for the Reserve forces, adventure training, cadets and the test and evaluation community. Wider government use of the training estate includes the territorial and national constabularies, as well as support to UK operations and national events such as the Olympics.

**7.47** DIO conducts a continuous review of the estate and reduced the UK capacity in Financial Year 2013-14 with the closure of four facilities and the re-provision of Tipner Ranges as part of the

Governments City Deal incentive for Portsmouth. Current rationalisation plans should see an estimated 12.5% reduction in holdings across the DIO training estate by 2020.

**7.48** With the major operations in Iraq and Afghanistan drawing to a close, there is an opportunity to take a more coherent strategic approach to the development of the DIO Training Estate, known as the Footsteps Strategy for the training estate. It is the means of working towards an affordable, sustainable and agile training estate, of the right size and quality, in the right place, in support of endorsed operational capabilities. The strategy will deliver a 10 year development programme designed to inform lifecycle replacement, basing requirements and the needs of the contemporary training environment. Preparations for the de-mobilisation of the VANGUARD contract are well in-hand. The next generation National Training Estate Prime will come into force on 1 November 2014 across the UK training estate.

**Soldiers from The First Regiment of Fusiliers conducting Company level attacks in purpose built villages scattered across Salisbury Plain Training Area.**



## Overseas Estate

**7.49** DIO continues to provide civilian Commercial and Facilities Management staff deployed in-theatre to support operations in Afghanistan and employs Royal Engineer personnel, alongside its civilian staff and Industry Partners, to ensure they have the necessary infrastructure experience and are at high readiness for deployment in support of expeditionary Air Operations. DIO was also instrumental in the handing back of the former British Forces Germany Joint Headquarters and the Rhine Military Complex 3 months early in December 2013 to the Federal German authorities.

## MOD Land Release

**7.50** The Government has set a target for land owned by central Government that has the capacity to deliver 100,000 new homes to be released within the Current Spending Review (CSR) period up to the end of March 2015. As a major landowning department, the MOD has agreed a target, as contribution to that overall ambition, to release land with the potential capacity to deliver over 37,634 new homes by the end of March 2015. 21,337 sites had been sold, 515 had transferred to the Homes and Communities Agency (HCA) with a further forecast of 18,704 units by the end of Financial Year 2014/15.

## Estates Disposals

**7.51** Receipts totalling £123M were achieved in the Financial Year 2013-14.

## Single Living Accommodation (SLA)

**7.52** There has been continued investment in SLA modernisation through Private Finance Initiatives, Project SLAM and other MOD funded projects. The modern standard for SLA for junior ranks provides single en-suite bed-sitting rooms configured in either six or eight person flats or hotel layout supported by additional communal space and utility rooms with laundry and kitchenette facilities. There are similar scales for more senior personnel. Against a cumulative target of 20,177 bed spaces, project SLAM delivered 20,571 bed spaces up to the end of 2013-14 which included 1,195 bed spaces delivered by the project during the course of the year.

## Service Family Accommodation (SFA)<sup>9</sup>

**7.53** The MOD controls 65,000 properties worldwide. Of these some 49,400 properties are in the UK and some 14,500 properties are on the overseas estate with the majority being held in Germany. SFA is owned in a variety of ways. In Germany almost all are leased from either the Federal Government or private owners, as is the case in remote overseas locations. However, in the other overseas bases most are MOD owned. In England and Wales, most properties are leased from Annington Homes Ltd (AHL). AHL own 39,106 properties in England and Wales that were purchased from the MOD in 1996 and leased back

<sup>9</sup> Official Statistics for 2014 were published by the MOD in July 2014.

for a period of 199 years. Most of the properties in Scotland and Northern Ireland are owned by the MOD. The draw-down of British Forces in Germany will require the progressive return of substantial numbers of properties to the Federal authorities with over 1,000 quarters at Wegberg and Rheindahlen already returned following the closure of the Rhine Military Complex. In Cyprus the final 46 houses in the 6-year programme to replace dilapidated 1950's vintage housing in the Western Sovereign Base Area with 269 earthquake-proof family quarters was completed one month early on 15 November 2013.

**7.54** Standard for Condition is used to determine the overall physical state of SFA, with Standard 1 being the highest and Standard 4 the lowest. Some 99% of the UK housing stock is in Good Condition (that is Standard 1 and 2 for Condition of those surveyed). In the UK there are only some 200 properties at Standard 3 (which have not been allocated from January 2012 onwards) and only 20 properties at Standard 4 (which are no longer allocated).

**7.55** A margin of empty properties is required to support the annual rotation of reassigned personnel, in particular peak demand in the late summer before the new school year, as well as periodic repair and upgrade of properties. The proportion of empty properties in the UK had been driven down from a high of 21% in March 2008 to 16% by March 2013. However, with the need to provide housing for families of the units relocating from Germany and within the UK under the Army Basing Programme (ABP), further disposals of surplus stock has been put on hold except for specific locations such as NI. In addition, with the redundancy programme currently in place the number of voids within the UK has continued to rise and is currently at 18%. It is expected that this will start to reduce from late 2014 onwards to the agreed 10% margin.

**7.56** £100M was allocated for the upgrade and improvement of UK property during 2013/14. This enabled some 650 properties to be upgraded to Standard 1 for Condition, with over 5,000 other SFA benefiting from further improvements such as new kitchens, bathrooms and double glazing. In 2012/13, the DIO funded a capital programme to purchase new SFA from local housing developers to improve further the condition of the housing stock, reduce reliance on costly substitute accommodation rented from the private sector and meet new housing requirements to support rebasing. DIO purchased 703 new properties across 11 locations at a total cost of £150M. All the properties were completed by March 2014 with the majority already occupied

by Service families. In addition, 18 new properties with modern features were built at Colchester. Plans to purchase or build additional SFA are well advanced to meet the overall requirement, including early unit moves in 2014 as part of the Army Basing Programme.

## Sale of GPSS, DSG, Spectrum and Marchwood

**7.57** As part of the Strategic Defence and Security Review, the Prime Minister announced in Parliament on 19 October 2010 the Department's intention to dispose of assets which are surplus or which do not need to remain in public ownership to contribute to Defence. As a consequence, the Department has announced plans to sell its interests in the Government Pipeline and Storage System (GPSS), and the land business of the Defence Support Group (DSG), and to grant a concession for the commercial operation of the Marchwood Military Port.

**7.58** The Energy Act 2013 conferred on the Secretary of State for Defence the right to sell or lease the GPSS, and to wind down the Oil and Pipelines Agency. The sale of the GPSS was formally launched on 17 July. Final bids for the purchase of the Defence Support Group have been received; one element, the Electronics and Components Business Unit will remain in public ownership. The Marchwood Invitation to Negotiate was issued on 19 September.

**7.59** In the 2013 Spending Review, the Government announced its intention to release at least 500 MHz of electromagnetic spectrum. The Department has identified two bands of spectrum for release, a total of 160MHz of bandwidth. The spectrum will be transferred to Ofcom during 2014-15 prior to sale, as the Department is not permitted to sell the asset direct. The sale is expected to be complete in 2015-16. As there is currently no reliable estimate of the value of this resource, nor of the economic benefits arising from its disposal, the Department has not recognised an asset in its Statement of Financial Position.

## Pension Liabilities

**7.60** The transactions and balances of the Armed Forces Pension Scheme (AFPS) (including the Gurkha Pension Scheme, the Non-Regular Permanent Staff Pension Scheme, the Reserve Forces Pension Scheme and other minor pension schemes covering locally employed personnel) and the Armed Forces Compensation Scheme are not consolidated in the financial statements. The funding for these schemes is voted separately by Parliament although the cost of administering the schemes fall to the MOD and is included in these accounts. The report and accounts of the AFPS are prepared separately and are available at:

<http://www.official-documents.gov.uk/document/hc1213/hc00/0039/0039.asp>

further information on Armed Forces pensions is available at

<https://www.gov.uk/pensions-and-compensation-for-veterans>

**7.61** The Department's share of the transactions and balances of other pension schemes to which employees belong (e.g. under Civil Service Pension (CSP) arrangements, the NHS Superannuation Scheme and the Teachers' Pension Scheme) is also not consolidated in the accounts; separate accounts are prepared for the schemes and details can be found on the following websites:

<http://www.civilservice.gov.uk/pensions>

<http://www.education.gov.uk/schools/careers/payandpensions>

<http://www.nhsbsa.nhs.uk/pensions>

**7.62** Other employees are members of smaller pension schemes: e.g. schemes for Locally Employed Civilians in Germany, Cyprus and Gibraltar; the Merchant Navy Ratings Pension Fund; the Commonwealth War Graves Commission Superannuation Scheme; and the Reserve Forces and Cadets Associations Pension Scheme; estimates of the assets and liabilities for these schemes are included in the financial statements and additional details are provided in Note 17 – Employee Benefits – Pension Schemes.

**7.63** Employer's contributions payable to the Armed Forces, Civil Service, NHS, Teachers' and other pension schemes have been charged to the Statement of Comprehensive Net Expenditure. Further information on the various pension schemes can be found in the Remuneration Report and at Note 3 – Staff Numbers and Costs.

## Payments to Suppliers

**7.64** The Department's invoices, with the exception of some payments to suppliers made by units locally, are paid through the Defence Business Services (DBS) organisation. In the period 1 April 2013 to 31 March 2014, the DBS paid 99.99% of all correctly submitted invoices within 11 calendar days. This contributed to the Department's overall performance of 99.99% over the 30 calendar day cycle ensuring a high level of compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998. £4,000 commercial debt interest was paid during this period (2012-13: Nil). From May 2010 all Government Departments were asked to pay 80% of invoices from suppliers within 5 working days. The Department, including its Trading Funds, achieved a performance of 95.42% against this target up to 31 March 2014.

## IFRIC 4 – Determining Whether an Arrangement Contains a Lease

**7.65** In preparing these accounts the MOD has not complied with paragraph 6.2.44 of the Government Financial Reporting Manual (FRoM), specifically the requirement to assess all its supplier arrangements to determine whether they are dependent on the use of specific assets and convey the right to use the assets. The assessments need to be made against criteria set out in the accounting standards as IFRIC 4 – Determining whether an Arrangement Contains a Lease. If these arrangements, particularly strategic procurement arrangements with key contractors, once reviewed are considered to be finance leases, the assets and offsetting liabilities associated with these contracts should be brought into the MOD Accounts.

**7.66** On the introduction of IFRS across Government in 2009-10, it was deemed too costly and time consuming to review the MOD's contracts within the timescales for the 2009-10 Accounts. The review was then further deferred beyond 2011-12 when it became apparent that a large number of major contracts would have to be renegotiated as a result of the outcome of the SDSR. The Department has conducted a review, with support from an external accountancy consultant, of its most significant contract arrangements where IFRIC 4 is likely to apply. This has confirmed that the Department has some lease type arrangements which are not currently recognised and cannot be accurately quantified. As a result of the complex,

resource intensive and costly practical issues identified by the review, the Department, has decided not to apply IFRIC 4 to existing contracts on the grounds that it does not represent value for money. The Department is considering further work in respect of the application of IFRIC 4 to new contracts which should provide wider benefits through improved financial management around supplier assets and this position is supported by HM Treasury.

**7.67** The Comptroller and Auditor General's (C&AG's) opinion on the financial statements will be qualified for as long as non-compliance with IFRIC 4 is considered to have a material impact on the accounts. As a result of the decision not to implement IFRIC 4 for legacy contracts MOD's accounts are expected to receive a qualified audit opinion for the foreseeable future.

## Environmental, Social, Community, Employee and Other Matters

**7.68** The *Business Plan 2011-15*<sup>10</sup> and the *Strategic Defence and Security Review*<sup>11</sup>, summarise senior managers' views of how the Department's work will realise the Defence Vision, and highlight relevant matters from the Comprehensive Spending Review. Specific aspects mentioned in the Arms Selection Board's Reporting Statement that are available on the MOD's section of the Gov.uk website are:

- **Social and Community Issues** – including sections covering current operations, cadet forces and support to veterans.
- **Environmental** – the MOD owns a large, varied and complex estate, with most of the UK's indigenous habitat types, exceptional biodiversity and some of the finest archaeological sites in the country. Further information on how the MOD is undertaking its responsibility for stewardship of the estate in the UK and overseas including links to Sanctuary, the annual MOD Conservation magazine, can be found at: <https://www.gov.uk/government/collections/sustainable-development-mod>
- **Sustainability** – the MOD's work to build security overseas is a key contributor to Sustainable Development. Internationally, the MOD works

<sup>10</sup> <https://www.gov.uk/government/publications/business-plan-2011-2015>

<sup>11</sup> <https://www.gov.uk/government/policies/providing-versatile-agile-and-battle-winning-armed-forces-and-a-smaller-more-professional-ministry-of-defence>

with other government departments to prevent or contain violence, protect people and institutions, build capacity and improve security in some of the most poorly developed regions and countries in the world. This work is essential for preventing further conflict, strengthening international peace and creating the conditions for sustainable development overseas. Further information can be found at: <https://www.gov.uk/government/collections/sustainable-development-mod>

- **Employees** – personnel related information can be found at: <https://www.gov.uk/government/organisations/ministry-of-defence/about/recruitment-and-statistical-information-including-staff-numbers> can be found at: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>
- **Performance Indicators** – Some details of MOD's performance are published as part of the Government's transparency initiative at: <http://transparency.number10.gov.uk/>
- **Contractual Arrangements** – the Department's contractual commitments under leases and service concession arrangements are detailed in Note 20 to the accounts. During 2013-14 the Defence Science and Technology Laboratory, the UK Hydrographic Office and Defence Support Group were Executive Defence Agencies financed by Trading Fund; they provided essential services to the Department. Information on defence procurement and payments to suppliers is available at: <https://www.gov.uk/government/organisations/ministry-of-defence/about/procurement>
- **Contingent Liabilities** – Details of Contingent Liabilities disclosed under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, and additional liabilities included for Parliamentary Reporting and Accountability are at Note 22 to the accounts.



**Jon Thompson**  
17 November 2014  
Accounting Officer

# Part Two – Directors’ Report

## Departmental Accounting Boundary

**8.1** As at 31 March 2014, the Department consisted of 7 (2012-13: 7) Top Level Budget (TLB) organisations. The TLB Holders are responsible for providing forces and support services required for a modern defence force; within the TLBs, there were 29 (2012-13: 29) reporting entities, known as management groupings, producing detailed management accounting information as part of in-year financial management, planning and budgeting processes. Accounting transactions are recorded at management group level for in-year management purposes but reporting for the annual financial accounts is based on Departmental and TLB level returns.

**8.2** The Departmental accounting boundary includes several Non Departmental Public Bodies (NDPBs), including advisory NDPBs, and a number of other bodies classified to the public sector by the Office of National Statistics. For the accounting statements, the NDPBs and other bodies, referred to as Arm’s Length Bodies (ALBs), are added to the Core Department to form the Departmental Group. The complete list of Arm’s Length Bodies is at Note 27 – Entities Within the Departmental Boundary.

**8.3** There are 3 (2012-13: 3) Executive Defence Agencies established as Trading Funds. The Trading Funds produce their own accounts and fall outside the Departmental Boundary. Further details are provided in: Note 10 – Financial Instruments, Note 25 – Related Party Transactions and on the following websites:

Trading Fund Website

Defence Science and Technology Laboratory (dstl)  
<http://www.dstl.gov.uk/>

UK Hydrographic Office (UKHO) <http://www.ukho.gov.uk/Pages/Home.aspx>

Defence Support Group (DSG) <http://www.dsg.mod.uk/default.asp>

**8.4** The Oil and Pipelines Agency and the NAAFI are Public Corporations, and are outside the Departmental Boundary.

## Directorships and Significant Interests

**8.5** Details of directorships and other significant interests held by Ministers are set out in The Register of Lords’ Interests and The Register of Members’ Financial Interests which are available on the UK Parliament website at: <http://www.publications.parliament.uk/pa/ld/ldreg.htm> for Ministers in the Lords and at: <http://www.publications.parliament.uk/pa/cm/cmregmem/contents.htm> for Ministers in the Commons.

**8.6** In accordance with Cabinet Office guidance, the MOD maintains a register of interest which records details of directorships and other significant interests held by senior managers in the Department. The Ministry of Defence Register of Interest is updated quarterly and a copy can be requested from HOCF-RegisterofInterest-mailbox@mod.uk.

**8.7** Details of Related Party Transactions, including those arising as a result of the interests of Ministers or Defence Board members, are listed at Note 25 – Related Party Transactions. The MOD works closely with many organisations in the charitable sector, and this can include representation on governing bodies, for example, The Secretary of State for Defence is trustee of Greenwich Hospital. The Department provides information (which reflects the Charity Commission’s guidance on conflicts of interest for charity trustees) to individuals who hold appointments in outside organisations where a conflict of interest might arise, or be perceived to arise.

## Sickness Absence Data

**8.8** The MOD is committed to the health and wellbeing of its staff and has a comprehensive sickness absence policy. During 2013-14 the average number of days for sickness absence was 8.2 days per employee.

## Personal Data Related Incidents

**8.9** The following tables set out details of the Department's personal data related incidents during 2013-14. An incident is defined as a loss, unauthorised disclosure or insecure disposal of personal data. Protected personal data is

information that links an identifiable living person with information about them which, if released, would put the individual at risk of harm or distress. The definition includes sources of information that, because of the nature of the individuals or the nature, source or extent of the information, is treated as protected personal data by the Department.

### Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioners Office in 2013-14

The Department's Chief Information Officer (CIO) has responsibility for setting strategy, policy and standards relating to information and for ensuring appropriate governance and monitoring. The CIO also oversees a risk-managed information assurance process.

Month of Incident	Nature of Incident	Nature of Data Involved	Number of People Potentially Affected	Notification Steps
April 2013	Loss of paper vetting information	Personal vetting details	7	ICO content; no further action required
April 2013	Loss of electronic medical information	UK Service personnel medical records	Unknown	ICO content; no further action required
Further action on information risk:		The Department will continue to monitor and assess its information risks in light of the events noted above in order to identify and address any weaknesses and ensure continuous improvement of its systems.		

### Summary of Other Protected Personal Data Related Incidents 2013-14

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	7
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	4
III	Insecure disposal of inadequately protected paper documents.	1
IV	Unauthorised disclosure.	3
V	Other.	-

## Sustainability Report

**8.10** Details of the sustainability report can be found at Annex E, the Departmental Sustainability Report is expected to be published towards the end of 2014.

## Auditor

**8.11** The financial statements of the Department and four of its Arms Length Bodies (ALBs) (the National Army Museum, the National Museum of the Royal Navy, the RAF Museum and the Royal Hospital Chelsea) are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000. The audit fees for this work are included at Note 5 to the accounts. The Department did not contract with its external auditor for any non-audit services.

## 8.12 Statement as to Disclosure of Information to Auditors

**8.13** So far as I, the Accounting Officer, am aware, there is no relevant audit information of which the Department's auditors are unaware, and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.



**Jon Thompson**  
17 November 2014  
Accounting Officer

# Part Three – Remuneration Report

## Remuneration Policy

**9.1** The Review Body on Senior Salaries (SSRB) provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration of senior civil servants and senior officers of the Armed Forces.

**9.2** The Review Body also advises the Prime Minister from time to time on the pay, pensions and allowances of Members of Parliament; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others, whose pay is determined by the Ministerial and Other Salaries Act 1975 (as amended).

**9.3** In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

**9.4** The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

**9.5** There is an established departmental procedure for the appointment of all Non-Executive Board Members (NEBMs). This requires a transparent recruitment and selection process, with appointment on merit, thus mirroring the Civil Service Commissioners' Recruitment Principles for permanent employees to the Civil Service. NEBMs appointed to the Defence Board receive a Letter of Appointment setting out, amongst other things, details of the agreed remuneration. NEBMs have the option to waive their remuneration.

## Performance and Reward

**9.6** Salary and reward for Permanent Secretaries is considered annually by the Permanent Secretaries' Remuneration Committee and, in common with that for other members of the Senior Civil Service (SCS), is subject to the rules and regulations imposed by the SSRB and the Cabinet Office. For the SCS below Permanent Secretary level, MOD implements its own pay and non-consolidated award arrangements within the Cabinet Office framework through an agreed pay strategy. Any non-consolidated award is based on a judgement of how well an individual has performed against their peers and awards are made to individuals judged to have made the highest in-year contribution to MOD's business objectives. There is no restriction on the nature of the contribution; the only requirement is that it benefits the Department or Defence more widely. Recommendations for awards – which are considered by moderation committees – must be linked to demonstrable evidence of delivery.

**9.7** The Department also employs a number of members of the SCS on Fixed Term Appointments. These individuals are externally recruited to fill specific roles where the Department does not already have the necessary skills in-house. They are employed on individual contracts which allow them a base salary and the opportunity to earn performance related awards, specifically linked to business and corporate objectives. They are expected to deliver substantial benefits to the Department both in terms of outputs, delivering change programmes and skills transfer. As with the rest of the SCS the awards paid to those on Fixed Term Appointments are non-consolidated and non-pensionable and are subject to rigorous scrutiny.

**9.8** All senior (2-star and above) military officers (except for: the Chief of the Defence Staff (CDS), Legal Branch 2-star officers, medical and dental officers and those in the Chaplaincy branches) are paid under the Performance Management and Pay System (PMPS). Depending on their performance, time in rank and position on the pay scale, individuals can be awarded a single increment or no increment, and progress accordingly up the incremental pay scale for their rank. The average value of one incremental rise under the PMPS is 2.6% of salary (2012-13: 2.6%).

**9.9** Whilst Non-Executive remuneration is not directly linked to performance, in part to avoid any suggestion that an employee/employer relationship exists, NEBM performance is kept under review. The aim of the reviews, which are informal, is to consider the impact of individuals on the performance of the board, recognise the contribution of the NEBM and identify ways this could be improved, and provide feedback.

## Senior Managers' Contracts

**9.10** Recruitment into the Civil Service is regulated by The Constitutional Reform and Governance Act 2010 which established the Civil Service Commission and requires selection in accordance with Recruitment Principles, which require appointments to be on merit on the basis of fair and open competition, but also include the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commission can be found at <http://www.civilservicecommission.org.uk/>.

**9.11** Unless otherwise stated below, the civilian officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

**9.12** The lead NEBM is appointed to the Defence Board for an initial period of three years, from a list of candidates recommended by the Cabinet Office and his/her appointment is approved by the Prime Minister.

**9.13** NEBMs are not employees and, therefore, do not have a contractual relationship with the Department; they are appointees who receive a Letter of Appointment setting out their role, period of appointment, standards and details of remuneration.

**9.14** The Chief of Defence Materiel was recruited on a four year fixed term appointment. Conditions covering termination of employment are set out in his contract of employment, which requires the individual to provide notice of not less than 6 months. The contract also provides for the opportunity to earn a non-consolidated performance award. In September 2014 a competition was announced for a new Chief Executive of the Defence Equipment and Support organisation. Applications were invited by 17 November 2014.

**9.15** The Chief of the Defence Staff and Vice Chief of the Defence Staff are appointed on the recommendation of the Secretary of State for Defence to the Prime Minister. Following the Prime Minister's agreement the final approval of the appointment lies with Her Majesty The Queen. Once selected the intention is that appointees hold the post for between 3 and 5 years.

## Management

**9.16** As part of work to transform Defence the MOD has created a smaller Defence Board. Chaired by the Secretary of State and including the Minister for the Armed Forces, the Defence Board is the main corporate board of the MOD, providing senior level leadership and strategic management of Defence, driving forward delivery and change. The following pages contain details of pay and pensions in respect of individuals who served as Ministers or members of the Defence Board during the financial year.

## Ministerial Salaries, Taxable Benefits and Pensions Benefits

(This section has been subject to audit)

9.17 Ministers who had responsibility for the Department during the year were:

	2013-14				2012-13			
	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to the nearest £1,000)	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to the nearest £1,000)
<b>Secretary of State for Defence</b> The Rt Hon Philip Hammond MP (from 15 October 2011)	68,169	Nil	25,000	93,000	68,827	Nil	25,000	94,000
<b>Minister of State for the Armed Forces</b> The Rt Hon Mark Francois MP** (from 7 October 2013) <i>Full year equivalent salary</i>	32,344	Nil	16,000	49,000	18,885 33,002	Nil	2,000	21,000
The Rt Hon Andrew Robathan MP** (to 6 October 2013) <i>Full year equivalent salary</i>	16,694 32,344	Nil	5,000	22,000	29,022 33,002	Nil	8,000	37,000
<b>Parliamentary Under-Secretary of State for Defence Personnel, Welfare and Veterans</b> Anna Soubry (from 7 October 2013) <i>Full year equivalent salary</i>	11,148 23,039	Nil	4,000	15,000	Nil	Nil	Nil	Nil
<b>Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy)</b> Dr Andrew Murrison MP (from 5 September 2012) <i>Full year equivalent salary</i>	23,039	Nil	8,000	31,000	13,560 23,697	Nil	6,000	20,000
<b>Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology)</b> Mr Philip Dunne MP (from 5 September 2012) <i>Full year equivalent salary</i>	23,039	Nil	Nil	23,000	13,560 23,697	Nil	Nil	14,000
<b>Parliamentary Under-Secretary of State and The Lords Spokesperson on Defence</b> The Lord Astor of Hever DL (from 26 May 2010)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

\*The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum less the contributions made by the individual. The real increase excludes increases due to inflation or any increases or decreases due to transfer of pension rights.

\*\*The remuneration for individuals holding more than one Ministerial appointment in the reporting years is the total for all appointments held and time served during those years; and is reported against the final appointment held.

**9.18** Ministers who, on leaving office, have not attained the age of 65 and are not appointed to a relevant Ministerial or other paid office within three weeks, are eligible for a tax free severance payment of one quarter of the annual salary being paid. No payments were made in 2013-14 (2012-13 – three).

## Ministerial Salary

**9.19** ‘Salary’ includes: gross salary; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; ex-gratia payments and any other allowance to the extent that it is subject to UK taxation.

**9.20** In respect of Ministers in the House of Commons, the Department bears only the cost of the additional Ministerial remuneration; the salary for their services as an MP - £66,396 pa with effect from 1 April 2013 (£65,738 pa with effect from 1 April 2012) and various allowances to which they are entitled, are borne centrally. The arrangements

for Ministers in the House of Lords are different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and shown in full above.

## Benefits-in-Kind for Ministers

**9.21** The monetary value of benefits-in-kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument.

## Ministerial Pensions

(This section has been subject to audit)

**9.22** The real increase in the value of the accrued pension compared to the 2012-13 value, is shown in italics (in bands of £2,500).

	Total Accrued Pension at Retirement as at 31 Mar 14 £000	CETV* at 31 Mar 13 or date of Appointment if Later £000	CETV* at 31 Mar 14 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
<b>Secretary of State for Defence</b> The Rt Hon Philip Hammond MP	5 - 10 <i>0 - 2.5</i>	72	103	18
<b>Minister of State for the Armed Forces</b> The Rt Hon Mark Francois MP	0 - 5 <i>0 - 2.5</i>	19	32	8
The Rt Hon Andrew Robathan MP (to 6 October 2013)	0 - 5 <i>0 - 2.5</i>	82	92	4
<b>Parliamentary Under-Secretary of State for Defence Personnel, Welfare and Veterans</b> Anna Soubry (from 7 October 2013)	0 - 5 <i>0 - 2.5</i>	9	14	3
<b>Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy)</b> Dr Andrew Murrison MP	0 - 5 <i>0 - 2.5</i>	5	13	4
<b>Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology)</b> Mr Philip Dunne MP	Nil	Nil	Nil	Nil
<b>Parliamentary Under-Secretary of State and The Lords Spokesperson on Defence</b> The Lord Astor of Hever DL	Nil	Nil	Nil	Nil

\*CETV – Cash Equivalent Transfer Value.

**9.23** Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended). Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF; this pension is not included in the table above. The accrued pension quoted is the pension the Minister is entitled to receive when they reach the age of 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

**9.24** The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change). Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of member contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.

**9.25** Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office from age 65. Pensions are revalued annually in line with changes in Pensions Increase legislation. From 1 April 2013 members pay contributions between 7.9% and 16.7% depending on their level of seniority and chosen accrual rate. The contribution rates will increase in April 2014. In line with reforms to other public service pension schemes, it is intended to reform the Ministerial pension Scheme in 2015.

## Defence Board - Salaries, Taxable Benefits-in-Kind and Pensions Benefits

9.26 During the year the following served as members of the Defence Board. (This section has been subject to audit)

	2013-14				2012-13					
	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total £000	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total £000
<b>Secretary of State for Defence</b> The Rt Hon Philip Hammond MP										
<b>Minister of State for the Armed Forces</b> The Rt Hon Mark Francois MP The Rt Hon Andrew Robathan MP										
<b>Permanent Under-Secretary of State</b> Mr Jonathan Thompson** (from 3 September 2012)	180 - 185	Nil	Nil	47,000	225 - 230	175 - 180	Nil	18,000	200-205	
<b>Chief of the Defence Staff</b> General Sir Nicholas Houghton GCB CBE ADC Gen** (from 18 July 2013) <i>Full year equivalent salary</i>	185 - 190 240 - 245	Nil	50,400	361,000	600 - 605	185 - 190	58,900	129,000	370 - 375	
General Sir David Richards GCB CBE DSO ADC Gen (now The Lord Richards of Herstmonceux) (to 17 July 2013) <i>Full year equivalent salary</i>	70 - 75 250 - 255	Nil	19,900	48,000	140 - 145	240 - 245	98,400	168,000	505 - 510	
<b>Vice Chief of the Defence Staff</b> Air Chief Marshal Sir Stuart Peach KCB CBE ADC BA MPhil DLitt FRAeS RAF (from 10 May 2013) <i>Full year equivalent salary</i>	160 - 165 175 - 180	Nil	47,500	(25,000)	180 - 185	Nil	Nil	Nil	Nil	

See the Ministerial salaries, allowances benefits-in-kind, pension benefits and total remuneration table above

See the Ministerial salaries, allowances benefits-in-kind, pension benefits and total remuneration table above

	2013-14					2012-13				
	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total £000	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total £000
<b>Chief of Defence Materiel</b>										
Mr Bernard Gray (from 4 January 2011)	220 - 225	45 - 50	26,000	88,000	385 - 390	215 - 220	Nil	31,200	47,000	295 - 300
<b>Director General Finance</b>										
Mr David Williams (from 3 September 2012) <i>Full year equivalent salary</i>	130 - 135	5 - 10	Nil	227,000	365 - 370	55 - 60 100 - 105	Nil	Nil	47,000	105 - 110
<b>Non-Executive Board Members</b>										
Sir Gerry Grimstone*** (From 15 September 2011)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Mr Graham Williams (From 21 December 2011)	15 - 20	Nil	Nil	Nil	15 - 20	15 - 20	Nil	Nil	Nil	15 - 20

\* The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less the contributions made by the individual. The real increase excludes increases due to inflation or any increases or decreases due to a transfer of pension rights.

\*\* The remuneration for individuals holding more than one appointment on the Board in the reporting years is the total for all appointments held and time served during those years; and is reported against the final appointment held.

\*\*\*Sir Gerry Grimstone has elected to waive the £15,000 fee to which he is entitled.

## Defence Board Salary

**9.27** Salary includes gross salary, taxable allowances and payment in lieu of untaken leave (if applicable). Any annual performance award paid is shown separately and is in respect of amounts paid in 2013-14 but based on performance in an assessment period ended prior to the start of the financial year. The payment of business expenses e.g. travel costs incurred on duty, is not part of salary and is not disclosed above.

## Defence Board Benefits in Kind

**9.28** For civilian members of the Board the figures for benefits-in-kind represent the taxable benefit attributed to individuals where an official car is available for private use (the benefit accrues even if the individual chooses not to make use of the car). For military Board members the figures disclosed as benefits-in-kind combine the taxable value in respect of their occupation of official residences and the value attributed to individuals for their private use of official cars. For the disclosed benefits-in-kind the Department has arrangements under which MOD pays the tax liability that would normally be paid by the individual; this liability is included in the figures quoted.

## Pay Multiples

**9.29** The following table contains details of pay multiples - the ratio between the highest paid Board member and the median remuneration of the workforce. Remuneration of the highest paid directors is based on annual equivalents, improving comparability from year to year where, for example, individuals serve for part of a year. A separate multiple has been calculated for the Armed Forces – comparing the Chief of the Defence Staff to the military pay median. The civilian multiple uses a median based on civil service pay i.e. it excludes staff who are paid under arrangements outside the Department's control, for example: medical personnel, fire fighters, police and teachers; it also excludes locally employed civilians overseas and agency staff covering permanent posts.

	2013-14	2012-13
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning military Board member in the table above.	£307,500	£342,500
Median total remuneration of Armed Forces personnel	£31,689	£31,987
Ratio	9.7	10.7
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian Board member in the table above.	£297,500	£252,500
Median total remuneration of civilian staff	£27,551	£27,299
Ratio	10.8	9.2

**9.30** The military pay ratio has decreased as a result of a reduction in the taxable benefit from private use of official cars by the highest paid military Defence Board member.

**9.31** The main factor in the increase to the civilian pay ratio is the payment, in 2013-14, of a taxable performance award to the highest paid civilian Defence Board member.

**9.32** In 2013-14 the remuneration of civilian employees ranged from £15,234 to £271,260 and no (2012-13, 2) civilian employees received remuneration in excess of the highest paid director.

## Defence Board - Pension Benefits

(This section has been subject to audit)

**9.33** Pension benefits for individuals who served on the Defence Board are set out below. The real increase in the pension, from 2012-13, and where applicable the real increase in the lump sum payment, are shown in italics.

	Total Accrued Pension at Retirement as at 31 Mar 14 £000	CETV at 31 Mar 13 or date of Appointment if Later £000	CETV at 31 Mar 14 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Secretary of State for Defence</b> The Rt Hon Philip Hammond MP	See the Ministerial pensions table above			
<b>Minister of State for the Armed Forces</b> The Rt Hon Mark Francois MP The Rt Hon Andrew Robathan MP	See the Ministerial pensions table above			
<b>Permanent Under-Secretary of State</b> Mr Jonathan Thompson	Pension <b>40 - 45</b> <i>2.5 - 5</i> Lump Sum <b>Nil</b>	<b>543</b>	<b>613</b>	<b>28</b>
<b>Chief of the Defence Staff</b> General Sir Nicholas Houghton GCB CBE ADC Gen (from 18 July 2013)	Pension <b>125 - 130</b> <i>15 - 17.5</i> Lump Sum <b>385 - 390</b> <i>45 - 47.5</i>	<b>2,775</b>	<b>3,299</b>	<b>578</b>
General Sir David Richards GCB CBE DSO ADC Gen (now The Lord Richards of Herstmonceux) (to 17 July 2013)	Pension <b>145 - 150</b> <i>0 - 2.5</i> Lump Sum <b>440 - 445</b> <i>5 - 7.5</i>	<b>3,903</b>	<b>3,989</b>	<b>80</b>
<b>Vice Chief of the Defence Staff</b> Air Chief Marshal Sir Stuart Peach KCB CBE ADC BA MPhil DLitt FRAeS RAF (from 10 May 2013)	Pension <b>90 - 95</b> <i>(0 - 2.5)</i> Lump Sum <b>270 - 275</b> <i>(2.5 - 5)</i>	<b>2,177</b>	<b>2,254</b>	<b>(39)</b>
<b>Chief of Defence Materiel</b> Mr Bernard Gray	Pension <b>15 - 20</b> <i>5 - 7.5</i> Lump Sum <b>Nil</b>	<b>147</b>	<b>222</b>	<b>49</b>
<b>Director General Finance</b> Mr David Williams	Pension <b>35 - 40</b> <i>10 - 12.5</i> Lump Sum <b>110 - 115</b> <i>30 - 32.5</i>	<b>395</b>	<b>568</b>	<b>143</b>
<b>Non-Executive Board Members</b> Sir Gerry Grimstone Mr Graham Williams	N/A N/A	N/A N/A	N/A N/A	N/A N/A

## Civil Service Pensions

**9.34** Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, or classic plus) or a 'whole career' scheme (nuvos). Classic, premium and classic plus are now closed to new members. These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under nuvos, classic, premium, and classic plus are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account). The accrued pensions quoted above are the pensions the members are entitled to receive when they reach 60 (nuvos 65), or immediately on ceasing to be an active member of the scheme if they are already 60 (nuvos 65).

**9.35** Employee contributions are salary related and range between 1.5% and 6.25% of pensionable earnings for classic and 3.5% and 8.25% for premium, classic plus and nuvos. Increases to employee contributions apply from 1 April 2014. Employer contributions are calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service; in addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service; unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

**9.36** The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but, where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

**9.37** Further details about the Civil Service pension arrangements, including pensions reforms e.g. the increases in contribution rates effective from 1 April 2014 can be found at the website [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)

## Armed Forces Pension Scheme (AFPS)

**9.38** From 6 April 2005, the Armed Forces Pension Scheme known as AFPS 05 was introduced for all new members of the Armed Forces; those in service before this date have been given the opportunity to transfer, from AFPS 75, to the new scheme. Both schemes are defined benefit, salary-related, contracted out, occupational pension schemes. The AFPS is non-contributory for members; the cost of accruing benefits are met by the employer at rates approximately equivalent to 42.8% for Officers and 30.8% for Other Ranks of pensionable pay for regular personnel. Members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the Armed Forces at or beyond either the Early Departure Point or the Immediate Pension Point. If a scheme member leaves before these points, they will be entitled to a preserved pension and related lump sum.

