



Ministry  
of Defence

# Annual Report and Accounts 2020–21





# Ministry of Defence Annual Report and Accounts 2020–21

For the year ended 31 March 2021

Accounts presented to the House of Commons pursuant to  
section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

Ordered by the House of Commons to be printed 20 January 2022



© Crown copyright 2022

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](https://nationalarchives.gov.uk/doc/open-government-licence/version/3)

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at <https://www.gov.uk/official-documents>

Any enquiries regarding this publication should be sent to us at [DFinStrat-FMPA-ATM-ARAcProd@mod.gov.uk](mailto:DFinStrat-FMPA-ATM-ARAcProd@mod.gov.uk)

ISBN 978-1-5286-3143-3

E02666465 01/22

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the HH Associates Ltd on behalf of the Controller of Her Majesty's Stationery Office

# Contents

## Performance Report

### Overview

Foreword by Secretary of State for Defence .....	2
Introduction from the Permanent Secretary and the Chief of the Defence Staff.....	4
Defence Purpose .....	6
Defence Operating Model .....	7
Defence in a Competitive Age .....	11
Supporting the COVID-19 Pandemic Response .....	15
Financial Performance Summary .....	17

### Performance Analysis

Priority Outcomes: Performance Summary Key Achievements 2020–21 .....	28
Priority Outcome 1: Strengthen the UK's national security through delivering threat-based defence decision making .....	29
Priority Outcome 2: Protect the UK and its Overseas Territories .....	35
Priority Outcome 3: Enhance global security through persistent engagement and response to crises .....	40
Priority Outcome 4: Contribute to NATO collective deterrence and defence .....	60
Priority Outcome 5: Modernise and integrate defence capabilities by taking a whole force approach to our people and increasing the use of technology and innovation.....	62

## Accountability Report

Corporate Governance Report .....	110
The Remuneration and Staff Report .....	148
The Parliamentary Accountability and Audit Report .....	174

## Ministry of Defence Annual Accounts

Financial Statements .....	206
Notes to the Accounts .....	210

## Annexes

Annex A: Statement of Approved Maximum Armed Forces Numbers .....	262
Annex B: Sponsorship Agreements over £5,000 .....	264
Annex C: Core Tables .....	265
Annex D: Energy and Carbon Emissions Data .....	267
Annex E: Water and Waste Data .....	268
Annex F: Arm's Length Bodies – Additional Information .....	269





# Performance Report

For the year ended  
31 March 2021



## Foreword by Secretary of State for Defence



The first duty of government is to defend our country and to continue to keep our people safe. The UK's departure from the European Union in 2020 has provided an opportunity to define and strengthen our place in the world when the global landscape is changing, including as a result of COVID-19.

The Integrated Review published in March 2021, set out how we will prepare, as one United Kingdom, to counter 21st century threats and seize global opportunities. This is the most comprehensive articulation of a defence, foreign and national security approach published by a British Government in decades.

With the publication of the Defence Command Paper and a record £24 billion defence budget settlement, we have paved the way for a modernisation of defence.

The reform and renewal of our Armed Forces will underpin the Prime Minister's vision for a stronger, more secure, prosperous and resilient Union. We will be modernised, threat-focused, and financially sustainable.

As the threat changes so must we. We will invest in the capabilities, technology, and equipment our Armed Forces need to continue their defence of our homeland and interests.

This will include new F35 Lightning fighters and upgraded Typhoon aircraft in the air. On land, the Army will have a new Ranger Regiment, able to train, advise and when needed, operate alongside our partners in complex, high-threat environments. At sea, the Royal Navy will benefit from the first increase in the size of the fleet since the Cold War, with new Type 32 frigates and support shipping, as well as new Type 83 future air defence systems joining our mighty HMS QUEEN ELIZABETH class aircraft carriers.

We have built on our world class defensive cyber capabilities during 2020–21 by establishing the new permanent National Cyber Force to bring together Defence and the intelligence services to provide a transformative cyber capability.

Underpinning our progress in cyberspace, is a significant uplift in our spending on Research and Development (around £6.6 billion) so we can accelerate and exploit innovation in rapidly developing fields like artificial intelligence; and identify where we might gain advantage from generation-after-next technologies.



To keep the UK safe in this changing world, Defence will be more active and globally engaged; working with partners to address the challenges we face and secure the interests we share.

To protect our people at home and overseas we will be more proactively and persistently engaged around the world and integrated with our partners to shape the global environment, uphold our values, compete with our adversaries, and secure our homeland.

We have continued to excel by engaging in a number of significant operations, fulfilling our commitments to NATO and the UN, as well as remaining a leader in NATO and continuing to cement our position as an ever greater and more reliable defence ally to our friends around the world.

Defence's contribution to the COVID-19 response represented the most significant domestic resilience operation in peacetime. It was a truly National and Whole Force response, uniting regulars and reservists, soldiers and academics, sailors and civil servants.

However, for Global Britain to succeed, we need to make more of our great strengths as one of the largest defence exporters in the world and a leading innovator. The Defence Security and Industrial Strategy published in March 2021 set out our vision to work ever closer with our partners across government, our international partners and our defence and security industries to re-energise our defence and security sectors and develop new commercial mechanisms and opportunities to sell our great defence and security products around the world.

I am grateful to the Permanent Secretary, Chief of Defence Staff and all our people in Defence for all of their tireless work in keeping our nation and our people safe in what has been an unprecedented challenging year.

**The Rt Hon Ben Wallace**  
Secretary of State for Defence

## Introduction from the Permanent Secretary and the Chief of the Defence Staff



The publication of the Integrated Review in March 2021 set out the Government's vision for Global Britain, in which the Armed Forces have a central role in furthering our nation's interests at home and abroad. This followed the Spending Review settlement of £24 billion which offers greater financial stability for the Department and provides the means to modernise the Armed Forces to meet the challenges we face now and in the future.

In 2020–21, the full contribution of Defence to our national resilience was evident in the response to COVID-19, with a 20,000-strong COVID Support Force, drawn from all three Services, supporting almost 400 different tasks, including administering mobile testing units. Meanwhile, civilian staff assisted the NHS with the provision of critical Personal Protective Equipment supplies which resulted in the procurement of over 11 billion items worth more than £5.9 billion, including 4.9 billion gloves, 3.5 billion face masks and 156 million gowns.

The security of the Euro-Atlantic remains our foremost operational focus. In November 2020, the UK-French Combined Joint Expeditionary Force (CJEF) reached full operating capability and can now rapidly deploy over 10,000 personnel in response



to a crisis. The UK also led NATO Enhanced Forward Presence deployments with Germany which saw the RAF and Luftwaffe operating closely together. At sea, HMS QUEEN ELIZABETH completed her training programme and the full UK Carrier Strike Group formed for the first time, comprising of 5th generation jets, surface ships from three nations, helicopters and a submarine.

Beyond Europe, the UK Armed Forces participated in eight United Nations missions, with personnel serving in Mali, Cyprus, South Sudan, the Democratic Republic of Congo, Afghanistan, Libya and both UN missions in Somalia. Before its conclusion, the UK also supported NATO's Resolute Support Mission in Afghanistan, leading the Kabul Security Force, providing protection for UK and NATO military and civilian personnel working within the city.

Modernisation continues apace, as we introduce new equipment and transform our capability across the new domains of Cyber and Space, alongside Land, Sea and Air. Our special relationship with the US remains the deepest and most advanced of any two countries. In 2020 a Memorandum of Agreement was signed between the British and US armies paving the way for an even closer relationship, together with a Statement of Intent for Future Force Design Cooperation.

None of these accomplishments would be possible without the dedication and skill of everyone working in Defence. We are both committed to ensuring that the Armed Forces and the Department are inclusive

environments, where people feel valued and are empowered to make full use of their talents. Over the past few decades huge strides have been made, with all branches of the Armed Forces now open to women and men alike, though we have more to do to maximise the potential which exists throughout Defence. This year the Department launched pilots for partner career support and wraparound childcare for Armed Forces families. A Defence Bullying, Harassment and Discrimination helpline was established, alongside a Mental Health and Wellbeing Toolkit to provide information and support to staff.

We are grateful to everyone, Armed Forces and Civil Service, for their resilience, tenacity and hard work to deliver what has been asked of them, and more, during a challenging and unpredictable year. The world may be an increasingly uncertain place, but our soldiers, aviators, sailors, and marines, and those who support them, are busy keeping us safe, and remain a source of pride and strength for the whole nation.

**David Williams CB**

Permanent Secretary for the  
Ministry of Defence

**Admiral Sir Tony Radakin KCB ADC**

Chief of the Defence Staff

## Defence Purpose

**To protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies. We are prepared for the present, fit for the future.**

### **Our aims:**

**Mobilise** to make the most of existing capabilities:

Defence already has world-leading personnel and extensive capabilities. We will make the most of these and invest to improve the readiness and availability of key Defence capabilities. We must reinforce and improve our alliances and become fully integrated within the pan-government effort to amplify our strengths.

**Modernise** to embrace new technologies to assure our competitive position:

We must keep pace with our adversaries by accelerating the development of new capabilities. This is about investing in new technology and equipment. We must build strength in the space and cyber domains and invest in our people, making sure we have the right skills and that we maximise our talent.

**Transform** to radically improve the way we do business:

We need to improve the way we run Defence. We must place Defence on a sustainable financial footing, led by smarter decision making and streamlined processes. To maintain our leading edge, we must gain an information advantage through better use of data, insight and technology.



## Defence Operating Model

The Ministry of Defence (MOD) is a Department of State and a Strategic Military Headquarters that directs Military Operations on behalf of the Government. It comprises the Royal Navy, Army, Royal Air Force and United Kingdom Strategic Command (the four Military Commands), the Defence Nuclear Organisation (DNO), the twelve Enabling Organisations providing a range of supporting services, and the Head Office providing strategic direction and leadership.

At the official level, leadership of defence is split between the Chief of the Defence Staff, the professional head of the Armed Forces and the Secretary of State's principal military adviser, the Vice Chief of the Defence Staff, running the armed forces aspects of defence business, the Permanent Secretary, the Secretary of State's principal policy adviser and the principal departmental Accounting Officer, and the Second Permanent Secretary, overseeing delivery of the Integrated Review and the Defence Command Paper. The four Military Commands are each led by a Chief who is the Top-Level Budget (TLB) holder responsible for the performance and output of their organisation and, for the three single Service Commands, the head of the Service.

The Defence Operating Model (DOM)<sup>1</sup> sets out how all the parts of MOD work together to deliver Defence outputs and describes the key roles, responsibilities, authorities and accountabilities for all the activities and decision-making processes. Over the past two years, changes have been

made to the DOM, such as; the creation of United Kingdom Strategic Command; the implementation of Functional Leadership; the introduction of Sponsorship of the department's Enabling Organisations; and improvements to the department's Planning Processes. The Chief Operating Officer is the Design Authority for the DOM in overseeing its application across Defence and its future development; including governing and cohering departmental wide change.

A significant part of the DOM is Functional Leadership. Functional Leadership ensures important cross-cutting activities are delivered across all areas of Defence effectively, efficiently and in line with wider Government policy. In MOD's operating model, tasks and resource are delegated to Commands and Enabling Organisations. This drives coherence, improvement and transformation on cross-cutting business processes such as Digital, People, Finance, Commercial, Security, and Logistics Support. Functional Leadership does this by making clear the rules, standards and business activities that must be complied with across all areas of Defence and driving improvement of skills and systems.

Operating Model development is a continuous process. Using the overall Defence Operating Model as our framework, we will add greater clarity around the relative interfaces of the individual organisations and Functions within MOD through the development of Command, Enabling Organisation, and Functional Sub-Operating Models by April 2022.

---

<sup>1</sup> Further information on How Defence Works: the defence operating model can be found at <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>



# Defence Operating Model: How Defence is organised

## Top Level Overview



## Head Office

### 4-star



### 3-star



## Defence Ministers

4 ★ (denotes the Permanent Secretary and the equivalent military ranks of Admiral, General and Air Chief Marshal)

3 ★ (denotes Director General and the equivalent military ranks of Vice Admiral, Lieutenant General and Air Marshal)

2 ★ (denotes Director and the equivalent military ranks of Rear Admiral, Major General and Air Vice-Marshal)

## Enabling Organisations

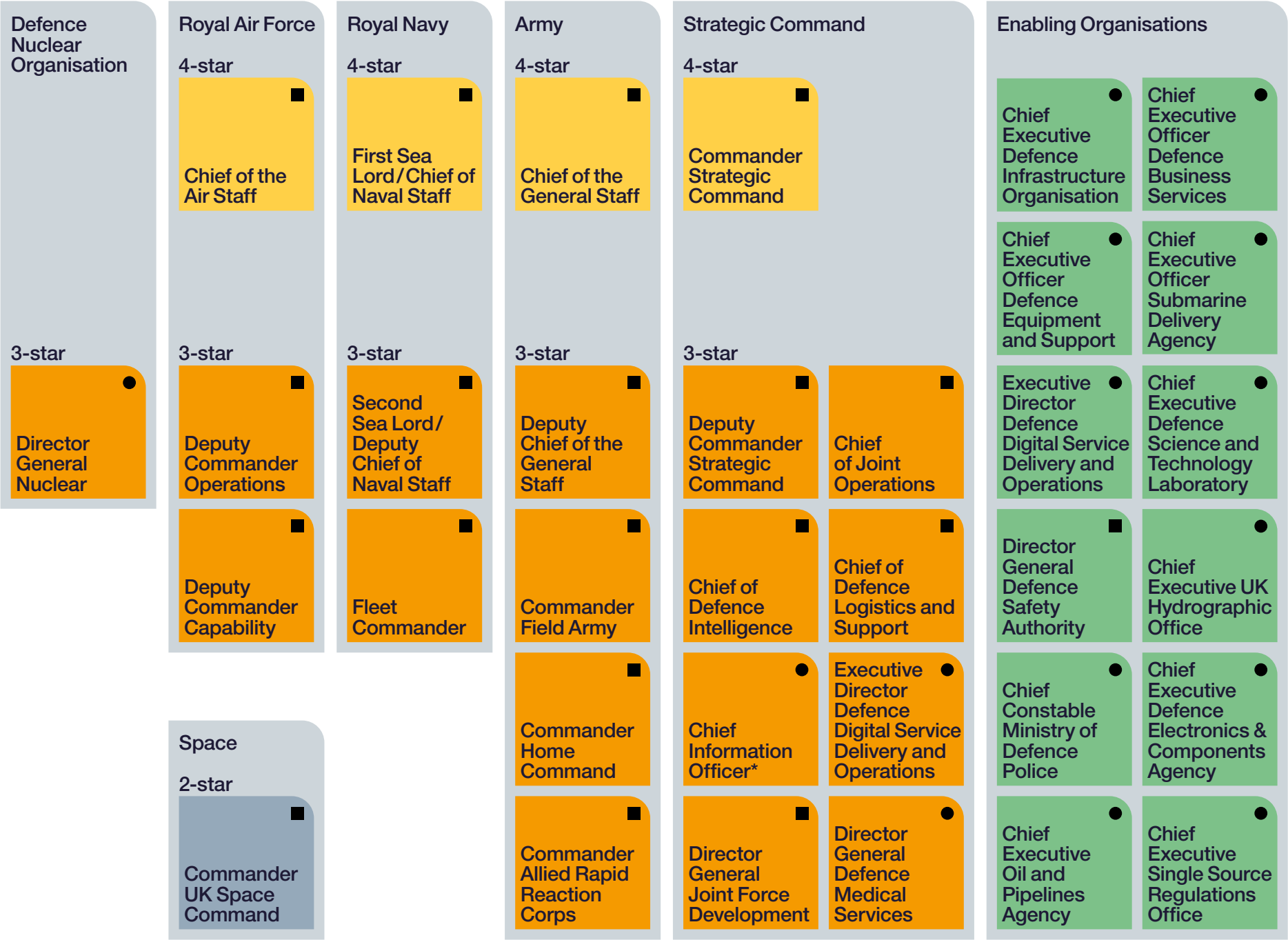
■ Military post

● Civilian post

## NOTE:

MOD has acquired Atomic Weapons Establishment and Sheffield Forgemasters International Limited; work is ongoing to determine their role in the Defence Operating Model.

\*The Chief Information Officer reports to both the Permanent Secretary and Commander Strategic Command





## The purpose of the Annual Report and Accounts

The Annual Report and Accounts exists to hold the department to account before Parliament and the public and is audited by the National Audit Office prior to publication.

It consists of a Performance Report, an Accountability Report and the Annual Accounts providing detail on defence activity undertaken during financial year 2020–21.

The Performance Report is based around the Priority Outcomes agreed as part of the Outcome Delivery Plans and were published and used as part of Spending Review 2020.<sup>2</sup> There may be minor changes to the Priority Outcomes in Spending Review 2021, to reflect the intent of the Integrated Review and the Defence Command Paper. Departmental risks are explained in the Governance Statement.



---

<sup>2</sup> Further information on the Spending Review can be found at <https://www.gov.uk/government/publications/spending-review-2020-documents>

## Defence in a Competitive Age

**At a time of unprecedented global challenge, the Integrated Review has set out an ambitious vision for a Global Britain which is stronger, more prosperous and resilient. Defence is central to achieving this vision and the Defence Command Paper ‘Defence in a Competitive Age’<sup>3</sup> describes how we will contribute to the four overarching objectives set by the Integrated Review,<sup>4</sup> creating new foundations for our prosperity and security to 2025 and beyond. These papers were published in March 2021.**

**In building a modernised, threat-focused, and sustainable Defence we will:**

### **Strengthen the UK’s national security through delivering threat-based defence decision making**

As the MOD’s Integrated Operating Concept makes clear, the future battlefield will not be defined by geography. We will be confronted by complex and integrated challenges below, and potentially above, the threshold of conflict. These challenges will be multi-domain and multi-dimensional, will adapt to our approach and will target our most vulnerable areas. We will likely be confronted by state and non-state actors who will employ brinkmanship, threshold warfare, terrorism, proxies, coercion and economic warfare. It is critical that we put understanding these threats at the heart of our decision making and so we are establishing a new Secretary of State’s Office for Net Assessment which will challenge the accepted wisdom and way of doing things. The unit will provide a central hub for strategic analysis in MOD’s Head Office, ensuring that the MOD remains threat focused and evidence led.

### **Protect the UK and its Overseas Territories**

The first responsibility of Government is to protect its citizens. The increase of over £24 billion in Defence spending over the course of this Parliament is acknowledgement of this and the need for rapid modernisation of our Armed Forces, so they can continue to guarantee the security, resilience, and ambitions of Global Britain, supporting a more flexible and adaptable force able to protect UK interests globally. Defence will maintain and develop the UK’s independent nuclear deterrent to counter the most extreme threats to our national security and way of life.

### **Enhance global security through persistent engagement and response to crises**

Defence will be more active and globally engaged, working with partners to address the challenges we face and secure the interests we share. We will be more visible

---

<sup>3</sup> Further information on Defence in a Competitive Age can be found at <https://www.gov.uk/government/publications/defence-in-a-competitive-age>

<sup>4</sup> Further information on Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy can be found at <https://www.gov.uk/government/publications/global-britain-in-a-competitive-age-the-integrated-review-of-security-defence-development-and-foreign-policy>

around the world including through our high-end counter-terrorism capabilities, maintaining our contribution to the Global Coalition against Daesh and to French operations in the Sahel, and through support for UN peacekeeping operations as part of the Government's effort to reduce the frequency and incidence of conflict. The recently announced AUKUS security partnership between the UK, US, and Australia, alongside this year's Carrier Strike Group deployment to the Indo Pacific are clear examples of this more confident, UK-led, highly technological, and internationally partnered effort to strengthen our alliances and national interests in a region critical to global peace and prosperity.

### **Contribute to NATO collective deterrence and defence**

The United Kingdom is a problem-solving and burden-sharing nation. We will achieve more through cooperation and teamwork than we ever could alone. As the biggest European spender in NATO and a major contributor across all five domains we have a responsibility to drive progress and help the Alliance as a whole stay ahead of its rivals. We will increase the capability to intervene at speed if our interests are threatened, and our commitment to NATO – including to collective defence under Article 5 – is unwavering. We will continue to strengthen cooperation with our allies on security and intelligence, underpinned by the NATO alliance and our enduring relationship with the United States and other 5 Eyes partners.

### **Modernise and integrate defence capabilities by taking a whole force approach to our people and increasing the use of technology and innovation**

We will invest in next-generation capabilities across Land, Sea, Air, Space and Cyberspace as we transform our armed forces to integrate across domains and deliver a more dynamic force posture, in line with the Integrated Operating Concept. Over the course of this Parliament we expect to spend around £50 billion on the operating costs of the Army and on investment in Army equipment. The Army will receive upgraded Challenger III main battle tanks, a new special operations Ranger Regiment and enhanced electronic warfare and signal intelligence capability.

The Royal Navy will build seven classes of warships through the 2020s' (Type 26, Type 31, Fleet Solid Support Ships, Multi Role Ocean Surveillance Ships, Multi Role Support Ships, Astute & Dreadnought Class), develop new autonomous Mine-Hunting capability, convert the Bay Class Support Ship to deliver a more agile and lethal littoral strike, commence the building of the Type 32 Class and begin the concept and assessment phase for the new Type 83 future air defence system.

The Royal Air Force will make a strategic investment of more than £2 billion over the next 4 years in the Future Combat Air System (FCAS), establish all seven operational Typhoon Squadron and grow the F-35 force beyond the 48 aircraft already ordered.

We are investing in the newer domains of Cyber and Space, including through new technologies and career pathways, and critically, we will prioritise and accelerate more than £6.6 billion of research, development, and experimentation so that our Armed Forces can adapt to the threat with advanced technology, compete effectively, and fight decisively when needed.

People are at the heart of our plans for modernisation, providing the extraordinary workforce for increasingly specialist, but no less physically demanding, military operations. We will invest in our people from apprenticeships to the latest digital tools, equipping them with the skills, ways of working, benefits, and cutting-edge technology to create a modern workforce that represents the best of the society it serves. This workforce will be more specialised and skilled, focused on the tasks that are unique and most valued from our Armed Forces. Greater use of our Reserves and more flexible transition between military and civilian workforces will ensure the contribution of all those skills and people needed to defend the country and contribute to society.

As set out in the Defence Command Paper, the Army of the future will be leaner, more lethal and more effectively matched to current and future threats. A new structure is being developed through 2021, which will reorganise the Army into more self-sufficient Brigade Combat Teams (BCT) able to meet demand by drawing on their own dedicated logistics and combat support units. Overall, this restructuring will see a reduction from the current Full Time Trade Trained strength of circa 76,000 to 73,000 by 2025.

## **Transform and Manage Defence**

The Integrated Review is a crucial opportunity to balance Defence's programme and move to a sound financial footing. It comes with some hard prioritisation decisions, but it gives us the opportunity to modernise Defence and set an affordable multi-year programme. We will grasp the opportunities of new technologies and ways of working and change the way we do business. Our transformation programme is already driving improvements in programme delivery, procurement, support and digital services. The new Defence and Security Industrial Strategy will drive a more productive partnership between government and business: delivering world-beating capabilities, securing value for taxpayers' money, strengthening our national resilience, supporting high-skilled jobs and promoting UK exports.

The Defence programme provides opportunity to contribute to both HMG's Union and Levelling Up agendas. Initiatives such as Team MOSQUITO (An unmanned combat aerial vehicle technology demonstrator) are supporting innovation and aerospace jobs in Northern Ireland, while MOD's support to the Defence Technology Exploitation Programme pilot offers opportunities to a wide array of small and medium sized suppliers developing innovative technologies.

Working collaboratively with the Welsh Government, Defence continues to support the creation of an Advanced Technology Research Centre in North Wales, aiming to develop a technology and innovation cluster with government, industry, and academic partners. In Scotland, the UK national

Shipbuilding Strategy supports local industry and firmly cements Scotland's important role within UK Defence.

Along with existing defence engagement activity across the home nations, these projects illustrate the positive industrial, economic, and innovative contribution that the MOD makes in all parts of the UK, and demonstrates that national security is a matter for all.

In parallel, we will contribute to the government's climate objectives, implementing an ambitious sustainability strategy to help reach Net Zero by 2050, whilst ensuring the resilience of our country to the effects of climate change.

## Supporting the COVID-19 Pandemic Response

Supporting the national response to the COVID-19 pandemic was a priority throughout 2020 and continues to be in 2021. In the 2020–21 financial year, there were 487 Military Aid to the Civil Authorities (MACAs) requests approved (annual average 149), up from 129 in 2019–20 with 397 MACAs for Operation RESCRIPT (the domestic response to COVID-19).

We established the COVID Support Force (CSF) in March 2020 with 20,000 Armed Forces personnel from all three services at readiness to support COVID-19 activity including planning, logistics, and medical tasks. At the peak of Defence's support to the national COVID-19 response, over 5,000 personnel were committed on Operation RESCRIPT in February 2021.

Our personnel have provided strategic support and capabilities across all regions of the UK. This included playing a key role in the development of the national COVID-19 testing programme with around 2,500 personnel deployed on testing tasks at its peak. Around 2,300 personnel supported frontline NHS healthcare workers across England and the Devolved Administrations, and Military Air Transport delivered a total of 49,240 vaccines for HMG personnel overseas. Most recently,

we have supported the vaccine roll-out across the UK with around 700 personnel administering vaccines and offering planning and logistical support to the National Health Service.

Defence developed and generated Mobile Testing Units, delivered PPE and diagnostic equipment, helped build and staff a network of Nightingale Hospitals across the UK, used its aircraft to fly critically ill civilians to hospital care and used its personnel in a variety of tasks ranging from driving ambulances to countering vaccine mis-information.

Over the Christmas period 2020, the military deployed more than 800 personnel to Operation ROSE, supporting testing and traffic management on the south coast. Service personnel worked around the clock conducting over 71,000 tests and supporting HGV drivers with refreshments and traffic management. This activity enabled an agreement to be reached with France and the border was reopened.

Throughout this support to the UK's COVID-19 response, we continued to deliver our core outputs and tasks, developing measures to safeguard and reduce the risks to our people and their families, in the UK and overseas.







## Financial Performance Summary

The last year has been complex and challenging for all, but an ultimately successful period for the finance function. Key elements of this include the multi-year funding settlement agreed with HM Treasury in November 2020 and the Department's contribution to the Integrated Review of Security, Defence, Development and Foreign Policy which was published in March. Working across the Department and with our industrial suppliers, we have supported the delivery of Defence outputs through the pandemic.

We have also continued to deliver strong core financial outcomes whilst continuing to pursue transformation and improvement in key areas of the function.

### Performance in 2020–21

The Department's financial outturn was delivered within all Parliamentary Control Totals. This was achieved through effective and regular scrutiny and challenge throughout the organisation of our financial plans, forecasts and risks. Accountability for financial outcomes is clearly defined with all Top Level Budget Holders and Enabling Organisation Chief Executives and their Finance Directors required to deliver within budget and within defined tolerances for forecasting accuracy during the financial year.

Scrutiny and challenge of forecasts is supported by a standard suite of management information which is used at all levels of the Department to ensure consistent and comprehensive review.



Director General Finance – Charlie Pate

We have effectively balanced the Capital Departmental Expenditure Limit (DEL) with an outturn variance of just £9 million (0.07%) and non-ringfenced Resource DEL to within £22 million (0.07%). This performance continues the improvement in forecast accuracy seen in previous years. It demonstrates the increasing confidence that can be placed on TLBs ability to deliver savings assumed in forecasts, with all forecast cost reductions underpinned by supporting evidence.

However, there remains scope for further improvement given the interventions that were still needed in the form of additional In-Year savings measures in order to remain within Control Totals. Such short-term measures can have sub-optimal, longer term impacts but I am content that the action taken was considered, proportionate and appropriately targeted to minimise this risk.

In addition to forecasting, I have continued to focus on improvement in the following areas:

- **Cost Assurance and Risk Management.** The Cost Assurance and Analysis Service has continued to undertake assurance of Equipment Programme costings through Independent Cost Estimate (ICE) Reviews.

During 2020–21, CAAS conducted 89 Independent Cost Estimates (ICEs) covering around 60% of the EP against a 50% target. This compares to 78 ICEs in 2019–20, around 55% of the EP. Of these, 80 were used in the CAAS Annual Report. The remaining nine were either superseded by later ICEs, or became redundant due to later events such as the Integrated Review.

- We recognise that professionalism and skills are vital to improving financial outcomes and we are committed to achieving a target of 60% of the finance profession holding a qualification. As at the 31 March 2021 the level of qualified staff (Consultative Committee of Accountancy Bodies (CCAB)/Chartered Global Management Accountant (CGMA) and Association of Accountancy Technicians (AAT)) within the finance profession was 1,211 (43%) noting that a further 396 (14%) were studying for professional qualifications of which 119 (4%) are on apprenticeship programmes. The numbers of qualified Senior Civil Servants in finance roles is 49 (83%) and the number of qualified senior managers (Grade 6/7) is 298 (75%). There are 81 CAAS staff in the finance function undertaking cost management activity of which 65 have an accountancy qualification and a further 1 has a cost management qualification. There are an additional 149 staff in CAAS who provide cost management support by way of Cost Engineering and Cost Estimating services. Of these, 5 are qualified accountants and 29 have a cost related qualification. Additionally, there are a further 24 qualified accountants (who are not in Finance or Cost Management roles) supporting CAAS outputs. The recently published Government Finance Career Frameworks

provide guidance for all Departments on which roles require qualifications. The MOD will be transitioning to the Government Finance Career Frameworks as part of the implementation of the Finance Service Delivery Model within the Finance Function Leadership Programme.

- Internal Control and Assurance Framework – We have continued to improve compliance with the framework which sets the procedural baseline for controls and assurance for finance teams throughout the Department. Compliance is tested through quarterly self-assessment reporting and independent review by Defence Internal Audit. In 2020–21, financial control compliance of 93% was achieved (compared to 82% in 2019–20) with an enduring target of consistent compliance above 90% going forward.
- Financial Accounting and Audit – The management and validation of our Statement of Financial Position has continued to improve under the direction of a senior level SOFP review group. Accounting and audit issues are also regularly discussed by the Financial Management Executive and my Finance Committee. A lessons learnt exercise was undertaken based on the 2019–20 NAO financial accounts audit with a range of procedural improvements implemented as a result. This has helped to deliver improved accounts quality and audit outcomes with NAO reporting a sampling error rate of 5% from their 2020–21 financial accounts audit (compared to 22% in 2018–19 and 15% in 2019–20).
- These and other initiatives are being driven forward through the Department's Finance Functional Leadership Programme (FFLP). Progress of the programme is monitored by a FFLP Board which I chair with all Finance Directors and other senior finance staff

in attendance. Progress made this year has included:

- Financial Management Information – The Department rolled out a standard and comprehensive MI suite for forecasting which is used by all TLBs and Head Office and which captured all control framework items for the first time in 2020–21.
- In line with the cross-Government approach, we have agreed a Finance Service Delivery Model which is in the process of being rolled out across the main business units in the Department. To assist with this, we have embedded Change Managers in all TLBs.
- We have a critical workstrand covering culture and behaviours. We have identified three critical behaviours and are in the process of piloting interventions with one TLB before rolling this out more widely.

## Performance against Estimates

### Overview

The Department receives authority from Parliament for resources, capital and cash to run the Department via the Supply Estimates process which is published twice in each financial year.

HM Treasury are responsible for the design of the budgeting system against which the Department is controlled. DEL limits are set

in the Spending Review and departments must not exceed the limits they have been set. Resource Budgets control current expenditure such as pay or non-capital procurement and include depreciation. Capital budgets exist to control new investment and allow spending on capital assets.

Within the Resource DEL budget there is a separate Administration budget set in Spending Reviews to cover expenditure on running central government entities but excluding their frontline activities. In addition, some expenditure is specifically ringfenced and requests to switch expenditure to other budget areas will not be approved. For MOD, this includes depreciation and impairment costs classed as ringfenced RDEL and the Cost of Operations. Annually Managed Expenditure (AME) budgets, which are demand led and volatile so cannot be absorbed within normal controls, are set by HM Treasury and any expected increases require Treasury Approval. There is also a non-budget section of the Statement of Outturn against Parliamentary Supply (SOPS) to cover any prior period adjustments that may be required within the current year's accounts.

A breakdown of expenditure against the Parliamentary and Treasury Controls can be found in the following table:

*Analysis of Departmental Performance*

Comparison of Estimate to Outturn	Estimate £ billion	Outturn £ billion	Variance £ billion	Variance %
Resource DEL (non ringfenced); of which	30.230	30.208	0.022	0%
<i>Admin Costs</i>	1.870	1.848	0.022	1%
Resource DEL (ringfenced)	10.496	9.519	0.977	9%
Cost of Operations (ringfenced)	0.531	0.451	0.080	15%
<b>Total Resource DEL</b>	<b>41.257</b>	<b>40.178</b>	<b>1.079</b>	<b>3%</b>
Capital DEL (non ringfenced)	11.680	11.671	0.009	0%
Cost of Operations (ringfenced)	0.036	0.036	-	0%
<b>Total Capital DEL</b>	<b>11.716</b>	<b>11.707</b>	<b>0.009</b>	<b>0%</b>
AME (Resource)	2.719	2.062	0.657	24%
Non-Budget (Resource)	-	-	-	-

In 2020–21 our total voted core non-ringfenced Resource Departmental Expenditure Limit (DEL) was £30.230 billion against which we delivered an outturn to within £22 million (0.07%) of budget.

The majority of the Resource DEL variance in core expenditure of £1.079 billion was in ringfenced RDEL (£0.977 billion). The variation was driven by the complexity and the timing of decisions associated with the outcome of the Integrated Review. The Department included contingency for potential write-offs and impairments arising from any decisions to cancel or curtail programmes, only an element of which was required when the review outcome became clear at the end of the financial year.

Non-ringfenced Capital DEL expenditure outturn was effectively balanced to budget with a variance of only £9 million (0.07%).

For Annually Managed Expenditure (AME) which by its nature is demand led and volatile, the outturn was £2.062 billion against and an estimate of £2.719 billion. The majority of the £0.657 billion variance is due to movements in the valuation of nuclear decommissioning provisions.

No Non-Budget expenditure has been reported as no prior period adjustments to financial statements have been necessary in 2020–21.

Further detail on the Reconciliation of Net Resource Outturn to Net Operating costs can be found in the Accountability Report SOPS Note 2.

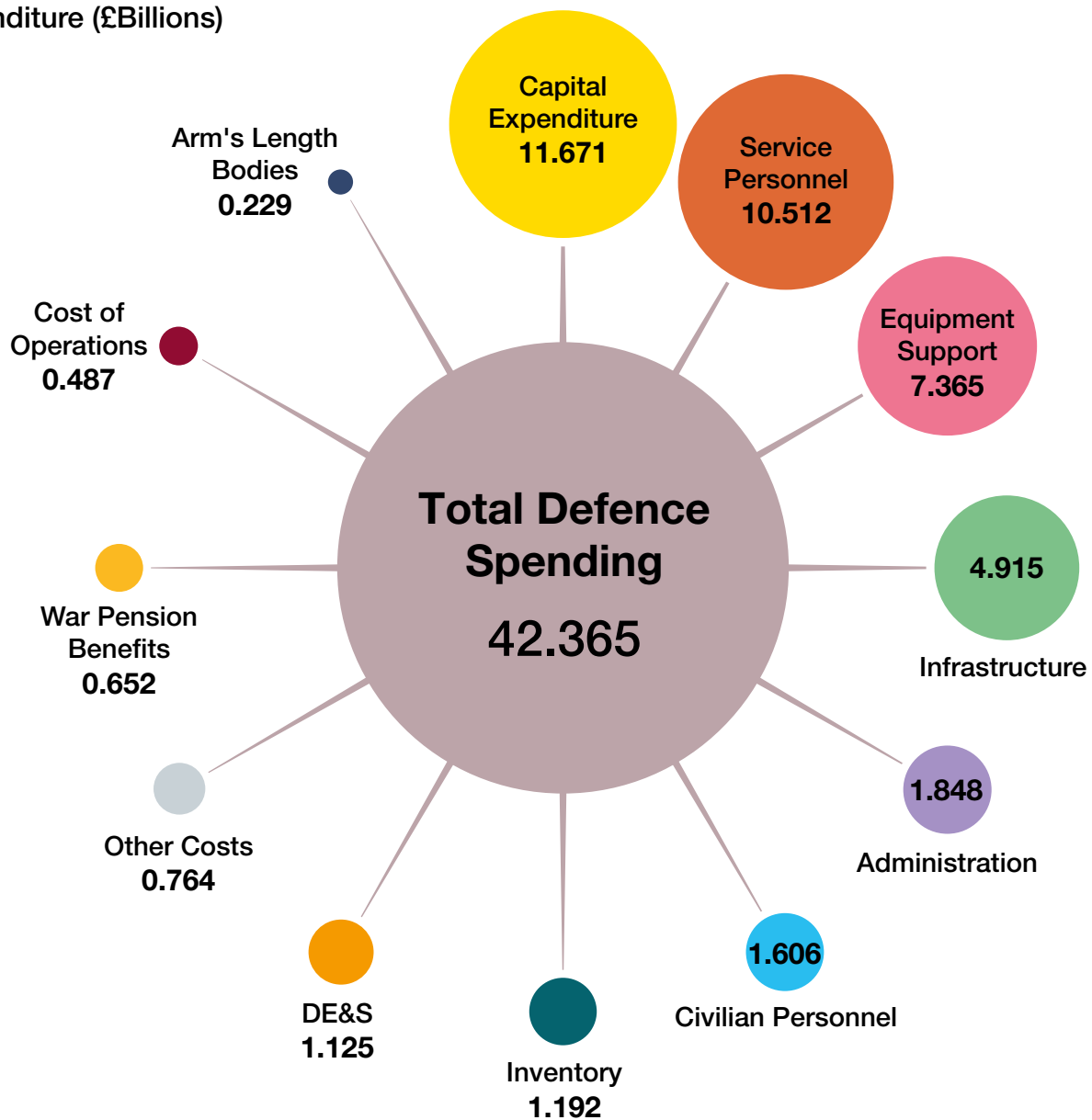
## Where We Spent Our Money in 2020–21

The chart below provides a breakdown of all non-ringfenced expenditure and operational ringfenced expenditure incurred by the Department in 2020–21. This expenditure is controlled by the Department through the In-Year Management forecasting process.

It is the effectiveness of this process that enabled the Department to deliver a non-ringfenced RDEL and CDEL outturn very close to but still within the approved estimates.

### Where We Spent Our Money in 2020–21

#### Expenditure (£Billions)



Category totals reflect separate rounded values in SOPS Note 1. This creates a minor anomaly whereby the total sum of these rounded values is £42.366 billion against total spending which is correctly stated as £42.365 billion.

## Operational Spend Achievements

Costs of operations are described in terms of the net additional costs incurred. These are costs which the department has only incurred because the operation has been undertaken (such as additional materials, travel etc.). Costs such as wages and salaries are not included as these were planned expenditure.

The Deployed Military Activity Pool (DMAP) is a joint HM Treasury and MOD initiative to make available resources to fund the initial and short-term costs of any unforeseen military activity. In 2020–21, the DMAP provided funding for elements of Counter-Daesh and Overseas Counter-Terrorism,

NATO Air Policing and Naval activity in the Asia Pacific region.

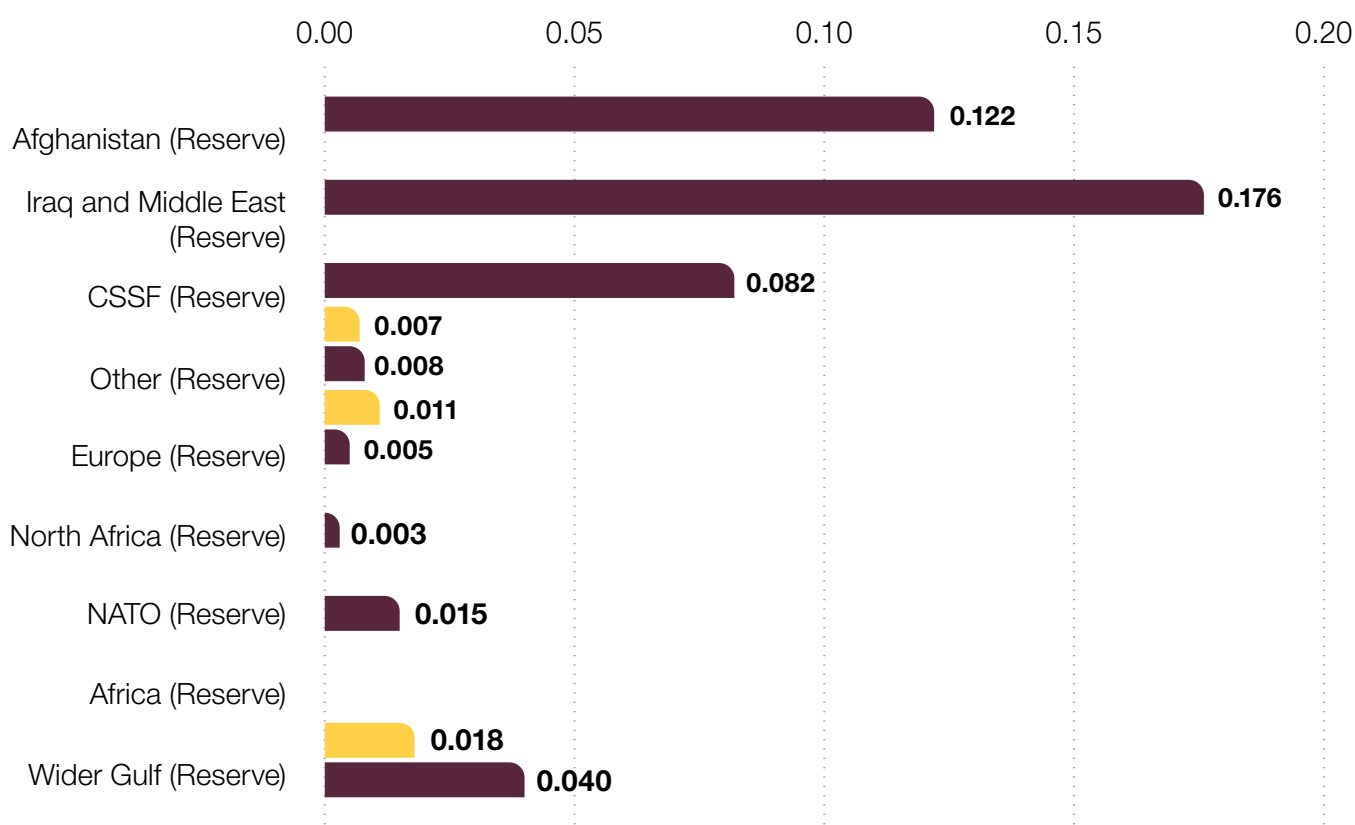
In 2020–21, MOD also received the annual allocation from the Conflict, Stability and Security Fund (CSSF), a cross-HMG fund enabling funding for conflict prevention, stabilisation, security and peacekeeping activities, under the strategic direction of the National Security Council (NSC).

Further details on military operations can be found within the Performance Analysis section.

The graph below reflects the spend on the main areas of conflict in 2020–21:

### Net Additional Cost of Operations Expenditure (£ Billion)

■ Total RDEL **£0.451 billion**  
■ Total CDEL **£0.036 billion**



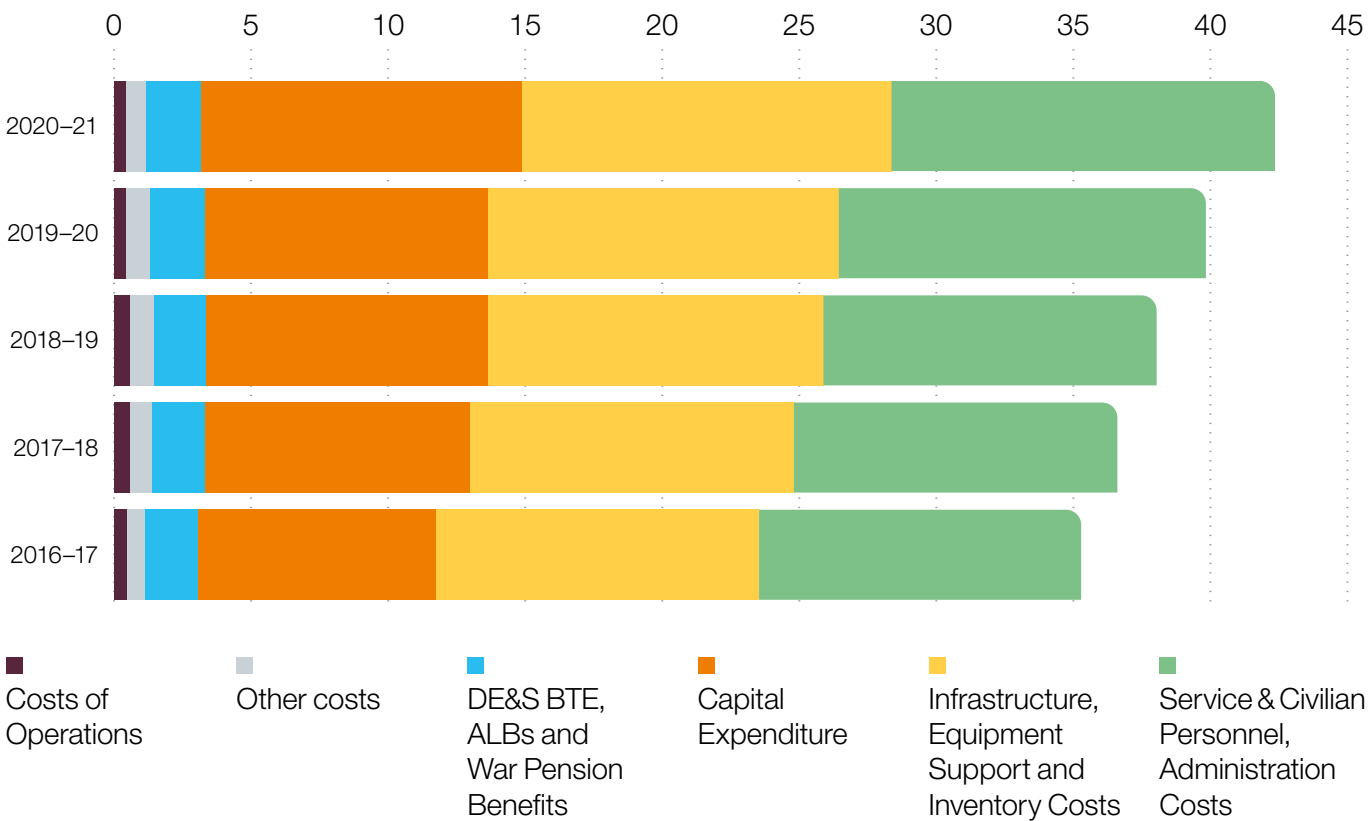
Long Term Expenditure Trends

As confirmed in the funding settlement for Defence announced in November, the Government remains firmly committed to NATO in spending at least 2% of our Gross Domestic Product on defence and security every year. The additional funding made available through the SR settlement will

enable the UK to invest in programmes that are most relevant to the threats we face now and in the future.

The graph below shows the long-term trend for Resource and Capital expenditure, excluding asset depreciation and impairment, from 2016–17 to 2020–21.

Analysis of Capital DEL and Cash Resource DEL by Type of Expenditure  
Expenditure (£ Billion)



Impact of COVID-19

The business continuity measures implemented to manage the impact of the pandemic on financial processes and systems were effective and enabled key financial

outputs such as invoice processing to continue safely and uninterrupted.

Senior level cross functional forums were also established to ensure issues were surfaced and dealt with in a timely manner. Specific examples include:



- The finance and commercial functions developed clear and robust controls and delegations to align with Cabinet Office and HM Treasury authority on supplier relief payments.
- Detailed engagements were undertaken with major defence suppliers to clarify the impact of the pandemic on programmes and determine MOD liability for the associated costs. This included submission of claims from suppliers, subsequent negotiation and settlement agreements reached.

As a result, the Department has been able to mitigate the impact of the pandemic on delivery of output and support the timely and effective recovery of programmes and activities. Specifically:

- Interim payments were made to Contractors of £102 million under the additional authority provided to Government Departments by HM Treasury and the Cabinet Office during the initial phase of the COVID-19 pandemic. It is noted that the full value of the goods and services relating to these payments were subsequently fully delivered by suppliers.
- The Department conducted a detailed exercise including the review and assessment of the contractual obligations falling to the Department for additional COVID-19 related costs impacting on equipment programmes. This exercise included contractual assessment, direct engagement with impacted suppliers and development and implementation of settlement agreements for those costs deemed as falling to MOD (£175 million). This allowed the Department to deliver the best value outcome with agreements reached that prevented suppliers

earning profit on these costs, ensuring suppliers took reasonable steps to minimise the cost impact whilst also supporting an effective and timely route to recovery for programmes.

- There were also additional costs (c.£20 million) incurred during 2020–21 to ensure that MOD establishments continued to operate in a COVID-19-safe and legally compliant manner. Claims received from service providers were subject to structured scrutiny and challenge in order to minimise costs falling to the Department.

### Impact of EU withdrawal

The Department has not been significantly impacted by EU withdrawal with no drawdown necessary from the HM Treasury reserve. Costs for assistance given to other government departments was <£300K.

### Funding Settlement and Integrated Review

In support of the Spending and Integrated Reviews, MOD undertook a comprehensive review of our financial position and costed the proposed potential savings and investments in capability, infrastructure, workforce and efficiencies.

We tested and refined our costings including review of supporting evidence and assumptions in order to provide assessments that were accurate and coherent.

This extensive work underpinned the outcome of the multi-year Financial Settlement and Integrated Review.

## Priorities for 2021–22

The multi-year Defence settlement outcome announced in November 2020 included an additional £24 billion over the next four years. Alongside the Integrated Review, published in March 2021, this will allow Defence to move onto a sustainable financial footing aligned with more clearly defined priorities and commitments.

This comes with some hard prioritisation decisions, but also genuine opportunities to break the cycle of recent years, to both modernise Defence and set an affordable multi-year programme.

Careful monitoring and management will be needed during 2021–22 to ensure that the complex interdependencies of the Integrated Review measures are implemented in a properly controlled manner. Annual Budget Cycle (ABC) 22 will provide an opportunity to consolidate and refine our understanding of the cost of the new programme and to attend to any issues that emerge in the meantime.

We will also set out in the next Equipment Plan the implications of the funding settlement and Integrated Review and demonstrate how these have improved the affordability of the Department's programmes. We will also continue to improve the capabilities, skills and outputs of the finance function through the Finance Functional Leadership programme with specific emphasis over the next year on:

- Strategic workforce planning – using the results of the recent finance Skills Audit.
- Embedding key culture and behaviours across all business units.
- Improving management information to further enhance the quality and consistency of financial scrutiny and challenge.
- Reviewing our processes and exploiting the financial systems whilst at the same time planning for the introduction of the next generation of software.

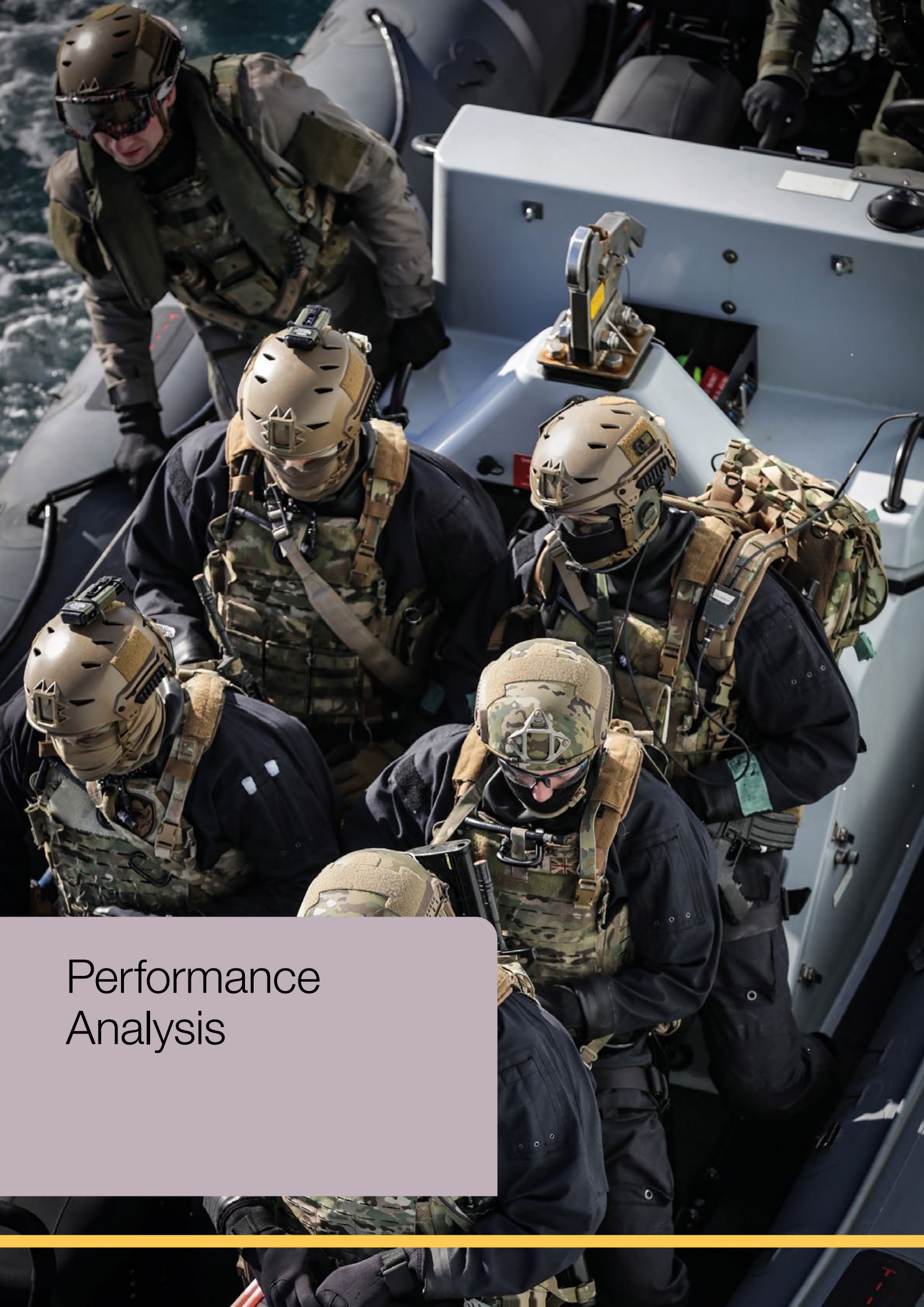
We will continue to build on the improvements we have made in strengthening internal controls and governance as well as more effective management of the Statement of Financial Position. This will deliver continued improvements in financial management and in the outcome of both internal and external audits. We will progress to full implementation the new lease accounting standard (IFRS16) in line with the HM Treasury mandatory adoption date for public bodies of April 2022.

The Department is now in a much stronger strategic and financial position than it has been for several years. The finance function has played a pivotal role in getting us to this point and I have full confidence that the function will continue to make a critical contribution as we look to meet the new strategic priorities and commitments made in the Integrated Review.

**Charlie Pate**  
Director General Finance







# Performance Analysis

## Priority Outcomes: Performance Summary Key Achievements 2020–21

**24/7**

Defended UK Airspace  
24 hrs a day,  
365 days a year

Uninterrupted  
Continuous At Sea  
Deterrent (CASD)  
for more than

**50 years**

Provided Military Aid to  
Civil Authorities (MACA)

**487**

times including 397  
related to COVID-19

Announced the  
**National  
Cyber Force**  
to provide offensive  
cyber capabilities

Deployed

**550**

personnel to  
peacekeeping missions,  
including Mali, Cyprus and  
UN missions in Somalia

Signed  
**Statements of Intent and  
Memorandums of  
Agreement with the  
United States of America**  
on Maritime and Land

The UK-French  
**Combined Joint  
Expeditionary Force**  
(CJEF) reached full  
operating capability

Exceeded

**2%**

of GDP NATO defence  
spending pledge

Made the  
**largest offer**  
to the  
NATO Readiness Initiative

Overseas Operations Bill  
**became law**

HMS QUEEN ELIZABETH  
and HMS PRINCE OF WALES  
were both in service with the  
Royal Navy

Funded

**207**

proposals through  
Defence and Security  
Accelerator (allocating over  
£36.6 million)

## Priority Outcome 1: Strengthen the UK's national security through delivering threat-based defence decision making

### Threat Based Decision Making

As the main delivery body for intelligence within Defence, Defence Intelligence (DI) has tracked and illuminated growing threats and provided support to deployed UK forces around the globe. The primary mission is to gain insight into these threats to enable the Government, MOD, and the Armed Forces to generate the capabilities and plans to confront and counter them. The Intelligence and Security Committee of Parliament provides oversight of the UK Intelligence Community, including Defence Intelligence.