**9.39** Further details about Armed Forces Pensions can be found at the website <https://www.gov.uk/pensions-and-compensation-for-veterans>

## Cash Equivalent Transfer Value

**9.40** A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. For the senior civil servants and military members of the Defence Board the figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the AFPS or Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

## Real Increase in CETV

**9.41** This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

## Recent Ministerial Changes

**9.42** From July 2014 the Ministers responsible for the Department were:

Secretary of State for Defence  
The Right Honourable Michael Fallon MP

Minister of State for the Armed Forces  
The Right Honourable Mark Francois MP

Minister of State for Defence Personnel,  
Welfare and Veterans  
Anna Soubry MP

Parliamentary Under-Secretary of State and  
Minister for Defence Equipment, Support and  
Technology (including Defence Exports)  
Philip Dunne MP

Parliamentary Under-Secretary of State and  
Minister for Reserves  
Julian Brazier MP

Parliamentary Under-Secretary of State  
and the Lords Spokesperson on Defence  
Lord Astor of Hever DL

### Jon Thompson

Accounting Officer  
17 November 2014

# Part Four – Governance

## Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Ministry of Defence to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the Department (inclusive of its executive agencies) and its sponsored Non-Departmental and other Arm's Length Bodies, designated by order made under the GRAA by Statutory Instrument 2013 No. 488 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 27 to the accounts). The Annual Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the Departmental Group for the financial year.

In preparing the accounts, the Accounting Officer of the Department is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by Arm's Length Bodies;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed Jonathan Thompson, Permanent Under-Secretary (PUS), as Accounting Officer of the Ministry of Defence. The Accounting Officer of the Department has appointed some Chief Executives of its sponsored Arm's Length Bodies as Accounting Officers of those bodies. The Accounting Officer of the Department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department or Arm's Length Bodies for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

## Governance Statement

### 1. Introduction

This Governance Statement represents my assurance to Parliament that, as Accounting Officer, I am satisfied that the Department's finances are adequately controlled.

I delegate responsibilities within the MOD to control the Department's business and meet the standards required by the relevant regulatory authorities. The systems used to do this give me insight into the business of the Department and its use of resources, and allow the Defence Board to make informed decisions about progress against Departmental objectives, and if necessary to steer performance back on track.

As set out in Chapter 6 of the main report, the MOD has been undergoing significant internal change since 2011. This has strengthened and continues to strengthen the Department's corporate governance, risk management, and internal control frameworks by making it clearer who is responsible for what, ensuring that budget holders are held effectively to account, and by improving the quality of financial and other management information. At the heart of this change is the delegation to Top-Level Budget Holders of the responsibility for a range of activities that were previously performed centrally including financial planning for the equipment plan and manpower. I formally delegated a number of additional responsibilities to the Top-Level Budget Holders on 1 April 2013 and delegated further responsibilities for equipment and support matters on 1 April 2014. Whilst consistent with the principles of good governance, this level of change involves some risk to financial performance, compliance, and assurance as we make the transition. The Defence Board continues to monitor this process closely, including the associated risks, and has met all the Service Chiefs in the course of the year to discuss implementation; and it continues to take any necessary corrective action.

## 2. Governance Framework

The MOD's outputs during the reporting year were primarily delivered through the seven Top-Level Budget organisations. These comprise the core financial structure of the department and during 2013-14 consisted of:

- Navy Command
- Army Command
- Air Command
- Joint Forces Command
- Defence Infrastructure Organisation
- Defence Equipment and Support
- Head Office and Corporate Services

The Top-Level Budget Holders operate within a framework of responsibilities delegated by me. To assist me in assessing the adequacy of control arrangements across the Department, they submitted an annual statement of assurance, endorsed by their Management Board and in most cases by their Audit Committee.

Command and administration of the Armed Forces is vested, by Letters Patent, in the Defence Council, chaired by the Secretary of State for Defence, and beneath that in the three Service Boards, each chaired by a Minister. Membership of the Defence Council comprises all Defence Ministers, the executive members of the Defence Board – that is the Permanent Under-Secretary, the Chief of the Defence Staff, the Vice-Chief of Defence Staff, the Chief of Defence Materiel, and the Director General Finance – together with the Chief of the Naval Staff, the Chief of the General Staff, the Chief of the Air Staff, and the Chief Scientific Advisor.

The Chief of the Defence Staff is the Government's and the Secretary of State's principal adviser on military operations. He is responsible for the maintenance of military operational capability and for the preparation and conduct of military operations, including managing risks to their success. The Chiefs of Staff Committee is chaired by the Chief of the Defence Staff and is the main forum in which the collective military advice of the Service Chiefs is obtained on operational issues. As their head, and as the UK's strategic military commander, the Chief of the Defence Staff also chairs the Armed Forces Committee, which is designed to lead and direct the Armed Forces. The individual Service Chiefs also advise the Chief of the Defence Staff, the Secretary of State and, when required, the Prime Minister on the operational employment of the forces for which they are responsible.

The Department is also responsible for three Trading Fund Agencies, three Executive Non-Departmental Public Bodies (NDPBs), and one Public Corporation.

- The three MOD Trading Funds – the Defence Support Group (DSG)<sup>1</sup>, the Defence Science and Technology Laboratory (dstl), and the UK Hydrographic Office – fall outside the Departmental Accounting Boundary and their Chief Executives are Accounting Officers in their own right. Given their close integration into the MOD's business, potential impact on MOD outputs, and their extensive use of Departmental personnel and assets, their Chief Executives prepare Governance Statements for their Annual Accounts. Defence Internal Audit and representatives from Head Office are members of their Audit Committees and carry out an assurance role on my behalf before the Governance Statement is presented to the Chief Executive for approval. This process will escalate any issues to me, which if sufficiently material will be reflected in

<sup>1</sup> The Department intends to sell its interests in parts of the DSG, see paragraph 7.57 above.

this document. There were no such issues this year. In addition, a Departmental representative sits on the Trading Funds' Management Boards. Ministers, supported by an Owner's Council<sup>2</sup>, are responsible for setting the Trading Funds' top-level objectives, approving major business decisions including their Corporate Plans, and setting annual key targets.

- The three Executive NDPBs – the National Museum of the Royal Navy, the National Army Museum, and the Royal Air Force Museum – are sponsored by the Department and fall within the Departmental Accounting Boundary. They operate within a financial memorandum agreed between their respective Boards of Trustees and the MOD.
- The Public Corporation – the Oil and Pipelines Agency – is also sponsored by the Department, but this falls outside the Departmental Accounting Boundary and its Annual Accounts are published separately. We are currently considering selling the Government Pipeline and Storage System, which would result in the winding up of the Oil and Pipelines Agency. The Public Corporation has a Board of Directors on which the MOD is represented.

The Armed Forces Pension Scheme and the Armed Forces Compensation Scheme were administered by the Service Personnel and Veterans Agency (SPVA) throughout this reporting year. As detailed in Chapter 6, the SPVA was incorporated into the Defence Business Services organisation on 1 April 2014. Payments to eligible individuals under the Armed Forces Pension Scheme and Armed Forces Compensation Scheme fall outside the Departmental Accounting Boundary and have separate, published Annual Accounts for which I am also the Accounting Officer. The administration costs of both schemes and employer's contributions are within the scope of the Departmental Accounting Boundary and fall within the Head Office and Corporate Services Top-Level Budget.

I also appointed senior individuals as Defence Authorities (previously Process Owners) to ensure that activities in certain enabling business areas are carried out on a coherent and consistent basis across Defence and to manage corporate-level risks. They are responsible for maintaining or improving the overall effectiveness and efficiency of their processes – which include human resources, procurement, IT, finance, health services, logistics, and security – and also for ensuring compliance with relevant legislation and other external requirements; and reporting their assessment to me annually.

A Defence Authority is authorised to issue general direction concerning a specific area of defence activity and accountable for the associated internal controls. Their remit is articulated in a Defence Directive in each case. Defence Authorities are responsible for monitoring operating risks and performance & compliance relating to their areas of responsibility across the whole organisation and for escalating significant risks to the corporate-level risk system. They are also responsible for the ongoing development and improvement of related functions and services, including the efficiency, effectiveness, and coherence of the underpinning processes. The Defence Authorities are listed in the table below.

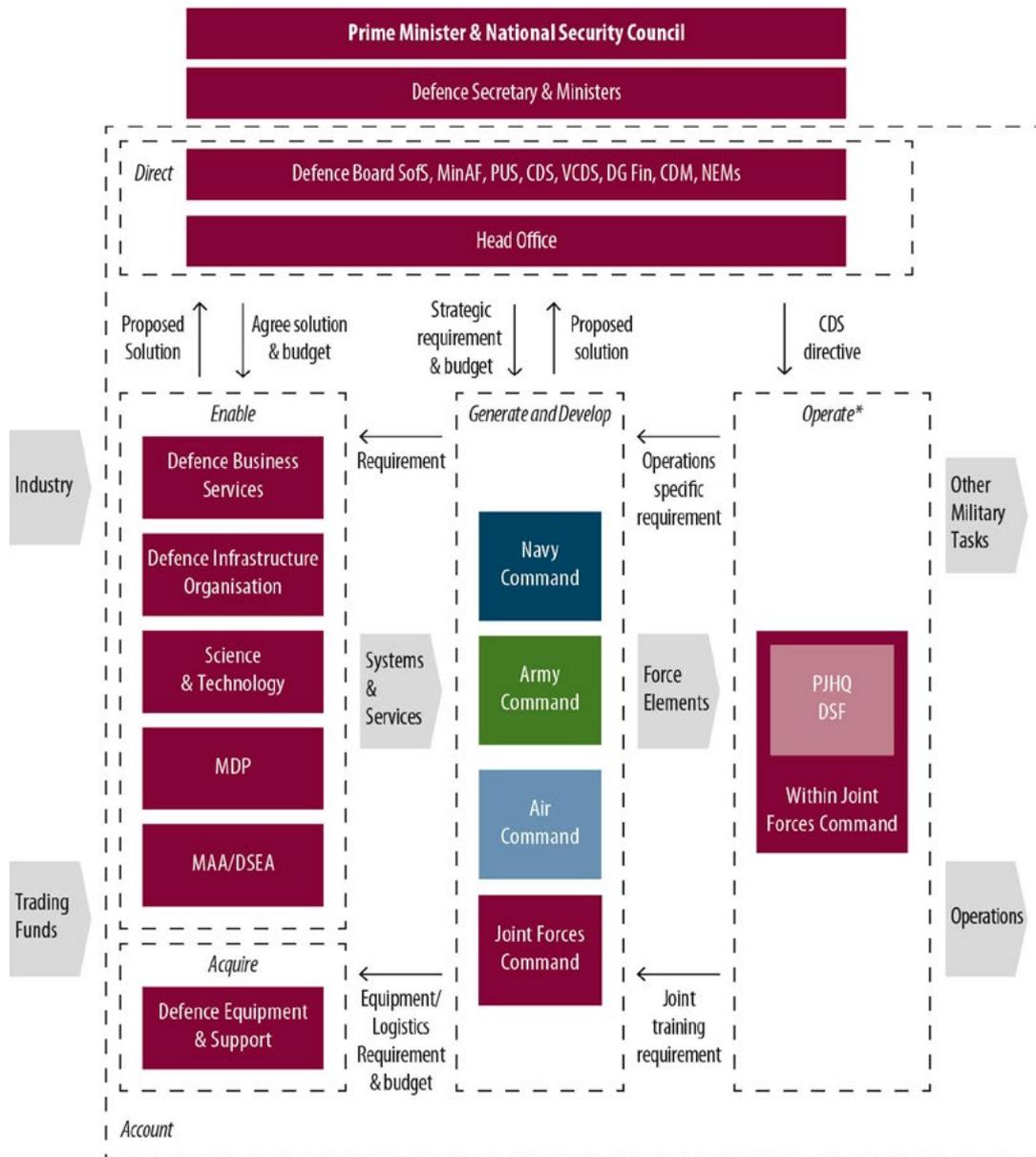
Function	Defence Authority
Corporate Design	Director Corporate Strategy
Financial Management & Approvals	Director General Finance
People	Chief of Defence Personnel
Acquisition System	Director General Head Office & Commissioning Services
Business Resilience	Director Business Resilience
Capability Coherence	Deputy Chief of Defence Staff (Military Capability)
Commercial	Director Commercial
Communications	Director Defence Communications
Health, Safety & Environmental Protection	Director Safety & Environmental Authority
Healthcare & Medical	Surgeon General
Information	Chief Information Officer
Cyber & C4ISR	Chief of Defence Intelligence
Logistics	Chief Executive of DE&S, supported by Assistant Chief of Defence Staff (Logistics Operations)

<sup>2</sup> The Defence Support Group has an Owner's Advisory Council.

Function	Defence Authority
Operations	Assistant Chief of Defence Staff (Operations)
Public & Parliamentary Accountability	Secretary of State's Chief Of Staff
Security	Director Business Resilience
Statistics	Chief Statistician
Technical & Quality Assurance	DE&S Technical Director

### The Defence Operating Model

The Defence Operating Model was initially introduced on 1 April 2013 and became fully operational on 1 April 2014. This is set out in more detail in the How Defence Works<sup>3</sup> and summarised in the diagram below.



<sup>3</sup>Subject to the outcome of the Review of the future governance of operations, FLCs remain required to provide a command function for the non-SF, operations/activities that lie outside JFC's remit

3 <https://www.gov.uk/government/publications/the-new-operating-model-how-defence-works>

The operating model is based on:

- simple structures
- fair and transparent delegation of responsibility to those best able to deliver
- strong organisational leadership, coupled with practical business skills
- a culture of innovation and efficiency, removing needless process and flushing out bureaucracy
- joined-up corporate thinking and behaviour, placing the best interests of Defence at the heart of our business

Much of the work to transform the MOD during the reporting year revolved around implementing the later stages of transition to the defence operating model and bedding down the new delegated arrangements, ensuring these working in practice from Head Office out to the frontline.

The initial changes needed to delegate capability planning and financial responsibility to the four Commands were made on 1 April 2013, with additional delegations made on 1 April 2014. New mechanisms were put in place to hold the Top-Level Budget holders and other senior responsible officers formally to account for performance against their plans.

The new Joint Force Command achieved full operating capability in April 2013. A competition was held to introduce a strategic business partner for the Defence Infrastructure Organisation (DIO) and the selected consortium began work on 1 September 2014. In December 2013, the decision was made not to continue with the competition to find a contractor to operate the DE&S as a GOCO and instead it was established as a bespoke central Government trading entity on 1 April 2014. Consequently new corporate governance of DE&S has been implemented with a non-executive chairman appointed in May 2014 and four non-executive Directors subsequently. Competitions have been run and contracts signed with three Managed Service Providers to support the new organisation to improve project management and human resources. A competition to recruit a Managed Service Provider to develop the financial management function and improve the quality of our management information will be launched later this year.

In December 2013, the Defence Secretary published Lord Levene's second annual review of progress in implementing his Defence Reform recommendations<sup>4</sup>, which recognised our good progress to date. Lord Levene said: *'My basic conclusion from last year's stocktake was that an encouraging start had been made in implementing Defence Reform. This year there is clear evidence that much of this early promise has come to fruition, and that substantial progress has been achieved in implementing both the letter and, more importantly, the spirit of my original recommendations'*. We continue to review the implementation of this model and will make improvements at intervals in the light of our experience.

The MOD published its Departmental Improvement Plan on 27 March 2014, which focuses on six themes:

- securing the benefits of the new Operating Model;
- Acquisition/Enablers Reform;
- Whole Force Concept and Force Restructuring;
- building Skills and Capabilities;
- Management Information; and
- efficiency.

We recognise these themes are interdependent; in particular, most are underpinned by the need to develop our people.

### **3. The Defence Board**

The Defence Board ensures that the Strategy for Defence and the current Defence Plan are carried out by using a corporate governance system that has two inter-related processes: performance & risk management and assurance.

<sup>4</sup> Defence Reform, Second Annual Review, 13 November 2013

The Defence Board is chaired by the Defence Secretary and comprises senior executive members of the Department, external independent members, and the Minister for the Armed Forces (who deputises when the Defence Secretary is not present). The five executive members are the Permanent Under-Secretary, the Chief of the Defence Staff, the Vice-Chief of Defence Staff, the Chief of Defence Materiel, and the Director General Finance. The Board has four positions for non-executive board members (NEBMs), one of whom acts as our lead non-executive. It meets every month (except August) and considers a range of topics as well as reviewing key performance indicators at each meeting.

I present an extensive monthly report to the Board, which provides an overview of key issues and activity since its last meeting and looks ahead to highlight issues that the Board will wish to address. Information presented covers finance, human resources, project management, health and safety, and external measures of performance. The Board also considers regular performance and risk reports against the Department's objectives and aims, as set out in the Defence Plan, on a longer cycle. This ensures that the Board has a view of progress against the delivery of the Government's priorities as set out in the Strategic Defence and Security Review, notably progress towards Future Force 2020, and enables the Board to provide timely direction and guidance.

The Defence Board is supported by three subcommittees:

- The Investment Approvals Committee (IAC) is responsible for considering major investment proposals on behalf of the Defence Board, in accordance with delegations from HM Treasury. On particularly expensive, complicated, innovative, risky or contentious projects, the IAC makes recommendations to Ministers. The IAC decides other cases itself or passes those decisions to a level consistent with the value or nature of the proposal. Authority for investment decisions for smaller projects is given to the Director of Resources in each TLB (each of whom reports to DG Finance as well as to their TLB holder). DG Finance chairs the IAC, taking decisions or making recommendations (or both) in light of their advice. The other members are the Vice Chief of the Defence Staff, Chief Executive of DE&S, Chief Scientific Advisor, Director Corporate Commercial, and Director Central Legal Services.
- The Defence Audit Committee (DAC) reviews and challenges the adequacy of internal controls and processes to deal with managing risk across Defence. The DAC is chaired by one of the NEBMs, supported by three other NEMs.
- The People Committee supports the Board in overseeing appointments and the processes for managing the careers of senior military officers and senior civil servants, including managing talent, behaviour, and incentives. The committee is chaired by one of the Defence Board's NEBMs, who is supported by PUS, CDS, and the Chief of Defence Personnel (CDP).

#### **4. The Board's Performance**

*Report on Board Effectiveness by Sir Gerry Grimstone, Lead Non-Executive*

This is my third statement for the Departmental Annual Report since my appointment as the Lead Non-Executive for Defence in September 2011.

The Defence Board met formally on nine occasions during the Financial Year, devoting time to the consideration of a wide range of strategic issues. Aply chaired by the Defence Secretary, it sits at the centre of decision-taking within the Department. Holding to a balanced budget whilst delivering state-of-the-art military capability has been a key priority for the Board. Our role is to help ensure that the defence of the United Kingdom and our ability to project power as and when required by the National Security Council are in good shape, not just now but for the years ahead.

Apart from our regular work reviewing capability and risk, some of the subjects the Board considered during the year included: the morale and well-being of Defence personnel (Military and Civilian) and workforce reforms for both; the Department's financial plans and capability requirements during the Annual Budgeting Cycle; cyber security; implementing the MOD's International Defence Engagement Strategy and the key visions and values that we should enshrine in our communications both internally and externally. The Board

also continued to oversee the Transforming Defence programme, and the transformation of the DE&S and DIO organisations into arms-length entities.

The standard of Management Information and the quality of papers the Board receives has improved steadily, helping us to focus on key issues and in turn speeding up our decision making. DSTL produced some analysis confirming this good news. DSTL has been working with the Secretariat over the past three years on a project to improve the Board's Evidence Based Decision Making (EBDM). It stated recently that "there has been considerable improvements in the Board's EBDM". Risk management and corporate governance are being strengthened throughout the Department as delegation from the centre continues to increase, and a pool of able Non-Executives has been recruited to fill vacancies in TLB Boards as and when they arise.

The Board has three sub-committees, Investment Approvals, Audit, and People. The Board receives a report at each meeting from the chair of each committee. The Investment Approvals committee, chaired by the Director General Finance, is responsible for scrutinising and advising on all major investment decisions, and continues to provide timely and robust challenge. The Audit Committee has had another good year under the very effective chairmanship of Graham Williams, who is also a member of the Defence Board. The Committee has continued to focus primarily on our assurance processes including the Defence Board's strategic risk register, conducting another thorough programme of work to support the Governance Statement that you will see elsewhere in the report. The People Committee met and confirmed that its main focus should be on the assurance of our appointments processes for succession planning and talent management as the new Peoples Board chaired by the Chief of Defence Personnel has taken over most of the Committee's previous responsibilities.

The Armed Forces Committee continues to function as a very effective body. Chaired by the Chief of the Defence Staff, and comprising the Vice Chief of the Defence Staff, the Single-Service Chiefs, and the Commander Joint Forces, assisted by the Permanent Under-Secretary and the Chief of Defence Materiel, it ensures that a clear, coordinated military voice is heard at the Defence Board.

The Board has continued to make good progress and improve on the foundations that my last review identified. During the year, connectivity with the Department has been greatly enhanced by the Board holding its meetings in various locations around the Defence Estate accompanied by Town Hall sessions with front-line staff both military and civilian. We have enjoyed doing this and the feedback has very been positive. We continue to explore what else we might do to help improve the Board's visibility and get our message across to the Department.

In conducting this year's Board Effectiveness Review, the Cabinet Office recommended that Government Departments should be assisted by an external independent source. Accordingly, I have been very grateful for the assistance provided by Sam Laidlaw, the Lead Non-Executive at the Department of Transport and CEO of Centrica plc. The key theme that has emerged from this year's exercise is that we continue to make good progress and improve, but the Board wants to do more. We need to be more diverse and a broader range of skills (particularly People) is needed in its Non-Executive membership. We are looking at ways to improve the flow of information between the Board and its sub-committees. We will be working with the Secretariat on agenda setting, to ensure that the Board considers the right strategic issues at the right time as we move towards the Strategic Defence and Security Review. We need to ensure that the Management Information we receive continues to improve, as well as the timeliness, quality and conciseness of Board papers. Focussing on strategic risks, socializing more outside of Board meetings, and improving Board induction and development are other areas we will concentrate on during the coming year. We are acknowledged as probably the most effective Departmental Board in Whitehall, and we are determined to maintain this position as well as continuing to improve our effectiveness.

During the year, Lord Levene undertook a stocktake on the MOD's progress two years on from the publication of his original report on Defence Reform. I am pleased to report that he acknowledged that "significant progress had been made to transform the MOD into a more professional and responsible organisation". In particular, Lord Levene described the balancing of our budget as "a remarkable achievement" and said "there was now clear evidence that MOD was more business-like and finance-focused". The Treasury also recognised our development in year, when it approved an increase in the MOD's delegated financial authority for approving major capital projects to the highest level for any Department in Whitehall.

Defence reform has become a reality. We will make sure that our accountability continues to improve, unnecessary bureaucracy is reduced, and Defence is operated in the most effective and efficient way possible.

## **5. Highlights of Board Committee Activities**

### **Defence Audit Committee (DAC)**

The DAC met eight times over the financial year. The minutes of each meeting were circulated to the Defence Board. The Chair of the DAC also presented regular oral updates. The DAC continued to focus its efforts on assessing how effectively the Department manages risk, concentrating on the fifteen Defence Board strategic risks. Owners of seven of the fifteen risks appeared before the Committee to answer questions on Business Resilience and Security; Service Personnel and Civilian Human Resources; Transformation; and Information Availability and Security.

It also considered the assurance reports produced by the TLB Holders, as well as independent assurance provided by Defence Internal Audit. TLB Holders or Directors of Resources were invited to appear before the Committee to answer questions on their reports. The HOCS TLB holder and Director Resources attended the Committee, as well as the Directors of Resources for Defence Equipment and Support (DE&S) and the Army.

The Committee also reviewed other potential risk areas for the Department including The Materiel Strategy, the setting up of the new DE&S organisation as an Arms Length Body, and acquisition reform; as well as looking at the programme for the merger of Defence Business Services and the Service Personnel and Veterans Agency. It also considered the Department's Action Plan in response to the Macpherson Review of Quality Assurance in Analytical Modelling.

The Department's new Corporate Governance Framework to improve control, risk management, and assurance was discussed by the DAC; and it also reviewed the MOD's Counter-Fraud Charter and new Whistle-Blowing Policy.

The DAC Chairman brought together the Non-Executive Chairs of the TLB Audit Committees three times this year to improve the flow of information from the DAC to its subsidiary bodies. Views were sought from the TLB Audit Committee Chairs on the Annual Report and Accounts and the Governance Statement, as well as seeking feedback on how delegation to TLB Holders, under the MOD's new Operating Model, was working. This provided an opportunity for the TLB Audit Committee Non-Executives to exchange views and learn from one another.

The DAC concluded that the quality of risk management was continuing to improve, although there were still areas that presented a number of challenges; not least the implementation of The Materiel Strategy and the setting up of the new DE&S organisation. On the Department's response to the Macpherson Review, the Committee considered that the Department had been proactive in its response and had helped to shape some of the recommendations. It was important that the Department continued to be proactive and to build its capability in this area. The DAC welcomed the introduction of the MOD's new Corporate Governance Framework, agreeing the new Defence Authority arrangements and the proposed approach to risk management.

Overall, the Committee concluded that the Department had made progress, but that it should continue to ensure that there was a stronger culture of compliance across the Department. It should focus on ensuring compliance in key areas and setting targets for delivery of improvements.

### **Investment Approvals Committee (IAC)**

The Chair of the IAC has provided regular oral updates to the Defence Board on its work.

The IAC considered a wide range of projects during the reporting year, including the Future Transport Aircraft A400M Atlas Support Solution, Defence Infrastructure Organisation Transformation, Defence Technical Training Change Project, Future Local Area Air Defence System (Maritime), Future Anti-Surface Guided Weapon, Lightning II, Submarine Enterprise Performance Programme, Land Environment Tactical Communication and Information Systems, and Next Generation Estates Contracts.

Overall, the IAC considered 109 investment approval cases for projects of individual value over £400M, including 26 Initial or Main Gate Business Cases. Of these Business Cases, six were approved and twenty were approved with caveats. The remaining 81 cases considered by the IAC related to Review Notes and Information Notes submitted by project teams.

### People Committee

The People Committee met on two occasions during the year. The Chair provided oral updates to the Board following each meeting. The Committee has reviewed its role at each meeting; first to decide if it had a role in providing more direction and guidance to the Chief of Defence Personnel (CDP); and second to decide if it had a wider strategic role in discussing workforce planning with any key issues going to the Defence Board.

After both discussions, the Committee concluded that there was already an established governance structure in place that CDP should use to inform the Defence Board of any strategic personnel issues. The creation of the new Defence People Board would allow consideration of service and civilian personnel issues to be brought together for action, wherever possible. It would be responsible for strategic workforce planning with any key issues taken to the Defence Board. It was therefore decided that the People Committee should revert to its original role in assuring the MOD's processes for succession planning and talent management. It was also decided that CDP should join the Committee as a permanent member.

The Committee has also discussed the implementation of the Joint Assured Model across Defence; reviewed the actions being taken to extend tour lengths for senior military and civilian personnel; and the talent management and succession planning processes. It also discussed Diversity & Inclusiveness and the new Defence Diversity Change Programme; and the age demographics of the civilian workforce.

The Committee concluded that it was content with the work done to implement the Joint Assured Model; that the succession planning and talent management processes continued to improve; that diversity was a key issue for the MOD and improvement was required; and further work was required on age demographics better to understand the issues and whether strategic action was required.

## 6. Compliance with Corporate Governance Code

I have reviewed the Department's compliance with the Corporate Governance in Central Government Departments: Code of Practice 2011 issued by the Cabinet Office in July 2011.

The Department complies with all of the requirements except:

- The Defence Board had two Non-Executive Board members (NEBMs) throughout the reporting year. This is in contravention of section 3.3 of the Code, which requires at least four. The Board also accepts that it needs to be more diverse and that a broader range of skills (particularly on People issues) is needed in its Non-Executive membership. We have now recruited a third NEBM, who took up his role in September 2014, and are conducting a recruitment campaign for the fourth member.

## 7. The risk and control framework

Active management of risk is fundamental to the effective achievement of Defence objectives and central to the way business is conducted within the Department. It informs operational decision making, contingency planning, investment decisions, and the financial planning process. The Department's overall approach to risk management is summarised in *How Defence Works*<sup>5</sup>. The detailed guidance underpinning it is currently being updated to reflect the corporate governance changes made as part of the delegated operating model. The risk management framework is cascaded down through Top-Level Budget Holders and available to all staff on the MOD's intranet. Individual training is available to all staff via the Civil Service Learning organisation and the Department's in-house training provider, the Defence Academy.

The Defence Board's main risk discussions during the reporting year were based on monitoring its previously identified 16 strategic risks and directing further studies into specific risks or aspects of them and associated actions. The complete list of strategic risks is not published for reasons of national security, but for 2013-14 it included the risks:

<sup>5</sup> <https://www.gov.uk/government/publications/the-new-operating-model-how-defence-works>

- that we do not have the right numbers of people with the right skills
- that we cannot generate future leadership
- that we do not retain the confidence and commitment of our people, causing them to leave
- surrounding the withdrawal from Afghanistan
- that Transforming Defence does not deliver the required ways of working
- to the delivery of operational capability
- to our information, including from cyber attack
- from a disruptive event, such as a flu epidemic or terrorist attack.

The strategic risks were reviewed and updated as part of the development of Defence Plan 14 and the new strategic risks are currently being finalised.

The Department's tolerance of risk varies between the different functions and areas of the Defence enterprise. Military operations inherently involve taking risks. The level of risk that Ministers agree to accept is based on advice from senior military officers and civilian officials. Every effort is made to provide personnel and assets with proper protection through planning, equipment, and training, but we ultimately rely on the judgement of Force Commanders to manage the risks on a day-to-day basis. On non-operational activities, the Defence Board receives regular reports on Finance, Personnel, Equipment Plan (including Investment Approvals), ICT, Information Rights and Parliamentary Business, Security, Business Continuity, and Health & Safety matters, alongside more general performance reporting.

Work continued throughout the year to strengthen the Department's risk management framework, as part of the transition to the defence operating model. In March 2014, the Defence Board agreed that the MOD's risk systems at corporate level and in the individual TLBs should converge on a single risk system over the next two years. The TLB Command Plans for 2014-15 contain more prominent risk statements that give a clearer explanation of the overall risk exposures that the TLB holders have identified and are managing. The Board has recently approved a more detailed quarterly risk report, which has more focused reporting on the longer-term strategic risks facing Defence and the shorter-term delivery risks to the current Defence Plan, as well as better visibility of the key risks being managed by the TLB Holders and, in future, the Defence Authorities.

The transformation of Defence since 2011, and in particular the transition to a delegated operating model from April 2012, involves an inherent risk that the scale of the changes involved will weaken compliance with and assurance of the Department's internal controls until the new arrangements are fully embedded. Some specific instances of this happening have been identified via internal audit this year and corrective action was taken. As part of the action to increase the focus on these issues, the MOD appointed a Director Audit, Risk, and Assurance in August 2014.

The Defence Audit Committee, which is chaired by a NEBM, reviews the Department's approach to internal control and provides independent advice both to the Defence Board and the Accounting Officer. The views of the Defence Audit Committee are set out at section 5 above.

Most Top-Level Budget Holders are supported by an Audit Committee or equivalent, which is chaired by a Non-Executive member and at which representatives from the internal and external auditors are present. Like the Defence Audit Committee, these committees focus their activities on providing advice on wider business risk and assurance processes. The Defence Audit Committee aims to meet with the Chairs of the Top-Level Budget Audit Committees at least once a year to seek their opinion on potential issues to be raised in this Governance statement.

An annual risk-based programme of internal audit is provided by Defence Internal Audit, which is the primary source of independent assurance. The audit programme is comprehensive and covers Department's strategic & operational risks and key operational processes.

Overall, the opinion provided by Head of Internal Audit for 2013-14 was 'limited assurance', the same as in 2012-13. In particular, Defence Internal Audit found that:

- in certain areas, policy and processes lacked clarity of rules combined with an absence of assurance requirements and inadequate management checks and management information

- the Department has defined an operating model in 'How Defence Works', but more work is required to define in detail the control and assurance framework to support it. Moving accountability away from the centre through the delegated model and to business partners further compounds risks to the Department
- the Department is undergoing considerable transformation, including a reduction in resources without an assessment on the impact on the control environment. In the case of the DIO, the reduction of resources has led to a weakening of the control environment
- TLBs are operating risk management systems to meet their needs and these have evolved separately and differ in many ways. Further work is required to move to a common enterprise risk management system
- weaknesses have been identified in a number of other areas, the most notable being in contract management, where further work is required to implement an effective end-to-end contract management process

The Head of Internal Audit also noted an improvement in the implementation of actions resulting from DIA audits. The number of cases where progress is assessed satisfactory had increased substantially from previous years.

I also draw assurance from a number of other bodies on specific issues, many of which concern safety and security. These include the Military Aviation Authority, the Defence Safety and Environment Committee, the MOD Police Committee, and the Defence Security Assurance Services.

The Department's external audit function is provided on behalf of Parliament by the Comptroller and Auditor General, supported by staff from the National Audit Office. As part of the assurance process, representatives from the National Audit Office see all Defence Audit Committee and Top-Level Budget Audit Committee papers and attend their meetings.

## 8. Significant Control Risks

### Update on Significant Control Risks reported last year

#### *Finance Skills in Defence Equipment and Support*

I reported last year that financial control within DE&S remained a concern, because of underlying skills shortages in the finance area. The DE&S became a bespoke trading entity on 1 April 2014, with significantly greater freedom in the way it recruits and retains staff. The competition to recruit a Managed Service Provider for the DE&S finance function will propose how that function should evolve within DE&S and provide improved access to the necessary finance skills. I expect these changes to strengthen significantly the capacity and capability of the DE&S finance function in 2015/16.

#### *Transforming Defence*

Last year, I reported concerns that structural changes being undertaken were leading to some lack of clarity in roles and responsibilities, particularly in business continuity. The specific steps undertaken during the year to address this concern have been largely successful; and, through the creation of the Defence Authorities and greater focus on assurance, the Department is re-establishing the necessary clarity more generally.

The Defence Board is continuing to manage proactively the risks arising from the volume of change underway in the MOD and the Armed Forces, through improved reporting arrangements and also through a programme of visits to the TLBs to meet both senior leaders and staff.

#### *Materiel Strategy*

Last year's report highlighted the significant risks and challenges posed by the novel approach to the procurement of military equipment being taken by The Materiel Strategy programme. In November 2013, the Defence Secretary informed the House of Commons that only one initial proposal had been received from the two consortia remaining in the process and in December he confirmed that he had decided not to continue with the competition. Instead, the Department is transforming DE&S further within the public sector, by setting it up as a bespoke central Government trading entity from 1 April 2014, supported by the injection of additional private sector resources through contracts for various Managed Service Providers.

### *Valuation of inventory*

In recent years the Department's Annual Accounts have been qualified in respect of the valuation of inventory and certain non-current assets in the form of capital spares. A sustained programme of work has been underway to tackle the underlying issues and the Department has put in place a systematic impairment review process to assess the value of write down required across all its inventory holdings. As a result, the Department has an unqualified audit opinion on its inventory and capital spares holdings as at 31 March 2014. I welcome the removal of the longstanding qualification, which is recognition of the work undertaken by the project teams in reviewing inventory holdings. The significant improvements that have been made to internal controls will be sustained as the Department continues to manage the challenges posed by the legacy systems in this area.

### **Significant Control Risks arising during the reporting year**

#### *Defence Infrastructure Organisation – Assets Under Construction*

In early 2014, the NAO identified concerns about the substantiation of the £2.7bn balance previously disclosed by the Defence Infrastructure Organisation as Assets Under Construction (AuC). The Defence Infrastructure Organisation subsequently worked to resolve these issues, by reviewing its asset records and the available information in respect of AuC projects. As a result of this work and the consequent adjustments to the underlying accounting records, there has been an improvement in the quality of management information on the Department's Estate. This work could not be completed in time to meet the original publication date for the Annual Report and Accounts in July this year, so publication was postponed until the Autumn. The work was subsequently extended further to allow more time to resolve the remaining issues and minimise the remedial action needed. The final outcome is an accounting write-off of £267M and adjustment to the Annual Accounts. This write-off has been approved as appropriate by HM Treasury and the adjustments have been subject to audit by the NAO. Furthermore, the controls issues identified through the audit process are providing a focus for further management action in 2014-15. Further refinement of the records will continue through 2014-15 and process improvements will be put in place to improve the quality of the control environment.

#### *Tax Arrangements of Senior Public Sector Appointees*

A key requirement introduced as a result of the Treasury's Review of the Tax Arrangements of Public Sector Appointees<sup>6</sup> is that departments must exercise governance over senior appointments where the appointees are not engaged directly on departmental payrolls. Each department therefore has an obligation to ensure that such appointees, particularly those earning over £220 per day for six months or more, are paying the appropriate amount of tax and National Insurance.

In its 2012-13 Annual Report and Accounts, the Department incorrectly stated that there were no such appointees in post. We have since discovered that there were in fact 101 such appointments in the relevant period. The error arose due to a misinterpretation of the scope of the new governance arrangements. Whilst the Department did undertake a review of such arrangements, it only looked at where the Ministry of Defence might have had a relationship with a consultant employed by their own specific limited company or personal service company. The Department had not sufficiently appreciated in 2012-13 that the requirement extended to any appointee who was not directly engaged on the payroll of the employing organisation. This brought appointees engaged through Contingent Labour framework contracts within scope as well.