We know that both State and non-state actors seek to undermine our cohesion and resilience to challenge our strategic position. To achieve this, they have adopted a potent combination of activity designed to confront us below the threshold of conflict while simultaneously developing skilled conventional military forces armed with advanced equipment in all warfighting domains (Land, Air, Maritime, Space and Cyber).

### Current & Emerging Threats

After a focus on Counter Terrorism in the opening decades of the 21st Century, over the course of 2020–21, we have seen a resurgence of 'great power' competition, with increased diversity of means and opportunity. This competition is taking place across the globe and challenges our allies, our interests and the international rules-based order.

Russia poses the greatest military, sub-threshold, and geopolitical threat to European Security. China is increasingly authoritarian and assertive. It poses the greatest threat to world order, seeking to impose Chinese standards and norms, using its economic power to influence and subvert, backed up by massive investment in modernising its armed forces. Iran and North Korea continue to pose regional challenges and their nuclear and cyber programmes threaten global stability. In addition, Violent Extremist Organisations continue to proliferate, expand, and threaten. The future context is likely to be far more challenging. While we will routinely face threats below the threshold of war, violent conflict is an increasing trend in the 21st Century.

### Cyber & Space

We have recognised the threat that cyber-attacks pose to Defence and working closely with the National Cyber Security Centre and combined with the newly formed, dedicated National Cyber Force, DI have provided advice on the increasing number of cyber threats to, and attacks on, Defence's networks. The attack on Microsoft Exchange Servers in early 2021, attributed to China, and attacks on UK universities by Iran, highlight our adversary's ability to deploy this key capability in areas where Defence has dependencies on commercial software or third parties, which leaves it vulnerable. Cyber-attacks are invariably less expensive and harder to attribute, making them attractive tools for a



mix of state actors, state sponsored groups and cyber criminals. Our Critical National Infrastructure; military supply chains; data networks; weapon systems and platforms all need to be resilient against the cyber threat. Our dependency on digital systems creates a new range of vulnerabilities which must be addressed. We have enabled risks, caused by changes in adversary's cyber capability and the UK network design, to be mitigated, keeping our data safe using an active programme to enhance our cyber resilience both now and in the future.

Space will become a contested domain. Our space assets, both military and civilian, could be at risk due to the development of anti-satellite weapons and several states have already been investing in and testing these capabilities. Similarly, our adversaries are aware of how reliant space is on cyber.

## Intelligence Impact

Over this period, we continually monitored these threats, alongside a variety of others. The analysis informed wider government about ongoing events and the potential consequences and contributed to both policy decisions and subsequent engagements with partners as well as competitors. They have provided insight into changes in adversary capabilities and their areas of interest in emerging Defence technologies, across all warfighting domains which enabled the effective development of the changes announced by the department in the Integrated Review and Defence Command Paper.

Intelligence has supported the concept development of a wide range of Defence

equipment programmes including Challenger 3, Future Anti Surface Guided Weapon (FASGW) and Future Combat Air System (FCAS), helping to ensure they will be capable of defeating the threats they will face during their expected service life. We continue to provide threat advice on improvised explosive devices across all operational theatres and work closely with partners to develop mitigations to reduce the risk to life from these.

## COVID-19

During the early months of COVID-19, our Medical Intelligence (MEDINT) team were pivotal in helping the NHS and other government departments understand and react to the emerging crisis. We employed their knowledge of export, trade, and diplomacy to understand which medical materiel was critical to the NHS and which countries manufactured them and assessed the impact of the pandemic on those countries and on their manufacturing capacity.

As COVID-19 took hold globally, we invested significant effort to enable Defence and government to understand the true picture of the pandemic around the globe as it was apparent that what some of our adversaries were reporting publicly may not have always represented the truth. We used our networks overseas and deployed personnel to provide vital understanding on the reach and impact of the pandemic across the world. We also provided significant cross-government support which included the provision of geospatial data and services from our unique National Centre for Geospatial Intelligence to support organisations as diverse as the Joint Bio Security Centre, the Vaccine Task



Force, and regional Local Resilience Fora. Notably, the work of our 42 Engineer Regt RE (Geo) was recognised by being awarded the Best Security, Defence or Law Enforcement IT Project of the Year by the British Computing Society.

### *Operations*

In the build up to the deployment of the Carrier Strike Group 21 to the Far East in 2021, we worked with international partners to set the Geospatial Intelligence (GEOINT) foundations for the deployment. We supported the planning and execution by providing insight into the potential threats to the group across all five warfighting domains helping to keep our Service personnel and their data safe throughout the deployment. We also supported Defence Sections to measure the effect of the Group during its deployment.

We maintained our focus on Afghanistan as an intelligence priority, as we have done for years, especially in the run up to the coalition withdrawal. We contributed to cross-government intelligence assessments on the deteriorating security situation in Afghanistan.

Our intelligence, surveillance and reconnaissance capabilities provided niche and highly valued capabilities during the ongoing operation to counter Daesh in Iraq and Syria which saw a multitude of ground personnel and aircraft involved across the Joint Operating Area.

We provided intelligence support to the UK's contribution to the UN's Peacekeeping mission in Mali where new mapping and products supported UK and multinational troops, while analytical support enabled

commanders to develop a more detailed understanding of the operational environment and relevant regional threats to inform their operational planning. A range of intelligence assessments were produced to inform MOD and Whitehall decision-making on the complexities of the operating environment and the threats the deployment would face.

We have continued to support the effective ongoing delivery of the UK's Continuous At Sea Deterrent, identifying potential threats to the capability and supporting the mitigation of these as well as through the provision of coordinated counter-intelligence support at all stages of its development and operation.

### *Engagement*

Our dialogue and collaboration with 'Five Eyes', NATO and other international partners remained critical to our effort to understand and mitigate the threats posed by both state and non-state actors. Through our role in the 'Five Eyes' defence intelligence enterprise we bring the power of their collection and analysis into the UK Government's understanding and decision-making. Despite the challenges brought about by COVID-19, we continued to actively engage with our partners across all our intelligence disciplines.

Beyond the 'Five Eyes' we have continued to build and develop relationships globally in order to collect vital intelligence from the tactical through to strategic levels for the UK Government and enable partners to better understand the security challenges they, and we, face locally.

We have supported the Defence Attachés in their increased global Defence Engagement by

deploying our DA-trained Military Intelligence Liaison Officers across Europe, Africa, the Middle East, and South East Asia. This has had success in supporting our understanding of emerging crises.

## Capabilities

We have continued to invest in significant new intelligence capability enhancements leveraging Machine Learning and Artificial Intelligence (AI) at the heart of their development to ensure critical data is assessed and passed to whoever needs it, at the right time and in the right format. Future AI and automation will provide potentially game-changing ways to understand and counter the new challenges we face, enabling us to move our analysts up the value chain, removing process and freeing them up to focus on analysis.

## Capability Development

The latest generation of our innovative Defence-wide Open Source Intelligence (OSINT) capability was successfully delivered in 2020, enabling us to better harness the increasing power of publicly available information and data to answer our intelligence problems. We had significant successes in open source supporting cross-government efforts to gather intelligence to support the development of sanctions against those associated with alleged human rights abuses and to monitor potential breaches of International Humanitarian Law.

Our Joint Cyber and Electromagnetic Activities Group (JCG) has delivered and maintained specialist communications and data support across a wide range of

operational theatres and activities, working in lockstep with other national security agencies. They have also continued to provide close support to deployed commanders in multiple overseas theatres both from the UK and by deploying personnel forward. JCG has begun work to re-focus strategic cross-Government effort on new theatres and objectives and is leading the new Defence programme 'Mission Data for Information Advantage'.

Our Human Intelligence (HUMINT) branch continued to build and develop relationships globally in order to collect vital intelligence from the tactical through to strategic levels for the UK Government. Our deployed forces have directly contributed intelligence to the protection of the UK Homeland, deployed coalition and partner forces, and Permanent Joint Operating Bases overseas, both from hostile state activity and terrorist threats.

We actively led Counter-Intelligence activity across MOD, working with a range of UK and international partners to protect key Defence equities and to make the Defence enterprise, including our industrial base, a harder operating environment for our adversaries both in the UK and overseas. We also played a key part of wider Government plans to implement the new National Security and Investment Act 2021 to protect the UK's economy from National Security threats.

Focused investigations and operations have prevented or limited the compromise of classified Defence information, protecting our people and key capabilities. And working with UK and international intelligence and law enforcement partners, we continue to disrupt threats posed by terrorist and extremist groups in the UK and overseas.

## The Future Battlefield

The world is ever-changing and so too are the threats the UK and our allies face. Our strategic analysis has highlighted that the future battlefield will not be defined by lines on maps or by geography. We will be confronted by complex and integrated challenges below, and potentially above, the threshold of conflict. These challenges will be multi-domain and multi-dimensional, will adapt to our approach and will target our most vulnerable areas, for example, the proliferation of ballistic missiles and Uncrewed Aerial Vehicles (UAVs) armed with precision weapons has enabled our potential adversaries to close the capability gap with the UK. We will likely be confronted by state and non-state actors who will employ brinkmanship, threshold warfare, terrorism, proxies, coercion, and economic warfare.

Climate change will drive migration, urbanisation, and competition for natural resources. Systemic competition, exacerbated by these trends, will compel external actors to interfere and intervene in national and regional conflicts, further increasing the risk of escalation.

By understanding the threats, we will be able to protect our most precious assets, whether our Armed Forces personnel; our Critical National Infrastructure; our intellectual property or our strategic nuclear deterrent. As the threat continues to evolve and as technology presents new opportunities, intelligence has been elevated to a Function of Defence which, with Functional Ownership assigned to the Chief of Defence Intelligence,

will strengthen the effectiveness of Defence's intelligence enterprise to make more effective use of its collective capabilities and prioritise them toward the most pressing and stressing threats facing the nation and underpin effective decision-making.

We will continue to bolster our efforts to interpret, assess and understand state and non-state threats to help protect the nation. We continue to recruit the best and the brightest people into our organisation and invest in them through specialist training and development. We recognise that great minds do not think alike and are striving to increase our diversity representation at all levels.

We will continue to harness the power of collaborative working with national security agencies, the 'Five-Eyes' and with other international allies. Our aim is to ensure that we continue to embrace the newer domains of cyber and space so that they will be able to keep pace with changing threats posed by adversaries. We will invest more in rapid technology development to adapt to the new world emerging around us.

## Secretary of State's Office for Net Assessment and Challenge

Given the complex, multifaceted challenges that we face, strategic decision making in the MOD must be guided by clear objectives, threat-focused and evidence-driven. We are establishing the Secretary of State's Office for Net Assessment and Challenge (SONAC) which will bring together the best of the civil service, armed forces, academia and business.

SONAC will challenge the accepted wisdom and way of doing things. The unit will provide a central hub for strategic analysis in our Head Office, ensuring that our strategy and joint force development remains threat and evidence led, now and in the far future. It will develop new ways to understand the threat, including by incorporating a Net Assessment approach to assess how we compare to adversaries now and in the future. It will ensure we learn the strategic lessons from our own activity, but also importantly the approaches of other international actors.

The team will improve the use of challenge and drive innovative new thinking in the department. SONAC will work with external experts to bring their expertise and cutting-edge analytical techniques to sharpen our thinking and explore innovative strategic options to offer alternative perspectives to Ministers. This will include wargaming and red teaming work, informed by Defence Intelligence, to ensure strategies are tested by independent and diverse voices before they are implemented.

## Priority Outcome 2: Protect the UK and its Overseas Territories

### Key achievements in 2020–21:

We defended UK airspace with a 24 hour a day, 365 days a year integrated Air Defence system

Uninterrupted Continuous at Sea Deterrent (CASD) has been maintained, and as at 31 March 2021, £10.4BN has been spent so far on the concept, assessment, and early delivery phases of the Dreadnought Programme, of which, £1.9 billion was spent within FY 2020–21. Of the £10.4 billion spent as at 31 March 2021, £4.8 billion has been spent since the second delivery phase commenced.

The National Cyber Force (NCF) was announced, transforming our ability to compete with our adversaries by providing offensive cyber capabilities

We have provided Military Aid to the Civil Authorities (MACA) support 487 times (up from 129 in 2019–20), of which 397 were related to the COVID-19 response

Our Explosive Ordnance Disposal (EOD) Teams responded to 454 Improvised Explosive Device Disposal incidents (down from 491 in 2019–20) and 2,422 Conventional Munition Disposal incidents (up from 1,803 in 2019–20)

Maintained a consistent presence in Overseas Territories (OTs) including providing hurricane relief and performing Counter Narcotics activity

## Defence of the UK and its Overseas Territories

### Quick Reaction Alert Aircraft and Continuous At Sea Deterrent (CASD)

In 2020–21, we continued to defend UK airspace with a 24 hour a day, 365 days a year integrated Air Defence system that included Quick Reaction Alert Typhoon aircraft, Voyager tankers, and air surveillance and control facilities. We also provided these capabilities to police NATO airspace alongside our Allies.

A minimum, credible, independent nuclear deterrent, based on a continuous at sea posture and assigned to the defence of NATO, remains essential as the ultimate guarantee to our security, and that of our allies. Since April 1969, there has always been a Royal Navy ballistic missile submarine patrolling the seas undetected under Operation RELENTLESS. These submarines, armed with strategic nuclear missiles, deliver the nation's continuous nuclear deterrent, protecting the

UK and our NATO Allies against the most extreme threats to our national security and way of life.

The Integrated Review reaffirmed the commitment to a once-in-two-generations programme to modernise our nuclear forces. To maintain the nuclear deterrent beyond the life of the existing system, we are building four new Dreadnought Class submarines to replace the current Vanguard Class and will replace the current nuclear warhead.

Despite the effects of the COVID-19 pandemic, the Dreadnought programme remains on track to deliver the first of class, HMS DREADNOUGHT, into service in the early 2030s. As at 31 March 2021, £10.4 billion has been spent so far on the concept, assessment, and early delivery phases of the Dreadnought Programme. Of which, £1.9 billion was spent within FY 2020/21. Of the £10.4 billion spent as at 31 March 2021, £4.8 billion has been spent since the second delivery phase commenced.



## Military Aid to the Civil Authorities

We act as the lead department for defending the UK from any external military threat, but we also act in a supporting role to other

Government departments in responding to internal and domestic resilience and security challenges. The longstanding MACA practice facilitates all military deployments in the UK in support of local and national partners. Defence is committed to several longstanding UK contingency plans covering a range of issues from counterterrorism to extreme weather resilience. Three Army battalions totalling up to approximately 1,200 soldiers are on 24-hour standby on an enduring basis and can be called upon to support efforts of national importance requiring an urgent response.

In 2020–21, we provided MACA support 487 times (up from 129 in 2019–20), of which 397 were related to the COVID-19 response. Notable examples of the type of support we provided (outside of the COVID-19 response) were assisting the Home Office's response to the migrant crisis in the Channel, and erecting flood defences in support of the Environment Agency during Storm Dennis.

## Cyber

We continue to protect our networks, systems and people at home and overseas from cyber threats, as well as developing our cyber capabilities. Defensive cyber programmes are being delivered to mitigate cyber risks and build secure technical foundations for the future. In parallel, defensive cyber operations have developed capabilities to respond and react to complex and routine cyber events.

We work closely with the National Cyber Security Centre (NCSC) and industry to protect ourselves and our interests and contribute to the Government's objective for the UK to be a leading democratic and responsible cyber power. We work closely with Allies, partners



and international organisations on joint exercises and projects and to build capacity.

The National Cyber Force (NCF) was announced in November 2020 and is transforming our ability to compete with our adversaries. It provides offensive cyber capabilities as an integrated component of our military capability that can be used to deceive, degrade, deny, disrupt, or destroy targets in pursuit of our national security objectives. Building on the National Offensive Cyber Programme, the NCF brings together our operational skills and scientific and technical capabilities, Government Communications Headquarters' (GCHQ) global intelligence, and the Secret Intelligence Service's (SIS) expertise in recruiting and running agents to make the NCF a powerful, integrated force. The Secretary of State announced in October 2021, that The National Cyber Force will be located in Samlesbury in the North-West.

## Space

MOD is supporting cross-Whitehall efforts to cohere Space activities through the National Space Council, and in the development of a UK National Space Strategy. This will be complemented by a Defence Space Strategy which will focus on putting our Defence Space ambitions into operation.

We continue to work in partnership with the UK Space Agency (UKSA) on their Space-Based Position Navigation and Timing (PNT) Programme. Linked to this is the development of the Robust Global Navigation System to begin delivering from 2023. We also continue to work with the UKSA on a UK National Space Operations Capability and

Space Domain Awareness and have signed a Partnering Arrangement with them for this purpose.

On military satellite communications, we have continued with the Skynet 6 programme, announcing an agreement with Airbus in July 2020 to deliver the first next-generation satellite from 2025 and continued the £50 million, 5-year Space Science and Technology (S&T) programme to deliver research and development into Space concepts and technologies in collaboration with industry, academia, and government. We have done this alongside the development of a portfolio of Research & Development projects to augment future military Space capability.

In November 2020, the Space Directorate in partnership with the Air and Space Power Association ran the Defence Space Conference. The event was run virtually using state-of-the-art conferencing software. The conference included International Pitch Day, where start-ups and small and medium sized enterprises pitched innovative ideas to over 500 audience members including senior Defence staff. Ten tech start-ups successfully secured same-day contracts worth up to £53,000 to fast-track the development of their innovations.

We have continued to reinforce and enhance our strategic international partnerships. In December 2020, through the Combined Space Operations Initiative, senior Defence officials from Australia, Canada, France, Germany, New Zealand, and the United States agreed to a combined vision to improve Space collaboration and enhance individual and collective Space capabilities and resilience.

In accordance with this Government's manifesto commitment, we have developed the concept for a military UK Space Command which was established in April of 2021.

## Explosives Ordnance Disposal (EOD)

The MOD provides 24 hours-a-day EOD support to the police in the UK. In 2020–21 EOD Teams responded to:

- 454 Improvised Explosive Device Disposal incidents (down from 491 in 2019–20)
- 2,422 Conventional Munition Disposal (CMD) incidents (up from 1,803 in 2019–20)

The number of CMD over recent years appears to average around 2,000 to 2,500 per year and has shown no real sign of diminishing despite the length of time since the last World War.

## Fisheries Protection

In 2020–21 the Fisheries Protection Squadron:

- Completed 138 patrol days (down from 150 in 2019–20)
- Boarded 38 fishing vessels (down from 149 in 2019–20)

The drop in the number of boats being boarded in 2020–21 was partially due to the suspension of boardings during the COVID-19 pandemic, and also the additional commercial Marine Enforcement Vessels paid for by the Treasury, as part of the end of transition period preparations for exiting the European Union.

## Counter-Narcotics and Terrorism

We have continued to support the UK Government and international efforts to tackle the threat from illicit drugs. The demand for these drugs in the UK, particularly cocaine, remains high and the trade links to wider organised crime. The Royal Navy and Royal Fleet Auxiliary has operated with US and other international partners to disrupt and interdict drugs trafficked from Latin America through the Caribbean, and across the Atlantic to the UK and Europe. Over the past year, some 5 metric tonnes of cocaine were seized in those operations, with an estimated UK street value of approximately £400 million. The Royal Navy has also conducted counter illicit trafficking operations in the Indian Ocean, under the multi-national coalition Combined Task Force 150. In the reporting period, the Navy has seized approximately 5 metric tonnes of hashish, and 900 kgs of heroin and methamphetamine trafficked from South Asia, with a combined estimated UK wholesale value of over £32 million. We operate in support of the National Crime Agency, as the UK law enforcement lead on countering narcotics and other illicit trafficking activity worldwide.



## UK Overseas Territories

Defence has maintained a persistent presence in the **Caribbean** to counter illicit trafficking operations and provides a contingent response to support **UK Overseas Territories** in the aftermath of a natural disaster.

All three services have maintained their standing military commitments to the defence of the **Falkland Islands**. UK forces continued to defend the right of the Falkland Islanders to determine their own political future and to maintain their way of life against whatever threats may arise.



## Priority Outcome 3: Enhance global security through persistent engagement and response to crises

### **Key Achievements in 2020–21:**

We have contributed to defeating Daesh in Iraq and Syria

We have signed Statements of Intent and Memorandums of Agreement with the United States of America on Maritime and Land to the effect of deeper integration between forces and development

We have supported the United Nations by deploying 550 personnel to Mali, Cyprus, South Sudan, the Democratic Republic of Congo (DRC), Afghanistan, Libya and UN missions in Somalia

The UK-French Combined Joint Expeditionary Force (CJEF) reached full operating capability and can rapidly deploy over 10,000 personnel in response to a crisis

We have announced a further £23.8 million investment in the UK logistics hub at Duqm port

The joint Royal Air Force & Qatar Emiri Air Force Typhoon squadron was officially launched

We played a vital role in the UK's support to Honduras and Belize in the wake of Hurricanes Iota and Eta

Our personnel played a critical role in the repatriation of British Nationals stranded overseas due to COVID-19

The UK India Defence industrial relationship saw the signing of the first Government to Government project between the UK and India on jet engine technology

## Overseas Defence Activity

We continue to conduct overseas defence activity either unilaterally or as part of a coalition or alliance. We have contributed to defeating Daesh in **Iraq** and **Syria** and in support of NATO, we have continued to contribute to maritime security to protect the region's vital shipping lanes across the Gulf. We have helped the UN's Peacekeeping mission in **Mali** and helped counter violent extremism in the North East of **Nigeria**. Our contribution to the cross-government effort to counter the illegal wildlife trade resulted in the training of 120 members of **Zambia's** National Anti-Poaching Task Force. We have maintained a persistent presence in the **Caribbean** to counter illicit trafficking operations and to provide support to **Honduras** and **Belize** in the wake of Hurricanes Iota and Eta.

### Counter Daesh – Iraq / Syria

At the end of 2020–21, around 1,100 personnel were involved in the counter-Daesh mission under Operation SHADER (the UK contribution to defeating Daesh in **Iraq** and **Syria**).

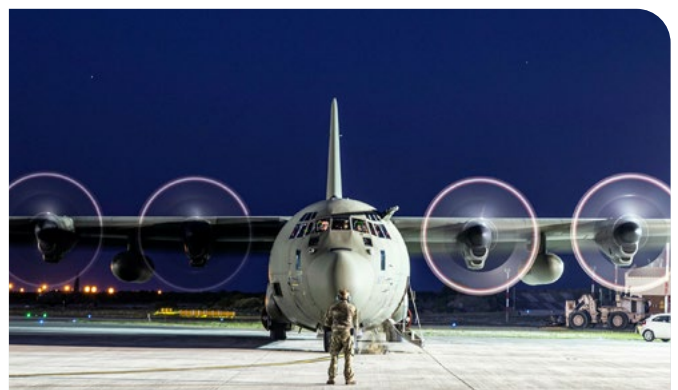
RAF aircraft have continued regular armed reconnaissance missions in support of Iraqi Security Forces, employing the full range of air power, including precision weapons, in support of partner forces on the ground. Although no longer in control of large swathes of territory, the Daesh still pose a threat in Iraq and around the world.

Our continued support to the Iraqi Government is a persistent, committed partnership that helps to sustain the capacity

of the Iraqi Security Forces. In addition to contributing to the US-led Counter-Daesh Coalition, UK commitments in Iraq include NATO Mission Iraq, which the UK will continue to support as it provides institutional training and capacity building for the Government of Iraq. We have now assisted in the training of over 120,000 Iraqi Security Force personnel in subjects including: infantry skills; combat medicine; countering Improvised Explosive Devices (in which the UK is recognised internationally to be an expert); and Professional Military Education. This aligns with our focus on institutional reform to build Iraq's resilience and stability and ensures Iraq's security forces are increasingly able to conduct counter-Daesh operations independently.

### Middle East

Across the **Gulf**, the Royal Navy has continued to contribute to maritime security to protect the region's vital shipping lanes on which global trade and energy supplies depend. This includes the UK's contribution to the Combined Maritime Forces and the International Maritime Security Construct (IMSC).





IMSC was established in September 2019 to conduct maritime surveillance, provide a deterrent to illegal activity and reassure commercial shipping. We took command of IMSC in January 2020 and will continue to command the construct until the end of 2021.

## Africa

In 2020, we deployed 300 people to the UN's peacekeeping mission in **Mali** (MINUSMA). Our task force is now providing a highly specialised reconnaissance capability and has engaged with the local population to help the UN's efforts to protect civilians and establish the conditions for a sustainable peace.



Throughout the financial year, the UK has continued to contribute three Chinook helicopters in support of the French Op BARKHANE. UK aircraft provide logistical support to reduce the requirement to conduct dangerous road moves as well as releasing French aircraft to focus on combat tasks. In 2021, the MOD intends to deploy a fourth aircraft that will offer medical evacuation support to UK personnel operating in Mali.

We have continued to support the Nigerians to contain violent extremism in the North East of **Nigeria** through our dedicated British Military Advisory and Training Teams (BMATT). Our activity has focused on improving planning, information operations, intelligence planning and dissemination and counter Improvised Explosive Devices training.

In **Somalia**, we have continued to support the efforts to build security and stability through capacity building of the Somalia National Army and broader security sector through Operation TANGHAM, as well as supporting the African Union Mission in Somalia (AMISOM) become a more coherent and effective intermediary force.

Op CORDED is Defence's contribution to the cross-government effort to counter the illegal wildlife trade which is worth up to \$23 billion a year. Over a six-week period, the CORDED team trained 120 members of **Zambia's** National Anti-Poaching Task Force in individual skills and the conduct of operations.

## Central Asia

Despite COVID-19 challenges, the UK has continued to support efforts by countries in Central Asia, in particular **Kazakhstan**, to develop their capacity as Troop Contributors to UN Peacekeeping Operations. This is in keeping with the UK intent set out in the Defence Command Paper.<sup>5</sup>

---

<sup>5</sup> Further information on Defence in a Competitive Age can be found at <https://www.gov.uk/government/publications/defence-in-a-competitive-age>



The UK was previously part of a coalition of almost 40 countries under NATO's Resolute Support Mission in **Afghanistan**, which had been providing 'Train, Advise and Assist' capabilities since 2015. Prior to the announcement of the end of this mission, the UK had contributed around 750 troops to this mission.

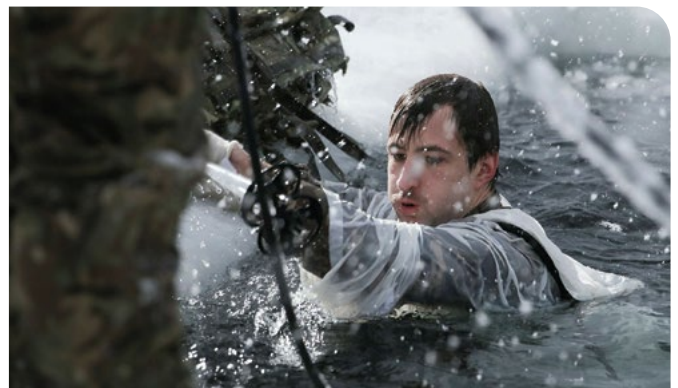
The withdrawal of UK troops this year marks a transition to a new phase in our support to Afghanistan. We will support government efforts to restore stability to Afghanistan. We will co-ordinate closely with our Allies and regional partners to ensure Afghanistan does not become a safe haven for terrorism once more, and support a more stable, peaceful solution for the country.

## Russia

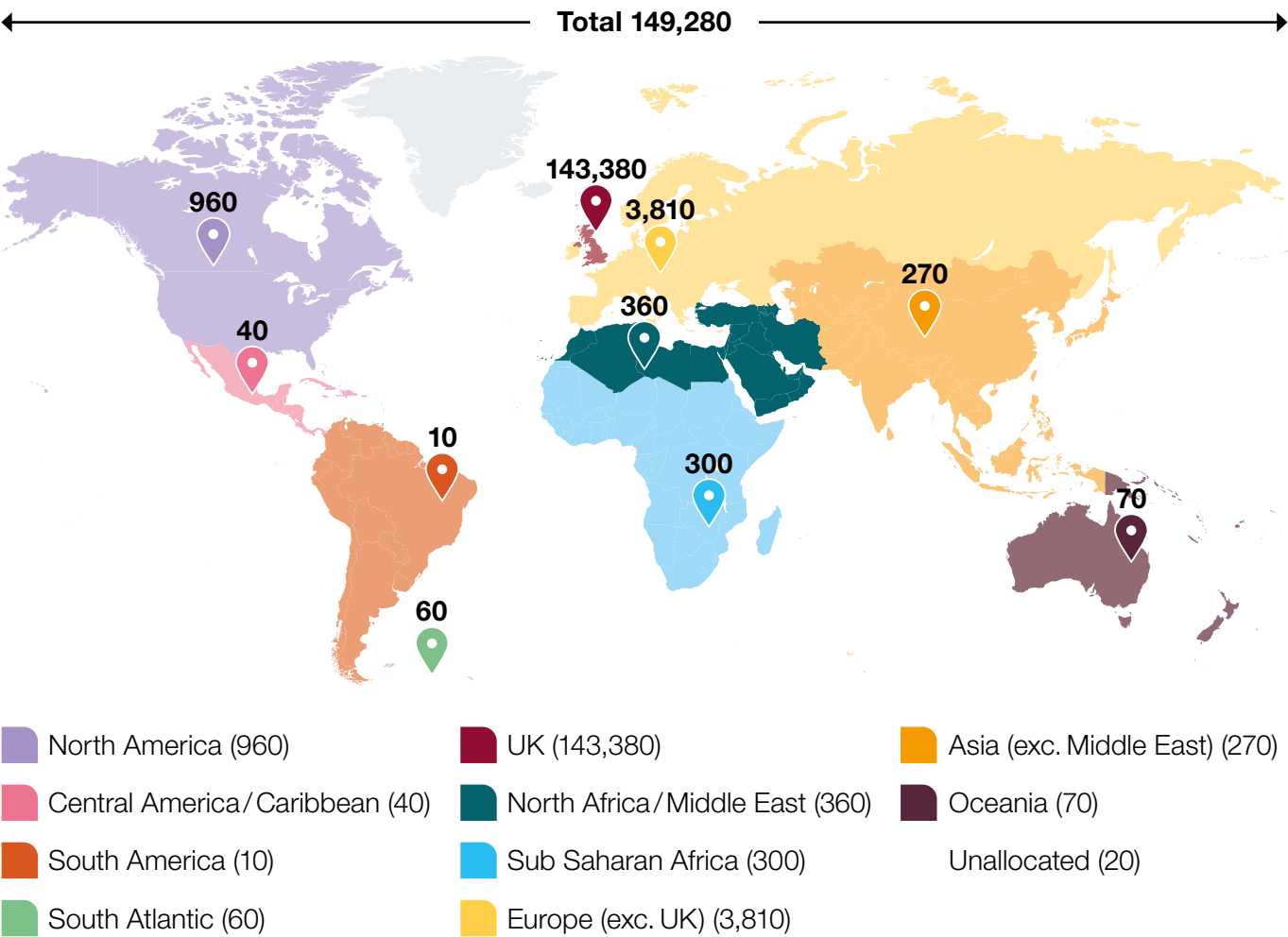
As set out in the Defence Command Paper, Russia continues to pose the greatest nuclear, conventional and sub-threshold threat to European security. This year, the UK has stepped up efforts to meet the full spectrum of challenges posed by Russia. We have achieved this across Government and in close

cooperation with Allies and Partners – both bilaterally and through multilateral frameworks. In May 2020, we deployed the first UK surface ship to the Barents Sea since the mid-1990s. This was followed by two UK-led multi-national task groups into the High North in September and November, deploying combat air power at range.

These have served to normalise a UK Defence presence in the High North, dampening Russia's attempts to constrain freedom of access and navigation in this strategically significant area, while demonstrating our ability to project our capabilities far beyond the homeland.



Location of UK Regular Forces<sup>6,7</sup>  
(as of 1 April 2021)



6 Further information on the location of UK regular service and civilian personnel annual statistics 2021 can be found at <https://www.gov.uk/government/statistics/location-of-uk-regular-service-and-civilian-personnel-annual-statistics-2021>

7 UK Regulars comprise Full time Service personnel, including Nursing Services, but excluding Full Time Reserve Service (FTRS) personnel, Gurkhas, mobilised Reservists, Military Provost Guard Service (MPGS), Locally Engaged Personnel (LEP), Non Regular Permanent Staff (NRPS), High Readiness Reserve (HRR) and Expeditionary Forces Institute (EFI) personnel. Includes trained and untrained personnel. Figures in this table have been rounded to the nearest 10, though numbers ending in a “5” have been rounded to the nearest multiple of 20 to prevent the systematic bias caused by always rounding numbers upwards. Where rounding has been used, totals and sub-totals have been rounded separately and so may not equal the sums of their rounded parts. Unallocated personnel are those that do not have a recorded Continent in JPA.

## Arms Control and Counter Proliferation

Countering proliferation is integral to the UK's security and prosperity, and MOD has continued to provide a wide range of policy, scientific, technical and intelligence expertise in support of Her Majesty's Government's counter proliferation and arms control objectives. MOD personnel have played a key role in representing the UK in international fora during the course of the year, and while COVID-19 has not permitted the usual face-to-face meetings, we have used virtual and hybrid formats to continue to cooperate closely across Whitehall, with international partners, academia and civil society and at international non-proliferation meetings.

The MOD has worked with Foreign, Commonwealth and Development Office (FCDO) colleagues and international partners to support the work of the Organisation for the Prohibition of Chemical Weapons (OPCW) in implementing the Chemical Weapons Convention effectively. This has included providing expertise to support continued efforts to hold Syria to account for their illegal use of chemical weapons, bringing to bear the full range of UK expertise to inform the UK's position and convince international partners.

Following Syria's failure to respond to a decision by the Executive Council of the OPCW, the Conference of States Parties decided in April 2021 by an emphatic margin to suspend Syria's voting rights under the Convention until it comes into compliance. This is the first time a State Party has had its voting rights suspended for non-compliance with the Chemical Weapons Convention.

As chair of the G7 in 2021, the UK also leads the Global Partnership against the spread of weapons and materials of mass destruction. MOD is working with FCDO and the Department for Business, Energy and Industrial Strategy to take forward this work, including encouraging Global Partnership members to provide further targeted support to the OPCW, and working with Canada to develop an initiative to strengthen biosecurity in Africa.

We have progressed nuclear disarmament and counter-proliferation issues by continuing to work closely with FCDO and international partners. We have provided crucial support to the UK coordination of the Permanent (P)5 Process, which brought together the 5 nuclear weapon states to improve cooperation, transparency and confidence-building measures, and engaged widely ahead of the Non-Proliferation Treaty Review Conference in August 2021. Our work with the Atomic Weapons Establishment and international partners, particularly the US, has continued to build understanding on nuclear disarmament verification, as has our work on initiatives such as the International Partnership for Nuclear Disarmament Verification and the Quad Nuclear Verification Partnership with Norway, Sweden and the US.

MOD has led the operation and maintenance of the UK's ability to monitor nuclear testing including through technical and wider support to the Comprehensive Nuclear-Test-Ban Treaty Organisation.

## Defence Engagement

Defence engagement is defined as: the means by which we use our Defence assets and activities, short of combat operations, to achieve influence. Defence Engagement allows the military (alongside other instruments of national power) to play a part in shaping the defence environment, promote the rules-based international order and prevent instability in support of the UK's security and prosperity. This is done while building Defence's understanding of the world.

Global engagement is the approach by which Defence delivers the 'Operate' triumvirate (Protect, Engage and Constrain) in an international context.

'International by Design' is one of 6 key policies which will continue to underpin Defence's approach to engagement activity, placing allies and partners at the heart of what we do, and forming a major part of the Defence contribution to the Government's Global Britain policy. This means that our policies and strategies consider allies and partners from the outset, working in conjunction to achieve mutual and national objectives.

### United Nations

UN Peacekeeping plays a significant role in containing some of the worst consequences of armed conflict globally. Peacekeeping operations protect around 125 million of the world's most vulnerable people, helping to tackle critical drivers of instability, promote international security and help secure more durable peace settlements.

In the last year, Defence has supported eight UN missions with nearly 550 troops and staff officers deployed to Mali, Cyprus, South Sudan, the Democratic Republic of Congo (DRC), Afghanistan, Libya and both UN missions in Somalia. The UK's largest deployment was to MINUSMA, the UN's Peacekeeping mission in Mali, with some 300 personnel providing a highly specialised reconnaissance capability as part of a 15,000-strong UN force that includes military, police and civilians from over 60 different countries.

Our long-standing commitment to the UN mission in Cyprus continues, with around 250 people deployed as part of an international mission of 850. Our military effort seeks to prevent a recurrence of the conflict and maintain law and order – laying the foundations for continued efforts toward a political settlement.



Over the last year the UK has maintained a deployment of around 30 military staff officers in key positions of influence, coherent with delivering our policy reform objectives in six UN missions and the UN Strategic Headquarters in New York. The UK looks

to improve peacekeeping performance by providing training to troop and police contributing countries, particularly in Africa where the British Peace Support Team (Africa) provide training to around 10,000 peacekeepers each year.

## USA

The UK and the US are indispensable allies and pre-eminent partners for security, defence and foreign policy. UK-US defence cooperation is the broadest, deepest and most advanced of any two countries in the world. Together, we help to share the burden of international leadership, based upon our shared values, our global reach and capabilities, and our common interest in maintaining international peace and security. The breadth of our relationship is unparalleled, extending across the full spectrum of Defence including operations, intelligence (notably through the Five Eyes relationships), nuclear cooperation, scientific research and flagship capability programmes. The Defence Command Paper states that we will deepen our unique partnership in areas such as cyberspace, space, next generation capabilities and deterrence, and work together to further strengthen the NATO alliance.

The relationship is governed by the Defence's UK-US Defence Relations Strategy. The Permanent Secretary of the MOD governs it on behalf of the Secretary of State and progresses it through a bi-annual strategic dialogue with the US Deputy Secretary of Defense. In 2020, the UK and US signed a 'Statement of Intent for Future Force Design Cooperation' which signals the bilateral desire to further increase our interoperability and connectivity.

The UK has signed Statements of Intent and Memorandums of Agreement on Maritime and Land to the effect of deeper integration between forces and development. This includes the integration of emerging capabilities and improving Science and Technology cooperation. In the last year we signed a Project Arrangement with the US on Autonomy and Artificial Collaboration which will see us working together on autonomy and artificial intelligence to support logistics.



The RAF has continued to contribute personnel to the Combined Space Operations Centre in support of US-led Operation OLYMPIC DEFENDER, an enduring multi-national operation to strengthen deterrence and provide space support to national, joint and combined operations. The RAF fills key positions within US space organisations as part of a broader drive to forge linkages and achieve influence within the US Space Force and US Space Command.

Defence was central to crafting the allied and coalition aspects of the imminent US Joint Warfighting Concept, and the forthcoming Concept for Competition – both key to understanding how the US will operate in the years ahead. We have also identified how to align key interoperability technical projects



such as Joint All Domain Command and Control, and there are much closer ties on the burgeoning field of Artificial Intelligence. In addition, there is now real-time UK-US working on weekly Cyber operations.

## France

British and French forces continued to operate together, in the Levant against Daesh (on operations CHAMMAL and SHADER as part of the international Coalition), and in the Sahel where UK personnel supported France's operation BARKHANE (with the deployment of three CH-47 Chinook heavy lift helicopters to Mali).

The Prime Minister welcomed President Macron to London on 18 June 2020 to commemorate the 80th Anniversary of General de Gaulle's 'Appel' to the French nation in 1940, which was marked by joint flypasts over Paris and London by the Red Arrows and their French counterparts, La Patrouille de France.



Despite some disruption of bilateral training and exercises due to COVID-19, in November 2020, on the 10th Anniversary of the signing of the Lancaster House Treaties, we announced that the UK-French Combined Joint Expeditionary Force (CJEF) had reached

full operating capability, and can now rapidly deploy over 10,000 personnel in response to a crisis to fulfil a range of tasks including high intensity operations, peacekeeping, disaster relief and humanitarian assistance. This marked the successful conclusion of an extended 10-year programme of development and training, with our Armed Forces closer and more interoperable than they have ever been. Examples of this include joint concepts being developed for future missile technology and automated mine hunting.



## Germany

Our bilateral relationship with Germany continued to grow in strength during 2020–21. In December 2020, the UK deployed forces to join the UN Mission in Mali (MINUSMA), based alongside German forces in Gao.

The UK and Germany continued to lead enhanced Forward Presence (eFP) contingents in Estonia and Lithuania respectively.

The RAF and Luftwaffe have made further progress towards enhanced interoperability, with two separate periods of reciprocal co-location and interoperability activity during NATO Air Policing deployments in Lithuania and Estonia during 2020.



Collaboration with Germany has continued to deepen, driven by the regular series of meetings between the Minister for Defence Procurement and his German counterpart State Secretary Benedikt Zimmer. Collaboration covers extensive programmes in the Air and Land Domains including the Eurofighter-Typhoon, and the UK and Germany continue to explore areas of cooperation, including Space.

The UK defence footprint in Germany continued to be an important asset for UK forces and to provide support to German and other NATO forces. The Integrated Review and Defence Command Paper stated our intention to invest in our existing facilities in Germany to increase the readiness of land forces for deployment in Europe.



While physical engagement reduced in 2020–21 due to COVID-19, a rapid shift to virtual channels allowed us to continue engaging extensively across Europe, with Ministers, senior military officers and officials maintaining a strong tempo of bilateral activity throughout the year. A strong emphasis on mutual support, whether deploying medics to support vaccine rollout, or observing mass testing delivered by the military, was the hallmark of European Defence relations over the year.



## European Bilateral Relations

As set out in the Integrated Review and Defence Command Paper, the UK's commitment to European security is unequivocal. Our European neighbours and allies remain vital partners.



Our efforts to drive forward engagement in a number of small groupings also continued, with the combination of the **Northern Group**<sup>8</sup> and **UK-led Joint Expeditionary Force**

<sup>8</sup> Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, the Netherlands, Norway, Poland, Sweden and the UK.

(JEF)<sup>9</sup> forming the backbone of multi-lateral engagement with northern European allies. The JEF concept continues to mature as an important contributor to European security, with both the JEF military Directive and the overarching Policy Direction nearing completion. Despite COVID-19, we were able to conduct a series of maritime activities with JEF partner nations and the US in the Baltic Sea, North Atlantic and High North. This culminated in the first JEF operation, with the Royal Navy operating alongside ships from the Baltic States in the Baltic Sea.



We also continued to support the work of the **European Intervention Initiative (EI2)**<sup>10</sup> – a flexible forum for discussing issues of mutual interest with key European partners to improve defence cooperation and coordination – with active participation at all levels.

## EU Exit Transition

The MOD supported the Government's work on preparing for the end of the EU Exit transition period. Work continued to assess the possible impact on our bases and people in Europe, and on our supply chains in the

event of no negotiated outcome. The MOD also stood ready to support other government departments with appropriate assistance in the event of no negotiated outcome. Defence was not part of the negotiations, and accordingly we withdrew from EU ('Common Security and Defence Policy') operations and missions at the end of 2020.

## Ukraine

The UK remains a steadfast partner to the Armed Forces of Ukraine and its Ministry of Defence, focused on building its resilience to Russian aggression.

Our military training mission, Operation ORBITAL, continues to deliver training designed to build resilience and capacity in the Armed Forces of Ukraine and has been extended until 2023. ORBITAL's short-term training teams have directly trained over 20,000 personnel (as of Q1 2021) up from 18,000 at Q1 2020 and this effort has expanded into the maritime domain in support of Black Sea security.

As part of this, we are coordinating and leading partner contributions to develop Ukraine's Navy through a multinational Maritime Training Initiative (MTI). The MTI was announced by the Defence Secretary during his visit to Ukraine in August 2020. Following a successful visit to the UK by President Zelensky in Autumn 2020, a Memorandum of Intent on maritime exports was signed aboard HMS PRINCE OF WALES, illustrating our commitment to strengthen Ukraine's maritime security.

---

<sup>9</sup> Denmark, Estonia, Finland, Latvia, Lithuania, the Netherlands, Norway, Sweden and the UK.

<sup>10</sup> The E12 countries are: Belgium, Denmark, Estonia, Finland, France, Germany, Italy, Netherlands, Norway, Portugal, Romania, Spain, Sweden and the UK.



In 2020, we deployed Royal Navy Ships HMS ECHO and HMS DUNCAN to the Black Sea in support of freedom of navigation. The UK also supported the development of interoperability with Ukraine, demonstrated by our contribution to Exercise JOINT ENDEAVOUR in 2020, which involved 16 Air Assault Brigade. Alongside Operation ORBITAL, we continue to fund and manage a wide-ranging programme in support of Ukraine's ambitious and far-ranging defence reform. This is led by the UK Special Defence Advisor, embedded in the Ukrainian MOD.

## West Balkans

The Western Balkans remains vital to European security. Defence remains staunchly committed to our partners in the region and is focused on developing a stable, more resilient region more able to tackle its own problems.

In line with the UK's departure from the EU, we withdrew from the EU's Operation ALTHEA mission in **Bosnia and Herzegovina** by 31 December 2020. As part of our continued commitment to the region, we have reinvested staff officers into NATO's HQ in Sarajevo and extended and reinforced our commitment to NATO operation Kosovo Force (KFOR) where the UK plays an important role in supporting a safe and secure environment in **Kosovo**.

Defence continues to invest in **North Macedonia**, NATO's newest member, by supporting the development of its Light Infantry Battalion Group. Our support will help North Macedonia become an active and reliable member of the Alliance. UK Defence continues to strengthen our bilateral relationship with **Serbia**, exploring opportunities for joint peacekeeping operations, and works closely with partners across government in the fight against serious and organised crime.

Despite the challenges posed by COVID-19, we provided invaluable COVID-19 support to the region, including purchasing locally sourced PPE and fridges to store testing kits and medical supplies. We also moved military education courses online which allowed officers from the region to attend virtually.

## Middle East

COVID-19 has severely disrupted our efforts to exercise and train with Gulf defence partners, leading to the postponement or cancellation of many planned activities. Despite this, we have progressed our support and engagement.

The Defence Secretary visited **Oman** and **Qatar** in September 2020, where he announced a further £23.8 million investment in the UK logistics hub at Duqm port. This will triple the size of the existing UK facility and help support future Royal Navy deployments to the Indian Ocean. In October 2020, the joint Royal Air Force & Qatar Emiri Air Force Typhoon squadron was officially launched by the Defence Secretary and his Qatari counterpart at RAF Coningsby.





In November 2021, the Defence Secretary visited Oman and met with the Omani Deputy Prime Minister for Defence Affairs to reaffirm our commitment to Oman and show our support to the wider Gulf region. During the visit, the Defence Secretary and the Deputy Prime Minister for Defence Affairs had the opportunity to see Exercise KHANJAR OMAN at the Ras Madrakah training area. This was a joint battlegroup exercise involving UK and Omani troops, with ground forces supported by the Carrier Strike Group at sea, Joint Helicopter Command from land and F-35 jets from the air.

We continue to support **Saudi Arabia** with their efforts to secure a peace agreement in Yemen, to contribute to their Ministry of Defence reform programme, and to define the shape of the future bilateral defence and security relationship. We have also continued our advice and support to Saudi Arabia's defence against aerial threats. The February 2020 deployment of Giraffe radars to Riyadh was extended into 2021 to continue helping **Saudi Arabia** better track and identify objects in its airspace.

In 2020–21, we reached agreement with **Israel** to begin closer cooperation in areas of mutual interest, while in **Lebanon** we deployed

HMS ENTERPRISE in response to the Beirut explosion and donated 100 refurbished weapon mounted installation kit Land Rovers to support Lebanon's border security.

In **Jordan**, we continued a close and historic defence relationship, including providing medical expertise to the Jordanians to support their military's response to COVID-19, and in the **United Arab Emirates**, the Army exercised successfully with the Presidential Guard.

## Africa

In Africa, Defence has provided support to partner states affected by COVID-19, including the gifting of virus detection equipment to **Kenya** and the repatriation of UK service personnel from affected areas.

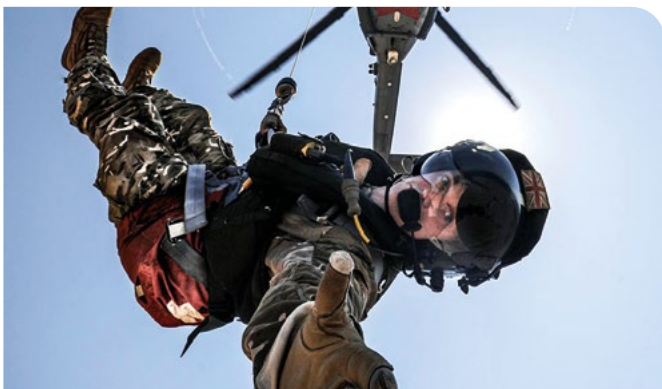
In January 2021, the Defence Secretary visited Kenya and Somalia where he met the Kenyan Cabinet Secretary for the Interior for the UK/Kenyan Security Dialogue in Nairobi and the then Kenyan Cabinet Secretary for Defence. The Defence Secretary signed a refreshed security cooperation agreement, committing the UK and Kenya to deepening cooperation to combat shared threats such as the terrorist group Al Shabaab, cybercrime, and human trafficking, and will promote regional stability. The Defence Secretary and the then Kenyan Cabinet Secretary for Defence formally opened Nyati Barracks at the British Army Training Unit Kenya (BATUK).

In **Somalia**, the Defence Secretary met with the Somali President and visited the Operation TANGHAM HQ to better understand our contributions to Somali Security Sector Reform work.

In **North Africa**, we continued to deliver HMG's counter-terrorism strategy overseas, providing important bilateral and multilateral assistance to our partners. This year, we supplied dedicated counter terrorism and serious organised crime capability building training and close cooperation on crisis response to **Tunisia** and deepened our historic Defence relationship with **Morocco**. UK Armed Forces personnel embedded within the Multinational Force and Observers supported the longstanding peacekeeping mission in Sinai. We remained committed to strengthening maritime security collaboration and the Littoral Response Group's activities demonstrated our resolve with our partners. The political progress made in **Libya** provides opportunity into the next financial year to support a more stable and secure Libya for its people.

## Asia Pacific

During the past twelve months we further deepened our defence cooperation with partners in the **Indo-Pacific** including a highly successful regional deployment by HMS ENTERPRISE in May which included visiting the **British Indian Ocean Territory**.



Across the region, UK defence personnel played a critical role in the repatriation of British Nationals stranded overseas due to COVID-19. The British Army's Gurkhas rescued over 100 British Nationals who found themselves stranded in remote parts of the **Nepal** when lockdown restrictions were introduced.



In **South East Asia**, we concluded two highly successful virtual Defence Policy Dialogues with **Singapore** and **Vietnam** in November, followed by the second Joint Defence Cooperation Dialogue with **Indonesia** in December.

The defence relationship with **India** continues to strengthen in line with the commitments set out in the Integrated Review and the UK-India 2030 Roadmap. The UK-India Defence industrial relationship is growing, and September 2020 saw the signing of the first Government to Government project between the UK and India on jet engine technology. In 2021, the UK and India agreed to a Maritime Partnership in the Western Indian Ocean to work together to tackle shared threats in the region. The UK also joined the likes of the US and Australia in sending a Liaison Officer to



India's Maritime Domain Awareness Centre, to further deepen our bilateral maritime cooperation in the Indian Ocean.

The UK has a longstanding relationship with **Pakistan** that supports shared regional security and stability objectives. We recognise the crucial role Pakistan plays in the stability of the region. Despite the challenges around COVID-19, we were still able to support over 60 visits to the UK by Pakistani personnel, either as part of formal events or to undertake courses at the Royal College of Defence Studies, Defence Academy and the Royal Military Academy Sandhurst. We have continued to assist the Pakistan Army to build the capacity and capability of their Bomb Disposal Teams and we participated in Exercise AMAN, Pakistan's flagship biennial multinational naval exercise in February 2021.

In July 2021, the Defence Secretary visited Japan, the Republic of Korea and Vietnam to underline the UK's Indo-Pacific tilt following the Integrated Review and deepen our enduring defence relationships. In **Japan**, the Defence Secretary met with the then Japanese Prime Minister and Defence Minister, demonstrating that the UK's bilateral relationship with Japan is the closest it has been in the last century. During the visit, it was agreed to accelerate discussions between the UK and Japan on developing sub-systems for a future combat air system. The United Kingdom's three-year defence engagement plan with Japan will allow the UK Armed Forces to work in a much more integrated way with the Japan Self-Defense Forces.

In the **Republic of Korea**, the Defence Secretary visited the Joint Security Area within the Demilitarized Zone between the

Republic of Korea and North Korea. The visit was a stark reminder of the Korean War and the need to continue to work towards peace on the Korean peninsula. The Defence Secretary met with Defence Minister Suh and the Chief of Naval Operations, reaffirming, and strengthening the UK-Korean defence relationship ahead of the successful Carrier Strike Group visit in August.

In **Vietnam**, the Defence Secretary met with Minister of National Defence and the Prime Minister to discuss expanding the defence engagement between the two countries. The visit to Vietnam also marked 10 years of defence cooperation between the UK and Vietnam, since the two countries signed a Memorandum of Understanding in London in 2011 to promote bilateral defence cooperation.

Training and exercise opportunities with **Australia** in 2020 were significantly curtailed by COVID-19, but substantial progress continues to be made across the broader Defence relationship. In 2020, the UK and Australia signed an MoU to further link our respective nations' T26/Hunter class shipbuilding programmes.

Across the wider Pacific, with the support of New Zealand and Australia, the UK overcame the challenges of COVID-19 to deliver a virtual leadership programme to senior military and public sector officials from **Papua New Guinea, Fiji, Tonga and Vanuatu**. In addition, we have concluded a series of successful Defence Policy Dialogues with both Australia and New Zealand.

In March 21, we welcomed the first ever female officer cadet from the **Maldives**

National Defence Force to the Royal Military Academy Sandhurst in yet another milestone for our growing defence relationship.



We also played a vital role in the UK's support to **Honduras** and **Belize** in the wake of Hurricanes Iota and Eta in 2020.



## Latin America and the Caribbean

In **Latin America** and the **Caribbean**, Defence has continued to develop relationships with partner nations across the region. Support has included counter-illicit trafficking operations, human security, strategic leadership and initial officer training, and the development of maritime expertise. In the Caribbean, we have helped to establish the Reserve Defence Regiments in the **Cayman Islands** and **Turks and Caicos Islands**, and supported the Caribbean Military Academy in developing their Initial Officer Training programme.



The Royal Fleet Auxiliary ARGUS contributed to US-led relief operations in Honduras and was the first international ship available after Hurricane Iota struck. The ship's helicopters were used to identify areas that required the most assistance, and over 23 tonnes of disaster relief stores were sent ashore. Meanwhile, in Belize, the Army moved vulnerable locals from flooded areas and assisted with the delivery of relief supplies to remote and otherwise inaccessible areas.

## Embedded Forces

There are a number of UK Service Personnel that are embedded in another nation or organisation's Armed Forces. These personnel are deployed on operations together with those who work on operations in deployed coalition or single nation headquarters roles.

*Table showing the location of Embedded HQ staff and Exchange Officers*

Numbers as at 31 March 2021	Embedded HQ Staff	Embedded Exchange Officers
Australia	9	19
Canada	7	19
Coalition HQs	61	2
Denmark	2	1
EU HQs	14	0
France	20	15
Germany	12	3
Italy	0	3
Norway	0	1
Netherlands	7	4
New Zealand	1	4
NATO	14	0
Spain	0	2
UN HQs	26	0
United States of America	40	54
Total	213	127

## Defence Advisers and Attachés

As part of our approach, Defence maintains an extensive global network with 138 Defence Attaché posts in 89 Defence Sections worldwide, with another 80 non-resident accreditations). There are 16 Loan Service teams and British Defence Staffs covering 4 regions and 2 of our key allies, in addition to liaison officers and exchange officers deployed around the world. The global network continues to evolve to meet changing Defence and wider Governmental priorities. Non-resident Defence Attachés

have been accredited in South Sudan, Benin and Myanmar in the past year. We maintain a dedicated Foreign Liaison Staff who are tasked with liaising with the 228 foreign attachés from 103 Nations accredited to the UK. This is the second highest number of Defence Attachés in residence in the world, behind the USA. The foreign attachés receive a comprehensive programme of events which showcase UK Defence, impart core UK messages, and support national objectives such as the UK prosperity agenda.

*Table showing the Defence Advisors / Attaches Laydown and Numbers*

Region	Number of Defence Sections	Countries
Asia (exc. Middle East)	16	Bangladesh, Brunei, China, India, Indonesia, Japan, Kazakhstan, South Korea, Malaysia, Nepal, Pakistan, Singapore, Sri Lanka, Thailand, Uzbekistan, Vietnam
Central America/Caribbean	2	Jamaica, Mexico
Europe (ex. UK)	31	Albania, Austria, Belarus, Belgium, Bosnia & Herzegovina, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Macedonia, Moldova, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Spain, Sweden, Ukraine
North Africa/Middle East	18	Afghanistan, Algeria, Bahrain, Egypt, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey, United Arab Emirates, Yemen
North America	2	Canada, United States of America
Oceania	2	Australia, New Zealand
South America	4	Argentina, Brazil, Chile, Colombia
Sub Saharan Africa	12	Ethiopia, Ghana, Kenya, Mali, Nigeria, Senegal, Sierra Leone, Somalia, South Africa, Sudan, Uganda, Zimbabwe
Others	2	United Nations, Organization for Security and Co-operation in Europe
Total	89	

There are also British Defence Staff in Eastern Europe, France, the Gulf, United States of America, West Africa, South East Asia.

## Defence Training

Providing assistance in the form of training and education creates a valuable opportunity for the UK to exercise influence around the world. Such training is a key element of defence engagement and contributes towards capacity building, security sector reform, conflict prevention and stabilisation.

UK Defence education and training continues to be in high demand from international partners. The ability to travel internationally to attend training has clearly been constrained by the impact of the pandemic, but in spite of this we have been able to deliver a substantial number of international places on our flagship (tiers one and two) International Defence Training courses, including through adaptation of course delivery methods.

*Table showing the number of places offered<sup>11</sup>*

Financial Year	Number of Places Offered
2017–18	2,269
2018–19	2,247
2019–20	2,340
2020–21	1,078

## Official Development Assistance

The MOD spent £5.18M of Official Development Assistance (ODA) in Calendar Year 2020 down from £6.25M in 2019.<sup>12</sup>  
The main activities reported as ODA were:

- Defence education and training falling within ODA guidelines;
- Elements of the support to international partners in maritime charting provided by the UK Hydrographic Office;
- Fleet disaster relief readiness training;
- A retraining programme for local civilian staff employed by the UK in Afghanistan.

Additionally, elements of activity delivered by MOD, but funded from the Conflict, Stability & Security Fund (CSSF) are reported as ODA against the CSSF budget, including some training, capacity-building and security sector reform work.

MOD is involved in spending ODA because it has unique capabilities which can contribute to development outcomes. In particular, defence education and training can contribute to the development of effective, accountable and inclusive institutions, recognised in the UN Sustainable Development Goals as being at the core of sustainable development.

## Expanding the Global Network

The Integrated Review and Defence Command Plan committed to uplifting the Defence Global Network by a third: thickening Defence Sections; broadening their reach; and, growing a professionalised cadre of permanently-deployed personnel around the globe. We also undertook to increase the number of NATO posts and build Head Office capacity for rear-based operational and

<sup>11</sup> Number of places offered relates to courses offered and taken up by international partners.

<sup>12</sup> ODA is reported on the basis of Calendar Years rather than the UK Financial Year, and is reported on a cash rather than an accruals basis. This is a provisional figure as official Statistics on International Development for 2020 have not yet been published.



policy support. Our persistent engagement is a realisation of the Integrated Operating Concept, increasing the UK's ability to pre-empt and manage crises before they escalate while decreasing the opportunities for state and nonstate actors to undermine internal security. It will enhance UK influence and understanding, strengthen our partnerships, prosperity, and trade, and deter our adversaries.

## Human Security

The MOD continued to support international partners through specialist Human Security training, including by carrying out pre-deployment training of female African peacekeepers through the British Peace Support Team in Nairobi. Although COVID-19 impacted student numbers, the UK Human Security Advisers' military training programme also continued to run throughout the pandemic. The MOD trained 47 officers, 44 from the UK and 3 from overseas, 23% of whom were women.

In September 2020, the MOD hosted a Defence Civil Society roundtable event attended by Her Royal Highness The Countess of Wessex, Baroness Hodgson of Abinger, the Minister for the Armed Forces and the Vice Chief of the Defence Staff. The event supported our most recent UN peacekeeping deployment to the mission in Mali by linking defence leadership and military planners with Human Security experts across Civil Society, aiding the MOD's understanding of how Human Security factors can be further incorporated into planning to improve mission outcomes.

The UK continued to ensure that peacekeeping operations served local communities, including through its contribution of £2.5 million to

Canada's Elsie Initiative Fund. The UK also provided £450,000 in extra funding to the United Nation's Senior Women's Talent Pipeline, an initiative that helps to improve women's presence in peacekeeping operations at a senior level.

The UK is committed to deploying more women on its operations and is working toward meeting benchmark targets set by the UN – 8% for contingents and 18% for staff officers in 2021 – increasing by 1 percentage point annually – until they reach 15% and 25% respectively in 2028. As of March 2021, women made up 9% of UK peacekeeping contingents (up from 7% in 2020), and 7% of our staff officers (down from 10% in 2020).



## Priority Outcome 4: Contribute to NATO collective deterrence and defence

### Key Achievements in 2020–21:

Exceeded NATO guidance of spending 2% of GDP on Defence. 2nd highest defence spender in NATO and the highest in Europe

We have made the largest offer of any ally to the NATO Readiness Initiative

We have over 1,000 personnel in the NATO Command and Force Structures

Our NATO fill rate was 92% in 2020–21 (up from 91% in 2019–20), strengthening our commitment in the Euro-Atlantic area

We have continued to support NATO's Very High Readiness Joint Task Force, committing Battle Groups in the Land domain

The UK's commitment to NATO as the cornerstone of our defence and security was reinforced by the Integrated Review and Defence Command Paper, which, together set out how we will invest in and adapt our forces to meet future challenges and threats.<sup>13</sup>

In June 2020, NATO Defence Ministers endorsed a new Concept for Deterrence and Defence of the Euro-Atlantic Area, which, coupled with the NATO Warfighting Capstone Concept agreed in February 2021, sets an ambitious and far-reaching plan for NATO's military adaptation out to 2040. This has included the creation of new operational domains of Space and Cyber.

Among non-US allies, the UK continues to lead by example by exceeding the NATO guideline of spending 2% of GDP on defence,

and by declaring our nuclear and offensive cyber capabilities to Allies' defence under our Article 5 commitment.

UK forces have also continued to make invaluable contributions to the full range of Alliance operations and missions, as a demonstration of our commitment to Euro-Atlantic security.



---

<sup>13</sup> Further information on the NATO 2020 Annual Report can be found at [https://www.nato.int/nato\\_static\\_fl2014/assets/pdf/2021/3/pdf/sgar20-en.pdf](https://www.nato.int/nato_static_fl2014/assets/pdf/2021/3/pdf/sgar20-en.pdf)

The UK is the framework nation in NATO's enhanced Forward Presence multinational battlegroup in Estonia, and regularly contributes to air policing across European skies; an RAF contingent was based in Lithuania in 2020 and in Romania in 2021.

We have continued to provide high-quality staff to the NATO Command and Force Structures: our footprint has risen to over 1000 personnel, with a fill rate of 92% in 2020–21 (up from 91% in 2019–20). The UK has chaired the Alliance's Military Committee, in addition to holding the position of Deputy Supreme Allied Commander Europe.

### **NATO Response Force (NRF)**

We continue to support NATO's Very High Readiness Joint Task Force (VJTF), committing Battle Groups in 2020 and 2021 in the Land domain. We will provide the Maritime Command of the High Readiness Force (Maritime) in 2022 with HMS PRINCE OF WALES as the command platform. Having provided the Commander Amphibious Task Force and Commander Landing Force in 2019, the UK has committed to do so again in 2021.

### **NATO Readiness Initiative**

We have made a leading contribution to the NATO Readiness Initiative over land, sea and air, including by offering HMS QUEEN ELIZABETH and our cutting-edge F-35 jets.



## Priority Outcome 5:

Modernise and integrate defence capabilities by taking a whole force approach to our people and increasing the use of technology and innovation

### **Key Achievements in 2020–21:**

5,802 organisations have signed the Armed Forces Covenant by September 2020

78,367 apprenticeship starts in Defence since 2015

Following the appointment of the Secretary of State as Shipbuilding Tsar, we have been leading work across Government to reinvigorate the UK's shipbuilding enterprise. We have set up a new National Shipbuilding Office, hosted within the MOD, to drive forward the Government's shipbuilding ambition.

HMS QUEEN ELIZABETH and HMS PRINCE OF WALES were both in service with the Royal Navy

The Defence and Security Accelerator has funded 207 proposals and allocated over £36.6 million in funding

The Defence Innovation Fund funded 59 projects investing around £70 million and a total of £138 million since 2017

## People

# 169,300

fully trained Armed Forces personnel, up from 165,550 in April 2020\*†  
(as at 1 April 2021)

# 60,000

Civilian Personnel, up from 58,250‡  
in April 2020  
(as at 1 April 2021)

# 48

Reduction from 73 to 48 on pinch points assessed as significant or above  
(as at 31 March 2021)

# 11%

Female representation in the UK Regular Forces up from 10.9% in April 2020  
(as at 1 April 2021)

# 9.2%

Black Asian Minority Ethnic (BAME) representation in the UK Regular Forces, up from 8.8% in April 2020  
(as at 1 April 2021)

# 78,367

apprenticeship starts in Defence since 2015

over

# 120,110

cadets, giving young people a chance to grow confidence and key skills  
(as at 1 April 2021)

# 84%

of Service Personnel found employment within 6 months of leaving the Services  
(as at 30 March 2020)

# 5,802

organisations have signed the Armed Forces Covenant  
(as at September 2020)

\*Note: approximately 420 FTRS personnel reported in the FTTS and FTTTS are also reported in the Trained FR20. Fully trained Armed Forces personnel: (Full-Time Trained (FTTS) personnel in the RN/RM and RAF and Full-Time Trade Trained (FTTTS) personnel in the Army and FR20 Reserve).

†Quarterly Service Personnel Statistics 2021. Further information can be found at – <https://www.gov.uk/government/statistics/quarterly-service-personnel-statistics-2021>

‡Bi-annual civilian personnel report 1 April 2021 – <https://www.gov.uk/government/statistics/mod-biannual-civilian-personnel-report-2021/mod-biannual-civilian-personnel-report-bcpr-1-april-2021>

§Further information on the UK armed forces biannual diversity statistics: 2021 can be found at <https://www.gov.uk/government/statistics/uk-armed-forces-biannual-diversity-statistics-2021>



We are modernising the way we shape, manage and support our workforce to enable it to adapt quickly to the new and unpredictable demands of the modern world.

A new Defence People Strategy, launched in March 2020, outlines how we will take forward our People Transformation Programme.

This strategy is based around four objectives:

- An adaptable and sustainable workforce that adjusts quickly to evolving demands, while harnessing modern technologies to drive greater efficiency and effectiveness.
- Maximise the use of talent across the military and civilian workforce by ensuring that our people are developed and employed where they are needed most.
- Provide attractive offers that access and retain the right talent, providing more choice to individuals in how they live and work.
- Build a stronger, more effective People Function that is integrated with wider departmental capability planning.



## Workforce Size, Shape, Skills and Dynamics

The total size of the Defence workforce (Trained Regular and Reserve Service Personnel and MOD Civilians) increased by 2.4% in 2020–21 to 229,300<sup>14</sup> from 223,810 in 2019–20.

We are undertaking steps to ensure we have a diverse workforce with the right people and skills, in the right place, at an acceptable cost, delivering success now and in the future. Areas of risk within the current and future workforce will be fully understood and suitable mitigation put in place. To do this, we will deliver a range of initiatives:

- A pan-Defence skills framework will help us better understand our workforce and enable us to manage our people with greater agility, giving them a more rewarding career while also making more effective and efficient use of the skills they possess. In turn, this will enable us to adopt a more tailored and segmented approach to the strategic management of our people and explore novel ways of bringing talent into Defence, including through lateral entry. This whole force approach will allow us to achieve the appropriate mix of regular and reserve military personnel, civil servants and contractors.
- The unified career management (UCM) operating model has transformed the way that we manage cyber and medical cadres through clear and professional career pathways. Further work will assess the utility of implementing the model for other cadres, including Intelligence.

---

<sup>14</sup> Approximately 420 FTRS personnel reported in the FTTS and FTTTS are also reported in the Trained FR20. Fully trained Armed Forces personnel: (Full-Time Trained (FTTS) personnel in the RN/RM and RAF and Full-Time Trade Trained (FTTTS) personnel in the Army and FR20 Reserve).

- We will develop the potential of all through clear evidenced based initiatives, acknowledging individual aspiration and creating the conditions to learn and build the skills and experience of Civil Servants, enabling them to achieve their potential, undertake a greater range of tasks, and feel valued as an integral part of the Whole Force.

## Skills Pinch Points

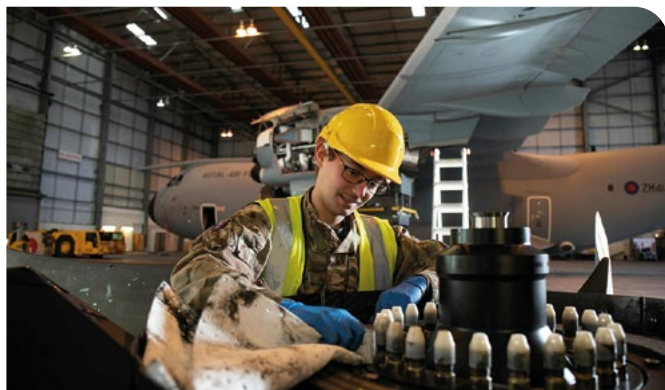
In response to recommendations made by the National Audit Office, we have introduced a new approach to defining and managing skills pinch points that have significant implications for the delivery of Defence outputs. We reviewed skills across the military and civilian workforce in autumn 2020 and identified 73 Pinch Points that were assessed as significant or above. These included engineering, communications, cyber and medical skills. A further assessment was conducted in April 2021 and the number of skills pinch points assessed as significant or above had reduced from 73 to 48.



## Apprenticeships

Public sector bodies in England with 250 or more staff have had a target to have at least 2.3% of staff as new apprentice starts over the period 1 April 2017 to 31 March 2021. This target has been extended for a further year to account for the pandemic and to align to the Spending Review. The Armed Forces have consistently outperformed this target; as more than 90% of Other Ranks are offered an apprenticeship at the point they join the military and at any one point there are approximately 20,000 Armed Forces personnel undertaking an apprenticeship, over 6,000 of which are in Science, Technology, Engineering and Maths (STEM) subjects. Since the target was set in 2015, we have had 74,862 Armed Forces apprenticeship starts as at 31 March 2021 (up from 62,417 as at 31 March 2020).

The impact of the pandemic has added to the challenge of meeting the 2.3% target for civil service apprenticeships, however before this we were somewhat below the target at circa 1.6%. Our final figure for 2020–21 was 1.3%. We continue to offer over 60 different apprenticeship schemes for MOD civil servants, at levels up to the equivalent of a master's degree. The Integrated Review and workforce planning will provide opportunities for apprenticeships to act as an enabler for building skills where gaps exist now and for the future. Since the target was set in 2015, 3,505 MOD civil servants have started apprenticeships by 31 March 2021 (up from 2,865 at 31 March 2020).



## Support to our people

### ‘The Offer’

We recognise that the demands of military life are unique and we therefore continue to support our armed forces personnel and their families accordingly, so that we attract and retain the most talented individuals to serve in the armed forces.

At the heart of the military offer is a competitive salary and compensation for the additional costs of service life. This is enhanced by a broad range of non-financial incentives and benefits.

The Integrated Review makes clear that in the future our armed forces will operate in different ways and they will need to become more versatile in delivering a range of tasks. We have committed to undertaking a comprehensive review of the military reward and incentivisation package by 2023, to ensure that it is fit for purpose in an era of global persistent competition. This review will help us develop a modern military offer for service personnel that is tailored for people at different stages of their careers and better reflects the skills they bring to Defence.

The MOD will continue to develop a simple, fair and consistent long-term approach to civilian reward, which will address existing pay distortions. This further develops the employee proposition and enables Defence to attract and retain the civilian workforce it needs.

Guided by the Reserve Forces 2030 review, we have started to redefine the relationship between society and the reserves; expanding the roles undertaken by the reserve forces; unlocking the potential of reservists; and transforming the way they are supported.



## Flexible Service

In April 2019, we introduced new flexible working arrangements for members of the armed forces. These new arrangements have benefited more than 300 families to date. In June 2020, we launched the Service for Experienced, Rejoiner and Volunteer Engagements (SERVE) digital platform, which has improved the way we advertise job opportunities for reservists and veterans and provides a new way for them to stay connected with Defence.

## Future Accommodation Model Pilots

The three-year Future Accommodation Model (FAM) pilots have now been live for over a year, with more than 1,000 Service personnel across HMNB Clyde, Aldershot Garrison and RAF Wittering applying for and receiving more housing choice and financial support under the pilot. This pilot supports our commitment to make a career in the Armed Forces better balanced with family life, whilst also better meeting the enduring operational and financial needs of the department. Through greater use of the private rental sector and support for home ownership, alongside existing subsidised Single Living Accommodation (SLA) and Service Family Accommodation (SFA) options, FAM pilots aim to improve choice regarding where, with whom and how Service Personnel choose to live, with entitlement based on need, rather than Service, rank, age or marital status. We are working closely with all involved to gather and evaluate evidence generated during the pilots which will inform plans for wider implementation across the UK.

## The Armed Forces Covenant

The Armed Forces Covenant is a promise by the nation that those who serve or have served, and their families, will suffer no disadvantage in accessing public and commercial goods and services, in comparison with the general population, and that special provision may be appropriate for those who have sacrificed the most. As many of the delivery levers sit elsewhere in central, devolved or local government, we work with

them and the charitable and private sectors to deliver the Covenant.

In December 2020 the Secretary of State laid before Parliament the Covenant Annual Report,<sup>15</sup> setting out key deliverables between September 2019 and September 2020, plus the first update on the Government's progress against its commitments in the 2019 Action Plan for the 2018 Strategy for our Veterans.<sup>16</sup>

By September 2020, 5,802 organisations have signed the Armed Forces Covenant with over 350 employers being awarded Gold under the Employer Recognition Scheme. Over 700 covenant signings were made in 2020–21.

The Covenant Reference Group sets the Covenant's priorities for the Covenant, including for the award of grants from the £10 million per annum Armed Forces Covenant Fund. The Armed Forces Covenant Fund Trust also distributed a £6 million COVID-19 Impact Fund to over 100 service charities, on behalf of Defence and Cabinet Office (Office for Veterans' Affairs).

The Armed Forces Bill, containing clauses to further incorporate the Covenant in law, in line with the 2019 Queen's Speech, was introduced into the House of Commons in January 2021. The Bill was scrutinised by Parliament and received Royal Assent on the 15th December 2021.

A review of the Integrated Personnel Commissioning for Veterans (IPC4V) was held between January and July 2021. IPC4V

---

<sup>15</sup> Further information on the Armed Forces Covenant annual report 2020 can be found at <https://www.gov.uk/government/publications/armed-forces-covenant-annual-report-2020>

<sup>16</sup> Further information on the Strategy for our veterans can be found at <https://www.gov.uk/government/publications/strategy-for-our-veterans>



ensures those who gave the most continue to be supported after their service, by providing personalised and coordinated care for the most seriously injured of Service Leavers. The review provided 20 recommendations to build upon the first two years of the scheme.



## Armed Forces Families & Safeguarding

In June 2020, the independent report ‘Living in our Shoes – Understanding the Needs of UK Armed Forces families’, led by Andrew Selous MP was published. The MOD-coordinated full Government response to the report accepted 86 of the recommendations, with a further 20 accepted in part. The refreshed Families Strategy is due to be launched in late 2021.

In response to the pandemic, we have provided updated advice and guidance to service people and their families on a range of issues, including allowances, travel, quarantine requirements, dealing with financial hardship, and the additional support available for partners and spouses.

For overseas families, we provided bespoke educational guidance and advice to overseas commands and supported repatriations from Kenya and Nepal, liaising with Local

Authorities to ensure there were enough school places available for the children.

In delivering the commitments under the department’s ‘No Defence for Abuse’ Strategy, we have continued the awareness campaign and, in January 2021, we launched online SafeSpaces, which provides helpful support, advice and contact information to those at risk of or experiencing domestic abuse.

Finding employment when moving home at short notice can be a challenge for armed forces families. So, in November 2020 we launched a pilot programme to provide spouses and partners with bespoke, professional career support. A total of 592 people registered. The outcomes of the pilot will be evaluated this year, after which recommendations will be made to the Cabinet Office.

Addressing childcare challenges is important for Service families. As part of the Government manifesto commitment, three wraparound childcare pilot sites are operational; RAF High Wycombe / RAF Halton in September 2020; the Plymouth area and Catterick Garrison in January 2021. An expansion of the pilots during Autumn Term 2021 will see new sites being able to access this offer providing further valuable evidence to support a future business case for a full UK rollout.

We continue to strengthen and bring greater coherence to safeguarding arrangements across Defence, for both children and vulnerable adults. Investment in social work service overseas continues, to ensure access to the support required.



Service children in state schools across the UK continue to be supported through the delivery of the MOD Education Support Fund and Early Learning and Childcare Fund. In 2020–21 they have awarded £3.5M of grants, directly benefitting over 20,000 Service children.

## Health and Wellbeing

Our vision is for all Defence People to enjoy a state of positive physical and mental health and wellbeing, feeling connected with, and supported by, the military and wider community.

Health and Wellbeing priorities for 2021 cover physical and mental health; suicide prevention, medical employment process, Defence recovery, women's health, sickness absence, smoking cessation, musculoskeletal injuries, climatic injuries, nutrition and weight management, and mental health and wellbeing. These priorities will be supported by the new Defence People Health and Wellbeing Strategy 2022–2026 and Health and Wellbeing Plan, which is due for publication in April 2022.

A COVID-19 portal was established on the Defence Intranet in March 2020, which has a dedicated section on Health and Wellbeing. It provides guidance to support employees and line managers across Defence on topics such as mental fitness, domestic abuse, bereavement, sleep and advice on maintaining wellbeing whilst working from home. The Employee Assistance Programme (EAP) is also available to provide a support network that offers expert advice and guidance to Civil Servants.

In response to COVID-19, HeadFIT was launched in April 2020 and provides Service Personnel with an online suite of tools to help manage personal mental resilience and fitness. From October 2021, all Armed Forces Personnel receive an annual briefing on mental fitness and resilience. The brief will be mandated activity, delivering an understanding of mental health and wellbeing, stress management, how to transform stress into mental resilience and where personnel can seek appropriate help.

On 1 January 2021, we introduced a phased Smoke Free Work Environment, which will be rolled-out across Defence by 2022.

In early 2021, MOD conducted a survey on how the Armed Forces manage their menstruation. It concluded that personnel preferred to choose how they managed their menstruation, but accessibility to sanitary products whilst working in austere environments could sometimes be a challenge. Following this in June 2021, MOD launched an emergency box of accessible sanitary products which is available for all personnel to access whilst working in austere environments.

Following recommendations from the Defence Suicide Prevention Review, the Defence Suicide Registry project is now delivering real-time data and lessons learned from cases of suicide in the Armed Forces (AF).

From April 2021, our Personnel Recovery Centres re-opened for core recovery activity for wounded, injured and sick AF personnel. This work is part of a wider programme looking to implement recommendations from the Defence Recovery Capability Review 2020 by 2022.

## Armed Forces Continuous Attitude Survey

The Armed Forces Continuous Attitude Survey is a key source of information on the attitudes, opinions and experiences of regular members of the armed forces. Statistics from the survey are used to measure the impact of decisions and inform policy.

Across the board, we have seen an increase in reported satisfaction since 2020. Of particular note, opinions on the armed forces pension scheme improved significantly, following a communication drive. Members of the Armed Forces also reacted positively to the opportunity to work flexibly. Some of the trend changes are potentially due to the impact of the pandemic.

The Armed Forces also deliver resettlement through the Career Transition Partnership (CTP), to make sure that Service personnel transition successfully from a military career. The partnership helps by supporting the ex-Service personnel to, either make best use of the world class training they have received or access resources that aid their chosen change of direction. Of those registered with CTP, 84% found employment within 6 months of leaving the Services as at 31 March 2020 (down from 86% as at 31 March 2019). 11% were economically inactive for reasons such as taking a break or travelling. This is above the employment rate in the UK of 76%.

*Table showing the Armed Forces Continuous Attitude Survey Results*

Area	2020	2021
Engagement Index	61%	64%
Satisfied with Service life in general	45%	50%
High Self Morale	41%	44%
Satisfied with rate of basic pay	39%	45%
Satisfied with their pension benefits	30%	41%
Satisfied with their job in general	58%	61%
Service personnel feel proud to be in their Service	75%	79%
Service personnel plan to stay in the Armed Forces	61%	66%
Have confidence in themselves as a team	81%	84%
People in their team can be relied upon to help when things get difficult in the job	77%	81%
Satisfied with the opportunity to work flexibly	33%	41%
Believe they had been subject to bullying, harassment or discrimination	12%	11%

## People Survey

The People Survey is our annual key indicator of Civil Service staff engagement and staff experience in MOD. We have focused on improving four key priority areas over the last five years: Leadership and Managing Change, My Manager, Safe to Challenge and Organisational Purpose and Objectives; for which we have seen year on year improvements, with the greatest seen in Safe to Challenge (up 14 percentage points) and Leadership and Managing Change (up 17 percentage points). Furthermore, last year saw the greatest improvements since the survey began with our engagement index (up 4 percentage points to 67%) exceeding the Civil Service benchmark for the first time since the survey began in 2010 and Leadership and Managing jumping up 8 percentage points (however still 11 percentage points behind the Civil Service Benchmark).

## Diversity and Inclusion

A diversity of views and a culture of inclusion is essential to our operational effectiveness and it ensures we can safeguard the security, stability and prosperity of our nation. We are proud of the opportunities that a career in Defence offers people from all walks of life, regardless of their race, gender, sexual orientation, disability, age or faith. However, if we are to maximise the talents of all our people, we must go further in our efforts to become a more diverse and inclusive organisation, which better

represents the society we serve. To deliver an inclusive organisational culture and a diverse workforce, we have set out three key goals within the Diversity and Inclusion (D&I) strategy:<sup>17</sup>

- to be an inclusive employer where all staff feel valued and can fulfil their potential;
- to be representative of UK society;
- to be recognised as a force for inclusion in wider society.

We are achieving these goals through integrating diversity and inclusion into all current and future practices, activities and decisions across Defence. Progress is assured and monitored<sup>18</sup> through the pan-Defence D&I Action Plan and quarterly Performance and Risk Reporting processes, for which organisational leads are accountable. To ensure the delivery of the strategy we have appointed a new Director of Diversity and Inclusion, created a Diversity and Inclusion Directorate integrating Service Justice, Serious Crime, Service Complaints and the central Diversity and Inclusion team. The central D&I team has also been uplifted to a total of 30 personnel, drawn from the single Services and the Civil Service.

As of 31 March 2021, 11.8% of total intake into the combined UK Regular Forces and the Future Reserves 2020 (FR20) were women. This is down from 12.6% in the 12 months to 31 March 2020. 8.0% of total intake into the combined UK Regular Forces and FR20 in the 12 months to 31 March 2021 were Black

<sup>17</sup> Further information on the Defence Diversity and Inclusion strategy 2018 to 2030: A force for inclusion can be found at <https://www.gov.uk/government/publications/defence-diversity-and-inclusion-strategy-2018-to-2030-a-force-for-inclusion>

<sup>18</sup> Assurance takes place at the Defence Delivery Group, chaired by Permanent Secretary and Chief of Defence Staff.

Asian Minority Ethnic (BAME), this is down from 11.7% in the 12 months to 31 March 2020.<sup>19</sup>

In terms of representation, representation of women in the UK Regular Forces was 11% as at 1 April 2021 compared to 10.9% as at 1 April 2020, and representation of women in the FR20 was 15.1% as at 1 April 2021 compared to 14.9% as at 1 April 2020. BAME representation in the UK Regular forces was 9.2% as at 1 April 2021 compared to 8.8% as at 1 April 2020, and BAME representation in the FR20 has remained static at 5.7% between 1 April 2020 and 1 April 2021.

The Armed Forces and Civil Service undertakes outreach annually, to ensure that we can connect with society. MOD Civil Service outreach includes award winning Science, Technology, Engineering and Maths (STEM) programmes, educational outreach to schools in deprived areas and local school/college outreach supporting the curriculum, encourage social mobility and demystify the MOD and Civil Service. Defence's STEM Youth Engagement Strategy encourages young people to be excited and interested in STEM-related activity to 'prime' the skills pipeline and improve diversity and social mobility in the defence and security industries.

In November 2020, the department committed to delivering increasingly diverse inflow and representation of personnel. These 'Levels of Ambition' look forward to 2030. They relate to protected characteristics of military and civilian personnel and progress is measured using a range of metrics.

Defence is proud to actively support all of its people through a broad range of employee support networks and champions, based around specific interests and protected characteristics. These provide informal support and advice, events and information sharing, educating all those across Defence.



## Cadets

The MOD sponsors and supports five different cadet forces: the Sea Cadet Corps, the Volunteer Cadet Corps, the Army Cadet Force, the Air Training Corps and the Combined Cadet Force, which is based in schools. These are voluntary youth organisations and not part of the Armed Forces.

In total, there are 120,110 cadets in around 3,500 units in April 2021 (down from 130,310 in April 2020) across the UK, supported by nearly 27,500 adult volunteers.

Membership of the cadet forces provides the opportunity for young people to develop self-discipline, confidence, resilience, and social skills in a safe environment. An independent 4-year research project by the University of

---

<sup>19</sup> Further information on the Armed Forces Bi-annual diversity statistics 2020 can be found at <https://www.gov.uk/government/statistics/uk-armed-forces-biannual-diversity-statistics-2020/html>

Northampton into the social impact of the cadet forces shows that the cadet experience has significant positive impacts on young people, increasing their performance at school and improving their employability and social mobility. The impact is particularly strong for those cadets who suffer economic and other disadvantages. The final report from the research was published in May 2021.

The past twelve months have been dominated by the impact of COVID-19 with on/off suspensions of face-to-face cadet activity starting in March 2020. A significant effort by Cadet Force Adult Volunteers enabled more than 70% of cadet units to achieve some form of virtual cadet experience during the initial lockdown.

In 2019, MOD launched an initiative to deliver elements of the National Cyber Security Centre's CyberFirst training programme for up to 2,000 cadets per year. Ongoing COVID-19 restrictions have led to the development of virtual CyberFirst courses. These have enabled cadets and adult volunteers to continue to benefit from valuable training in cyber skills during lockdown.



## Legal challenges against military personnel

All allegations of abuse against Iraqi civilians by UK armed forces have now been dealt with by the service police and prosecutors, as have virtually all such allegations concerning UK operations in Afghanistan. The Iraq Fatalities Inspector is still undertaking an investigation, which is ongoing.

The Overseas Operations (Service Personnel and Veterans) Act 2021 (“the Act”) received Royal Assent on 29 April 2021 and its substantive provisions came into force on 30 June 2021.

Delivering on the 2019 Conservative manifesto commitments to help tackle vexatious claims, the Act introduced measures which require that the uniquely challenging context of overseas military operations, and the exceptional demands and stresses to which Her Majesty’s forces are subject on such operations, are taken into account in legal proceedings arising from historical overseas operations. These include:

- Measures that ensure the unique context of overseas operations is considered when decisions are being made about whether to prosecute for alleged historical criminal offences;
- A requirement for civil Courts to consider additional factors related to the operational context when deciding whether to admit

late compensation claims arising from overseas operations; and

- A longstop which prevents civil and Human Rights Act claims from being brought after six years if they relate to overseas operations. These measures will also reduce criminal investigations and re-investigations arising from late civil claims.

This legislation gives greater certainty to service personnel and veterans, and greater protection against legal claims decades after they return from an overseas operation.

The measures in the Act are proportionate and strike an appropriate balance between victims’ rights and access to justice on the one hand, and fairness to those who defend this country on the other. None of these measures will erode the rule of law; the MOD and our service personnel can still be held to account for wrongdoing.

We continue to provide legal and pastoral support to service personnel and veterans involved in Northern Ireland legacy prosecutions, investigations and inquests. The Government is committed to bringing forward legislation to deal with addressing the legacy of the past in Northern Ireland, and is clear that any system for dealing with this legacy must be fair, proportionate, focused on reconciliation and deliver for all those affected by the Troubles.

## Defence and Security Industrial Strategy

On 23 March 2021, we published our new Defence and Security Industrial Strategy (DSIS).<sup>20</sup> The UK has innovative and world-class defence and security industries, which underpin our national security and drive investment and prosperity across the Union. To secure that position in an increasingly competitive global market, we need a more productive and strategic relationship between industry and Government. DSIS enables this ambition, and to realise the strategy's opportunities and benefits, we are working with industry, academia, and international partners to deliver the full range of commitments.

### Closer working with industry

In 2019–20, we spent £20.3 billion (up from £19.2 billion in 2018–19) with UK industry and commerce, directly supporting 125,000 jobs (up from 119,000 in 2018–19) and indirectly supporting 77,000 for a combined total of 202,000 jobs.<sup>21</sup>

The defence sector has a wide regional footprint and supports high-value, high-skilled jobs across the UK. For example, the Combat Air industry supports 18,000 jobs, with tens of thousands more in the wider supply chain, across the breadth of the UK including significant employment in the North West of England. BAE Systems employs around 9,000 people in its submarine business at Barrow-in-Furness.

DSIS will reinforce key elements of engagement with UK industry:

- The Defence Supplier Forum (DSF) is operating with increased pace and effectiveness through strategic focused groups and broader industrial representation, including expanding its membership with the development of a SME Working Group. This structure is also actively used to engage with Industry on COVID-19, Supply Chain fragility, Acquisition Reform, Social Value, and implementing the Integrated Review and Defence Command Paper.
- The Defence Growth Partnership (DGP) between Government and industry, supports UK defence sector growth by enhancing our market intelligence and analysis of export opportunities, supporting the UK value chain and developing skills. In 2021, the Government and DGP industry members conducted a strategic review of the DGP's work; the updated strategy now places greater emphasis on achieving export success, through improved exportability.
- The UK Defence Solutions Centre (UKDSC) is a key component of the DGP that facilitates closer collaboration with customers and partners to make UK defence industry more successful in international markets. In April 2021, MOD (replacing the Department for Business Energy and Industrial Strategy) began grant

<sup>20</sup> Further information on the Defence and Security Industrial Strategy can be found at <https://www.gov.uk/government/publications/defence-and-security-industrial-strategy>

<sup>21</sup> 2019–20 figures were published in August 2021. Further information can be found at <https://www.gov.uk/government/statistics/mod-regional-expenditure-with-uk-industry-and-supported-employment-201920>. 2020–21 figures will be available in January 2022.

funding UKDSC, with matched funding from industry.

## Understanding and supporting the UK Defence sector

During 2020–21 we continued to drive work initiated under the 2019 Defence Prosperity Programme and now being taken forward as part of implementing DSIS. This will grow the Defence sector's contribution to UK prosperity through collaborative working between Government, industry, and academia. Progress has included:

- Working with industry, academia, and government colleagues to develop the Joint Economic Data Hub (JEDHub), which will collect and aggregate economic data from across the defence sector. It will provide consistent and impartial data that can inform our decision-making processes. The JEDHub has now reached initial operating capability, having successfully completed a Proof of Concept pilot in 2020.
- Collaboration with Invest Northern Ireland on a Defence Technology Exploitation Programme pilot and with the Welsh Government on the development of an Advanced Technology Research Centre at Sealand in North Wales. As part of DSIS we will be developing a UK wide Defence Technology Exploitation Programme, to support collaborative projects between SMEs and major companies across the UK.
- Completing research, with the support of RAND Europe, into challenges and barriers faced by small and medium-sized companies in the Defence sector. As part of DSIS we will be establishing a new Defence Supply Chain Development Programme, building upon wider government

investments in supply chain development initiatives.

- The Minister for Defence Procurement gave the opening address at a joint government and Boeing virtual supplier seminar in November 2021 to promote opportunities for the UK defence supply chain, supported by ADS, the UK's Aerospace, Defence, Security and Space trade organisation. Over 500 participants from across UK Industry registered for the event, with Boeing and the Government briefing UK supply chain companies and partners on future opportunities, digital workspace, cyber security, DSIS, and the UK Space Strategy.
- Through the National Technology Industrial Base (NTIB) initiative, we have continued to foster increased cooperation and collaboration between the US, Canada, Australia, and the UK. NTIB partners are working together to strengthen and build resilience in their respective industrial bases.

## Shipbuilding

Following the appointment of the Secretary of State for Defence as Shipbuilding Tsar, we have led work across Government to reinvigorate the UK's shipbuilding enterprise.

A significant part of this work is focussed on the demand signal Government sets through its shipbuilding procurement programmes and the underpinning policy to deliver these programmes, which has been updated as part of DSIS.

The procurement approach for each class will now be determined on a case-by-case basis, considering the specific capability

requirements, value for money for our overall programme, and the long-term industrial impact. This replaces the previous policy that differentiated between warships (destroyers, frigates, and aircraft carriers only) and other vessels.

To galvanise Government and industry activity, the MOD and the Department for International Trade co-funded work to articulate a compelling vision for the future of the shipbuilding sector in the UK and set out how Government, industry, academia and other stakeholders can work together to achieve this. This activity was delivered with the support of the Maritime Enterprise Working Group and was completed in March 2021.

Following on from this, we have established a new National Shipbuilding Office to drive transformative change across the shipbuilding enterprise. The National Shipbuilding Office is hosted in the MOD, but works across Government to oversee all of the UK government's interests in UK shipbuilding, from coordinating the long-term pipeline of government vessels to ensuring skills priorities are aligned across the enterprise.

The National Shipbuilding Office is leading on the development of a refresh to the 2017 National Shipbuilding Strategy which will be published later this year. The scope of the strategy will be updated, reflecting a whole of Government approach to the industry covering both naval and civilian shipbuilding. It will outline how Government will help to set the conditions for the shipbuilding industry to become a globally successful, innovative, and sustainable enterprise. The refresh will address key enablers of success such as skills, exports, innovation, and green

technology. It will also set out a 30-year cross-Government shipbuilding pipeline.

This will include the Royal Navy's future shipbuilding pipeline, including a fleet of three Fleet Solid Support ships, a Multi-Role Ocean Surveillance capability, Type 32 frigates, Multi-Role Support Ships and the concept and assessment phase for our new Type 83 future air defence systems to replace our Type 45 destroyers. This is on top of the Type 26 and Type 31 frigates, which are currently in build on the Clyde and in Rosyth respectively. Overall shipbuilding investment will double over the life of this Parliament rising to over £1.7 billion a year.

In May 2021, the Prime Minister announced that the Government will commission a new National Flagship to promote British businesses and play an important role in achieving the UK's foreign policy and security objectives, including hosting summits and other diplomatic talks. It will be a tangible representation of this Government's determination to support prosperity, jobs, and skills within the UK shipbuilding sector. The Government's intention is to build the ship in the UK. This will create jobs, help drive a renaissance in the UK's shipbuilding industry and showcase the best of British engineering around the world. The National Flagship is expected to be built by 2025 and the design competition has now begun.

## **Future Combat Air**

Combat Air will continue to play a vital role in the United Kingdom's military strategic capabilities for decades to come, enabling us to defend the United Kingdom, our allies, and make a decisive contribution to global

security. Our preferred solution to Future Combat Air is Tempest, a UK-led international partnership providing a combination of highly networked crewed and un-crewed air vehicles, sensors and weapons and information advantage in a highly contested and complex battlespace.

The Integrated Review and Defence Command Paper announced that the UK will invest more than £2 billion over the next four years to launch the next phase of the Future Combat Air Systems (FCAS) Programme. This will design and deliver the Tempest Concept alongside our international partners, to replace our Typhoon aircraft. The Tranche 1 variant of our Typhoon aircraft are scheduled to be retired from service by 2025 with the later variants due to retire from 2035 onwards.

In April 2021, the UK will launch the initial phase of an international FCAS Acquisition Programme after signing a memorandum of understanding with Sweden and Italy in December 2020. This will bring together the experience and expertise of all three nations in the development of world leading combat air capabilities.

This year, we invested £30 million in Project Mosquito to create a demonstrator for novel, low cost un-crewed aircraft with flight tests by the end of 2023.

## Land Industrial Strategy

Recent conflicts have demonstrated that threats and opportunities evolve quickly in the land environment, and the UK must be able to constantly adapt its capabilities at pace. To ensure our operational independence,

the ability to generate technologically advanced land systems and integrate them rapidly remains a priority. Our vision is for an innovative, productive, and globally competitive land industrial and technology segment in the UK that can export UK products, collaborates domestically and internationally on key defence projects, and contribute to our national prosperity. To achieve this, we are developing, and intend to publish, a Land Industrial Strategy that will guide our collective investment choices and chart a course to our next generation of land combat systems.

## Complex Weapons

The Complex Weapons Strategy, set in 2010, is based on the onshore industrial capability vested within MBDA UK and Thales at Prime Contractor level. The approach ensures that we maintain Freedom of Action and Operational Advantage. It has also seen the refresh of much of the Complex Weapons inventory over the last decade. The MOD's partnership with MBDA has delivered operational independence and high-end military capabilities and retained industrial capability in MBDA and its supply chain. During the last 12 months there have been numerous significant milestones achieved, including contracts placed for Sea Viper-CAMM, and Brimstone 3 Demonstration phase. To date, the partnership has significantly improved the company's manufacturing and test capabilities, whilst improving value-for-money for the taxpayer, contributing to efficiencies worth over £2.35 billion over the last 10 years. The MOD is currently exploring how we move the MBDA relationship forward for the next ten



years, as well as options for new relationships and potentially portfolio procurement with other suppliers.

## Defence Exports

The MOD manages a portfolio of strategic export campaigns, including Combat Air and Complex Weapons. During 2020–21 we have supported many high value campaigns, notably the Finnish competition for a future fighter to replace its current F-18 fleet, where we have worked closely with industry to develop a competitive offer for Eurofighter aircraft and an associated weapons package from MBDA and Raytheon UK. In addition, we have supported the German-led Eurofighter competition in Switzerland and the Italian-led campaigns in Kuwait and Bangladesh.

We have actively supported Department of International Trade, Defence & Security Exports led campaigns across domains, including Boxer in the Land domain and the Type 26 and Type 31 (AH140) maritime campaigns, which are critical to the success of the National Shipbuilding strategy.

We have also been looking at how we support Government to Government (G2G) mechanisms for defence exports. A project is underway that will better define our G2G support offer to industry in support of export opportunities.

During 2020–21, we have worked closely with both Industry and HMG stakeholders in support of the delivery of high-profile showcase trade events, such as the Defence and Security International (DSEI 2021). This event, in September, was a major opportunity to promote UK prosperity, encourage international collaboration, and conduct defence engagement with international partners and allies.

The MOD team that forms part of the Government's Export Control Joint Unit has continued to ensure the controlled release of classified equipment and information by UK companies to overseas nationals, safeguarding the UK's national security. The target is to clear 60% of applications within 30 working days, in 2020 the MOD exceeded its target with 79% of applications processed within the timescale.

## Military Capability

### **Integrated Force 2030–Delivery of Major Projects**

The 2020–21 settlement enabled £2.2 billion of additional spending to ensure the UK's world-class Armed Forces can continue to modernise, meet ever-changing threats and continue to protect the country's security. It allowed us to prioritise key capabilities such as cyber, shipbuilding and the nuclear deterrent. But we knew we had to go further and transform faster to enable the Integrated Operating Concept<sup>22</sup> which requires our forces to be credible and capable to deter and if necessary, defeat our adversaries in conflict as well as to allow us to compete below the threshold of armed conflict.

We set out in the Defence Command Paper how the UK Armed Forces will become a threat-focused integrated force across land, sea, air, space and cyber domains. We have supported this vision by our commitment to spend over £85 billion on equipment over the next four years so our armed forces can adapt, compete effectively, and fight decisively when needed. This requires a rebalancing from Industrial Age to Information Age capabilities – investing in cyber, space, electronic warfare, AI, robotics, and autonomy – coupled with their integration with the best of what already exists.

We have already begun this journey of modernisation. Capabilities we invested in a decade ago are coming into service now and will be vital to our success in the coming

years. Our Carrier Strike Group is perhaps the most powerful example of this.

We have taken a hard-headed and unsentimental view of those capabilities that will be less relevant to the changing threat. We will also invest in transformative and digital capabilities that will enable multi-domain integration and ensure that we are able to compete more effectively in space and cyberspace.

This includes investment in the British Army to become more agile, integrated, lethal and expeditionary. The service will receive an additional £3 billion on new vehicles, long-range rocket systems, air defences, drones, electronic warfare, and cyber capabilities. £120 million will create new Ranger Regiments; four battalions will form the Regiment that will support Special Forces in collective deterrence activity. This will range from training to accompanying personnel on the ground. The Army will also introduce a new Warfighting Experimentation Battlegroup that draws on elements from across the entire Army designed to fight prototype warfare, focusing on hybrid and conventional threats.

The Royal Navy will get a new Multi Role Ocean Surveillance ship to help protect vital underwater maritime infrastructure and protect from maritime threats, aiming to come into service by 2024. The fleet of frigates and destroyers will grow through this decade with shipbuilding investment doubling over the life of this Parliament rising to over £1.7 billion a

---

<sup>22</sup> Further information on the Integrated Operating Concept can be found at <https://www.gov.uk/government/publications/the-integrated-operating-concept-2025>

year. The Royal Marines will also benefit from a £200-million investment over the next ten years to form the Future Command Force, a Commando force that is persistently forward deployed conducting specialist maritime security operations.

UK air capabilities will be bolstered with an injection of over £2 billion in the Future Combat Air System to start to develop the ultra-modern Tempest fighter jet. We have also continued to invest in new combat air technology through the FCAS Technology initiative that will help to deliver a pioneering mix of crewed, uncrewed and autonomous platforms. We will also invest in emerging disruptive technologies such as swarming drones. This programme has already created over 1,800 highly skilled jobs in over 300 companies across the UK. The Typhoon fleet will be upgraded with a suite of new weapons and state-of-the-art radar.

Capability in the future will be less defined by numbers of people and platforms than by information-centric technologies, automation and a culture of innovation and experimentation. These characteristics alongside the new investments we have made will start to re-shape the Defence equipment programme and the priorities of Defence Major Programmes portfolio as we deliver Integrated Force 30.

In 2020–21, the Defence Major Programmes Portfolio (DMPP) consisted of 42 (up from 38

in 2019–20) of the most strategically important and technically challenging programmes across the MOD, of which 40 in 2020–21 (up from 35 in 2019–20) are in the Government Major Programmes Portfolio. This has increased to 53 in the first half of 2021 and has increased to 56 major programmes as of December 2021, with MOD continuing to have the largest number of programmes contained within the whole of Government portfolio.

Appropriate governance is applied at all levels to support successful delivery within expected time, performance and cost parameters as well as ensuring compliance with departmental and HMT Investment Policy. This is complemented by independent assurance from the Infrastructure and Projects Authority (IPA), who assess likelihood of success through formalised and structured Assurance Reviews that are also specifically timed ahead of crucial investment decisions to ensure that the most current and relevant evidence is available to investment committees and boards. In 2020–21, the IPA carried out 68 reviews of projects and programmes across the whole of Defence including assurance of action plans to improve overall delivery confidence.

The overall portfolio delivery confidence remains at Amber – the portfolio still faces some significant challenges including skills and capability shortages, the impact of COVID-19, and supplier performance, which we are continuing to address.

## Case Study

### Carrier Enabled Power Projection

HMS QUEEN ELIZABETH and HMS PRINCE OF WALES were both in-service with the Royal Navy during 2020–21. A successful Group Exercise saw Maritime Task Group integration in preparation for the first operational deployment in 2021. Initial Operating Capability Carrier Strike was declared on 16 December 2020.



## Case Study

### F35 – Lightning II

The intent of the Lightning Programme is to deliver a deployable capability using the Lockheed Martin F-35 Joint Strike Fighter (JSF) – termed Lightning.

Progress to date has seen the delivery of the first 19 (of a confirmed order of 48) F-35B Lightning II aircraft. The Programme achieved Initial Operating Capability on land in December 2018 and at sea in December 2020. Full Operating Capability is currently planned for December 2023.





## Case Study

### Protector

After a successful development phase Protector is set to enter service by mid-2024, delivering a step-change in capability for the Royal Air Force.

In July 2020, the Government signed a contract worth £65 million to General Atomics Aeronautical Systems Inc to build the UK's first three Protector aircraft, the first certified remotely piloted air system able to be operated in any air space around the world.

This cutting-edge aircraft, which will replace the current Reaper Remotely Piloted Air System force, will be deployed in wide-ranging Intelligence, Surveillance, Targeting, Reconnaissance and Strike operations from its base at RAF Waddington, Lincolnshire.



## Case Study

### Mechanised Infantry Programme – Boxer

The Boxer programme has continued at pace this year despite the significant COVID-19 challenges of 2020 with a new UK factory being opened and subcontracts being placed across the UK for key systems. This has included in February 2021 a £180 million contract to Thales to deliver cutting edge threat detection technology for the new Boxer vehicles that will support hundreds of jobs in Scotland.

The threat detection system also offers key defensive capabilities, including a multi-barrel smoke grenade launcher, thermal imaging, and infra-red pointers and can be fitted with a range of weapons.





## Case Study

### Astute Class Submarines

The Astute Class nuclear powered submarines are the largest, most advanced and powerful attack submarines ever operated by the Royal Navy. The Astute submarines will replace the Trafalgar class submarines and comprise a fleet of seven boats, built by BAE Systems at the Barrow-in-Furness shipyard. Three of the Astute Class are currently in service with the Royal Navy; HMS ASTUTE, HMS AMBUSH and HMS ARTFUL.

In April 2020, HMS AUDACIOUS was handed over to the Royal Navy and sailed from Barrow to her new home of HM Naval Base Clyde, where she has completed sea trials. The remaining three submarines in the Class; Anson, Agamemnon and Agincourt, are under various stages of construction. Anson was launched in April 2021, entering the water for the final stages of her Commissioning.



## AJAX

The Armoured Cavalry programme (Ajax) is a key part of the Army's Integrated Review proposition. Ajax is a fully digitalised system. It represents a step change in the capabilities of the British Army and is integral to the delivery of the Deep Recce Strike and Armoured Brigade Combat Teams.

The issues in delivering this complex programme have been reported to Parliament. The MOD is committed to stabilising and recovering the programme delivery, in close collaboration with prime contractor General Dynamics UK; the focus remains on recovery of the programme. The Defence Secretary, Minister for Defence Procurement and senior leaders within the MOD remain concerned about progress on the project, which is why the Permanent Secretary commissioned a review into the health and safety concerns raised by noise and vibration, which has been published. Overall, the report makes 20 recommendations. The MOD accepts all of those relating specifically to armoured vehicle procurements, the regulation of safety for land equipment and the broader approach to safety in Defence.

Initial Operating Capability will not be declared until solutions have been determined for the long-term resolution of the noise and vibration concerns.

## SKYNET 6

Space is fundamental to military operations and underpins our ability to undertake the majority of Defence Tasks. SKYNET 6

will provide the next generation of military communications satellites that will enable strategic communications worldwide. In July 2020, the Government awarded a contract worth over £500 million to Airbus Defence and Space to develop, manufacture, cyber protect, assemble, integrate and test the first of these satellites, known as SKYNET 6A.

SKYNET 6A will be the most advanced satellite ever operated by UK Defence, with a higher radio frequency spectrum and the latest in digital processing to provide more capacity, speed and greater versatility than its predecessor system the SKYNET 5 constellation. It is expected to be launched in 2025 and will provide secure and continued communications support for many years to come.

## Brimstone 3 – MBDA

The Brimstone 3<sup>23</sup> ultra-high precision missile system has successfully achieved a major milestone by completing its first firing trial at the Vidsel Trials range in Sweden. The new-build Brimstone missiles will incorporate all the improved functionalities offered by the spiral upgrades of Brimstone that have taken place over recent years. The new hardware standard will also enable the addition of further capability upgrades in the future.

## CAMM – MBDA

The Common Anti-air Modular Missile (CAMM) has the capability to defend against anti-ship cruise missiles, aircraft and other highly sophisticated threats. The last 12 months has seen the successful delivery of

---

<sup>23</sup> Further information on the Brimstone 3 ultra-high precision missile system can be found at <https://www.mbd-systems.com/product/brimstone>

high seas firings from both HMS RICHMOND and HMS LANCASTER. CAMM offers a single technological solution across land and maritime domains.

## Typhoon Radar 2

The Royal Air Force Typhoon Force maintains a constant state of readiness to defend the sovereignty of British Skies, is a proven capability on operations and continues to deter our adversaries wherever and whenever required.

Currently fitted with mechanically-scanning radar, the Typhoon is designed to be continuously upgraded to meet operational demands no matter the challenge or threat. Integration of the European Common Radar System at the Mark 2 standard (hence 'Radar 2') will allow the aircraft to simultaneously detect, identify and track multiple targets

in the air and on the ground in the most challenging environments.

A contract worth £317 million was awarded by the Government in September 2020 and the work will be carried out by BAE Systems and Leonardo UK. It will support 600 UK jobs, two thirds of which are in the Scottish Defence Industry. Her Majesty's Government emphasised its commitment to Radar 2 during the Integrated Review and this. world-leading capability is due to enter service in 2028.



## Science, Technology and Innovation

### Science and Technology

We published the MOD Science and Technology Strategy in October 2020<sup>24</sup> as a response to the rapidly changing global security and S&T landscape. This was followed in late 2020 by the Spending Round commitment to invest at least £6.6 billion of investment into military research and development to prepare us for the warfare of the future.

In line with the Strategy, we will focus this investment through integrated, long-term R&D pipelines<sup>25</sup> that are designed to tackle current and enduring capability challenges where the integration of emerging technologies can give the UK a decisive edge; accelerating mature technologies into service while increasing cutting-edge S&T to pull through next generation capabilities, and shape the generation after that.

Programmes in areas such AI, automation and machine-learning, and in the new domains of space and cyber are key components of the R&D pipelines. They also include a series of Game Changer Programmes that have been designed to rapidly exploit technologies and processes that offer the opportunity to change both the way the UK fights and also how MOD procures cutting edge capability.

The three Game Changer Programmes funded from 1 April 2021 are:

- Multi Domain Integrated Swarms (MDIS) Game Changer. MDIS aims to assist in addressing challenges such as Anti-Access Area Denial (A2AD) through unlocking the operational use of collaborative Remote and Autonomous systems (RAS) as a multi-domain capability;
- Integrated Space Game Changer (ISGC) seeks to develop and deliver a resilient and agile solution for the Space domain information architecture, by leveraging new and emerging data technologies and supporting coherence of UK Space capability developments; and,
- Directed Energy Weapons (DEW) Game Changer seeks to accelerate and prepare Defence for the introduction of DEW for all Front Line Commands. In parallel, a DEW Capability Demonstrator portfolio will deliver mature laser and radiofrequency DEW technology integrated onto relevant military platforms and into the hands of the user for extended test and experimentation.

Activities have also been undertaken to enable rapid progress on key elements of R&D, including the Game Changers described, and Spearhead Programmes, which represent the department's willingness to innovate at scale and implement a technology-led approach. One of the three Spearhead Programmes, Enhanced Command and Control (EC2), deployed an Operation Concept Demonstrator (OCD) to a live operation in Estonia. The Artificial Intelligence technology exploited vast

<sup>24</sup> Further information on the MOD Science and Technology Strategy 2020 can be found at <https://www.gov.uk/government/publications/mod-science-and-technology-strategy-2020>

<sup>25</sup> Pervasive, full spectrum, multi domain Intelligence, Surveillance and Reconnaissance (ISR). Multi-domain Command and Control, Communications and Computers (C4). Secure and sustain advantage in the sub-threshold. Asymmetric hard power, and Freedom of Access and Manoeuvre (FOAM).

amounts of data to help soldiers, providing vital information on the surrounding terrain and environment. Through this development of automation and smart analytics, the technology was able to rapidly cut through masses of complex data. The Anti-Submarine Warfare (ASW) Spearhead programme seeks to accelerate recent and high priority S&T programmes. An example included the Extra Large Uncrewed Underwater Vehicle (XLUUV) demonstrator to inform the competition for a replacement large UUV.