The Department has now reviewed its arrangements in this area and is making improvements to ensure that such an error does not take place again. In particular, we are enhancing Departmental governance arrangements for all off-payroll appointments (including those at a more junior level) to ensure that such appointments are not normally made until a formal declaration of compliance with tax legislation has been received from the prospective appointee.

Furthermore, we are seeking retrospective assurance directly and individually from all of our senior off-payroll appointees (those earning over £220 per day for 6 months or more) that they are complying with the tax legislation for 2012-13 and 2013-14. We are currently verifying the evidence received and will terminate the contract of any appointee who fails to provide satisfactory evidence of tax compliance, as required. The

6 Cmd 8350, May 2012

current position in terms of the numbers of appointees who have provided assurance is shown in the table at paragraph 6.26 above.

### **Significant Control Risks identified for the current year**

#### *Suitably Qualified and Experienced Personnel (SQEP)*

The MOD and the Armed Forces depend upon a wide range of suitably qualified and experienced personnel to deliver Defence outputs. Ensuring we have sufficient numbers of suitably qualified and experienced personnel is a factor in a number of areas of concern at Board and TLB level. The Defence Board is continuing to take a close interest in both the short-term pressures on key skills and trades, known as 'pinch-points' (which are reported monthly), and the longer term viability of our arrangements to recruit and retain the people we will need in future. In particular, it is supervising the development and implementation of strategies to deal with these issues.

#### *Management Information (MI) and Information Systems*

Timely, accurate, and consistent management information is critical to the effective management of Defence. This also relies on a robust landscape of information systems and networks over which they work. The move to the delegated operating model has accentuated existing concerns about the robustness of the MOD's MI and information systems; and Lord Levene highlighted this issue in his second annual review of Defence Reform. There are also continuing concerns about the performance of specific information systems projects. Work continues to improve the situation including: refining the scope and quality of reporting to the Defence Board; the transfer of the ISS organisation out of DE&S and into the Joint Forces Command to consolidate all information services into a single organisation; appointment of a CIO at 3-star level during the year, and a specific review of ICT-related governance. A new Information Board was established, which I chair, to drive improvement in our performance. An initial assessment of the scale of the challenge to our systems and networks, with consequential impacts on MI, has been undertaken and it will take some years and investment to address this issue, which has built up over a number of years.

#### *Fuel Depots*

In its 2013-14 Accounts, the Oil and Pipelines Agency reported that it had been served with Enforcement Actions as a result of a historical lack of investment in both asset integrity and regulatory compliance, relating to the six Oil Fuel Depots based in the UK that it manages. Infrastructure improvements over the medium term should alleviate this risk, but I am taking a close interest in the short-term mitigation actions currently underway.

## **9. Conclusion**

I am satisfied that the mechanisms in place to identify and manage risks in the Department are adequate. The effectiveness of the Department's corporate governance is continuing to improve, as the turbulence from the major structural changes we have made diminishes further and the associated changes we have made to our control framework become more effective and embedded. The Defence Board's overall approach continues to mature, including a much sharper focus on risk, and I expect to see further benefits from the changes we are making as the delegated operating model itself matures.

**Jon Thompson**  
Accounting Officer

17 November 2014

# Part Five – Annual Accounts

## The Certificate of the Comptroller And Auditor General to the House of Commons

I certify that I have audited the financial statements of the Ministry of Defence and of its Departmental Group for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The Department consists of the core Ministry of Defence activities. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2013. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis for Qualified Opinion on Financial Statements

I have qualified my opinion on the financial statements in four respects:

The Department has not complied with the Financial Reporting Framework as it has not accounted for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17, *Leases*. Consequently, I have concluded that the Department has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2012, 31 March 2013 and 31 March 2014. This has also led to a material misstatement of the Statement of Comprehensive Net Expenditure for 2012-13 and 2013-14 and Statement of Parliamentary Supply for 2012-13 and 2013-14. I am unable to quantify the impact on the financial statements because the Department has not maintained the records or obtained the information required to comply with International Financial Reporting Standards in this respect.

In 2012-13 I qualified my opinion because I disagreed with the Department's accounting treatment for the impairment of its Germany estate. The Department charged £907 million of the total £1,504 million impairment against the revaluation reserve, but I considered the full amount should have been recognised as operating costs. My opinion on the 2013-14 financial statements is qualified in respect of the corresponding figures for 2012-13.

In 2012-13 I qualified my opinion in respect of the valuation of inventory and certain non-current assets in the form of capital spares recorded in the financial statements. During 2013-14 the Department performed an adequate impairment review and charged impairments of £860 million to the Statement of Comprehensive Net Expenditure. I have therefore been able to obtain sufficient, appropriate audit evidence to support the valuation of £6.4 billion of non-current asset Capital Spares and £3.3 billion of non-explosive inventory, held on inventory systems subject to previous qualification, at 31 March 2014. As a consequence of the prior qualification and the lack of evidence available to determine the point at which impairments have occurred I have been unable to obtain the necessary evidence to support the validity of the related charges of £860 million to the Statement of Comprehensive Net Expenditure in 2013-14. My opinion on the financial statements is also qualified in respect of the corresponding figures for the impairment charge in 2012-13 and the asset values at 31 March 2013.

## Qualified Opinion on financial statements

In my opinion, except for the effects of the matters described in the basis for qualification opinion paragraph:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2014 and of the Department's and Departmental Group's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder

My report, which follows, provides further detail of my qualified audit opinions on the financial statements.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Part One: *Strategic Report*; Part Two: *Directors' Report*; details of Directors in Part Three: *Remuneration Report* and Annex E: *Sustainable Development* of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

In respect of the absence of accounting records held by the Department to support the proper application of IAS 17; and the limitations on my work relating to in-year consumption of inventory and non-current asset capital spares, described above:

- I have not received all the information and explanations that I considered necessary for the purposes of my audit; and
- proper accounting records have not been maintained.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **Opinion on Votes A**

The Ministry of Defence's Votes A is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained for service with the armed forces. As reported in Annex G of the Annual Report, the maximum numbers maintained during 2013-14 for the Naval, Army and Air Force Services in all active and reserve categories were within the numbers voted by Parliament. I obtain evidence sufficient to give reasonable assurance as to whether the Votes A Statement as presented in Annex G properly presents the maximum numbers maintained against voted Parliamentary control totals and whether those totals have not been exceeded

In my opinion the Votes A Statement properly presents the maximum numbers maintained against voted Parliamentary control totals for the year ended 31 March 2014 and that those totals have not been exceeded.

**Sir Amyas C E Morse**

Date 21 November 2014

### **Comptroller and Auditor General**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

# Report of the Comptroller and Auditor General on the 2013-14 Accounts of the Ministry of Defence

## Introduction

1. The principal activity of the Ministry of Defence (the Department) is to deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism, and to act as a force for good by strengthening international peace and stability. In 2013-14 the Departmental Group incurred £37.5 billion of net operating costs and held assets of £129.7 billion and gross liabilities of £ 20.7 billion.
2. The Department is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FRoM) issued by HM Treasury. Under the FRoM, the Department is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

## The purpose of my report

3. This Report explains the basis for the qualification of my audit opinion on the Department's 2013-14 financial statements. This report also provides an update on the actions taken by the Department to address the issues identified in my Report on the 2012-13 Annual Report and Accounts<sup>1</sup> and follow up on the previous recommendations made in this area in earlier years.

## Accounting for lease type arrangements

### Basis of my qualification

4. I have qualified my opinion for a fifth year because the Department is likely to have omitted a material value of leased assets and associated liabilities from its Statement of Financial Position. I cannot quantify the impact of this on the accounts with certainty because, as a result of its accounting policies, the Department has not maintained the records, or obtained the information required to do so.

### Accounting requirements

5. The FRoM requires preparers of accounts to comply with International Accounting Standard (IAS) 17, Leases, to establish whether contracts contain lease-type arrangements and whether those are, in substance, either a finance or operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is any other type of lease. The classification made by preparers of accounts could have a significant impact on the financial statements.
6. If the contract is classified as a finance lease then the value of assets used to deliver the service would be recognised in the Statement of Financial Position alongside a liability for the minimum lease payments due under the contract. As an operating lease, no assets would be recognised and the payments made under the lease would be reflected in the Statement of Comprehensive Net Expenditure as spend is incurred.
7. I regard the accounting requirements for lease type arrangements as particularly relevant to the Department. The Department necessarily enters into strategic arrangements with certain contractors to procure specialist defence platforms on a non-competitive basis. These arrangements may provide for the exclusive, or near exclusive, use of industrial assets and capability which have only limited utility to other customers. Consequently, the contractual terms, which are covered by the Government Profit Formula and its Associated Arrangements (GPFAA)<sup>2</sup>, may give rise to the Department controlling the significant majority of the outputs of the supplier's assets involved in the arrangement. For example, where shipyards are used exclusively on defence contracts and the pricing of the contract recognises this by allowing recovery of fixed costs other than through market rate or unit cost pricing. These arrangements may be considered to contain a lease under IAS 17, Leases, and may have the characteristics of a finance lease.

<sup>1</sup> HC 38 2013-14 Ministry of Defence Annual Report and Accounts 2012-13

<sup>2</sup> The GPFAA, also commonly referred to as the Yellow Book, is agreed by Government and industry, as represented by the CBI, and is subject to periodic review by an independent review board.

## Action by the Department

8. The Department undertook an assessment of a number of contracts when IAS 17, Leases, was first adopted by the FReM in 2009-10. Based on the results of this assessment, the Department believed that there may be a number of contracts which would require accounting for and disclosure as leases. This review has continued and, to date, the Department has identified 25 contracts which demonstrate characteristics of a lease under IAS 17, Leases. Eight of these contracts were subsequently assessed as being finance leases, which, if recognised would lead to assets with an estimated initial net book value (for seven of the eight contracts) of some £860 million being recognised in the Department's Statement of Financial Position, the exercise also identified a number of sites where multiple MoD platforms or contracts were being supplied. The analysis undertaken by the Department confirms the material impact of IFRIC 4 although the quality of evidence is still insufficient for the purposes of my opinion.

9. In 2013-14, the Department has concluded that, in order to complete its review and conclude on whether the contracts it currently holds meet the criteria of a lease under IAS 17, Leases, further management information and supplier engagement would be required. As disclosed in its Annual Report and Accounts, the Department has, in agreement with HM Treasury, decided not to obtain more detailed information on the grounds that obtaining this would not represent value for money. Consequently, no conclusion can be drawn as to whether the existing contracts held represent leases and the financial impact of the omission of potential assets and liabilities cannot be determined with sufficient accuracy. This decision will have an ongoing impact on the audit opinion I am able to provide on the financial statements for the foreseeable future.

10. The Department is now considering further work in respect of the application of IAS 17, Leases, to new contracts; although no formal decision has yet been taken on this matter.

## Qualifications arising in 2013-14 relating to prior year comparative figures

### Inventory and non-current asset capital spares: basis of my qualification

11. I have qualified my opinion in relation to two aspects of inventory and non-current asset capital spares which stem from my previous qualifications in 2012-13. The Department has made a significant effort to provide sufficient evidence to support the year-end balance in respect of non-current asset capital spares and current asset inventories as at 31 March 2014, however I have limited the scope of my audit opinion in respect of:

- **2012-13 comparative balances:** I qualified my opinion on the 2012-13 balances of non-current asset capital spares (£7.2billion) and inventory (£3.3billion) and on the consequential charges made to the Statement of Comprehensive Net Expenditure in respect of inventory. In 2013-14, there was insufficient information to enable the Department to make a sufficiently robust prior period adjustment to restate these figures. Therefore, the comparative figures in respect of these balances and the related movements remain unsupported;
- **2013-14 inventory and capital spares impairment charges:** On circa £860million of the charges made to the Statement of Comprehensive Net Expenditure for 2013-14 in respect of in year impairment on inventory and capital spares. This is due to a lack of evidence to attribute the charge to the Statement of Comprehensive Net Expenditure for impairments genuinely arising from activity in year, and those impairments arising from an impairment event which should have been accounted for in prior years. The impairment review conducted by the Department in 2013-14 could not sufficiently evidence the period to which an impairment event might be attributed.

## Accounting for the impairment for the value of the Germany Estate: basis of my qualification

12. In 2012-13 I disagreed with the Department's accounting treatment to apply impairment in respect of the Germany Estate through the revaluation reserve, rather than as a charge to the Statement of Comprehensive Net Expenditure. Consequently in 2012-13, I considered the expenditure of the Department to be understated. I have therefore qualified my opinion to reflect the understatement of net operating expenditure by £907million in the comparative information for 2012-13. This qualification has no impact on the opinion given in respect of the charges made to the 2013-14 Statement of Comprehensive Net Expenditure.

## Progress on previous areas of qualification

### Valuation of Non-Current Assets and Inventory

13. I am satisfied the Department has provided a materially correct valuation of non-current asset capital spares and current asset inventory as at 31 March 2014. This is the first time the Department has had an unqualified audit opinion on its inventory and capital spares holdings since 31 March 2008.

14. The FReM requires that the Department adopts IAS 36, Impairment of Assets. Impairment reflects a permanent diminution in the value of an asset as a result of a clear consumption of economic benefits or service potential. In my opinion, in previous years the Department did not have a sufficiently robust and systematic process to assess impairment and the consequent impact on the valuation of certain non-current asset capital spares and inventory. The Department was therefore unable to provide me with sufficient evidence to support the valuation of these balances, resulting in a limitation of scope qualification in previous years.

15. In response to my previous reports, the Department implemented a systematic impairment review process. This included the introduction of a centrally co-ordinated impairment review. The Department's central review exercise covered a significant proportion of the assets held on its inventory systems, at over 60 per cent by value of inventory and capital spares previously subject to my qualification. In addition, Project Teams accounting for more significant values evaluated their remaining holdings, providing a further level of coverage, allowing my team to conclude that in year impairment charges were materially complete. As a result of the exercise and other impairment action taken in year, £860 million of net impairments were charged to the Statement of Comprehensive Net Expenditure in year. In addition, the Department continued to classify assets for disposal, resulting in further write-downs of £1.3 billion in 2013-14 as part of its ongoing rationalisation. A significant proportion of these asset disposals arise from the Department's improved focus on the principles underpinning the assessment of impairment and are a consequence of this work.

16. This centrally managed process meant that local reviews of inventory by project teams in the Defence Equipment and Support division were consistent, comprehensive and that the results were effectively collated. The Department commissioned its Defence Internal Audit function to perform an audit of the impairment exercise. Together with the results of my own testing and observations and review of the work of the Department's internal auditors to the extent necessary, I have obtained sufficient and appropriate audit evidence regarding the year end valuations. I have consequently removed my qualification of the value of these balances held on the Statement of Financial Position at 31 March 2014.

## Progress made against previous inventory qualifications

17. The removal of the qualification relating to the valuation of non-current assets and inventory is the last of a series of longstanding qualifications in this area. The Department has had a history of qualifications covering various aspects of the £15 billion of current and non-current assets held on its inventory systems covering, existence, completeness and valuations. As the final qualification is removed, I consider it an opportune time to consider the Department's progress and current position in respect of inventory.

18. Over the past five years, I have seen sustained improvements in accounting for assets held on inventory systems. In 2008-09, I limited the scope of my opinion due to significant inaccuracies in the recording of inventory on the warehouse management systems at the Department's non-explosives storage depots, which impacted on existence and completeness. In 2011-12, this qualification was lifted after the

Department made substantial improvements in its inventory checking and recording procedures at the depots. This year, my audit found that the gross book value of assets recorded on the warehouse systems at non-explosive depots was overstated by a most likely error of £108 million in gross book value terms, on a total gross book balance of £8.7billion. The Department's own internal processes to validate stock holdings showed an error rate of 0.32 percent against its stock records. This level of potential error in inventory systems demonstrates that the Department has sustained its efforts in establishing improved inventory control.

19. In 2009-10, I limited the scope of my opinion due to material unexplained discrepancies between the depot warehousing systems and the main accounting systems. The Department deployed significant resource to undertake quarterly reconciliations across the systems. This allowed me to conclude in 2011-12 that there were no further material discrepancies. This year, the reconciliation between the systems that caused the qualification in 2009-10, gave rise to a maximum estimated net overstatement of £12million of reported non-current asset capital spares and inventory. Given the complexity of these systems the reconciliation difference demonstrates the Department's continued attention on this key control to ensure that warehouse systems reconcile to the accounting records.

20. My value for money report, 'Managing the defence inventory' (HC 190 in 2012-13) also made recommendations aimed at helping the Department achieve value for money from its inventory management. These included the Department developing a coherent and comprehensive strategy for the size, value and composition of the inventory that it needs to retain; expanding its financial information and using it to improve cost-effective decision making; reducing the amount it spends each year on inventory where it already holds sufficient stocks; and setting up management and accountability structures that incentivise good inventory management. These developments are being taken forward in the Department's Materiel Strategy. The impairment exercise is an important part of the process for improving management information; however, there are some significant challenges which remain for the Department.

## Challenges ahead

21. **Systems:** Despite the significant improvements made by the Department over the last few years it still faces significant challenges in its management of and accounting for assets held on its inventory systems. The Department remains constrained by aging legacy warehouse and inventory systems which necessitate a high level of manual intervention to ensure data integrity, both within the inventory systems and the general ledger. The data held on these systems is critical to Project Teams who require it to effectively manage the Department's inventory holdings. The Department is continuing to focus significant resources on understanding the relationships and data flows within its inventory systems and consequential risks to data integrity. A new deployed warehouse management system has been rolled out across a significant proportion of deployed units and is improving visibility of inventory holdings. However, investment in the new Base Inventory Warehouse Management systems (BIWMS), which was to replace the remaining legacy systems, has been suspended while the Department re-assesses its user requirements. The full implementation of BIWMS was to be a significant step in enhancing the Department's ability to efficiently manage and control its inventory.

22. **Inventory checking procedures:** The results of my audit this year have identified isolated warehouse locations where there are significant inventory discrepancies under investigation by the Department. My findings were consistent with those identified by the Department's own stocktaking procedures. While these results were not material to my opinion it underlines the continued importance of controlling deployed inventory. This can be actioned most efficiently by focusing on checking of the highest value inventory items.

23. **Inventories held off system:** The Department's internal auditors noted that improvements are still required to the impairment consideration of off-system non-current asset capital spares and inventory holdings including assets in industry. Greater attention and focus needs to be given to off-system inventory and the assets the Department holds within industry. These represent areas where the Department can further enhance its processes and ensure that it invokes contract clauses more regularly to inspect and hold its contractors to account more actively.

24. **Changes to the business:** As announced by the Minister for Defence Equipment, Support and Technology on 5 June 2014, the Department plans to close the Dülmen depot in Germany in 2015. This

will require disposal or transfer back to the UK of £0.8billion gross book value of non-current asset capital spares and inventory. The Ministry of Defence closed a depot in Stafford in 2007 and I identified inaccuracies in the depot record which had a significant impact on the qualification of my 2008-09 audit opinion. The Department will need to ensure that it applies the lessons from the Stafford drawdown to the Dülmen transfer processes.

25. The Department is progressing the transformation of its Logistics and Commodities Services. It will need to ensure that, whatever arrangements are established, adequate controls are maintained in the depots to ensure accurate records are kept. Robust performance measures should be established for outsourced providers. In addition, the contracting mechanisms for outsourced providers should ensure that adequate management information is available and processes are in place to enable the Department to obtain the necessary assurance and evidence to support the balances in its statements.

26. **Embedding good practice:** The Department needs to ensure that it embeds the good practice in assessing the fair value of inventory items and that these principals become part of the normal course of business. Effective inventory planning and management are fundamental to this, allowing the Department to retain control and knowledge of inventory purchasing, usage, repair and disposal. The Department will need to ensure that, whatever arrangements are established in respect of the transformation of Defence Equipment and Support (DE&S), appropriate accountability, assurance and inventory management structures are maintained during the transition.

27. Notwithstanding these observations, the Department has made significant improvement to its processes. My audit will continue to monitor the Department's inventory systems and balances together with the implementation of the recommendations within my value for money report 'Managing the Defence Inventory'.

**Sir Amyas C E Morse**

21 November 2014

**Comptroller and Auditor General**

National Audit Office  
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# Statement of Parliamentary Supply

## Summary of Resource and Capital Outturn 2013-14

	Note	Voted £000	Non Voted £000	Estimate Total £000	Voted £000	Outturn Non Voted £000	Total £000	2013-14	2012-13
								Total £000	Total Outturn Compared to Estimate Saving / (Excess) £000
<b>Departmental Expenditure Limit</b>									
Resource	SoPS 2.1	37,798,415	-	37,798,415	36,448,453	-	36,448,453	1,349,962	35,874,176
Capital	SoPS 2.2	7,840,900	-	7,840,900	7,571,868	-	7,571,868	269,032	7,843,339
<b>Annually Managed Expenditure</b>									
Resource	SoPS 2.1	2,600,621	-	2,600,621	963,119	-	963,119	1,637,502	1,866,797
Capital	SoPS 2.2	50,000	-	50,000	(128,612)	-	(128,612)	178,612	(35,352)
<b>Total Budget</b>		<b>48,289,936</b>	<b>-</b>	<b>48,289,936</b>	<b>44,854,828</b>	<b>-</b>	<b>44,854,828</b>	<b>3,435,108</b>	<b>45,548,960</b>
<b>Non-budget</b>									
Resource		-	-	-	-	-	-	-	-
<b>Total</b>		<b>48,289,936</b>	<b>-</b>	<b>48,289,936</b>	<b>44,854,828</b>	<b>-</b>	<b>44,854,828</b>	<b>3,435,108</b>	<b>45,548,960</b>
Total Resource	SoPS 3.1	40,399,036	-	40,399,036	37,411,572	-	37,411,572	2,987,464	37,740,973
Total Capital		7,890,900	-	7,890,900	7,443,256	-	7,443,256	447,644	7,807,987
<b>Total</b>		<b>48,289,936</b>	<b>-</b>	<b>48,289,936</b>	<b>44,854,828</b>	<b>-</b>	<b>44,854,828</b>	<b>3,435,108</b>	<b>45,548,960</b>

## Net Cash Requirement 2013-14

	Note	Estimate £000	Outturn £000	2013-14 Outturn compared to Estimate: Savings/ (Excess) £000	2012-13 Outturn £000
Net Cash Requirement	SoPS 4	38,521,163	36,217,239	2,303,924	36,837,976

## Administration Costs 2013-14

	Estimate £000	2013-14 Outturn £000	Outturn compared with Estimate £000	2012-13 Outturn £000
Administration Costs	2,155,592	2,129,203	26,389	2,178,861

Further details of the Department's budget and expenditure are included in the Annual Report.

# Notes to the Statement of Parliamentary Supply (SoPS)

## SoPS Note 1. Statement of Accounting Policies

The SoPS and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The policies contained in the FReM are consistent with the requirements set out in HM Treasury's 2013-14 Consolidated Budgeting Guidance and their Supply Estimates Guidance Manual.

### SoPS 1.1 Accounting Convention

The SoPS and related notes are presented in the formats agreed between the Ministry of Defence and HM Treasury and are consistent with agreed budgetary controls and the MOD's detailed Supply Estimates as approved by Parliament.

The budgeting system and the consequential presentation of the Supply Estimates, the SoPS and related notes have different objectives to the Department's IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. It provides incentives to the Ministry of Defence to manage spending well so as to protect our national interests and provide the United Kingdom's ultimate guarantee of security and independence while offering value for money to the taxpayer.

### SoPS 1.2 Comparison with IFRS-based accounts

The following transactions are accounted for differently between the SoPS and the IFRS-based accounts. The SoPS figures are based on accounting treatments used to compile the National Accounts, which provide the aggregates used to monitor the mandate for fiscal policy and HM Treasury's objective for the management of the national debt. To meet the requirement for National Accounts the SoPS are compiled using the European System of Accounts; this differs from the International Financial Reporting Standards used when producing the financial accounts. The different accounting treatments used are set out below and in SoPS Note 3.1:

- movements in the value of local overseas pension scheme provisions, resulting from changes in discount rates, are treated as movements through reserves under IFRS but are included in the outturn for SoPS;
- adjustments are made in the IFRS accounts for certain Service Concession Arrangements treated as on-Statement of Financial Position (SoFP) for IFRS accounts but off-SoFP for SoPS;
- receipt of donated assets, donations treated as capital income, capital grant expenditure and the loss or gain on foreign exchange contracts in respect of capital purchases are treated as capital items in the SoPS. Under IFRS they score as income or expenditure in the Statement of Comprehensive Net Expenditure with no distinction made between capital and revenue items;
- Prior Period Adjustments (PPAs) resulting from an error in previous recording, or from an accounting policy change initiated by the MOD, need to be voted by Parliament in the current year, whereas in IFRS-based accounts (IAS 8) they are treated as adjustments to previous years. There have been no PPAs this year;
- receipts in excess of HMT agreement e.g. profit on disposal of assets, score outside budgets, and consequently outside the SoPS. IFRS-based accounts will record all of the income, regardless of the budgetary limit. There have been no receipts in excess of HMT limits this year; and
- provisions recognised in IFRS-based accounts are not recognised as expenditure for National Accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and National Accounts, additional entries are made in the SoPS across AME and DEL control totals; these do not affect the administration costs reported in the Statement of Comprehensive Net Expenditure. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply will differ from that reported in the IFRS-based accounts. A reconciliation is provided in SoPS Note 3.2.

## SoPS Note 2. Analysis of Net Resource and Capital Outturn

### SoPS Note 2.1 – Analysis of Net Resource Outturn

Spending in Departmental Expenditure Limits (DEL)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared to Estimate £000	2013-14	2012-13
							Total Net Outturn to Estimate Adjusted for Virements £000	Total Net Resource Outturn £000
<b>Voted Expenditure</b>								
A. Provision of Defence Capability - Service Personnel Costs	-	9,046,632	-	<b>9,046,632</b>	9,138,562	91,930	-	9,400,516
B. Provision of Defence Capability - Civilian Personnel Costs	-	192,110	-	<b>192,110</b>	173,804	(18,306)	-	200,829
C. Provision of Defence Capability - Infrastructure Costs	-	4,545,389	-	<b>4,545,389</b>	4,480,567	(64,822)	-	4,428,812
D. Provision of Defence Capability - Inventory Consumption	-	1,765,487	-	<b>1,765,487</b>	1,726,947	(38,540)	-	1,749,176
E. Provision of Defence Capability - Equipment Support Costs	-	6,065,557	-	<b>6,065,557</b>	5,933,100	(132,457)	-	5,161,399
F. Provision of Defence Capability - Other Costs and Services	-	1,790,894	-	<b>1,790,894</b>	1,963,320	172,426	-	1,500,622
G. Provision of Defence Capability - Receipts and Other Income	-	-	(1,169,263)	<b>(1,169,263)</b>	(1,215,381)	(46,118)	-	(1,248,867)
H. Provision of Defence Capability - Depreciation and Impairment Costs	-	8,911,223	-	<b>8,911,223</b>	9,966,464	1,055,241	<b>1,055,241</b>	8,958,447
I. Provision of Defence Capability - Cash Release of Provisions	-	175,030	-	<b>175,030</b>	210,693	35,663	-	203,010
N. Provision of Defence Capability - Research and Development Costs	-	971,008	-	<b>971,008</b>	963,940	(7,068)	-	944,069
Q. Operations - Service Personnel Staff Costs	-	108,909	-	<b>108,909</b>	145,102	36,193	<b>19,112</b>	197,449
R. Operations and Peacekeeping - Civilian Personnel Staff Costs	-	13,777	-	<b>13,777</b>	20,281	6,504	<b>6,504</b>	22,421
S. Operations - Infrastructure Costs	-	162,069	-	<b>162,069</b>	144,988	(17,081)	-	164,921
T. Operations - Inventory Consumption	-	395,649	-	<b>395,649</b>	455,485	59,836	<b>59,836</b>	562,911
U. Operations - Equipment Support Costs	-	345,016	-	<b>345,016</b>	423,756	78,740	<b>78,740</b>	427,032
V. Operations - Other Costs and Services	-	218,930	-	<b>218,930</b>	230,798	11,868	<b>11,868</b>	378,161
W. Operations - Receipts and Other Income	-	-	(26,764)	<b>(26,764)</b>	(24,782)	1,982	<b>1,982</b>	(27,686)
X. Operations - Depreciation and Impairment Costs	-	550,366	-	<b>550,366</b>	621,267	70,901	<b>70,901</b>	499,275
Y. Operations - Cash Release of Provisions	-	2,980	-	<b>2,980</b>	3,983	1,003	<b>1,003</b>	1,976
AB. Operations - Research and Development Costs	-	17,137	-	<b>17,137</b>	25,000	7,863	<b>7,863</b>	-
AC. Conflict Pools Resource Costs	-	49,988	(340)	<b>49,648</b>	55,792	6,144	<b>6,144</b>	44,009
AD. Arm's Length Bodies Costs	-	187,466	-	<b>187,466</b>	199,137	11,671	<b>11,671</b>	126,833
<b>Administration Costs</b>								
O. Administration Costs - Civilian Personnel Costs	2,112,064	-	-	<b>2,112,064</b>	2,132,325	20,261	<b>12,969</b>	2,100,182
Administration Costs - Provisions Costs	-	-	-	-	-	-	-	34,131
P. Administration Costs - Other Costs and Services	17,139	-	-	<b>17,139</b>	23,267	6,128	<b>6,128</b>	44,548
<b>Total Spending in DEL</b>	<b>2,129,203</b>	<b>35,515,617</b>	<b>(1,196,367)</b>	<b>36,448,453</b>	<b>37,798,415</b>	<b>1,349,962</b>	<b>1,349,962</b>	35,874,176

Spending in Annually Managed Expenditure (AME)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared with Estimate £000	2013-14	2012-13
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Resource Outturn £000
<b>Voted Expenditure</b>								
AE. Provision of Defence Capability - Depreciation and Impairment Costs	-	(208,143)	-	(208,143)	1,213,828	1,421,971	1,421,971	1,062,365
AF. Provision of Defence Capability - Provisions Costs	-	141,371	-	141,371	419,744	278,373	177,381	307,375
AG. Provision of Defence - Cash Release of Provisions Costs	-	(200,392)	-	(200,392)	(210,693)	(10,301)	-	(237,141)
AH. Movement on the Fair Value of Financial Instruments	-	368,147	-	368,147	277,456	(90,691)	-	(182,527)
AI. Operations - Provisions	-	6,152	-	6,152	7,500	1,348	345	10,884
AJ. Operations - Cash Release of Provisions Costs	-	(2,980)	-	(2,980)	(3,983)	(1,003)	-	(1,976)
AK. War Pensions Benefits Programme costs	-	858,964	-	858,964	896,769	37,805	37,805	907,817
<b>Total Spending in AME</b>	-	<b>963,119</b>	-	<b>963,119</b>	<b>2,600,621</b>	<b>1,637,502</b>	<b>1,637,502</b>	<b>1,866,797</b>
<b>Total Resource Outturn</b>	<b>2,129,203</b>	<b>36,478,736</b>	<b>(1,196,367)</b>	<b>37,411,572</b>	<b>40,399,036</b>	<b>2,987,464</b>	<b>2,987,464</b>	<b>37,740,973</b>

## SoPS Note 2.2 – Analysis of Net Capital Outturn

Capital Spending in Departmental Expenditure Limits (DEL)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Total Net Outturn Compared with Estimate £000	2013-14	2012-13
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Capital Outturn £000
<b>Capital – Voted Expenditure</b>								
J. Provision of Defence Capability - Capital Single Use Military Equipment (SUME)	-	4,455,379	-	4,455,379	4,519,000	63,621	63,621	4,395,170
K. Provision of Defence Capability - Other Capital (Fiscal)	-	3,037,505	-	3,037,505	3,201,332	163,827	40,291	3,008,738
L. Provision of Defence Capability - Capital Asset / Estate Disposal Costs	-	-	(43,573)	(43,573)	(161,137)	(117,564)	-	(63,685)
M. Provision of Defence Capability - Capital New Loans and Loan Repayments	-	(5,573)	-	(5,573)	(11,545)	(5,972)	-	(5,519)
Z. Operations Capital Single Use Military Equipment (SUME)	-	72,533	-	72,533	145,773	73,240	73,240	372,970
AA. Operations Other Capital (Fiscal)	-	53,070	-	53,070	144,669	91,599	91,599	132,636
AD. Arm's Length Bodies	-	2,527	-	2,527	2,808	281	281	3,029
<b>Total Capital Spending in DEL</b>	-	<b>7,615,441</b>	<b>(43,573)</b>	<b>7,571,868</b>	<b>7,840,900</b>	<b>269,032</b>	<b>269,032</b>	<b>7,843,339</b>

Capital Spending in Annually Managed Expenditure (AME)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Total Net Outturn Compared with Estimate £000	2013-14	2012-13
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Capital Outturn £000
<b>Capital - Voted Expenditure</b>								
Provision of Defence Capability - Provisions Costs (release)	-	(128,612)	-	(128,612)	50,000	178,612	<b>178,612</b>	(35,352)
<b>Total Capital Spending in AME</b>	-	<b>(128,612)</b>	-	<b>(128,612)</b>	<b>50,000</b>	<b>178,612</b>	<b>178,612</b>	(35,352)
<b>Total Capital Outturn</b>	-	<b>7,486,829</b>	<b>(43,573)</b>	<b>7,443,256</b>	<b>7,890,900</b>	<b>447,644</b>	<b>447,644</b>	7,807,987

## SoPS Note 3 Reconciliation of Outturn to Net Operating Cost and Administration Budget

### SoPS Note 3.1. Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	2013-14	2012-13
		Outturn £000	Outturn £000
Net Resource Outturn (Statement of Parliamentary Supply)	SoPS 2	<b>37,411,572</b>	37,740,973
Adjustment for changes in discount rates not passing through net operating costs		<b>(32,547)</b>	28,000
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts but treated as off-SoFP for Estimates and Budgets and therefore excluded from the resource outturn but included in operating costs		<b>109,635</b>	81,006
Income in respect of donated assets treated as capital income		<b>(4,300)</b>	(108,948)
Loss / (gain) on foreign exchange contracts in respect of Capital purchases		<b>20,675</b>	56,584
Adjustment for impairments and impairment reversals included in resource outturn but not passing through Net Operating Cost	SoCITE	<b>(15,404)</b>	(24,931)
Add capital grants included in operating costs but excluded from resource outturn	SoPS 2.2	<b>2,527</b>	3,029
Write on of capitalised provision not passing through Resource outturn	SoCNE	-	(71,466)
<b>Net Operating Cost</b>		<b>37,492,158</b>	37,704,247

## SoPS Note 3.2 Outturn Against Administration Budget and Administration Net Operating Cost

	Note	2013-14 £000	2012-13 £000
Estimate - Administration Cost Limit		2,155,592	2,325,133
Outturn - Administration Costs	SoPS 2.1	2,129,203	2,178,861
Less release of early retirement provisions	18	(25,362)	(34,131)
<b>Administration Net Operating Costs</b>	SoCNE	<b>2,103,841</b>	<b>2,144,730</b>

Administration costs consist of the costs of civilian staff, excluding: health care professionals, movement on provisions and staff working in operational areas (including Royal Fleet Auxiliary personnel) such as Afghanistan plus the cost of external assistance such as support for: strategic, financial, IT, technical and organisational change & management, and legal services but excluding costs relating to the Transformation Programme. The Armed Forces are excluded from the Administration Cost Regime as are the ALBs. The cost of civilian redundancies and early release schemes is included in Administration costs.

## SoPS Note 4 Reconciliation of Net Resource and Capital Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net Total Outturn Compared with Estimate: Savings / (Excess) £000
Net Resource Outturn	SoPS 2.1	40,399,036	37,411,572	2,987,464
Net Capital Outturn	SoPS 2.2	7,890,900	7,443,256	447,644
Adjustments for Arm's Length Bodies (ALBs):				
Remove voted outturn (Resource and Capital)		(201,945)	(189,993)	(11,952)
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		184,409	190,184	(5,775)
Adjustments to remove non-cash items:				
Depreciation and other non cash movements		(12,079,015)	(9,724,711)	(2,354,304)
New provisions and adjustments to previous provisions		(427,244)	(118,095)	(309,149)
Adjustments to reflect movements in working capital				
Increase / (Decrease) in Inventory		710,280	87,036	623,244
Increase / (Decrease) in Receivables		604,881	(63,072)	667,953
(Increase) / Decrease in Payables		1,275,185	977,906	297,279
Use of provisions		164,676	203,156	(38,480)
<b>Net Cash requirement</b>		<b>38,521,163</b>	<b>36,217,239</b>	<b>2,303,924</b>

# Statements of Comprehensive Net Expenditure (SoCNE)

for the year ended 31 March 2014

	Note	2013-14		2012-13	
		Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
<b>Administration Costs</b>					
Staff costs	3.2	2,086,702	2,086,702	2,100,182	2,100,182
Other administration costs	4	17,139	17,139	44,548	44,548
<b>Total administration costs</b>		<b>2,103,841</b>	<b>2,103,841</b>	<b>2,144,730</b>	<b>2,144,730</b>
<b>Programme Costs</b>					
Staff costs	3.2	9,398,828	9,484,896	9,836,452	9,923,254
Other programme costs	5	27,187,820	27,149,210	27,157,011	27,130,692
<b>Gross programme costs</b>		<b>36,586,648</b>	<b>36,634,106</b>	<b>36,993,463</b>	<b>37,053,946</b>
Operating income	6	(1,200,667)	(1,245,789)	(1,380,212)	(1,494,429)
<b>Net programme cost</b>		<b>35,385,981</b>	<b>35,388,317</b>	<b>35,613,251</b>	<b>35,559,517</b>
<b>Net operating cost</b>	SoPS 3.1	<b>37,489,822</b>	<b>37,492,158</b>	<b>37,757,981</b>	<b>37,704,247</b>

## Other Comprehensive Expenditure

	Note	2013-14		2012-13	
		Core Department £000	Departmental Group £000	Restated Core Department £000	Restated Departmental Group £000
Net (gain) / loss on revaluation of property, plant and equipment	SoCITE	(794,504)	(806,499)	(1,212,634)	(1,201,915)
Net (gain) / loss on revaluation of intangible assets	SoCITE	2,028,442	2,028,442	(314,067)	(314,067)
Net (gain) / loss on revaluation of assets held for sale	SoCITE	54,166	54,166	115,591	118,589
Net (gain) / loss on revaluation of inventories	SoCITE	(242,272)	(242,272)	(168,590)	(168,590)
Net (gain) / loss on pensions	SoCITE	34,207	34,304	28,098	31,305
Impairments / (Impairment Reversals) not included in operating costs	SoCITE	15,404	15,404	24,931	24,931
Transfer between reserves and asset (writes-on) / writes-off	SoCITE	(13,570)	28,368	(4,465)	(37,734)
<b>Total Other Comprehensive Expenditure</b>		<b>1,081,873</b>	<b>1,111,913</b>	<b>(1,531,136)</b>	<b>(1,547,481)</b>
<b>Total Net Comprehensive Expenditure</b>		<b>38,571,695</b>	<b>38,604,071</b>	<b>36,226,845</b>	<b>36,156,766</b>

Notes 1 to 28 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

# Statements of Financial Position (SoFP)

as at 31 March 2014

	Note	31 March 2014		31 March 2013	
		Core Department £000	Departmental Group £000	Core Department* £000	Departmental Group* £000
<b>Non-current assets</b>					
Intangible assets	7	24,918,012	24,918,012	27,418,111	27,418,111
Property plant and equipment	8	92,330,873	93,091,214	91,518,899	92,277,442
Financial assets		103,102	103,102	136,404	136,404
Receivables due after more than one year	14	714,679	914,801	422,227	604,857
<b>Total non-current assets</b>		<b>118,066,666</b>	<b>119,027,129</b>	<b>119,495,641</b>	<b>120,436,814</b>
<b>Current assets</b>					
Financial assets held for sale	9.6	1	60,823	1	105,396
Non-current assets held for sale	12	51,575	51,575	41,508	41,508
Inventories	13	7,291,500	7,300,096	7,576,987	7,585,586
Trade and other receivables	14	2,201,126	2,210,261	2,843,978	2,859,040
Financial assets		58,448	58,448	167,436	167,436
Cash at bank and in hand	15	930,897	1,013,971	1,785,834	1,851,149
<b>Total current assets</b>		<b>10,533,547</b>	<b>10,695,174</b>	<b>12,415,744</b>	<b>12,610,115</b>
<b>Total assets</b>		<b>128,600,213</b>	<b>129,722,303</b>	<b>131,911,385</b>	<b>133,046,929</b>
<b>Current liabilities</b>					
Trade and other payables due within one year	16	(9,253,283)	(9,314,776)	(10,732,080)	(10,792,423)
Financial liabilities	9.6	(305,189)	(305,189)	(68,147)	(68,147)
<b>Total current liabilities</b>		<b>(9,558,472)</b>	<b>(9,619,965)</b>	<b>(10,800,227)</b>	<b>(10,860,570)</b>
<b>Non-current assets plus net current assets</b>		<b>119,041,741</b>	<b>120,102,338</b>	<b>121,111,158</b>	<b>122,186,359</b>
<b>Non-current liabilities</b>					
Provisions	18	(4,523,551)	(4,530,802)	(4,702,960)	(4,863,339)
Other payables	16	(6,370,087)	(6,541,013)	(5,907,499)	(5,907,525)
<b>Total non-current liabilities</b>		<b>(10,893,638)</b>	<b>(11,071,815)</b>	<b>(10,610,459)</b>	<b>(10,770,864)</b>
<b>Assets less liabilities*</b>		<b>108,148,103</b>	<b>109,030,523</b>	<b>110,500,699</b>	<b>111,415,495</b>
<b>Taxpayers' equity and other reserves</b>					
General fund	SoCITE	86,509,376	86,509,376	85,179,244	85,179,244
Revaluation reserve	SoCITE	21,638,727	21,638,727	25,321,455	25,321,455
<b>Taxpayers Equity</b>		<b>108,148,103</b>	<b>108,148,103</b>	<b>110,500,699</b>	<b>110,500,699</b>
Arm's Length Bodies restricted reserves	SoCITE	-	172,285	-	176,743
Arm's Length Bodies unrestricted reserves	SoCITE	-	710,135	-	738,053
<b>Total Arm's Length Bodies' reserves</b>		<b>-</b>	<b>882,420</b>	<b>-</b>	<b>914,796</b>
<b>Total taxpayers' equity and other reserves</b>		<b>108,148,103</b>	<b>109,030,523</b>	<b>110,500,699</b>	<b>111,415,495</b>

\*The value of assets and liabilities accounted for under leases is understated because contracts, particularly strategic procurement arrangements with key contractors, have not been assessed under IFRIC 4; further details are at Notes 1.41 to 1.44 to the accounts

Jon Thompson  
Accounting Officer

17 November 2014

Notes 1 to 28 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

# Statements of Cash Flows (SoCF)

for the year ended 31 March 2014

	Note	2013-14		2012-13	
		Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
<b>Cash flows from operating activities</b>					
Net operating cost	SoCNE	37,489,822	<b>37,492,158</b>	37,757,981	37,704,247
Adjustments for non-cash transactions		(9,880,165)	<b>(9,922,288)</b>	(10,662,311)	(10,720,406)
Increase / (Decrease) in trade and other receivables	SoFP	(350,400)	<b>(338,835)</b>	5,002	35,121
Adjustment for movements on receivables relating to items not passing through operating costs		179,886	<b>182,968</b>	189,097	197,171
Movement in net inventories including provisions		87,036	<b>87,085</b>	243,002	274,072
(Increase) / Decrease in trade payables	SoFP	1,016,209	<b>844,159</b>	188,412	172,409
Adjustment for movements in payables relating to items not passing through operating costs		(221,436)	<b>(52,265)</b>	(102,047)	(102,047)
Realised loss / (gain) on derivatives		38,896	<b>38,896</b>	76,610	76,610
Use of provisions	18	203,156	<b>203,156</b>	230,174	230,174
<b>Net cash outflow from operating activities</b>		<b>28,563,004</b>	<b>28,535,034</b>	27,925,920	27,867,351
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	8	7,620,247	<b>7,630,458</b>	7,410,658	7,420,650
Purchase of intangible assets	7	1,384,722	<b>1,384,722</b>	1,054,279	1,054,279
Adjustment for non cash movements relating to PPE and intangibles		(1,447,121)	<b>(1,447,121)</b>	394,447	412,875
Proceeds on disposal of property, plant and equipment		(141,179)	<b>(141,179)</b>	(137,264)	(142,952)
Repayments from other bodies	10.1	(5,573)	<b>(5,573)</b>	(5,519)	(5,519)
Income from investments		-	-	-	18,101
<b>Net cash outflow from investing activities</b>		<b>7,411,096</b>	<b>7,421,307</b>	8,716,601	8,757,434
<b>Cash flows from financing</b>					
From the consolidated fund (Supply) – current year		(35,374,420)	<b>(35,374,420)</b>	(37,535,446)	(37,535,446)
From the consolidated fund – settlement of prior year receivable		-	-	(147,179)	(147,179)
Repayment of loans from the National Loans Fund	16	2,297	<b>2,297</b>	2,418	2,418
Capital element of payments in respect of finance leases and Service Concession Arrangements		240,842	<b>240,842</b>	193,036	193,036
Movement on collaborative projects		12,118	<b>12,118</b>	(176,662)	(176,662)
<b>Net financing</b>		<b>(35,119,163)</b>	<b>(35,119,163)</b>	(37,663,833)	(37,663,833)
<b>Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(854,937)</b>	<b>(837,178)</b>	1,021,312	1,039,048
<b>Cash and cash equivalents at the beginning of the period</b>	15	<b>1,785,834</b>	<b>1,851,149</b>	764,522	812,101
<b>Cash and cash equivalents at the end of the period</b>	15	<b>930,897</b>	<b>1,013,971</b>	1,785,834	1,851,149

Notes 1 to 28 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

## Statements of Changes in Taxpayers Equity (SoCiTE)

	Note	Core Department			Arms Length Bodies (ALBs)			Departmental Group
		General Fund £000	Revaluation Reserve £000	Taxpayers Equity £000	Restricted Reserves £000	Unrestricted Reserves £000	Total of ALBs Reserves £000	Total Reserves £000
<b>Balance at 31 March 2012</b>		<b>84,095,437</b>	<b>25,791,731</b>	<b>109,887,168</b>	<b>65,463</b>	<b>779,254</b>	<b>844,717</b>	<b>110,731,885</b>
Parliamentary Funding – drawn down in-year		37,535,446	-	37,535,446	-	-	-	37,535,446
Parliamentary Funding – Supply payable	16	(697,470)	-	(697,470)	-	-	-	(697,470)
Non-cash charge – auditors remuneration	5	2,400	-	2,400	-	-	-	2,400
Net operating costs	SoCNE	(37,757,981)	-	(37,757,981)	44,484	9,250	53,734	(37,704,247)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	1,212,634	1,212,634	638	(11,357)	(10,719)	1,201,915
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	314,067	314,067	-	-	-	314,067
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(115,591)	(115,591)	-	(2,998)	(2,998)	(118,589)
Net (loss) / gain on revaluation of inventories	SoCNE	-	168,590	168,590	-	-	-	168,590
Net (loss) / gain on pensions	SoCNE	(28,098)	-	(28,098)	-	(3,207)	(3,207)	(31,305)
Impairments / (Impairment Reversals) not included in operating costs	SoCNE	-	(24,931)	(24,931)	-	-	-	(24,931)
Transfer between reserves and asset writes-on	SoCNE	2,029,510	(2,025,045)	4,465	66,158	(32,889)	33,269	37,734
<b>Balance at 31 March 2013</b>		<b>85,179,244</b>	<b>25,321,455</b>	<b>110,500,699</b>	<b>176,743</b>	<b>738,053</b>	<b>914,796</b>	<b>111,415,495</b>
Parliamentary Funding – drawn down in-year		35,374,420	-	35,374,420	-	-	-	35,374,420
Parliamentary Funding – deemed funding		697,470	-	697,470	-	-	-	697,470
Parliamentary Funding – Supply receivable	14	145,349	-	145,349	-	-	-	145,349
Non-cash charge – auditors remuneration	5	1,860	-	1,860	-	-	-	1,860
Net operating costs	SoCNE	(37,489,822)	-	(37,489,822)	-	(2,336)	(2,336)	(37,492,158)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	794,504	794,504	-	11,995	11,995	806,499
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	(2,028,442)	(2,028,442)	-	-	-	(2,028,442)
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(54,166)	(54,166)	-	-	-	(54,166)
Net (loss) / gain on revaluation of inventories	SoCNE	-	242,272	242,272	-	-	-	242,272
Net (loss) / gain on pensions	SoCNE	(34,207)	-	(34,207)	-	(97)	(97)	(34,304)
Impairments / (Impairment Reversals) not included in operating costs	SoCNE	-	(15,404)	(15,404)	-	-	-	(15,404)
Transfer between reserves and asset writes-on	SoCNE	2,635,062	(2,621,492)	13,570	(4,458)	(37,480)	(41,938)	(28,368)
<b>Balance at 31 March 2014</b>		<b>86,509,376</b>	<b>21,638,727</b>	<b>108,148,103</b>	<b>172,285</b>	<b>710,135</b>	<b>882,420</b>	<b>109,030,523</b>

Notes 1 to 28 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

# Notes to the Accounts

## 1. Statement of Accounting Policies

### Introduction

1.1 These financial statements have been prepared in accordance with the 2013-14 FReM issued by HM Treasury except that IFRIC 4 – Determining whether an Arrangement Contains a Lease, has not been applied. Further information on the reasons for this non-application and its impact on the financial statements are given in Notes 1.41 to 1.43 below. The accounting policies contained in the FReM apply IFRS as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Department are described below. They have been applied consistently in dealing with items that are considered material to the accounts and comply with the requirements of the FReM except where HM Treasury has approved the departures to enable the Department to reflect its own particular circumstances or the departures do not have a material impact on the financial statements. The departures are:

- The Department has not fully complied with the FReM regarding the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and similar schemes' accounting requirements on the grounds of materiality. Rather than registering an asset and a liability to reflect its holding of allowances and its obligation to pay for emissions, the Department has reflected the purchase and sale of allowances as expenditure and income within the Statement of Comprehensive Net Expenditure. All other costs associated with the scheme, such as compliance checking, are also charged to the Statement of Comprehensive Net Expenditure.
- On the grounds of materiality, the Department, in applying IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities – uses the cost model rather than the revaluation model to measure changes in its capitalised asset provisions.
- On the grounds of materiality, HM Treasury has also agreed that the information normally required by the FReM on Fees and Charges disclosures (paragraph 5.4.28) is not required and the disclosure provided at Note 6.1 is sufficient.

1.2 The Statement of Comprehensive Net Expenditure is analysed between administration and programme costs. Administration costs consist of the costs of civilian staff, excluding health care professionals and staff working in operational areas such as Afghanistan plus the cost of external assistance such as technical and legal services but excluding costs relating to the Transformation Programme. The Armed Forces are excluded from the Administrative Cost Regime as are the ALBs. The cost of redundancies and early release schemes is included in Administration costs.

### Segmental Reporting

1.3 The Departmental Group's reporting segments are based on the information that the Defence Board uses to make decisions about operating matters and resource allocation. Further details are at Note 2.

### Accounting Convention

1.4 These financial statements have been prepared under the historical cost convention, modified to include the revaluation of intangible assets, property, plant and equipment assets and inventories.

### Basis of Preparation of Department's Annual Accounts

1.5 These financial statements comprise the consolidation of the Department, its Advisory NDPBs and ALBs sponsored by the Department. The Advisory NDPBs and ALBs which are included in the accounting boundary of the Departmental Group are listed in Note 27. The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies and requires the individual bodies to be designated for consolidation by order of HM Treasury under statutory instrument. Subsidiaries which are public corporations, or fall outside the central government classification

for some other reason, have been excluded from the accounting boundary except for some minor entities where inclusion does not have a material impact on the consolidated position and the work required to exclude them is therefore not justified.

1.6 The ALBs use categories for their costs which do not always align with MOD categories. As they are not material, the costs of the Department's ALBs are split into three categories for the purpose of consolidation – 'staff costs', 'depreciation' and 'other'. The Department has three Trading Funds which produce their own accounts and, as they fall outside Voted Supply, the Department's interests are included in the financial statements as non-current financial assets.

## **Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

1.7 Preparation of the Department's Annual Accounts requires significant judgements and estimates to be applied in order to arrive at the value of Departmental assets and liabilities and likewise the amount of revenue and expenses to be reported during the accounting period. The key areas in which judgements and estimates have been used are described below.

### *Non-Current Assets*

1.8 Intangible non-current assets and plant and equipment assets are expressed at their fair value through the application of indices produced by Defence Statistics; indices are also applied to property assets during periods between the quinquennial revaluations undertaken by external professional valuers.

1.9 The useful economic life of an equipment asset is assessed by reference to its estimated out of service date and for other assets on the basis of their estimated period of utility to the Department. There is an inherent uncertainty in estimating the annual depreciation charge and the carrying amount of a tangible non-current asset. For example an increase in the useful economic life will decrease the depreciation charged to the Statement of Comprehensive Net Expenditure during the year and increase the asset's carrying amount at financial year end.

1.10 The out of service date for tangible non-current assets is subject to change depending on factors such as strategic defence policy and predicted obsolescence. The economic lives of non-current assets are regularly reviewed and, where appropriate, revised to reflect changing circumstances such as decisions reflected in the latest finalised Annual Budget Cycle.

### *Inventories*

1.11 Where inventories have become surplus, unserviceable, defective or obsolescent, an estimated financial provision is applied to their carrying value to reduce it to net realisable value. Details of inventories balances are given in Note 13.

### *Accruals*

1.12 Where expenditure has been incurred but not invoiced an estimate is made of the amount to be accrued. It is key to retain evidence to support this estimate. This is particularly so in complicated contractual arrangements where it is necessary to present fairly the substance of the arrangement. Accruals are listed in Note 16.

### *Nuclear Decommissioning*

1.13 Provisions have been made for the cost of decommissioning facilities and for the treatment, storage, and disposal of nuclear waste arising from operations at Rosyth and Devonport dockyards and at Atomic Weapons Establishment sites. Provisions are also included for the future cost of decommissioning operational nuclear submarines and likewise for the cost of decommissioning those which have reached their out of service date.

1.14 In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. Key assumptions in this estimate are the time period over which the provisions are estimated, the costs for the future storage and decommissioning of waste, the VAT rate and the discount rate used. While the discount rate applied to the future cash flows is subject to assumptions, the Department has used the discount rate mandated by HM Treasury. Details of how nuclear decommissioning provisions have been calculated are included in Note 18.

## Changes During FY 2013-14 Which Have Affected the Preparation of These Annual Accounts

1.15 The main changes in accounting policies, estimates and conventions in 2013-14 were:

- In a change of accounting estimate, indices are not applied to revalue Assets Under Construction balances where contract costs already include price inflation.
- Amendments to IAS 19 - Employee Benefits which determine when termination benefits are recognised together with enhanced disclosures – the changes do not have a material impact on the accounts.
- Clarification of the accounting policy effecting initial recognition of assets in Service Concession Arrangements – this change does not have a material impact on the accounts.
- Changes to the Companies Act 2006 which requires a Strategic Report and disclosure Amendments.
- Separate disclosure of the Statement of Parliamentary Supply (SoPS), with its own accounting notes, from the primary financial statements.

## Recent Changes to Regulations Affecting the Preparation of Future Annual Accounts

1.16 The 2014-15 FReM introduces the following main change.

- Implementation of the new Group accounting standards. This is not likely to have a significant impact as the existing Departmental accounting boundary will remain.

In addition, the 16th Report of the Financial Reporting Advisory Board provides further information on developments in financial reporting and governance in the public sector. The report is available at: <https://www.gov.uk/government/publications/financial-reporting-advisory-board-frab-report>

## Net Operating Costs

1.17 Costs are charged to the Statement of Comprehensive Net Expenditure in the period in which they are incurred and matched to any related income. Details of exit packages are included at Note 3 to the accounts. Costs of contracted-out services are included net of recoverable VAT. Other costs are VAT inclusive, although a proportion of this VAT is recovered via a formula agreed with HMRC. Surpluses and deficits on disposal of assets classified as held for sale and inventories declared for disposal are included at Note 5 Other Programme Costs.

1.18 Income from services provided to third parties is included within operating income, net of related VAT. In accordance with IAS 10, as interpreted by the FReM, Trading Fund dividends are recognised as operating income on an accruals basis, whilst other dividends are recognised in the year in which they are declared.

## Non-Current Assets

1.19 The Department's capitalisation threshold is £25,000. Intangible and Property, Plant and Equipment assets are expressed at their fair value through the application of the Modified Historical Cost Accounting Convention (MHCA). Prospective indices, which are produced by Defence Statistics, are applied at the start of each financial year to the non-current assets which fall within the categories listed below. These indices look ahead to the Reporting Period date and include calculations to reflect the difference between the actual change in prices during the prior year and the prospective indices used for that year. In addition, where there is a material difference between the indices for year end and those used throughout the year, the MHCA calculations are performed again, using the up to date indices at the year end. The value of the overseas estate assets is similarly adjusted to take account of the year-end exchange rates. However, Non-Current Assets are not subject to indexation during the period the platform remains in production and the contract is deemed to reflect fair value. Categories of indices used are:

- Land (by region and type);
- Buildings – Non Dwellings (UK and specific overseas indices);
- Buildings – Dwellings (UK and specific overseas indices);

- Single Use Military Equipment – Air Systems;
- Single Use Military Equipment – Sea Systems;
- Single Use Military Equipment – Land Systems;
- IT and Communications Equipment – Communications Equipment;
- IT and Communications Equipment – Office Machinery and Computers;
- Plant and Machinery – specific UK index covering all assets;
- Transport – Fighting Equipment;
- Transport – Other.

**1.20** Property assets are also subject to a quinquennial revaluation by external professional valuers in accordance with IAS 16 – Property, Plant and Equipment, as interpreted by the FReM. Property assets are valued in one of two ways depending on their use. Non-specialist properties are valued at fair (i.e. market) value. For in-use non specialist properties, fair value is interpreted as market value for existing use. Specialist property for which there is no external market is valued at depreciated replacement cost. The majority of Service Families Accommodation is valued at depreciated replacement cost due to the positioning of housing in certain areas or as a result of the lack of an alternative market for certain holdings due to their remote geographic locations. Where market value for existing use is more appropriate, for example for small numbers of houses in a single location, this basis of valuation has been applied.

**1.21** Assets under construction Non-Current Assets are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value. On completion, balances are released from the project account into the appropriate asset category.

### **Intangible Non-Current Assets**

**1.22** Research costs are charged to the Statement of Comprehensive Net Expenditure in the period in which they are incurred.

**1.23** Development costs are capitalised where the project is expected to result in an asset which will enter service. Those not capitalised are charged to the Statement of Comprehensive Net Expenditure.

**1.24** After initial recognition, intangible non-current assets are revalued to fair value, using a market value where an active market exists. Where no market exists, indices are used to revalue the intangible asset to Depreciated Replacement Cost (DRC) or, if the asset is income generating, to value in use if lower than DRC. Assets under construction intangible Non-Current Assets are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value.

**1.25** Capitalised development costs are amortised, on a straight line basis, over the planned operational life of the resultant asset, e.g. class of ship or aircraft. Amortisation commences when the asset type first enters operational service within the Department.

**1.26** Externally purchased software including licences (other than for the operating system which is treated as part of the computer hardware and where appropriate capitalised as a tangible non-current asset) are capitalised where they contribute to the provision of services or other Departmental outputs for a period in excess of one year. Capitalised software is amortised, on a straight line basis, over the shorter of either the economic life or the licence period.

## Property, Plant and Equipment Non-Current Assets

1.27 Property, Plant and Equipment assets are expressed at their fair value through the application of the Modified Historical Cost Accounting Convention (MHCA). Property, Plant and Equipment assets are indexed other than during the period where contract payments capitalised are deemed to already reflect fair value. There are assets with similar capabilities which have different values, reflecting the nature of the construction process. Some First of Class Non-Current Assets include one-off production set up costs which the subsequent platforms do not. Future platforms can also benefit from learning curve efficiencies.

1.28 The useful economic lives of property, plant and equipment non-current assets are reviewed annually and adjusted where necessary.

1.29 It is the Departmental capitalisation threshold which determines whether or not an asset is recorded on the Department's Non-Current Asset Register (NCAR); the threshold is £25,000. Where ALBs have used a lower capitalisation threshold, the assets have also been consolidated.

1.30 The Departmental threshold of £25,000 is not applied to individual capital spares and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, for accounting purposes, these items are treated as pooled assets and included within the SUME category of non-current assets. GWMB and capital spares are depreciated and the depreciation charge in the Statement of Comprehensive Net Expenditure also includes the cost of GWMB fired to destruction.

1.31 The principal asset categories, together with their useful economic lives, are set out in the table below. All the assets are depreciated on a straight line basis.

	Category	Years
Land and Buildings	Land	Not depreciated unless it is held under a finance lease.
	Buildings (dwellings and non-dwellings):	
	– permanent	40 – 50
	– temporary	5 – 20
	Leasehold	Shorter of expected life and lease period
Single Use Military Equipment (including GWMB)	Air Systems – Fixed Wing	13 – 35
	Air Systems – Rotary Wing	25 – 30
	Sea Systems – Surface Ships	24 – 30
	Sea Systems – Submarines	28 – 32
	Land Systems – Armoured Vehicles	25 – 30
	Land Systems – Small Arms	10 – 15
Plant and Machinery	Equipment	10 – 25
	Plant and Machinery	5 – 25
Transport	Air Systems – Fixed Wing	25 – 35
	Air Systems – Rotary Wing	15 – 32
	Sea Systems – Surface Ships	20 – 30
	Land Systems – Specialised Vehicles	15 – 30
	Land Systems – Other Standard Vehicles	3 – 5
IT and Communications Equipment	Office Machinery	3 – 10
	Communications Equipment	3 – 30
Capital Spares	Items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion.	As life of prime equipment supported
Operational Heritage Assets	Operational Heritage Assets are included within the principal asset category to which they relate.	As other non-current assets

## Donated Assets

1.32 Donated assets (i.e. those assets that have been donated to the Department or assets for which the Department has continuing and exclusive use, but does not own legal title, and for which it has not given consideration in return) are capitalised at their current valuation on receipt and are revalued/depreciated on the same basis as purchased assets.

1.33 Income to the value of the donated assets is recognised in the year of donation except where donation is subject to conditions. Where donation is subject to conditions income is deferred to the year in which the conditions are met.

## Componentisation and Subsequent Expenditure

1.34 The Department's policy on componentisation (the recognition of the cost of replacing part of an asset) is as follows:

- Newly built property assets, with the exception of specialist assets, are not subject to componentisation at the point of initial capitalisation as the cost of any potential component is not significant to the total cost of the asset. Specialist assets such as runways are considered for componentisation.
- Where a property asset is refurbished or part of it replaced, the expenditure is recognised within the carrying amount of the overall asset. For assets above £500,000, the carrying amount of the part which is replaced is de-recognised. The Quinquennial Revaluation is used to adjust any short term valuation differences.
- Material expenditure on major refits and overhauls in the sea environment are accounted for separately when their value is consumed by the Department over a different period from the life of the corresponding core asset. Refurbishment costs are expensed within the air and land environments, as these costs are considered to be equivalent to an annual depreciation charge.

## Impairment

1.35 Impairment charges to the Statement of Comprehensive Net Expenditure occur in circumstances which reduce the carrying amount of property, plant and equipment assets to their recoverable amount. All impairment losses (except for those arising from a clear consumption of economic value or loss of service potential) are written off against the Revaluation Reserve until the carrying amount of the asset reaches its depreciated historic cost. Impairment losses below this amount are charged to the net operating cost section of the Statement of Comprehensive Net Expenditure. Any reversal of an impairment charge is recognised in the Statement of Comprehensive Net Expenditure to the extent that the original charge was previously recognised there. Any remaining amount is recognised in the Revaluation Reserve.

1.36 All impairment losses arising from a clear consumption of economic value or loss of service potential are written off to the net operating cost section of the Statement of Comprehensive Net Expenditure. Any balance on the Revaluation Reserve (up to the level of the impairment) is transferred to the General Fund.

1.37 Capitalised development costs that are directly linked to a class of asset are impaired if the whole class of the associated tangible non-current asset is impaired. The magnitude of the impairment applied is in the same proportion as that applied to the underlying asset class.

## Disposal of Tangible Non-Current Assets

1.38 Disposal of assets is handled principally by two specialist internal organisations: the Defence Infrastructure Organisation for property assets and the Disposal Services Authority for non-property assets.

1.39 Non-current assets are reclassified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale, subject only to terms that are usual and customary for the sale of such assets. The sale must also be highly probable, and expected to complete within one year.

1.40 When assets are classified as held for sale, they are re-classified as current assets and valued at the lower of their carrying amount and their fair value less costs to sell. No further depreciation is applied.

## Leased Assets

1.41 Assets held under finance leases are capitalised as non-current assets and a corresponding liability recognised. The assets are depreciated over the shorter of the lease term and their estimated useful economic life. Payments are apportioned between reductions in the capital obligations included in payables and finance costs charged to the Statement of Comprehensive Net Expenditure. Expenditure under operating leases is charged to the Statement of Comprehensive Net Expenditure in the period to which the charge relates.

1.42 The Department may also enter into arrangements that do not take the legal form of a lease but which give the Department the right to use an asset in return for payment. IFRIC 4 – Determining whether an Arrangement Contains a Lease provides guidance on determining whether such arrangements contain leases. Where leases are identified, they should be classified as operating or finance leases in accordance with IAS 17 – Leases, and accounted for in accordance with the accounting policies set out in Note 1.41.

1.43 The Department has conducted a review, with support from an external accountancy consultant, of its most significant contract arrangements where IFRIC 4 is likely to apply. This has confirmed that the Department has some lease type arrangements which are not currently recognised and cannot be accurately quantified. As a result of the complex, resource intensive and costly practical issues identified by the review, the Department, with HM Treasury support, has decided not to apply IFRIC 4 to existing contracts on the grounds that it does not represent value for money. The Department is considering further work in respect of the application of IFRIC 4 to new contracts. As a result of the decision not to implement IFRIC 4 for legacy contracts the MOD's accounts will continue to receive a qualified audit opinion for the foreseeable future.

1.44 The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position. Commitments under operating leases and finance leases have also been omitted from Notes 20.1 and 20.2.

## Public Private Partnerships (PPP) including Private Finance Initiative (PFI) Transactions

1.45 Where PPP including PFI arrangements fall within the scope of the IFRIC 12 – Service Concession Arrangements definition of Service Concession Arrangements, the infrastructure assets and liabilities are reported on the Department's Statement of Financial Position. Unitary charges are apportioned between reduction in the capital obligation and charges to the Statement of Comprehensive Net Expenditure for service performance and finance costs.

1.46 Where PPP including PFI arrangements are outside the scope of IFRIC 12 – Service Concession Arrangements, the arrangement is assessed to establish whether it contains a lease under IFRIC 4. If it does contain a lease, the lease is accounted for as either a finance or an operating lease in accordance with IAS 17. Where the arrangement does not contain a lease, the expenditure will be recognised as it falls due.

## Financial Instruments

1.47 The Department has foreign currency forward purchase contracts, denominated in US Dollars and Euros, and fuel fixed price swap contracts denominated in US Dollars which are accounted for as derivatives and classified as Held For Trading financial instruments.

1.48 The foreign currency forward purchase contracts are measured at fair value with movements in fair value being charged or credited to the Statement of Comprehensive Net Expenditure. The fair value is measured as the difference between the currency's closing mid-market rate at the date of valuation (representing the spot rate) and the rate stipulated in the contract multiplied by the number of contracted units of currency. The Department obtains the closing mid-market rate from the Financial Times. The forward contracts will only have a fair value up to their date of settlement. Once each contract has been settled, the derivative is removed from the Department's Statement of Financial Position. The forward contracts were purchased from the Bank of England. Details of existing contracts are at Notes 9.9 to 9.11 to the accounts.

1.49 The Department uses fixed price swap contracts to manage its risk of fuel price movements in respect of aviation turbine fuel, marine gas oil, unleaded ground fuel and diesel ground fuel. The contracts are measured at fair value with movements in fair value being charged or credited to the Statement of Comprehensive Net Expenditure. The fair value is measured as the difference between the market rate for

the four commodities at the date of valuation and the rate stipulated in the contracts, multiplied by the contracted volumes, in the contracted currency. These values are converted to sterling using the closing mid-market rate obtained from the Financial Times. The swap contracts will only have a fair value up to their date of settlement. Once each contract is settled, it is removed from the Statement of Financial Position. Swap contracts are purchased by competitive tender using a panel of financial institutions (the latter chosen following a comprehensive assessment) and the contracting process began in 2010-11 for supply in 2011-12 onwards for aviation and marine fuels extended to the four fuels in 2013-14. Details of existing contracts are at Notes 9.12 and 9.13 to the accounts.

**1.50** Public Dividend Capital is not treated as a financial instrument in the Department's financial statements and is reported at historic cost less any impairment. The Department's investments in special or 'golden' shares are not recognised on the Statement of Financial Position. The entities in which the Department holds special shares are listed at Note 10.7.

**1.51** Receivables, including trade receivables, staff loans and advances are classified as Loans and Receivables and are initially measured at fair value and subsequently at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate. However, the Department's receivables that are due within 1 year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts.

**1.52** Liabilities covering trade payables and accruals are classified as Payables and Accruals and are initially measured at fair value and subsequently at discounted cost. This applies to those liabilities carrying a nil or a subsidised rate of interest. On the grounds of materiality, the Department's liabilities falling due within 1 year are not discounted.

**1.53** The Department has not made a provision for arrangements that fall within the scope of a financial guarantee contract on the grounds that there is a very low probability of a claim maturing.

## **Inventories**

**1.54** Inventories are recognised on the Department's Statement of Financial Position from the point of acquisition to the point of issue for consumption, sale, write-off or disposal.

**1.55** Inventory which is expected to be used is valued at the cost of replacing the materiel – i.e. at current cost or historic cost if not materially different. However, where there is no expectation of consumption or sale in the ordinary course of business, the value is impaired to reduce it to Net Realisable Value.

**1.56** Some items of inventory, for example munitions, have a limited shelf life and depreciation (on a straight line basis) is applied throughout the life of these items. When an item is consumed, written off or disposed of the remaining carrying value is charged to the Statement of Comprehensive Net Expenditure.

## **Cash and Cash Equivalents**

**1.57** The Department determines cash as cash in hand and demand deposits (repayable on demand) with any commercial bank or other financial institution. This includes gold coins and deposits denominated in foreign currencies after allowing for unrepresented payments and uncleared deposits.

**1.58** Cash equivalents are determined as short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents in the Department's Statement of Financial Position comprise balances held by the Government Banking Service, commercial banks and cash in hand.

## Provisions for Liabilities and Charges

1.59 Provisions for liabilities and charges have been established under the criteria of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at the Reporting Period date.

1.60 On initial recognition, provisions are charged to the Statement of Comprehensive Net Expenditure unless the expenditure will provide access to current and future economic benefits, in which case a capitalised asset provision is created. The carrying amount of any capitalised asset provision is depreciated and charged to the Statement of Comprehensive Net Expenditure over the remaining estimated useful economic life of the underlying asset. Provisions are discounted at rates advised by HM Treasury and three different rates are used for provisions depending on the time boundary they fall into. The pensions discount rate advised by HM Treasury is used for provisions relating to employee benefits. The discount is unwound over the remaining life of the provision and shown as an interest charge in the Statement of Comprehensive Net Expenditure.

## Reserves

1.61 The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on non-current assets and inventories.

1.62 The General Fund represents the balance of the Taxpayers' Equity in the Core Department. Reserves relating to the ALBs are split into 'Restricted' and 'Unrestricted' reserves, where restricted reserve have limitations, e.g. covenants and other legal restrictions, on their use.

## Pensions

1.63 Present and past employees are mainly covered by the Civil Service pension arrangements for civilian personnel and the AFPS for Service personnel. There are separate scheme statements for the AFPS and Civil Service pensions. Further details can be found at: [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk) and <https://www.gov.uk/pensions-and-compensation-for-veterans>

1.64 Both the AFPS and the main Civil Service pension schemes are unfunded defined benefit pension schemes although, in accordance with the HM Treasury FReM, the Department accounts for the schemes in its accounts as if they were defined contribution schemes. The employer's charge is met by payment of an estimated Superannuation Contribution Adjusted for Past Experience (SCAPE), which represents the cost of providing future superannuation protection for all personnel currently in pensionable employment. The Department's Statement of Financial Position will only include a payable in respect of pensions to the extent that the contributions paid to the pension funds in the year fall short of the SCAPE and employee contributions due. Money purchase pensions delivered through employer-sponsored stakeholder pensions have been available as an alternative to all new Civil Service entrants since October 2002.

## Early Departure Costs

1.65 The Department provides in full for the cost of meeting pensions up to the normal retirement age in respect of military and civilian personnel early retirement programmes. Early departure provisions under pension scheme rules are discounted at the pensions' discount rate, issued annually by HM Treasury, 1.8% from 31 March 2014 (2.35% from 31 March 2013). Pensions payable after the normal retirement age are met by the Armed Forces Pension Scheme for military personnel and, mainly, by the Principal Civil Service Pension Scheme for civilian personnel. However, any additional element payable beyond normal retirement age, which derives from the enhancement of reckonable service, continues to be met by the Department. Redundancies are provided for in full.

## Foreign Currency

1.66 All transactions that are denominated in a foreign currency are translated into Sterling using the General Accounting Rate (GAR) prevailing at the date of each transaction. For each currency, the GAR is updated monthly based on spot rates. In respect of US Dollars and Euros the GAR is based on the average of the published spot rates in the week immediately preceding the new month. Exchange differences will arise when a currency transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. In addition, monetary assets and liabilities are translated at the mid-market closing rate applicable at the Reporting Period date and the exchange differences are reported in the Statement of Comprehensive Net Expenditure.

1.67 Overseas non-monetary assets and liabilities are subject to annual revaluation and are translated at the mid-market closing rate applicable at the Reporting Period date. Nuclear inventories are revalued using the GAR. Exchange differences are taken to the Revaluation Reserve.

## VAT

1.68 The Department is registered for VAT and pays tax on its purchases in accordance with Value Added Tax Act 1994 (VATA94). As it is a non-business organisation, most of the VAT the Department incurs is non-recoverable and therefore a cost to the Department.

## Third Party Assets

1.69 Third party assets are those for which the Department acts as custodian or trustee but in which neither the Department nor the government has a direct beneficial interest. As they are not public assets they are not recorded in the Statement of Financial Position.

## Heritage Assets

1.70 Operational heritage assets are valued at fair value using the same methodology applied to other assets of the same general type. Non operational heritage assets are valued at fair value if information is available and if valuation is considered beneficial. Further details of heritage assets are at Note 26.