Effective exploitation of cutting-edge Science and Technology (S&T) is critical to the security, prosperity and resilience of the United Kingdom. Defence S&T has a key role in identifying technology trends, opportunities and risks, understanding the implications of new and emerging technologies, maturing S&T and de-risking exploitation into military capability. Moreover, 'Strategic Advantage through S&T' is a key pillar of the Integrated Review and the Defence Command Paper, and the ongoing COVID-19 pandemic has highlighted the key role that Defence S&T plays in responding to national crises.

The MOD's Chief Scientific Adviser (CSA), Professor Dame Angela McLean, is Head of the Defence S&T Enterprise. As the senior adviser to Ministers on S&T matters, the CSA sets the strategic direction for Defence S&T, champions forward transformative technology opportunities across the Department and manages S&T collaborations with UK and international stakeholders.

## Innovation

Innovation is critical to maintaining military advantage into the future. Across Defence,

there remains an evolving innovation community which continues to demonstrate the benefit of the Innovation Initiative.

We have continued to deliver the Defence Innovation Initiative where ideas are readily generated and exploited to deliver innovative solutions to challenges.

In 2020–21 we completed the first building for the Defence BattleLab, including the Army BattleLab. The Army BattleLab is a £5.7 million collaboration between MOD, Dorset Council and the Dorset Local Enterprise Partnership. The workshop space will be used to enable collaboration with academic institutions, corporates and small- and medium-sized enterprises (SMEs) to develop new products and technologies with the potential to be commercialised. In its first ten years, the programme aims to create 90 new local jobs and add £4 million to the local economy.

At a Space Pitch Day, ten technology start-ups, from across the world, won contracts worth up to £53,000 to fast-track the development of their innovative Space technologies. The endeavour was jointly funded by the UK's Defence Science and Technology Laboratory, the Royal Air Force and the US Air Force.

The medical arm of the central innovation hub for UK Strategic Command, was awarded the Institution of Engineering and Technology's Visionary Award for Protecting Society and Saving Lives. The award was given for its work on a Mixed Reality Clinical Trainer. The technology helps train medics by more realistically simulating the effects of casualties who have been involved in a chemical attack.



The **Defence and Security Accelerator** (DASA) finds and funds exploitable innovation to support UK Defence and security quickly and effectively, supporting UK prosperity. During the year DASA has, with Government organisations, launched 16 themed competitions and has also run 6 cycles of the Open Call for Innovation, enabling suppliers to push their ideas into Defence and security. Responding rapidly to Coronavirus, DASA was able to reduce sanitising times for cleaning ambulances from 1 hour to 10 minutes. Since April 2020, DASA has received more than 1,200 proposals from over 730 organisations, funded 207 of these (64% from SMEs), and allocated over £36.6 million in funding. This is compared to the period April 2019 to April 2020, when DASA received more than 1,200 proposals from over 650 organisations, funded 240 of these (55% from SMEs), and allocated over £42 million in funding.



The **Defence Innovation Fund** of around £800 million over 10 years, aims to incentivise changes in behaviours, provide freedoms to pursue and deliver innovative solutions and help overcome barriers to the realisation of the Initiative as a whole. Since April 2020, the department has funded 59 projects from the Defence Innovation Fund, investing around £70 million in financial year 2020–21, (up

from £44 million in 2019–20), a total of around £138 million since 2017.

## R&D Exploitation

### Expendable Active Decoy

Defence in partnership with industry has created and developed a sovereign, world-leading, low cost, adaptable expendable active decoy (EAD) system to protect aircraft from advanced radio frequency guided weapons, enabling freedom of action and operational advantage in high threat environments. The EAD has created or sustained 25 jobs in UK industry, while creating international leverage and collaborations (e.g. US and Japan) and its commercial variant can be exported (e.g. Sweden).

### Submarine Superiority

The challenging underwater battlespace has driven research into novel solutions which ensure Royal Navy submarines can exploit enhanced capabilities at sea. Submarine Superiority is a R&D project being conducted in collaboration with UK industry and allies. The S&T programme has developed new processing that will deliver a generational change in sonar capability.

### Resonant Acoustic Mixing (RAM)

R&D into Resonant Acoustic Mixing (RAM) now means Defence is using RAM (a type of mixing machine) to produce energetic compounds that can only be mixed using this new technology. These novel formulations will be used in future weapons warheads. R&D has been conducted collaboratively

with SMEs, Universities and Defence primes across the UK, including in South Wales (BAE Systems), Scotland (University of Edinburgh & Chemring) as well in Buckinghamshire (Falcon Project).

### Command Team Experimental Testbed (COMTeT)

The next generation of nuclear-powered attack submarines (SSNs) will remain in service well into the second half of the century. Effective submarine operations will be critically dependent on exploiting all available information to make better decisions more quickly. This has been the subject of the R&D Command Team Experimental Testbed (ComTeT), where behavioural science has been exploited to improve command team efficiency. The ComTeT project has informed design decisions to achieve greater command team collaboration and situational awareness.

### New Capability to Model the Impact of Toxic IEDs

Chemical or biological material could be used to create an “enhanced fragmentation” or “toxic” improvised explosive device (IED) similar to that used in the 2018 Cologne bomb plot. To address this emerging threat, a new toxic IED model has been developed and integrated into the Human Injury Prediction (HIP) model to provide Defence and Security a new capability to understand the hazard compared to a conventional IED. This work included a comprehensive sensitivity analysis to understand which elements of a toxic IED (e.g. toxicity, agent purity, agent-fragment adherence etc.) have the most significant impact on the number of casualties and

fatalities. In order to improve confidence in the modelling assumptions and outputs, scientific data was obtained through a combination of using our Dstl’s unique experimentation and modelling capabilities. This work will be used to develop a briefing pack for the first responder community on appropriate responses to a toxic IED. Ultimately, it will provide UK HMG with hazard assessment information to develop policies and inform strategic Chemical and Biological risk assessments for a toxic IED event and will be used to develop policies to prepare for and to mitigate this emerging threat.

### SAPIENT Sensor Integration Architecture

The UK Defence developed SAPIENT sensor integration architecture was recently tested at the NATO Counter- Unmanned Air System (UAS) Technical Interoperability Exercise. It proved highly successful in providing the information exchange standard, or the glue that allows us to bring sensors and effectors together, for this demanding Air Defence scenario and has paved the way for the basis of a NATO Standard. This puts the UK in a strong position to provide critical technology for future Counter-UAS solutions across the allies. SAPIENT also recently deployed to the Contested Urban Environment 2021 (CUE2021) and demonstrated SAPIENT’s critical place in a scalable, layered Intelligence, Surveillance, Reconnaissance (ISR) capability of the future, delivering enhanced situational awareness to support UK and Allies interests. This multinational experiment involved over 60 innovative technologies, many of which were developed as SAPIENT compliant and shared their data using the SAPIENT standard.

## Enabling Outcome: Transform and Manage Defence

### Key Achievements in 2020–21:

The Overseas Operations Bill was introduced to Parliament and has now become law

We have released land and generated potential for 2,251 homes, bringing the total contribution, since 2015, up to 11,463 units, generating £44.2 million in net receipts this year

We published our Climate Change and Sustainability Strategic Approach which set out our 2050 ambition for adapting our capabilities to a climate changed world, reducing our environmental impact, and increasing our sustainability activity

We have achieved reductions in Green House Gas emissions, waste, water, paper and domestic flights

## Defence Transformation

We have continued to take forward Defence Transformation in support of ensuring that our capabilities remain relevant and so that we can continue to offer sustainable military advantage over adversaries and military choices to Government. Our work aims to deliver integrated action on all fronts, rapid technology adoption to maintain military advantage, resilient and sustainable military and business operations in a Net Zero world, and a balanced and sustainable financial plan.

Our pan-Defence effort has, during 2020–21, expanded to bring together elements of six portfolios – Operate, People, Empowerment, Digital, Support, and Acquisition – to build a Transformation Portfolio of our highest value programmes. Once delivered, these will transform the way we generate our military capability and how we run our business.

Our Operate portfolio is designed to prioritise our work to develop new, innovative, technologies that we will use to change the way we fight (e.g. swarms of drones), and about making sure that we are clear on what we need to do to make sure that we are fully integrated across the space, air, land, sea, cyber domains. The work of this portfolio is necessarily long-term but, in that long-term, we anticipate that it will deliver significant results.

In 2020–21, these portfolios have:

- **People** The People portfolio delivered a holistic, integrated and whole-force workforce proposition for both the Spending Review and the Integrated Review, setting out clearly what type of workforce Defence needs if we are to deliver against the

requirements laid upon us in the Integrated Review and putting forward a range of activities that are necessary to build that workforce in the coming years. That proposition recognised that the changing character of international politics means we need people with different skills, and set out the means by which we can develop them.

- **Empowerment** We provided our senior leaders in Defence with virtual training, equipping them with the tools and techniques to experiment with new ways of working and address challenges through empowerment. We have continued to grow our pan-defence empowerment network community to help champion the importance of empowerment in delivering defence outputs. These champions helped us identify areas where we would like to conduct deeper analysis through our behavioural science team.
- **Digital** We laid the foundations for the Defence Data Programme which will significantly improve our ability to use our data as a strategic asset. We digitised over half of the department's civilian HR forms, freeing up staff to focus on higher priority customer-focused tasks. We delivered c£500 million in benefits through better management of our digital suppliers.
- **Acquisition** We aim to increase the pace of acquisition to deliver capability to the front line when it is needed. We are developing proportionate, risk-based approaches to drive increased pace while maintaining the necessary rigour in investment decision-making, supported by work to embed a culture of proportionality and learning.
- In 2020–21, we made good progress in exploring agile methodologies for the procurement of fast-moving emerging technologies; developed a digital workflow tool to support investment approvals; and delivered an initiative allowing DIO to identify opportunities to streamline processes around infrastructure investment. To help set programmes up for success from the outset, we trialed a new approach to identify and address areas of strategic risk and complexity at an early stage to improve overall programme delivery. We continued the implementation of pan-Defence Category Management to drive a more strategic approach to the market, achieve better value for money – with the potential to save the department millions of pounds over the next few years – and to improve internal expertise in category specialisms.
- We have delivered elements of the Strategic Partnering Programme, working with the Top 19 Defence Suppliers to target enterprise-level, strategic or systemic issues within the department's commercial relationships. The programme has delivered active risk reduction during the COVID-19 crisis and the EU Transition through open and collaborative engagement from suppliers, as well as support on national challenges like delivery of PPE and ventilators.
- We have continued acquisition transformation into 2021–22, embedding and building on the progress made last year. More recent work includes developing and testing a streamlined investment approvals model, supported by a new tool to assess programme risk and complexity. We are developing our support and learning culture for Senior Responsible Owners and ensuring that they devote appropriate time to delivery of our major programmes.

## Defence Support

Following the appointment of the first Chief of Defence Logistics and Support in October 2019, in April 2020 a new Defence Support organisation stood up within UK Strategic Command. With around 30% of the Defence budget apportioned to Support-facing activity, the new organisation leads the Support Function and is responsible for driving coherence into the Department's approach to improving capability availability and logistic services and provides the Support 'conscience' in matters of strategy, operational planning and strategic balance of investment.

## Support Strategy

A new Defence Support Strategy was published in December 2020, which set out a vision for the way in which the Support enterprise would deliver operational advantage by ensuring more of our key capabilities were available more of the time, where and when needed, and that our support chains were more resilient than those of our adversaries. The Support Strategy set out five strategic outcomes for delivery across all parts of Defence by 2025, which concerned driving coherence and resilience into the UK's ability to deploy and sustain forces overseas more effectively, enhancing decision-making, integrating more effectively with industry partners, increasing force development and experimentation, and upskilling the Support workforce (c.60,000 people).

A robust new governance structure to oversee these efforts was implemented and in addition the Chief of Defence Logistics and Support now sits on several Defence-level boards,

to ensure the Support 'conscience' is rightly represented in matters of strategy, operational planning and strategic balance of investment. An increase in dedicated capacity to oversee deployment and sustainment of the UK Forces world-wide was also agreed.

## Transformation

An ambitious transformation portfolio was set up to drive the necessary change, centred on three major programmes under the direction of a Senior Responsible Owner. Business Modernisation for Support will re-engineer business processes and deliver a coherent landscape of evergreen, cloud-based, secure Support Information Services and is closely aligned with the delivery of the Digital Backbone. Engineering Support Transformation will sponsor a range of pan Defence engineering interventions to drive a paradigm shift in platform availability. Forecast and Resource Planning will drive interventions across 140 of our key platforms in the next 4 years, aligning engineering and logistic demand and supply. As well as underpinning operational advantage, these transformational programmes will also deliver significant financial efficiencies.

## Delivery

Throughout 2020–21, the Defence Support enterprise delivered an array of routine activity, including: the assurance of support solutions for new equipment entering service; the updating of core support policy; the delivery of a robust programme of capability development; provided logistic support to UK operations globally including distribution of the COVID vaccine – and offered contingent options to ensure continuity post BREXIT.



Defence Transformation remains amongst the very highest priorities for the department and we are committed to building on the progress already being made, both to ensure that our capabilities are relevant and fit for the future and also to increase the efficiency of the capabilities and business we deliver. In January 2021, in response to assurance reviews from the Infrastructure and Projects Authority (IPA) and an external consultancy, we created a new senior board – the Defence Delivery Group (Transformation) – to ensure that we had the right level of senior buy-in to Transformation and to help guide and coordinate our efforts.

## Property and Infrastructure

The new Strategy for Defence Infrastructure (SDI) will be published in the final quarter of 2021–22 and outlines the long-term (20 year) objectives to transform and modernise the Defence estate, a critical enabler of Defence capability. This forms part of the Department's ongoing effort to reform its management of the Defence Estate, ensuring the Defence footprint is able to effectively support current and future capabilities.

There is an emphasis on optimisation and investment to start to prevent further decline in the condition of our most important assets. This includes a focus on accommodation to improve the lived experience of our Service Personnel. The SDI also sets a framework to harness the estate's contribution to delivering Departmental Net Zero ambitions, and to enhance resilience, including from the impacts of climate change.

The Defence Estate Optimisation (DEO) Portfolio is central to the commitment to transform the estate. It is an ambitious 25-year portfolio of interdependent projects and programmes across the UK, including construction activity, unit and personnel moves, and land release. DEO was brought up to full funding in Spending Review 2020 (SR20), and already has over 40 ongoing projects across the UK. More widely, Defence is forecasting to receive £331 million gross disposal receipts across 120 sites in 2020–21.

By March 2021, DEO completed 45 initial assessments and 209 surveys on sites, plus more detailed assessments for 47 of the 92 re-provision projects within the Portfolio. The Department released enough land through the disposal of surplus sites for c.4,900 new homes and generated £36.9 million in running cost savings for Defence. This builds on the disposal of 200 sites in the last five years, which has resulted in £929 million receipts for Defence. DEO disposal receipts will all be re-invested back into the future projects within the portfolio.

During 2020–21, the Defence Infrastructure Organisation (DIO) completed Phase 3 of its transformation programme to reflect its role as infrastructure expert adviser and primary infrastructure delivery agent within the infrastructure operating model. DIO is also leading key aspects of the Department's adoption of an asset management approach to improve estate decision making over the next five years. These include further professionalisation across Defence Infrastructure personnel, and improvements to estate data and management information supported by an infrastructure data and management information strategy.

## Land Release

Land release and Housing Unit Potential is part of the wider strategic approach to the Defence Estate, but Defence needs to balance land release with other Government priorities including Net Zero and Emissions Management (using offset from the estate) as well as wider exploitation of new income generation opportunities.

As part of the previous Government's 2015 Public Sector Land Release target of 160,000 homes to be built in England by 2020, Defence agreed to contribute land and buildings with housing unit potential for 55,000 homes. Defence has since delivered 11,580 housing units against this estimate. New homes have been delivered through a combination of land release, property vacation, land transfer to Homes England and the building of new service family accommodation and single living accommodation. Discussions with MHCLG to agree a new short-term target are ongoing.

In 2020–21, Defence achieved disposal receipts of £106 million: Aldershot (£41 million), Arborfield (£19 million), Waterbeach (£18 million), Bordon (£19 million) and a number of smaller value disposals (£9 million).

## Government Estate Strategy

The Government target of smarter working across the estate has been greatly affected by the impact of COVID-19 and the move to homeworking. Despite these delays, the MOD Benchmarked Central Civil (Office) Estate (CCE) performance for 2019–20 was 11.29 sqm/Full Time Equivalent (FTE), set against the Cabinet Office target of 8sqm/FTE. This represents an almost 10% improvement against 2018–19 data of 12.26sqm/FTE.

## Government Construction Strategy

The MOD has been heavily engaged in supporting Project SPEED, the Prime Minister's drive to build 'better, faster, greener'. Output from this work includes the Construction Playbook which delivered 14 new policies in December 2020, which outlined the Government's expectations of how contracting authorities and suppliers should engage with each other.

Defence is also engaging with MHCLG to develop a new Defence specific Permitted Development Right to aid the acceleration of infrastructure projects on Defence sites.

## Sustainability: Key Achievements in 2020–21

**50%**

reduction in Greenhouse Gas emissions against 2009–10 baseline (9% reduction on 2019–20)

**57%**

reduction in capability fuel consumption against 2009–10 baseline

**48%**

reduction in Total Waste (excluding reuse) against 2009–10 baseline (16% reduction on 2019–20)

**8%**

Waste was assigned to landfill in 2020–21 (1 percentage point increase on 2019–20)

**51%\***

of waste material was recycled in 2020–21 (5 percentage point reduction on 2019–20†)

**12%**

reduction in water usage Against 2015–16 baseline (1% reduction on 2019–20)

**61%**

reduction in paper bought against 2009–10 baseline (36% reduction on 2019–20)

**95%**

reduction in domestic flights against 2009–10 baseline (94% reduction on 2019–20)

**44**

Defence Related Environmental Assessment Methodology (DREAM) tool assessments in 2020–21

\*Of the 51% of waste that was recycled in 2020–21, 10% of this was anaerobically digested or composted.

†Of the 56% of waste that was recycled in 2020–21, 12% of this was anaerobically digested or composted.

We have worked to ensure that sustainability considerations have been embedded into our policies and processes for nearly two decades. However, we are conscious that we will also need to adapt our capabilities, infrastructure and departmental business operations to ensure that they are resilient to the effects of climate change while seeking to mitigate Defence's environmental impact.

## Governance

Throughout 2020–21, Lt Gen Nugee conducted a departmental wide Review of Climate Change and Sustainability (CCS) which concluded in the Department publishing its Defence's Climate Change and Sustainability Strategic Approach, in March 2021.

The Strategic Approach sets out the department's 2050 ambition, the guiding principles and its initial plan for adapting its capabilities to a changing climate, reducing and mitigating our emissions and environmental impact, and increasing our sustainability activity. The Strategic Approach also draws on the observations and recommendations from the NAO's Sustainability Overview Audit report published in June 2020.

Following on from the Review and Audit Report, the remit of the Defence Safety and Environment Committee (DSEC) has been expanded in 2020–21 to oversee delivery of the Department's Climate Change and Sustainability initial action plan contained in its Strategic Approach. A Climate Change and

Sustainability (CC&S) Non-Executive Director will be appointed to the DSEC in 2021–22 and the extant Climate Change and Sustainability Implementation Group will be transformed into a working group supporting the DSEC. A CC&S Directorate will also be established in 2021–22 to cohere the activity across the department.

## Greening Government Commitment Delivery<sup>26</sup>

The Greening Government Commitments set out the actions Central Government departments will take to reduce their impact on the environment and deliver sustainable environmental performance. The 2016–2020 Greening Government Commitments have been rolled over into reporting year 2020–21, as well as associated internal departmental targets.

A brief summary of performance, against the GGC baseline, is provided in the coming pages against each of the Commitments. A full breakdown of estates emissions, water, consumption and waste generation can be found in Annex D and E of this Report. It should be noted that, for 2021, the COVID-19 pandemic and the subsequent changes to the ways of working contributed to a reduction in consumption and travel for Defence.

Examples of MOD's sustainability initiatives across the department, both in the UK and the international estate, by serving personnel, volunteers and industry partners, can be found in the MOD sustainability magazine **Sanctuary**.<sup>27</sup>

<sup>26</sup> It should be noted that, for 2020–21, the COVID-19 pandemic and the subsequent changes to ways of working have had a positive impact on MOD performance.

<sup>27</sup> The Sanctuary magazine can be found at <https://www.gov.uk/government/publications/sanctuary>

## Sustainable Development Goals

Defence contributes to the UK delivery of a number of UN Sustainable Goals. The diagram below shows the linkage between defence activities a range of UN Sustainable Development Goals.

Core outputs	SDGs
<b>Priority Outcome 1: Strengthen the UK's national security through delivering threat-based defence decision making</b>	
<ul style="list-style-type: none"> <li>Intelligence assessment</li> <li>Geospatial intelligence</li> <li>Counter Intelligence (CI)</li> <li>Intelligence and Security Training</li> <li>Ensuring coherence of Command, Control, Communications and Computers, intelligence, Surveillance and Reconnaissance (C4ISR)</li> <li>Cyber and electro-magnetic activities (CEMA)</li> </ul>	16
<b>Priority Outcome 2: Protect the UK and its Overseas Territories</b>	
<ul style="list-style-type: none"> <li>Quick Reaction Alert Aircraft and Continuous At Sea Deterrence (CASD)</li> <li>Military Aid to the Civil Authorities (MACA)</li> <li>Counter-Narcotics and Terrorism</li> <li>UK Overseas Territories</li> <li>Fisheries Protection</li> </ul>	16
<b>Priority Outcome 3: Enhance Global Security through persistent engagement and response to crises</b>	
<ul style="list-style-type: none"> <li>Maritime security</li> <li>Build security and stability</li> <li>Counter illegal wildlife trade</li> <li>EU Exit Transition</li> </ul>	<ul style="list-style-type: none"> <li>UN Peacekeeping Operations</li> <li>Defence Engagement</li> <li>Official Development Assistance</li> <li>Human Security</li> </ul> 16
<b>Priority Outcome 4: Contribute to NATO collective deterrence and defence</b>	
<ul style="list-style-type: none"> <li>NATO Response Force (NRF)</li> </ul>	<ul style="list-style-type: none"> <li>NATO Readiness Initiative</li> </ul> 16
<b>Priority Outcome 5: Modernise and integrate defence capabilities by taking a whole force approach to our people and increasing the use of technology and innovation</b>	
<ul style="list-style-type: none"> <li>Workforce Size, Shape and Dynamics</li> <li>Diversity and Inclusion</li> <li>Cadets</li> <li>Apprenticeships</li> <li>Support to the Armed Forces Community</li> <li>Skills</li> </ul>	<ul style="list-style-type: none"> <li>Net Zero</li> <li>Health and Wellbeing</li> <li>Biodiversity and Natural Environment</li> <li>Access and Recreation</li> <li>Defence Prosperity Programme</li> <li>Defence and Security Industrial Strategy</li> <li>Science, Technology and Innovation</li> </ul> 3, 4, 6, 7, 8, 9, 11, 12, 13
<b>Enabling Outcome: Transform and Manage Defence</b>	
<ul style="list-style-type: none"> <li>Empowerment</li> <li>Counter-Fraud and Corruption</li> <li>Property and Infrastructure</li> <li>Sustainability</li> </ul>	4, 8, 11, 12, 13, 15



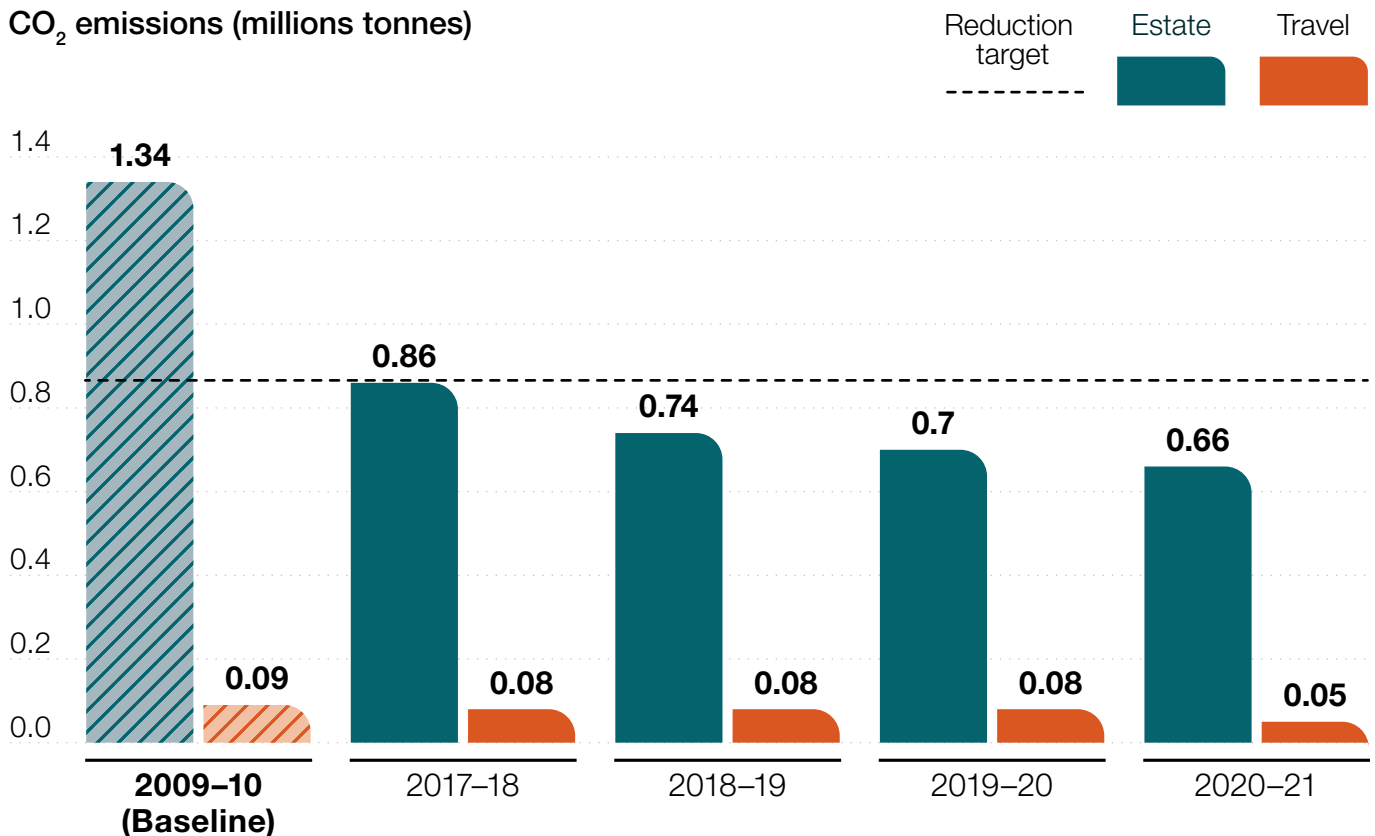


## Greenhouse Gas Emissions

*GGC Target:* Reduce Greenhouse Gas (GHG) Emissions from Estate Energy and Business Travel by 39.9%. **Exceeded.** We have achieved a reduction of 51% from Estate Energy and 43% from Business Travel in 2020–21, giving a combined reduction of 50% against the 2009–10 baseline.

*Internal Departmental Estate Energy Target:* Reduce energy consumption (electricity, gas, delivered fuels) by 10% by 2025 against a 2017–18 baseline. We have achieved a 1.1% reduction against the 2025 10% energy reduction target.

CO<sub>2</sub> emissions (millions tonnes)

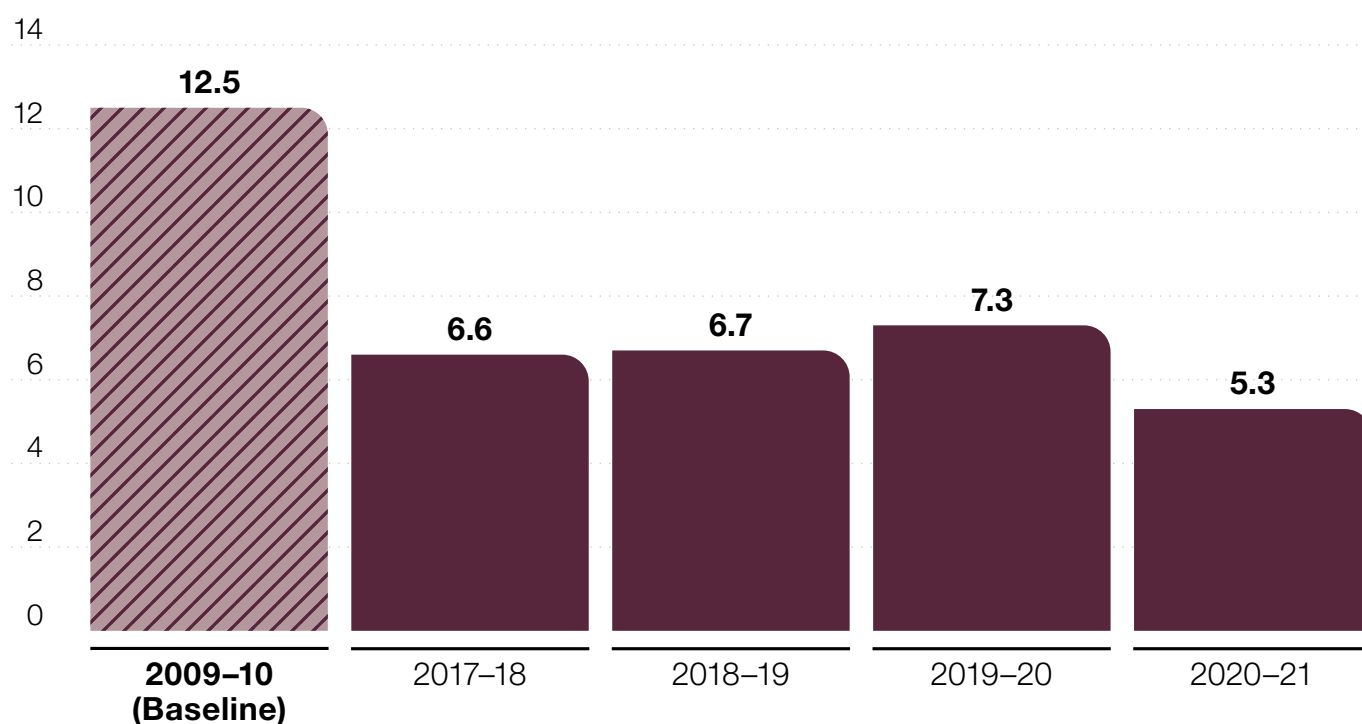


## Capability Energy

*Departmental Objective:* Increase capability fuel use efficiency. We have achieved capability fuel consumption in 2020–21 that is 57% lower and resulting carbon emissions that are 56% lower than in 2009–10.

The reduction in fuel consumption level is directly linked to the reduction of activity during the COVID-19 pandemic. It is anticipated that next year's results will see an increase as operational and training activity resumes to pre-pandemic levels.

### Fuel use (hundred thousand cubic metres)

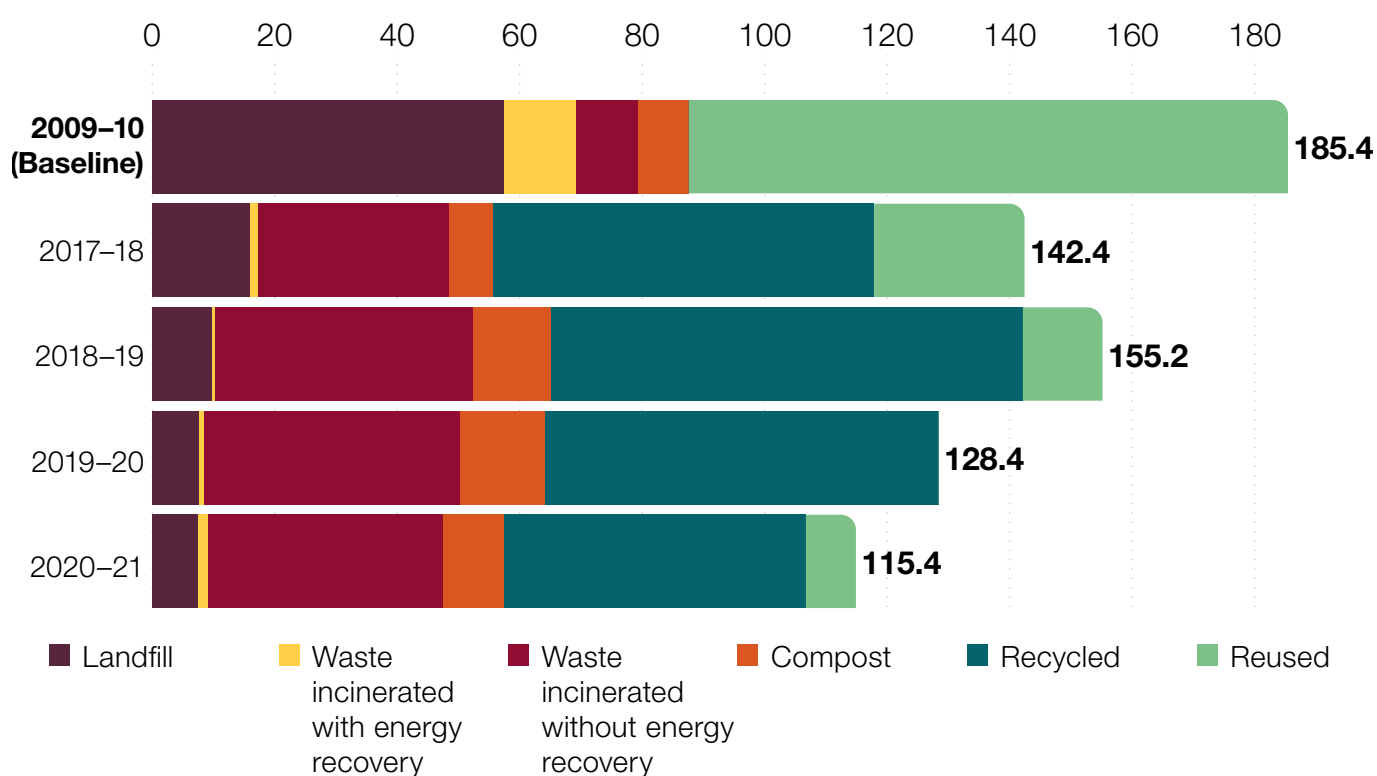


## Waste

*GGC Target:* Reduce the amount of waste going to landfill to less than 10% and continue to reduce the overall amount of waste generated and increase the proportion which is recycled.

**Achieved.** We have achieved recycling of 51% of waste material in 2020–21. 8% of waste was assigned to landfill.

### Waste (thousands tonnes)



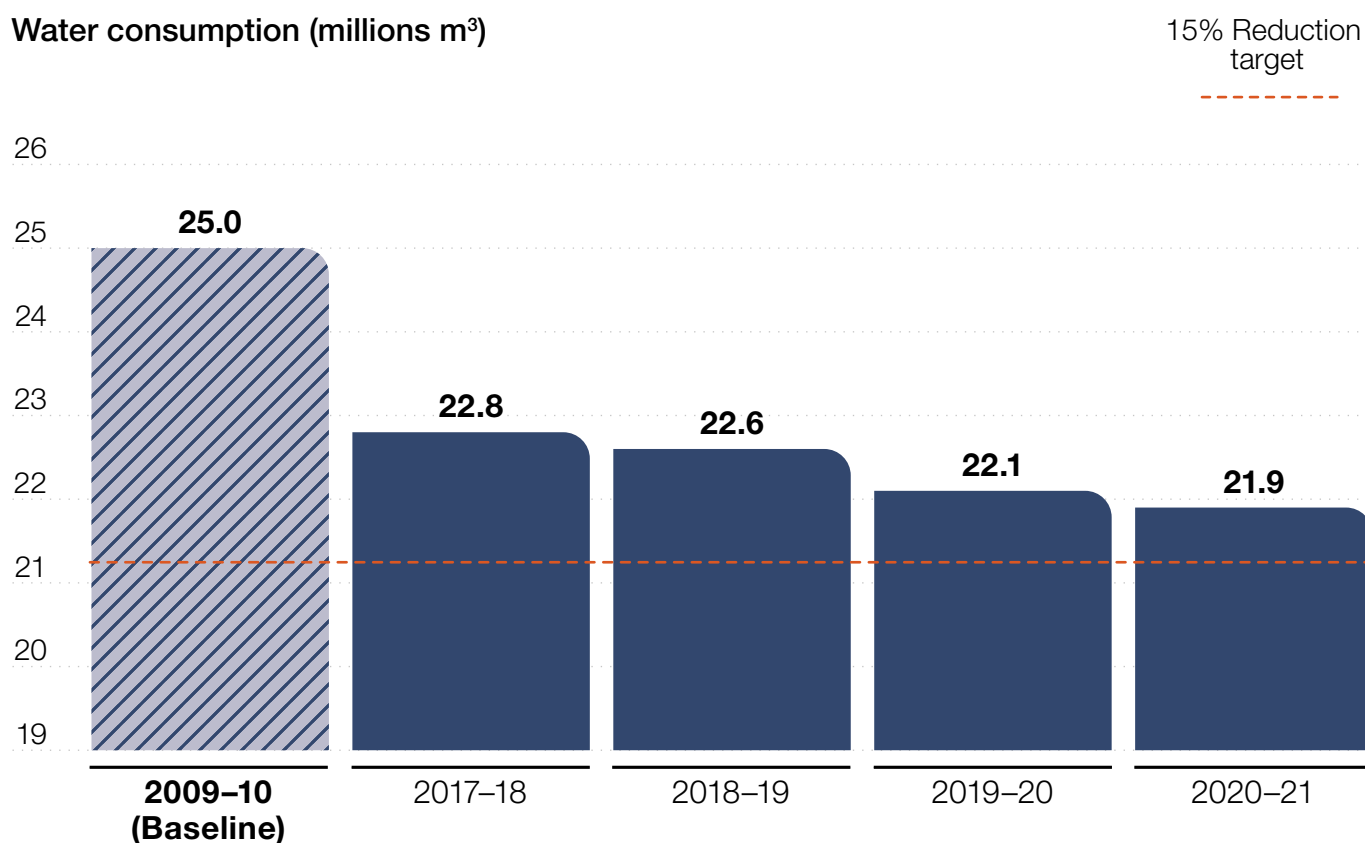
## Water

*GGC Target:* Continue to reduce water consumption

*Internal Departmental Target:* To reduce water consumption on sites on the MOD estate in Great Britain by 15% by 2020–21 against the 2009–10 baseline. **Partially Achieved.** We have achieved a 12% reduction in water consumption in 2020–21 across the MOD estate against the 2009–10 baseline.

*GGC Target:* To achieve Office consumption of less than 6m<sup>3</sup> per full-time equivalent (FTE) member of staff per year. At the end of 2020–21, consumption averaged 9m<sup>3</sup>/FTE.<sup>28</sup>

### Water consumption (millions m<sup>3</sup>)

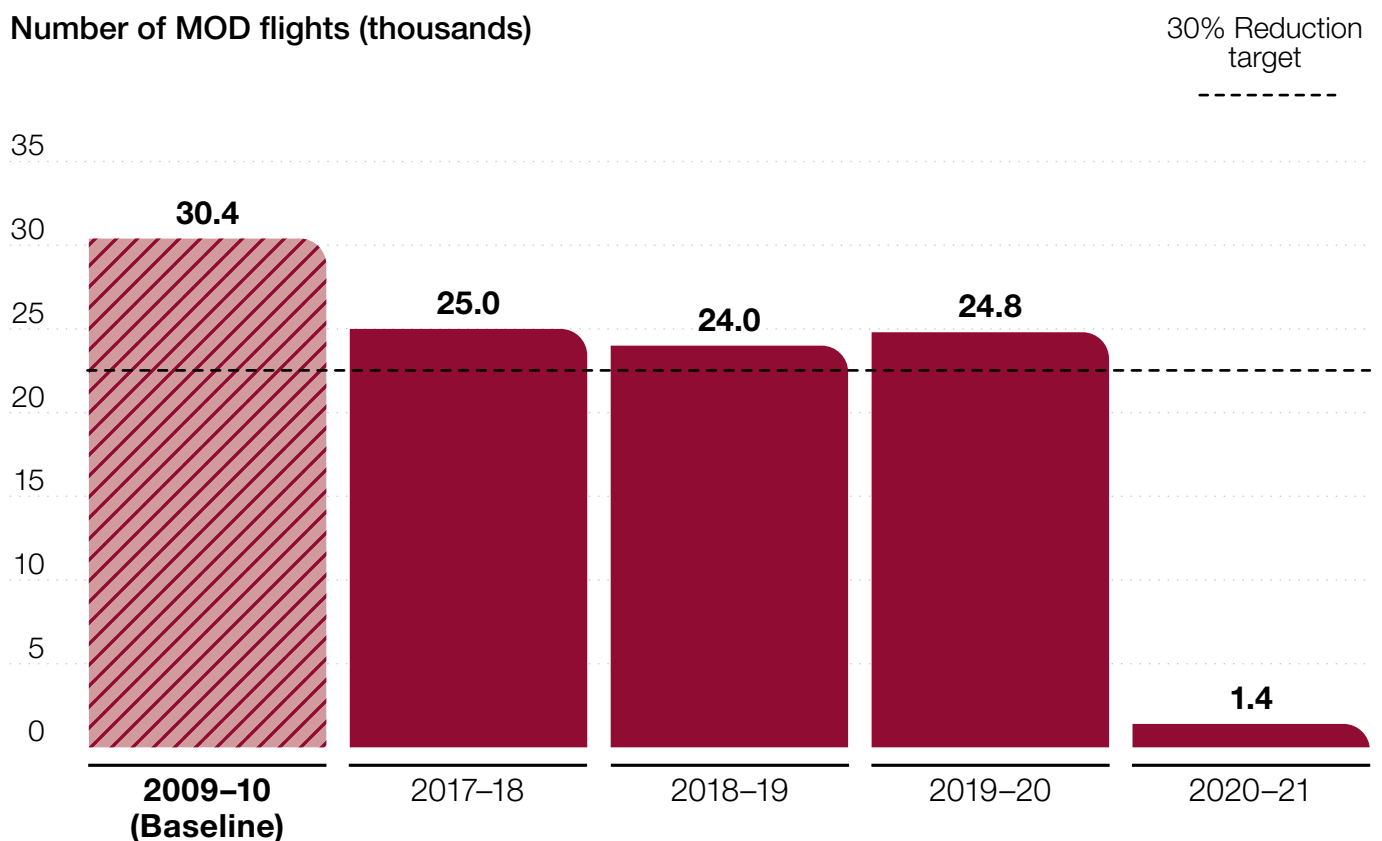


<sup>28</sup> Covers 6 main MOD Office only sites.

## Air Travel

*GGC Target:* Reduce the number of domestic business flights taken by 30% (excluding MOD front line command flights). **Exceeded.** We have achieved a 95% reduction in domestic flights in 2020–21, compared to the 2009–10 baseline.

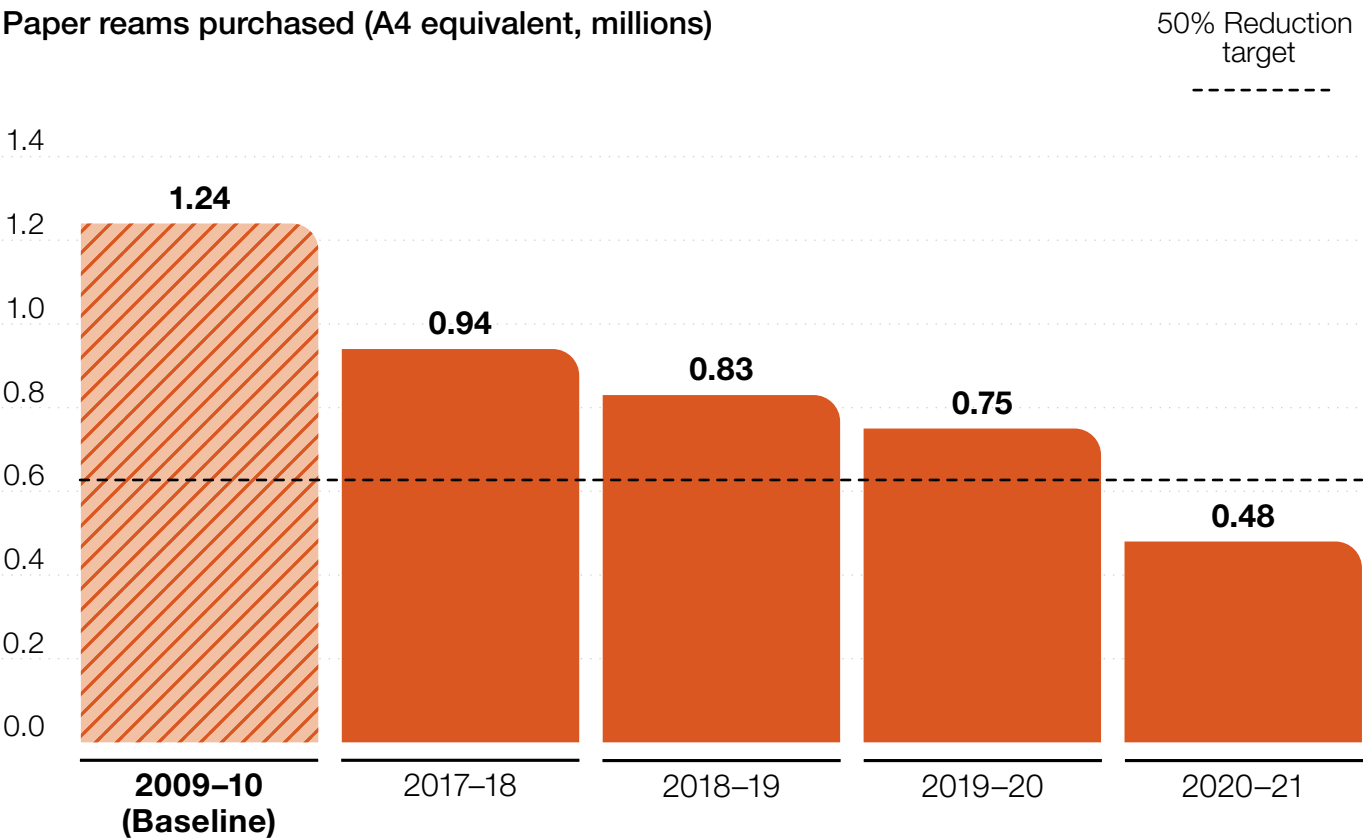
Number of MOD flights (thousands)





Paper

GGC Target: Reduce paper consumption by 50% against the 2009–10 baseline. **Exceeded.** We have achieved a 61% reduction in paper consumption in 2020–21 against the 2009–10 baseline.



## Environmental Sustainability Performance

### Sustainable Construction

MOD is committed to enhancing the sustainability of its built assets. As part of this work Defence's Building Performance Standards are being updated to incorporate higher energy efficiency standards and modern methods of construction to deliver low-carbon assets across the estate.

The Defence Related Environmental Assessment Methodology (DREAM) tool for carrying out environmental assessment on all new construction and refurbishment projects has been updated, to strengthen both the assessment criteria (to better reflect the department's aspirations in areas such as Net Zero and Biodiversity Net Gain), as well as the assurance process. Version 7 of the DREAM methodology was released on 1 April 2021 and can be accessed via <https://www.dreamassess.com/>.

### Climate Adaptation

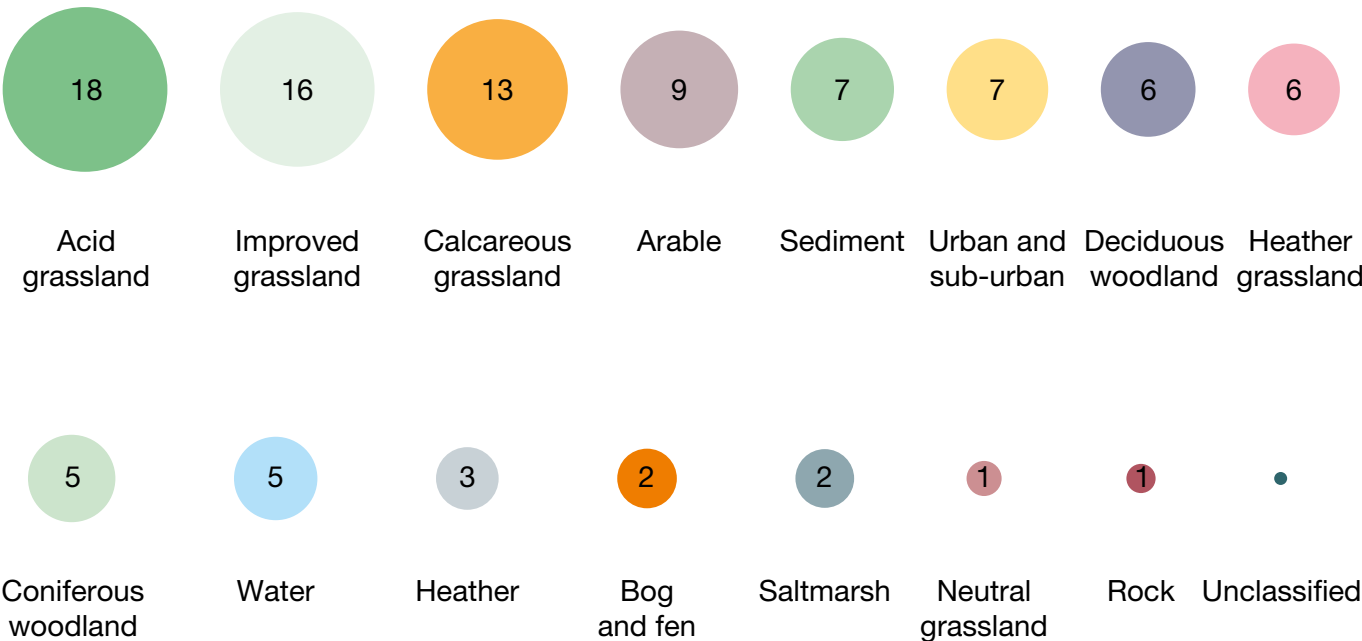
MOD has continued to update its bespoke Climate Impacts Risk Assessments Methodology (CIRAM) during 2020–21 and strengthen climate resilience considerations within policy and decision-making processes. The development of a Statistical Analysis System (SAS) tool commenced during 2020–21 to facilitate the strategic analysis of CIRAM risks, to identify common, shared and strategic risks.

Biodiversity & Natural Environment

The importance of the defence estate for wildlife, heritage and landscape is highlighted by the proportion of the Defence estate that is within protected landscapes. Of the 223,000ha of land that the MOD owns in the UK, 83,805ha (38%) lies within nationally important Sites of Special Scientific Interest (SSSI). The defence estate includes land in 13 different National Parks covering 31,020 hectares; 33 Areas of Outstanding Natural Beauty or National Scenic Areas covering 20,088ha. During 2020–21,

we revised the key policy and guidance documents relating to the natural environment, including making commitments to take a ‘Natural Capital Approach’ and completed a major review and update of the ‘Integrated Rural Management Plans’ for the Defence Training Estate. As part of the CC&S Strategic Approach, by 2035 a natural capital register and modelling tools for the Defence estate will be developed. Emerging statistics on land cover on the defence estate (see MOD Land Cover diagram below) will form a baseline for a Natural Capital Asset database.

MOD Land Cover (%)\*



\*MOD’s 2020–21 land cover types have been rounded to the nearest percent.

## Historic Environment (Heritage)

In compliance with the Department for Culture Media and Sport (DCMS) Protocol for the Care of the Government Historic Estate and its equivalents in Scotland, Northern Ireland and Wales, we have conducted regular condition surveys during 2020–21 on our Scheduled Monuments and Listed Buildings. MOD has 57 assets in the Historic England Heritage at Risk register 2017–19. Further detail for MOD can be found in the Biennial Report into the Care of the Government Historic Estate 2017–19.

To reinforce the progress that we have made in monitoring the condition of our listed buildings and monuments across the Defence estate, we are carefully preserving historical buildings of national significance.

*Table showing the condition of MOD Sites of Special Scientific Interest in 2019–20 and 2020–21*

MOD SSSIs	2019–20	2020–21
Total Area (ha)	82,254	82,292
% in Favourable Condition	46.8%	48.4%
% in Favourable or Recovering Condition	97.4%	97.4%

*Table showing the condition of MOD Listed Buildings in 2019–20 and 2020–21*

MOD Listed Buildings	2019–20	2020–21
Total number	852	839
Good Condition	60%	59%
Moderate Condition	29%	30%
Poor Condition	9%	8%
Unassessed	2%	3%

*Table showing the condition of MOD Scheduled Buildings in 2019–20 and 2020–21*

MOD Scheduled Monuments	2019–20	2020–21
Total number	779	781
Good Condition	38%	38%
Moderate Condition	40%	40%
Poor Condition	22%	22%

## Sustainable ICT

MOD is committed to using Information Communication Technologies (ICT) that improve ways of working and minimise the impact on the environment.

During 2020–21, MOD embarked on the replacement of its Windows 7 desktop estate with Windows 10 laptops issued to employees who have a regular need to access information services. The substitution of corporate desktops with laptops will reduce electricity usage by about 20 million kWh annually. Not only will this realise financial savings to MOD's energy budget, but it will decrease carbon emissions by over 3,400 tonnes per year.

## Case Study

### Cyber Spartan

Army Cyber Spartan was the largest defensive cyber competition ever undertaken by the British military and was hosted by 13 Signal Regiment at Blandford from 27 November – 3 December. The exercise required over 2000 virtual machines which were accessed by 400 personnel in order to develop their defensive cyber skills.

To support the exercise, Defence Digital provided 100 end-of-use computers and 200 monitors for reuse as access devices. In addition, remanufactured laptops from commercial sources were made available on loan for the exercise.

The combination of cascaded device reuse and remanufacture delivered a highly cost-effective training environment for a critical Defence capability, demonstrating the value of developing and expanding a circular economy in ICT across Defence.



### Access and Recreation

The Training Estate has served as essential greenspace during the pandemic, enabling people to enjoy outdoor space in their local area for relaxation and exercise, essential for their physical and mental health and wellbeing.

### Sustainable Procurement

The Sustainability and Environmental Appraisal Tools (SEAT) Handbook checklists are used for identifying sustainability risks and opportunities for estate projects, decisions and procurements. The SEAT Handbook and the scrutiny evidence templates were updated in 2020 to reflect new policy requirements, specifically around Net Zero and Social Value, and have been used to inform the new suite of Regional Facilities Management contracts.

We have continued to refine the Project Orientated Environmental Management System (POEMS) during 2020–21 to enable delivery teams in Defence to identify and manage environmental risks more effectively, whilst sponsor the development of a new suite of online awareness level environmental and sustainability training courses.