## 2. Segmental Analysis

2.1 The Department's organisational structure is set out in the Governance Statement and additional information is provided in The New Operating Model: How Defence Works which is available at: [www.gov.uk/government/publications/the-new-operating-model-how-defence-works](http://www.gov.uk/government/publications/the-new-operating-model-how-defence-works). The structure is the key factor in determining the reporting segments disclosed, for the first time this year, below.

2.2 The Royal Navy, the Army, and the Royal Air Force are supported by: Joint Forces Command – responsible for the planning and execution of joint operations outside the UK; Defence Equipment and Support – responsible for procurement and support of equipment; the Defence Infrastructure Organization responsible for managing the Defence Estate and Head Office and Corporate Services – responsible for policy, strategy and corporate services such as payroll.

2.3 Forecasts of near cash expenditure against budgets (Resource and Capital) are regularly reviewed by the Defence Board when considering performance and resource allocation. The tables below set out the detail of this near cash net expenditure, by segment (where the Board consider the net expenditure at that level of detail), and analyse the net expenditure reviewed between Resource and Capital.

2.4 The Board also receives separate information on the total additional spend on Military Operations (Resource and Capital) – this information, in more detail than presented to the Board, is set out at SoPS Note 2 (each expenditure type is prefixed by 'Operations'). The Board also separately consider expenditure on War Pensions Benefits against the budget approved by Parliament (these details are set out at SoPS Note 2). The Board also review the Department's Net Cash Requirement – details of which are set out in the Statement of Parliamentary Supply and are not duplicated here.

2.5 The routine financial information considered by the Board does not include details of assets and liabilities and therefore does not form part of these disclosures. The Board do not receive information on the separate Administration Control Total and the figures presented to the Board do not include the full net expenditure of ALBs (they do include Grants in Aid and certain payments made on behalf of these bodies). Information on expenditure by geographical area or major customers is not routinely considered and is therefore not disclosed below.

2.6 Transactions between segments take two main forms:

- Costs such as payroll, equipment support, centralised contract costs, estate management, inventory consumption etc are allocated to segments by the main accounting systems e.g. accounts payable, accounts receivable, civilian payroll, military payroll, inventory and Non-Current Asset registers.
- Costs incurred by one segment on behalf of another are subject to agreement and then transferred by a central accounts section to ensure the net effect on the Department's consolidated accounts remains correct.

## 2.7 Details of the Resource information reviewed by the Board, by segment where applicable:

<b>Net Resource DEL Outturn</b>	<b>2013-14</b>	<b>2012-13</b>
	<b>£000</b>	<b>£000</b>
<b>Outturn by Top Level Budget</b> (reviewed by the Board)		
Royal Navy	2,270,922	2,242,152
Army	6,740,905	6,808,164
Royal Air Force	2,541,985	2,614,506
Joint Forces Command	1,523,486	1,234,377
Defence Equipment & Support	8,258,402	7,263,065
Defence Infrastructure Organisation	2,771,562	2,671,545
Head Office & Corporate Services	1,414,884	1,636,633
	<b>25,522,146</b>	24,470,442
<b>Reconciliation to Operating Costs</b>		
Net Resource Outturn for Cost of Operations (excluding depreciation, impairments and provisions) – reviewed by the Board as total forecast resource outturn against Estimate during the year	1,284,373	1,766,220
War Pensions Benefits (Annually Managed Expenditure) – reviewed by the Board as total forecast resource outturn against Estimate during the year	858,964	907,817
Sub total of Net Resource Outturn reviewed by the Board during the financial year	<b>27,665,483</b>	27,144,479
Balance of Net Resource Outturn not reviewed by the Board (depreciation, impairment, provisions and Annually Managed Expenditure)	9,746,089	10,596,494
Total Resource Outturn (See SoPS Note 2)	<b>37,411,572</b>	37,740,973
Less: items included in Net Resource Outturn but not included in Net Operating Costs (see SoPS Note 3.1) and also excluding additional, self funded, ALB expenditure	78,250	17,008
<b>Total Departmental Operating Costs (see Statement of Comprehensive Net Expenditure)</b>	<b>37,489,822</b>	37,757,981

## 2.8 Details of the Capital information reviewed by the Board, by segment where applicable:

<b>Net Capital DEL Outturn</b>	<b>2013-14</b>	<b>2012-13</b>
	<b>£000</b>	<b>£000</b>
<b>Outturn by Top Level Budget</b> (reviewed by the Board)		
Royal Navy	2,413	6,366
Army	39,693	50,058
Royal Air Force	1,375	6,321
Joint Forces Command	10,502	30,596
Defence Equipment & Support	6,543,840	6,667,450
Defence Infrastructure Organisation	817,716	500,982
Head Office & Corporate Services	28,199	72,931
	<b>7,443,738</b>	7,334,704
<b>Reconciliation to Capital Outturn</b>		
Net Capital Outturn for Cost of Operations (excluding Annually Managed Expenditure) – reviewed by the Board as a total forecast figure against Estimate during the year	125,603	505,606
Sub total of Capital outturn reviewed by the Board	<b>7,569,341</b>	7,840,310
Balance of Capital outturn not reviewed by the Board (Capital AME and ALB capital outturn)	(126,085)	(32,323)
<b>Total Capital Outturn (See SoPS Note 2)</b>	<b>7,443,256</b>	7,807,987

### 3. Staff Numbers and Costs

3.1 The average number of full-time equivalent persons employed during 2013-14 and 2012-13 is set out in the following table.

	2013-14		2012-13	
	Core Department	Departmental Group	Core Department	Departmental Group
Civilian Staff				
Permanent staff	56,830	59,560	60,770	63,603
Temporary staff	160	226	90	163
Ministers and special advisers	8	8	8	8
Armed Forces	171,540	171,540	181,470	181,470
<b>Totals</b>	<b>228,538</b>	<b>231,334</b>	<b>242,338</b>	<b>245,244</b>

In order to align with the total pay costs incurred during the year, shown at paragraph 3.2 below, the calculation of the number of staff uses monthly statistics to identify an average number employed for the year. The figures reflect the number of personnel in organisations within the Departmental Boundary for the Annual Accounts and therefore exclude those in the Trading Funds. Locally Employed Civilians are included as permanent staff because the additional detail required to analyse the figures between permanent and temporary is not available. More information on the Department's staff numbers, and the statistical calculations used, is available on the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>

3.2 The aggregate staff costs, including grants and allowances paid, were as follows:

	2013-14		2012-13	
	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
Staff costs – Administration	2,086,702	2,086,702	2,100,182	2,100,182
Staff costs – Programme	9,398,828	9,484,896	9,836,452	9,923,254
	<b>11,485,530</b>	<b>11,571,598</b>	11,936,634	12,023,436
Made up of:				
Salaries and wages	8,433,353	8,509,643	8,787,619	8,866,833
Social security costs	627,892	631,406	655,095	658,167
Pension costs	2,205,565	2,211,829	2,313,096	2,317,612
Redundancy and severance payments	218,720	218,720	180,824	180,824
	<b>11,485,530</b>	<b>11,571,598</b>	11,936,634	12,023,436
Paid to:				
Armed Forces	9,173,564	9,173,564	9,615,216	9,615,216
Civilian	2,311,966	2,398,034	2,321,418	2,408,220
	<b>11,485,530</b>	<b>11,571,598</b>	11,936,634	12,023,436

#### Principal Civil Service Pension Scheme

3.3 The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Ministry of Defence is unable to identify its share of the underlying assets and liabilities. An actuarial valuation of the PCSPS has been completed, with an effective date of 31 March 2012 and can be found at <http://www.civilservicepensionscheme.org.uk/about-us/scheme-valuations/>

3.4 For the year to 31 March 2014, of the total pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) for the Departmental Group in the table above, £269M (2012-13: £290M) were payable in respect of the various schemes in which civilian staff were members. Contributions to the PCSPS in the same period were £260M (2012-13: £269M) calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands. The salary bands and percentage contribution rates are unchanged for 2013-14. The scheme's Actuary reviews employer contributions, usually, every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing, to be paid when the member retires, not the benefits paid during the period to existing pensioners.

3.5 Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £1.5M (2012-13 £1.5M) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2012-13 from 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £0.2M (2012-13 £0.1M) representing 0.8% of pensionable pay were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

### Armed Forces Pension Scheme

3.6 The Armed Forces Pension Scheme is an unfunded, non-contributory, defined benefit, salary-related, contracted out, occupational pension scheme. A formal valuation of the AFPS was carried out as at 31 March 2014 by the scheme's actuary, the Government Actuary's Department. Scheme members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the Regular Armed Forces at or beyond normal retirement age; those who have at least two years service who leave before age 55 will have their pensions preserved until age 65. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable subject to nomination. AFPS 05 offers ill-health benefits if a career is cut short by injury or illness, irrespective of cause. Additionally, if the injury or illness is mainly attributable to service, compensation for conditions caused on or after 6 April 2005 will be considered under the Armed Forces Compensation Scheme (AFCS).

3.7 AFPS 05 members who leave before the age of 55 may be entitled to an Early Departure Payment, providing they have at least 18 years service and are at least 40 years of age. The Early Departure Payment Scheme pays a tax-free lump sum and income of between 50% and 75% of preserved pension between the date of the individual's departure from the Armed Forces and age 55. The income rises to 75% of preserved pension at age 55 and is index linked. At age 65, the Early Departure Payment stops and the preserved pension and preserved pension lump sum are paid.

3.8 A new Armed Forces Pension Scheme will be introduced in April 2015. It will be known as the Armed Forces Pension Scheme 2015 (AFPS15). All Service personnel who are members of one of the Armed Forces Pension Schemes (e.g. AFPS 75, AFPS 05, FTRS 97 and RFPS) who will be serving beyond April 2015 will be automatically transferred to the new scheme unless they qualify for Transitional Protection. The Government has offered Transitional Protection to those who are within 10 years of their respective scheme's Normal Pension Age on 1 April 2012. Further details of the new scheme are available at: <https://www.gov.uk/pensions-and-compensation-for-veterans#the-future-armed-forces-pension-scheme>.

3.9 For the year to 31 March 2014 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £1.9Bn (2012-13: £2Bn) based on employer's contribution rates determined by the Government Actuary. For 2013-14, the employer's contribution rates were 42.8% of pensionable pay for Officers (2012-13 42.8%) and 30.8% of pensionable pay for Other Ranks (2012-13 30.8%). The contribution rates reflect benefits as they are accrued, not costs actually incurred in the period, and reflect past experience of the scheme. Further information on the AFPS and the AFCS can be found at: <https://www.gov.uk/pensions-and-compensation-for-veterans>.

### Other Pension Schemes

3.10 The Armed Forces Pension Scheme incorporates a number of smaller schemes, including: the Non-Regular Permanent Staff Pension Scheme, the Gurkha Pension Scheme and the Reserve Forces Pension Scheme. The membership of these schemes is approximately 4% of the AFPS total membership and the employer's contributions to the schemes are included in the figure payable to the AFPS, at paragraph 3.9.

3.11 Certain other employees are covered by schemes such as the National Health Service Pension Scheme and the Teachers' Pension Scheme. The figure for total employers' pension contributions at paragraph 3.4 includes contributions in respect of these schemes. Some employees and former employees are members of other schemes, for example the Merchant Navy Ratings Pension Fund and schemes covering locally employed civilians in Germany, Cyprus and Gibraltar. Estimates of the liabilities for these schemes are included in the accounts and additional details are provided at Note 17 – Pensions.

### Civil Service and Other Compensation Schemes – Exit Packages

3.12 The figures in the following table include redundancy and other departure costs paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS). Where the Department has agreed early retirements the costs are met by the MOD and not by the Civil Service Pension Scheme. The table includes individuals who retired early on ill-health grounds.

3.13 For staff leaving under voluntary exit or voluntary redundancy terms the cost includes any top-up to compensation provided by the Department to buy out the actuarial reduction on an individual's pension as well as the compensation payment.

3.14 The table also includes the members of the Armed Forces released under schemes introduced as part of the SDSR. All Armed Forces redundancies are compulsory; the law does not provide for voluntary redundancy. While personnel are invited to apply for consideration, the Services may retain applicants, and make non-applicants redundant in their stead, in order to retain the right balance of skills and experience across the rank structures. Successful applicants are included in the table as 'other departures agreed'; non applicants are listed as compulsory.

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band	
	2013-14	2012-13*	2013-14	2012-13*	2013-14	2012-13*
<£10,000	39	42	57	291	96	333
£10,000 – £25,000	233	291	1,992	2,444	2,225	2,735
£25,000 – £50,000	445	260	2,233	2,994	2,678	3,254
£50,000 – £100,000	166	54	1,050	1,349	1,216	1,403
£100,000 – £150,000	8	1	95	151	103	152
£150,000 – £200,000	-	-	17	23	17	23
£200,000 – £250,000	1	-	4	6	5	6
£250,000 – £300,000	-	-	3	-	3	-
<b>Total Number of Exit Packages</b>	<b>892</b>	<b>648</b>	<b>5,451</b>	<b>7,258</b>	<b>6,343</b>	<b>7,906</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>Total Resource Cost</b>	<b>32.7</b>	<b>18.4</b>	<b>199.8</b>	<b>257.5</b>	<b>232.5</b>	<b>275.9</b>

\*2012-13 figures have been increased; reflecting more up to date information from Arm's Length Bodies and individuals who left in 2012-13 but whose details were not confirmed until after the accounts were published. Also, using information not available in time of the publication of last years accounts, the military redundancies figures for 2012-13 have been analysed and re-apportioned between 'compulsory' and 'other'.

3.15 In addition to the exit packages detailed above the Department may occasionally make use of early release schemes to reduce the number of civilian staff who are not members of the CSCS, for example locally employed staff in Germany and Cyprus, teachers and nursing staff.

3.16 Members of the Armed Forces Pension Scheme who leave before the age of 55 may be entitled to an Early Departure Payment (EDP); these payments are not included above unless they are a result of SDSR redundancy schemes. Details of the EDP scheme are set out at Note 3.7 to the accounts.

## 4. Other Administration Costs

	2013-14		2012-13	
	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
External assistance on strategic, financial, IT, technical and organisational change & management, and legal support.	17,139	17,139	44,548	44,548
<b>Total Other Administration Costs</b>	<b>17,139</b>	<b>17,139</b>	<b>44,548</b>	<b>44,548</b>

During 2013-14 HM Treasury agreed changes to the basis for classification of expenditure to Other Administration Costs. If the newly agreed classification had been applied in the previous financial year the total of administrative costs would have reduced from £44.548M shown above to £2M.

## 5. Other Programme Costs

	2013-14		2012-13	
	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
<b>Other Programme Costs – Non-Cash Expenditure</b>				
Auditors' remuneration – audit work only†	1,860	1,860	2,400	2,400
Depreciation and amortisation:				
– Intangible assets	1,790,912	1,790,912	1,692,096	1,692,096
– Property, plant and equipment (PPE) owned assets*	5,915,480	5,934,369	5,606,203	5,621,198
– PPE held under finance leases	112,338	112,338	99,479	99,479
– PPE held under service concession arrangements	440,461	440,461	239,944	239,944
Impairment on non-current assets:				
– Arising on Quinquennial valuation	(78)	(78)	197,000	197,000
– Arising on Other items	917,728	917,728	998,318	998,318
Provisions to reduce inventory to net realisable value	253,080	253,080	468,095	468,095
Inventory write off / (on) – net	361,715	361,715	(333,629)	(333,629)
(Surplus) / deficit on disposal of property, plant and equipment and intangible assets.	(90,743)	(90,743)	(73,183)	(73,183)
(Surplus) / deficit arising on disposal of inventory – net	(14,366)	(14,366)	(4,761)	(4,761)
Intangible and property, plant and equipment assets write off / (write on) – net	(233,723)	(233,723)	1,397,295	1,397,295
Capital project expenditure write off / (write on) – net	(12,176)	(12,176)	339,498	339,498
Bad debts written off	12,900	12,900	2,377	2,377
Increase / (decrease) in bad debts provision	(5,975)	(5,975)	4,977	4,977
Increase / (decrease) in nuclear and other decommissioning provisions	186,417	186,417	(26,401)	(26,401)
Unwinding of discount on payables and receivables – net	69,515	69,515	64,278	64,278
<b>Other Programme Costs – Total Non-Cash Expenditure</b>	<b>9,705,345</b>	<b>9,724,234</b>	<b>10,673,986</b>	<b>10,688,981</b>
<b>Other Programme Costs</b>				
Fuel	699,785	699,785	758,809	758,809
Inventory consumption	1,022,989	1,022,989	1,048,331	1,048,331
Movements. Including: personnel travelling, subsistence / relocation costs and movement of stores and equipment	664,025	664,025	715,726	715,726
Utilities	392,598	392,598	393,992	393,992
Property management	1,459,984	1,459,984	1,438,814	1,438,814
Hospitality and entertainment	1,512	1,512	1,527	1,527
Accommodation charges	370,465	370,465	358,779	358,779
Equipment support costs	3,819,224	3,819,224	3,504,362	3,504,362
IT and telecommunications	1,242,870	1,242,870	1,105,376	1,105,376
Professional fees	479,555	479,555	309,540	309,540
Other expenditure*†	1,184,597	1,315,314	1,645,623	1,785,234

	2013-14		2012-13	
	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
Research expenditure and expensed development expenditure	988,145	988,145	944,069	944,069
Service Concession Arrangements:				
– IT and telecommunications	352,748	352,748	493,323	493,323
– Property management	549,603	549,603	546,232	546,232
– Transport	51,070	51,070	44,673	44,673
– Equipment support	424,600	424,600	227,963	227,963
– Plant and Equipment	54,771	54,771	30,916	30,916
Payments under finance leases:				
– Equipment support	57,552	57,552	56,557	56,557
– Defence housing	65,517	65,517	63,557	63,557
Contractor Logistic Support and Integrated Operational Support contracts for equipment support	1,439,069	1,439,069	1,219,350	1,219,350
Movement on Derivatives	409,497	409,497	(125,943)	(125,943)
Payments under operating leases – plant & equipment	37,948	37,948	10,100	10,100
Payments under operating leases – other	231,375	231,375	221,903	221,903
Grants-in-Aid	185,097	17,290	161,344	17,327
Other Grants to bodies within the accounting boundary	19,850	-	36,550	-
Exchange differences on foreign currencies: net deficit / (surplus)	31,217	31,217	(5,420)	(5,420)
Cost of: unwinding discounting and finance lease and other interest	387,848	387,289	369,155	368,797
War Pensions Benefits	858,964	858,964	907,817	907,817
<b>Other Programme Costs – Sub Total</b>	<b>17,482,475</b>	<b>17,424,976</b>	<b>16,483,025</b>	<b>16,441,711</b>
<b>Total Other Programme Costs</b>	<b>27,187,820</b>	<b>27,149,210</b>	<b>27,157,011</b>	<b>27,130,692</b>

\* Expenditure by Arm's Length Bodies is classified as either depreciation of PPE or other expenditure.

† In addition to the notional audit fee for the Department's audit, other programme costs for the Departmental Group includes, as Other Expenditure, the cost of the NAO's audit of the National Army Museum, the National Museum of the Royal Navy, the RAF Museum and the Royal Hospital Chelsea: £108,000 in 2013-14 (2012-13 : £79,000).

## 6. Income

	2013-14		2012-13	
	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
Rental income – property	25,922	25,922	30,022	30,022
Receipts – personnel	318,351	318,351	341,533	341,533
Receipts from sale of fuel	126,029	126,029	138,407	138,407
Donated Assets	4,300	4,300	108,948	108,948
Receipts – supplies and services	297,241	297,241	300,983	300,983
Receipts – NATO/UN/US Forces/Foreign Governments	285,594	285,594	264,317	264,317
Reverse tasking *	33,304	33,304	37,558	37,558
Dividends and other income from investment property (Note 10.8)**	46,091	47,891	28,274	31,207
Other income**	63,835	107,157	130,170	241,454
	<b>1,200,667</b>	<b>1,245,789</b>	<b>1,380,212</b>	<b>1,494,429</b>

\* Receipts for invoiced goods and/or services supplied to the Trading Funds and QinetiQ Group plc by the MOD.

\*\* The income of Arm's Length Bodies is classified as dividends or other income.

## Fees and Charges

6.1 Where the Department has spare capacity, it provides a range of services to external organisations. The majority of these services are in the form of military support to foreign governments and other government departments. Where appropriate, costs are recovered in accordance with Managing Public Money. Where a chargeable activity produces a tangible benefit to Defence, the Department has authority to abate charges below full costs.

## 7. Consolidated Departmental Group – Intangible Assets

Intangible assets include development expenditure in respect of non current assets in use and assets under construction.

	Note	Single Use Military Equipment £000	Software £000	Others £000	Total £000
<b>Cost or Valuation†</b>					
At 1 April 2012		30,051,464	17,550	9,407,741	39,476,755
Additions	i	951,409	3,527	99,343	1,054,279
Disposals		(1,265,694)	-	(316,424)	(1,582,118)
Impairments	ii	(24,197)	-	(31,163)	(55,360)
Revaluations	iii	361,966	(33)	134,665	496,598
Reclassifications	iv	602,943	(1,313)	(309,179)	292,451
<b>At 31 March 2013</b>		<b>30,677,891</b>	<b>19,731</b>	<b>8,984,983</b>	<b>39,682,605</b>
Additions	i	1,219,845	5,917	158,960	1,384,722
Disposals		(391,527)	-	(110,431)	(501,958)
Impairments	ii	(8,261)	-	(1,921)	(10,182)
Revaluations	iii	(1,958,932)	111	(377,696)	(2,336,517)
Reclassifications	iv	(374,613)	(776)	570,756	195,367
<b>At 31 March 2014</b>		<b>29,164,403</b>	<b>24,983</b>	<b>9,224,651</b>	<b>38,414,037</b>
<b>Amortisation</b>					
At 1 April 2012		(7,811,879)	(4,674)	(3,809,451)	(11,626,004)
Charged in Year		(1,286,829)	(559)	(404,708)	(1,692,096)
Disposals		986,846	-	246,712	1,233,558
Impairments	ii	(23)	-	1,491	1,468
Revaluations	iii	(150,099)	16	(32,448)	(182,531)
Reclassifications	iv	(784,126)	(3)	785,240	1,111
<b>At 31 March 2013</b>		<b>(9,046,110)</b>	<b>(5,220)</b>	<b>(3,213,164)</b>	<b>(12,264,494)</b>
Charged in Year		(1,285,814)	(1,438)	(503,660)	(1,790,912)
Disposals		346,643	-	97,773	444,416
Impairments	ii	1,240	-	(10,590)	(9,350)
Revaluations	iii	138,188	(70)	169,957	308,075
Reclassifications	iv	48,094	3	(231,857)	(183,760)
<b>At 31 March 2014</b>		<b>(9,797,759)</b>	<b>(6,725)</b>	<b>(3,691,541)</b>	<b>(13,496,025)</b>
<b>Net Book Value</b>					
At 1 April 2012		22,239,585	12,876	5,598,290	27,850,751
At 31 March 2013		21,631,781	14,511	5,771,819	27,418,111
<b>At 31 March 2014</b>		<b>19,366,644</b>	<b>18,258</b>	<b>5,533,110</b>	<b>24,918,012</b>
Of the total net book value as at 31 March 2014					
Core Department		19,366,644	18,258	5,533,110	24,918,012
ALBs		-	-	-	-
<b>Total</b>		<b>19,366,644</b>	<b>18,258</b>	<b>5,533,110</b>	<b>24,918,012</b>

Notes

i. Additions include accruals of £563M (2012-13: £548M). Information on Frascati compliant R&D expenditure can be found on the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>.

ii. Capitalised development costs directly linked to a class of asset are only impaired if the whole class of the associated non current asset is impaired e.g. when a whole class of asset is withdrawn from service.

iii. Revaluations include changes due to Modified Historic Cost Accounting through indexation. Departmental reviews have concluded that where the price inflation embedded within contracts for construction of buildings and equipment provides for a reasonable estimate of fair value during development and construction, the additional annual application of indexation is not required. The asset values above include an adjustment to bring valuations into line with this improved estimation technique, which has been accounted for as a change in accounting estimate, in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The asset values above include an adjustment to reflect this change in accounting estimate – reducing the value of assets by £2.4Bn.

iv. Reclassifications include assets classified to or from property, plant and equipment.

## 7.1 Movement in the revaluation reserve relating to intangible assets

	2013-14 £000	2012-13 £000
Balance – 1 April	5,609,326	5,637,297
Revaluation	(2,030,592)	304,646
Transfers / reclassifications	(13,529)	1,104
Realised reserve transferred to the General Fund	(419,448)	(333,721)
<b>Balance – 31 March</b>	<b>3,145,757</b>	<b>5,609,326</b>

## 7.2 Details of intangible assets with a net book value greater than £0.5Bn

Description	Net Book Value 31 March 2014 £Bn	Remaining Useful Economic Life
Typhoon development costs	6.7	16 years
Merlin helicopter development costs	2.0	16 years
Type 45 destroyer development costs	1.8	30 years
Astute class submarine development costs	0.9	21 years
Lynx helicopter development costs	0.8	30 years 9 months
Spearfish torpedo development costs	0.6	35 years 11 months

## 8. Consolidated Departmental Group – Property, Plant and Equipment

Cost or Valuation	Note	Land Dwellings		Land Other Buildings		Dwellings		Other Buildings		Single Use Military Equipment (SUME)		Plant and Machinery		Transport		IT and Communication Equipment		Assets under Construction (SUME)		Assets under Construction (Other)		Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
At 1 April 2012		2,118,334	5,167,781	10,430,264	17,059,364	72,993,437	4,506,583	16,380,923	4,202,805	13,629,374	5,968,934	152,457,799										
Additions	i	3,463	97,133	57,721	82,342	920,550	40,116	190,504	191,445	3,385,277	2,452,099	7,420,650										
Capitalised Provisions	ii	-	-	-	49,903	29,253	-	-	-	-	-	79,156										
Disposals†	405	(2,718)	(78,425)	(4,423,829)	(171,757)	(4,423,829)	(403,556)	(169,504)	(54,427)	(185,541)	(78,184)	(5,567,536)										
Impairments	iv	(59,124)	(167,446)	(333,355)	(466,673)	(91,985)	(1,323)	(141,204)	(103)	(12,804)	185,221	(1,088,796)										
Reclassifications	v	(5,302)	(124,120)	(69,073)	1,218,345	3,865,526	376,918	456,860	113,573	(4,906,268)	(3,184,944)	(2,258,485)										
Revaluations	vi	(41,396)	378,816	(188,865)	608,685	983,179	95,952	222,166	76,532	170,326	82,285	2,387,680										
<b>At 31 March 2013</b>		<b>2,016,380</b>	<b>5,349,446</b>	<b>9,818,267</b>	<b>18,380,209</b>	<b>74,276,131</b>	<b>4,614,690</b>	<b>16,939,745</b>	<b>4,529,825</b>	<b>12,080,364</b>	<b>5,425,411</b>	<b>153,430,468</b>										
Additions	i	37,557	24,804	141,558	140,739	379,279	89,005	600,225	312,853	3,247,512	2,656,926	7,630,458										
Capitalised Provisions	ii	-	-	-	9,608	(138,136)	-	-	-	-	-	(128,528)										
Donations	iii	-	-	-	-	3,761	650	-	-	-	-	4,411										
Disposals	(31)	(3,446)	(27,825)	(234,789)	(3,634,514)	(3,634,514)	(214,786)	(1,140,997)	(275,405)	(174,073)	(94,081)	(5,799,947)										
Impairments	iv	126,104	(10,000)	(66,229)	142,567	(176,099)	(16,496)	(59,781)	2,485	(119,341)	(17,082)	(193,872)										
Reclassifications	v	(11,665)	(107,957)	216,428	(149,011)	2,291,165	93,766	368,994	97,410	(2,196,624)	(1,246,785)	(644,279)										
Revaluations	vi	78,820	760,130	191,596	1,967,297	(513,621)	24,447	66,184	183,744	(516,316)	(95,104)	2,147,177										
<b>At 31 March 2014</b>		<b>2,247,165</b>	<b>6,012,977</b>	<b>10,273,795</b>	<b>20,256,620</b>	<b>72,487,966</b>	<b>4,591,276</b>	<b>16,774,370</b>	<b>4,850,912</b>	<b>12,321,522</b>	<b>6,629,285</b>	<b>156,445,888</b>										
<b>Depreciation</b>																						
At 1 April 2012		(43,365)	-	(1,930,553)	(7,080,647)	(38,386,303)	(2,645,350)	(7,839,367)	(1,719,614)	-	-	(59,645,199)										
Charged in Year		(8,369)	-	(231,711)	(585,926)	(3,697,236)	(220,651)	(866,495)	(350,233)	-	-	(5,960,621)										
Disposals	(405)	-	-	58,300	122,670	3,021,045	243,270	595,763	76,544	-	-	4,117,187										
Impairments	iv	1,309	-	5,340	2,888	(7,351)	(2,352)	51,126	7,333	-	-	58,293										
Reclassifications	v	-	-	94,932	195,897	1,087,813	108,963	10,394	(34,920)	-	-	1,463,079										
Revaluations	vi	55	-	(46,338)	(408,487)	(568,278)	(46,502)	(125,879)	9,664	-	-	(1,185,765)										
<b>At 31 March 2013</b>		<b>(50,775)</b>	<b>-</b>	<b>(2,050,030)</b>	<b>(7,753,605)</b>	<b>(38,550,310)</b>	<b>(2,562,622)</b>	<b>(8,174,458)</b>	<b>(2,011,226)</b>	<b>-</b>	<b>-</b>	<b>(61,153,026)</b>										

Note	Land Dwellings £000	Land Other Buildings £000	Dwellings £000	Other Buildings £000	Single Use Military Equipment (SUME) £000	Plant and Machinery £000	Transport £000	IT and Communication Equipment £000	Assets under Construction (SUME) £000	Assets under Construction (Other) £000	Total £000
Charged in Year	(10,766)	(20,642)	(222,064)	(635,138)	(3,931,346)	(248,690)	(1,015,826)	(402,696)	-	-	(6,487,168)
Disposals	-	-	15,235	189,610	3,752,310	176,742	1,346,734	267,950	-	-	5,748,581
Impairments	(3,916)	-	80,495	44,223	(722,991)	(855)	(2,401)	(17,997)	-	-	(623,442)
Reclassifications	44	2,972	54,068	95,287	331,437	(36,353)	(11,052)	64,656	-	-	501,059
Revaluations	(1,008)	-	(110,729)	(1,039,602)	(43,368)	(1,429)	(23,152)	(121,390)	-	-	(1,340,678)
<b>At 31 March 2014</b>	<b>(66,421)</b>	<b>(17,670)</b>	<b>(2,233,025)</b>	<b>(9,099,225)</b>	<b>(39,164,268)</b>	<b>(2,673,207)</b>	<b>(7,880,155)</b>	<b>(2,220,703)</b>	-	-	<b>(63,354,674)</b>
<b>Net Book Value</b>											
At 1 April 2012	2,074,969	5,167,781	8,499,711	9,978,717	34,607,134	1,861,233	8,541,556	2,483,191	13,629,374	5,968,934	92,812,600
At 31 March 2013	1,965,605	5,349,446	7,768,237	10,626,604	35,725,821	2,052,068	8,765,287	2,518,599	12,080,364	5,425,411	92,277,442
<b>At 31 March 2014</b>	<b>2,180,744</b>	<b>5,995,307</b>	<b>8,040,770</b>	<b>11,157,395</b>	<b>33,323,698</b>	<b>1,918,069</b>	<b>8,894,215</b>	<b>2,630,209</b>	<b>12,321,522</b>	<b>6,629,285</b>	<b>93,091,214</b>
<b>Asset Financing</b>											
Owned	515,956	5,556,578	3,388,170	9,809,366	33,307,016	1,497,702	7,938,380	1,311,366	12,321,522	6,600,275	82,246,331
Donated	79,522	337,031	108,556	144,061	16,682	17,628	-	-	-	-	703,480
Long Lease	1,809	18,213	11,050	36,966	-	-	-	-	-	-	68,038
Short Lease	51	13,598	219	19,773	-	-	-	-	-	-	33,641
Operating Lease (Lessor)	-	-	-	9,913	-	-	-	-	-	-	9,913
Finance Lease	1,492,545	-	3,783,992	-	-	-	62	-	-	-	5,276,599
Service Concession Arrangements	90,861	69,887	748,783	1,137,316	-	402,739	955,773	1,318,843	-	29,010	4,753,212
<b>At 31 March 2014</b>	<b>2,180,744</b>	<b>5,995,307</b>	<b>8,040,770</b>	<b>11,157,395</b>	<b>33,323,698</b>	<b>1,918,069</b>	<b>8,894,215</b>	<b>2,630,209</b>	<b>12,321,522</b>	<b>6,629,285</b>	<b>93,091,214</b>
<b>Of the total net book value as at 31 March 2014</b>											
Core Department	2,180,744	5,990,047	7,669,239	10,932,809	33,323,698	1,781,428	8,884,318	2,626,844	12,321,522	6,620,224	92,330,873
Arm's Length Bodies	-	5,260	371,531	224,586	-	136,641	9,897	3,365	-	9,061	760,341
<b>Total</b>	<b>2,180,744</b>	<b>5,995,307</b>	<b>8,040,770</b>	<b>11,157,395</b>	<b>33,323,698</b>	<b>1,918,069</b>	<b>8,894,215</b>	<b>2,630,209</b>	<b>12,321,522</b>	<b>6,629,285</b>	<b>93,091,214</b>

Notes

- i. Additions include accruals of £2.38m (2012-13: £3.8m). In 2012-13, additions included £108M of donated assets.
- ii. Property, plant and equipment as at 31 March 2014 include capitalised provisions of £345M (2012-13: £473M).
- iii. Donated Assets in use have been valued on the same basis as all other assets used by the Department.
- iv. Assets are impaired for a variety of reasons e.g. loss, damage, obsolescence, abandonment of Assets Under Construction (AUC) and as part of the disposal process.
- v. Includes assets reclassified to intangible assets of £1.13M, assets reclassified to inventories of £430k.
- vi. Revaluations include changes due to indexation, impairment and impairment reversals. Departmental reviews have concluded that where the price inflation embedded within contracts for construction of buildings and equipment provides for a reasonable estimate of fair value during development and construction, the additional annual application of indexation is not required. To ensure accurate fair value reviews annually on its AUC and on their reclassification to assets in use. The asset values above include an adjustment to bring valuations into line with this improved estimation technique, which has been accounted for as a change in accounting estimate, in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. An adjustment has been made to both AUC and to assets in use transferred from AUC in previous years. The adjustment resulted in a £28m downwards revaluation taken through reserves. As a consequence of the change in this valuation methodology, Non-Current Assets are not subject to indexation during the period the platform remains in production and the contract is deemed to reflect fair value. A downwards revaluation of £280 million has been applied to the Typhoon aircraft to reflect this change in accounting estimate.

8.1 Land and Buildings, with the exception of AUC, are subject to a quinquennial revaluation (QQR), overseas assets are also subject to adjustments to reflect movements in the Euro to Sterling exchange rate. The QQR is conducted as a rolling programme with approximately 25% of the estate revalued in each of the first 4 years and any residual work taking place in year 5. Financial year 2013-14 represents the first year of the current QQR4 programme. Valuations for the UK estate were performed by the Valuation Office Agency and for the overseas estate in-house by Defence Infrastructure Organisation personnel and reviewed by GVA plc. All valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual. Non-specialist properties are valued at fair value, interpreted as market value for existing use; Specialist properties, for which there is no external market, are valued at depreciated replacement cost.

8.2 Data from the 2013–14 quinquennial review resulted in a £341M increase in the value of Land and a £1,382M increase in the value of Buildings at Net Book Value. Valuations received during the year were effective either 1 November 2013 or 1 March 2014, and were applied to the asset registers during the financial year.

8.3 The net charge to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings assets is £78M impairment reversal. This is made up of: Land, £45M net impairment write off; Buildings, £123M net impairment reversal. The figures include all Land and Building assets professionally valued during Financial Year 2013-14, including Donated, IFRIC 12 and IAS 17 leased assets.

## 9. Financial Instruments

9.1 IFRS 7 Financial Instruments – Disclosures, requires the Department to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the risks to which the Department is exposed and how these risks are managed. For each type of risk arising from financial instruments, the Department is also required to provide summary quantitative data about its exposure to the risk at the reporting date.

9.2 The cash requirements of the Department are met mainly through the Supply funding process, financial instruments therefore play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little liquidity or cash flow risk.

9.3 The Department is subject to some credit risk. The carrying amount of receivables, which is net of impairment losses, represents the Department's maximum exposure to credit risk from these instruments. Trade and other receivables consist of a large number of diverse customers spread over a wide geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability: that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. The Department has cash balances with commercial banks in the Eurozone and is therefore exposed to additional credit risk in respect of these holdings. The cash balances are relatively small and are being managed in order to minimise the risk; in addition, wider corporate services development will see much of the activity on these accounts transferred to the Government Banking Service.

9.4 The Department is subject to exchange rate risk and enters into forward purchase contracts for Euros and US Dollars to mitigate against the risk that cash inflows and outflows will be affected by changes in exchange rates; foreign currency forward contracts were not in hedging relationships in accordance with IAS 39.

### Significant Accounting Policies

9.5 Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 1 to the financial statements.