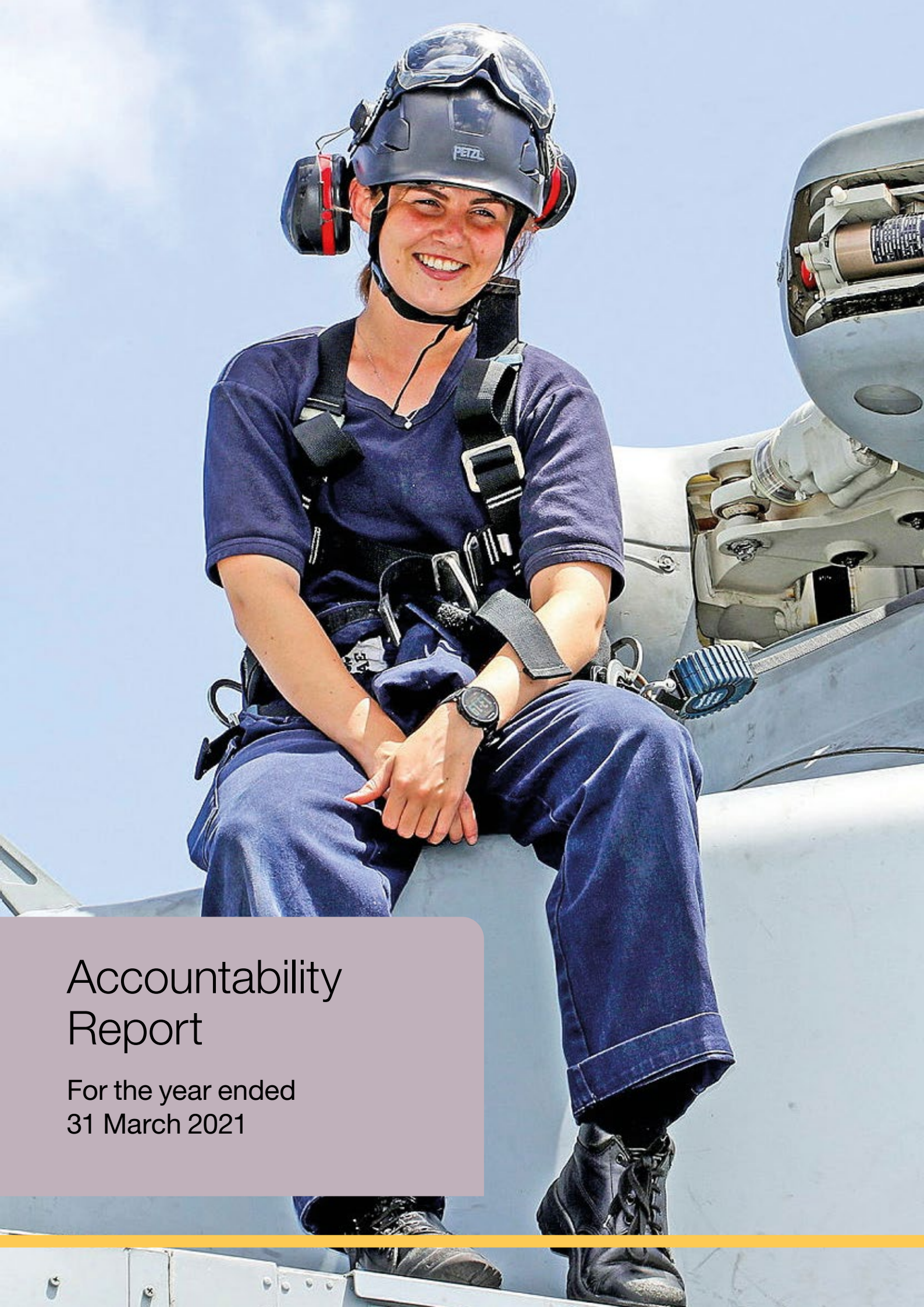
Further information on MODs Sustainable Procurement can be found in the Defra GGC Annual Report.

**David Williams CB**

Accounting Officer

11 January 2022





# Accountability Report

For the year ended  
31 March 2021

The purpose of our Accountability Report is to meet key accountability requirements to Parliament. It is comprised of three key sections:

- Corporate Governance Report
- Remuneration and Staff Report
- Parliamentary Accountability and Audit Report

# Corporate Governance Report

This Corporate Governance Report outlines the composition and organisation of the Ministry of Defence. It provides detail of Departmental governance structures and the way that they support an extensive range of Defence objectives.

It includes three sections:

- Directors' Report
- Statement of Accounting Officer's Responsibilities
- Governance Statement

## The Directors' Report

The Directors' Report includes several disclosures about those who have authority or responsibility for directing or controlling MOD.

## Who We Are

The following tables set out the Ministers and members of the Defence Board, Executive Committee, People Committee (Non-Executive Members only), and Defence Audit and Risk Assurance Committee who have had responsibility for the Department during 2020–21. They also include detail on the number of meetings attended during the year.

Ministers	Role	Defence Board
The Rt Hon Ben Wallace MP	Secretary of State for Defence	6 of 7
Baroness Annabel Goldie DL	Minister of State in the House of Lords	7 of 7
Johnny Mercer MP (to 19 April 21) <sup>1</sup>	Minister for Defence People and Veterans	2 of 7
James Heappey MP	Minister for the Armed Forces	6 of 7
Jeremy Quin MP	Minister of State for Defence Procurement	7 of 7

1. Leo Docherty MP commenced as Minister for Defence People and Veterans on 20 April 2021.

Non-Executive Members	Role	Defence Board	People Committee	Defence Audit and Risk Assurance Committee
Brian McBride (from 1 June 20)	Non-Executive Board Member	6 of 7		
Simon Henry	Non-Executive Board Member	7 of 7		7 of 7
Danuta Gray <sup>1</sup>	Non-Executive Board Member	6 of 7	5 of 5	
Robin Marshall (from 1 June 20)	Non-Executive Board Member	7 of 7		
Laura Whyte	Non-Executive Member		3 of 5	
Helen Miles	Non-Executive Member			3 of 7
Tim Walton	Non-Executive Member			7 of 7
Paul Smith	Non-Executive Member			7 of 7

1. Danuta Gray ceased to be a Non Executive Board Member on the 31 July 2021.

Executive Members of the Defence Board and Executive Committee	Role	Defence Board	Executive Committee (ExCo)	Defence Audit and Risk Assurance Committee
Sir Stephen Lovegrove KCB <sup>1</sup>	Permanent Secretary	6 of 7	21 of 24	4 of 7
General Sir Nick Carter GCB CBE DSO ADC Gen <sup>2</sup>	Chief of the Defence Staff (CDS)	7 of 7	22 of 24	
Admiral Sir Tim Fraser CB ADC	Vice Chief of the Defence Staff (VCDS)	7 of 7	24 of 24	
Charlie Pate	Director General Finance (DG Finance)	7 of 7	24 of 24	7 of 7
Air Marshal Richard Knighton CB	Deputy Chief of the Defence Staff (Financial and Military Capability) (DCDS(Mil Cap))		23 of 24	
Lieutenant General Doug Chalmers DSO OBE <sup>3</sup>	Deputy Chief of the Defence Staff (Military Strategy and Operations) (DCDS(MSO))		21 of 24	
Lieutenant General James Swift	Chief of Defence People (CDP)		22 of 24	
Mike Baker (from 1 April 20)	Chief Operating Officer (COO)		22 of 24	
Charlie Forte	Chief Information Officer (CIO)		24 of 24	
Angus Lapsley <sup>4</sup>	Director General Strategy and International (DG Strat & Int)		23 of 24	
Dominic Wilson	Director General Security Policy		22 of 24	
Vanessa Nicholls	Director General Nuclear (DG Nuclear)		21 of 24	
Prof Dame Angela McLean	Chief Scientific Adviser (CSA)		16 of 24	

1. David Williams CB was appointed as Permanent Secretary on 6 April 2021.

2. Admiral Sir Tony Radakin KCB ADC was appointed as Chief of Defence Staff on 30 November 2021.

3. Lieutenant General Charles Walker DSO was appointed as DCDS (MSO) on the 17 April 2021.

4. Damian Parmenter was appointed as DG Strategy & International (DG Strat & Int) on the 16 August 2021.



## Directorships and Significant Interests

Details of directorships and other significant interests held by Ministers are set out in the List of Ministers' Interests which are available on <https://www.gov.uk/government/publications/list-of-ministers-interests> and the Register of Members' Financial Interests held on the UK Parliament Website at: <https://www.parliament.uk/mps-lords-and-offices/standards-and-financial-interests/parliamentary-commissioner-for-standards/registers-of-interests/register-of-members-financial-interests/>.

Details of directorships and other significant interests held by members of the Defence Board can be found at: <https://www.gov.uk/government/collections/ministry-of-defence-register-of-board-members-interests>

The Department provides information to individuals who hold appointments in outside organisations where a conflict of interest might arise or might be perceived.

## Related Party Transactions & Conflicts of Interest<sup>1</sup>

The names and titles of all Ministers and Related Parties who had responsibilities for the Department during the year, are provided above.

All potential conflicts of interest for non-executive board members are considered on a case by case basis. Where necessary, measures are put in place to manage or resolve potential conflicts.

The Defence Board has agreed and documented an appropriate system to record and manage conflicts and potential conflicts of interest of board members. Where applicable, the board will publish

in this Governance Statement, all relevant interests of individual board members and how any identified conflicts and potential conflicts, of interest of board members have been managed.

Any significant Related Party Transactions associated with the interests of Ministers or Defence Board members, are shown in Note 19 – Related Party Transactions

No Minister, Board member, key manager or other related party has undertaken any material transactions with the Ministry of Defence during the year.

---

<sup>1</sup> Section relates to IAS24 – Related party disclosures.

## Personal Data Related Incidents

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, could 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. Those incidents reported to the Information Commissioner's Office (ICO) are all notified via the MOD Security Incident Reporting Scheme (MSIRS).

The following tables provide details of the Department's personal data related incidents during the year to the 31 March 2021.

### *Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioners Office (ICO)*

Month of Incident	Nature of Incident	Nature of Data Involved	Number of People Affected
May-20	An individual emailed personal data to external organisations and international media outlets.	Identity and home addresses of MOD personnel	147
Jul-20	Images from an incident logbook were posted to social media.	Details of the individual, the injury sustained and how it occurred.	1
Jul-20	Documents prepared for court were not correctly redacted. This disclosed the identity of several individuals involved in a court case.	Identity of the individual, details specific to the court case in question	5
Sep-20	An individual posted documents to a closed social media group.	Details of cadets and adult volunteers.	30
Oct-20	An unredacted copy of criminal allegations was incorrectly passed to the accused in an administrative action.	Identity of the victim and witness statements.	5
Jan-21	A member of the public's question to their MP was accidentally uploaded to the House of Commons website.	Name, location details	1
Feb-21	An email account associated with MOD Schools was compromised for 72-hours.	Details of students and parents	4,142
<b>Total Number of Incidents is 7</b>			

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the ICO but recorded centrally within the Department are set out in the table below.

### *Summary of Other Protected Personal Data Related Incidents*

Category	Nature of Incident	2020-21	2019-20
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	27	49
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	7	19
III	Insecure disposal of inadequately protected paper documents.	2	1
IV	Unauthorised disclosure.	479	454
V	Other.	37	23
<b>Total</b>		<b>552</b>	<b>546</b>



## The 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 these resources, during the year. These accounts are inclusive of the Department's Executive Agencies and its sponsored Non-Departmental and other Arm's Length Bodies (ALBs), designated by order made under the GRAA by Statutory Instrument 2020 No. 17 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 20 to the Accounts). The 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 for the financial year.

In preparing the Accounts, the Accounting Officer of the Department must comply with the requirements of the Government Financial Reporting Manual (the 'FReM') 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 MOD has appropriate and reliable systems and procedures in place to carry out the consolidation process.
- Make judgements and estimates on a reasonable basis, including those involved in consolidating the accounting

information provided by Non-Departmental and other ALBs.

- State whether applicable accounting standards as set out in the FReM have been followed and disclose and explain any material departures in the Accounts.
- Prepare the Accounts on a going concern basis.

Sir Stephen Lovegrove KCB was appointed as the Permanent Secretary and the Accounting Officer of the Ministry of Defence by Permanent Secretary of HM Treasury on 25 April 2016. He continued to discharge his Accounting Officer role until 5 April 2021. David Williams CB was appointed as Permanent Secretary on 6 April 2021, taking on the role of Accounting Officer and is therefore responsible for signing the accounts.

As Accounting Officer for the Department, the Permanent Secretary has appointed the Chief Executives of the Department's Agencies and sponsored Non-Departmental and other ALBs as Accounting Officers. The details of the accountability relationships and processes within the MOD are set out in the MOD Accounting Officer System Statement.

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 Non-Departmental and other ALBs for which the Accounting Officer is responsible, are set out in Managing Public Money published by HM Treasury.

## Accounting Officer Confirmation

Sir Stephen Lovegrove KCB was the Permanent Secretary and Accounting Officer until my arrival on 6 April 2021. I have sought assurances from Sir Stephen to inform my assessment of this statement. 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.

As far as I am aware, there is no relevant audit information of which the Department's auditors are unaware.

The Annual Report and Accounts in its entirety is fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

## The Governance Statement

### Introduction

The Department is required to prepare an annual Governance Statement to describe the organisation's system of internal control, record the assurances received and provide an assessment of the organisation's risk profile and effectiveness in managing those risks.

I am supported in preparing the Governance Statement by:

- Insight into the Department's performance from Internal Audit, including an audit opinion on the quality of the systems of governance, management and risk control.
- Feedback from those senior individuals appointed as Function Leads, Defence Authorities and Top-Level Budget (TLB) Holders, each of whom is required to provide me with an Annual Assurance Report capturing key risks and outlining how relevant controls have operated during the year. These reports are distilled, and an

overall independent assessment is provided by Defence Risk and Assurance (DRA).

- Information from the Department's ALBs on the performance of these organisations and their relevant boards.
- Independent advice from the Defence Audit and Risk Assurance Committee as to the effectiveness of the policies and processes in use in the Department.

COVID-19 has had a significant impact on the way we work in the MOD. As an employer the Ministry of Defence has an obligation to maintain a safe working environment for all personnel. From the outset we put measures in place to ensure staff had access to the tools to enable them to work securely from home where appropriate and ensured that our offices were COVID-19 compliant to provide a safe environment for those returning to the office.

To ensure that all staff are aware of the latest guidance and policy, I and other senior leaders within the MOD are continuing to

hold regular all staff calls so that everyone is able to understand first hand, how our ways of working have to be adapted to the unprecedented situation within which we found ourselves. A dedicated webpage has been maintained to keep staff informed of latest developments and provide guidance and advice on a wide range of policy and personnel issues. To ensure that we protect the Health and Safety of our workforce we have introduced a health and safety escalation policy to allow staff to raise any specific concerns. In line with Government guidelines, a risk assessment is required before any staff members are given approval to return to workplaces.

The COVID-19 pandemic also impacted on our industry partners capability to deliver Defence programmes and activities. We have maintained close communications with Defence Prime Contractors in order to manage this impact. As a result, we continued to meet our contractual obligations, protected Defence outputs and managed and minimised the cost burden placed on the Department. This has included assurances that prime contractors were discharging their responsibilities to second, third and fourth tier suppliers.

The boards and committee structure has remained largely unchanged and has continued to support the Department's Governance regime during 2020–21. The only significant change was the introduction of Performance and Risk Reviews with Commands and Enabling Organisations to provide greater insight on the identification and management of risks. These reviews perform a delegated function of the Executive Committee.

The “Defence in a Competitive Age” Command Paper published in March 2021 as the Defence contribution to the Integrated Review of Security, Defence, Development and Foreign Policy coupled with the unprecedented funding settlement announced in November 2020 places the Department in a much stronger position than previous years. This provides a level of certainty over the structure and funding of the Department from which deep and far reaching business transformation can be delivered. This includes improved Defence-wide planning and accountability, clearer governance and support to functional leadership initiatives. The change in emphasis in becoming more flexible and agile in meeting current and future threats will necessitate some structural changes and these will be pursued during 2021–22.

This Governance Statement represents my assurance to Parliament that, as Accounting Officer, I am satisfied that the Department's aggregated system of internal control is effective. My personal judgement is that over the last year we have continued to deliver improvements to the way Defence is managed and operates. There remain some areas where we have extant control weaknesses, these are detailed in the sections that follow along with the actions we are taking.

## Significant Control Risks

### Workforce and Skills

The ability of Defence to recruit and retain Suitably Qualified and Experienced Personnel (SQEP) in the key areas of engineering, commercial, Project, Programme and Portfolio Management (P3M) remains a challenge. Targeted programmes and improvements

to policies and processes will continue to mitigate this risk to Defence. Focus is also given to cyber and information skills reflecting national demand in these areas. Despite these challenges, our ability to deliver our outputs has not been affected and furthermore, our personnel have successfully supported Government in fighting the coronavirus pandemic.

Several transformational activities are underway which are being managed as a portfolio of work to deliver the People related aspects of the Defence Plan. This portfolio approach ensures coherency across Defence and reduces duplication. It also enables Defence to provide considered responses to existing challenges and emerging opportunities so that our people are supported in the best way possible.

We have made progress to close the existing skills gaps, secure new skills and improve resilience. Work progresses on how Defence can better attract, retain and manage the skills, diversity and talent it needs. We are developing a comprehensive pan-defence skills framework to support our workforce agility, enable more efficient matching of skills demand to supply as well as identifying and addressing skills gaps across the organisation. We are also strengthening our Strategic Workforce Planning to better anticipate and identify the demand for these skills. As part of this we are bringing together some skills (Cyber and medical initially) that exist across all the Services into a Unified Career Management model which will improve the recruitment, delivery and retention of these personnel. We are adjusting how we can better compete in recruitment markets for specialist skills by looking at improving entry

of skilled personnel at different levels. Further, we will undertake a comprehensive review of the military reward and incentivisation package, to ensure that it is fit for purpose in an era of global persistent competition. The review will help us develop a modern military offer for Service personnel that is tailored for different stages of an individual's career and skills. By improving the support given to candidates as they move through the Armed Forces recruitment process, we have increased the number of people starting basic training this year. Finally, the department is taking an active role on a range of cross-Government function initiatives such as those relating to finance, commercial, analysis and digital. In that respect MOD, is helping to drive and shape improvements to function performance.

The Flexible Service Law came into effect on 1 April 2019 with the aim to improve work/life balance. To date, over 300 Service personnel and their families have benefitted from the new temporary part-time working and/or restricted separation opportunities. The three-year Future Accommodation Model (FAM) pilots have now been live for over a year with more than 1,000 Service personnel across HMNB Clyde, Aldershot Garrison and RAF Wittering applying for and receiving more housing choice and financial support under the pilot. We will also publish a revised Defence Accommodation Strategy during Q4 2021–22. Health & Wellbeing (HWB) priorities for 2021 cover physical and mental health; suicide prevention, medical employment process, Defence recovery, women's health, sickness absence, smoking cessation, musculoskeletal injuries, climatic injuries, nutrition and weight management, and mental health and wellbeing. These priorities will be

supported by the new Defence People HWB Strategy 2021–2025 and HWB Plan, which is due for publication during Q4 2021–22.

We continue to modernise the “offer” to new Armed Forces recruits by improved targeting of pay and retention issues and diversity and inclusion. We have worked at pace to address the recommendations in the Wigston report on “Inappropriate Behaviours in Defence” published on 15 July 2019. Danuta Gray published her Progress Report on 8 December 2020, which concluded 34 of 36 Wigston recommendations were either complete or in train and added a further 13 recommendations. We will continue to drive forward progress from the top of Defence and through a new diversity and inclusion directorate; we have appointed a civil servant director to lead the strengthened central team. We have seen continued success with the Bullying, Harassment and Discrimination (BHD) helpline for all in Defence which went live in September 2020, and the online active bystander awareness course which went live in July 2020. The complete policy document on behaviours and informal complaints resolution is due to be published in financial year 2021–22 in conjunction with an updated policy for Service Complaints and Civilian BHD complaint policy. Additionally, an outsourced harassment investigation service is being piloted with the intention of reducing the average time from over 6 months to 6 weeks.

## Management of Change and Transformation

Across the breadth of Defence, we are taking forward an ambitious range of change and transformation programmes of varying

size and scale in order to ensure that our capabilities, both military and business, remain relevant and fit-for-purpose for the future. The ability of Defence to manage business change and transformation across the full breadth of its activities remains a significant challenge that requires focused attention and effort in support of ensuring strategic alignment, driving coherence and managing interdependencies. Alongside the programmes being managed by each organisation inside Defence, e.g. the Front Line Commands and Enabling Organisations, we have established a Defence Transformation portfolio to help manage pan-Defence transformational activity relating to operate, people, empowerment, digital, support and acquisition. The programmes in the Defence Transformation portfolio, while centrally led, require strong engagement and coordination across multiple organisations.

In support of developing our approach to managing the Defence Transformation portfolio, the MOD’s Transformation Directorate, working with Front Line Commands, Enabling Organisations and Functions, has brought together a coherent vision for Defence Transformation, which links with the Integrated Review and Defence Command Paper and has been developed with the support of leaders from across Defence. The Transformation Directorate has also created a Transformation & Innovation Management Information System during 2020–21, building a system that, for the first time, allows Defence to understand the total landscape of its change activity. Informed by this deeper understanding, the Transformation Directorate is now playing a stronger role in supporting the identification and delivery of



mutually reinforcing programmes, optimising planned benefits and decluttering duplicative and competing activities. In support of portfolio delivery, we have strengthened our benefits management framework and introduced standardised management information for tracking and supporting progress at portfolio-level. We have also streamlined governance arrangements, introducing a 4\* leadership group and supporting Transformation Executive Steering Group towards the end of 2020–21 in place of the monthly Transformation Board, Transformation Executive Steering Group and supporting steering groups. The MOD's Finance Committee and Defence Audit and Risk Assurance Committee have also taken a keen interest in Defence Transformation throughout the year, particularly with respect to strategic alignment and benefits realisation.

Supporting all of this, we are investing in the cultural and behavioural changes required in support of effective change and transformation across Defence. Management and delivery of change and transformation requires sustained effort that allows people to respond positively and make a success of resulting opportunities. We are tracking progress and overall demand in support of ensuring that people do not become overloaded with changes and instead have the tools and support that enable a positive response.

During 2020, we commissioned an independent review of Defence Transformation, which confirmed the progress being made and offered a suite of recommendations on how we might strengthen our approach. We have used these recommendations to develop an action plan.

In early 2021 DIA assessed progress against the implementation of the recommendations and found that planned actions were reasonable to address the recommendations raised. Although some implementation dates had slipped, reasonable progress had been made in most areas. However, further improvements in reporting to and oversight by, the Transformation Board were required.

## Business and Financial Planning

In last year's Governance Statement, we reported that we were working towards a sustainable, long-term balance between the available budget and the cost of the Defence Programme. The multi-year Defence settlement, announced as part of the Spending Review in November 2020, confirmed an increase in Defence spending. The Review increased the Defence Budget by £16.5 billion above the Government's previous commitment to increase spending by 0.5% above inflation each year of this Parliament. This represents a cash increase of more than £24 billion over four years compared to last year's budget and average growth of 1.8% above inflation between 2019–20 and 2024–25. This is the largest single increase in defence spending since the end of the Cold War. Alongside the Integrated Review published in March 2021, this will allow us to move Defence onto a sustainable footing and review its priorities and commitments. It comes with some hard prioritisation decisions, but it gives us the opportunity we have long sought to break the cycle of recent years, to modernise Defence and set an affordable multi-year programme.

This is the Department's opportunity to reset Defence's financial position and to break

with the past, and we will ensure stringent financial management across the Department. In our next Equipment Plan report, which we will publish in autumn 2021, we will set out the implications of the Spending Review settlement and the Integrated Review and demonstrate how this has improved the affordability of the department's Equipment Plan.

Several programmes are underway and these will, over the short to medium-term, result in an improved control framework, with streamlined processes which will ultimately enable us to achieve better value for money. These programmes include: Acquisition and Approvals Transformation, the Defence and Security Industrial Strategy, the Transformation portfolio and the implementation of Finance Functional Leadership Programme. The latter is focused on enhancing the capability of the finance function, including increasing the numbers of staff undertaking professional qualifications, designing a revised service delivery model for finance and embedding cultural and behavioural change.

The Project Delivery Function is now almost two years old. It has delivered significant improvements to the project delivery system in Defence. Our Strategy was launched in early 2021 and sets out our collective ambition; it is fully supported by all parts of Defence.

Over the last year we have: established strong cross departmental governance for the function; built a framework for our Senior Responsible Owners, ensuring appropriate appointments and they are supported once in post; set up a new Learning from Experience Function, including a series of

learning events and an online tool for sharing lessons; introduced the Project Delivery Capability Framework and started rolling out the Government Online Skills Tool – this means we can map our professionals and provide talent management and learning. Alongside these new initiatives we continue to provide external assurance of projects, structured learning for our professionals and advice into Defence's most senior project decision-making boards. Throughout the year we have worked closely with the Infrastructure and Projects Authority to respond to Project Speed and Number 10's ambitions for improved project delivery pace and rigour.

We recognise that this along with other areas of Functional Leadership (e.g. commercial and finance) is key to achieving the improvements we require in order to deliver the complex Defence programme.

## Commercial Capability and Governance

The Department has not always had the benefit of an optimum level of commercial skills and experience. The Defence Commercial Function encompasses a community of approximately 2,200 commercial professionals across Defence, embedded within Top Level Budgets and Enabling Organisations. The Function is supported by a central Head Office team and forms part of the wider established Government Commercial Function (GCF) community of 4,000 across Government. In November 2020, the Civil Service Board set a revised target for Wider Government Bodies that all staff at Grade 7 and above be commercially accredited by March 2023. This is alongside the Defence Commercial target that, in order to hold a Commercial Licence,

staff at Grade 7 and above be accredited by June 2022 (and staff at SEO and below by March 2023). We have a comprehensive plan to address this and whilst COVID-19 has had a significant impact on our progress in-year, a complete portfolio of virtual training and assessment delivery has now been developed, and progress against the targets is rigorously monitored through a new monthly Defence Commercial Capacity and Capability Dashboard. Comparison of the Dashboard against an initial 5-year Strategic Workforce Plan will allow us to take interventions, to address any critical gaps. Oversight of the improved management of Commercial capability is now a business-as-usual activity and I anticipate that this will result in a significantly reduced risk for next year.

As reported last year, significant investment is being made in improving contract management capability across Government. The Department supports the pan-government Contract Management Capability Programme (CMCP), offering training and development to all staff who could benefit, non-commercial staff responsible for the management of key contracts and supplier relationships. By April 2021, over 4,000 staff have accredited at Foundation level. The higher levels of training were suspended due to COVID-19 but restarted on November 2020 on a virtual platform. At 1 April 2021, over 90 candidates have been put forward for the new cohorts.

## Strategic Suppliers and the Supply Chain

The Equipment Plan and maintenance of military capability relies on a significant national and international supply chain. Our focus remains on understanding and monitoring supply chain fragility, resilience

and risk, including gaining better visibility of our indirect supply chain and its potential impact on Defence outputs.

Significant work was completed to understand and plan for the impact of EU Exit and COVID-19 and mitigate risks with our strategic suppliers and our extended critical supply chain. We have also invested in a Department wide programme designed to map and understand our most-critical supply chains, invested in new tools and data to better understand supplier performance, actively participated in cross government intelligence sharing and now operate a robust supplier fragility end to end process which has strengthened the governance around monitoring, understanding and mitigating risks in our supply chains. Our Strategic Partnering Programme implementation continues, building stronger and more effective relationships with our strategic suppliers.

We are achieving success in driving policy improvements in areas of Small and Medium Enterprise spend, Anti-Slavery, Social Value, Sustainability and Prompt Payment performance. Further work aims to deliver improved performance and relationships with individual suppliers and our collective engagement with industry. The restructured Defence Supplier Forum is operating effectively under a rationalised number of working groups and this aligns with our vision. This structure is also used to engage with Industry on the Defence Security and Industrial Strategy (DSIS) review and Acquisition Reform.

This will remain a significant control risk until global economies have settled to new normal following the coronavirus pandemic.

## Estates and Infrastructure

### *Condition*

The Department continues to address the consequence of past approaches to the management and funding of the estate. There are approximately 132,000 assets across 1,107 establishments spread globally. Enhanced intelligence has enabled us to improve our understanding of the estate's condition.

Defence's Spending Review settlement has secured the required funding to allow the Defence Estate Optimisation Portfolio to deliver a more cost-effective, modern and capability-aligned built estate, whilst providing additional funding to treat our highest infrastructure risks and to begin to move the estate towards a preventative maintenance regime over the course of the next decade. The funding secured will enable the delivery of new capabilities across Defence. This will allow Defence to modernise living and technical accommodation and will make our estate more efficient to run. It will have a positive impact on the delivery of military capability and significantly improve the lived experience of our people.

On 11 June 21, the NAO published their latest report on MOD's management of the defence estate. Although headline figures depicted missed estate reduction targets, lengthy disposal timelines and a 73% reduction in forecast savings, the report acknowledges recent changes to improve processes and identifies opportunities to reassess requirements and revise targets. In response, the Department highlighted that we have successfully disposed of over 200 surplus

sites, amounting to 1,600 hectares of land and remains committed to maximising use of the defence estate as outlined in the Integrated Review. We will invest £4.3 billion into modern and sustainable facilities over the next decade through the Defence Estate Optimisation (DEO) Portfolio. This is in addition to other Defence infrastructure projects and routine annual maintenance expenditure. We will, of course, carefully consider all recommendations set out in the NAO report.

### *Infrastructure Function*

A new Strategy for Defence Infrastructure (SDI) will be issued during Q4 2021–22 to provide the strategic direction across the Defence estate. These priorities have been distilled down into a set of strategic objectives which will drive the delivery by MOD Head Office, Top Level Budget Holders (TLBs) and Enabling Organisations (EOs) going forwards. We have endeavoured to be ambitious in our objectives but acknowledge that it will take time and resource to achieve them, with the Settlement received following the Spending Review providing a firm foundation to build from. The Deputy Chief of Defence Staff (Military Capability) is responsible for overseeing implementation of the strategy and monitoring progress, supported by the infrastructure Joint Committee (IJC); with representatives from across the Front Line Commands (FLCs) and EOs.

Furthermore, the Infrastructure Function is delivering further improvements to the control framework and assurance mechanisms for the estate and infrastructure operating model. This has seen the development of an Infrastructure Data and Management Information Strategy; the publication of

updated estate policy and the establishment of an Asset Management programme. These developments act as the next step in improving the infrastructure operating model and improvements to infrastructure health and safety compliance data, monitoring, reporting and improvement plans have also been completed.

A Professionalising Infrastructure Plan, aligned to the Government Property Profession, has also been developed to support the career framework of civilian and military personnel working in Defence infrastructure. To date, we have increased Defence personnel membership to the Government Property Profession by 40% and are working closely with the Government Property Profession on the newly launched Property Fast Stream Scheme with fast streamer roles in MOD and we have an active apprenticeship programme. The professionalisation plan is also now being further reviewed to incorporate achievements to date and to ensure that it is well placed to support the professionalisation of both civilian and military personnel within the infrastructure function.

### **Service Accommodation**

Over 97% of UK Service Family Accommodation (SFA) is now either at, or exceeds, the Decent Homes Standard with no properties allocated below that standard. We continue to invest in improving SFA and the additional £199.83 million over two years, announced by the Chancellor in July 2020, will deliver improvements quicker with £122 million of it being spent on SFA. In total, we invested significantly more this year (£160 million v £123 million), plus £31 million invested in the purchase of new homes in areas with

insufficient housing stock, bringing the total invested over the last 3 years to c£400 million (or £500 million including house purchases). We also plan to make substantial investments through the coming decade into Single Living Accommodation (c.£1.5 billion the next over decade), matching this to the expectations of our personnel both now and in the future. The investment into accommodation will complement changes under the Future Accommodation Model programme, which will provide greater choice for where, how and with whom our personnel live, and will be underpinned by a new Defence Accommodation Strategy.

The Department continues to focus on the recommendations from the Public Accounts Committee Report on Military Housing in June 2019 to provide greater housing choice (through the Future Accommodation Model), widening eligibility, managing the SFA estate more efficiently and focusing on the Annington Site Rent Review to deliver the best outcome for Defence and personnel across the estate. The Department is currently refreshing the accommodation strategy and will take the opportunity to use that to inform a new void reduction date target. The Department is on track to publish the strategy in Q4 2021–22 and will write to the Committee of the specific void reduction date following the publication of the strategy. The target is to reduce the number of voids to 10%.

### **Contract Management**

Defence recognises the need to adapt facilities management across the estate to enable assets to move towards a more proactive Planned Preventative Maintenance (PPM) regime. The Future Defence



Infrastructure Services (FDIS) Programme will change how facilities management is delivered and supports this transition to deliver facilities management services for the Defence estate going forward as it provides flexible contracts that access a broader, more diverse, supply base. As the largest facilities management (FM) procurement within Europe at this time, FDIS will enable the transformation of the delivery of hard FM services across the UK Defence estate.

Throughout the procurement process, several areas were identified for improvement using lessons learned from the previous Next Generation Estate Contracts (NGEC). This has resulted in FDIS building in improvements such as the use of industry best practice standards for planned maintenance, more streamlined processes for the delivery of low value works, greater use of technology and better quality and availability of asset data to inform improved decision making and support better management of the Defence Estate.

There will be an enhanced and more robust supplier performance management regime, should service failures occur. A new performance management regime, where the payment of tiered profit levels, based on the attainment of deliverables, will be used to incentivise higher levels of performance. Indeed, suppliers will be required to fix at least 85% of issues on their first visit for FDIS accommodation contracts to achieve service efficiency and minimise disruption to service families. In addition, suppliers will be paid on a price per home basis rather than price per visit. This is an approach which is proven in the wider housing sector to incentivise the contractor to undertake simple preventative

maintenance, thus reducing the number of reactive failures and minimise disruption.

## Health, Safety and Environmental Protection

While the Health, Safety & Environmental Protection (HS&EP) governance processes have been established and Defence leadership has made significant progress, Defence suffered four safety related fatalities in 2020–21 and the longest period Defence has ever achieved without a fatality is 278 days, between January and October 2020. As such, there is still extensive work needed to ensure safety remains at the heart of our leadership decisions and to set a consistent ‘tone from the top’ based around a common goal of striving to achieve our vision of eliminating fatalities attributable to failures in safety management.

The safety and wellbeing of all our military and civilian personnel remains paramount in all aspects of Defence activity. This commitment is set out in the HS&EP Policy Statement issued by the Secretary of State for Defence. In addition, the Policy Statement sets out the MOD’s commitment to protection of the environment.

In July 2020, the HS&EP Functional Strategy was published. The Strategy was followed by an Operating Model which was approved and published in September 2021 and defined leadership and governance arrangements for HS&EP. It also details how the HS&EP function contributes to the overall outputs of Defence and sets the policy framework to make sure Defence operates safely, in line with the Defence Plan.

The Defence Safety and Environment Committee (DSEC) provides governance and is the principal forum for reviewing and directing policy and overseeing risk and performance. DSEC has now expanded to meet four times a year, to enable oversight of Climate Change and Sustainability (CC&S). At its meeting on 25 March 2021, DSEC commenced a forward strategy of overseeing DSEC member organisations' plans to manage their top 8 HS&EP risks and pathways to achieve full safety assurance, including achieving substantial assurance by March 2022. This forward strategy has allowed DSEC to become more proactive in its oversight of both risk and the management of continuous improvement.

Work continues to improve shortfalls in health and safety management information. D-HS&EP is now able to provide up-to-date, assured data on a monthly basis and work is ongoing to improve reporting systems across Defence. This has allowed for more targeted activity to be undertaken, with the focus this year being upon the reporting of near misses. The Defence Unified Reporting and Lessons System (DURALS) is now being trialled within the Army and UKStratCom, with plans to roll out to other Commands later in the year.

An important element of our HS&EP governance is the role of the Defence Safety Authority (DSA), which provides independent regulation and assurance. The DSA Charter confirms the DSA's independent status and ability to challenge Defence institutions to improve the safety of our people. The DSA also carries out independent Service Inquiries into serious incidents,

providing reassurance to individuals, families, the Department and the public that lessons will be identified, and failings corrected. D-HS&EP and DSA are collaborating on a five-year risk-based rolling assurance plan, which will provide independent assurance that HS&EP policy and Safety & Environment Management System (SEMS) are in place, being followed, and are making a difference at the front line.

Alongside the DSA, our relationship with the Statutory HS&EP Regulators is critical to ensuring the Department's policy reflects international best practice. A new Memorandum of Understanding was agreed with the Health and Safety Executive (HSE) in December 2020, and a similar agreement will be made with the Environment Agency.

The MOD Permanent Secretary commissioned a review into the health and safety concerns raised by noise and vibration issues encountered during trials of the Armoured Cavalry – Ajax programme. The review report was published in December 2021. Overall, the report makes 20 recommendations. The MOD accepts all of those relating specifically to armoured vehicle procurements, the regulation of safety for land equipment and the broader approach to safety in Defence.

## Cyber

The Department has an extensive portfolio of military systems and capabilities which, if attacked by a cyber threat actor, could compromise our ability to protect and defend the UK and her interests. As a result, the active management of Cyber Risk is a key

priority. Our response is actively managed across the Department ensuring that there is transparency to the underpinning drivers of risk and actively managing mitigation actions with rigorous oversight and governance. In the last year we have introduced a Cyber Resilience Programme which, alongside the established Defensive Cyber Operations Programme, is creating a proportionate, defence in depth, approach across the Defence enterprise from the frontline to the supply chain.

The actions in place are improving our skills, management process and technology base and we have implemented a new controls framework which establishes clear compliance expectations and measures across all the Department. We have also strengthened our risk assurance with the introduction of two audit-based compliance checks: one focussing on MOD Business units and the second on our supply chain. COVID-19 led to a significant uplift in remote working and in meeting this increased demand we introduced new technical and process controls to improve protection and monitoring. Remote working has heightened the need for improved cyber security culture and an enduring programme of cyber awareness activities has been implemented. We continue to work in partnership, with our colleagues across government, allies and industry, to understand and strengthen supply chain cyber security to ensure our new military capability is “secure by design”.

We believe we have an approach which balances investment, protection and collaboration, allowing us to deliver effective, current and enduring responses against a

dynamic risk profile. As new normal working practices are established and the Cyber Resilience and Defensive Cyber Operations programmes deliver results, we will review whether this remains a significant control risk.

## Management Information

The Defence Command Paper highlights the importance of utilising data as a strategic asset across Defence to support a step change in the exploitation of game changing digital opportunities. This theme has featured as a core component of the Integrated Review and has led to the establishment of a multi-year investment programme to modernise our core digital capability. The creation of a singular Defence Digital Backbone will progressively enable more effective access, integration and use of data across domains, with HMG, industry partners and Allies and support the faster paced delivery of new digital applications at scale. The Digital Backbone will modernise the core digital enablers in people, process and technology and delivery requires a strongly co-ordinated and integrated pan-Defence approach, with action taking place in a federated manner across the Commands, Enabling Organisations and Functions. The programme will ensure that we cohere and organise our data so that it is understood, catalogued and available for analysis, integration and use wherever it is needed. This will be supported by a modern, common and cloud-based IT infrastructure that drives free information flows and new levels of platform integration. We will continue the ongoing upskilling of our workforce via training and recruitment to ensure access to the specialist talent we need and will consider whether this remains a significant control risk.

## Business Resilience

Last year we reported that improvements in resilience had been integrated into Defence Planning and a new Security and Resilience governance structure was embedded, ensuring effective oversight of this risk area. With the United Kingdom's response to the COVID-19 pandemic accelerating in March 2020 our business resilience was put to the test in the most exceptional of circumstances and proved broadly effective. Like other Government departments, MOD is reviewing its resilience to the various threats and hazards identified in the National Security Risk Assessment.

## IT Obsolescence

IT obsolescence affects system support, safety, performance, reliability, through life costs and limits our ability to fully exploit information. A number of themes contribute to the Department's obsolescence challenge: rapidly changing technology and shorter lifetime of components; systems running beyond their planned out-of-service date; and, the increasing need to manage the Defence estate as a single entity with strong inventory management operations processes that deliver on shorter cycle times. As part of the digital function transformation we continue the process begun in 2019–20 to progressively modernise our technology and to reset our risk management and controls to ensure we focus on the areas of highest risk. We are establishing clear compliance expectations and measures as part of the common architecture and cyber risk initiatives which, alongside the establishment of the Digital Backbone, will pro-actively drive the progressive modernisation of our portfolio. These new

processes will ensure that existing capability programmes are compelled to address legacy obsolescence while new investment controls will ensure new programmes are subject to more stringent technical design authority scrutiny, ensuring through life management plans are in place from the outset and with evergreening where appropriate. This topic will remain a priority for increased investment in technology, management process maturity and skills uplift as we build a modern and secure digital backbone on which we intend to exploit digital for transformed military and business outcomes.

## Physical Security of Assets and Infrastructure

Governance of the security of assets and infrastructure and the effectiveness of performance assessment arrangements has continued to improve, enhancing oversight of threats, risks and mitigating actions. Adherence to HMG's Security Policy Framework for Physical Security Guidance provides the Department's overarching framework, supported by Counter Sabotage and Operational Resilience Surveys to accurately identify critical assets and assess the quality of the security protecting them. Our security policy has been updated, the use of a Guarding Assessment tool provides consistency to how we guard our sites and new assurance and regulatory teams are operational and continue to improve how we protect our critically important assets and infrastructure. Our security policy has been updated and new assurance teams are operational. Cognisant of National Security, we do not intend to report on this security risk next year.

In June 2021, The Department reported that a number of classified documents had been lost by a senior official and handed to the BBC. A subsequent investigation confirmed the circumstances of the loss, including the management of the papers within the Department, the location at which the papers were lost and the manner in which that occurred. These were consistent with the events self-reported by the individual. We are confident that we have recovered all the SECRET papers. The investigation found no evidence of espionage; and has concluded there has been no compromise of the papers by our adversaries. The individual concerned has, nevertheless, been removed from sensitive work and had their security clearance suspended. The Department takes protection of its information extremely seriously and will continue to take firm action in response to such incidents.

## COVID-19 Pandemic

We recognise the continuing impact of the COVID-19 pandemic on the Department and the United Kingdom – the long-term effects, particularly outside the UK, will endure for several years. We continue to protect our people, particularly those who cannot work from home, through changes to working practices, provision of PPE and the creation of several options for testing. At all times, we have been in lockstep with wider government policy. Although some activity has been curtailed, critical Defence outputs have been maintained throughout and we anticipate a gradual return to normal business through 2021–22. We have continued to provide a range of support to the wider Government response. Over the last year this support has included assisting with PPE where appropriate

and the provision of options for testing units, Nightingale Hospitals and providing military vaccinators. Additional unforeseen costs have been, and will continue to be, incurred. This is due to adjusting our working practices including providing more and better mobile IT, also in overseas deployments where the additional quarantine requirements, outbound and inbound, are resource intensive. Whilst we learn lessons every day as the pandemic evolves – assessments thus far show we have been successful and agile in delivery. While decreasing, this remains a significant control risk.

## National Audit Office Management Letter

The NAO Management Letter on the audit of the 2019–20 MOD financial accounts continued to report a relatively high level of audit sample error (15%), although this represented an improvement on 2018–19 (22%). The errors reflect enduring weaknesses in the management of the Statement of Financial Position within the Department. The finance function has introduced a number of procedural improvements during 2020–21, including more effective and timely asset verification and asset re-classification, on entry of programmes in to service. Statement of Financial Position accounts submissions from business units are also now supported by documented, senior level management review. These actions were informed by a lessons learnt exercise on the outcome of the 2019–20 audit. In a broader context, improved financial capability is being delivered through the Finance Functional Leadership programme which is a significant business transformation initiative being progressively rolled out over a 3 to 5 year period.



The Finance Committee regularly reviews financial accounting and audit risks and issues. This included examination of the 2019–20 audit lessons learnt exercise. A Financial Functional Leadership Programme Board has also been established to monitor delivery of finance function business transformation.

A further lessons learnt activity is being conducted to address the findings from the 2020–21 accounts audit. It is noted that whilst the volume of sample errors (5%) has shown further substantial reduction, the value of reported errors demonstrates further scope for improvement.

The Departmental accounts remain the subject of a long-standing audit qualification for historic non-compliance with lease accounting standards.

## Accounts Qualification

The Department has not complied with the IFRIC 4 requirement in the Financial Reporting Manual to assess its supplier arrangements, to determine whether they have the characteristics of a lease and if so to classify leases as operating or finance leases, in accordance with IAS 17. The Department has previously decided, with the support of HM Treasury, not to implement IFRIC 4 for existing contractual arrangements, as it does not represent value for money, given

the complexity, time and considerable costs involved in doing so.

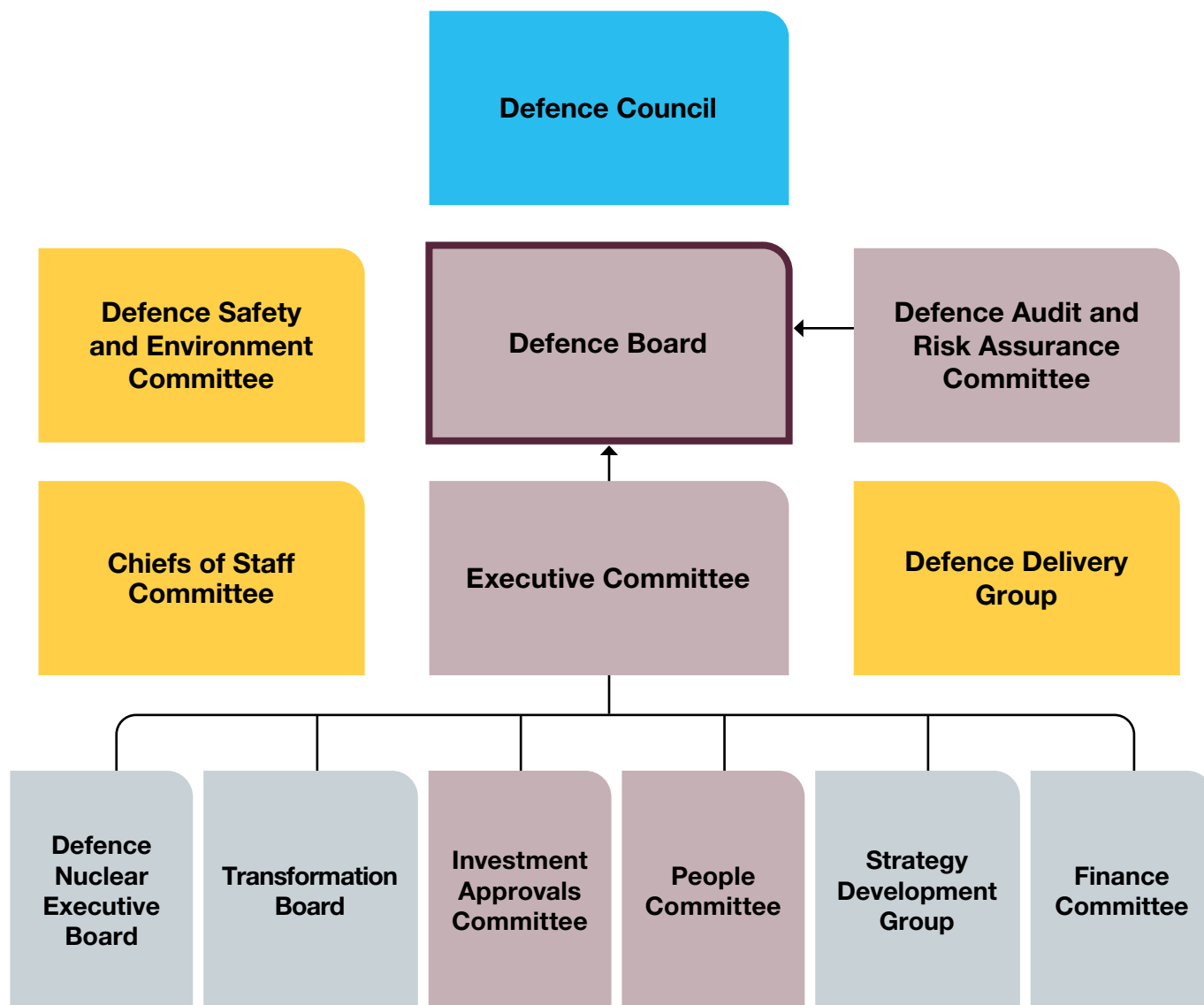
However, the Department is seeking to address this long standing issue through full adoption of the new lease accounting standard (IFRS16). The Department is currently delivering an implementation programme with formal adoption of the new standard commencing from April 2022 – which is the HM Treasury mandatory date for adoption by public bodies. Significant progress has already been made with lease assessments and where appropriate, lease valuations completed for all of our major contracts/sites. Further work is planned over the remainder of 2021–22 to fully embed new processes, including consideration of leases in financial planning, in-year management and approvals. Further details are included within Note 1 of the Annual Accounts.

## Governance Framework

Defence is a complex enterprise involving multiple organisations with a legitimate requirement to be consulted and involved in decision making. Its governance architecture is therefore more complicated than some other departments, but necessarily so.

The diagram that follows details the MOD Board structure and its sub-committees.

### Defence Board Sub-Committees and the Executive Committee



**Standalone advisory bodies**



**Formal subcommittees of the Defence Board**

Not all other committees are shown, but all will escalate their business to and formally report to, ExCo.

Further information on the Governance and structure of the MOD can be found at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/920219/20200922-How\\_Defence\\_Works\\_V6.0\\_Sep\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/920219/20200922-How_Defence_Works_V6.0_Sep_2020.pdf)

## Defence Council

Created by Letters Patent in 1964 and is essential to the legal functioning of the MOD. Via powers of prerogative, it gives the Secretary of State the ability to administer and command the Armed Forces by the Service Boards.

### Membership

Chaired by SofS, attended by Defence Ministers, Perm Sec, CDS, VCDS, the Service Chiefs (heads of the Armed Forces) and DG Fin.

### Frequency

As requested by the SofS

### Summary of discussions

Defence Council did not meet during 2020–21.

## Defence Board

Provides top-level strategic leadership of the Department, focusing on strategy and plans for generating military forces, including financial planning, performance against those plans, and risk.

### Membership

Chaired by SofS, attended by Defence Ministers, Perm Sec, CDS, VCDS 2nd PUS, DG Fin, Lead NED and 3 NEDs.

### Frequency

6–8 times per year on alternate months

### Summary of discussions

Reviewed strategic risks at the start of the year and received regular reports, combined with risk profile and the shorter term delivery risks to the current Defence Plan. Maintained visibility of the key risks being managed by the TLB Holders and Defence Task owners.

## Defence Audit and Risk Assurance Committee

Reviews and challenges the Department's approach to internal control and provides independent advice both to the Defence Board and Permanent Secretary as the Accounting Officer, on the effectiveness of the policies and processes in use. Main focus is to assure the integrity of financial reporting and effectiveness of risk management. Provides assurance that financial reporting, systems, risk and internal controls and processes are designed effectively and are operating as they should. Identifies a small number of activities for deeper dives each year, in support of this process.

### Membership

A Non Executive Director Chair who is a member of the Defence Board, 3 Non Executive Directors.

### Frequency

6 times per year

### Summary of discussions

There was renewed focus on the Department's commercial programme, specifically Project Delivery and the Acquisition process, in addition to the wider Transformation work and Fraud and Corruption. There were also detailed discussions on Financial Assurance, Infrastructure and high-level Departmental Risks, including Digital and Cyber security. Reviewed the Departmental Annual Report and Accounts, Governance Statement and progress of key audit issues. The Committee was satisfied that the Governance Statement reflected the aggregate assessment of assurance from the TLB Holders, Defence Authorities and Functional Owners.

## Executive Committee

Provides top level leadership across Defence, as a Department of State, by: Owning the operating model of Defence and managing its risks; Agreeing plans for delivery of defence objectives; Ensuring coherence; Leading transformation.

### Membership

Perm Sec (Chair), CDS, VCDS, MOD Directors General, DCDS (Mil Cap), DCDS (Mil Strat Ops), CSA, CIO, CDP.

### Frequency

Fortnightly  
(except August)

### Summary of discussions

Made key decisions on cross cutting issues including the COVID-19 response. Also discussed were the main elements of the Single Departmental Plan, Corporate and Future Defence Business Services, Diversity and Pay.

## Investment Approval Committee and Investment Approval Committee (Nuclear)

Responsible for considering major investment proposals on behalf of the Defence Board.

### Membership

**IAC** – DG Fin (Chair), VCDS, COO, DCDS (Mil Cap), CSA, CIO, 2 NEDs one of whom is a serving senior civil servant (for in-committee cases only).

### Frequency

6 times per year

**IAC (Nuclear)** – Perm Sec (Chair), DG Fin, VCDS, DCDS (MilCap), CSA [Currently delegated in whole to CSA (Nuc)], DG Strat & Int, Non-Exec Director drawn from Defence Board (for in-committee cases only).

### Summary of discussions

During 2020–21 the IAC considered a broad range of projects, including: Future Maritime Support Provider, Type 26 Frigate, Challenger 2 Life Extension Project, Collective Training Transformation Programme, Project ABEL (General Munitions), Global Bulk Fuels Service, Skynet 6A, Business Modernisation for Support, Defence Digital Transformation, FCAS-TI, Wraparound Childcare and the Typhoon European Common Radar System. IAC (Nuclear) was established in February 2021 to specifically consider projects related to the Defence Nuclear Enterprise.

## People Committee

Provides Departmental direction, guidance and oversight on all strategic Defence People matters including Defence Task 11 (deliver a skills-based, agile, diverse, inclusive, motivated and efficient workforce). Holds the Chief of Defence People (CDP) to account for leadership of the People Function and execution of the People Strategy, which guided input to the Integrated Review and will continue to oversee people transformation for the Defence Board.

### Membership

A Non-Executive Director Chair who is a member of the Defence Board, CDS, Perm Sec, VCDS, CDP, DCDS (Mil Cap), COO, DG Fin and one non-executive member.

### Frequency

6–8 times per year on alternate months

### Summary of discussions

The PC continues to conduct deep dives into programmes including the Future Accommodation Model and the Implementation of the Wigston/Danuta Gray Review. The near-term focus will be delivering a coherent Diversity and Inclusion programme, strategic implications for people of the Integrated Operating Concept and the Spending Review, and Reserve Forces 30 Implementation.

## Strategy Development Group (SDG)

The forum in which the Permanent Secretary and Chief of the Defence Staff shape the Department's approach to issues of strategic importance for Defence and develop advice to the Defence Secretary on these matters.

### Chaired by

Perm Sec & CDS (Co Chairs).

### Frequency

Monthly (except August)

## Transformation Board

Governs the scope of pan-Defence transformation activities across six cross-cutting transformation sub-portfolios relating to Operate, People, Empowerment, Digital, Support and Acquisition.

### Chaired by

COO.

### Frequency

Monthly

## Defence Nuclear Executive Board

Deals exclusively with nuclear related matters, provides a forum to oversee and assure the delivery of Continuous at Sea Deterrence (CASD) and the associated Defence Nuclear Enterprise on behalf of the Defence Board. As part of the assurance function the chairs hold to account DG Nuc for the delivery of the Defence Nuclear Enterprise, and the First Sea Lord and the Second Sea Lord for the delivery of CASD and the in-service elements of the Enterprise. DNEB is a sub group of the Defence Board.

### Chaired by

Perm Sec & VCDS (Co Chairs).

### Frequency

Monthly



### Finance Committee

Ensures delivery of a balanced budget and coherent programme, supporting DG Finance as Finance Function Owner in overseeing effective financial management. It is the key forum for Finance Directors and senior Head Office finance staff to discuss and agree actions on strategic financial management issues and other finance matters, supported by a monthly Management Information pack, the single version of MOD's financial performance.

#### Chaired by

DG Fin.

#### Frequency

Monthly

### Defence Safety and Environment Committee

The Defence Safety and Environment Committee (DSEC) is the principal forum within Defence responsible for the governance of Defence for Health, Safety & Environmental Protection (HS&EP) and Climate Change and Sustainability (CC&S).

#### Chaired by

Perm Sec.

#### Frequency

4 times a year  
(Quarterly)

### Chiefs of Staff Committee

Brings together professional and informed military judgment to the core decision making processes in the Department. Principal means through which the Chief of the Defence Staff (CDS) gathers the collective military advice of the Service Chiefs in advance of other governance meetings in CDS's role as the professional Head of the Armed Forces.

#### Chaired by

CDS.

#### Frequency

Fortnightly  
(except August)

### Defence Delivery Group

Established to engage all relevant stakeholders, not just TLB Holders, and develop mutual understanding of priorities and planning, to provide context, to collectively hold to account those responsible for delivery, and to help drive transformation.