## Categories of Financial Instruments

9.6 Details of the Financial Instruments, by category, are:

	Note	31 March 2014		31 March 2013	
		Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
<b>Financial Assets</b>					
Fair value through Net Operating Cost – Held for Trading	SoFP	58,448	58,448	167,436	167,436
Loans and receivables (including cash and cash equivalents)		1,876,480	1,984,239	2,798,604	2,884,955
Held for Sale		1	60,823	1	105,396
		<b>1,934,929</b>	<b>2,103,510</b>	<b>2,966,041</b>	<b>3,157,787</b>
<b>Financial Liabilities</b>					
Payables and accruals		(8,693,435)	(8,708,815)	(9,442,181)	(9,456,198)
Fair value through Net Operating Cost – Held for Trading	SoFP	(305,189)	(305,189)	(68,147)	(68,147)
		<b>(8,998,624)</b>	<b>(9,014,004)</b>	<b>(9,510,328)</b>	<b>(9,524,345)</b>

9.7 The net gains and losses, for the Departmental Group, taken through Net Operating Cost or Other Comprehensive Expenditure in respect of financial instruments are listed below:

	31 March 2014		31 March 2013	
	Net Operating Cost £000	Other Comprehensive Expenditure £000	Net Operating Cost £000	Other Comprehensive Expenditure £000
<b>Financial Assets</b>				
Fair value through Net Operating Cost – Held for Trading	409,497	-	(125,943)	-
Loans and receivables	1,290	-	(24,449)	-
Available for Sale	-	-	-	(2,998)
<b>Financial Liabilities</b>				
Payables and accruals	5,882	-	2,515	-
	<b>416,669</b>	<b>-</b>	<b>(147,877)</b>	<b>(2,998)</b>

## Interest Rate Risk Management

9.8 A significant proportion of the Department's financial assets and liabilities carry nil or fixed rates of interest. The exposure to interest risk is therefore not significant. Departmental cash requirements are met through the Supply funding process.

## Foreign Currency Risk

9.9 The Department undertakes certain transactions denominated in foreign currencies; as a result exposure to exchange rate fluctuations arises. Exchange rate exposure for the US Dollar and Euro are managed using forward purchase contracts with the Bank of England and covered 79% of the in-year expenditure in those currencies.

9.10 The table below details the forward purchase currency contracts outstanding as at 31 March 2014:

	Average Contract Exchange Rates	Foreign Currency		Contract Value 31 March 2014 £000	Financial Asset / (Liability) Fair Value 31 March 2014 £000	Financial Asset / (Liability) Fair Value 31 March 2013 £000
		US \$ '000	Euro € '000			
Delivery 2013-14						
US Dollars (\$)		-	-	-	-	37,448
Euro (€)		-	-	-	-	(10,183)
Delivery 2014-15						
US Dollars (\$)	1.58	2,912,000	1,839,709	(93,068)	27,778	
Euro (€)	1.18	2,350,000	1,984,242	(41,450)	(631)	
Delivery 2015-16						
US Dollars (\$)	1.59	2,303,000	1,450,551	(69,193)	17,516	
Euro (€)	1.19	1,727,000	1,455,465	(27,720)	7,385	
Delivery 2016-17						
US Dollars (\$)	1.60	1,301,000	813,919	(33,569)	-	
Euro (€)	1.16	734,000	630,593	(23,781)	-	
<b>Total</b>			<b>8,174,479</b>	<b>(288,781)</b>	<b>79,313</b>	

9.11 The fair value of the financial asset / liability arising from the forward purchase contracts is determined using the mid-market rate for 31 March published in the Financial Times.

## Fuel Price Risk

9.12 The Department undertakes substantial purchases of aviation and marine fuels. Exposure to fluctuations in the market prices of these commodities is managed using Swap contracts for forward deliveries. The Swap contracts are placed with a small range of major financial institutions.

9.13 The table below details the Swap contracts outstanding as at 31 March 2014:

	Average Price US\$ / Tonne	Volume Tonnes	Contract Value		Financial Asset / (Liability) Fair Value 31 March 2014* £000	Financial Asset / (Liability) Fair Value 31 March 2013* £000
			31 March 2014 US\$000	31 March 2014* £000		
Delivery 2013-14						
Aviation Turbine Fuel	-	-	-	-	-	5,330
Marine Gas Oil	-	-	-	-	-	2,485
Delivery 2014-15						
Aviation Turbine Fuel	981	386,555	379,069	227,368	(4,793)	737
Marine Gas Oil	894	190,470	170,266	102,127	719	1,352
Unleaded Ground Fuel	953	2,229	2,124	1,274	20	-
Diesel Ground Fuel	924	34,741	32,107	19,258	(55)	-
Delivery 2015-16						
Aviation Turbine Fuel	950	301,305	286,132	171,625	1,865	2,746
Marine Gas Oil	865	135,168	116,981	70,166	2,820	1,754
Unleaded Ground Fuel	892	1,665	1,486	891	75	-
Diesel Ground Fuel	888	25,999	23,079	13,843	536	-
Delivery 2016-17						
Aviation Turbine Fuel	914	152,568	138,442	83,639	4,210	-
Marine Gas Oil	832	67,989	56,553	33,920	2,791	-
Unleaded Ground Fuel	856	829	710	426	56	-
Diesel Ground Fuel	858	12,978	11,140	6,682	495	-
<b>Total</b>			<b>1,218,089</b>	<b>731,219</b>	<b>8,739</b>	<b>14,404</b>

\*US \$ values have been converted to sterling using the mid market exchange rate as at 31 March

## Embedded Derivatives

9.14 Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the Statement of Comprehensive Net Expenditure in accordance with IFRS 7. The Department operates a commercial framework whereby it does not currently hold financial risks of this nature and places restrictions on doing so in the future.

## Fair Value of Financial Instruments

9.15 The carrying values of financial assets and financial liabilities are determined as follows:

- Financial assets at fair value through Statement of Comprehensive Net Expenditure: mid market rate at 31 March as published in the Financial Times.
- Loans and Receivables: Loans to MOD Trading Funds are valued at historical cost less any impairment, with the element due within one year treated as fair value. Receivables due in less than one year are valued at historic cost less any impairment. Receivables due in more than one year are discounted using either the higher of the interest rate intrinsic to the financial instrument or the HM Treasury rate of 2.2%.
- Financial assets held for sale are measured at fair value.
- Payables and accruals: Payables and accruals due in less than one year are valued at historic cost less any impairment. Payables and accruals due in more than one year are discounted using the higher of the interest rate intrinsic to the financial instrument, the HM Treasury rate of 2.2% or, where applicable, the discount rate applicable to pension scheme provisions. Loans payable with a market rate of interest are valued at cost.
- Financial liabilities at fair value through Statement of Comprehensive Net Expenditure: mid market rate at 31 March as published in the Financial Times.

9.16 Details of the financial instruments by valuation method are:

	31 March 2014		31 March 2013	
	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
<b>Financial Assets</b>				
Fair value	58,449	119,271	167,437	272,832
Historic cost	1,625,652	1,711,911	2,611,661	2,676,492
Discounted cost	250,828	272,328	186,943	208,463
	<b>1,934,929</b>	<b>2,103,510</b>	2,966,041	3,157,787
<b>Financial Liabilities</b>				
Fair value	(305,189)	(305,189)	(68,147)	(68,147)
Historic cost	(8,423,381)	(8,438,761)	(9,186,294)	(9,200,297)
Discounted cost	(270,054)	(270,054)	(255,887)	(255,901)
	<b>(8,998,624)</b>	<b>(9,014,004)</b>	(9,510,328)	(9,524,345)

## 10. Investments

### 10.1 Departmental Group – Investments in Public Sector and Non-Public Sector Bodies

	Non-Current Assets – Financial Assets		
	Public Dividend Capital £000	Loans £000	Total £000
Balance at 1 April 2012	87,002	60,493	147,495
Repayments	-	(5,519)	(5,519)
Balance at 31 March 2013	<b>87,002</b>	<b>54,974</b>	<b>141,976</b>
Repayments			
Defence Science and Technology Laboratory	-	(3,220)	(3,220)
UK Hydrographic Office	-	(689)	(689)
Defence Support Group	-	(1,664)	(1,664)
<b>Balance at 31 March 2014</b>	<b>87,002</b>	<b>49,401</b>	<b>136,403</b>

### 10.2 Public Dividend Capital (PDC) and Loan Balances by Trading Fund

	Public Dividend Capital (PDC) 31 Mar 14 £000	Loan Balance Due Within One Year £000	Loan Balance Due After One Year £000	Total Balance of Loan due at 31 Mar 14 £000
Defence Science and Technology Laboratory	50,412	3,219	16,100	<b>19,319</b>
UK Hydrographic Office	13,267	6,784	-	<b>6,784</b>
Defence Support Group	23,323	23,298	-	<b>23,298</b>
<b>Totals</b>	<b>87,002</b>	<b>33,301</b>	<b>16,100</b>	<b>49,401</b>

### 10.3 Department's Share of Net Assets and Results of Trading Funds

	2013-14			2012-13		
	Net Assets (after loans due to MOD) 31 March 2014 £000	Turnover £000	Surplus / profit for the Year (before financing) £000	Net Assets (after loans due to MOD) 31 March 2013 £000	Turnover £000	Surplus / profit for the Year (before financing) £000
Defence Science and Technology Laboratory	380,286	660,404	20,075	318,640	628,644	25,893
UK Hydrographic Office	125,157	130,542	17,908	134,278	129,798	22,932
Defence Support Group	149,061	179,478	15,616	141,137	182,492	17,414
<b>Total</b>	<b>654,504</b>	<b>970,424</b>	<b>53,599</b>	<b>594,055</b>	<b>940,934</b>	<b>66,239</b>

## Other Financial Assets

10.4 As at 31 March 2014, investments, including Special Shares, were held in the following:

7.5% Non-cumulative Irredeemable Preference Shares at £1 each	
The Chamber of Shipping Limited	688 Shares
The British Shipping Federation Limited	55,040 Shares

Preferential Special Shares at £1 each	
Devonport Royal Dockyard Limited	1 Share
Rosyth Royal Dockyard Limited	1 Share
AWE plc	1 Share
AWE Pension Trustees Limited	1 Share
QinetiQ Group plc	1 Share
QinetiQ Holdings Limited	1 Share
QinetiQ Limited	1 Share
BAE Systems Marine (Holdings) Limited	1 Share

Non Preferential Shares of £1 each	
International Military Services Limited	19,999,999 Shares

10.5 The Department has a 100% interest in the non-preferential shares of International Military Services Limited, a company registered in England. International Military Services Limited ceased trading on 31 July 1991. Following settlement of outstanding contracts, the company will be liquidated and any remaining value distributed in accordance with the company's constitution. The Department has written down the value of the investment to nil.

10.6 The 7.5% Non-cumulative Irredeemable Preference Shares in Chamber of Shipping Limited and British Shipping Federation Limited are valued at 1p each reflecting the value at which shares would be recovered by the two companies should membership by the Department be ceded, as laid down in the Articles of Association of the respective companies.

10.7 Special Shares confer on the Secretary of State for Defence special rights regarding ownership, influence and control, including voting rights in certain circumstances, under the individual Articles of Association of the relevant companies in which the shares are held. Further detailed information can be obtained from the companies' annual reports and accounts, which can be obtained from:

Company	Registration Number
Devonport Royal Dockyard Limited, Devonport Royal Dockyard, Devonport, Plymouth PL1 4SG	02077752
Rosyth Royal Dockyard Limited, c/o Babcock BES, Rosyth Business Park, Rosyth, Dunfermline, Fife KY11 2YD	SC101959
AWE plc, AWE Aldermaston, Reading, Berkshire RG7 4PR	02763902
AWE Pension Trustees Limited, AWE Aldermaston, Reading, Berkshire RG7 4PR	02784144
QinetiQ Group plc, 85 Buckingham Gate, London SW1E 6PD	04586941
QinetiQ Holdings Limited, 85 Buckingham Gate, London SW1E 6PD	04154556
QinetiQ Limited, 85 Buckingham Gate, London SW1E 6PD	03796233
BAE Systems Marine (Holdings) Limited, Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hants, GU14 6YU	01957765

## Departmental Group – Dividends from Investments

10.8 The following dividends are shown as income in Note 6.

	2013-14 £000	2012-13 £000
Defence Science Technology Laboratory	11,000	10,000
UK Hydrographic Office	28,091	11,274
Defence Support Group	7,000	7,000
Other	1,800	2,933
<b>Total</b>	<b>47,891</b>	<b>31,207</b>

## 11. Departmental Group – Impairments 2013-14

Details of impairments and impairment reversals through Net Operating Costs and Other Comprehensive Expenditure, for the year, are:

	Net Operating Cost Impairment £000	Net Operating Cost Impairment Reversal £000	Other Comprehensive Expenditure Impairment £000	Other Comprehensive Expenditure Impairment Reversal £000
Intangibles	17,532	(151)	2,150	-
Land	180,315	(292,503)	-	-
Property (including assets held for sale)	200,242	(401,298)	-	-
Single Use Military Equipment (SUME)	899,092	-	-	-
Plant & machinery	17,351	-	-	-
Transport	62,247	(65)	-	-
IT	15,512	-	-	-
Assets under construction	123,168	-	13,254	-
Assets held for sale	96,208	-	-	-
	<b>1,611,667</b>	<b>(694,017)</b>	<b>15,404</b>	<b>-</b>

During the year the Department conducted a wide ranging impairment review of non-current (capital spares and GWMB) and current asset inventory. The review considered the impact of factors such as: external and internal decisions, changes in the environment, emergence of new technologies, specific incidents e.g. damage, technical obsolescence, shelf life, deterioration and excess holdings; on Capital Spares, Guided Weapons, Missiles and Bombs and Raw Materials and Consumables. The review examined all items accounting for 60% of the net book value and a statistical sample of the remainder. As a result of the exercise the value of these categories of assets were reduced by £860M.

## 12. Departmental Group – PPE Assets Held For Sale

The Department has the following non-current assets held for sale:

	Land and Property £000	Plant and Equipment £000	Total £000
Balance as at 31 March 2013	31,803	9,705	41,508
Additions (transfers in)	203,859	2,688	206,547
Disposals	(42,579)	(6,516)	(49,095)
Revaluation	(148,654)	1,269	(147,385)
<b>Balance as at 31 March 2014</b>	<b>44,429</b>	<b>7,146</b>	<b>51,575</b>

Disposal of plant and equipment is managed through the Disposal Services Authority. Disposal of land and property is managed by Defence Infrastructure Organisation. Assets are held at the lower of market value or net book value with any movement in valuation taken to the revaluation reserve up to historic cost and then to Net Operating Cost as an impairment. Asset disposals include property assets overseas handed back to host nations, for which receipts are expected in future periods. Costs of impairing the assets to the net realisable value were charged to the operating costs statement and are included in Note 5 – Other Programme Costs.

## 13. Departmental Group – Inventories

To conduct its activities across the world, on operations and standing commitments, the Armed Forces require a wide range of supplies and spares for immediate and potential use. A large part of these supplies and spares are recorded on the inventory accounting systems and comprise over 750,000 different types and around 900 million items. The type and range of items accounted for include: Guided Weapons, Missiles and Bombs and significant equipment spares (e.g. aircraft engines), which are reported in the accounts at Note 8 as part of the Single Use Military Equipment figures; as well as raw materials and consumable items which are reported in the table below:

	31 March 2014 £000	31 March 2013 £000
Munitions	1,761,729	1,968,753
Clothing & textiles	396,293	347,966
Engineering & technical	2,656,965	2,739,235
General	2,154,776	2,215,785
Medical, dental & veterinary	48,767	53,281
Oil, fuel & lubricants	272,970	251,967
Inventory held by ALBs	8,596	8,599
<b>Total</b>	<b>7,300,096</b>	<b>7,585,586</b>

13.1 Where MOD has a Memorandum of Understanding with another country, inventory (including major components such as gas turbines and other supporting inventory) belonging to and held on behalf of that country is included in MOD's inventory systems. The assets may physically be at the contractor, in stores or both. The value of these items is not included in the figures above.

## 14. Trade Receivables and Other Current Assets

14.1 Departmental Group – analysis of receivables by type:

	Core Department £000	31 March 2014 Departmental Group £000	Core Department £000	31 March 2013 Departmental Group £000
<b>Amounts falling due within one year:</b>				
Trade receivables	198,398	199,173	213,995	214,190
Deposits and advances	5,861	5,861	123,068	123,068
Value Added Tax	520,789	521,209	463,675	463,772
Other receivables	223,323	226,108	389,718	399,657
Staff loans and advances*	53,739	53,989	42,062	42,312
Prepayments and accrued income	1,048,431	1,053,336	1,603,339	1,607,920
Current part of Service Concession Arrangement prepayment	5,236	5,236	8,121	8,121
Under issue of Supply from the Consolidated Fund	145,349	145,349	-	-
	<b>2,201,126</b>	<b>2,210,261</b>	<b>2,843,978</b>	<b>2,859,040</b>
<b>Amounts falling due after one year:</b>				
Trade receivables	103,755	103,755	100,013	100,013
Other receivables	87,858	109,358	104,883	126,403
Staff loans and advances*	70,988	70,988	73,378	73,378
Prepayments and accrued income	452,078	452,078	143,953	143,953
ALB Pension Assets**	-	178,622	-	161,110
	<b>714,679</b>	<b>914,801</b>	<b>422,227</b>	<b>604,857</b>
<b>Total Receivables</b>	<b>2,915,805</b>	<b>3,125,062</b>	<b>3,266,205</b>	<b>3,463,897</b>

\* Staff loans and advances includes loans for house purchase. The number of staff with house purchase loans was 14,839 (2012-13:14,801).

\*\* Pension assets in respect of ALBs as at 31 March 2014 are disclosed separately for the first time; previously they were included as other receivables. Additional information on ALB pensions is at Note 17.2.

## 14.2 Departmental Group – Additional analysis of receivables balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000
Balances with other central government bodies	696,477	493,981	568	76
Balances with local authorities	273	679	3	1
Balances with NHS Trusts	4,317	816	-	-
Balances with public corporations and trading funds	31,281	9,893	-	4
<i>Subtotal: intra-government balances</i>	<i>732,348</i>	<i>505,369</i>	<i>571</i>	<i>81</i>
Balances with bodies external to government	1,477,913	2,353,671	914,230	604,776
<b>Total Receivables</b>	<b>2,210,261</b>	<b>2,859,040</b>	<b>914,801</b>	<b>604,857</b>

## 15. Cash and Cash Equivalents

	Core Department £000	Departmental Group £000
Balance at 31 March 2013	1,785,834	1,851,149
Net change in cash and cash equivalents	(854,937)	(837,178)
<b>Balance at 31 March 2014</b>	<b>930,897</b>	<b>1,013,971</b>

The following balances were held at:	31 March 2014 £000	31 March 2013 £000
Government Banking Service	370,089	1,290,480
Commercial Banks and Cash in Hand	643,882	560,669
<b>Totals</b>	<b>1,013,971</b>	<b>1,851,149</b>

The commercial banks and cash in hand figure as at 31 March 2014 includes £610M (31 March 2013: £621M) of sums advanced by foreign governments to the Department on various collaborative projects where the United Kingdom is the host nation. Advances made by foreign governments for the procurement of defence equipment on their behalf are also included in this amount. The corresponding liability for these advances is shown under payables due within one year.

The Department holds \$40M in an account with the US Government as a Termination Liability Reserve. This is a US legal requirement in order to trade with US defence contractors through Foreign Military Sales. The balance is accounted for as a prepayment in Note 14 Trade Receivables and Other Current Assets.

## 16. Trade Payables and Other Current Liabilities

### 16.1 Departmental Group – analysis of payables and other liabilities by type:

	31 March 2014		31 March 2013	
	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
<b>Amounts falling due within one year:</b>				
VAT	35,188	35,508	113,470	113,470
Other taxation and social security	183,226	184,501	208,687	210,159
Trade payables	535,897	540,202	507,392	510,754
Other payables*	1,906,795	1,907,615	2,106,300	2,106,853
Payments received on account	2,523	15,466	678	13,621
Accruals and deferred income	6,322,254	6,364,084	6,880,486	6,922,452
Current part of finance leases	8,458	8,458	7,870	7,917
Current part of imputed finance lease element of Service Concession Arrangement contracts	256,498	256,498	207,430	207,430
Current part of NLF loans**	2,444	2,444	2,297	2,297
Supply Payable	-	-	697,470	697,470
	<b>9,253,283</b>	<b>9,314,776</b>	10,732,080	10,792,423
<b>Amounts falling due after one year:</b>				
Other payables	117,142	117,342	243,619	243,645
Accruals and deferred income	152,912	152,912	12,267	12,267
Finance leases	1,788,436	1,788,436	1,796,893	1,796,893
Imputed finance lease element of Service Concession Arrangement contracts	4,281,163	4,281,163	3,821,841	3,821,841
NLF loans**	30,434	30,434	32,879	32,879
ALB pension schemes' liabilities***	-	170,726	-	-
	<b>6,370,087</b>	<b>6,541,013</b>	5,907,499	5,907,525
<b>Total Payables</b>	<b>15,623,370</b>	<b>15,855,789</b>	16,639,579	16,699,948

\*Other payables includes amounts advanced by foreign governments to the Department, in respect of various collaborative projects where the United Kingdom is the host nation and for the procurement of defence equipment on their behalf, of £610M (2012-13: £621M)

\*\*Under the Armed Forces (Housing Loans) Acts 1949, 1958 and 1965, £94M was borrowed from the National Loans Fund for the construction of married quarters over the period 1950-51 to 1967-68. These loans are fully repayable between 2012 and 2028, with the last instalment due on 20 February 2028. Interest on the loans is payable at rates ranging from 4% to 7% per annum.

\*\*\*Pension liabilities in respect of ALBs as at 31 March 2014 are disclosed separately for the first time; previously they were included as provisions for liabilities and charges. Additional information on ALB pensions is at Note 17.2.

### 16.2 Departmental Group – Additional analysis of payables and other liabilities:

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000
Balances with other central government bodies	336,250	536,287	-	32,879
Balances with local authorities	842	639	-	-
Balances with NHS Trusts	3,023	1,642	-	-
Balances with public corporations and trading funds	216,885	197,612	-	214
<i>Subtotal: intra-government balances</i>	557,000	736,180	-	33,093
Balances with bodies external to government	8,757,776	10,056,243	6,541,013	5,874,432
<b>Total Payables</b>	<b>9,314,776</b>	<b>10,792,423</b>	6,541,013	5,907,525

## 17. Departmental Group – Employee Benefits – Pension Schemes

17.1 The Armed Forces and the majority of the Department's staff are members of one of the following pension schemes: The Armed Forces Pension Scheme, The Principal Civil Service Pension Scheme, The NHS Pension Scheme or the Teachers' Pension Scheme. The pension liabilities, any assets and the costs of running these schemes are not included in these accounts (with the exception of the costs of administering the Armed Forces Pension Scheme which forms a part of the Department's expenditure). Separate accounts are published for these schemes details can be found at:

<https://www.gov.uk/pensions-and-compensation-for-veterans>;

<http://www.civilservice.gov.uk/pensions>;

<http://www.education.gov.uk/schools/careers/payandpensions>; and

<http://www.nhsbsa.nhs.uk/pensions>.

17.2 Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians overseas. Estimates of the liabilities (and assets where applicable) for these schemes are included in the accounts as set out in the tables below.

	2013-14 £000	2012-13 £000
<b>Value of (liabilities) of schemes included in the accounts as part of the overall provision for liabilities and charges</b>		
United Kingdom Departments Gibraltar Pension Scheme (Unfunded)*	(263,100)	(219,600)
Sovereign Base Administration Areas Pension Scheme Cyprus (Unfunded)*	(75,900)	(63,000)
British Forces Cyprus Fire Service Pension Scheme (Unfunded)*	(35,200)	(29,700)
<b>Total</b>	<b>(374,200)</b>	<b>(312,300)</b>

\*The Schemes were valued by the Government Actuary's Department as at 31 March 14.

	As at 31 March 2014			As at 31 March 2013		
	Assets £000	(Liabilities) £000	Surplus/(Deficit) £000	Assets £000	(Liabilities) £000	Surplus/(Deficit) £000
<b>Value of assets and (liabilities) of schemes included in the accounts as part of the overall balances for receivables and payables</b>						
Reserve Forces and Cadets Association Pension Scheme (Funded)*	96,622	(85,826)	10,796	80,700	(69,500)	11,200
Commonwealth War Graves Commission Superannuation Scheme (Funded)**	82,000	(84,900)	(2,900)	80,410	(79,297)	1,113
<b>Total</b>	<b>178,622</b>	<b>(170,726)</b>	<b>7,896</b>	<b>161,110</b>	<b>(148,797)</b>	<b>12,313</b>

\*The latest valuation of the Reserve Forces and Cadets Association Pension Fund was completed as at 1 August 2012.

\*\*The funded defined benefit scheme was closed to new members in 2012-13 and a new defined contribution scheme was opened. The latest valuation of the closed scheme was completed as at 31 March 2013 for liabilities and 30 September 2013 for assets.

17.3 The Department also makes payments to The Merchant Navy Rating Pensions Fund; a funded, multi-employer defined benefit scheme for which the Department can not reliably estimate its share of the assets and liabilities. The scheme is closed to new members and the payments are the Department's agreed long term contribution towards the overall scheme deficit. The liability for payments (£16M) are included in the accounts based on the latest actuarial valuation as at 31 March 2008.

17.4 The numbers of members in these smaller schemes are:

	Active	Pensioners	Deferred Pensioners
United Kingdom Departments Gibraltar Pension Scheme	581	1,566	332
Sovereign Base Administration Areas Pension Scheme Cyprus	340	146	1
British Forces Cyprus Fire Service Pension Scheme	117	66	1
Reserve Forces and Cadets Associations Pension Scheme	824	1,081	290
Commonwealth War Graves Commission Superannuation Scheme	224	409	155
<b>Total</b>	<b>2,086</b>	<b>3,268</b>	<b>779</b>

## 18. Provisions for Liabilities and Charges

### 18.1 Departmental Group – Provisions for Liabilities and Charges

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other Provisions			Total £000
				Pension £000	Legal £000	Other £000	
At 1 April 2012	3,718,412	56,608	146,051	312,300	347,564	176,376	4,757,311
Increase in provisions in-year	521,696	6,076	13,929	9,800	212,483	18,301	782,285
Provisions written back and reclassifications	(548,097)	(10,211)	(17,636)	(9,039)	(839)	(2,688)	(588,510)
Provisions utilised in year	(68,075)	(8,590)	(34,131)	(11,761)	(106,525)	(7,658)	(236,740)
Unwinding of discount	75,713	(853)	2,907	43,100	(5,308)	(141)	115,418
Provisions capitalised	33,575	-	-	-	-	-	33,575
<b>At 31 March 2013</b>	<b>3,733,224</b>	<b>43,030</b>	<b>111,120</b>	<b>344,400</b>	<b>447,375</b>	<b>184,190</b>	<b>4,863,339</b>
Increase in provisions in-year	218,294	196	32,175	9,962	131,195	105	391,927
Provisions written back and reclassifications	(201,139)	(3,610)	(5,958)	(12,300)	(83,565)	(162,980)	(469,552)
Provisions utilised in year	(66,519)	(1,997)	(25,362)	(12,962)	(91,034)	(5,498)	(203,372)
Unwinding of discount	32,728	(61)	3,545	45,100	(4,423)	99	76,988
Provisions capitalised	(128,528)	-	-	-	-	-	(128,528)
<b>At 31 March 2014</b>	<b>3,588,060</b>	<b>37,558</b>	<b>115,520</b>	<b>374,200</b>	<b>399,548</b>	<b>15,916</b>	<b>4,530,802</b>

### 18.2 Analysis of expected timing of discounted cash flows

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other Provisions £000	Total £000
Due within 1 year	110,782	15,821	18,276	131,700	276,579
Due over 1 year and less than 5 years	604,802	20,991	46,634	289,470	961,897
Due over 5 years	2,872,476	746	50,610	368,494	3,292,326
<b>At 31 March 2014</b>	<b>3,588,060</b>	<b>37,558</b>	<b>115,520</b>	<b>789,664</b>	<b>4,530,802</b>

### Nuclear Decommissioning

18.3 Changes in the cost estimates of discharging the nuclear provisions (representing an increase or decrease in future decommissioning costs, less under or overspend of decommissioning delivered in year) are charged to the Statement of Comprehensive Net Expenditure. This charge includes the impact of restating liabilities from March 2013 values to current price levels. Actual costs incurred in discharging provisions in the year to 31st March 2014 have been charged against the provision.

18.4 In applying accounting policies it is necessary to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Where costs have been derived using a confidence model, the 50% value has been used as this represents most likely cost. Where costs have been calculated using a deterministic method the most likely value has been used as the basis for valuing the long term liability.

18.5 The nuclear provisions are based on the most recently available estimates discounted in line with HM Treasury guidance. The current discount rates are: a short term rate applicable to years 0-5 (-1.9%); a medium

term rate for the period after 5 years and up to 10 years (-0.65%); and a long term rate for the period over 10 years (2.2%). These liabilities are necessarily based on assumptions around the processes and methods most likely to be used to discharge the obligations reflecting a combination of the latest technical knowledge available, the most up to date assumptions for the volume of waste to be decommissioned, the type of waste to be decommissioned (Low, Intermediate or High Level Waste), the timescales involved and the requirements of the existing regulatory regime, Government policy and commercial arrangements.

**18.6** The uncertainties that surround nuclear provisions mean that quantifying the financial impact of changes to assumptions is very difficult. For example, in the strategic weapons area (which accounts for approximately a third of the nuclear decommissioning provision) a change of plus or minus two years in the decommissioning dates could result in a change in the value of the liability of between plus £4M and minus £3M, and a change in the discount rate of plus or minus 0.1% would result in a change in the value of the liability of between plus £22M and minus £21M.

**18.7** For decommissioning operations with an end date, costs have been calculated to that date; for operations of an ongoing nature (e.g. storage of materials) costs have been calculated for a period of 150 years as the impact of discounting means that the discounted value of costs beyond this period are considered to be immaterial.

**18.8** Nuclear decommissioning provisions relate principally to: the cost of decommissioning facilities and equipment, the treatment and storage of nuclear materials and waste, and the long term management of irradiated submarine fuel. These nuclear liabilities have arisen from operations at MOD sites and the operation of Royal Navy submarines. The liabilities include the costs associated with decommissioning including care and maintenance of redundant facilities (the conditioning, retrieval and storage of contaminated materials), and the procurement of facilities to handle the various waste streams. In September 2011 the Department published the initial version of its Nuclear Liabilities Management Strategy which sets the overall context for the establishment of decommissioning provisions. MOD is working closely with bodies such as the Nuclear Decommissioning Authority (NDA) to refine the assumptions underpinning its provisions. The following provides further details in respect of strategic weapons, submarines and nuclear propulsion provisions, which account for a significant element of the provision balances. The remaining nuclear decommissioning provisions are individually immaterial:

- MOD holds provisions for the decommissioning of facilities and materials relating to the nuclear warhead programme. The largest of which relates to AWE. A quinquennial review was carried out in 2012 to support the valuation of this provision and following the most recent annual review the carrying value was increased by £114M.
- Provisions are held for the decommissioning of all nuclear submarines. These provisions cover the safe storage and maintenance of the boats before they are processed through the Submarine Dismantling Project (SDP). An interim shortlist of sites for the SDP facility was announced in February 2014.
- The Department also holds provisions for the safe storage and management of irradiated fuel arising from the out of service submarines and for the decommissioning of sites used for this purpose. This includes the decommissioning of the Vulcan site which houses prototypes of nuclear propulsion plants operated by the Royal Navy.

**18.9** The Department's nuclear decommissioning provisions are inter-linked and closely aligned. One of the key assumptions underpinning these provisions is the availability of the Geological Disposal Facility (GDF) as the end storage point for MOD's nuclear materials. The construction of the Facility is managed by the NDA and the MOD is working with the Department of Energy and Climate Change (DECC) and the NDA to refine the assumptions and valuation of its liability for the GDF. There are significant uncertainties surrounding the GDF, particularly following the rejection of the planned development by Cumbria County Council in January 2013. MOD's provision aims to reflect NDA's current working assumptions, which continues to assume that the GDF will be available from around 2040. If the Facility is not available until after this period, additional storage costs would be incurred by MOD for a longer period. As the NDA assumptions have yet to be revalidated it is not possible to quantify the financial effect on MOD's provisions.

## Other Decommissioning and Restoration

18.10 Other decommissioning and restoration provisions relate primarily to contaminated sites where the Department has a constructive or a legal obligation to restore the sites for normal use. The estimated payments are discounted by the Treasury discount rates listed at paragraph 18.5. During 2013-14 existing provisions have been used to offset expenditure for the removal of asbestos in the UK, and restitution of former ranges and training areas.

## Early Retirement Pensions

18.11 Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions: 1.8% with effect from 31 March 2014 (2.35% from 31 March 2013). Following changes in December 2010, employees who retire early do so on a 'clean break' basis so no provision is required as there are no costs in future years. During 2013-14 increases of £32M were made to existing schemes and early retirement / redundancy costs charged to provisions during the period amounted to £25M.

## Other

18.12 Other provisions consist of: Pension, Legal and Other liabilities. Pension liabilities are in respect of three schemes for Locally Employed Civilians (the United Kingdom Departments Gibraltar Pension Scheme; the Sovereign Base Administration Areas Pension Scheme Cyprus; and the British Forces Cyprus Fire Service Pension Scheme). Legal liabilities include amounts payable under guarantees, litigation and contractual arrangements; some legal liabilities (where the probability of settlement against the Department is low) have been apportioned to contingent liabilities. Other provisions include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

## 19. Departmental Group – Capital Commitments

Capital commitments, for which no provision has been made in these financial statements, are:

	31 March 2014	31 March 2013
	£000	£000
Intangible assets	2,785,099	2,262,655
Property, plant and equipment	11,733,171	14,422,790
	<b>14,518,270</b>	16,685,445

## 20. Departmental Group – Commitments Under Leases

The totals of future minimum lease payments under operating and finance leases for the periods: not later than one year; later than one year but less than five years and later than five years are set out below:

### 20.1 Operating leases:

	31 March 2014	31 March 2013
<b>Obligations under operating leases comprise:</b>	<b>£000</b>	<b>£000</b>
Land		
Not later than one year	5,156	2,953
Later than one year and not later than five years	16,469	10,380
Later than five years	115,726	72,104
	<b>137,351</b>	<b>85,437</b>
Buildings		
Not later than one year	64,952	57,434
Later than one year and not later than five years	167,617	142,061
Later than five years	165,503	148,405
	<b>398,072</b>	<b>347,900</b>
Other		
Not later than one year	114,928	110,195
Later than one year and not later than five years	234,612	206,678
Later than five years	42,742	32,082
	<b>392,282</b>	<b>348,955</b>

### 20.2 Finance leases:

	31 March 2014	31 March 2013
<b>Obligations under finance leases comprise:</b>	<b>£000</b>	<b>£000</b>
Land		
Not later than one year	48,042	48,042
Later than one year and not later than five years	192,168	192,168
Later than five years	8,695,603	8,743,646
	<b>8,935,813</b>	<b>8,983,856</b>
Less interest element	(8,087,104)	(8,135,144)
	<b>848,709</b>	<b>848,712</b>
Buildings		
Not later than one year	47,848	47,848
Later than one year and not later than five years	191,392	191,392
Later than five years	8,658,184	8,706,033
	<b>8,897,424</b>	<b>8,945,273</b>
Less interest element	(8,054,455)	(8,102,302)
	<b>842,969</b>	<b>842,971</b>
Other		
Not later than one year	20,217	13,782
Later than one year and not later than five years	76,507	55,688
Later than five years	90,598	95,444
	<b>187,322</b>	<b>164,914</b>
Less interest element	(43,791)	(59,387)
	<b>143,531</b>	<b>105,527</b>

## 21. Departmental Group – Commitments Under Service Concession Arrangements

21.1 All PPP / PFI arrangements have been assessed in accordance with IFRIC 12 – Service Concession Arrangements as adopted by HM Treasury. Any arrangements not fulfilling the criteria for IFRIC 12 have subsequently been assessed against IFRIC 4 (Determining whether an arrangement contains a lease) and IAS 17 (leases). The following arrangements fulfilled the criteria for IFRIC 12 and the assets have been accounted for as assets of the Department:

Project Description	Contract Start*	Contract End
Training, Administration and Financial Management Information System: Provision of training administration and financial management information systems to the Army Recruiting and Training Division.	Aug-96	May-13
Defence Fixed Telecommunications System: Integration of 50 fixed telecommunications networks used by the Armed Forces and MOD, including the delivery of voice, data, LAN interconnect and other WAN services.	Jul-97	Jul-15
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson.	Oct-97	Oct-37
Hawk Synthetic Training Facility: Provision of replacement simulator training facilities at RAF Valley.	Dec-97	Dec-15
Veolia PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage, serving a population of 12,000 military and dependants at Tidworth.	Feb-98	Aug-18
Joint Services Command and Staff College (JSCSC): Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters.	Jun-98	Aug-28
RAF Lossiemouth Family Quarters: Redevelopment and re-provision of 279 Service family quarters.	Jun-98	Aug-20
Attack Helicopter Training Service: Provision of full mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training.	Jul-98	Sep-17
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton.	Jul-98	Jul-28
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, serving a population of 7,000, to meet regulatory standards at RAF Lyneham.	Aug-98	Aug-23
RAF Fylingdales: Provision of guaranteed power supply.	Dec-98	Mar-24
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury.	Mar-99	Jun-25
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy.	Apr-99	Jan-21
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth.	Jun-99	Jun-31
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service families in Central Scotland.	Aug-99	Jan-21
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers.	Feb-00	Dec-29
Main Building Refurbishment: Redevelopment and management services for MOD Main Building.	May-00	May-30
Tri-Service Material Handling Equipment: Provision of Tri-Service materials handling capability.	Jun-00	Dec-13
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington.	Jul-00	Dec-30
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew.	Jul-00	Jul-25
Family quarters at Wattisham: Provision of married quarters accommodation for 250 Service families.	May-01	Mar-28
Astute Class Training: Provision of a training environment for crewmen and maintainers to support Astute Class submarines for 30 years.	Sep-01	Sep-37
Defence Housing Information Systems: Provision of a management information system for Defence Housing.	Oct-01	Sep-14
Family quarters at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families.	Nov-01	Sep-28
Heavy Equipment Transporters: Provision of vehicles to replace existing fleet and meet future requirements.	Dec-01	Jul-24
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field.	Jun-02	Jun-22
Material Handling Equipment: Provision of Tri-Service material handling equipment for Army, Navy and RAF storage depots.	Aug-02	Dec-13
Flight Simulation and Synthetic Trainers: Provision of a Flight Simulation and Synthetic Trainers Integrated Aircrew Synthetic Training Service.	Oct-02	Mar-17
Aquatrine Project A: Provision of water and waste water services.	Apr-03	Nov-28
Naval Communications: Submarine fleet communications service.	Jun-03	Dec-30
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service.	Jun-03	Aug-33
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-03	Aug-22
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops).	Feb-04	Feb-39
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base.	Jul-04	Mar-29

Project Description	Contract Start*	Contract End
Aquatrine Project B: Provision of water and waste water services.	Sep-04	Mar-30
Aquatrine Project C: Provision of water and waste water services.	Oct-04	Mar-30
C Vehicles: Provision of Earthmoving and Specialist Plant, Engineer Construction Plant and Material Handling Equipment and support services.	Jun-05	Jun-21
Portsmouth 2 Housing: Provision of 148 Family quarters in Portsmouth.	Oct-05	Oct-30
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-06	Apr-41
Northwood: Rebuild, refurbishment, management and operation of facilities for the Permanent Joint Headquarters.	Jul-06	Oct-31
Combined Aerial Targets (CATS): Provision of aerial targets and associated ground equipment and support services.	Dec-06	Mar-28
Provision of Marine Services: Provision of marine services at UK Dockyard Ports at Portsmouth, Devonport and Clyde and support to military exercises, training and deep water trials, worldwide.	Dec-07	Dec-22
Future Strategic Tanker Aircraft (FSTA): FSTA is an innovative PFI programme that will provide modern air-to-air refuelling and passenger air transport capabilities.	Mar-08	Mar-35
UK Military Flying Training System: Advanced Jet Trainer, Ground Based Training Equipment Element: Management and provision of Fast Jet Phase IV training.	May-08	May-33
Corsham Development Project: Rebuild, refurbishment, management and operation of facilities at the Basil Hill site.	Aug-08	Jul-33

21.2 The substance of an arrangement accounted for under IFRIC 12 is that the Department has a finance lease with the provider with payments comprising an imputed finance lease charge, a repayment of capital and a service charge. Payments are accounted for within the Statement of Comprehensive Net Expenditure – Service Concession Arrangements (SCA) and charges for 2013-14 were £1.43Bn (2012-13 : £1.34Bn). Total obligations under SCA (consisting of the minimum lease payments, interest and any minimum service charges) analysed by time periods are shown in the table below:

	31 March 2014 £000	31 March 2013 £000
<b>Total obligations under Service Concession Arrangements for the following periods comprise:</b>		
Not later than one year	535,209	457,048
Later than one year and not later than five years	1,954,195	1,740,046
Later than five years	4,993,694	4,583,241
	<b>7,483,098</b>	6,780,335
Less interest element	(2,945,437)	(2,751,065)
	<b>4,537,661</b>	4,029,270

## 22. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed Under IAS 37

### Contingent Liabilities

22.1 The following quantifiable contingent liabilities have been identified:

Description	Liability at 31 March 2014 £000
Restricted – not disclosed due to reasons of commercial confidentiality and / or national security	596,552
Decommissioning of Astute class submarines	245,356
Indemnity to contractors in respect of nuclear risks and decontamination	140,000
Indemnity to contractors for third party risks	140,000
Statutory liability for International Military Sales	100,000
Environmental clean up costs	41,802
Liability for redundancy following contractisation	28,200
Legal claims (personal)	26,571
Indemnity for utilities and services following the sale of Service housing	17,031
Indemnity for excavation of the wreck of the British warship Sussex	1,185
Contractor claims relating to project deferment or termination	500
<b>Total quantifiable contingent liabilities</b>	<b>1,337,197</b>

The Department has the following unquantifiable liabilities in accordance with IAS 37:

- Indemnities to AWE Management Ltd for nuclear and non-nuclear risks.
- Indemnities to Rolls-Royce for risks associated with the handling of fissile materials and other non-nuclear risks.
- Standard shipbuilding indemnity in respect of Vanguard and Astute class submarines.
- Indemnity related to potential damages awarded following sale of electromagnetic spectrum.
- Potential further and higher education costs for service personnel under the Enhanced Learning Credit scheme.
- Potential redundancy costs arising from reorganisation of the Army's transport services in Northern Ireland.
- Indemnity for early termination of the Forces Broadcasting Service contract.
- Indemnity for live firing of missiles at overseas ranges.
- Indemnities to the Government of Gibraltar related to transfer of electricity generation facilities.
- Service Life Insurance – providing access to life insurance for service personnel. Details of the scheme and key features can be found at [www.servicelifeinsurance.co.uk](http://www.servicelifeinsurance.co.uk).
- Guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements.
- Indemnity to contractors for potential third party risks arising from construction of the Queen Elizabeth carriers.
- The Department has a number of sites where it may be necessary to carry out decontamination work. As it is not practicable or cost effective to identify all contamination at those sites, any possible liability is not quantifiable, so possible site remediation exposure is recognised as an unquantifiable contingent liability.

## Contingent assets

22.2 A US salvage company, Odyssey Marine Exploration, has found what is believed to be the wreck of the British warship *Sussex*, which sank in the Western Mediterranean in 1694 carrying gold and silver coins estimated to be valued at the time at £1 million. If confirmed as the *Sussex*, the wreck and its contents are legally the property of Her Majesty's Government.

A licensing agreement was signed on 27 September 2002 between the Disposal Services Authority of the Ministry of Defence, on behalf of Her Majesty's Government, and Odyssey for further archaeological exploration of the wreck and recovery of artefacts. Full responsibility for the project, including the sale of the artefacts has been transferred to the Department. Proceeds from the sale of any artefacts will be surrendered to HM Treasury. The Department will be responsible for the preservation of any part of the wreck brought up as part of the salvage effort.

## Contingent liabilities not required to be disclosed under IAS 37

22.3 The MOD has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 as the likelihood of a transfer of economic benefit in settlement is too remote.

### Quantifiable – unrestricted

	1 April 2013 £000	Increase / (Decrease) in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2014 £000	Amount reported to Parliament by Departmental Minute £000
<b>Unrestricted – Indemnities</b>						
Residual liability for the remediation of unidentified contamination in parts of the former Rosyth Naval Base which has been sold to Rosyth 2000 plc	Up to 1,000	-	-	-	Up to 1,000	1,000
Liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force	2,010	446	-	-	2,456	-
Indemnity to Help for Heroes and Royal British Legion should recovery centres have a change in use within ten years	4,889		-	-	4,889	28,400
Remediation costs associated with the discovery of unknown environmental contamination at the Fleetlands site	17,000		-	-	17,000	-
Government Pipeline and Storage System (GPSS) – compensation for loss of rights	5,456		-	-	5,456	-
Government Pipeline and Storage System (GPSS) – compensation to landowners	1,350	(1,250)	-	-	100	-

### Unquantifiable – unrestricted

22.4 The MOD has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 as the possibility of a transfer of economic benefit in settlement is too remote.

- Indemnity given in relation to the disposal of Gruinard Island in the event of claims arising from the outbreak of specific strains of anthrax on the Island.
- Indemnities to the Babcock Group in respect of nuclear risks under the Nuclear Installations Act 1965.
- Indemnities to the Babcock Group in respect of non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party.
- Indemnity to Rolls-Royce Power for the non-insurance of the Rolls-Royce Core Factory and the Neptune Test Reactor facility for death and personal injury to a third party.

- Indemnity for residual employee disease liability arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.
- Indemnity for residual public liability arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.
- Indemnity for environmental losses incurred by QinetiQ arising from certain defined materials at specific properties before the formation of QinetiQ on 1 July 2001.
- Indemnity for contractors under standard contract terms for Joint Operational Fuel Systems and F3EA contracts.
- Indemnity to contractors for Intelligence Processing Application UOR contract.
- Indemnity to contractors for nuclear and non-nuclear risks associated with the Strategic Weapon Systems Activities Future Delivery project.
- Indemnities under standard terms to contractors for contractors' personnel on Government premises for United Kingdom Air Surveillance Command and Control System (UCCS), Flight Plan Distribution System (FPDS), Sensors Support Optimisation Project and the Puma Mark 2 Helicopter Interim Support Arrangement.
- Indemnities under standard terms to contractors for the CERBERUS project.
- Indemnities to contractor for the Data Link Processor System (DLPS) post design services contract.
- Indemnity to contractor for Harris Corporation Tactical Satellite Radios repair contract.
- Indemnity to contractor for repair of specialist communication systems.
- Statutory special risk nuclear indemnity for operations at HM Naval Base Clyde under the Nuclear Installations Act 1965.
- The Department has offered an indemnity under standard terms to the operator of the Apache helicopter integrated operational support contract.

### **Quantifiable and Unquantifiable – restricted**

22.5 Details of restricted indemnities are not given due to reasons of commercial confidentiality and / or national security.

## **23. Financial Guarantee Contracts**

23.1 The Department has entered into two financial guarantee contracts, neither of which is a contingent liability within the meaning of IAS 37 since the likelihood of transfer of economic benefit in settlement is too remote. The probability of payments under these guarantees is very low and the likely liability (fair value) as at year end is assessed as nil. Details of the guarantees are:

- Under the terms of the contract with TNT Ltd for the Government Records Management and Archive Service, the MOD guarantees to pay the operator should any other government department fail to settle its outstanding invoices. The total value of invoices outstanding against all government departments as at 31 March 2014 was nil.
- The MOD provides an indemnity to towage companies who are contracted to tow foreign warships in to UK ports, should the foreign nation default on payment of the invoice.

## 24. Departmental Group – Losses and Special Payments

### 24.1 Losses – Closed Cases

<b>CLOSED CASES: these are losses that have been formally signed off following completion of all the relevant case work. Losses in direct support of military operations e.g. Afghanistan are not generally included in the table below. Closed cases include some cases which in previous years were shown as Advance Notifications.</b>	<b>Arising in 2013-14 £000</b>	<b>Reported in 2012-13 as Advance Notifications £000</b>
Total Losses (excluding gifts) under £300,000 each: 27,981 cases.	16,829	
Total Losses (excluding gifts) over £300,000 each: 18 cases (detailed below).	1,223,124	1,830,872
	1,239,953	1,830,872
<b>Total Value of Closed Cases</b>	<b>3,070,825</b>	
<b>Details of the Closed Cases over £300,000 are:</b>		
<b>Bookkeeping and Overpayment Losses</b>		
Write-off of unsupported balances. The loss consists of balances that could not be verified with the information available. This loss consists of six separate cases, the most significant of which is an Assets Under Construction balance of £267M.	347,280	
Overpayments to service personnel due to system and process issues with the introduction of the Joint Personnel and Administration (JPA) system. Appropriate remedies are now in place to prevent recurrence. The loss consists of five separate cases relating to 6,518 individuals.	5,634	640
	352,914	640
<b>Stores Losses</b>		
Accident resulting in the loss of a Lynx Helicopter.		1,749
Cost of repairs to a Sea King helicopter gearbox as a result of accidental damage.	483	
	483	1,749
<b>Constructive Losses</b>		
Impairment charges for land and buildings resulting from the early withdrawal of Forces from Germany.		1,549,000
Impairment charges for certain non-current assets (capital spares and GWMB) and current asset inventory resulting from an inventory impairment exercise conducted in year (see Note 11 for additional information).	860,000	
A joint radiographic and hydrodynamics facility with France resulted in the termination of Project Hydrus.		117,700
Early withdrawal from service of HMS Ark Royal.		94,004
A project was cancelled due to the failure by the main contractor to deliver output within agreed timescales and costs.		42,784
Cancellation of Solid Intermediate Level Waste Treatment Plant as it failed to meet regulations and controls.		19,274
Forward purchase of inventory liability as a result of the early withdrawal from service of Sea King Helicopters.	4,000	
A project was cancelled as it was considered that the main contractor had failed to achieve the anchor milestone, and therefore the contract was terminated.		3,833
Cancellation of a software integration tool due to issues identified during testing that could not be resolved in a timely manner.	1,515	
Procurement of a SATCOM airtime service which has subsequently proven to be unsuitable for UK operations.	971	
	866,486	1,826,595
<b>Claims waived or abandoned</b>		
Loan interest foregone on a joint Future Anti Surface Guided Weapon project with the French Government.	2,770	
Abandoned claim in respect of overpayment of tax to HM Revenue & Customs.		1,471
Waiver of charges against a contractor relating to disputed utility and computer services charges at the Defence Academy.		417
Supplies and services provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British Ports at Clyde, Portsmouth, Devonport and Gibraltar.	471	
	3,241	1,888
<b>Gifts: that have been formally handed over to the recipient.</b>		
Total under £300,000 each: 106 cases.	189	
Total over £300,000 each: 2 cases (detailed below).	2,017	300
	2,206	300

<b>CLOSED CASES: these are losses that have been formally signed off following completion of all the relevant case work. Losses in direct support of military operations e.g. Afghanistan are not generally included in the table below. Closed cases include some cases which in previous years were shown as Advance Notifications.</b>	<b>Arising in 2013-14</b>	<b>Reported in 2012-13 as Advance Notifications</b>
	<b>£000</b>	<b>£000</b>
<b>Total Value of Gifts</b>	<b>2,506</b>	
Detail of the gifts over £300,000 are:		
Provision of equipment to assist with the disposal of Chemical Weapon Agents.	<b>2,017</b>	
HMS Caroline to The National Museum of the Royal Navy.		<b>300</b>
	<b>2,017</b>	<b>300</b>

## 24.2 Losses – Advance Notifications

<b>ADVANCE NOTIFICATIONS: these are losses, which arose during 2013-14 and prior years, but where the cases have not yet been formally signed off because all the work necessary to establish the validity of the loss, and the exact amount thereof, has not yet been concluded. The amounts shown below are, therefore, estimates, and it is likely that the final value of these losses will differ when they are reported as closed cases in future years. Should the final value be less than £300,000, they will not be separately identified.</b>	<b>Arising in 2013-14</b>	<b>Reported in 2012-13 as Advance Notifications</b>
	<b>£000</b>	<b>£000</b>
<b>Total Advance Notifications over £300,000 each</b>	<b>54,817</b>	<b>2,618,985</b>
	<b>2,673,802</b>	
<b>Stores Losses</b>		
Loss of two Tornado aircraft after an accident over the Moray Firth.		<b>23,502</b>
An RAF HS125 aircraft taken out of service early due to damage sustained during a hailstorm.	<b>488</b>	
Accommodation stores discrepancies relating to the military training area in Canada.		<b>390</b>
Stores discrepancies identified during stock take at RAF Marham. Investigations are on-going and the final write off value is likely to change.	<b>10,000</b>	
	<b>10,488</b>	<b>23,892</b>
<b>Constructive Losses</b>		
Early withdrawal from service of the Harrier aircraft fleet.		<b>1,294,050</b>
Early withdrawal from service of 4 Type 22 Frigates.		<b>416,369</b>
Reduction in the numbers of Challenger 2 tanks, Driver Training Tanks and Challenger Armoured Repair and Recovery Vehicles.		<b>253,321</b>
Reduction in the stockpile of Storm Shadow missiles.		<b>173,100</b>
Project Soothsayer: terminated contract.		<b>87,746</b>
Reduction in the number of Sentry Aircraft.		<b>64,050</b>
Reduction in holdings of the Multi Launch Rocket System due to a change in the operational environment.		<b>59,725</b>
Reduction of the AS90 Howitzer self-propelled guns due to a change in the operational environment.		<b>58,573</b>
Cancellation of the Queen Elizabeth Class aircraft carrier conversion programme, following the decision to revert to the Short Take Off and Vertical Landing (STOVL) variant of the Joint Strike Fighter Aircraft.		<b>55,000</b>
Following a capability review a decision was made that the Shielder Anti-Tank mine canisters and associated vehicles were no longer required.		<b>43,144</b>
Withdrawal from the Typhoon engine In Service Support System as a review determined that the majority of the system is no longer required.		<b>29,620</b>
Reduction in the number of reconnaissance vehicles – Combat Vehicle Reconnaissance (Tracked).		<b>24,800</b>
Mobile mine detection capability for Warrior vehicles that was deemed unsuitable.	<b>7,200</b>	
Costs incurred in a failed attempt to host the Army Recruit Partnering Project on the MOD IT network.	<b>6,073</b>	
Reduction in the number of Warrior Armoured Fighting Vehicles.		<b>5,372</b>
MOD has terminated three contracts due to non-compliance issues with the contract specifications.	<b>–</b>	
	<b>13,273</b>	<b>2,564,870</b>
<b>Fruitless Payments</b>		
Cost of equipment damaged in 2008 and the leased replacement capability.		<b>30,223</b>
Incorrect recording of Merlin aircraft component lives has resulted in a fruitless payment.	<b>23,796</b>	
Ear plugs found to be not fit for purpose on operations.	<b>6,000</b>	

<b>ADVANCE NOTIFICATIONS: these are losses, which arose during 2013-14 and prior years, but where the cases have not yet been formally signed off because all the work necessary to establish the validity of the loss, and the exact amount thereof, has not yet been concluded. The amounts shown below are, therefore, estimates, and it is likely that the final value of these losses will differ when they are reported as closed cases in future years. Should the final value be less than £300,000, they will not be separately identified.</b>	<b>Arising in 2013-14</b>	<b>Reported in 2012-13 as Advance Notifications</b>
	<b>£000</b>	<b>£000</b>
Interest payment due to HM Revenue & Customs on a tax liability for Locally Employed Civilians.	1,260	
	<b>31,056</b>	<b>30,223</b>
<b>Gifts</b>		
The net proceeds from the sale of three sites in Northern Ireland to the Northern Ireland Executive.		5,500
50 Leyland DAF 4-ton trucks plus associated spares, Land Rover vehicle components and major assemblies to The Government of Uzbekistan.		450
	<b>5,950</b>	

### 24.3 Special Payments

<b>CLOSED CASES: these are special payments that have been formally signed off following completion of all the relevant case work. Closed cases include some cases which in previous years were shown as Advance Notifications.</b>	<b>Arising in 2013-14</b>	<b>Reported in 2012-13 as Advance Notifications</b>
	<b>£000</b>	<b>£000</b>
Total under £300,000 each: 524 cases.	1,176	
Total over £300,000 each: 325 cases (detailed below).	1,170	1,651
	<b>2,346</b>	<b>1,651</b>
<b>Total Value of Closed Cases</b>	<b>3,997</b>	
<b>Details of the closed cases over £300,000 are:</b>		
Extra-Contractual payments to indemnify a contractor for redundancy costs of ex-MOD staff transferred under TUPE.		1,651
Ex gratia payment to meet hardship caused by Departmental failure to action insurance.	328	
<b>War Pensions Benefit cases</b>		
The payments detailed below were for War Disability Pensions, and were made under the authority of Treasury Dispensing Instruments but outside the scope of the Service Pension order:		
(a) Empire Air Training Scheme Pensions		
These Payments relate to members of the Royal Australian Air Force who were trained under the Empire Air Training Scheme and were subsequently selected for service in the RAF. The British Government agreed in June 1942 that it would contribute towards pensions in respect of disablement or death due to the service with the RAF. The number of cases in 2013-14 was 214.	468	
(b) Noise Induced Sensorineural Hearing Loss:		
During financial year 2013-14 109 payments were made.	374	
	<b>1,170</b>	<b>1,651</b>

## 25. Related Party Transactions

25.1 The Defence Science and Technology Laboratory, the UK Hydrographic Office and the Defence Support Group operate as Executive Defence Agencies financed by Trading Fund. The Navy Army Air Force Institutes (NAAFI) and the Oil and Pipelines Agency are Public Corporations.

25.2 The Trading Funds, the Oil and Pipelines Agency and the NAAFI are regarded as related parties outside the Departmental Boundary with which the Department has had material transactions. Transactions are carried out on terms which are contracted for on an arms-length basis, and are subject to internal and external audit. The value of transactions with some of these organisations are set out below and balances with the Trading Funds (excluding loans and dividends, which are shown at Note 10) at year end, are in the following table:

Organisation	Receivables Balances £000	Payables Balances £000
Defence Science and Technology Laboratory	3,768	191,934
UK Hydrographic Office	4,069	Nil
Defence Support Group	6,419	24,899

## Oil and Pipelines Agency (Public Corporation)

25.3 During the year MOD paid the agency fees (excluding VAT) of: £8.6M (2012-13: £6.4M). Director Commercial DE&S and the Head of Business Strategy and Governance for MOD were Non-executive members of the Board of Directors until 14 October 2013 and 17 June 2013 respectively. The DE&S OPA Liaison Head was appointed as a Non-executive member from 28 March 2014.

25.4 In May 2012 the Government announced its plan to create a set of transferrable rights in respect of the Government Pipeline and Storage System (GPSS). Some proposals had been outlined in a booklet published at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/35893/gpss\\_booklet.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/35893/gpss_booklet.pdf). The rights have now been included in the Energy Act 2013.

## Navy Army Air Force Institutes (NAAFI)

25.5 The NAAFI Council acts as the most senior NAAFI body responsible for approving the policy and direction of NAAFI's business. The rules governing the NAAFI Council and its proceedings are laid out in NAAFI's Memorandum and Articles of Association. Further details of the activities of the NAAFI including membership of The Council can be found at <http://www.naafi.co.uk>. During 2013-14 receipts from NAAFI were nil (2012-13: £0.2M); payments to NAAFI were £22M (2012-13: £23M). The Department has provided NAAFI with a guarantee that it will reimburse 90% of additional costs arising from any changes in the MOD's service requirements.

## Executive Non-Departmental Public Bodies (NDPBs)

25.6 The following are Executive NDPBs of the MOD. They are designated NDPBs under the National Heritage Act 1983 and produce their own annual accounts. The value of the NDPBs' income, expenditure, assets and liabilities are consolidated in the accounts as part of the Departmental Group. Further details of these organisations can be found at:

- The National Museum of the Royal Navy <http://www.royalnavalmuseum.org/>
- National Army Museum [www.national-army-museum.ac.uk](http://www.national-army-museum.ac.uk)
- Royal Air Force Museum [www.rafmuseum.org.uk](http://www.rafmuseum.org.uk)

## Other

25.7 The Department also pays a number of grants and grants-in-aid to other bodies included in the Departmental Group e.g. the Reserve Forces and Cadets Associations (£91M), the Commonwealth War Graves Commission (£49M) and the Royal Hospital Chelsea (£11M), as well as grants-in-aid to bodies outside the accounting boundary e.g. the Marine Society & Sea Cadets (£10M) and the Gurkha Welfare Scheme (£1M).

25.8 The MOD has also had a number of transactions with other government departments and central government bodies. The Remuneration Report provides information on key management compensation.

## Joint Ventures

25.9 The Department has not established any Joint Ventures. Some of the Trading Funds and NDPBs have set up Joint Ventures and the Department is involved in collaborative projects with various foreign countries for the development and production of Single Use Military Equipment.

## 26. Heritage Assets

26.1 Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are preserved in trust for future generations because of their cultural, environmental or

historical associations and include: historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art.

**26.2** Heritage assets display the following attributes: their value to the Government and to the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market price; established custom and, in many cases primary statute and trustee obligations, impose prohibitions or severe restrictions on disposal by sale; they are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; they may require significant maintenance expenditure to enable them to be enjoyed by future generations; and their life may be measured in hundreds of years.

**26.3** Heritage assets are categorised as either operational or non-operational. Non-operational heritage assets are those which are held primarily for the purpose described above e.g. archaeological sites. Operational heritage assets are those which, in addition to being held for their characteristics as part of the nation's heritage, are also used by the Department for other activities or to provide other services e.g. historical buildings used as office accommodation.

**26.4** Operational heritage assets are usually valued using the same valuation methodologies as for other assets of that general type. Non-operational heritage assets are valued where this information can be obtained at a cost commensurate with the benefits to users of the Annual Accounts. Heritage assets are not separately disclosed in the SoFP as they are not considered material.

**26.5** Details of the scale and scope of some of the heritage assets, held by the Department and its ALBs can be viewed on the following websites:

- <http://www.nmrn.org.uk>
- <http://www.nam.ac.uk>
- <http://www.rafmuseum.org.uk>
- <http://www.chelsea-pensioners.co.uk/home>
- <https://www.gov.uk/defence-infrastructure-organisation-estate-and-sustainable-development>

**26.6** The Department owns a range of non-operational heritage assets. In accordance with the FReM, non-operational heritage assets are valued except where the cost of obtaining a valuation for the asset is not warranted in terms of the benefits it would deliver or where it is not possible to establish a sufficiently reliable valuation. Assets may, for example, be valued when loaned to other organisations as occurred in 2012-13 when artefacts valued at £75M were loaned to the National Maritime Museum.

**26.7** The scope and diversity of the holdings of non-operational heritage assets which are not valued are illustrated by the examples detailed in the table below:

Item	Location	Description
Records and artworks	London, Gosport, Stanmore	The Admiralty and Institute of Naval Medicine Libraries and the Air Historical Branch (RAF) comprise text and records of historical and research items. Although not open to the public, access is available on application.
Artefacts, records and artworks	Various locations	Regimental and Corps Museums and collections exist across the country. Ownership of the buildings and contents of the museums varies between the MOD, local authorities and regimental associations. Further information is available at: <a href="http://www.armymuseums.org.uk">http://www.armymuseums.org.uk</a>
Battle of Britain Memorial Flight	RAF Coningsby	Further information is available at: <a href="http://www.raf.mod.uk/bbmf">http://www.raf.mod.uk/bbmf</a>

## 27. Entities Within the Departmental Boundary

The entities within the boundary during 2013-14 were as follows:

### Advisory Non-Departmental Public Bodies

Advisory Committee on Conscientious Objectors

Advisory Group on Military Medicine

Armed Forces Pay Review Body  
Central Advisory Committee on Pensions and Compensation  
Defence Nuclear Safety Committee  
Defence Scientific Advisory Council  
National Employer Advisory Board  
Nuclear Research Advisory Council  
Review Board for Government Contracts  
Science Advisory Committee on the Medical Implications of Less Lethal Weapons  
Veterans Advisory and Pensions Committees

#### **Non-Departmental Public Bodies**

National Museum of the Royal Navy  
National Army Museum  
Royal Air Force Museum

#### **Other Bodies**

Commonwealth War Graves Commission  
Independent Monitoring Board for the Military Corrective Training Centre, Colchester  
Royal Hospital Chelsea  
Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996

## **28. Events After the Reporting Date**

**28.1** These accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

**28.2** DE&S was launched as a bespoke trading entity on 1 April 2014 with the remit of equipping and supporting the UK's armed forces for operations now and in the future. It has an annual operating budget of some £1.3 billion and spends approximately £14.7 billion annually to purchase new military equipment and provide the ongoing support that the Royal Navy, British Army and Royal Air Force need to operate effectively. DE&S is responsible for delivering complex projects which often involve innovative technologies, sophisticated supply chains, a mix of market sourcing strategies and outputs. It works closely with industry, including through partnering agreements and private finance initiatives.

**28.3** DE&S remains within the MOD's accounting boundary and its purpose and role, together with the governance, policy, financial and human resources parameters that guide its day to day operations are set out in a Framework Document. These include novel freedoms to manage its workforce, make its own decisions and organise itself to maximise delivery of its strategic objectives.

**28.4** As a bespoke trading entity, DE&S will be required to prepare and publish an Annual Report and Accounts (following audit by the Comptroller and Auditor General). DE&S's Annual Accounts will be consolidated with the MOD's Annual Report and Accounts and DE&S will be included as a separate entity in the Segmental Reporting note (Note 2) to the accounts. CDM will (as Chief Executive and Accounting Officer) be directly responsible to Parliament and held to account for the stewardship of the resources of DE&S.

# Annex A

## Defence in the Public Eye

**A.1** In 2013-14, we continued to work hard to ensure that Parliament, the public, the media and other stakeholders understand our role, what we do, and why we do it. The results of independent public opinion polling conducted on our behalf show that the British population continues to be highly favourable towards the UK Armed Forces. The reputation of the MOD has continued to improve steadily and that of the Armed Forces remains at a high level.

**A.2** The MOD has conducted surveys of public opinion on an annual or bi-annual basis since 1999. Up until spring 2011 qualitative research was conducted in face-to-face interviews. The Department switched to a more cost-effective and flexible telephone-based methodology in spring 2012. This change in methodology means that detailed comparison between the results of our surveys undertaken before and after the start of 2012 should not be made. We do however show historical data indicating clearly at which point the shift in methodology occurred.

Table A.1 – External opinion of the Armed Forces and MOD

May 2014	March 2013*	March 2012*	March 2011	March 2010	March 2009
<b>Favourable ratings for Armed Forces</b>					
86%	85%	85%	88%	82%	84%
<b>Unfavourable ratings for the Armed Forces</b>					
2%	5%	4%	3%	4%	2%
<b>Favourable ratings for the MOD</b>					
71%	69%	68%	57%	56%	55%
<b>Unfavourable ratings for the MOD</b>					
7%	12%	13%	15%	11%	9%

**A.3** \*Methodology switched to telephone from March 2012

Figure A.1 – External opinion of the Armed Forces and MOD 2006-14

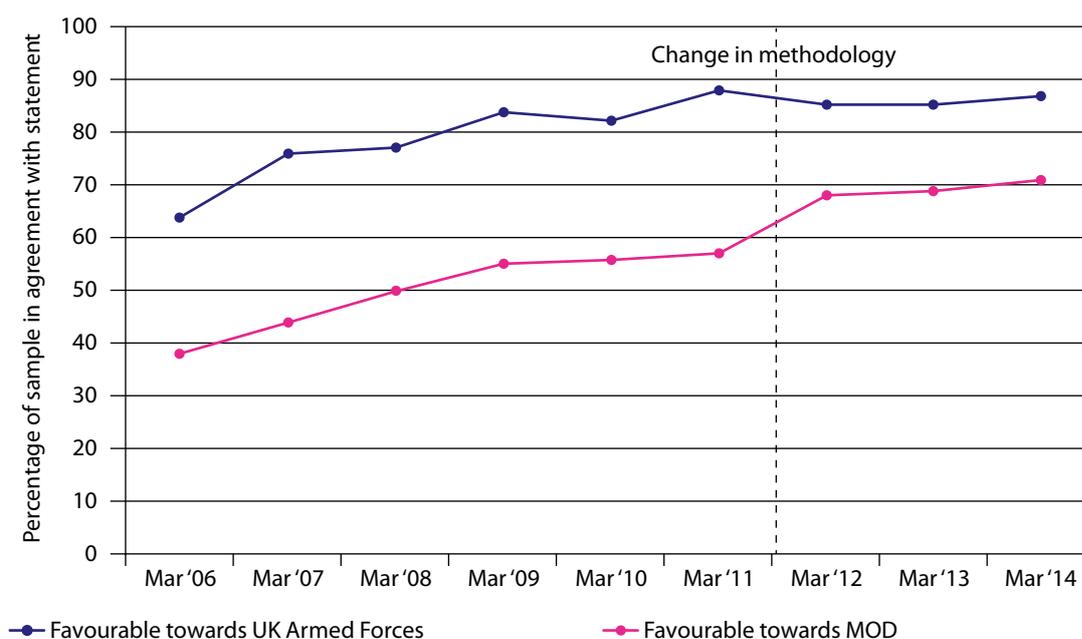
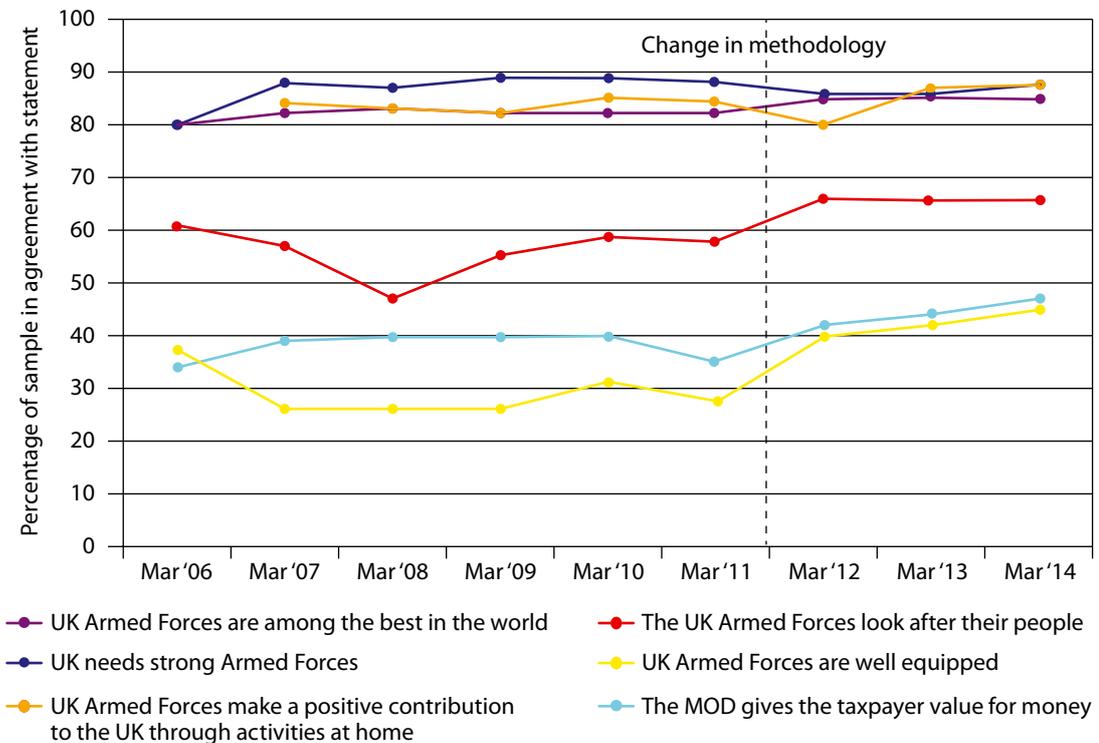


Table A.2 – External Opinion Survey Headlines

Armed Forces	May 2014	March 2013	Ministry of Defence	May 2014	March 2013
Favourable towards Armed Forces	86%	85%	Favourable towards MOD	71%	69%
UK Armed Forces are among the best in the world	84%	85%	UK Armed Forces are well equipped	45%	42%
UK needs strong Armed Forces	87%	86%	MOD gives the taxpayer value for money	47%	44%
UK Armed Forces look after their people	65%	65%			
UK Armed Forces make a positive contribution to the UK through their activities at home	87%	87%			

Figure A.2 – External Opinion Survey Polling Results, 2006-14



## Reputation among Service and Civilian Personnel

**A.4** We also carry out an annual survey to determine the views of our own people - Service and civilian - on Defence issues and the Armed Forces. Changes in the wording of response options for the 2014 survey, to better align with the external MOD and Armed Forces public reputation survey, means that direct comparisons with polling undertaken prior to 2014 should not be made.

**A.5** Our most recent poll conducted in spring 2014 showed that the majority of our people agree that both the Armed Forces and the MOD are a force for good at 87% and 76% respectively. 88% of our people agree that the UK Armed Forces make a positive contribution to the UK through their activities at home which aligns with the public at 88% agreement.