#### Chaired by

Perm Sec & CDS (Co Chairs)

#### Frequency

Monthly (except August)

## Report on Board Performance by the Lead Non-Executive Defence Board Member

*The MOD faced some significant challenges during the 2020–21 financial year. The impact of COVID-19 forced the Department to adopt new ways of working, which was a significant cultural and operational change, whilst supporting key government programmes such as mass testing and vaccination rollout. In parallel Defence also helped to facilitate the UK's departure from the EU at the end of 2020 whilst simultaneously formalising the Integrated Review (IR), the most comprehensive review of the UK's security and military strategic posture in the last five years. The implementation of the IR will require the Board and its Non-Executive Directors (NEDs) to properly hold the Department to account to ensure it invests in the right capabilities, within the agreed settlement to ensure the continued security of the Union over the coming decade.*

*Over the past year the Defence Board has focused on key risks facing the Department, with a renewed focus on performance and routine updates on the more traditional forms of business such as operational outputs and fiscal reporting. The Board discussed in detail a number of key issues including; Safety, Industrial failure, sustainment of operations and cyber strategy. The main focus over the last six months has been the implementation of the IR, coupled with a historic Spending Review settlement and subsequent planning that will shape the Armed Forces for the foreseeable future. The Board has supported the development of proposals during this time and been routinely updated on progress up to formal agreement.*

*I joined the MOD during a period of immense change. Over the first year of my tenure as the lead Non-Executive I have been struck by the size and breadth of issues the Department deals with on a routine basis whilst also stretching itself to absorb new tasks and challenges against the backdrop of the pandemic. It is clear that those working within Defence have a passion for what they do and work hard in the face of many challenges. I'm pleased that the Defence Board has been able to meet routinely over the past twelve months, supported by the Board's Committees (Audit & Risk, People, Investment Approvals) which have continued to function effectively with full Non-Executive Director (NED) involvement. NEDs continue to have very significant interaction with the Department's Executive Committee and have been involved in supporting senior colleagues (both civilian and military) across a wide range of topics. I was pleased to also welcome a new NED colleague to the Board in 2020, Robin Marshall, who will make a great addition to Defence and brings with him a wealth of knowledge and expertise.*

*The Department must now embark at pace to deliver the commitments made within the IR and Defence Plan 21 and beyond. NEDs will look to support, advise and play their part in this delivery process. The task in hand will be challenging given the size of investment, the complexity of the MOD governance structure and the need to embed new ways of working post COVID-19. That said I am confident given my interactions so far that the MOD is well placed to meet these objectives, under the leadership of a new Perm Sec with a future-focused operating model that will seek to drive the Department forward over the years ahead.*

**Brian McBride**

## Review and Challenge

There is a cross-government requirement to conduct an Annual Board Effectiveness Review. The MOD review was postponed until after the March 2021 Defence Board meeting, in order to allow two newly appointed NEDs the time to attend a sufficient number of meetings and to develop an understanding of how the Board works.

There has been an overall downward trend in the effectiveness scores for the Defence Board when compared to last year. This reflects challenges that COVID-19 has brought, with little opportunity for the Board members to meet in person, as well as the arrival of two new NEDs, who have brought with them a fresh set of eyes and challenge. The impact of all these issues can be seen most obviously in the scores for new member induction, quality of papers going to the Board and the supporting management information that it receives. There is work underway in all these areas to address the shortcomings, but it is clear that significant improvements are needed, with a step-change in how the Board operates. Despite the challenges that the Board has faced, it has nonetheless taken a wide range of papers during the year which covered both strategic and delivery challenges. Alongside the regular risk and performance updates and the Integrated Review planning and implementation, the Board has discussed issues ranging from the challenging workforce planning outcomes from the Spending Review, capability delivery challenges such as cyber, and the MOD Climate Change Strategy.

To prevent group-think and to ensure challenge is embedded in the heart of the business, a number of senior Boards and Committees within Defence, including the ExCo and some of the Service Command Boards, operate a shadow or Challenge Board system. This is where more junior members of staff meet ahead of the main Board or Committee to consider the same agenda items. The Challenge Boards then submit their comments on each item to the main Board and two members attend in person to reflect the views and opinions raised. The challenge function was expanded to the People Committee in early 2021.

Performance and Risk Review meetings are held quarterly to review the performance of the Commands and Enabling Organisations through a formal challenge and support session between the Head Office and the Chief or Chief Executive. Head Office Director Generals and 3 Star Military Officers also have six monthly performance stock takes.

## Arm's Length Bodies (ALBs)

The Defence Equipment and Support (DE&S), Defence Electronics and Components Agency (DECA), Defence Science and Technology Laboratory (Dstl) and Submarine Delivery Agency (SDA) are executive agencies, within the Departmental accounting boundary. MOD has one Trading Fund, also an executive agency, the UK Hydrographic Office (UKHO), which is outside the Departmental accounting boundary.

The Department's Executive Non-Departmental Public Bodies (NDPBs), the National Museum of the Royal Navy (NMRN) with Executive Functions, the National Army Museum (NAM), the Royal Air Force Museum (RAFM), the Single Source Regulations Office (SSRO), and the Armed Forces Covenant Fund Trust (AFCFT) are sponsored by the Department and fall within the Departmental accounting boundary.

Each of the Executive Agencies (except the UKHO) and the Executive NDPBS have a Chief Executive appointed by me and they produce their own annual report and accounts, which includes a Governance Statement, and are audited by the National Audit Office (NAO). The UKHO's Chief Executive is appointed as an Accounting Officer by HM Treasury's Permanent Secretary.

In addition, there are a number of NDPBs with Advisory Functions. Full details of all the accountability relationships within the MOD are included in the Accounting Officer Systems Statement (AOSS) which is updated and published annually. The International Military Services Limited (IMS) is a Designated Body of the MOD and I am the Accounting Officer.

## Functional Leadership

Since 2018, Defence has made significant progress with implementing Functional Leadership. We now have fifteen Functions; eight core Government Functions and seven cross-cutting activities specific to Defence, that the Executive Committee judged need to be carried out in a coherent way across all Defence organisations. Within this framework four further Government Functions are recognised by inclusion in a wider Function.

Each Function is led by a 3\*/Director General level Functional Owner, responsible for operating with the best overall impact across Defence. Although most Functional Owners are in Head Office, four are in Strategic Command but work directly to Head Office on Functional Leadership.

A Functional Accountability Body, operating on behalf of ExCo, oversees the work of the Functional Owner in directing and cohering the planning, delivery and strategic improvement of the Function; holding the Functional Owner to account for performance of the Function and reviewing the Functional Owners Annual Assurance Report, capturing risks and outlining the controls that have operated during the year.

Functional Leadership continues to provide a platform for Defence Transformation, giving three of the four major Transformation Programmes; Digital, People and Support, the authority to lead activity across the whole of Defence.

## The Risk and Control Framework





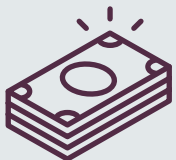



The Department's overall approach to risk management is summarised in 'How Defence Works'. Departmental policy on managing risk defines the strategy, principles and requirements to manage risk effectively, as well as the governance, roles and responsibilities for those involved. Specific strategic risks are assigned to individual 'risk owners', who are responsible for making sure they have appropriate structures, processes and activities in place to manage risk.

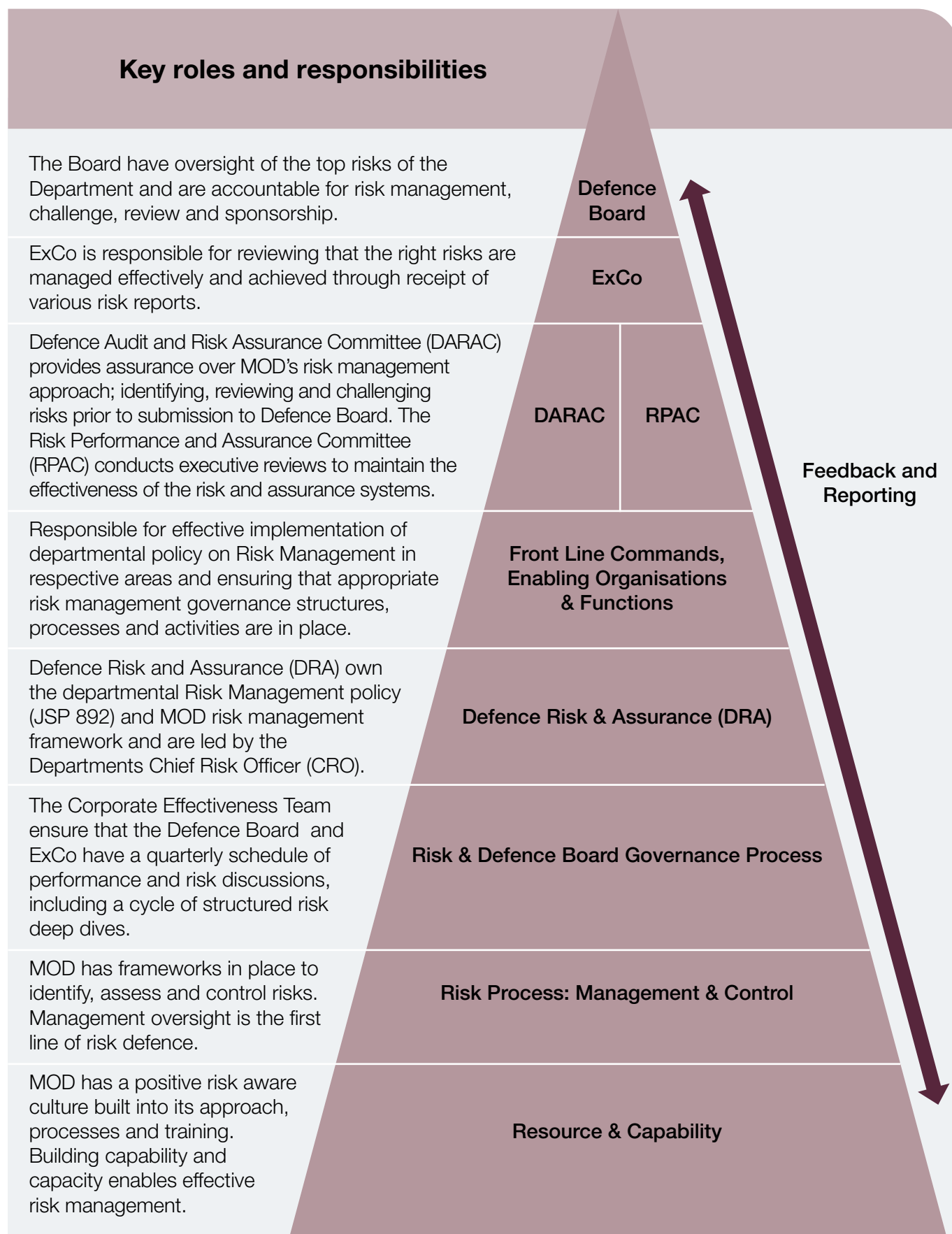
To make sure the Department meets its aims within the risk management process, it operates 'Three Lines of Defence'.

- First, the way the organisation controls and manages risk day-to-day,
- Second, assuring the control framework operates effectively with Head Office risk and assurance teams,
- Third, providing independent assurance to the Permanent Secretary through Internal Audit and other reviews.

An internal Joint Service Publication sets out the mandatory requirements for risk management activities within the MOD. This is currently being refreshed to align with current capability and wider risk management best practice. The detailed list of risks is not published for reasons of national security, however the following table provides examples of the associated risks and their Intended risk management outcomes.



Risk	Intended risk management outcomes
 <p><b>The right numbers of people with the right skills.</b></p>	<p>Through workforce planning, up to date learning and development packages and a comprehensive Wellbeing policy, be an employer of choice for a whole force that reflects society.</p>
 <p><b>The alignment of the workforce to planned outputs.</b></p>	<p>Ensuring that both military and civilian personnel have fulfilling career paths that map to the requirement of the MOD's outputs.</p>
 <p><b>The delivery of operational capability.</b></p>	<p>Holding Risk Owners to account for managing the risks which could affect ability to operate and deliver capability.</p>
 <p><b>The effectiveness of governance arrangements.</b></p>	<p>Monitor and periodically review how governance arrangements enable the Department's effective operation.</p>
 <p><b>The affordability of the vision for Defence.</b></p>	<p>Ensure that the risks of operating a global organisation and its costs are understood, managed and provide Value for Money for the UK.</p>
 <p><b>The failure of industry in delivery of outputs.</b></p>	<p>Challenge industry to ensure that they can develop, sustain and manage robust supply chains for the delivery of services and contracts, understanding the risks and mitigating them in partnership with the MOD.</p>
 <p><b>Protection of our assets and people, including from cyber-attack.</b></p>	<p>Develop and sustain a strong culture of security; be it staff-awareness, security behaviours, technical and physical defences – either at work or in the cyber domain.</p>
 <p><b>A disruptive event such as a terrorist attack on our personnel and assets.</b></p>	<p>Maintaining and promoting high vigilance to understand the risks and threats landscape, to protect those that protect the UK.</p>



The risk management framework continues to mature and remains fully aligned to the Cabinet Office's guidance on the Management of Risk in Government which was published in January 2017. The framework and principles have also been assessed as being broadly compliant with the principles contained in the Orange Book published in January 2020, with an action plan in place to strengthen compliance where necessary in 2021. The policy will be updated during 2021–22 in tandem with progression in Risk Maturity and Risk Appetite disciplines.

When the ExCo and the Defence Board review the regular risk reports they confirm whether the risks currently assessed, and their expected assessment once the benefits of funded activities are realised, remain tolerable or whether investment should be re-balanced to ensure the risks remain within the Board's risk appetite, although this has not yet been formally agreed. Having led the development of the Orange Book guidance on risk appetite, the Department aims to formalise appropriate levels of risk appetite statement over the course of 2021–22

The Department has continued to operate the Annual Assurance Reporting process which uses a standard reporting template supported by a questionnaire, assurance map and assurance plan which cover key governance, risk management, assurance and internal control matters. These are completed by the TLBs, Front Line Commands, Function Leads, Defence Authorities and Enabling Organisations. For the TLBs, Front Line Commands and Enabling Organisations these are reviewed by their Audit Committees. DRA reviews all Annual Assurance Reports and provides a briefing note to aid the scrutiny

process undertaken by relevant Management Boards and Audit Committees. In addition, DRA has produced an overall Departmental Annual Assurance Report for the Accounting Officer and the DARAC highlighting key internal control issues. DRA has provided an overall opinion of 'Limited assurance' for 2020–21. This opinion remains the same as reported in 2019–20, however, steps continue to be taken and robust processes have been implemented to strengthen risk assurance reporting in Defence. The key internal control issues and management actions being undertaken to address these are set out in more detail in the section 'Significant Control Risks'.

The DARAC reviews the Department's approach to internal control and provides independent advice both to the Defence Board and the Accounting Officer, as to the effectiveness of the policies and processes in use.

Front Line Commands and Enabling Organisations, except for the TLB Defence Nuclear Organisation (DNO), are supported by an Audit Committee or equivalent, which is chaired by a Non-Executive Director and at which representatives of the internal and external auditors are present. These Audit Committees focus their activities on providing advice on wider business risk, control and assurance processes. The DARAC meets the Chairs of the Audit Committees twice a year. DNO were due to stand up their Audit Committee in early 2020, however, due to the COVID-19 pandemic it has been postponed. DNO's TLB Board has reviewed the Annual Assurance Report, in the absence of the planned Audit Committee, to ensure it is appropriately scrutinised.

Other sources of independent assurance include the Defence Internal Audit, Defence Safety Authority, the Health and Safety Executive, the Single Source Regulations Office, Care Quality Commission, OFSTED and the NAO

### Opinion of Group Head of Internal Audit (GHIA)

The overall opinion for 2020–21 is one of Limited Assurance. This is despite the increase in the number of individual audits which received a substantial assurance. The opinion takes into account the reduction in coverage in selected areas and that remote working meant that a significant proportion of audits were restricted to assessment of control design and less testing of documents held in locations. In previous years testing of this type has identified a number of issues of non-compliance with core controls.

Through work and discussions with entities, we noted that COVID-19 has impacted on the delivery and development of second line assurance activities. In addition, access issues have impacted on the ability to maintain risk management processes in selected areas. The roll out of IT equipment assisted in the ability of the department to maintain core operations in most areas but have increased residual IT security risk.

Our internal audit work identified that selected core financial controls were adequately maintained during the past year and appropriate controls were identified over new processes and requirements linked to COVID-19.

Within TLBs we noted increased maturity around corporate governance and oversight

arrangements and corporate processes were in the main designed effectively. However, we continue to identify significant issues at a more operational level in entities. We noted a number of examples of non-compliance with controls and procedures. These issues were also evident from work in TLBs on behalf of Functions. In particular, People, Healthcare and Security processes.

There continues to be a need to improve the maturity of project management, including capacity to provide central and entity level project and programme assurance. The need to improve project governance and oversight was also an issue identified in reviews of the Head Office and TLB transformation programmes.

### Quality Assurance of Analytical Models

The Department has well established arrangements in its core analytical areas and we have continued to test and build on these in the last year.

In line with the delegated model recommended in the Levene review, quality assurance in MOD is delegated to individual TLBs and ALBs. This works particularly well, as the different TLBs and ALBs produce different types of model which require different types of quality assurance. Head Office works with the TLBs and ALBs to help facilitate and develop these processes and to share best practice.

Consequently, different areas of Defence have different quality assurance arrangements in place. For example, critical business cases which are to go to Ministers, or the Investment Approval Committee are required

to have the value for money evidence endorsed by Defence Economics and this evidence typically includes a report from the Departmental organisation responsible. This report states the quality assurance that has been undertaken and fulfilled in accordance with the Aqua Book and internal standards, to meet the requirements of the Macpherson Review of Quality Assurance of Government Analytical Models. To give another example, the Cost Assurance and Analysis Service (CAAS) has developed a range of supporting materials which include standards and guidance on validation and verification, training for model Senior Responsible Officers and a standardised baseline model for Category C and D projects.

Over the last year we have built on this good practice by:

- Extending membership of our Quality Assurance Working Group to cover more areas of Defence, enabling best practice to be shared more widely and increasing knowledge of the Department's business critical models.
- Developing a centralised pool of guidance and resources to support analysts across Defence. This is being developed as part of the Department's Analysis Function and released through our Analysis Hub.
- CAAS has developed online/virtual training in model QA which it has made freely available; instigated an upskilling programme which has successfully upskilled a quorum of individuals in model QA in each TLB; and supplemented this by instigation of a regular drop-in support surgery to advise on issues relating to modelling and model QA.

The Department will continue to look for opportunities to build on its quality assurance framework.

## Compliance with the Corporate Governance Code

I have reviewed the Department's compliance with the Code of Good Practice issued in April 2017 and confirm that the Department complies with all the requirements, with two exceptions.

Section 5.9 of the code requires that at least one Non-Executive Defence Board Member should sit on the Audit Committee, in addition to the Chair. Although the DARAC is chaired by one of the Defence Board Non-Executive Board Members, rather than having two Non-Executive Defence Board Members, I have chosen three other Non-Executive Members to attend the DARAC. The Non-Executive Defence Board Members provide independent support to a range of governance meetings. The other three Non-Executive Members on the DARAC represent a selection of the Commands, Enabling Organisations and an Executive Agency in order to add independent challenge from the wider organisation to the Head Office views of risk, assurance and governance. I believe that the current mix of Non-Executive support to the DARAC membership provides a broad perspective of the Department's business, whilst maintaining the necessary independence of Audit Committee members.

Section 5.2 requires the Board to take the lead on and oversee the preparation of the Department's Governance Statement. The Governance Statement has been reviewed by members of the ExCo. In addition, the



DARAC reviews the Governance Statement and provides advice to me, as the Accounting Officer. Given the expertise of the members of the DARAC and their on-going involvement in matters of governance, risk and internal control through the year, I believe these arrangements provide the right level of review and scrutiny.

## Management of Interests

As noted in the Director's report, all Board members (both executive and non-executive) are obliged to report all potential conflicts of interests as set out in the Code (para 4.15). A central register of interests is maintained by the Department and no such conflicts have been identified requiring disclosure.<sup>2</sup>

In line with declaration requirements for special advisers, all special advisers have been asked to declare any relevant interests or to confirm they do not consider they have any relevant interests.

The Department employs two Special Advisers that are army reservists. Ms Daisy Peck is an army Reservist and held a volunteer coach role for Campaign Force but has not been an active volunteer since joining the MOD and last volunteered in 2019. Mr Peter Quentin is an army reservist. I do not consider that these interests present any conflict to their role but are disclosed for transparency.

Departmental policy requires all military and civilian personnel to make a full declaration of interests where there is a real or perceived conflict of interest between their official duties and their outside interests. The requirement

to consider potential conflicts is enduring and must specifically be reconsidered on taking up a new role or outside interest. Relevant interests include private commercial activities including investments, consultancy and advisory work as well as holding office for professional organisations. Corporate Governance teams in delegated budget holder areas are responsible for overseeing adherence to the policy and maintaining records for their business areas. Assurance on policies and record keeping is provided periodically by budget holders.

## Business Appointments

Departmental policy requires that anyone leaving the MOD must check whether they are required to obtain clearance before taking up a new appointment including Consultancy work. The policy fully aligns with the Cabinet Office Rules on Business Appointments as contained in Section 4.3 Annex A of the Civil Service Management Code. The policy makes clear the circumstances in which individuals will be required to apply for clearance before taking up an appointment outside of the Department. Applications from those below SCS are signed off at second reporting officer level (with right of appeal to TLB Director Resources), from SCS Band 1 and 2 at TLB Director Resources level (with right of appeal to the MOD Business Appointments Panel), and from SCS Band 3 and above at MOD Business Appointments Panel level.

In compliance with Business Appointment rules, the Department is transparent in the advice given to individual appointment applications for senior staff including

---

<sup>2</sup> Sir Stephen Lovegrove KCB held a Non-Executive Director role with Grosvenor Britain and Ireland, a privately owned international property company. Sir Stephen recused himself from any discussions that could have presented conflict. These arrangements were approved by the Cabinet Office. Remuneration received for this role was donated to charity.

special advisers. Advice regarding specific appointments is routinely published at the following site: <https://www.gov.uk/government/collections/mod-business-appointment-rules-index>

## Effectiveness of Whistleblowing

The MOD ensures it meets its legal duty of care to its whistle-blowers and manages this across responders through this specialist central functional team.

The development of the MOD's whistleblowing arrangements is also a dedicated workstream in the new Counter Fraud Functional Strategy. The strategy sets organisational and functional objectives to ensure that there is a dynamic and agile approach to resourcing both the Confidential Hotline and the Fraud Defence Investigation functions.

The Confidential Hotline (an established gateway for Defence for reporting fraud, corruption and wrongdoing) and other parts of the Counter Fraud Function were also actively involved with a cross-departmental review of Raising a Concern and Whistleblowing policy that resulted in the Civil Service Employment Policy (CSEP) team within the Cabinet Office sharing model documents.

Following amendment to the MOD's Whistleblowing and Raising a Concern policy, the Confidential Hotline now supports safeguarding and has been designated as a route for providing referrals to the Directorate of Children and Young People (DCYP). Recommendations made by The Independent Investigation into Child Sexual Abuse (IICSA) have also been taken on board. DCYP have agreed to provide training to the Confidential

Hotline team on an ongoing basis to ensure the pertinent safeguarding awareness.

The policy also now expressly includes breaches of Diversity & Inclusion standards as reportable matters. Whilst breaches of Civil Service Code and single Service codes of conduct have always been reportable matters, the policy now expressly states that conduct in breach of D&I policies, such as hate crime/speech, can be reported through the Confidential Hotline.

In response to a whistleblowing case relating to Project Shepherd, an electronic warfare programme, the Non-Executive Chair of the Defence Audit Risk and Assurance Committee (DARAC) was asked to conduct a full independent inquiry and lessons learned exercise for the Accounting Officer, which included the circumstances relating to the concern, the errors in reporting that followed, and the Department's wider whistleblowing policy and the culture that exists in implementing the policy. This comprehensive inquiry has now been concluded. The Department has shared the findings with the NAO and briefed the PAC. Important lessons have been identified, particularly in relation to project management and delivery, acquisition and approvals processes, and in our support for whistleblowers. These have been taken forward by the relevant transformation programmes and functional leaders as the review has progressed, and a significant number of changes have already been implemented. The DARAC will continue to monitor the implementation of the review's recommendations. The Department is grateful to the individual who raised the concerns, and continues to encourage and support everyone in Defence to raise appropriate issues of

concern, as it is important that all voices are heard, and challenge and diverse thinking are vital to delivering the Defence Purpose.

## Tackling Fraud and Corruption

The establishment of the MOD's Counter Fraud Functional Strategy is a significant milestone for the Department's response to fraud & corruption. The functional strategy provides increased clarity on governance and responsibilities. It sets out priorities for Defence and its relationships with the cross-government counter fraud machinery.

The themed workstreams set out in the strategy, to commence delivery later in 2021, will provide a structured approach to counter fraud maturity with metrics to illuminate progress and support appropriate challenge.

The Function continue to lead on the delivery of the Department's zero-tolerance policy towards fraud & corruption, creating an environment that minimises threats to our national security and the delivery of the Defence Purpose and other impacts created by fraud, bribery, corruption and unethical behaviour. This is emphasised through our professional and Service cultures and endeavours to make these behaviours unacceptable through the structured response set out in the functional strategy.

The MOD continues to take the risk of fraud, bribery and corruption seriously and is fully committed to delivering a robust counter-fraud and corruption capability.

Progress continues to be made managing and countering procurement and contract management related fraud. The Function is developing tools to inform each stage of the procurement process, contract management and throughout an asset's lifecycle, to disposal.

Fraud risk maturity is central to effective fraud prevention and will remain a key theme for development going forward. This is achieved through engagement with the Business Areas in developing fraud risk maturity, effective fraud mitigation strategies and effective response plans.

The Cabinet Office recently published the 2019–2020 Cross-Government Fraud Landscape Bulletin. The bulletin highlights MOD's reported fraud figure as having the highest detected internal fraud figure compared to other Government Departments. The Department considers this to be a successful outcome, given the focus it places on the detection of fraud and the progress of the fraud awareness maturity across the organisation.

Defence has continued to fully meet the functional standard set by the Cabinet Office for government and has been fully engaged in the ongoing development of the Government Counter Fraud Profession.

## Ministerial Directions

There were no Ministerial Directions to Sir Stephen Lovegrove KCB as Accounting Officer during 2020–21.

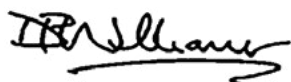
## Conclusion

The outcome of the Integrated Review of Security, Defence, Development and Foreign Policy and associated funding settlement for the Department places us in a strong position to confront the remaining challenges associated with a complex Department operating with a delegated model. The significant control risks must remain a key focus in driving the required further improvement. We must also remain focused on supporting a timely and effective recovery from the COVID-19 pandemic playing our part with wider government and with our industry partners in dealing with the impact on Defence programmes and activities.

**David Williams CB**

Accounting Officer

11 January 2022

A handwritten signature in black ink, appearing to read 'D Williams', with a horizontal line drawn underneath.

# The Remuneration and Staff Report

**The Remuneration and Staff Report summarises our policy on Ministerial, Defence Board Member, Non-Executive Board Member (NEBM) and staff pay. It also provides details of actual costs incurred and contractual arrangements in place.**

## Remuneration Report

### Remuneration Policy

Senior civil servants (SCS) and senior officers of the Armed Forces pay is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB).

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).

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

- The need to recruit, retain, motivate and, where relevant, promote suitably able and qualified people to exercise their different responsibilities;
- Regional/local variations in labour markets and their effects on the recruitment, retention and, where relevant, promotion 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

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 <https://www.gov.uk/government/organisations/review-body-on-senior-salaries>.

There is an established Departmental procedure for the appointment of NEBMs which requires a transparent recruitment and selection process (including due diligence checks), with appointment on merit, thus following the Governance Code on Public Appointments. NEBMs receive a Letter of Appointment setting out, amongst other things, details of the agreed remuneration which is in accordance with the Corporate Governance in Central Government Departments: Code of Good Practice. NEBMs have the option to waive their remuneration.



## Performance and Reward

Salary and reward for Permanent Secretaries is considered annually by the Permanent Secretaries' Remuneration Committee within 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 and awards are made to individuals judged to have made the highest 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 must be linked to demonstrable evidence of delivery.

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.

Senior (2-star and above) military officers' pay is dependent 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 was 2.6% of salary in 2020–21 (2019–20: 2.6%). Exceptions to this are the Chief of the Defence Staff (CDS) who automatically receives an annual increment (subject to having served 6 months in post for the reporting period), and senior medical and dental officers who are paid from spot rates of pay for their rank.

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 on at least an annual basis. 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 NEBMs and identify ways this could be improved and provide feedback.

## Senior Manager Contracts

The Governance Code on Public Appointments requires public appointees to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Cabinet Office specify the circumstances when appointments may be made otherwise. The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, 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. Further information about the work of the Civil Service Commission can be found at <https://civilservicecommission.independent.gov.uk/>

The lead NEBM appointment to the Defence Board was approved by the Prime Minister from a list of candidates recommended by the Cabinet Office. The lead NEBM appointment in June 2020 was approved by the Prime Minister and has an initial period of three years.

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.

CDS and Vice Chief of the Defence Staff (VCDS) 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.

## Remuneration and Pension Entitlements

The following sections provide details of the remuneration and pension interests of Ministers and members of the Defence Board during the financial year. The disclosures cover only the periods individuals were Ministers or Board Members in the MOD i.e. if an individual moves Department during the year the disclosure covers only remuneration earned to that date.

## Ministerial Salaries, Allowances and Taxable Benefits-in-Kind

(This section has been subject to audit)

The salaries, allowances and taxable benefits in kind for the Ministers who had responsibility for the Department during the year are set out below:

### Ministerial salary, benefits in kind and pension benefits

	2020–21				2019–20			
	Salary £	Benefits- in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000) <sup>1</sup>	Total £ (to the nearest £1,000)	Salary £	Benefits- in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £ (to nearest £1,000)
<b>Secretary of State for Defence</b>								
The Rt Hon Ben Wallace MP								
(from 24 July 2019)	67,505	Nil	17,000	84,000	46,455	Nil	11,000	57,000
<i>Full year equivalent salary</i>					67,505			
<b>Minister of State and Spokesperson on Defence in The House of Lords</b>								
Baroness Goldie DL <sup>2</sup>								
(from 27 July 2019)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>								
<b>Minister of State and Minister for Defence Procurement</b>								
Jeremy Quin MP								
(from 14 February 2020)	31,680	Nil	8,000	39,000	4,097	Nil	1,000	5,000
<i>Full year equivalent salary</i>					31,680			
<b>Parliamentary Under Secretary of State and Minister for the Armed Forces</b>								
James Heappey MP								
(from 14 February 2020)	22,375	Nil	5,000	28,000	7,305	Nil	2,000	9,000
<i>Full year equivalent salary</i>					22,375			
<b>Parliamentary Under Secretary of State and Minister for Defence People and Veterans</b>								
Johnny Mercer MP <sup>3</sup>								
(from 27 July 2019)	22,375	Nil	5,000	28,000	16,120	Nil	4,000	20,000
<i>Full year equivalent salary</i>					22,375			

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

2. Baroness Goldie has waived her rights to remuneration.

3. An adjustment to the 2019-20 salary for Johnny Mercer, is now reflected in the total shown for the year.

## Compensation for loss of office

(This section has been subject to audit)

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 three months of their annual equivalent salary being paid. No Severance Payments were made in 2020–21 (During 2019–20, severance payments of £16,876 to both The Rt Hon Gavin Williamson MP and The Rt Hon Penny Mordaunt MP, £5,594 to The Rt Hon Tobias Ellwood MP and £7,920 to The Rt Hon Mark Lancaster MP were made).

## Ministerial Salary

‘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.

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 – £81,932 with effect from 1 April 2020 (there has been no change from the £81,932 pa with effect from 1 April 2019) 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, as well as the allowances to which they are entitled, is paid by the

Department and, if applicable would be shown in full in the tables that follow.

## Ministers Benefits-in-Kind

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.

## Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a point in time. The pension figures shown for individuals relate to benefits accrued based on cumulative membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

## Real Increase in CETV

This reflects the increase in CETV funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee and uses common market valuation factors for the start and end of the period.

## Ministerial Pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). 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. Further details of the scheme are available at <https://www.mypcpcfension.co.uk>

The real increase in the value of the accrued pension compared to the 2019–20 value, is shown in italics (in bands of £2,500) in the first column of the following table:

### Ministerial Accrued Pension and Cash Equivalent Transfer Value (CETV)

(This section has been subject to audit)

	Total Accrued Pension at Retirement as at 31 March 21 £000	CETV at 31 March 20 or date of Appointment if Later £000	CETV at 31 March 21 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Secretary of State for Defence</b>				
The Rt Hon Ben Wallace MP	<b>0–5</b>	<b>46<sup>1</sup></b>	<b>63</b>	<b>8</b>
	<i>0–2.5</i>			
<b>Minister of State and Spokesperson on Defence in The House of Lords</b>				
Baroness Goldie DL	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Minister of State and Minister for Defence Procurement</b>				
Jeremy Quin MP	<b>0–5</b>	<b>5</b>	<b>13</b>	<b>4</b>
	<i>0–2.5</i>			
<b>Parliamentary Under Secretary of State and Minister for the Armed Forces</b>				
James Heappey MP	<b>0–5</b>	<b>1</b>	<b>5</b>	<b>1</b>
	<i>0–2.5</i>			
<b>Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel</b>				
Johnny Mercer MP	<b>0–5</b>	<b>3</b>	<b>6</b>	<b>1</b>
	<i>0–2.5</i>			

1. The value stated by the data providers last year of £45,387 was based on an incorrect DOB being used in the calculation. This has now been restated as £46,331

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

The Defence Board is the main corporate board of the MOD and is chaired by the Secretary of State. During the year, the following people Served as members of the Defence Board (disclosures cover the periods individuals were members of the Board).



*Defence Board salaries, awards, benefits-in-kind and pensions benefits*  
(This section has been subject to audit)

	2020–21					2019–20				
	Salary £000	Annual Performance Award £000	Benefits-in- kind £ (to the nearest £100)	Pension Benefits¹ £ (to the nearest £1,000)	Total £000	Salary £000	Annual Performance Award £000	Benefits-in- kind² £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £000
<b>Secretary of State for Defence</b>	See Minister's Salary Table									
The Rt Hon Ben Wallace MP										
<b>Minister of State in the House of Lords</b>										
Baroness Goldie DL										
<b>Minister of State and Minister for Defence Procurement</b>										
Jeremy Quin MP										
<b>Parliamentary Under-Secretary of State and Minister for the Armed Forces</b>										
James Heappey MP										
<b>Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel</b>										
Johnny Mercer MP										
<b>Permanent Under-Secretary of State</b>										
Sir Stephen Lovegrove KCB³										
(from 25 April 2016)	185–190	Nil	Nil	80,000	265–270	185–190	15–20	Nil	78,000	280–285

	2020–2021					2019–2020				
	Salary £000	Annual Performance Award £000	Benefits-in- kind £ (to the nearest £100)	Pension Benefits <sup>1</sup> £ (to the nearest £1,000)	Total £000	Salary £000	Annual Performance Award £000	Benefits-in- kind <sup>2</sup> £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £000
<b>Chief of the Defence Staff</b>										
General Sir Nick Carter GCB CBE DSO ADC Gen										
(from 11 June 2018)	275–280	Nil	92,500	91,000	460–465	265–270	Nil	90,200	212,000	565–570
<b>Vice Chief of the Defence Staff</b>										
Admiral Sir Tim Fraser CB ADC										
(from 13 May 2019)	185–190	Nil	64,200	103,000	355–360	155–160	Nil	49,700+	321,000	530–535
<i>full year equivalent salary</i>						180–185				
<b>Director General Finance</b>										
Charlie Pate										
(from 12 March 2020)	135–140	10–15	Nil	126,000	270–275	5–10	Nil	Nil	6,000	10–15
<i>full year equivalent salary</i>						130–135				
<b>Non-Executive Board Members</b>										
Brian McBride <sup>4</sup>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(from 1 June 2020)										
Simon Henry <sup>5</sup>	15–20	Nil	Nil	Nil	15–20	15–20	Nil	Nil	Nil	15–20
Robin Marshall <sup>4</sup>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(from 1 June 2020)										
Danuta Gray	15–20	Nil	Nil	Nil	15–20	15–20	Nil	Nil	Nil	15–20

1. 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.
2. Where the current year's benefit in kind includes an element for the private use of official cars the figures are estimated. The agreement process with HMRC concludes after publication of the accounts and any necessary restatement of the amounts is published in the following year's accounts with changes indicated by a +
3. Sir Stephen Lovegrove KCB ceased to be Permanent Secretary on 21 March 21. He continued to be departmental accounting officer until the 5 April 2021.
4. Brian McBride and Robin Marshall have elected to waive the £15,000 fee to which they are entitled.
5. Payments to Simon Henry for the last three months of the reporting year will be paid during 2021–22.

## Defence Board Salary

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 2020–21 but based on performance in an assessment period 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 in the table.

## Defence Board Benefits-in-Kind

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 pays the tax liability that would normally be paid by the individual, this liability is included in the figures.

## Defence Board Pensions

Pension benefits for individuals who served on the Defence Board are set out in this section. NEBMs are not employees and are therefore not enrolled in an employee related pension scheme. The real increase in the pension, from 2019–20, and where applicable the real increase in the lump sum payment, are shown in italics in the first column of the following table.

# Defence Board Accrued Pension and Cash Equivalent Transfer Value (CETV)

(This section has been subject to audit)

	Total Accrued Pension at Retirement as at 31 Mar 21 £000	CETV at 31 Mar 20 or date of Appointment if Later £000	CETV at 31 Mar 21 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Secretary of State for Defence</b> The Rt Hon Ben Wallace MP	See Minister's Pensions Table			
<b>Minister of State and Spokesperson on Defence in the House of Lords</b> Baroness Goldie DL				
<b>Minister of State and Minister for Defence Procurement</b> Jeremy Quin MP				
<b>Parliamentary Under Secretary of State and Minister for the Armed Forces</b> James Heappey MP				
<b>Parliamentary Under Secretary of State and Minister for Defence Veterans, Reserves and Personnel</b> Johnny Mercer MP				
<b>Permanent Under-Secretary of State</b> Sir Stephen Lovegrove KCB	Pension			
	<b>45–50</b>			
	2.5-5			
	Lump Sum			
	Nil	<b>615</b>	<b>698</b>	<b>49</b>
<b>Chief of the Defence Staff</b> General Sir Nick Carter GCB CBE DSO ADC Gen	Pension			
	<b>155–160</b>			
	2.5-5			
	Lump Sum			
	<b>470–475</b>			
	10–12.5	<b>3,609</b>	<b>3,685</b>	<b>15</b>
<b>Vice Chief of the Defence Staff</b> Admiral Sir Tim Fraser CB ADC	Pension			
	<b>90–95</b>			
	2.5-5			
	Lump Sum			
	<b>280–285</b>			
	12.5-15	<b>2,294</b>	<b>2,404</b>	<b>72</b>
<b>Director General Finance</b> Charlie Pate	<b>Pension</b>			
	50–55			
	5-7.5			
	<b>Lump Sum</b>			
	15–20			
	0-2.5	<b>563</b>	<b>665</b>	<b>75</b>

Pension benefits for Senior Civil Service are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). Further information on these schemes can be found at: <https://www.civilservicepensionscheme.org.uk/>

Pension benefits for Military members of the Board are provided by Armed Forces Pension Schemes, details of which can be found at <https://www.gov.uk/guidance/armed-forces-compensation-scheme-afcs>

NEBMs are not employees and are therefore not enrolled in an employee related pension scheme.

Further details of other pension schemes available to Armed Forces personnel and MOD employees can be found at Note 13 of the accounts – Retirement Benefit Schemes.

## Pay Multiples

(This section has been subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid Board member in their

organisation and the median remuneration of the organisation's workforce.

Remuneration of the highest paid directors is based on annual equivalents which include salary, performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions or the cash equivalent transfer value of pensions. A separate multiple has been calculated for the Armed Forces – comparing the CDS 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.

The military pay ratio has increased slightly in 2020–21. This is the result of an increase in the total remuneration for the highest paid Board Member from 2019–20. In 2020–21 the remuneration of military employees ranged from £15,985 to £367,500; and no military employees (0 in 2019–20) received remuneration in excess of the highest paid Board Member.

The civilian pay ratio has decreased from 2019–20. This is primarily because the gross remuneration of the highest paid Board Member is less in 2020–21. In 2020–21, the remuneration of civilian employees ranged from £17,231 to £382,122 and 8 civilian employees (7 in 2019–20) received remuneration in excess of the highest paid Board Member.



### Military and Civilian Pay Multiple

	2020–21	2019–20
<b>Military Pay Multiple</b>		
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning military Board member in the table above.	<b>£367,500</b>	£357,500
Median total remuneration of Armed Forces personnel	<b>£35,715</b>	£35,315
Ratio	<b>10.3</b>	10.1
<b>Civilian Pay Multiple</b>		
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian Board member in the table above.	<b>£192,500</b>	£207,500
Median total remuneration of civilian staff	<b>£33,106</b>	£31,393
Ratio	<b>5.8</b>	6.6

## Staff Report

### Staff Numbers

(This section has been subject to audit)

#### Senior Civil Service (SCS)

The figures in the table below are for average Full Time Equivalent (FTE) staff for the Core Department and Agencies. Locally Engaged Civilians (LECs) are excluded. UK Hydrographic Office (UKHO) is also excluded as it is a trading fund.

*Number of Senior Civil Service (SCS) Staff by Pay Band as at 31 March 2021*

	2020-21	2019-20
<b>SCS PAY BAND</b>		
Band 1	212	189
Band 2	54	48
Band 3	8	9
Band 4	1	1

*Number of DE&S Senior Leadership Group (SLG) Staff as at 31 March 2021*

	2020-21	2019-20
<b>SLG PAY BAND</b>		
Band 1	86	93
Band 2	18	16
Band 3	2	2
Band 4	1	1

*Number of SDA Senior Leadership Group (SLG) Staff as at 31 March 2021*

	2020-21	2019-20
<b>SLG PAY BAND</b>		
Band 1	22	17
Band 2	6	4
Band 3	1	1

### DE&S and SDA Senior Leadership Group (SLG)

Defence Equipment and Support (DE&S) and Submarine Delivery Agency (SDA) operate their own grading structure which is not comparable with MOD Main and so are excluded from the above table. The number of employees which DE&S and SDA designate within their Senior Leadership Group (SLG) is as follows:

## Staff Composition

The following table provides an analysis of the number of persons of each gender who were Directors, Senior Civil Servants/Senior Military Officers and Military/Civilian MOD employees as at the start of the financial year. The analysis only includes UK regular military personnel and those designated as permanent civilian staff, therefore, a comparison with those contained in the Average Number of Full-Time Equivalent Persons Employed Table is not possible. UKHO is excluded as it is a trading fund. SCS and Equivalent includes Senior Civil Servants,

Senior Military Officers (1\* & above), Dstl, DE&S and SDA Senior Leadership Groups.

Of the Defence Board Members, 3 of the male directors and 1 of the female directors are NEBMs (2019–20: Male 3 Female 1). In 2020–21, the staff composition of DE&S SLG and equivalent was: Male 81 Female 26 (2019–20: Male 87 Female 25) for SDA SLG the staff composition was Male 21 Female 8 (2019–20: Male 13 Female 9) for Dstl the staff composition was: Male 4 Female 2 (2019–20: Male 4 Female 2).

### Analysis of the Number of Persons of Each Gender

Gender <sup>1</sup>	2020–21			2019–20		
	Defence Board Members	SCS and equivalent	Military/Civilian Employees	Defence Board Members	SCS and equivalent	Military/Civilian Employees
Male	11	725	165,074	9	713	160,853
Female	2	170	39,002	2	153	37,663

1. Gender information reported is obtained from individuals on joining the Department.

## Analysis of Staff Numbers

The average number of full-time equivalent persons employed are set out in the table below.

### Analysis of the Number of Full-time Equivalent Persons Employed

	2020–21		2019–20	
	Core Department & Agencies	Departmental Group	Core Department & Agencies <sup>1</sup>	Departmental Group
Civilian Staff	54,470	57,371	53,670	56,663
Other Staff <sup>2</sup>	5,855	6,015	6,281	6,472
Ministers	5	5	5	5
Special Advisors	2	2	2	2
Armed Forces	160,232	160,232	156,027	156,027
<b>Totals</b>	<b>220,564</b>	<b>223,625</b>	<b>215,985</b>	<b>219,169</b>

1. Civilian Staff total for Core Departments & Agencies for 2019–20 restated. An error was identified in the calculation of this total due to elements of Headcount being included as opposed to Full Time Equivalent staff. This change also results in a restatement of Core Department & Agencies and Departmental Group overall totals.

2. Other staff is defined as personnel who are engaged on the objectives of the Department but do not fall under the definition of permanent civilian staff. This includes short term contract staff, agency and temporary staff, locally engaged staff overseas.

In order to align with the total pay costs incurred during the year, the number of FTE civilian staff for the Core Department & Agencies (shown above) is based on a weighted average for the financial year and is used to compensate for organisational and structural changes during the 12 month period. The figures reflect the number of personnel in organisations within the Departmental Boundary for the Annual Accounts and therefore exclude those in UKHO.

The number of FTE staff in the Departmental Group is the sum of the weighted average figures for the Core Department and Agencies plus the number of FTE staff at year end for the other organisations within the Departmental Group.

The Armed Forces figure in the table above is made up of the yearly average of UK Regular Forces. It also includes other trained and untrained full-time service personnel namely, Nursing Services, Full Time Reserve Service personnel, Gurkhas and Locally Engaged Personnel, Mobilised Reservists, Military Provost Guard Service and Non-Regular Permanent Staff. This figure is not comparable with the Workforce Size disclosed in the Protect Our People "People" section of the Performance Report as that figure is Full Time Trained Strength as at 1 April 2021.

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>

## Staff Turnover

### Departmental Staff Turnover Percentages

	2020-21		2019-20	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff Turnover	7.3%	6.8%	11.3%	10.5%

	UK Regular Forces Trained Outflow rate in the 12 months ending 31 Mar 21	UK Regular Forces Trained Outflow rate in the 12 months ending 31 Mar 20
Military	6.6%	9.1%

#### Notes:

- Figures show outflow from the trained UK Regular Forces, including personnel leaving the Services, deaths and recalled Reservists on release. They do not include promotion from Ranks to Officers or flows between Services.
- Rates are the number of people who leave per 100 of the mean average trained strength.
- UK Regulars Full time Service personnel, including Nursing Services, but excluding Full Time Reserve Service (FTRS) personnel, Gurkhas, mobilised Reservists, Military Provost Guard Service (MPGS), Locally Engaged Personnel (LEP), Non Regular Permanent Staff (NRPS), High Readiness Reserve (HRR) and Expeditionary Forces Institute (EFI) personnel. Unless otherwise stated, includes trained and untrained personnel.

MOD Civilian Turnover and Armed Forces Regular Outflow reduced in 2020-21 which is likely seen to be largely as a consequence of the impact COVID-19 had on the UK jobs market. It is unclear when, and to what extent, MOD Civilian Turnover and AF Regular outflow will return to its previous historic norms.

Overall, both Armed Forces Outflow and MOD Turnover has been relatively stable for a number of years, but this overall picture can mask retention challenges in specific trades, professions, cadres and locations. Defence monitors the impact of skills shortages through the internal Pinch Point processes and employs a range of mitigating and recovery actions to address these difficulties.

## Staff Costs

(This section has been subject to audit)

The aggregate staff costs including grants and allowances, were as follows:

### Analysis of Staff Costs

	2020-21 <sup>1</sup>					2019-20
	Permanent Staff £M	Armed Forces £M	Other staff <sup>2</sup> £M	Ministers £M	Departmental Group Total £M	Departmental Group Total £M
Salaries and Wages	2,103.9	6,800.8	356.6	0.1	9,261.4	8,812.0
Social Security Costs	213.0	644.9	0.2	-	858.1	811.1
Pension Costs	552.3	4,001.4	1.0	-	4,554.7	4,260.8
Redundancy and Severance Payments	24.4	-	-	-	24.4	0.2
<b>Sub Total</b>	<b>2,893.6</b>	<b>11,447.1</b>	<b>357.8</b>	<b>0.1</b>	<b>14,698.6</b>	13,884.1
Less Recoveries in Respect of Outward Secondments	(20.9)	(36.5)	-	-	(57.4)	(51.9)
<b>Total net costs</b>	<b>2,872.7</b>	<b>11,410.6</b>	<b>357.8</b>	<b>0.1</b>	<b>14,641.2</b>	13,832.2

1. Staff costs are also disclosed in Note 4.1 to the accounts.

2. Other staff is defined as personnel who are engaged on the objectives of the Department but do not fall under the definition of permanent civilian staff. This includes short term contract staff, agency and temporary staff, locally engaged staff overseas.

For the year to 31 March 2021, of the total pension contributions for the Departmental Group in the table above, £553 million (2019-20: £455 million) were payable in respect of the various schemes in which civilian staff were members. This is made up of the contributions to the Principal Civil Service Pension Scheme (PCSPS) in the same period of £497 million

(2019-20: £471 million); the movement on non-PCSPS pension provision of £35 million (2019-20: -£36 million); and contributions to non-PCSPS of £22 million (2019-20: £20 million). Where employees have opened a stakeholder pension with an employer contribution, the Department has made contributions of £4.5 million (2019-20 £4.5 million) to the pension



providers; contributions range from 8% to 14.75% depending on the age of the member. MOD also matches any employee contributions up to 3% of pensionable pay and in addition made contributions of £0.8 million (2019–20 £0.8 million) representing 0.5% of pensionable pay to the PCSPS to cover the cost of provision of lump sum benefits on death in service and ill health retirement of these employees.

The Armed Forces Pension Schemes are unfunded, non-contributory, defined benefit, salary related, occupational pension schemes. For the year to 31 March 2021 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £4,001 million (2019–20 £3,805 million) based on employer's contribution rates determined by the Government Actuary.

Further details of pension schemes covering Departmental personnel can be found at Note 13 – Retirement Benefits, in the Annual Accounts section.

As a result of the McCloud judgement, the Government has been working to address the judgement of the Court of Appeal on the transition from legacy pension schemes. It is too early in this process to determine the amount of any financial impact to the Department.

### **Special Advisors Costs and Severance Payments**

From August 2019 all Special Advisors have been paid by the Cabinet Office and therefore no Special Advisor costs fell to the Department in 2020–21.

### **Staff Redeployment**

In order to manage and mitigate the impact of COVID-19, there has been an increased redeployment of staff both within and across Government Departments. Between 1 April 2020 and 31 March 2021 some 420 MOD Civil Servants redeployed to 22 Government Departments and public sector organisations to support the COVID-19 response. Support provided by Military personnel to the response to the pandemic is covered by the separate MACA arrangements described within the Performance Report. The Department also provided manpower support in respect to EU withdrawal activities.

The Ministry of Defence has been a donor department in this regard i.e. there has not been any redeployment into MOD from other departments in respect to COVID-19 or for EU withdrawal.

Staff redeployed from front line services are deemed to be Programme related whilst those redeployed from administrative roles are treated as Administrative assignments and are for a period greater than 6 months. Programme assignments are disclosed separately for those, less than 6 months and more than 6 months respectively. The average duration of a COVID-19 assignment is 8.2 months and the average duration of an EU Exit assignment is 1.6 months. The estimated cost of staff on short-term loan is £6.276 million for COVID-19 and £0.957 million for EU Exit assignments; £11.630 million for COVID-19 long-term assignments.

### Number of Staff Redeployed for COVID-19

Grade	Assignments		
	Programme		Administration
	Short Term (less than 6 months)	Long Term (more than 6 months)	Short Term (less than 6 months)
SCS or equivalent	15	5	-
Band B or equivalent	89	33	-
Band C or equivalent	220	25	-
Band D and below or equivalent	28	3	2
<b>Total number of staff</b>	<b>352</b>	<b>66</b>	<b>2</b>

### Number of Staff Redeployed for EU Exit

Grade	Assignments		
	Programme		Administration
	Short Term (less than 6 months)	Long Term (more than 6 months)	Long Term (more than 6 months)
SCS or equivalent	-	-	-
Band B or equivalent	3	1	-
Band C or equivalent	9	-	-
Band D and below or equivalent	-	-	-
<b>Total number of staff</b>	<b>12</b>	<b>1</b>	<b>-</b>

## Civil Service and Other Compensation Schemes – Exit Packages

(This section has been subject to audit)

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), a statutory scheme made under the Superannuation Act 1972. For ill health retirements, where there is a cost to the Department, these individuals are included in the table that follows; 93 individuals retired early on ill-health grounds during 2020–21 (2019–20 137); their total accrued pension liabilities for the year were £0.3 million (2019–20 £0.2 million).

Where the Department has agreed early retirements, the costs are met by the MOD and not by the CSCS. 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.

Armed Forces redundancies are normally made on a compulsory basis only, in order to retain the right balance of skills and experience across the rank structures. Occasionally, personnel may apply for consideration for redundancy and, where successful, applicants are included in the table as 'Other Departures Agreed'.

The following table shows both 2020–21 and for comparison 2019–20 numbers and resource costs in £ million.

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.

### Number of Exit Packages and Resource Costs

	2020–21						2019–20					
	Core Department & Agencies			Departmental Group			Core Department & Agencies			Departmental Group		
Exit Package Cost Band	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band
<£10,000	-	12	12	20	34	54	-	20	20	2	23	25
£10,000 – £25,000	-	22	22	7	30	37	3	40	43	9	47	56
£25,000 – £50,000	-	33	33	0	34	34	3	38	41	5	39	44
£50,000 – £100,000	-	13	13	0	13	13	-	24	24	-	24	24
£100,000 – £150,000	-	3	3	0	3	3	-	1	1	-	1	1
£150,000 – £200,000	-	-	-	-	-	-	-	-	-	-	-	-
£200,000 – £250,000	-	-	-	-	-	-	-	-	-	-	-	-
£250,000 – £300,000	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Number of Exit Packages</b>	<b>-</b>	<b>83</b>	<b>83</b>	<b>27</b>	<b>114</b>	<b>141</b>	<b>6</b>	<b>123</b>	<b>129</b>	<b>16</b>	<b>134</b>	<b>150</b>
<b>Total Resource Cost £million</b>	<b>-</b>	<b>£2.859</b>	<b>£2.859</b>	<b>£0.194</b>	<b>£3.101</b>	<b>£3.295</b>	<b>£0.125</b>	<b>£4.050</b>	<b>£4.175</b>	<b>£0.296</b>	<b>£4.233</b>	<b>£4.529</b>

## Staff Sickness

Levels of sickness absence for MOD Civil Servants, including UKHO, have decreased slightly over the year. The Average Working Days lost per person for the 12 months ending 31 March 2021 was 5.94 (6.84 days for the 12 months ending 31 March 2020). Mental and behavioural disorders continue to be the highest cause of sickness absence at 28% of all absences (2019–20: 25%). The percentage of staff with no sick absence for the 12 months ending 31 March 2021 was 68% (2019–20: 45%).

Reducing Sickness Absence is identified by the Health and Wellbeing Leadership Team (HWLT) as a priority and will be included in the action plan to support the delivery of the draft Defence People Health and Wellbeing Strategy 2021–2026.

Supporting Attendance Policies and Procedures have been amended to reflect the introduction of MyHR and will be published ahead of launch. The introduction of MyHR will improve management usability and will be supported by management guides that set out responsibilities and procedures for recording sickness absence. Civilian HR is currently reviewing HRMS' sickness absence codes to determine whether they remain fit for purpose or can be changed to help the department to better understand the key issues impacting on sickness absence across the civilian workforce.

## Health and Safety

Health and safety is a key priority at MOD and we maintain a number of policies which are brought together in our 'Management of Health and Safety in Defence' guidance.

Official Statistics are published annually showing injury and ill health incidents among UK Armed Forces personnel, MOD Civilian employees, Other Civilians and Cadet Forces that were reported through our Health & Safety systems. The statistics show the most recent available information as well as a five-year period trend.

Our latest report, published in July 2021 can be found at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1006778/MOD\\_Health\\_\\_\\_Safety\\_Statistic\\_Annual\\_Report\\_2020-21.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1006778/MOD_Health___Safety_Statistic_Annual_Report_2020-21.pdf).

## Civilian Staff Policies Applied During the Financial Year

The MOD is dedicated to achieving a more diverse and inclusive civilian workforce and is committed to recruiting the best people regardless of whether they have a disability. The CS does not discriminate against disabled people and positively encourages disabled candidates to apply for jobs within Defence. The MOD has been an accredited 'Disability Confident Leader, Level 3' since September 2017. Our aims are that disabled staff should feel valued and supported; that line managers of disabled staff should have access to consistent advice and expertise; and that reasonable adjustments will be made in a timely manner. MOD has a dedicated Reasonable Adjustments Service Team, who are responsible for supporting staff with workplace adjustments.

In the last six years they have helped more than 8,600 people with conditions varying from musculo-skeletal conditions, mobility or physical capacity issues, neuro-diverse

conditions including dyslexia, ADHD, visual and hearing impairments and mental health issues. The team also plays a significant role in advocating for the disability networks and disabled people to bring about continuous improvement of the lived experience including influencing our IT Provision to ensure we meet disabled peoples' needs. They possess specialist knowledge and experience of making adjustments for people in a diverse range of employment roles including specialisms within the MOD such as MOD Police and Clinicians, capturing our colleagues' workplace experiences, collaborating with others to find best practice, and sharing knowledge across Government.

The Defence Civilian Disability Policy, Procedures and Toolkit was refreshed in March 2020 to support disabled staff and their line managers. It offers, amongst other things, information on what employees should do once a diagnosis is confirmed and where they can seek support, including Access to Work, Occupational Health and the external EAP provided by Health Assured. The use of Workplace Adjustment Passport is strongly encouraged and is in use across all Government Departments to make it easier for employees who have a disability, or long-term health condition or who are undergoing gender reassignment to move jobs within the CS. The Passport helps with changes of line manager, aiding new managers to understand the workplace adjustments the employee has in place and avoiding the need to explain circumstances again. It can also be helpful in generating discussion pertaining to non-visible

disabilities, such as mental health issues. MOD has an anonymous sifting process for recruitment to help us ensure a 'level playing field' in the assessment process. The MOD offers a guaranteed interview through the Disability Confident Scheme (DCS), whereby individuals who declare a disability are guaranteed an interview providing they meet the minimum requirements for the role.

To encourage and support applications from a more diverse applicant pool, we do not require minimum educational qualifications for entry roles. We use the CS Verbal, Numerical and Situational Judgement tests, which have all been independently audited for accessibility, to assess particular skills/behaviours required for a role. Since 2018 MOD has used CS Success Profiles for recruitment, enabling managers to assess candidate's suitability for the role using a range of selection methods (including personal statements, CVs, online tests etc). We have improved our guidance to managers on selection panels including emphasising the importance of having diverse panels. We have introduced bitesize learning videos including how to write a better job advert (to ensure its inclusive and does not discriminate) and how to sift (ensuring people are offered a guaranteed interview if they meet the minimum criteria). Recruiting managers are required to complete unconscious bias training prior to recruiting to help minimise the possibility of unconscious bias within the selection process. Guidance on recruitment during COVID-19 has also been produced responding to changes in government policy but enabling recruitment to continue.



For recruitment into the Senior Civil Service (SCS) all selection panels have a BAME and/or disabled member.

The DBS HR Advice & Casework Service provides HR functions, advice and support to all MOD main employees.

Our aim is to ensure we are developing the potential of all staff; acknowledging individual aspiration and recognising that we require a mixture of talent, skills and experience to deliver defence outputs now and in the future. We want to maximise the potential of all employees whether that be growing in their current role, getting a breadth of experience at their current grade, or reaching promotion. We provide access to a range of opportunities for staff to learn and develop, provide line managers with frameworks to hold effective career conversations, utilise tools to identify those showing the highest potential and support these individuals to accelerate their development through corporate talent schemes. Development schemes are available to staff at all levels of the organisation, from delegated grades to SCS; we ensure that we attract a range of participants to the schemes so that we can build a more diverse talent pipeline for the future.

There are a number of projects delivering transformation across the CS. The Places for Growth programme seeks to relocate CS roles out of London to the regions and nations of the UK to address the regional imbalance

of public sector roles throughout the UK, ensuring that career progression should no longer depend on location. Aspirations to transform how CS staff learn were published in January 2021, articulating the aims for a new cross-government curriculum and a campus for government skills, focusing on five work strands; foundation of public administration, working in government, leading and managing, specialist skills and domain knowledge.

The Strategic Workforce Planning (SWP) team are supporting a more orchestrated whole force approach to SWP across Defence. Working closely with the SWP Centre of Excellence (CoE) within Defence People Team to monitor and assure TLB workforce plans covering the next four years to achieve the changes to size and shape of our workforce in light of the Integrated Review and Command Paper. In addition, work will continue to develop a robust evidence-based approach through the provision of analytical products, to provide a better understanding of the whole MOD Civilian workforce, allowing for more informed responses to cross government activity such as Places for Growth and reducing reliance on the non-permanent workforce. Our multifaceted programme of work to build SWP capability across TLBs, Professions and Functions is fundamental to progressing this activity as we continue to reduce the gap between our current and future workforce by better understanding both supply and demand going forward.

## Other Employee Matters

As a large and diverse employer, our activities in respect of other employee matters take in a number of areas.

MOD operates a whole force Defence Diversity and Inclusivity Programme to increase the diversity of our workforce in line with the targets that we have set. Our diversity statistics are included in the Performance Report. Defence is delivering a number of key people programmes tailored to the D&I agenda including the Armed Forces People Programme which will continue the work to strengthen the Defence People function, delivering the workforce of the future while meeting the evolving requirements of MOD.

MOD continues to undertake consultation with our people on an ongoing basis, and through two key annual surveys (the AFCAS and MOD People Survey). MOD recognises several trade unions and has a regular pattern of engagement with them, listening to union representatives who will articulate members' views to our management. Representatives are given paid time off so they may undertake union activities alongside their role with the Department

The Armed Forces Covenant is enshrined in law and exists to ensure that those who have served are treated fairly and are at the forefront of our policy-making and delivery. Furthermore, MOD continues to focus heavily on the health and wellbeing of its people. We have introduced several initiatives aimed at increasing the health and wellbeing of our people, and work continues to improve and enhance health and wellbeing.

## Expenditure on Consultancy and Temporary Staff

It does not make economic sense for the MOD to maintain all the specialist skills needed permanently in house, and access to some level of private-sector expertise is consequently of enduring value to the Department. Over the past few years as the Department has been going through a period of fundamental change in the way defence business is conducted, there has been an increased need for consultancy and temporary staff. We have needed to contract short term both for independent advice and for specialist skills which cannot currently be found among the permanent workforce.

The MOD, including On Vote Agencies and ALBs, spent the following on consultancy and temporary staff (also known as Contingent Labour) in 2020–21.

## Analysis of Consultancy and Temporary Staff

Body	2020–21		2019–20 <sup>1</sup>	
	Consultancy £M	Temporary Staff <sup>2</sup> £M	Consultancy £M	Temporary Staff <sup>2</sup> £M
<b>Ministry of Defence Main</b>	93.003	162.295	78.204	156.183
<b>On Vote Agencies</b>				
Defence Equipment & Support Bespoke Trading Entity	7.252	99.650	8.152	76.394
Defence Electronics & Components Agency	-	-	-	-
Defence Science & Technology Laboratory	-	21.254	-	19.802
Submarine Delivery Agency	6.125	27.248	8.860	19.390
<b>Executive Non-Departmental Public Bodies</b>				
National Museum of the Royal Navy	0.101	-	-	-
National Army Museum	0.011	-	0.016	-
Royal Air Force Museum	0.219	0.011	0.037	0.053
Single Source Regulations Office	0.082	-	-	0.032
<b>Other Bodies<sup>3</sup></b>	2.875	0.694	2.811	0.531
<b>Total Expenditure</b>	<b>109.668</b>	<b>311.152</b>	<b>98.080</b>	<b>272.385</b>

1. 2019–20 numbers have been restated to ensure consistency and comparability with the costs reported for 2020–21.

2. Cabinet Office definitions show Contingent Labour as Temporary Staff.

3. Other bodies are made up of Commonwealth War Graves Commission, Royal Hospital Chelsea, Reserve Forces and Cadet Associations, Armed Forces Covenant Fund Trust, International Military Services Ltd.

Consultancy is the provision to management of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the ‘business-as-usual’ environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with the implementation (but not the delivery) of the solutions.

Temporary staff describes the provision of workers to cover business-as-usual or service delivery activities within an organisation. Temporary staff are also often referred to as “Contingent Labour”.

The Department has continued to improve the accuracy of reporting of Consultancy and Temporary Staff costs to fully align with the definitions issued by Cabinet Office. As a result, there has been a requirement to restate the values in 2019–20 in order to ensure consistency and comparability with the costs reported for 2020–21.

The value of Temporary Staff has increased from 2019–20 due in part to a ramp-up of workforce substitutes in Defence Equipment and Support following slower than expected recruitment and to support the increased programme of work. The Navy Digital and Data Strategy also required additional temporary staff to support the project as it transitioned from conceptual to development phase.

## Off-Payroll Engagements

HM Treasury requires departments to publish information on their high paid and/or senior off-payroll engagements. There were no high paid and/or senior off-payroll engagements

in ALBs. Other bodies are made up of Commonwealth War Graves Commission, Royal Hospital Chelsea, Reserve Forces and Cadet Associations, Armed Forces Covenant Fund Trust, International Military Services Ltd.

### Off-Payroll Engagements Earning More than £245 Per Day as at 31 March 2021

	Core Department	ALBs	Departmental Group
Number of existing engagements as of 31 March 2021	1,626	6	1,632
<b>Of which...</b>			
Number that have existed for less than one year	1,175	4	1,179
Number that have existed for between one & two years	291	2	293
Number that have existed for between two and three years	113	Nil	113
Number that have existed for between three and four years	29	Nil	29
Number that have existed for four or more years	18	Nil	18

The analysis above includes all engagements regardless of duration. Many of our off-payroll engagements are short-term in nature. We have additionally retained a number of

long-standing arrangements, particularly in circumstances where specialist skills or experience are critical in providing input to projects/programmes.

### All temporary Off-Payroll workers engaged at any point during the year ended 31 March 2021, paid more than £245 Per Day

	Core Department <sup>1</sup>	ALBs	Departmental Group
Number of new engagements, or those that reached six months in duration, between 1 April 2020 and 31 March 2021	2,314	6	2,320
<b>Of which...</b>			
Number assessed to be in-scope of IR35	217	2	219
Number assessed to be out of scope of IR35	138	Nil	138
Number of engagements reassessed for compliance or assurance purposes during the year	242	Nil	242
Number of engagements where the status was disputed under provisions in the off-payroll legislation	9	Nil	9
No. of engagements where the status was disputed under provisions in the off-payroll legislation	4	Nil	4
Of which: number of engagements that saw a change to IR35 status following review	3	Nil	3

1. The off-payroll legislation does not apply to sole traders or workers that are employed by and on the payroll of an umbrella company, agency or other organisation in the supply chain. A large number of workers fall into the category in which the IR35 legislation does not apply.

The volume of engagements is substantially higher than that reported in 2019–20 due in large part to change in reporting requirement. All engagements are now reported whereas previously only those >6 months in duration needed to be disclosed.

39% (900 in number) of the total engagements in the above table have been engaged via either Public Sector Resourcing Crown Commercial Services (CCS), or the Temporary Healthcare Worker frameworks.

This reflects our policy decision to only engage workers through these frameworks who are on their supplier' payroll.

With respect to the remainder – 43% (984 in number) engagements were placed through DE&S delivery partner arrangements with specialist recruiters; 12% (283 in number) engagements represent fee earners, such as guest speakers, lecturers, piano tuners, musicians, etc.; and the remainder number through other CCS frameworks.

### *On-Payroll Engagements of Board Members and/or Senior Officials with Significant Financial Responsibility between 1 April 2020 and 31 March 2021*

	Main Department	ALBs
Number of individuals that have been deemed "board members, and/or senior officials with significant financial responsibility", during the financial year	63	75

## Trade Union Facility Time

The following is a summary of trade union officials and facility time incurred during 2020–21.

### *Number of Trade Union Officials*

Relevant union officials	Full-time equivalent employee number
Number of employees who were relevant union officials during the relevant period	
100	223,625

### *Percentage of Pay Bill Spent on Facility Time*

Percentage of pay bill spent on facility time	
Total cost of facility time	£256,783
Total pay bill	2,893,600,000
Percentage of the total pay bill spent on facility time	0.01%

### *Percentage of Time Spent on Facility Time*

Percentage of time	Number of employees
0%	7
1–50%	91
51%–99%	1
100%	1

### *Time Spent on Trade Union Activities*

Paid trade union activities	
Time spent on paid trade union activities as a percentage of total paid facility time hours	7.90%



# The Parliamentary Accountability and Audit Report

**The Parliamentary Accountability and Audit Report describes how we have been financed through the Westminster Estimates process and includes a number of other ‘accountability’ disclosures which are required by Parliament. Details are also provided regarding the regularity of our expenditure, meaning that Parliament can be assured that funds have been spent in the manner intended. The Report concludes with the Certificate and Report of the Comptroller and Auditor General. Further details of the Department’s Estimate and Outturn are included in the DG Finance Financial Performance Summary within the Performance Report**

## Statement of Outturn against Parliamentary Supply (SOPS)

(This section has been subject to audit)

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires us to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons. The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply

Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year. Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on [gov.uk](https://www.gov.uk), to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn does not exactly tie to cash spent) and administration. The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SoCNE, to tie the SOPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and an analysis of income payable to the Consolidated Fund (note 4).

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual available on [gov.uk](https://www.gov.uk), for detail on the control limits voted by Parliament.

### Summary of Resource and Capital Outturn 2020–21

		2020–21									2019–20
		Outturn			Estimate			Outturn v Estimate Saving/ (Excess)			Outturn
	Note	Voted £000	Non Voted £000	Total £000	Voted £000	Non Voted £000	Total £000	Voted £000	Non Voted £000	Total £000	Total £000
<b>Departmental Expenditure Limit</b>											
Resource	SOPS 1.1	40,177,752	-	40,177,752	41,256,647	-	41,256,647	1,078,895	-	1,078,895	36,707,038
Capital	SOPS 1.2	11,706,721	-	11,706,721	11,716,395	-	11,716,395	9,674	-	9,674	10,313,857
Total		51,884,473	-	51,884,473	52,973,042	-	52,973,042	1,088,569	-	1,088,569	47,020,895
<b>Annually Managed Expenditure</b>											
Resource	SOPS 1.1	2,062,163	-	2,062,163	2,719,285	-	2,719,285	657,122	-	657,122	59,831
Total		2,062,163	-	2,062,163	2,719,285	-	2,719,285	657,122	-	657,122	59,831
<b>Total Budget</b>											
Resource	SOPS 1.1	42,239,915	-	42,239,915	43,975,932	-	43,975,932	1,736,017	-	1,736,017	36,766,869
Capital	SOPS 1.2	11,706,721	-	11,706,721	11,716,395	-	11,716,395	9,674	-	9,674	10,313,857
<b>Total</b>		<b>53,946,636</b>	<b>-</b>	<b>53,946,636</b>	<b>55,692,327</b>	<b>-</b>	<b>55,692,327</b>	<b>1,745,691</b>	<b>-</b>	<b>1,745,691</b>	<b>47,080,726</b>

The majority of the Resource DEL variance in core expenditure of £1.079 billion was in ringfenced RDEL (£0.977 billion). The variation was driven by some complexity and the timing of decisions associated with the outcome of the Integrated Review. The Department included contingency for potential write-offs and impairments arising from any decisions to cancel or curtail programmes, only an element of which was required when the review outcome became clear at the end of the financial year.

The Capital Departmental Expenditure Limit (DEL) outturn variance was just £9 million (0.07%).

For Annually Managed Expenditure (AME), which by its nature is demand led and volatile, the outturn was £2.062 billion against an estimate of £2.719 billion. The majority of the £0.657 billion variance is due to movements in the valuation of nuclear decommissioning provisions.

The Net Cash Requirement estimate was increased as part of the Supplementary Estimates review at which time trend analysis suggested that the previous value might be insufficient to cover payments in the remainder of the financial year. This forecast subsequently reduced as actual cash payments were less than anticipated leading to the end year variance reported.

### Net Cash Requirement 2020–21

		2020–21			2019–20
	Note	Outturn £000	Estimate £000	Outturn compared to Estimate: Savings/ (Excess) £000	Outturn £000
Net Cash Requirement	SOPS 3	41,824,581	43,543,804	1,719,223	41,024,026

### Administration Costs 2020–21

		2020–21			2019–20
	Note	Outturn £000	Estimate £000	Outturn compared with Estimate £000	Outturn £000
Administration Costs	SOPS 1.1	1,848,240	1,870,488	22,248	1,907,845

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

## SOPS Note 1 Net Outturn

### SOPS Note 1.1 – Analysis of Net Resource Outturn

Spending in Departmental Expenditure Limits (DEL) Voted Expenditure	2020-21								2019-20
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Virements £000	Total Resource Estimate Including Virements £000	Total Net Outturn Compared to Estimate £000	Total Net Resource Outturn £000
A. Provision of Defence Capability – Service Personnel Costs	-	10,511,526	-	<b>10,511,526</b>	10,352,175	159,351	10,511,526	-	9,949,068
B. Provision of Defence Capability – Civilian Personnel Costs	-	1,605,760	-	<b>1,605,760</b>	1,786,311	(180,551)	1,605,760	-	1,535,636
C. Provision of Defence Capability – Infrastructure Costs	-	4,914,951	-	<b>4,914,951</b>	5,152,149	(237,198)	4,914,951	-	4,643,384
D. Provision of Defence Capability – Inventory Consumption	-	1,191,875	-	<b>1,191,875</b>	1,188,252	3,623	1,191,875	-	1,225,847
E. Provision of Defence Capability – Equipment Support Costs	-	7,364,559	-	<b>7,364,559</b>	7,386,978	(22,419)	7,364,559	-	6,927,405
F. Provision of Defence Capability – Other Costs and Services	-	1,447,813	-	<b>1,447,813</b>	1,262,690	185,123	1,447,813	-	1,347,553
G. Provision of Defence Capability – Receipts and Other Income	-	-	(1,265,160)	<b>(1,265,160)</b>	(1,370,065)	104,905	(1,265,160)	-	(1,264,898)
H. Provision of Defence Capability – Depreciation and Impairment Costs	-	9,519,392	-	<b>9,519,392</b>	10,496,453	-	10,496,453	977,061	7,185,671
I. Provision of Defence Capability – Cash Release of Provisions	-	315,162	-	<b>315,162</b>	340,000	(24,838)	315,162	-	522,739
N. Provision of Defence Capability – Research and Development Costs	-	265,835	-	<b>265,835</b>	183,216	82,619	265,835	-	265,316
Q. Operations – Service Personnel Staff Costs	-	29,744	-	<b>29,744</b>	30,750	-	30,750	1,006	39,494
R. Operations and Peacekeeping – Civilian Personnel Staff Costs	-	1,830	-	<b>1,830</b>	1,750	80	1,830	-	1,623



2020–21									2019–20
Spending in Departmental Expenditure Limits (DEL) Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Virements £000	Total Resource Estimate Including Virements £000	Total Net Outturn Compared to Estimate £000	Total Net Resource Outturn £000
S. Operations – Infrastructure Costs	-	81,514	-	<b>81,514</b>	74,530	6,984	81,514	-	55,749
T. Operations – Inventory Consumption	-	92,763	-	<b>92,763</b>	102,310	-	102,310	9,547	110,914
U. Operations – Equipment Support Costs	-	131,769	-	<b>131,769</b>	174,810	(10,084)	164,726	32,957	122,189
V. Operations – Other Costs and Services	-	33,802	-	<b>33,802</b>	69,878	-	69,878	36,076	41,408
W. Operations – Receipts and Other Income	-	-	(2,018)	<b>(2,018)</b>	(5,038)	3,020	(2,018)	-	(4,932)
Operations – Depreciation and Impairment Costs	-	-	-	-	-	-	-	-	1,613
Y. Arm's Length Bodies Costs	-	228,984	-	<b>228,984</b>	205,565	23,419	228,984	-	228,215
AA. Defence Capability DE&S BTE	-	1,125,092	-	<b>1,125,092</b>	1,089,780	35,312	1,125,092	-	1,099,653
AB. War Pensions Benefits	-	652,263	-	<b>652,263</b>	670,106	(17,843)	652,263	-	681,025
AC. Conflict, Stability and Security Fund	-	82,056	-	<b>82,056</b>	82,056		82,056	-	84,521
Administration Costs <sup>1</sup>									
O. Administration Costs – Civilian Personnel Costs	578,380	-	-	<b>578,380</b>	550,000	28,380	578,380	-	550,640
P. Administration Costs – Other Costs and Services	540,020	-	-	<b>540,020</b>	691,991	(139,883)	552,108	12,088	642,365
Z. Administration Costs – Service Personnel Costs	727,290	-	-	<b>727,290</b>	730,000		730,000	2,710	702,906
AD. Administration Costs – Cash Release of Provisions	2,550	-	-	<b>2,550</b>	10,000		10,000	7,450	11,934
<b>Total Spending in DEL</b>	<b>1,848,240</b>	<b>39,596,690</b>	<b>(1,267,178)</b>	<b>40,177,752</b>	<b>41,256,647</b>	<b>-</b>	<b>41,256,647</b>	<b>1,078,895</b>	<b>36,707,038</b>

2. The Department does not record any income as Administrative.

2020–21									2019–20
Spending in Annually Managed Expenditure (AME) Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Virements £000	Total Resource Estimate Including Virements £000	Total Net Outturn Compared to Estimate £000	Total Net Resource Outturn £000
AE. Provision of Defence Capability – Depreciation and Impairment Costs	-	(146,748)	-	<b>(146,748)</b>	952,550	(442,176)	510,374	657,122	(46,372)
AF. Provision of Defence Capability – Provisions Costs	-	1,978,369	-	<b>1,978,369</b>	1,816,735	161,634	1,978,369	-	521,986
AG. Provision of Defence – Cash Release of Provisions Costs	-	(317,712)	-	<b>(317,712)</b>	(350,000)	32,288	(317,712)	-	(534,673)
AH. Movement on the Fair Value of Financial Instruments	-	548,254	-	<b>548,254</b>	300,000	248,254	548,254	-	118,890
<b>Total Voted Expenditure in AME</b>	<b>-</b>	<b>2,062,163</b>	<b>-</b>	<b>2,062,163</b>	<b>2,719,285</b>		<b>2,719,285</b>	<b>657,122</b>	59,831
<b>Total Resource Outturn</b>	<b>1,848,240</b>	<b>41,658,853</b>	<b>(1,267,178)</b>	<b>42,239,915</b>	<b>43,975,932</b>		<b>43,975,932</b>	<b>1,736,017</b>	36,766,869

## SOPS Note 1.2 – Analysis of Net Capital Outturn

2020–21									2019–20
Capital Spending in Departmental Expenditure Limits (DEL) Capital – Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Virements £000	Total Capital Estimate Including Virements £000	Total Net Outturn Compared to Estimate £000	Total Net Capital Outturn £000
J. Provision of Defence Capability – Capital – Single Use Military Equipment (SUME)	-	7,679,950	-	<b>7,679,950</b>	7,780,530	(100,580)	7,679,950	-	6,848,790
K. Provision of Defence Capability – Other Capital (Fiscal)	-	2,921,672	-	<b>2,921,672</b>	2,800,577	121,095	2,921,672	-	2,441,692
L. Provision of Defence Capability – Fiscal Assets / Estate Disposal	-	-	(61,162)	<b>(61,162)</b>	(40,700)	(20,462)	(61,162)	-	(39,933)
M. Provision of Defence Capability – New Loans and Loan Repayments	-	-	-	-	2,500	(2,178)	322	322	-
N. Provision of Defence Capability – Research and Development Costs	-	1,051,694	-	<b>1,051,694</b>	1,050,100	1,594	1,051,694	-	967,940
Operations Capital Single Use Military Equipment (SUME)	-	-	-	-	-	-	-	-	1,938
X. Operations Other Capital (Fiscal)	-	28,970	-	<b>28,970</b>	29,890	-	29,890	920	22,684
Y. Arm's Length Bodies	-	18,299	(15,200)	<b>3,099</b>	2,568	531	3,099	-	2,796
AA. Defence Capability DE&S BTE	-	75,898	-	<b>75,898</b>	84,330		84,330	8,432	67,950
AC. Conflict, Stability and Security Fund	-	6,600	-	<b>6,600</b>	6,600		6,600	-	-
<b>Total Capital Outturn</b>	<b>-</b>	<b>11,783,083</b>	<b>(76,362)</b>	<b>11,706,721</b>	<b>11,716,395</b>		<b>11,716,395</b>	<b>9,674</b>	10,313,857

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on [gov.uk](https://www.gov.uk).

The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

## SOPS Note 2 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	2020–21 Outturn £000	2019–20 Outturn £000
<b>Total Resource Outturn</b>	SOPS 1.1	<b>42,239,915</b>	36,766,869
Adjustment for changes in discount rates not passing through net operating costs		<b>(54,998)</b>	(86,082)
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>76,528</b>	142,347
Less income payable to the Consolidated Fund <sup>1</sup>	SOPS 4	<b>(56,277)</b>	(45,425)
Income in respect of donated assets and asset disposals treated as capital income		<b>(33,738)</b>	-
Loss/(gain) on foreign exchange in respect of Capital purchases and other adjustments to resource outturn		<b>48,121</b>	(120,037)
Less movements on capitalised and other provisions included in resource outturn but not passing through net operating costs	SoCiTE	<b>(687,076)</b>	(309,243)
Adjust for the net effect of capital grants included in operating costs but excluded from resource outturn and included in resource outturn but excluded from operating costs		<b>(15,200)</b>	(9,404)
Add capitalised Research and Development Costs included in operating costs but excluded from resource outturn		<b>930,312</b>	823,939
<b>Net expenditure for the year in the Statements of Comprehensive Net Expenditure</b>	SoCNE	<b>42,447,587</b>	37,162,964

1. As directed by HM Treasury, income received from the Court Funds Office was paid into HM Treasury's Consolidated Fund and not retained within the Department.

As noted in the introduction to the SOPS above, Outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements.

## SOPS Note 3 Reconciliation of Net Outturn to Net Cash Requirement

	Note	Outturn £000	Estimate £000	Net Total Outturn Compared with Estimate: Savings/(Excess) £000
Net Resource Outturn	SOPS 1.1	42,239,915	43,975,932	1,736,017
Net Capital Outturn	SOPS 1.2	11,706,721	11,716,395	9,674
<b>Adjustments for Arm's Length Bodies (ALBs):</b>				
Remove voted outturn (Resource and Capital)		(232,083)	(208,133)	23,950
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		231,884	204,586	(27,298)
<b>Adjustments to remove non-cash items:</b>				
Depreciation and impairment		(9,374,015)	(11,749,003)	(2,374,988)
New provisions and adjustments to previous provisions		(1,232,347)	(1,816,735)	(584,388)
Other non-cash items		(1,808,286)	100,000	1,908,286
<b>Adjustment to reflect movement in working capital:</b>				
Increase/(Decrease) in Inventory		158,741	135,000	(23,741)
Increase/(Decrease) in Receivables		362,332	(67,417)	(429,749)
(Increase)/Decrease in Payables		(537,299)	903,179	1,440,478
Use of provisions and unfunded pensions		309,018	350,000	40,982
<b>Net Cash Requirement</b>		<b>41,824,581</b>	<b>43,543,804</b>	<b>1,719,223</b>

As noted in the introduction to the SOPS above, Outturn and the Estimates are compiled against the budgeting framework, not on a cash basis.

Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

## SOPS Note 4 Analysis of Income Payable to the Consolidated Fund

In addition to income retained by the Department, HM Treasury has classified the following income as payable to the

Consolidated Fund (cash receipts being shown in italics):

	Outturn 2020–21		Outturn 2019–20	
	Accruals £000	Cash basis £000	Accruals £000	Cash basis £000
Income outside the ambit of the Estimate <sup>1</sup>	56,277	56,277	45,425	45,425
Total amount payable to the Consolidated Fund	<b>56,277</b>	<b>56,277</b>	<b>45,425</b>	<b>45,425</b>

1. As directed by HM Treasury, income received from the Court Funds Office was paid into HM Treasury's Consolidated Fund and not retained within the Department.

## Parliamentary Accountability Disclosures

### Fees and Charges

(This section has been subject to audit)

Where we have irreducible spare capacity, we provide 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. Costs are recovered in accordance with Managing Public Money (MPM). Where a chargeable activity produces a tangible benefit to Defence, we may reduce any charges levied below the full costs of the activity, the net receipts from these activities remain immaterial to Defence. Details are held within the Department.

### Remote Contingent Liabilities and Financial Guarantees

(This section has been subject to audit)

In addition to IAS 37 liabilities disclosed within the Notes to the Accounts, we disclose – for Parliamentary reporting and accountability purposes – certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which are reported to Parliament in accordance with the requirements of Managing Public Money.

Remote liabilities are uncertain and recognise the fact that further expenditure may arise if one or more uncertain future events occur that are not wholly within our control. Although we consider that they are unlikely to occur, we have disclosed these liabilities as they relate to possible obligations triggered by

our involvement in enduring companies, products, projects, equipment, technologies and property. The total value of quantifiable remote liabilities is £2,586 million.

Several contingent liabilities are considered unquantifiable. Liabilities may involve multiple improbable scenarios and permutations (often involving complex and changing technology) and the uncertainty surrounding events that may lead to any obligations crystallising, means that it is not feasible to estimate values. Furthermore, objective evidence to support valuations of these liabilities is not available. We cannot therefore measure them with sufficient reliability. The details of any unquantifiable contingent liabilities are also included in the narrative that follows. The Department routinely reviews the status of unquantified liabilities to determine whether circumstances or evidence has arisen that would support quantification.

### Sensitive

We have entered into contingent liabilities by offering guarantees, limitations to contractors' liability, indemnities, or by giving letters of comfort. There are some liabilities where details are not given due to reasons of commercial and/or national security. The estimated value of these is £657.5 million. There are also some sensitive items where the liability is unquantifiable.

### Special and Generic Risk Indemnities

HM Treasury (HMT) have delegated to the MOD approval for a range of Special and Generic Risks which can be applied when



conducting normal business. These are contractual indemnities which can lead to Contingent Liabilities. Generic indemnities for the Department are:

- Protection Against Excess Profit or Loss,
- Failure of Performance including Research and Development Contracts.

Special Risk Indemnities cover areas such as:

- Aircraft Flight and Taxiing Trials,
- Research and Development Contracts for Guided Weapons, and
- Helicopter Support risks.

The total value of quantifiable contingent liabilities reportable under Managing Public Money for Special Risks, is £611.6 million. In addition, there are unquantifiable liabilities related to Generic and Special Risks, full details of which are held centrally within the Department.

## Contract Terms

Under contract terms, the Department may indemnify or limit a contractor's liability in relation to a specific area. This includes damage to government property, damage to issued property, default, deferment, termination and indirect and consequential losses. Some liabilities that are unquantifiable are also included.

Termination of a contract before its expiry term can occur where the contractor commits a significant breach of the contract or suffers an event which prevents due performance of the contract. MOD needs appropriate rights to terminate a contract when it is breached without recourse. These rights are set out in

standard Defence Conditions (DEFCONs) and are embedded in contracts.

Deferment relates to a specific action on any given contract. A financial consequence or alternative performance/timescale may result.

These limits or indemnities have been provided in relation to:

- AWE Management Ltd for non-nuclear risks and Babcock Group, Lockheed Martin, QinetiQ, and Leonardo for non-nuclear risks resulting from claims for damage to property, or death and personal injury to a third party. The potential value relating to damage caused on Government Property is £1,132 million. An additional element of these liabilities is unquantifiable.
- The estimated value for liability for consequential or indirect loss, redundancy, loss or damage arising from Light Aircraft Flying Training, is £25 million.
- The Department has provided an indemnity to contractors for loss or damage to issued property with a potential value of £10 million.
- The Department has provided an indemnity for contractor's liability relating to explosion or ignition of Authority owned ammunition or explosives, with a value of £2 million.
- There is an unquantified liability relating to the Strategic Weapons System Activities Future Delivery Project, where the contract includes an indemnity for non-nuclear events and unintended detonation of explosives.
- The Department has provided an overall cap on contractor liability (unquantifiable) within the future submarine design phase contract with Devonport Royal Dockyard Limited and BAE Systems Ltd. The cap

is unquantifiable because it applies per incident rather than as a total liability.

- A Catastrophic Risk indemnity encompassing claims above £50 million, for direct or indirect costs not covered by the standard Special Risk Indemnity for Shipbuilders. This has been provided to BAE Systems Ltd for Type 26 Global Combat Ship Manufacture Phase 1. These liabilities are unquantifiable.
- An indemnity of £0.2 million has been provided for claims that relate to damage to property or death and personal injury to a third party, relating to post flight checks.

## Nuclear

Indemnities have been provided to several companies relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965. These liabilities are unquantifiable. These companies include:

- Rolls-Royce
- BAE Systems
- AWE Management Ltd
- Babcock Group
- Mott MacDonald, Jacobs and White Young Green in support of framework contracts under Next Generation Estate Contracts.

An unquantifiable indemnity has been issued 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.

## People

The MOD has provided a guarantee to the NAAFI pensions Trustees', underwriting the ability to pay full benefits to members

with a value £121.0 million. There is also an unquantified guarantee to NAAFI, that the Department will reimburse 90% of the additional costs arising from any changes in MOD's service requirements. It covers the costs of redundancy (on a 90/10 basis) of any structural changes that would affect NAAFI operations. This liability is unquantified as the cost will depend on the individual length of service and the grade of those NAAFI employees involved.

There is a potential redundancy liability of £8.3 million for employees, in several circumstances, these are:

- USVF re-basing as part of US European Infrastructure Consolidation (EIC)
- Employees at the Defence College of Technical Training
- Redundancy following contractorisation

## Environmental

The Department has a number of sites where it may be necessary to carry out decontamination work.

The Government Pipeline and Storage System (GPSS) provides compensation to landowners where GPSS is laid outside deviation limits, or where the SofS' rights in respect of GPSS are lost. The estimated value of the liability relating to this is £5.6 million.

It is not practicable or cost effective to identify all contamination at these sites, any possible liability is therefore not fully quantified. However, £1.5 million has been identified for clean-up costs. Other liabilities exist for possible site remediation exposure, which are treated as unquantifiable contingent liabilities.

This is the case for an indemnity for environmental losses incurred by QinetiQ, arising from certain defined materials at specific properties before the formation of QinetiQ on 1 July 2001.

An 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, is also unquantifiable.

## COVID-19

In November 2019 a novel strain of coronavirus was detected, leading the World Health Organisation to declare a pandemic on 11 March 2020. The ongoing disruption caused by the pandemic created significant economic uncertainty, this ongoing disruption has been dealt with commercially and is now being treated as business as usual but there remains scope for other issues to arise. An unquantified contingent liability is disclosed.

## Private Finance Initiative (PFI)

The Department has issued an indemnity to SERCO under the Marine Services Private Finance Initiative (PFI) contract, for losses and costs incurred by the unintended detonation of explosives while being handled in performance of the contract. The liabilities associated with this indemnity cannot be accurately estimated and this liability is therefore unquantified.

There are also potential liabilities from the use of PFI standard terms and conditions in schemes in relation to circumstances such as qualifying changes in law. These liabilities cannot be accurately estimated due to

their uncertainty. They cover a wide variety of events including qualifying changes in law, environmental damage, latent defects and uninsurable events and are therefore unquantified.

## Other Contingent Liabilities

There are liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force, with the potential value of £2.9 million.

There are several liabilities arising from legal claims against the MOD which are currently going through the UK court system. If all of these contractual encroachments were to materialise their value would be £5.5 million.

There are several quantified liabilities arising from Foreign Military Sales activity with the potential value of £3.3 million.

The Department holds an unquantifiable statutory liability for an Arm's Length Body – International Military Services Ltd.

An indemnity has been provided for residual employee disease liability and residual public liability, arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001 (unquantifiable liability).

An indemnity has been provided for Locum medical staff working within MOD to protect them against clinical negligence claims, similar to that provided for NHS staff within the Department of Health and Social Care (DHSC). The value of this liability is £0.2 million.

## Financial Guarantees

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 Restore plc for the Government Records Management and Archive Service, MOD guarantees to pay the operator should any other government department fail to settle its outstanding invoices.
- MOD provides an indemnity to towage companies who are contracted to tow foreign warships into UK ports, should the foreign nation default on payment of the invoice.

## Accountability to Parliament

Ministers have accounted to Parliament during the financial year 2020–21 on all aspects of the Ministry of Defence's business. Defence Ministers participated in 18 debates on Defence issues in Parliament. Ministers responded to three debates in the House of Commons and five debates in Westminster Hall. There was one debate on Defence in the House of Lords. In addition, there were nine debates on legislation (four in the House of Commons, five in the House of Lords). Details are published in Hansard.

Ministers made five oral statements to the House of Commons and three to the House of Lords – details are published in Hansard. A total of 2,119 oral and written Parliamentary

Questions were answered. Ministers also made 26 Written Ministerial Statements to the House of Commons and the House of Lords – details are published on the Parliamentary written questions and answers system at the following link – <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/>.

## Accounting Officer Assessments

The MOD has published 6 Accounting Officer Assessments of Major Projects. Details of these assessments can be accessed via the following link. <https://www.gov.uk/government/publications/accounting-officer-assessments>

## Ministerial Correspondence

From 1 April 2020 to 31 March 2021, Defence Ministers responded to 2,312 items of correspondence from Members of Parliament, Peers and members of the public where a Ministerial response was appropriate. Of these, 2,189 (95%) were answered within the target of 20 working days.

## Evidence to the Defence Select Committee

Since 1 April 2020, the Ministry of Defence has given evidence to the Defence Select Committee on several 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: <https://committees.parliament.uk/committee/24/defence-committee/publications/>

Government responses submitted by the Ministry of Defence to Committee reports published during this reporting period are listed in the table that follows.

### *Parliamentary Session 2020–21: MOD responses to reports published in previous Parliamentary Session*

Report	Title	Publication Date
HC325	Drawing a Line: Protecting Veterans by a Statute of Limitations: Government Response to the Defence Committee's Seventh Report of Session 2017–19	6 May 2020

### *Financial Year 2020–21: Defence Select Committee Reports*

Report	Title	Publication Date
HC 165	In Search of Strategy – The 2020 Integrated Review (HC 910)	13 August 2020
HC 201	The Security of 5G (HC 1091)	8 October 2020
HC 989	Pre-appointment hearing for the Service Complaints Ombudsman	3 December 2020
HC 699	Foreign Involvement in the Defence Supply Chain	14 February 2021
HC 659	Obsolescent and outgunned: the British Army's armoured vehicle capability	14 March 2021
HC 357	Manpower or mindset: Defence's contribution to the UK's pandemic response	25 March 2021

### *Financial Year 2020–21: Evidence to Defence Committee Inquiries without Reports*

Select Committee	Inquiry
Defence Select Committee	Introductory Session with the Defence Secretary (22 April 20)
Defence Select Committee	Military Exercises and the Duty of Care: Further Follow Up (21 July 20)
Defence Select Committee	Work of the Chief of the Defence Staff (7 July 20)
Defence Select Committee	MOD Annual Report and Accounts 2019–20 (8 December 20)
Defence Select Committee	Armed Forces and veterans Mental Health: follow-up (27 January 21)

### *Financial Year 2020–21: Visits by the Defence Committee to UK Armed Force*

Date of Visit	Establishment	Related Inquiry
Thursday 2 July	Nightingale Hospitals (virtual)	N/A
Thursday 1 October	Lulworth Camp	Progress in delivering the British Army's armoured vehicle capability

## Evidence to other Select Committees of the House of Commons and House of Lords

Since 1 April 2020, the Ministry of Defence has also given written and oral evidence on various issues to the following Select Committees of the House of Commons:

### Financial Year 2020–21: Other Select Committee Reports

(Government responses, if published, are listed in brackets after the report to which they relate)

Select Committee	Subject	Publication Date
Joint Committee on Human Rights	Ninth Report: Legislative Scrutiny: Overseas Operations Bill (Service Personnel and Veterans); HC 655/HL 155 (HC 1120)	29 October 2020 (14 January 2021)
Lords International Relations and Defence Committee	The UK and Afghanistan; HL 208	13 January 21 (26 March 21; no reference)

### Financial Year 2020–21: Evidence to Other Select Committee Inquiries without Reports

Select Committee	Inquiry
Environmental Audit Committee	One-off session on the Sustainability of the Ministry of Defence 30 June 20
International Development Committee	Sexual exploitation and abuse in the aid sector: next steps 3 November 20
Lords International Relations and Defence Committee	The UK and Afghanistan 4 November 20
Lords International Relations and Defence Committee	The UK and Afghanistan 17 November 20
EU Security and Justice Sub-Committee	Future UK-EU foreign policy and defence co-operation 1 December 2020

### Financial Year 2020–21: Visits by Other Select Committees to UK Armed Forces

Select Committee	Date of Visit	Establishment	Related Inquiry
Nil	Nil	Nil	Nil

## Public Accounts Committee

The Permanent Secretary as the MOD's Accounting Officer is accountable to the Public Accounts Committee.

All Committee publications, including published evidence given to the Committees, are available at: <https://www.parliament.uk/business/committees/committees-a-z/>

### Evidence to the Committee of Public Accounts and Report Publications Following NAO Value for Money Reports

Report	Title	Hearing Date	Publication Date
HC86	Defence Nuclear Infrastructure	11 March 2020	13 May 2020
HC247	Defence Capability and the Equipment Plan 2019–2029	28 May 2020	15 July 2020
HC684	Delivering Carrier Strike	28 September 2020	13 November 2020
HC693	Defence Equipment Plan 2020 – 2030	4 February 2021	16 March 2021
HC940	Improving Single Living Accommodation for Service Personnel	25 February 2021	23 April 2021



## Performance in Responding to Correspondence from the Public

Each government department has a publication scheme, which makes information available to the public about how it operates and how it spends its budget. There are a variety of ways members of the public can obtain information from the Ministry of Defence. Some information is released proactively and can be accessed through the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/publication-scheme>. Other categories of information are only available on request.

### *Freedom of Information*

MOD performance under the Freedom of Information Act is published as part of the Cabinet Office FOI statistics here: <https://www.gov.uk/government/collections/government-foi-statistics>.

## Complaints to the Parliamentary and Health Service Ombudsman

The Parliamentary and Health Service Ombudsman (PHSO) investigate complaints from individuals who feel they have been treated unfairly, improperly or have received a poor service from Government Departments or their agencies.

In 2020–21, the PHSO received 17 complaints about the MOD. The Ombudsman decided 3 complaints following primary investigation and one complaint was accepted for detailed investigation.

## Regularity of Expenditure

(This section has been subject to audit)

### **Losses, Special Payments and Gifts**

Further information on the categories of losses and special payments can be found in HM Treasury's Managing Public Money at: <https://www.gov.uk/government/publications/managing-public-money> **Losses**

## Losses

### Details of Closed Cases over £300,000

Cases closed	2020–21		2019–20 <sup>1</sup>	
	Core Department and Agencies	Departmental Group	Core Department and Agencies	Departmental Group
Total Number of Losses	9,932	9,932	13,966	13,966
Total Value of Losses £'000	82,099	82,099	35,847	35,847

Details of Losses over £300,000	£000	£000	£000	£000
Write off historic expenditure on DII(F) Official and Secret Installation at RAF Wyton and Cyber Ranges used for Exercises.	7,713	7,713		
Write off of unsupported balances in DIO	6,187	6,187		
Write off historic expenditure sitting on Asset under Construction and Asset RACs	3,696	3,696		
Write off historic expenditure on minor IT equipment / Laptop assets procured for use on PJHQ exercises.	1,216	1,216		
DER Income repayment – Defence Academy	710	710		
Combat Systems Write off of unsupportable Opening Balance	526	526		
COS HLB legacy accrual write-off	519	519		
Cash Control Account write off	387	387		
<b>Bookkeeping Adjustments</b>	<b>20,954</b>	<b>20,954</b>	6,593	6,593
HMS Quorn withdrawn from service	21,538	21,538		
Cessation of a project to procure a new information system	4,059	4,059		
Cancellation of project due to technical difficulties.	2,284	2,284		
Estate Optimisation Technical Studies Scope Change	346	346		
Prince of Wales Ship Landing Platform Helicopter conversion cancellation	331	331		
IT Conferencing Assets write-off	325	325		
<b>Constructive Losses</b>	<b>28,883</b>	<b>28,883</b>	1,895	1,895
Stores losses of equipment	2,410	2,410		
Challenger 2 of the Royal Tank Regiment Misfire/Gun malfunction incident	1,650	1,650		
Closure of Multi-Platform Support Unit material accounts	949	949		
Loss of Flank Array	328	328		
<b>Stores Losses</b>	<b>5,337</b>	<b>5,337</b>	8,680	8,680
Access Type 6 RFD+ Service withdrawal	324	324		
<b>Fruitless Payments</b>	<b>324</b>	<b>324</b>	1,211	1,211
Overseas Personnel Support	10,596	10,596		
Write-off of uncharged utilities in relation to Portsmouth Naval Base Property Trust	603	603		
<b>Claims Abandoned or Waived</b>	<b>11,199</b>	<b>11,199</b>	1,655	1,655
<b>TOTAL CLOSED CASES OVER £300,000</b>	<b>66,697</b>	<b>66,697</b>	20,034	20,034

1. The total number of cases was incorrectly disclosed as 13,967 in 2019–20 and has been restated.

## Advance Notifications

HM Treasury's Managing Public Money requires early notification to Parliament of significant losses. Details of open cases identified during the year that are over £300,000 can be found in the table below. The values are estimates and may change when the case is finally closed.

### Advance Notifications over £300,000

Cases	£M
<b>Stores Losses</b>	
Watchkeeper (WK044) Unmanned Aerial System	8.460
Investigation into loss of image intensifier tubes	0.601
<b>Constructive Losses</b>	
Earlier retirement of assets associated with the results of the Integrated Review of Security, Defence, Development and Foreign Policy	1,439.781
Cancellation of equipment procurement programmes associated with the results of the Integrated Review of Security, Defence, Development and Foreign Policy	545.575
Sentry Initial Fleet Reduction	145.614
Husky Command Vehicle fleet reduction (Fleet Optimisation Programme)	65.945
HMS Atherstone withdrawal from service	19.107
E7 Wedgetail initial fleet reduction	18.754
BATCIS Falcon in Service Asset Reduction	14.274
Defence Geospatial Services Withdrawal	7.300
MAB Asset Under Construction Write off	3.581
Panther Command Vehicle fleet reduction (Fleet Optimisation Programme)	2.710
<b>Claims Waived or Abandoned</b>	
Overpayment Claim Abandoned	2.975
<b>TOTAL ADVANCE NOTIFICATIONS OVER £300,000</b>	<b>2,274.677</b>

## Special Payments

### Details of Special Payments over £300,000

	2020–21		2019–20	
	Core Department and Agencies	Departmental Group	Core Department and Agencies	Departmental Group
Total Number of Special Payments	2,371	2,371	2,169	2,169
Total Value of Special Payments £'000	4,764	4,764	14,073	14,073
<b>Details of Special Payments over £300,000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Negotiated Settlement of Contractual Claim	2,500	2,500		
Employment Tribunal Claim	379	379		
Salvage claim against HMS Dragon	361	361		
<b>TOTAL CLOSED CASES OVER £300,000</b>	<b>3,240</b>	<b>3,240</b>	<b>13,000</b>	<b>13,000</b>

### Advance Notifications of over £300,000

Cases	£M
<b>Extra Gratia Payments</b>	
Charge from the Norwegian Defence Dept for Accommodation	0.898
Interest on Late Payments	0.354
<b>TOTAL ADVANCE NOTIFICATIONS OVER £300,000</b>	<b>1.252</b>

### Special Severance Payments

During 2020–21, 6 Special Severance Payments totalling £194,436 were approved. Further details (to the nearest £1,000) are:

#### Analysis of Special Severance Payments

	(to the nearest £1,000)
Maximum Payment	135,000
Median Payment	11,770
Minimum Payment	5,500

There are 2 Special Severance Payments totalling £87,072 which have been approved but not paid as at 31 March 2021.

### Gifts

During 2020–21, 128 Gifts with a total value of £1,842,000 (to the nearest £1,000) were made. There has been 1 individual gift with a value of £300,000 or more. Further details (to the nearest £1,000) are:

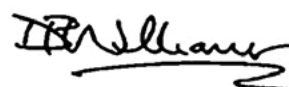
The following gift over £300,000 was identified during the year.	£M
Four former Navy Historic Flight aircraft, associated spare parts and support equipment to Fly Navy Heritage Trust.	<b>1.810</b>

No gifts over £300,000 were identified during the year as advanced notifications.

**David Williams CB**

Accounting Officer

11 January 2022



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

## Opinion on financial statements

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 2021 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agencies. 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 2021. 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

I have also audited the Statement of Outturn against Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion, except for the effects of the matters described in the basis for qualified opinion on financial statements 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 2021 and of the Department's net expenditure and Departmental Group's net expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Basis for qualified opinion on financial statements

I have qualified my opinion on the financial statements in one respect:

- The Department has not undertaken sufficient work to analyse underlying and supporting documentation to enable it to comply with the Financial Reporting Framework and account for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17: Leases. Consequently, I have concluded that the Ministry of Defence has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2020 and 31 March 2021. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not obtained the records or information required to comply with International Accounting Standards in this respect.

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2021 and shows that those totals have not been exceeded; and
- the income and expenditure 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 opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Ministry of Defence in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Ministry of Defence's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Ministry of Defence's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Ministry of Defence is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.



## Other Information

The other information comprises information included in the Annual Report but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

## Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Performance and Accountability Reports 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 the light of the knowledge and understanding of the Ministry of Defence and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Report.

In respect solely of the absence of accounting records held by the Department to support the proper application of IAS 17, described above:

- adequate accounting records have not been kept; and,
- I have not received all of the information and explanations I require for my audit.

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 parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Report Manual are not made; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing the Ministry of Defence's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Ministry of Defence will not continue to be provided in the future.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement

when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Ministry of Defence's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Ministry of Defence's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Ministry of Defence's controls relating to the Government Resources and Accounts Act 2000 and Managing Public Money;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists regarding how and where fraud might occur in the financial statements

and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, bias in management's estimates, significant or unusual transactions and procurement.

- obtaining an understanding of the Ministry of Defence and Group's framework of authority as well as other legal and regulatory frameworks that the Ministry of Defence and Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Ministry of Defence and Group. The key laws and regulations I considered in this context included the Government Resources and Accounts Act 2000, Managing Public Money, the Supply and Appropriation (Main Estimates) Act 2020, Employment Law, tax legislation and Health and Safety Legislation.
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reviewing internal audit reports; and
- enquiries of the Defence Safety Authority to understand the governance and control processes relating to compliance with laws and regulations and key investigations undertaken during the year.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;

- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- attendance at Audit Committee meetings and regular communication with management and internal audit to identify any instances of fraud, non-compliance with laws and regulations and irregular transactions; and
- review of the published Defence Safety Authority's Annual Assurance Report and review of key internal reports prepared during the year.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement

of Outturn against 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.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 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 A of the Annual Report, the maximum numbers maintained during 2020–21 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 A 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 2021 and that those totals have not been exceeded.

**Gareth Davies**

Comptroller and Auditor General  
14 January 2022

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

# Report of the Comptroller and Auditor General on the 2020–21 financial statements of the Ministry of Defence

## Introduction

The primary purpose of the Ministry of Defence (the Department) is to protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies. In 2020–21 the Departmental Group incurred £42.1 billion of net operating costs and held assets of £159.8 billion and liabilities of £31.2 billion.

The Department is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury. Under the FReM, the Department is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

## Timeliness of reporting

We reported to the Departmental Audit & Risk Committee on the 6th October 2021 that our audit was complete. The delay since then in publishing this Annual Report & Accounts relates to clearance of the document within the Department, particularly in respect of the Performance Report, including obtaining Ministerial endorsement. Timeliness of reporting is an important part of Parliamentary and public accountability and the Department should ensure it publishes its Annual Report and Account as soon as possible once the audit is complete.

## The purpose of my report

This report explains the basis for the qualification of my audit opinion on the Department's 2020–21 financial statements.

## Accounting for lease type arrangements

### Basis of my qualification

I have qualified my opinion for a twelfth consecutive year because the Department has not accounted for the assets and liabilities arising from certain contracts in accordance with International Accounting Standard (IAS) 17, Leases. I am unable to quantify the extent of the omitted leased assets and lease liabilities as the Department has not maintained the records or obtained the information required to do so. However, I consider the impact on the financial statements of this non-compliance with IAS 17 to be material.

## Accounting requirements

The FReM requires those preparing accounts to establish whether contracts contain lease-type arrangements and whether those are, in substance, either a finance or operating lease and account for these leases under International Accounting Standard (IAS) 17: Leases. 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 those preparing accounts could have a significant impact on the financial statements.

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 at the lower of fair value and the present value of the minimum lease payments due under the contract. A corresponding liability of the same value would also be recognised. If it is classified 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. I regard the accounting requirements for lease type arrangements to be particularly relevant to the Department. The Department enters into strategic arrangements with certain contractors to procure specialist defence platforms on a non-competitive basis. These arrangements alone, or in conjunction with one another, may provide for the exclusive, or near exclusive, use of industrial assets and capability that have only limited use for other customers. Consequently, the contractual terms may result in the Department controlling a significant majority of the outputs of a supplier's assets. An example is where shipyards are used exclusively on defence contracts and the pricing of the contract recognises this by allowing the contractor to recover fixed costs other than through market rate or unit cost pricing. These arrangements may be considered to contain the characteristics of a finance lease as defined by IAS 17: Leases and should therefore be recognised as finance leases on the Statement of Financial Position of the Department.

## Action by the Department

### Compliance with IAS 17

The Department believes there are a number of contracts that should be accounted for as leases, but it does not have accurate information to enable it to do so. In 2013, following a review of a limited number of contracts that demonstrated the characteristics of a lease under IAS 17, the Department assessed eight of these contracts to contain finance leases. In addition, the Department recognised that there were significant completeness concerns over the scope of its review and that the scale of the omission of assets and liabilities arising from lease arrangements was highly likely to extend significantly beyond the eight identified contracts. The Department concluded that the omitted contracts would have a material impact on its Statement of Financial Position.

Following this exercise, the Department concluded that compliance with IAS 17 for existing contracts would create significant challenges as further management information and supplier engagement would be needed to complete the review and confirm what values would need to be included in the accounts. As such, the Department has, in agreement with HM Treasury, decided not to obtain more detailed information on the grounds that doing so would not represent value for money. Although the Department has begun a review of its legacy contracts in support of its implementation of the new leasing standard (see IFRS 16 implementation project below), this work remains incomplete and has not addressed IAS 17 non-compliance. I am unable therefore, to quantify the exact impact of the omission



of assets and liabilities arising from leasing arrangements on the financial statements because the quality of evidence is insufficient for the purposes of my opinion.

The Department has capitalised some of the historic expenditure incurred in its legacy contracts either as assets under construction or onto the cost of relevant equipment platforms built at those sites. It has also sought to apply IAS 17 for any new contracts on a single site with a single supplier, although has not identified any new contracts to date.

## IFRS 16 implementation project

In January 2016, the International Accounting Standards Board issued a new accounting Standard – IFRS 16: Leases which will change how all central government bodies will account for their leases, including the treatment of contracts that include lease-type arrangements. In May 2018, HM Treasury published IFRS 16 Exposure Draft 18(01) which confirmed that IFRS 16 will be effective for the public sector, and following a deferral of the implementation date in light of the COVID-19 pandemic, the effective date for the Department to implement IFRS 16 has been deferred by a further year to 1 April 2022. The Department is working towards full adoption of IFRS 16, which if effective, would allow me to lift my qualification.

The Department adopted a detailed plan for the implementation of IFRS 16, which began in October 2018. The plan commits substantial resources, making use of external assistance to ensure its contract analysis is complete. Training was put in place for commercial and finance teams to identify contracts affected by the new accounting standard and introduce

clauses in new contracts to ensure sufficient information is available to report appropriate lease data. A new accounting tool was procured to help measure the resultant asset and liability values. Thus far, the Department has collected contract information from across the business, assessed in excess of 11,500 contracts, including those which relate to the complex contractual arrangements which underpin my existing qualification, and has begun the process of valuing the resultant asset and liability values. The asset and liability values being calculated are on a different basis and do not provide sufficient information to lift the IAS 17 non-compliance qualification in 2020–21.

While the Department has not sought to address its non-compliance with IAS 17, I support the Department's commitment to improve its processes for assessing its contractual arrangements to support full IFRS 16 compliance in 2022–23. The Department has made progress in delivering against its implementation plan, and although its original implementation timetable has been extended in line with HM Treasury's deferral of the implementation date, the Department considers that it remains on track to implement IFRS 16 in full from 1 April 2022.

Implementation is a complex process, and despite the progress made to date, the Department still faces a number of remaining challenges before it can be confident of full implementation. Key among these will be ensuring the completeness of contracts that contain leases or lease-type arrangements and monitoring newly implemented business as usual procedures to ensure completeness going forward. The calculation of the resultant right of use assets and the corresponding lease

liability values is also a complex exercise. The impact of delayed implementation to 2022–23 means valuation work completed to date must be recalculated. The exercise is also made more difficult by challenges in the management information currently held by the Department, and this is particularly so with those complex sites underpinning the existing qualification.