Table A.3 – Internal opinion (Service and civilian personnel) of the MOD and Armed Forces

Spring 2014* (Strongly/Tend to agree)	Spring 2013 (Agree/Disagree)	Spring 2012	Spring 2011	Spring 2010
<b>% of Service and civilian personnel who thought that the Armed Forces were a Force for good</b>				
87%	91%	90%	90%	91%
<b>% of Service and civilian personnel thought that the MOD was a Force for good</b>				
76%	76%	75%	75%	79%

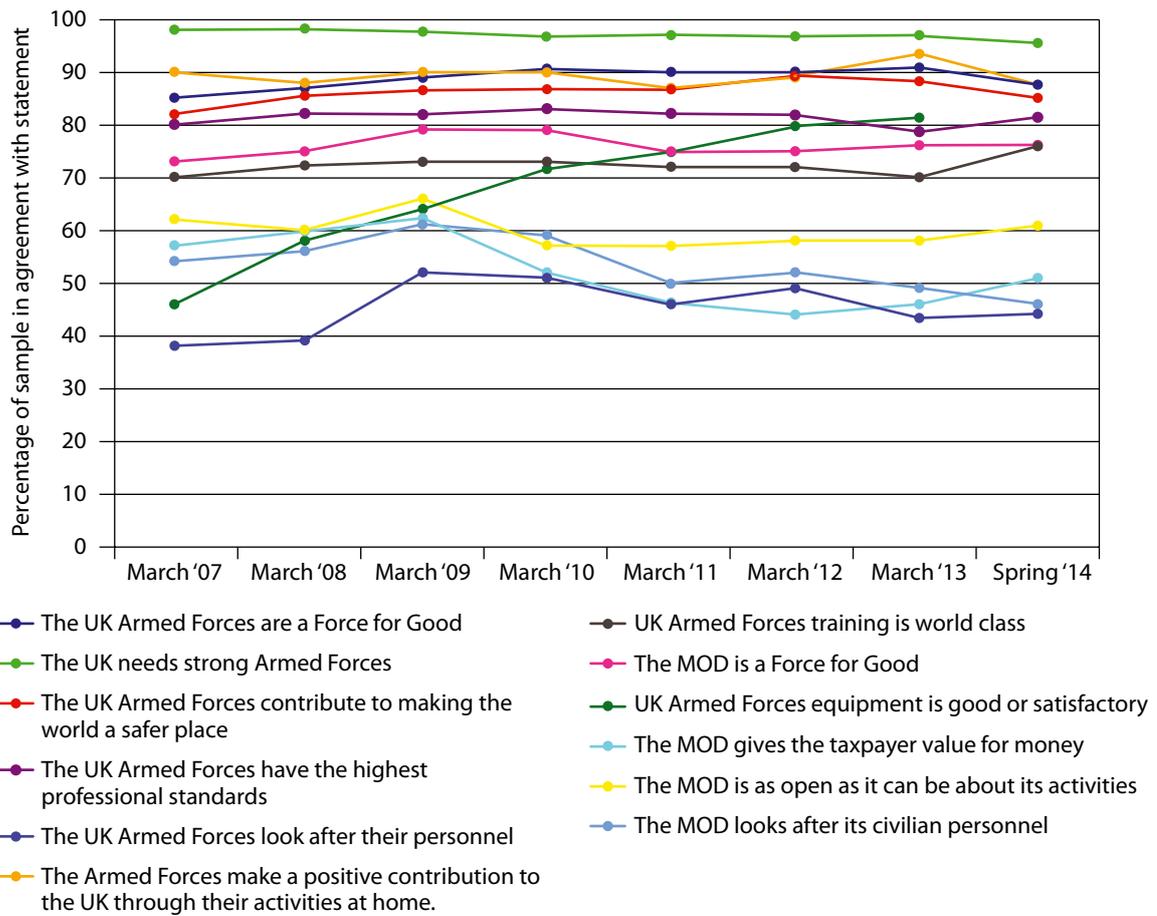
\*The response options were altered in 2014 so direct comparisons with previous years is not advised.

Table A.4 – Internal Opinion Survey headlines

Armed Forces	March 2014*	March 2013	Ministry of Defence	March 2014*	March 2013
UK Armed Forces are a Force for good in the world	87%	91%	MOD is a Force for good in the world	76%	76%
UK needs strong Armed Forces	96%	98%	UK Armed Forces equipment is good or satisfactory	N/A	82% <small>26% good / 56% satisfactory</small>
UK Armed Forces contribute to making the world a safer place	86%	88%	UK Armed Forces are well-equipped (new question)	54%	N/A
UK Armed Forces have the highest professional standards	82%	79%	MOD gives the taxpayer value for money	51%	46%
UK Armed Forces look after their personnel	44%	44%	MOD is as open as it can be about its activities	61%	58%
UK Armed Forces make a positive contribution to the UK through their activities at home	88%	94%	MOD looks after its civilian employees	45%	49%
UK Armed Forces training is world class	71%	70%			

\*The response options were altered in 2014 so direct comparisons with previous years is not advised

Figure A.3 – Internal polling results, 2007-2014



Since 2013 the response options were changed from agree/disagree to strongly agree, tend to agree in alignment with the external polling – the change is marked on figure 3.

# Annex B

## Accountability to Parliament

**B.1** Ministers have accounted to Parliament during the financial year 2013-14 on all aspects of the Ministry of Defence's business. A total of 3,069 Parliamentary Questions were tabled. Defence Ministers participated in 18 debates on Defence issues in the House of Commons and 18 in the House of Lords and responded to 10 Adjournment Debates in Westminster Hall. Ministers made eight oral statements to the House of Commons and four to the House of Lords. They also made 70 Written Ministerial Statements to the House of Commons and the House of Lords. Details are published in Hansard.

## Ministerial Correspondence

**B.2** From 1 April 2013 to 31 March 2014, Defence Ministers received 4,387 items of correspondence from Members of Parliament, Peers (and some members of the public to which a Ministerial response was deemed appropriate). Of these, 3,461 (78%) were answered within the target of 20 working days.

### *Evidence to the Defence Select Committee*

**B.3** Since 1 April 2013, the Ministry of Defence has given evidence to the Defence Select Committee on a number of occasions covering a wide range of issues, and the Government has responded to a number of the Committee's reports. All Committee publications, including published evidence given to the Committee, are available at: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/defence-committee/publications/>

**B.4** Reports published during this reporting period are listed below.

Table B.1 – Parliamentary Session 2013-14: MOD responses to reports published in the previous parliamentary session

Report	Title	Publication Date
HC 73	Defence Acquisition: Government Response to the Committee's Seventh Report of session 2012-13	10 May 2013
HC 292	Ministry of Defence Annual Report and Accounts 2011-12: Government Response to the Committee's Ninth Report of Session 2012-13	14 June 13
HC 505	The Work of the Service Complaints Commissioner for the Armed Forces: Government's and Commissioner's Responses to the Committee's Eighth Report of 2012-13	27 June 13

Table B.2 – Financial Year 2013-14: Defence Select Committee Reports (Government Responses, if published, are listed in brackets after the report to which they relate)

Report	Title	Publication Date
HC 413 (HC 461)	Securing the Future of Afghanistan	10 April 2013
HC 291 (HC 644)	MOD Supplementary Estimates 2012-13	13 June 2013
HC 517 (HC 670)	MOD Main Estimates 2013-14	1 July 2013
HC 185 (HC 759)	The Armed Forces Covenant in Action? Part 4: Education of Service Personnel	18 July 2013
HC 586 (HC 771)	The Armed Forces Covenant in Action? Part 3: Educating the Children of Service Personnel	23 July 2013
HC 198 (HC 839)	The Defence Implications of Possible Scottish Independence	27 September 2013
HC 197 (HC 1175)	Towards the Next Defence and Security Review: Part One	7 January 2014
HC 653	Ministry of Defence Annual Report and Accounts 2012–13	14 January 2014
HC 576	Future Army 2020	6 March 2014
HC 772	Remote Control: Remotely Piloted Air Systems – Current and Future UK use	25 March 2014
HC 1066	Deterrence in the Twenty-First Century	27 March 2014

**B.5** The MOD also provided the Government Response to a Scottish Affairs Committee report as shown in table B.3 below.

Table B.3 – Parliamentary Session 2013-14: MOD responses to reports published by other Select Committees in the previous parliamentary session

Report	Title	Publication Date
HC 1045	The Referendum on Separation for Scotland: Separation shuts shipyards: Government Response to the Committee's Seventh Report of Session 2012–13	4 April 2013

**B.6** The Defence Committee also visited the Armed Forces in the UK and overseas as part of its inquiries, as shown in Table B.4.

Table B.4 – Visits by the Defence Committee to UK Armed Forces

Date of Visit	Establishment	Related Inquiry
26-31 October 2013	Afghanistan	Securing the Future of Afghanistan
21 November 2013	RAF Waddington	Remote Control: Remotely Piloted Air Systems – Current and Future UK use
16 December 2013	Army Recruitment Centre	Future Army 2020
20 March 2014	RAF Brize Norton	–

*Evidence to the House of Commons EU Scrutiny Committee and the House of Lords EU Committee*

**B.7** Since 1 April 2013, the Ministry of Defence has also given written and oral evidence on various issues to the House of Commons and House of Lords EU Scrutiny Committees to keep both Houses apprised of routine EU business in accordance with Government undertakings. All Committee publications including transcripts and correspondence between Ministers and the Committees are to be found at:

<http://www.parliament.uk/business/committees/committees-a-z/commons-select/european-scrutiny-committee/> (Commons)

<http://www.parliament.uk/business/committees/committees-a-z/lords-select/eu---foreign-affairs-defence-and-development-policy-sub-committee-c/> (Lords)

**B.8** Evidence given during this reporting period is listed below:

Table B.5 – Parliamentary Session 2013-14: Reports/evidence

Select Committee	Subject	Publication Date
HOC European Scrutiny Committee HC 83	Documents considered by the Committee on 11 December 2013	23 December 2013

*Evidence to Other Select Committees of the House of Commons and House of Lords*

**B.9** Since 1 April 2013, the Ministry of Defence has also given written and oral evidence on various issues to the following Select Committees of the House of Commons and House of Lords: All Committee publications, including published evidence given to the Committee, are available at:

<http://www.parliament.uk/business/committees/committees-a-z/#E>

Table B.6 – Parliamentary Session 2013-14: Reports/evidence

Select Committee	Subject	Publication Date
Foreign Affairs Committee HC 88	The UK's Relations with Saudi Arabia and Bahrain	22 November 2013
Scottish Affairs Committee HC 842	The Referendum on Separation for Scotland: A Defence Force for Scotland – A Conspiracy of Optimism	23 November 2013
House of Lords Committee on the Inquiries Act 2005 HL 143	Inquiries Act 2005	11 March 2014
House of Lords Select Committee on Soft Power and the UK's Influence HL150	Persuasion and Power in the Modern World	28 March 2014

**B.10** Select Committees also visited the Armed Forces in the UK as part of their inquiries, as shown in Table B.7.

Table B.7 – Other Select Committee Visits to the Armed Forces

Date of Visit	Select Committee	Establishment	Related Inquiry
13/14 August 2013	Scottish Affairs Committee	Benbecula	The Referendum on Separation for Scotland

# Annex C

## Trading Fund Performance

### Defence Support Group (DSG)

**C.1** DSG provides the MOD with secure access to assured onshore capacity and capability for the through life maintenance, repair, overhaul, upgrade and procurement support services for defence equipment. During the year DSG worked with the MOD in preparing the business for sale within the Spending Review 2010 period, as set out in the Strategic Defence and Security Review. For DSG's Electronics and Components Business Unit (ECBU), which includes activities undertaken at DSG Stafford and other military locations around the country, the priority during the year was preparing the separation of this business from the rest of DSG. This was a direct consequence of the Ministerial decision to retain this part of DSG in Government ownership whilst MOD prepares the Land businesses for sale. It is the intention that ECBU will remain in MOD ownership from April 2015.

**C.2** Besides the issues surrounding sale and separation, the business produced a strong trading performance during the year with turnover of £180.5M (compared to £182M in 2012-13). Reducing costs contributed to the business producing a net profit, before interest and dividend, of £15.2M against a plan of £12.7M. The Return on Capital Employed was 9.04%.

**C.3** DSG's role in Camp Bastion is pivotal in providing support to the front line, as well as redeploying equipment to the UK in readiness for the conclusion of deployed operations in Afghanistan. DSG is now firmly in the drawdown phase of the operation, over the year the facility was operating at full capacity producing over 70 platforms a month, regenerating and latterly redeploying vehicles and major equipment. Establishing the Equipment Redeployment Hub Forward (ERHF) facility in Camp Bastion provides Permanent Joint Headquarters and Army HQ with the required assurance that returning platforms and equipment are in a known pre-determined state and fully accounted for prior to their return to the UK.

**C.4** DSG operations in Bastion continue contributing cost avoidance savings in excess of £120M to the MOD since 2009 with over 800 platforms completed. DSG is now in the drawdown phase of the project with the contract ending in September 2014. DSG numbers are now reducing commensurately with the withdrawal of UK Armed Forces from Afghanistan over the next six months. However, the ERHF remains until the contract ends in April 2015.

**C.5** More information can be obtained from the DSG Annual Report and Accounts on the DSG website.

### Defence Science And Technology Laboratory (Dstl)

**C.6** Dstl, the MOD's in-house Science and Technology (S&T) organisation, has the express purpose to maximise the impact of S&T for the defence and security of the UK. Dstl provides the Government with an extensive portfolio of scientific and technical support, which is delivered by working with others across industry, academia, wider government laboratories and international agencies, and from its professional in-house expertise.

**C.7** Dstl continues to develop and manage a substantial and broad-ranging programme of research on behalf of the MOD. This year, 60 per cent of research was delivered by industry and academic partners, helping to prioritise investment in new technologies that will enable Dstl to provide vital support to UK defence and security and to potential future operations.

**C.8** Through this collaborative work, Dstl has delivered successful programmes and projects that have had significant impact for its customers across the defence and security sector, at home and abroad. Of particular note this year is Dstl's: continued support to operations in Afghanistan and its policy decision support to the drawdown of capabilities there; chemical analysis of clothing and soil samples from Syria; successful international trials to develop new capabilities, including ballistic missile defence, autonomous underwater vehicles and radical options for the next generation of air system, and cost leadership – helping the customer understand cost drivers and to identify savings opportunities.

**C.9** For the first time, Dstl developed a draft Science Strategy. Summarised in its published Corporate Plan 2014-19, the strategy sets out nine priority S&T capabilities that support Dstl's 'Purpose'. It will be used to inform and guide Dstl's development as the organisation plans and supports its customers' future requirements.

**C.10** International partnerships remain a key part of how Dstl achieves technological advance and access to the support that its customers need. This year, Dstl has continued to work with key allies, both bilaterally and in established multi-lateral relationships such as NATO and The Technical Cooperation Programme.

**C.11** Dstl's vision is to be the first port of call for defence- and security-related S&T within Government and, over the past year, it has invested heavily in a more structured and programmatic approach to the delivery of benefits to its customers. A new end-to-end delivery process has given a clearer focus on supporting customers through account management, and by a more coherent and efficient delivery of programmes and projects using both internal resources and external suppliers. Dstl has also examined options for significantly improving the funding for the commercialisation of Intellectual Property (IP), through its wholly owned technology transfer company Ploughshare Innovations Ltd, in response to Government policy.

**C.12** The Centre for Defence Enterprise (CDE) at Dstl has continued to remove barriers for small- and medium-sized enterprises (SMEs) to enter the defence supply chain. More than two-thirds of CDE contracts go to SMEs and innovators within academia, providing a vital mechanism for defence to access their fresh thinking and capabilities. CDE has received more than 5,000 research proposals, with around 800 selected for funding, resulting in a total contract value of £48M. This year, CDE launched new 'Innovation Networks' – a series of events designed to offer greater support to suppliers in academia and industry, helping to create, sustain and support a network of innovators.

**C.13** Dstl achieved its required financial performance. Turnover for the year was £661M (2012/13: £629M) and net profit was unchanged at £26M. Dstl delivered a Return on Capital Employed of 7.4 per cent.

**C.14** More information can be obtained from the Dstl Annual Report and Accounts on the Dstl website.

#### **UK Hydrographic Office (UKHO)**

**C.15** UKHO is a world leader in the supply of hydrographic information and data services for both Defence and international merchant marine applications. Commercial business, marketed under the ADMIRALTY brand, represents 92.7% of UKHO total revenue and the UKHO is financially self-supporting.

**C.16** The products and services UKHO supply to Defence are crucial to the conduct of operations globally and support the National Security Strategy. UKHO also support the Maritime and Coastguard Agency in discharging the UK's obligations for national charting under the United Nation's (UN) International Convention for the Safety of Life at Sea (SOLAS), 1974, to which the UK is a signatory.

**C.17** UKHO's Defence section, the Defence Maritime Geospatial Intelligence Centre (DMGIC), supports operations and has delivered against all its targets. In addition to its planned activities, the UKHO also delivered ad hoc maritime geospatial data to support changing operational needs, often at short notice. The UKHO delivered 170 of these ad hoc tasks last year, including custom charts to support the UK humanitarian relief effort after Typhoon Haiyan in the Philippines.

**C.18** The safety and quality of ADMIRALTY brand products and services in support of the mariner at sea is deeply embedded in the culture and ethos of the UKHO, and its leadership and technical ability in this niche, but vital, field for Defence, safety and international trade, is hard won and internationally recognised.

**C.19** The UKHO has had a strong year of delivery against its plans and its successes have included: transforming operations and implementing a single hydrographic database for home waters and UKHO areas of prime charting responsibility overseas; rolling out print on demand (POD) technology to 47 UKHO distributors worldwide and launching a number of new 'thematic' paper charts; making significant improvements to UKHO's e-Navigator back-of-bridge software, including the integration and extension of its ADMIRALTY Digital Publications; and launching an e-book reader for Sailing Directions and other publications.

**C.20** UKHO sales are linked to the health of the global shipping market, especially new vessel construction that lags maritime trade by around 3 years, and despite recent improvements in the world economy, trading conditions remain challenging. As a result, UKHO turnover was essentially flat compared with the previous year at £130.5M whilst net profit on ordinary activities was down £1M at £21.8M reflecting changes in product mix and data royalties. Return on Capital Employed was 28.5% against a target of 9%. All five key targets for the UKHO, encompassing Safety, Defence, Finance, cost reduction and strategic plan delivery, were achieved.

**C.21** More information can be obtained from the UKHO Annual Report and Accounts on the UKHO website.

# Annex D

## Fraud

**D.1** The MOD has a zero tolerance policy towards fraud, along with a clear process on how to report suspicions of fraud, theft, bribery and corruption. In response to the January 2012 KPMG report which reviewed MOD arrangements for managing fraud, the Fraud Defence unit and the Fraud Defence Board are now established. The 2013-16 Counter-Fraud Strategy, designed around five pillars of activity, has been approved and sets out the strategic priorities for the MOD's response. Work advanced to date includes;

- The successful delivery of a fraud risk identification pilot with Joint Forces Command
- The launch of an End of Case Report, enabling lessons learned from investigations to be disseminated to relevant parts of the MOD, helping to prevent future fraudulent activity
- Initiating the build of the first MOD Fraud Detection Platform
- The launch of a series of awareness and skills activities including the Procurement Fraud training programme and the internal publication *Fraud Focus*

## Transparency

**D.2** MOD has continued to implement its Open Data Strategy (ODS), published in 2012. Progress has been made in embedding transparency into the department's normal working business. Achievements thus far include the publication of 6 of the 7 datasets identified in the ODS. These include MOD Byelaws, Accommodation Satisfaction Statistics, National Limit data and Shipping Traffic Separation datasets. The Department has responded to public demand for datasets; publishing Iraq polling data and regular range time datasets, greatly assisting local community's usage of MOD and surrounding land.

**D.3** In addition it has contributed to the data.gov.uk inventory of published and unpublished datasets as part of the government response to the Shakespeare review of Public sector information. The aim of the inventory is to detail all datasets held by the department for comment and request by members of the public. The MOD has contributed over 300 datasets to the 3900 listed by all Government departments. The MOD ODS is due to be updated in 2014. This will reflect the requirements of the National Information Infrastructure, which includes the development of transparency processes. It will also reflect work with the MOD Chief Statistician to identify the raw data behind Defence statistics to assess the value of its potential contribution to the Transparency Agenda.

## Freedom of Information

Category	MOD performance	Total for Central Government Departments
Number of requests received	3,645	51,841
Of these:		
% of requests responded to within 20 working days	83%	86%
% of requests answered 'in time' 2	87%	91%
Total of 'resolvable requests' 3	2,843	38,287
Of these:		
% of resolvable requests answered in full	62%	53%
% of resolvable request refused in full	22%	30%
% of resolvable requests refused in part	9%	12%
% resolvable requests yet to receive a response at the time these statistics were collected	7%	5%

**D.4** In 2013-2014, the MOD received 3645 requests for information under the Freedom of Information Act 2000, a 5% increase over the previous year. 83% of requests received a substantive response within the 20 working day statutory time limit set out in the legislation and 86% of requests were handled in time, in accordance with the timescales recommended in the Information Commissioner's guidance. These figures demonstrate that despite the pressures of other defence business, the department continues to achieve a good level of performance in this area of its business. 62% of 'resolvable' requests were answered in full. MOD refused 22% of requests in full and 9% in part, on the grounds that information was exempt from disclosure under the provisions of the FOI Act 2000.

**D.5** FOI is an important element of MOD business and during the year the department invested in a new and improved cloud-based digital case management system to ensure the efficient allocation and monitoring of FOI requests within the department. Formal training, seminars and workshops establish and maintain the necessary levels of expertise in business units. In-house guidance is regularly updated to reflect the evolving views of the Information Commissioner, the Information Tribunal, and policy developments issued by the Ministry of Justice.

## Corporate Memory – The National Archives

**D.6** 2013-14 saw the routine review and transfer of records to The National Archives (TNA) resulting in around 8,500 files being identified and selected for permanent preservation, which were made publicly available at TNA from Q1 2014. MOD continues to comply with its obligations under the Public Records Act and due to a change in the Act that replaces the 30 Year Rule with a 20 Year Rule, has increased the resources available for reviewing and transferring files to TNA. In addition, MOD has continued to support TNA in dealing with Freedom of Information requests for files that are held by TNA but not available to the public.

## Commercial Sponsorship Within The MOD During 2013/14

**D.7** The sponsorship return satisfies the Cabinet Office requirement to publish details of commercial sponsorship deals with a value of £5,000 or greater, excluding VAT, where they supplement Government funding of Departmental core business.

Activity	TLB	Individual Sponsors	Company Contribution £ EX VAT
Ship Open Day	DE&S	Aramark	2,769.66
Ship Open Day	DE&S	ISS	2,769.66
Ship Open Day	DE&S	Industrial Maintenance Service	2,769.66
Battle of Britain Memorial Flight	Air Command	Santander UK	8,400.00
Battle of Britain Memorial Flight	Air Command	BAE Systems	30,000.00
Battle of Britain Memorial Flight	Air Command	Blackbrookes LLP	5,500.00
Battle of Britain Memorial Flight	Air Command	Land Rover	33,350.00
Battle of Britain Memorial Flight	Air Command	Pullman Wincanton	7,700.00
Battle of Britain Memorial Flight	Air Command	Rolls Royce	5,000.00
Typhoon Display Team	Air Command	Torgoen	10,400.00
Typhoon Display Team	Air Command	Bretling uk ltd	8,000.00
Typhoon Display Team	Air Command	Goretex	20,000.00
Typhoon Display Team	Air Command	Rolls Royce	3,250.00
Typhoon Display Team	Air Command	Selex ES	20,000.00
Typhoon Display Team	Air Command	Squadron Prints	1,000.00
Red Arrows	Air Command	XS Creativity	2,000.00
Red Arrows	Air Command	Alexandre (BNBMenswear)	4,000.00
Red Arrows	Air Command	Applewhites	2,000.00
Red Arrows	Air Command	Aquila ATMS	5,500.00
Red Arrows	Air Command	BAE Systems	30,000.00
Red Arrows	Air Command	Barbour	1,500.00
Red Arrows	Air Command	Bretling	24,000.00
Red Arrows	Air Command	Colour Confidence	9,700.00
Red Arrows	Air Command	Connect Colour	3,000.00
Red Arrows	Air Command	Grant	3,000.00
Red Arrows	Air Command	Grenson	2,000.00
Red Arrows	Air Command	Kodak	5,000.00
Red Arrows	Air Command	Land Rover	30,000.00
Red Arrows	Air Command	Leeds Commercial	6,500.00
Red Arrows	Air Command	M2M2	2,000.00
Red Arrows	Air Command	Morrison McConnell	2,000.00
Red Arrows	Air Command	Oakley	3,500.00
Red Arrows	Air Command	Ping	1,500.00
Red Arrows	Air Command	Pitscards	2,000.00
Red Arrows	Air Command	Rolls Royce	2,000.00

Activity	TLB	Individual Sponsors	Company Contribution £ EX VAT
Sanctuary Magazine	DIO	Turner Estate Solutions Ltd	500.00
Sanctuary Magazine	DIO	Aspire Defence Services Limited	500.00
Sanctuary Magazine	DIO	Babcock International Group	2,000.00
Sanctuary Magazine	DIO	Carillion Enterprise Ltd	1,500.00
Sanctuary Magazine	DIO	Kelda Water Services (Defence)	500.00
Sanctuary Magazine	DIO	Landmarc Support Services Ltd	1,500.00
Sanctuary Magazine	DIO	Lend Lease	1,000.00
Sanctuary Magazine	DIO	Modern Housing Solutions	1,000.00
Sanctuary Magazine	DIO	PriDe	2,000.00
Sanctuary Magazine	DIO	QinetiQ Ltd	2,000.00
Sponsorship of a Cadet Unit	Land Command	The Honourable Artillery Company	228,760.22
Loan of vehicle to Chinook Display Team	Land Command	Range Rover	7,932.00
Red Devils Display Team	Land Command	Chemring	10,000.00
Red Devils Display Team	Land Command	Kukri	5,385.46
Red Devils Display Team	Land Command	Blue Bee Solutions	5,500.00
Red Devils Display Team	Land Command	Victorinox	3,000.00
Royal Signals Motorcycle Display Team	Land Command	L F Harris (International) Ltd	10,000.00
Defence Health, Education and Training Venue	JFC	Technogym,Pulse Fitness,Matrix Fitness, Octanne Fitness , MEDI , OSSUR,Game Ready	12,050.00
Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance (C5ISR)	JFC	Selex ES	7,493.00
Car used by V.I.P's to visit R.A.F. Yeovilton	Navy Command	Jaguar XJ 3.0D Portfolio lwb auto	7,685.00
Loan of vehicle to HMS Bulwark	Navy Command	Land Rover	10,320.00
RNAS Culdrose Airday 2013	Navy Command	Ascent Flight Training	1,000.00
RNAS Culdrose Airday 2013	Naval Command	Thales UK Ltd	5,000.00
RNAS Culdrose Airday 2013	Naval Command	Lockheed Martin UK Ltd	26,000.00
HMS DRAGON crew port visits	Naval Command	Donation from The Royal Navy and Royal Marines Charity to HMS Dragon Welfare Fund	5,000.00
HMS Duncan's Commissioning Ceremony	Naval Command	BAE Systems	5,000.00
HMS Duncan's Commissioning Ceremony	Naval Command	Gosling Foundation	5,000.00
HMS Duncan's Commissioning Ceremony	Naval Command	MBDA Missile Systems	8,000.00
HMS Duncan's Commissioning Ceremony	Naval Command	RNRMC	5,000.00
Loan of vehicle to HMS Illustrious.	Naval Command	Land Rover	10,320.00
Loan of vehicle to HMS Ocean	Naval Command	Land Rover	6,108.00
<b>Total</b>			<b>709,162.66</b>

# Annex E

## Sustainability

**E.1** The importance of sustainability to the Department is not purely for its own sake, but because managing environmental and socio-economic effects at an organisational level support a modern military and contribute to the efficient and effective delivery of operational capability. Global environmental, social and economic pressures pose challenges to Defence's ability to meet its strategic objectives. Climate change and resource security – water, food, energy, materials – are potential catalysts for instability and are national security risks set out in the National Security Strategy. Improving sustainability benefits the Department by becoming more efficient, resilient and adaptable for future requirements.

**E.2** To meet the challenges, the Department has a Sustainable Development Strategy which sets out sustainable MOD principles and aims to embed these in other Defence strategies, policies, and decision-making processes. The MOD is committed to achieving the Government's Mainstreaming Sustainability vision, including the Greening Government Commitments and the MOD's Business Plan targets. The mainstreaming requirements of the Strategy are embedded in the Defence Plan 14, with progress monitored through the Department's holding to account processes.

**E.3** Progress against the Greening Government targets has been mixed, with good progress towards achieving or exceeding targets for estate water, carbon emissions, and paper use. Defence Transformation and programmes have created challenges in the short term for other targets, increasing waste volumes, business air travel, and sustainable procurement.

**E.4** The challenges to meeting the waste target are set to continue for the next few years as basing decisions are implemented; however the long term position is much more positive with a smaller more efficient estate served by fewer waste management contracts, and work is underway to re-invigorate efforts to reduce air travel. In-year progress on Sustainable Procurement, an essential element in the planning and delivery of military capability, was impacted by organisational transformation programmes. However current activities include work with key suppliers on sustainability within the supply chain, awareness of Government Buying Standards, and sustainable procurement training.

**E.5** The MOD continues to work with other Government Departments and stakeholders on climate resilience of the defence estate to ensure sustainable and climate resilient solutions are delivered, along with research into climate resilience in materiel procurement.

**E.6** Detail of performance will be published as part of the Sustainable MOD Annual Report in September 2014, and can be viewed at <https://www.gov.uk/government/publications/sustainable-mod-annual-report-2013-to-2014>

# Annex F

## Annual Data Summary

**F.1** As part of the Government's transparency agenda we report data regarding common areas of spend to the Cabinet Office, along with all other Government departments on a quarterly basis. To increase comparability between Departments this spend is categorised according to Cabinet Office definitions, the indicators that we are required to report on were changed slightly by the Cabinet Office in 13/14 compared to those we reported on in 12/13. An extract of the quarter four submission showing the spend over the whole year is provided below for the indicators remaining from the previous Annual Report and Accounts.

**F.2** There has been one significant change since 12/13: Due to the change in Cabinet Office requirements, we no longer report Grants or grants-in-aid.

Common Areas of Spend		2013-14	2012-13
Procurement	Total Procurement Spend (£M)	£19,188M	£20,307M
IT	Cost of Desktop Provision per FTE (£)	£1,224	£1,235
Corporate Services Cost	HR	£22.92M	£21.6M
	Finance	£111.87M	£117.0M
	Procurement	£66.25M	£72.0M
Fraud, Error, Debt	Detected Fraud	£4.1M	£13.2M

**F.3** In May 2014, the MOD (along with all Government Departments) published its second report on the progress of projects in the Government's Major Projects Portfolio<sup>1</sup> (GMPP). The publication is based on the GMPP submissions made in September 2013. When this snapshot of performance was taken, the MOD was in the process of implementing the changes required by Defence Reform, but not all programmes had applied the criteria (outlined below). The data within the ARAC is a subset of the full publication.

**F.4** As part of the Defence Reform Programme, the MOD has changed the way it bounds its largest programmes; moving from project level to programme level. The MOD has changed the way we manage (and report) from equipment projects to capability programmes which now report across all Defence Lines of Development (DLOD). This is a technical change in the way the MOD bounds the costs of Capability Programmes. Previously, only approved costs for the equipment DLOD were reported. Now, the Whole Life Cost includes costs associated with all DLODs causing a perceived increase in the Whole Life Cost figure.

**F.5** The MOD considers the end of a capability programme to be the point when the final output is delivered to the Business As Usual area e.g. the final delivery of an aircraft to Air Command or the final delivery of a submarine to Navy Command. Previously, project reporting was either bounded by the Out of Service date for projects past Main Gate Business Case approval or the end of the Assessment Phase for projects pre Main Gate Business Case approval. Following the implementation of Defence Reform, all programmes should now report to the point when the final output is delivered to the Business As Usual area. This means there are significant changes to the time period over which programmes report, which causes further changes to the Whole Life Cost figures.

**F.6** Users should be aware of these changes when comparing programmes against the 2013 Transparency publication or the 2013 ARAC.

<sup>1</sup> <https://www.gov.uk/government/publications/mod-government-major-projects-portfolio-data-2014>

Major Projects (Top 5 not exempt from the government Transparency agenda)	Cost – Total budgeted whole life costs (£million) (including non-government costs)
Nuclear Warhead Capability Sustainment Programme	21,884
Typhoon	20,147
Complex Weapons	15,949
Joint Combat Aircraft	15,291
Astute Boats 1-7	9,868
Whole life cost of ALL major projects	135,767

Structural Reform Plan Actions	2013-14
Total number of actions completed during the period	13
Total number of actions overdue at the end of the period	0
Number of overdue actions that are attributable to external factors	0
Total number of actions ongoing	48

Department and Agencies Only		Year ended 31 March 2014	Year ended 31 March 2013
Workforce Shape	Administrative Assistants and Administrative Officers	35.1%	37.4%
	Executive Officers	20.8%	20.5%
	Higher and Senior Executive Officers	37.4%	36.0%
	Grade 6/7	6.0%	5.5%
	Senior Civil Servants	0.6%	0.6%
	Part Time	9.9%	10.7%
Workforce Dynamics	Recruitment Exceptions		1,080
Workforce Diversity	Black and Minority Ethnic	3.9%	3.8%
	Women	37.7%	37.1%
	Disabled <sup>2</sup>		
Workforce Diversity (Senior Civil Servants)	Black and Minority Ethnic	≤5	≤5
	Women	23.4%	23.9%
	Disabled		
Attendance (Average Working Days Lost)	Actual	7.62 days	7.9 days
Average Staff Salary Costs	Actual	£29,945	£29,270

Department only; People Survey Metric		2013 Survey	2012 Survey
Engagement Index		54%	52%
Theme Scores	Leadership and Managing Change	26%	22%
	My Work	73%	70%
	My Line Manager	61%	59%
	Organisational Objectives & Purpose	78%	76%

<sup>2</sup> Due to changes made to accommodate the new disability reporting requirements, insufficient numbers of personnel have made disability declarations to be able to report disability representation with any statistical validity from July 2011.

# Annex G

## Votes A Statement – Statement of Approved Maximum Armed Forces Numbers

**G.1** Votes A provide the formal mechanism by which Parliament sets limits for and monitors the maximum numbers of personnel retained for service in the Armed Forces. They are presented to the House shortly before the start of each financial year (late February), and form part of the Parliamentary Supply process.

**G.2** Votes A numbers represent uppermost limits for Service manpower; they neither predict actual strengths nor act as a control over numbers in the Services. Votes A includes a contingency margin to cover unforeseen circumstances. Manpower levels are monitored routinely, and if it is anticipated that the numbers could be breached, then a Supplementary Estimate may be required to increase the limit.

**G.3** The tables included below compare, for each service, the numbers voted by the House of Commons with the maximum numbers maintained and the date at which this peak occurred. The aggregate maximum numbers maintained may not equal the sum of Officers plus Men and Women as these categories peak at different times of the year. The “Men and Women” categories represent the Services’ Ratings and Other Ranks.

**G.4** Maximum numbers of personnel to be maintained for service with the Armed Forces:

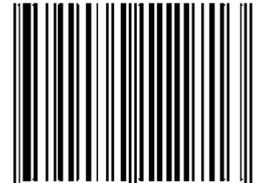
		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Naval Service</b>				
<b>Royal Navy</b>	Officers	6,740	6,130	April 2013
	Men and Women	21,370	20,140	April 2013
	Aggregate	28,110	26,270	April 2013
<b>Royal Marines</b>	Officers	920	830	October 2013
	Men and Women	7,500	7,010	December 2013
	Aggregate	8,420	7,820	December 2013
<b>Army Service</b>				
<b>Army</b>	Officers	15,060	13,940	June 2013
	Men and Women	98,720	85,840	April 2013
	Aggregate	113,780	99,730	April 2013
<b>Commonwealth, Colonial, etc, troops abroad and Gurkhas</b>	Officers	150	130	May 2013
	Men and Women	4,040	3,580	April 2013
	Aggregate	4,190	3,710	April 2013
<b>Air Force Service</b>				
<b>Royal Air Force</b>	Officers	8,860	8,230	April 2013
	Men and Women	30,340	28,790	April 2013
	Aggregate	39,200	37,030	April 2013

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Reserve Naval and Marine Forces</b>				
<b>Royal Fleet Reserve (Naval Officers and Ratings)</b>	Officers	4,960	3,490	April 2013
	Men and Women	10,580	3,230	October 2013
	Aggregate	15,540	6,700	April 2013
<b>Royal Fleet Reserve (Marine Officers and Marines)</b>	Officers	470	270	February 2014
	Men and Women	2,610	1,220	September 2013
	Aggregate	3,080	1,470	September 2013
<b>Royal Naval Reserve</b>	Officers	1,200	790	March 2014
	Men and Women	1,980	1,250	March 2014
	Aggregate	3,180	2,040	March 2014
<b>Royal Marines Reserve</b>	Officers	70	50	February 2014
	Men and Women	920	650	March 2014
	Aggregate	990	700	March 2014
<b>Royal Naval Reserve (List 7)</b>	Officers	950	890	December 2013
<b>Reserve Land Forces</b>				
<b>Army Reserve</b>	Officers	11,190	9,530	February 2014
	Men and Women	25,400	22,670	April 2013
	Aggregate	36,590	31,950	September 2013
<b>Territorial Army</b>	Officers	9,110	4,540	April 2013
	Men and Women	38,770	26,090	April 2013
	Aggregate	47,880	30,630	April 2013
<b>Reserve Air Forces</b>				
<b>Royal Air Force Reserve</b>	Officers	5,000	3,850	February 2014
	Men and Women	9,100	7,770	April 2013
	Aggregate	14,100	11,600	April 2013
<b>Royal Auxiliary Air Force</b>	Officers	480	280	March 2014
	Men and Women	2,440	1,390	March 2014
	Aggregate	2,920	1,680	March 2014

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Special Members of The Reserve Naval Forces</b>				
<b>Royal Naval Reserve</b>	Officers	780	660	May 2013
	Men and Women	1,620	1,220	May 2013
	Aggregate	2,400	1,880	May 2013
<b>Special Members of The Reserve Land Forces</b>				
<b>Territorial Army</b>	Officers	10	~	July 2013
	Men and Women	180	90	August 2013
	Aggregate	190	90	August 2013
<b>Army Reserve</b>	Officers	10	0	n/a
	Men and Women	20	0	n/a
	Aggregate	30	0	n/a
<b>Special Members of The Reserve Air Forces</b>				
<b>Royal Air Force Reserve</b>	Officers	100	50	March 2014
	Men and Women	210	80	January 2014
	Aggregate	310	130	January 2014



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