**Gareth Davies**

Comptroller and Auditor General

14 January 2022

National Audit Office

157–197 Buckingham Palace Road

Victoria

London SW1W 9SP



# Ministry of Defence Annual Accounts

For the year ended  
31 March 2021

## Consolidated Statements of Comprehensive Net Expenditure (SoCNE) for the year ended 31 March 2021

		2020–21		Restated 2019–20 <sup>1</sup>	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
	Note				
Income from provision of supplies and services	3	(950.2)	(950.2)	(868.1)	(868.1)
Other income	3	(530.3)	(606.3)	(654.7)	(796.2)
<b>Total income</b>		<b>(1,480.5)</b>	<b>(1,556.5)</b>	<b>(1,522.8)</b>	<b>(1,664.3)</b>
Staff costs	4.1	14,538.7	14,641.2	13,728.9	13,832.2
Purchase of goods and services	4.2	15,827.9	15,827.9	15,466.4	15,466.4
Depreciation, impairment, write-(ons)/offs and disposals <sup>1</sup>	4.3	9,924.5	9,941.5	7,570.3	7,603.7
Provision expense <sup>1</sup>	4.4	1,192.8	1,192.8	168.7	168.7
War pensions/benefits		652.4	652.4	680.3	680.3
Other expenditure <sup>1</sup>	4.5	1,438.5	1,387.8	676.7	684.3
<b>Total operating expenditure</b>		<b>43,574.8</b>	<b>43,643.6</b>	<b>38,291.3</b>	<b>38,435.6</b>
<b>Net operating expenditure</b>		<b>42,094.3</b>	<b>42,087.1</b>	<b>36,768.5</b>	<b>36,771.3</b>
Finance expense <sup>1</sup>		360.5	360.5	391.7	391.7
<b>Net expenditure for the year</b>		<b>42,454.8</b>	<b>42,447.6</b>	<b>37,160.2</b>	<b>37,163.0</b>
Non-operating gain on the transfer of IMS to the Department		-	-	-	(18.6)
<b>Net expenditure for the year including the non-operating gain on the transfer of IMS to the Department</b>		<b>42,454.8</b>	<b>42,447.6</b>	<b>37,160.2</b>	<b>37,144.4</b>
<b>Other Comprehensive Expenditure</b>					
Net (gain) or loss on:					
revaluation of property, plant and equipment	SoCiTE	(2,972.5)	(2,991.1)	(4,099.3)	(4,119.4)
revaluation of intangible assets	SoCiTE	(203.4)	(203.4)	(716.1)	(716.1)
revaluation of assets held for sale	SoCiTE	2.8	2.8	0.3	0.3
revaluation of pensions	SoCiTE	43.2	45.7	86.2	100.7
revaluation of capitalised decommissioning liabilities	SoCiTE	687.1	687.1	309.2	309.2
assets written-off or written-on or transferred in	SoCiTE	1.1	(26.5)	(23.5)	(1.9)
<b>Comprehensive Net Expenditure for the Year</b>		<b>40,013.1</b>	<b>39,962.2</b>	<b>32,717.0</b>	<b>32,717.2</b>

1. From 2020–21 the format of the SoCNE has been changed to: separately identify 'Provision expense' (some expenses previously included as provisions expenses are now disclosed as 'Other expenditure'); report 'Finance expense' (e.g. bank interest and interest on loans, leases and Service Concession Arrangements) as a cost outside operating expenditure and to reclassify some expenditure from Other to write-off of assets.

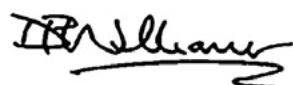
Notes 1 to 21 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

## Consolidated Statements of Financial Position (SoFP) as at 31 March 2021

	Note	31 March 2021		31 March 2020	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Non-current assets</b>					
Intangible assets	5	30,143.3	30,143.3	30,284.9	30,284.9
Property, plant and equipment	6	119,793.8	120,472.0	115,459.0	116,120.4
Retirement benefit scheme assets	13	-	8.9	-	8.9
Financial assets	7	13.3	13.3	13.3	13.3
Receivables due after more than one year	9	646.7	646.7	578.2	624.8
<b>Total non-current assets</b>		<b>150,597.1</b>	<b>151,284.2</b>	<b>146,335.4</b>	<b>147,052.3</b>
<b>Current assets</b>					
Non-current assets held for sale		39.8	39.8	35.3	35.3
Inventories	8	3,739.6	3,747.8	3,774.7	3,782.9
Receivables due within one year	9	3,431.1	3,494.9	3,135.2	3,150.6
Financial assets	7	44.9	78.5	397.6	431.6
Cash at bank and in hand	10	1,002.3	1,153.1	1,381.6	1,529.0
<b>Total current assets</b>		<b>8,257.7</b>	<b>8,514.1</b>	<b>8,724.4</b>	<b>8,929.4</b>
<b>Total assets</b>		<b>158,854.8</b>	<b>159,798.3</b>	<b>155,059.8</b>	<b>155,981.7</b>
<b>Current liabilities</b>					
Payables due within one year	11	(10,685.0)	(10,812.7)	(10,087.8)	(10,228.7)
Provisions due within one year	12	(411.9)	(417.2)	(414.1)	(418.8)
Financial liabilities	7	(515.4)	(515.4)	(295.5)	(295.5)
<b>Total current liabilities</b>		<b>(11,612.3)</b>	<b>(11,745.3)</b>	<b>(10,797.4)</b>	<b>(10,943.0)</b>
<b>Total assets less current liabilities</b>		<b>147,242.5</b>	<b>148,053.0</b>	<b>144,262.4</b>	<b>145,038.7</b>
<b>Non-current liabilities</b>					
Provisions due after one year	12	(13,599.2)	(13,599.3)	(12,026.5)	(12,026.6)
Retirement benefit scheme liabilities	13	(662.9)	(702.0)	(613.4)	(650.0)
Payables due after more than one year	11	(5,193.9)	(5,194.1)	(5,594.2)	(5,613.6)
<b>Total non-current liabilities</b>		<b>(19,456.0)</b>	<b>(19,495.4)</b>	<b>(18,234.1)</b>	<b>(18,290.2)</b>
<b>Total assets less total liabilities<sup>1</sup></b>		<b>127,786.5</b>	<b>128,557.6</b>	<b>126,028.3</b>	<b>126,748.5</b>
<b>Taxpayers' equity and other reserves</b>					
General fund	SoCiTE	98,030.4	98,030.4	96,022.0	96,022.0
Revaluation reserve	SoCiTE	29,756.1	29,756.1	30,006.3	30,006.3
Arm's Length Bodies' reserves		-	771.1	-	720.2
<b>Total equity</b>		<b>127,786.5</b>	<b>128,557.6</b>	<b>126,028.3</b>	<b>126,748.5</b>

1. 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 IAS 17. Further details of the Department's application of IAS 17 are set out in Note 1 to the accounts - Accounting Policies; specifically notes 1.44 to 1.47.

**David Williams CB**  
Accounting Officer  
11 January 2022



Notes 1 to 21 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.



## Consolidated Statements of Cash Flows (SoCF) for the year ended 31 March 2021

		2020–21		2019–20	
	Note	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Cash flows from operating activities</b>					
Net expenditure for the year	SoCNE	42,454.8	42,447.6	37,160.2	37,163.0
Adjustments for non-cash transactions <sup>1</sup>		(11,513.7)	(11,558.9)	(7,487.1)	(7,488.1)
Movement in trade and other receivables	SoFP	364.4	366.2	415.6	459.2
Adjustment for movements on receivables relating to items not passing through operating costs		(2.1)	(2.1)	24.2	24.2
Movement in net inventories and financial assets held for sale		158.7	158.3	69.7	67.3
Movement in trade payables	SoFP	(196.9)	(164.5)	1,181.3	1,133.8
Adjustment for movements in payables relating to items not passing through operating costs		(340.4)	(340.4)	(710.9)	(718.1)
Dividends and equity repayments		31.8	31.8	41.8	41.8
Realised (gain) or loss on derivatives		(124.6)	(124.6)	(98.2)	(98.2)
Use of provisions and unfunded pensions		309.0	309.0	529.1	529.1
<b>Net cash outflow from operating activities</b>		<b>31,141.0</b>	<b>31,122.4</b>	<b>31,125.7</b>	<b>31,114.0</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment <sup>2</sup>	6	8,521.5	8,536.7	7,608.1	7,620.3
Purchase of intangible assets <sup>2</sup>	5	2,286.1	2,286.1	2,018.6	2,018.6
Adjustment for non-cash movements relating to PPE and intangibles <sup>2</sup>		(441.6)	(441.6)	25.1	25.1
Proceeds on disposal of property, plant and equipment		(61.3)	(61.3)	(137.9)	(137.9)
Dividends, equity repayments and other income from investments		(31.8)	(31.8)	(41.8)	(41.8)
Recognition of cash balance on absorption of a new ALB		-	-	-	(22.0)
<b>Net cash outflow from investing activities</b>		<b>10,272.9</b>	<b>10,288.1</b>	<b>9,472.1</b>	<b>9,462.3</b>
<b>Cash flows from financing activities</b>					
Consolidated Fund (Supply) – current year	SoCiTE	(41,748.0)	(41,748.0)	(40,976.6)	(40,976.6)
Repayment of loans from the National Loans Fund		2.5	2.5	2.5	2.5
Capital element of payments in respect of finance leases and Service Concession Arrangements		351.9	351.9	378.3	378.3
Movement on collaborative projects		302.7	302.7	(21.5)	(21.5)
<b>Net financing</b>		<b>(41,090.9)</b>	<b>(41,090.9)</b>	<b>(40,617.3)</b>	<b>(40,617.3)</b>
<b>Net increase or (decrease) in cash and cash equivalents in the period before adjustment for payments to the Consolidated Fund</b>		<b>(323.0)</b>	<b>(319.6)</b>	<b>19.5</b>	<b>41.0</b>
Payment of amounts due to the Consolidated Fund		(56.3)	(56.3)	(45.4)	(45.4)
<b>Net increase or (decrease) in cash and cash equivalents in the period after adjustment for payments to the Consolidated Fund</b>		<b>(379.3)</b>	<b>(375.9)</b>	<b>(25.9)</b>	<b>(4.4)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b>1,381.6</b>	<b>1,529.0</b>	<b>1,407.5</b>	<b>1,533.4</b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b>1,002.3</b>	<b>1,153.1</b>	<b>1,381.6</b>	<b>1,529.0</b>

1. The main drivers of the adjustment for non-cash transactions in 2020–21 are: depreciation and amortisation on non-current assets of -£7.5 billion, a -£1.2 billion change in provisions and -£1.5 billion impairments to non-current assets. The main driver in 2019–20 was depreciation and amortisation of -£7.2 billion.
2. There has been a change in the classification of write-ons in both the Property, Plant and Equipment and the Intangible Asset notes, resulting in a change in the comparative figures in the SOCF. See Notes 5 and 6 for details.

Notes 1 to 21 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.



## Consolidated Statements of Changes in Taxpayers' Equity (SoCiTE) for the year ended 31 March 2021

	Note	Core Department and Agencies			Departmental Group	
		General Fund <sup>1</sup> £M	Revaluation Reserve <sup>1</sup> £M	Taxpayers Equity £M	ALBs' Reserves <sup>1</sup> £M	Total Reserves £M
Balance at 31 March 2019		90,542.9	27,220.9	117,763.8	720.4	118,484.2
Parliamentary Funding – drawn down in-year	SoCF	40,976.6	-	40,976.6	-	40,976.6
Parliamentary Funding – deemed funding		504.8	-	504.8	-	504.8
Parliamentary Funding – Supply payable	11	(457.4)	-	(457.4)	-	(457.4)
Payment of amounts due to the Consolidated Fund		(45.4)	-	(45.4)	-	(45.4)
Gain on the transfer by absorption of IMS		-	-	-	18.6	18.6
Non-cash charge – auditors remuneration	4.5	2.9	-	2.9	-	2.9
Net expenditure for the year	SoCNE	(37,160.2)	-	(37,160.2)	(2.8)	(37,163.0)
Other net comprehensive expenditure						
Net gain or (loss) on:						
revaluation of property, plant and equipment	SoCNE	-	4,099.3	4,099.3	20.1	4,119.4
revaluation of intangible assets	SoCNE	-	716.1	716.1	-	716.1
revaluation of assets held for sale	SoCNE	-	(0.3)	(0.3)	-	(0.3)
revaluation of pensions	SoCNE	(86.2)	-	(86.2)	(14.5)	(100.7)
revaluation of capitalised decommissioning liabilities		-	(309.2)	(309.2)	-	(309.2)
assets written-off or written-on or transferred in	SoCNE	22.6	0.9	23.5	(21.6)	1.9
Transfers between reserves		1,721.4	(1,721.4)	-	-	-
Balance at 31 March 2020		96,022.0	30,006.3	126,028.3	720.2	126,748.5
Parliamentary Funding – drawn down in-year	SoCF	<b>41,748.0</b>	-	<b>41,748.0</b>	-	<b>41,748.0</b>
Parliamentary Funding – deemed funding		<b>457.4</b>	-	<b>457.4</b>	-	<b>457.4</b>
Parliamentary Funding – Supply payable	11	<b>(380.8)</b>	-	<b>(380.8)</b>	-	<b>(380.8)</b>
Payment of amounts due to the Consolidated Fund		<b>(56.3)</b>	-	<b>(56.3)</b>	-	<b>(56.3)</b>
Non-cash charge – auditors remuneration	4.5	<b>3.0</b>	-	<b>3.0</b>	-	<b>3.0</b>
Net expenditure for the year	SoCNE	<b>(42,454.8)</b>	-	<b>(42,454.8)</b>	<b>7.2</b>	<b>(42,447.6)</b>
Other net comprehensive expenditure						
Net gain or (loss) on:						
revaluation of property, plant and equipment	SoCNE	-	<b>2,972.5</b>	<b>2,972.5</b>	<b>18.6</b>	<b>2,991.1</b>
revaluation of intangible assets	SoCNE	-	<b>203.4</b>	<b>203.4</b>	-	<b>203.4</b>
revaluation of assets held for sale	SoCNE	-	<b>(2.8)</b>	<b>(2.8)</b>	-	<b>(2.8)</b>
revaluation of pensions	SoCNE	<b>(43.2)</b>	-	<b>(43.2)</b>	<b>(2.5)</b>	<b>(45.7)</b>
revaluation of capitalised decommissioning liabilities	SoCNE	-	<b>(687.1)</b>	<b>(687.1)</b>	-	<b>(687.1)</b>
assets written-off or written-on or transferred in	SoCNE	<b>(0.2)</b>	<b>(0.9)</b>	<b>(1.1)</b>	<b>27.6</b>	<b>26.5</b>
Transfers between reserves		<b>2,735.3</b>	<b>(2,735.3)</b>	-	-	-
<b>Balance at 31 March 2021</b>		<b>98,030.4</b>	<b>29,756.1</b>	<b>127,786.5</b>	<b>771.1</b>	<b>128,557.6</b>

1. The General Fund represents the total assets less liabilities of the Department, to the extent that the total is not represented by other reserves and financing items. The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The total of the Arm's Length Bodies' reserves includes general fund and revalued items but these are not shown separately as the detail is not considered material.

Notes 1 to 21 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

## Notes to the Accounts

### 1. Statement of Accounting Policies

#### Basis of Preparation

**1.1** These Accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adapted and interpreted by the Government Financial Reporting Manual (FReM) 2020-21 issued by HM Treasury except that International Financial Reporting Interpretations Committee (IFRIC) 4: *Determining whether an Arrangement Contains a Lease*, has not been applied. Further information on the reasons for this non-application and the impact on the financial statements are provided in paragraphs 1.44 to 1.47.

**1.2** Where the FReM permits a choice, the accounting policy which has been 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. Accounting policies have been applied consistently in dealing with items that are considered material and comply with the requirements of the FReM.

#### Accounting Convention

**1.3** These financial statements have been prepared on an accruals basis under the historic cost convention, modified by the revaluation of intangible assets, property, plant and equipment assets and some financial instruments such as foreign currency forward purchase contracts and fuel fixed price swap contracts.

#### Impact of COVID-19 Pandemic

**1.4** The World Health Organisation declared COVID-19 as a pandemic on 11 March 2020. The Department does not consider the pandemic to have had a material impact on the financial statements and disclosures.

#### Going Concern

**1.5** The future financing of the Department's liabilities is through the receipt of Supply finance and future income which are both approved annually by Parliament by the passing of the Supply and Appropriation (Main Estimates) Act and the Supply and Appropriation (Anticipation and Adjustments) Act. The Defence Board considers there is no reason to believe that future approvals will not be forthcoming and therefore it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

**1.6** The Department has also specifically considered the financial position of the entities within its accounting boundary (listed at Note 20) in light of the impact of the COVID-19 pandemic and has concluded that going concern remains a valid assumption for these organisations given ongoing Supply funding for on vote agencies and grant support for other bodies where appropriate.

#### Basis of Consolidation

**1.7** The financial statements comprise the consolidation of the Department (including its Agencies); its Non-Departmental Public Bodies (NDPBs) and other Arm's Length Bodies (ALBs).

**1.8** ALBs use categories for their costs which do not always align with the Department's categories. As the ALBs are not considered to be material, or financially significant, the operating costs of the ALBs are split into four categories for consolidation – 'staff costs', 'depreciation', 'PPE write-offs' and 'other'. ALBs operate a lower capitalisation threshold for property, plant and equipment than the Department. Given the financial insignificance of these lower value capitalisations to the Department, no adjustments have been made and all ALB property, plant and equipment balances are consolidated into the accounts. Further details of income and expenditure by ALBs is at Annex F.

**1.9** The Department has assessed that it holds an interest in a joint operation. This has been accounted for in line with IFRS 11: *Joint Arrangements* and, as such, the assets, liabilities, revenues and expenses relating to the interest in the joint operation are accounted for in accordance with the applicable IFRS as applied by the FReM.

## Changes in Accounting Policies and Disclosures

**1.10** There were no new accounting standards or significant changes in accounting policies during 2020–21 affecting the preparation of the accounts.

## Changes Impacting the Preparation of Future Annual Accounts

**1.11** There are no significant changes impacting the Department in 2021–22. There is one significant change expected to the 2022–23 FReM. This is the adoption of

IFRS 16: *Leases* and is expected to have a significant impact for the Department. The implementation of IFRS 16 by the Department has been deferred by 12 months in line with the decision taken by HM Treasury to delay mandatory adoption of the standard by public bodies until 1 April 2022.

## IFRS 16 – Leases

### *The Nature of the Change in Accounting Policy*

**1.12** IFRS 16: *Leases* replaces IFRIC 4 and IAS 17: *Leases* (as well as SIC15: *Operating Leases – Incentives* and SIC 27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

**1.13** IFRS 16 introduces different lease identification criteria. This is based on whether the contract gives the right to control the use of an identified asset through the right to obtain substantially all of its economic benefits and the right to direct its use.

**1.14** The Standard simplifies the classification and measurement of leases by introducing a single lessee accounting model which removes the distinction between operating leases and finance leases.

**1.15** The Standard requires the recognition of all leases except where the lease term is for 12 months or less, or where the underlying asset is of low value. This will result in the recognition of a right-of-use asset, measured at the present value of future lease payments, and a corresponding liability. The pattern of recognition of the expenditure will result in depreciation of the right-of-use asset and an associated finance cost being recognised.

### *Transitional Provisions*

**1.16** The change in accounting policy will be made in accordance with the transitional provisions in the FReM. Upon transition, the Department:

- will recognise the cumulative effects of initially applying IFRS 16 recognised at 1 April 2022 as an adjustment to the opening balances of taxpayers' equity.
- will, having obtained HM Treasury approval, apply IFRS 16 to legacy contracts not previously accounted for under IAS 17 and IFRIC 4 (as detailed in paragraphs 1.44 to 1.47) and account for any changes as an adjustment to the opening balances of taxpayers' equity as part of IFRS 16 implementation in the 2022–23 accounts.
- will not recognise the right-of-use asset and lease liability of short-term leases, where the lease term is less than 12 months, and leases where the underlying asset is of low value (see paragraph 1.18). The Department will recognise lease payments associated with these leases as an expense.

**1.17** The carrying amount of the assets and liabilities of the Department's finance leases at 1 April 2022 will be the carrying amount immediately before 1 April 2022 under IAS 17. IFRS 16 will then be applied to these contracts from 1 April 2022.

**1.18** The Department is not applying IFRS 16 to contracts which have a value of less than £25,000 (unless the contract meets the definition of a peppercorn lease), or where the cost of the underlying asset (when new) is less than £25,000, unless there are groups of leases of similar items where application of the threshold would have a

material impact, such as car leases. This threshold is consistent with the Department's capitalisation threshold for owned assets as detailed in paragraph 1.23. Where there are right-of-use assets from leases embedded in other contracts, and these right-of-use assets have been fully charged to the Department (either in the current or in previous contracts), then these right-of-use assets will be excluded as the Department will have no further liability.

**1.19** It is expected that, in most cases, the IFRS 16 cost model will be an appropriate proxy for current value in existing use or fair value. This is because the right-of-use assets will generally have shorter useful lives than their corresponding underlying assets and contracts have conditions to update lease payments to market rates.

### *The Potential Impact on Future Periods*

**1.20** The new leasing Standard will have a significant impact on the Department by bringing right-of-use assets and liabilities onto the Statement of Financial Position. This will be as a result of:

- the recognition of operating leases as a right-of-use asset and associated liability; and
- the recognition of right-of-use assets and associated liabilities of leases not previously recognised under IAS 17 and IFRIC 4 (as detailed in paragraphs 1.44 to 1.47).

**1.21** The Department is in the process of measuring its lease liabilities and associated right-of-use assets for its leases currently classified as operating leases under IAS 17. Additionally, the Department is undertaking

significant work in assessing its material legacy contracts in accordance with IFRS 16 to establish if these contracts are, or contain, a lease. If so, the Department is in the process of measuring the lease liabilities and associated right-of-use assets embedded within these contracts. Due to this significant work in transitioning to IFRS 16, the financial impact of recognising right-of-use assets and liabilities under leases previously classified as operating leases under IAS 17 is not yet known. Similarly, the estimated impact of recognising right-of-use assets identified as embedded in other legacy contracts and the associated liability is not yet known. The Department is finalising the assessment of IFRS16 transition as part of the HM-Treasury re-classification exercise.

## IFRS 17 – Insurance Contracts

**1.22** IFRS 17: *Insurance Contracts* replaces IFRS 4: *Insurance Contracts* and may be included in the 2023–24 FReM. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The Department will undertake a detailed assessment on the impact of the Standard when its application to the public sector is determined in the FReM.

## Property, Plant and Equipment Non-Current Assets

### Recognition

**1.23** The Department's capitalisation threshold is £25,000. Assets are recognised initially at cost, which comprises purchase price, construction costs (after deducting any

discounts or rebates) and any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended.

**1.24** Assets under construction are capitalised during the period of construction and on completion (either of the whole project, or at defined milestones where the contract has separate deliverables) balances are transferred to the appropriate asset category. On completion of the project or on delivery of an asset with phased deliveries the costs are transferred to the asset register.

**1.25** The capitalisation threshold is not applied to individual capital spares (defined in paragraph 1.33) and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, these items are grouped together and accounted for accordingly.

### Valuation

**1.26** All tangible non-current assets are carried at fair value at the reporting date. This is undertaken via full valuations, indexation or both. To ensure accurate values for assets under construction, the Department, at the end of each reporting period, considers whether there is any indication that assets may be impaired and if necessary, adjusts the carrying value. Fair value reviews are conducted and documented on reclassification of these assets into use. Assets under construction are not subject to indexation where the cost of the work done as specified in the underlying contract price is deemed to reflect fair value. This is because the contract costs already include price inflation.

**1.27** For both property (including land) and non-property assets, prospective indices appropriate for the category of asset are forecast and applied at May each financial year. The carrying values of the assets are revised at the year-end via an accrual to reflect the difference between the forecast indices applied at May and revised indices at the year-end (based, for non-property assets, on actual movements in the market for the financial year and, for property assets, actual movements for the first three quarters with a forecast movement for the final quarter of the financial year). The value of the overseas property estate assets is also adjusted to take account of the year-end exchange rates and movements in the country's GDP – also see paragraph 1.100.

**1.28** Land and property assets are also subject to a quinquennial revaluation by internal and external valuers in accordance with IAS 16: *Property, Plant and Equipment* as interpreted by the FReM. Assets which are held for their service potential (i.e. operational assets) and are in use are measured at current value in existing use. For non-specialised assets current value in existing use is interpreted as market value for existing use, defined as Existing Use Value (EUV). For specialised assets, current value in existing use is interpreted as the present value of the asset's remaining service potential. Land is valued taking into account region and type. COVID-19 restricted the ability of valuers to physically review the ordinary volume of properties, meaning valuations have been undertaken using an enhanced desktop method which is consistent with the practice recommended by the Royal Institution of Chartered Surveyors (RICS). Where applicable, key assumptions were

made by the valuer regarding the maintenance programme and the residual economic lives. Property assets are valued as at November 2020 and adjustment made to closing balances if material differences are identified. Quinquennial revaluation is further explained in Note 6 – Property, Plant and Equipment.

**1.29** Assets available for immediate sale in their present condition, which is highly probable, are valued in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. This is at the lower of their carrying amount before classification and fair value less cost to sell. Assets held to earn rentals or for capital appreciation or both are valued in accordance with IAS 40: *Investment Property*. They are measured at fair value.

**1.30** Surplus assets no longer in use are valued at fair value using IFRS 13: *Fair Value*. However, they are measured at current value in existing use if there are restrictions on the Department or the asset which would prevent access to the market at the reporting date. The Department interprets surplus to mean that the assets are no longer required and there is no clear plan to bring them back into service.

### **Depreciation**

**1.31** All assets are depreciated on a straight-line basis. The useful life of an equipment asset is based on the estimated out of service date, and for other assets the estimated period of use. The useful lives of property, plant and equipment are reviewed annually and revised where necessary to reflect changing circumstances such as decisions taken in the latest finalised Annual Budget Cycle or other strategic reviews.



**1.32** The principal asset categories, together with their useful lives, are set out in the table below:

Main Category	Sub-Category	Useful Life (Years)
Land and Buildings	Land	Not depreciated unless held under agreement with The Federal Republic of Germany or as part of 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)		10–50
Plant and Machinery	Equipment	10–25
	Plant and Machinery	5–30
Transport		3–35
IT and Communications Equipment	Office Machinery	3–10
	Communications Equipment	3–30

**1.33** Capital Spares are items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion. They are included within the asset category of the prime equipment they support and are depreciated over their useful life, which is consistent with the useful life of this equipment.

**1.34** Capitalised provisions are those that are capitalised in the cost of the associated asset (to which the provision relates). Further details

are at paragraph 1.72. They are included in the asset category of the associated asset and depreciated over its useful life.

## Componentisation and Subsequent Expenditure

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

- newly built property assets, except for 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 and to complex weapons that display similar characteristics to those assets in the sea environment are accounted for separately, as appropriate, when their value is consumed by the Department over a different period from the life of the corresponding core asset.

## Impairment

**1.36** Impairment charges reduce the carrying amount of intangible and property, plant and equipment assets to their recoverable amount.

**1.37** When an asset's carrying value decreases due to a clear consumption of economic benefit or service potential, the decrease is charged directly to the SoCNE, with any remaining revaluation reserve balance released to the General Fund. Any reversal of such impairment losses is recognised in the SoCNE to the extent that the original charge was previously recognised, with any remaining amount recognised in the revaluation reserve. Other impairments are charged directly to the revaluation reserve, to the extent that there is one for the asset, with any remaining impairment charged to the SoCNE.

**1.38** 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.

**1.39** The FReM has interpreted IAS 36 to state that where the asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential.

**1.40** The Department considers that these assets continue to be held to meet Departmental objectives and they are still expected to generate their intended future economic benefits.

### **Disposal**

**1.41** Disposal of assets is handled principally by two specialist internal organisations: the Defence Infrastructure Organisation for

property assets and the Defence Equipment Sales Authority for non-property assets.

**1.42** 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. 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 be highly probable and expected to complete within one year.

**1.43** 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**

**1.44** 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. Expenditure under operating leases is charged to the SoCNE in the period to which the charge relates.

**1.45** The Department also enters into arrangements that do not take the legal form of a lease, but which give the Department the right to use an asset. IFRIC 4 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.

**1.46** The Department's most significant lease type arrangements where IFRIC 4 is

likely to apply are not currently recognised for example, where suppliers' facilities (such as a shipyard) are used entirely on Departmental contracts. For 2020-21 (and previous years) the Department concluded, with HM Treasury support, that as a result of complex, resource intensive and costly practical issues, IFRIC 4 would not be applied to existing contracts on the grounds that it does not represent value for money. As a result of the decision not to fully implement IFRIC 4, the Department's accounts receive a qualified audit opinion in respect of the material omission of assets held under finance leases and the associated liabilities that should be recognised under IAS 17. The Department has focused on implementing IFRS 16 fully from 2022-23 and, with the agreement of HM Treasury, will apply IFRS 16 to legacy contracts in existence prior to 1 April 2022 (see paragraph 1.16).

**1.47** The impact on the financial statements of not materially complying with IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the SoFP and Note 16 – Commitments under Leases.

## Intangible Non-Current Assets

**1.48** Research costs are charged to the SoCNE in the period in which they are incurred.

**1.49** Development costs are capitalised in accordance with IAS 38: *Intangible Assets* (as adapted in the FReM). Capitalised development costs are amortised, on a straight-line basis, over the planned life of the resultant asset class, e.g. class of ship or aircraft (the table at paragraph 1.32 states the useful lives for principal tangible

non-current asset categories). Amortisation commences when the asset type first enters operational service.

**1.50** The Department's capitalisation threshold is £25,000. After initial recognition, intangible non-current assets are revalued to current value in existing use, 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. This is a key estimation uncertainty as described in paragraph 1.102.

**1.51** Intangible assets under construction are not subject to indexation where the cost of the work done as specified in the underlying contract price is deemed to reflect fair value.

## Public Private Partnerships (PPP) Including Private Finance Initiative (PFI) Arrangements

**1.52** Where PPP including PFI arrangements fall within the definition of a Service Concession Arrangement (SCA) in IFRIC 12: *Service Concession Arrangements*, the infrastructure assets and liabilities are reported on the Department's SoFP. This occurs when the Department controls the use of the infrastructure assets and any significant residual interest in the infrastructure at the end of the arrangement (or there is no residual interest). The assets are initially measured following the guidance in IAS 17 and subsequently in alignment with relevant standards, as applied by the FReM, in the same way as other assets of that type. Unitary charges are apportioned between reduction in the capital obligation and charges to the

SoCNE for service performance and finance costs. Where the contract is not separable into these elements, this apportionment is estimated by reference to factors such as the contract, the fair value of the asset and the interest rate implicit in the contract or, where this is not practicable to determine, the HM Treasury's discount rate for investment appraisals.

**1.53** Where PPP including PFI arrangements are outside the scope of IFRIC 12, a new arrangement may be assessed to establish whether it contains a lease under IFRIC 4 (as noted in paragraph 1.45). 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. As previously noted, the Department's accounts are qualified for non-compliance with IAS 17/IFRIC 4 and it intends to address this matter as part of the implementation of IFRS 16.

## Financial Instruments

**1.54** The Department classifies and measures its financial assets in accordance with IFRS 9: *Financial Instruments* as adapted by the FReM. Financial assets are classified according to the business model for holding them and the contractual cash flow characteristics of the financial asset. The treatment of the Department's material receivables is to measure them at amortised cost. This is because they are being held to collect the cash flows and the cash flows are solely for the payments of principal and interest (if chargeable). Where financial assets do not meet the measurement categories of

amortised cost or fair value through other comprehensive income, they are measured at fair value through profit or loss.

**1.55** Almost all of the Department's financial assets, including trade receivables, staff loans and advances, are initially measured at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate. This is because the FReM requires the discount rate to be the higher of the rate intrinsic to the financial instrument and the real discount rate set by HM Treasury as applied to cash flows expressed in current prices.

**1.56** 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 measured at fair value through profit or loss. In accordance with the FReM, public dividend capital is reported at historic cost less any impairment and the Department's investments in special or 'golden' shares are not recognised on the SoFP. The entities in which the Department holds special shares are listed at Note 7 - Financial Instruments and Investments.

**1.57** Loss allowances are made for expected credit losses for those financial assets not already held at fair value. The Department uses the practical expedient in IFRS 9 and applies a provisions matrix to determine percentages to estimate expected credit losses for different classes of receivables, such as trade receivables, staff receivables and bespoke receivables for asset sales.

**1.58** The expected credit loss percentages are based on the actual bad debts incurred previously adjusted for future uncertainties. This adjustment is a multiplier factor based on the Department's judgement of the potential impact of events on future economic conditions. Sensitivity analysis was undertaken to test the significance of changes to this judgement and the impact was not material (see paragraph 1.62).

**1.59** Expected credit loss provisions are also made against specific receivables. In accordance with the FReM, the balances with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are excluded from recognising Stage 1 and Stage 2 impairments.

**1.60** Liabilities covering trade payables and accruals are initially measured at fair value and subsequently at amortised cost. This applies to those liabilities carrying a nil or a subsidised rate of interest due to the FReM requirement for the discount rate referred to in paragraph 1.55.

**1.61** The Department has considered the potential impact of COVID-19 on the recoverability of trade receivables, and other receivables.

**1.62** The Department has reviewed its assumptions used in its expected credit loss provisions matrix and has also undertaken further sensitivity analysis on the expected credit losses to assess the potential impact of differing assumptions and the impact was not viewed as material.

## Inventories

**1.63** Inventories are valued at the lower of weighted average cost (the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period) and net realisable value (estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale).

**1.64** Inventories are recognised on the Department's SoFP from the point of acquisition to the point of issue for consumption, sale, write-off or disposal.

**1.65** Where inventories have become surplus, unserviceable, defective or obsolete, 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 8 - Inventories.

**1.66** Some items of inventory, for example munitions, have a limited shelf life and provisions/impairments are made on the gross cost of these items, on a straight-line basis, throughout the life of these items.

**1.67** As noted above, the Department makes impairments to net realisable value to reflect inventories which are surplus, unserviceable, defective or obsolete.

## Cash and Cash Equivalents

**1.68** Cash balances are held by the Government Banking Service, commercial banks and cash in hand. Cash in hand



includes deposits denominated in foreign currencies held in foreign bank accounts.

**1.69** The Department holds US Dollar and Euro denominated bank accounts and uses foreign currency forward purchase contracts, denominated in US Dollars and Euros, to reduce the risk of changes in exchange rates for the use of its two most significant foreign currencies.

## Provisions for Liabilities and Charges

**1.70** Provisions for liabilities and charges are recognised in line with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets* and are based on reliable estimates of the expenditure required to settle legal or constructive obligations.

**1.71** Contingent liabilities are disclosed where it is not probable that expenditure will be required to settle the obligation. Disclosures are not required under IAS 37 where there is only a remote likelihood that expenditure will be required. However, disclosures are made in the Accountability Report for such remote contingent liabilities in accordance with Managing Public Money.

**1.72** On initial recognition, provisions are charged to the SoCNE unless the provision results from an obligation to dismantle and decommission a specific item of property, plant and equipment, in which case a capitalised asset provision is created. Changes to the capitalised asset provision are accounted for in accordance with IFRIC 1: *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, following the approach for where the related asset

is measured using the revaluation model, see Note 12 – Provisions for Liabilities and Charges for further information. The carrying amount of any capitalised asset provision is depreciated and charged to the SoCNE over the remaining estimated useful life of the underlying asset. The capitalised asset provision is valued using the Depreciated Replacement Cost (DRC) methodology.

**1.73** Provisions are discounted at the nominal rates advised by HM Treasury. There is a rebuttable presumption that departments will use the inflation rates in the latest Public Expenditure System paper, obtained from the Office for Budget Responsibility (OBR) Consumer Price Index (CPI) forecasts, when inflating provision cash flows. The Department applies the CPI (recommended by HM Treasury) and any deviation from this (as per the rebuttable presumption) is detailed on a provision by provision basis. 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 SoCNE. Details are given in Note 12 - Provisions for Liabilities and Charges.

**1.74** Provisions and other liabilities were valued using appropriate mechanisms and discount rates at 31 March 2021. For nuclear provisions that utilise indices provided by Defence Analysis-Economics, no material changes to the underlying indices have been identified.

**1.75** An onerous contract (as defined by IAS 37) provision is accounted for in the period in which the contract is identified as onerous. At 31 March 2021, the Department had not



identified any contracts as onerous and expects to recover all value reported. Even some minor lease contracts are not expected to be onerous – for example, photocopiers, as Departmental buildings have continued to be maintained at an operational level.

## Foreign Currency

**1.76** All transactions denominated in a foreign currency are translated into sterling using the General Accounting Rate (GAR) at the date of each transaction. For each currency, the GAR is updated monthly based on spot rates. Exchange differences arise when a transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. Monetary assets and liabilities are re-translated at the mid-market closing rate at the reporting period date and any exchange differences from their initially recognised value are reported in the SoCNE.

**1.77** As noted in paragraph 1.69, the Department holds US Dollar and Euro denominated bank accounts and uses foreign currency forward purchase contracts, denominated in US Dollars and Euros, to reduce the risk of changes in exchange rates for the use of its two most significant foreign currencies.

## Income

**1.78** Income principally comprises revenue from the provision of supplies and services; receipts from foreign governments; sale of non-current assets; and investment or dividend income. It is included within operating income, net of related VAT, where applicable.

**1.79** Income from contracts with customers is recognised in accordance with IFRS 15: *Revenue from Contracts with Customers* which has been applied, as adapted by the FReM, in full. The Department follows the five step model in IFRS 15, by applying the following steps:

- step 1: Identify the contract(s) with a customer;
- step 2: Identify the performance obligations in the contract;
- step 3: Determine the transaction price;
- step 4: Allocate the transaction price to the performance obligations in the contract; and
- step 5: Recognise the revenue when (or as) the entity satisfies a performance obligation

**1.80** The bulk of what the Department provides to external customers is the provision of services on a rolling basis such as repair and maintenance services. The performance obligations in these contracts are satisfied over time using output methods to recognise revenue on the basis of direct measurement of value to the customer using items such as milestones and time elapsed. In some instances, MOD is providing goods and services where the performance obligations are satisfied at a point in time, such as training courses, or fitting of security systems. In these cases, the performance obligations are deemed to be met when the customer assumes control of the relevant asset.

**1.81** The FReM adapts IFRS 15 to expand the definition of a contract and so the Department includes, within the scope of IFRS 15, arrangements covered by Memoranda of Understanding (MoU) even though these are not legally enforceable. MoUs are assessed

on a case by case basis against the five step model set out in IFRS 15. The Department does not include income from sales of non-current assets within the scope of IFRS 15 as, in accordance with IAS 16, such gains shall not be classed as revenue. The Department has included rental income under IFRS 15 to the extent that it is not within the scope of leasing. The Department has invoked the practical expedient in IFRS 15 and does not discount the promised consideration when it expects, at contract inception, that the period between the transfer of a promised good or service to a customer and the date the customer pays for it will be for one year or less.

**1.82** The amounts recognised under IFRS 15 are not significant in the context of the Department's accounts. The Department considers that the amounts recognised are appropriate and not materially misstated.

**1.83** In accordance with IAS 10: *Events after the Reporting Period*, 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.

## Expenditure

**1.84** Expenditure includes a number of costs as listed in the SoCNE, of which the key areas include depreciation and amortisation; impairments; staff costs; equipment support; property management; and IT and telecommunication costs. Costs are charged to the SoCNE in the period in which they are incurred and matched to any related income. There is a £10,000 materiality threshold for

prepayments of software licences. Licences for less than £10,000 are expensed to the SoCNE. Costs of contracted-out services are included net of recoverable VAT.

## Salaries, Wages and Employment-Related Payments

**1.85** Short-term benefits – salaries, wages and employment-related payments – are recognised in the period in which the service is received from employees. Where material, performance pay and annual leave earned but not taken by the financial year end are recognised on an accruals basis in the financial statements. Further details are given in the Accountability Report.

## War Pensions/Benefits

**1.86** The War Pension Scheme (WPS) compensates for any injury, illness or death which was caused by service within Her Majesty's Armed Forces before 6 April 2005. Claims can only be made under the WPS after the claimant has left service.

**1.87** There are 2 main types of WPS awards, which are dependent on the level of disablement:

- a gratuity lump sum payment for disablement less than 20%;
- an ongoing payment paid weekly or monthly for disablement more than 20%.

**1.88** The rules of the WPS and the value of the payments awarded are set by Parliament. The value of the payments increase each year in line with the CPI. WPS is accounted for on an accruals basis.

**1.89** The Government's commitment to provide for those injured, and the families of those killed, as a result of service is in part met by awards made under the War Pension Scheme. The awards are statutory entitlements payable to ex-service members or their dependants and can fluctuate depending on circumstances and can be ended/withdrawn if conditions subsequently improve. The Departmental accounts do not include a liability for future WPS payments. This is because payments are only recognised when they fall due and therefore accounted for as expenditure in the SoCNE in the period to which they relate. The two main payment categories are ongoing payments for disablement and ongoing payments to widows which represent approximately 98% of the total.

## Retirement Benefit Costs

**1.90** The main pension schemes to which staff belong are not consolidated in the Department's accounts (the schemes prepare separate accounts). The main schemes are either defined contribution, defined benefit or multi-employer defined benefit schemes where the Department's shares of assets and liabilities cannot be identified. In accordance with IAS 19: *Employee Benefits*, these are thus also treated as defined contribution schemes. Examples of the two largest of the main schemes are: the Principal Civil Service Pension Scheme; and the Armed Forces Pension Scheme. All other Departmental schemes, detailed in Note 13 - Retirement Benefit Schemes, are consolidated into the financial statements as defined benefit schemes and IAS 19 has been adopted to account for them. As a result of the McCloud judgement, the Government has been working

to address the judgement of the Court of Appeal on the transition from legacy pension schemes. It is too early in this process to determine the amount of any financial impact to the Department.

**1.91** For funded defined benefit schemes the Department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the Department has a legal or constructive obligation to make good the deficit in the scheme. The Department's share of pension scheme surplus (to the extent that it is considered recoverable) or deficit is recognised in full on the face of the SoFP.

**1.92** For unfunded defined benefit schemes the Department recognises a liability in respect of any deficit to the extent that the Department has a legal or constructive obligation to make good the deficit in the schemes. Actuarial gains/losses from schemes are recognised in reserves.

**1.93** The Department additionally makes contributions to several other pension schemes which are not consolidated in the financial statements. These contributions are recognised in the SoCNE.

## Value Added Tax (VAT)

**1.94** The Department is registered for VAT. Costs of contracted-out services are included net of recoverable VAT. In other cases where VAT is recoverable, the related expenditure is shown net of VAT. Income from services provided to third parties is included within operating income, net of related VAT. Where it arises, irrecoverable VAT is charged to the

relevant expenditure category or included in the capitalised purchase cost of non-current assets.

## Heritage Assets

**1.95** 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 can be obtained at a cost commensurate with the benefits to users of the accounts. Heritage assets are not separately disclosed as they are not considered material. Further information is available at: <https://www.gov.uk/government/collections/mod-heritage-reports-index>

## Critical Accounting Judgements and Key Sources of Estimation Uncertainty

**1.96** The preparation of these accounts requires the Department to make judgements, estimates and assumptions in respect of a range of activities that affect the application of policies and reported amounts of assets and liabilities, income and expenditure.

**1.97** Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**1.98** The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

## Valuation of Non-Current Intangible and Property, Plant and Equipment Assets

**1.99** Non-current intangible and property, plant and equipment assets are expressed at their fair value, such as Depreciated Replacement Cost (DRC). Specialist land and property assets are valued at DRC and this is a critical estimation uncertainty. It relies on key judgements (e.g. on modern equivalent replacements) and estimates for current land values as well as construction costs.

**1.100** UK and Overseas Land and property assets are professionally revalued at every 5 years through the rolling quinquennial revaluation programme in accordance with FReM requirements. Between professional valuations, the Department updates UK and Overseas land and property values through the application of Modified Historical Cost Accounting (MHCA) indices, with the UK indices provided by the Valuation Office Agency and the Overseas indices calculated internally based on exchange rate movements at the year-end and individual countries GDPs. The GDP figures are provided by Defence Analysis-Economics within the Department who source the GDP Deflators from Oxford Economics.

**1.101** Non property assets are revalued using indices provided by Defence Analysis-Economics. To determine the indices, historic inflation figures for Departmental assets are taken directly from industry and labour specific indices that are produced by the Office for National Statistics (ONS). Where no appropriate index is available, the GDP Deflator is used as a general measure of inflation. The indices are output based to reflect the cost of the manufacture of the

particular category, the coverage of each index being defined under the corresponding Standard Industrial Classification (SIC) system for categorising economy output. Forecasts for these indices are either directly based on those produced by the Office for Budgetary Responsibility (OBR) or calculated by Defence Analysis-Economics. Price Indices using data for key economic indicators are taken from the OBR and Oxford Economics.

**1.102** The selection and application of indices represents a key judgement, and there is a risk that this could result in different values in the intervening years compared to a full valuation if these had been undertaken each year.

**1.103** The indices used for both property and non-property assets are considered to remain valid and the best available information. The Department's valuers were consulted on the potential impact on property valuations. In line with the RICS guidance and direction, the valuers subsequently confirmed that, based on latest market information, there is no evidence that the indices and the values provided as part of the quinquennial revaluation as at 31 March 2021 have materially changed.

**1.104** There is uncertainty in the valuation of land in the scope of the Defence Estate Optimisation Programme. The sales values have been estimated and are therefore subject to variation. There are also uncertainties in respect of planning permission, costs to prepare sites for sale and the forecast disposal date.

**1.105** The useful lives of assets are based on an estimated out of service date or the

estimated period of use. The out of service date is subject to change depending on factors such as strategic Defence policy and predicted obsolescence. The useful lives are reviewed annually.

### **Discount Rates**

**1.106** The change in discount rate is treated as a change in estimate (processed in-year) under IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. HM Treasury specifies nominal rates (applied to cash flows which include inflation) to discount general provisions. The impact is that the Department forecasts and applies inflation assumptions to calculate inflationary adjusted cash flows for its general provisions. HM Treasury sets a rebuttable presumption that CPI will be used to calculate inflation. This has been followed by the Department unless stated in Note 12 – Provisions for Liabilities and Charges.

### **Impairments**

**1.107** In addition to considering the valuation of non-current intangible and property, plant and equipment assets, the Department considers more broadly whether there are any indications of impairments to the carrying amounts of the Department's assets. Where such an indication exists, the Department makes a judgement as to the impairment required to bring the asset to the value it considers it should be held at.

### **Accruals**

**1.108** The Department recognises a large number of accruals. Whilst some accruals are straightforward to identify and quantify, others involve a greater element of judgement,



requiring management to make an estimate of the liability accruing to the Department based on the information they hold at that point in time (for example, accruing for the value of work completed but not yet invoiced on the Department's projects). Details are given in Note 11 – Trade Payables and Other Liabilities. The Department only recognises manual accruals above £10,000.

### **Provisions**

**1.109** 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.

**1.110** In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. As there is uncertainty surrounding the cash flows required, key assumptions made in this estimate are: the time period over which the provisions are estimated; the costs for the future storage and decommissioning; the VAT rate; the inflation 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, together with the assumptions used and sensitivity analysis, are included in Note 12 – Provisions for Liabilities and Charges.

**1.111** The Department holds a number of other provisions. Judgement is made on the best estimate that can be made of the amount of the obligation in line with IAS 37. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties.

## **2. Segmental Analysis**

**2.1** The Department's organisational structure is set out in the Performance Report and is the key factor in determining the reporting segments disclosed below. Further information on how Defence is structured is at: <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>

**2.2** The Head Office supports the Secretary of State, Ministers, the Permanent Secretary and the Chief of the Defence Staff in the delivery of their responsibilities, directing the relevant parts of Defence as necessary by undertaking: Policy, Strategy, Planning and Governance activities.

**2.3** Head Office is made up of a number of director-general, or 3-star, led business areas and enabling organisations providing strategic leadership and direction to the whole of MOD in two related ways:

- as the top-level decision-making body for MOD as a government department; and
- as the Military Strategic Headquarters for the UK's Armed Forces, providing military advice to the government and directing the generation of forces.



**2.4** Strategic Command (UKStratCom) provides the Multi-Domain Integration to ensure that the Royal Navy, the Army and the Royal Air Force can respond to threats across all five domains (Air, Land, Sea, Cyber and Space); it also manages overseas joint operations.

**2.5** The Defence Nuclear Organisation oversees all defence nuclear business, excluding operations.

**2.6** Defence Equipment and Support (DE&S) is responsible for procurement and support to equipment.

**2.7** The Defence Infrastructure Organisation is responsible for managing the Defence Estate.

**2.8** Forecasts of expenditure against budgets are regularly reviewed by the Defence Board when considering performance and resource allocation. The following tables set out the detail of this net expenditure, by segment (where the Board consider the net expenditure at that level of detail).

**2.9** Transactions allocating income and costs to and 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 systems and non-current asset registers.
- Costs incurred by one segment on behalf of another are subject to agreement and are centrally managed to ensure the net effect on the Department's consolidated accounts remains correct

Resource and Capital Outturn Reviewed by the Board	2020–21 £M	2019–20 £M
Royal Navy	6,905.8	6,545.7
Army	10,981.5	10,706.7
Royal Air Force	7,822.2	6,826.3
Strategic Command	5,355.7	5,065.4
Defence Equipment & Support	1,207.7	1,173.5
Defence Infrastructure Organisation	962.8	917.0
Head Office and Enabling Organisations <sup>1</sup>	1,954.8	1,868.1
Defence Nuclear Organisation	4,515.8	4,110.4
Strategic Programme	925.5	940.2
Unallocated Equipment Plan	120.7	143.5
War Pension Benefits	652.3	681.0
Sub total of Resource and Capital reviewed by the Board during the financial year	41,404.8	38,977.8
Outturn (Resource and Capital) for Cost of Operations (excluding depreciation, impairments, provisions)	487.1	475.6
Balance of Resource and Capital Outturn (depreciation, impairment, provisions, Annually Managed Expenditure (AME) and Arm's Length Bodies)	12,054.7	7,627.4
<b>Total Resource and Capital Outturn (See Statement of Outturn against Parliamentary Supply (SOPS))</b>	<b>53,946.6</b>	<b>47,080.8</b>
Reconciliation to Net Expenditure:		
Adjustment: for items included in Net Resource Outturn but not included in Net Operating Costs (see SOPS Note 2)	214.9	393.3
Adjustment for capital expenditure not included in Net Expenditure (see SOPS Note 1.2)	(11,706.7)	(10,313.9)
<b>Total Departmental Net Expenditure (See Statement of Comprehensive Net Expenditure)</b>	<b>42,454.8</b>	<b>37,160.2</b>

1. Includes: Dstl, DECA and organisations delivering services such as HR, payroll, and policing.

Equipment Plan Outturn	2020–21 £M	2019–20 £M
<b>Equipment Plan – Resource Outturn</b>		
Royal Navy	1,281.1	1,253.1
Army	1,232.3	969.9
Royal Air Force	2,093.1	1,875.3
Strategic Command	1,888.8	1,828.5
Defence Equipment & Support	120.7	143.5
Defence Nuclear Organisation	1,039.8	1,052.8
Strategic Programme	397.2	386.4
<b>Equipment Plan – Total Resource Outturn</b>	<b>8,053.0</b>	<b>7,509.5</b>
<b>Equipment Plan – Capital Outturn</b>		
Royal Navy	1,727.0	1,607.9
Army	1,371.7	1,402.0
Royal Air Force	2,392.1	1,670.5
Strategic Command	581.4	552.0
Defence Equipment & Support	6.8	6.0
Defence Nuclear Organisation	3,404.1	2,956.3
Strategic Programme	528.3	553.8
<b>Equipment Plan – Total Capital Outturn</b>	<b>10,011.4</b>	<b>8,748.5</b>

	2020–21 £M	2019–20 £M
<b>Infrastructure Plan Outturn</b>		
<b>Infrastructure Plan – Resource Outturn</b>		
Royal Navy	174.6	158.1
Army	1,052.4	988.0
Royal Air Force	273.2	259.8
Strategic Command	319.6	296.5
Defence Equipment & Support	106.9	100.1
Defence Infrastructure Organisation	425.3	479.9
Head Office and Enabling Organisations <sup>1</sup>	109.2	98.7
Defence Nuclear Organisation	5.4	5.6
<b>Infrastructure Plan – Total Resource Outturn</b>	<b>2,466.6</b>	<b>2,386.7</b>
<b>Infrastructure Plan – Capital Outturn</b>		
Royal Navy	193.7	230.2
Army	183.5	372.1
Royal Air Force	129.0	133.7
Strategic Command	111.8	101.7
Defence Equipment & Support	30.9	24.9
Defence Infrastructure Organisation	147.1	75.4
<b>Infrastructure Plan – Total Capital Outturn</b>	<b>796.0</b>	<b>938.0</b>

1. Includes: Dstl, DECA and organisations delivering services such as HR, payroll, and policing.

### 3. Income

	2020–21		2019–20	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Receipts – revenue from contracts with customers	158.2	158.2	180.1	180.1
Receipts – supplies and services	272.5	272.5	241.1	241.1
Receipts – NATO/UN/US Forces/Foreign Governments	483.9	483.9	381.7	381.7
Receipts from sale of fuel	5.7	5.7	15.1	15.1
Rental income – property	29.9	29.9	50.1	50.1
Sub total - Income from provision of supplies and services	950.2	950.2	868.1	868.1
Income Other – receipts personnel	282.4	282.4	280.1	280.1
Income Other – proceeds from the sale of property, plant, equipment and intangible assets	126.8	126.8	91.1	91.1
Income Other – including: dividends, donated assets, ALBs' income, commercial exploitation levies and sundry sales	121.1	197.1	283.5	425.0
<b>Total Income</b>	<b>1,480.5</b>	<b>1,556.5</b>	<b>1,522.8</b>	<b>1,664.3</b>

## 4. Expenditure

### 4.1 Staff costs

	2020–21		2019–20	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Staff costs comprise: <sup>1,2</sup>				
Salaries and wages	9,121.8	9,204.0	8,677.0	8,760.1
Social security costs	847.0	858.1	799.8	811.1
Pension costs	4,545.5	4,554.7	4,251.9	4,260.8
Redundancy and severance payments	24.4	24.4	0.2	0.2
	14,538.7	14,641.2	13,728.9	13,832.2
Paid to:				
Armed Forces	11,410.6	11,410.6	10,843.4	10,843.4
Civilian	3,128.1	3,230.6	2,885.5	2,988.8
	14,538.7	14,641.2	13,728.9	13,832.2

1. Expenditure by Arm's Length Bodies is classified as: staff costs, depreciation, write-off of PPE, or Other expenditure-administrative costs. Further details of income and expenditure by ALBs is at Annex F.

2. Information on staff numbers, exit packages and other relevant disclosures (including relating to Ministers), is included in the Remuneration and Staff Report in the Accountability Report.

### 4.2 Purchase of goods and services

	2020–21		2019–20	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Equipment management:				
Equipment support - owned equipment	5,356.2	5,356.2	5,064.6	5,064.6
Contractor logistic and operational equipment support contracts	1,112.4	1,112.4	946.9	946.9
Equipment support - under Service Concession Arrangements	310.2	310.2	316.1	316.1
Equipment support - equipment under finance lease	17.4	17.4	16.7	16.7
Payments under operating leases - plant & equipment	4.0	4.0	5.1	5.1
Plant and equipment under Service Concession Arrangements	56.0	56.0	53.4	53.4
Estate management:				
Property management	1,629.5	1,629.5	1,496.7	1,496.7
Property management under Service Concession Arrangements	663.9	663.9	639.1	639.1
Utilities	318.7	318.7	346.8	346.8
Accommodation charges	340.6	340.6	342.7	342.7
Payments under operating leases - other	190.4	190.4	210.8	210.8
Defence housing costs under finance leases	103.5	103.5	97.5	97.5
Inventory:				
Inventory consumption	844.4	844.4	960.8	960.8
Fuel consumption	289.7	289.7	323.3	323.3

	2020–21		2019–20	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Information Technology and communications:				
IT and telecommunications	1,631.8	1,631.8	1,456.8	1,456.8
IT and telecommunications under Service Concession Arrangements	222.9	222.9	249.3	249.3
Transport and Travel:				
Cost of travel, subsistence, relocation, and movement of stores and equipment	365.7	365.7	610.4	610.4
Transport under Service Concession Arrangements	52.9	52.9	54.0	54.0
Other costs:				
Research and development	883.5	883.5	780.8	780.8
Professional fees	911.7	911.7	903.1	903.1
Training, safety and welfare	522.5	522.5	591.5	591.5
<b>Total</b>	<b>15,827.9</b>	<b>15,827.9</b>	<b>15,466.4</b>	<b>15,466.4</b>

### 4.3 Depreciation, impairment, writes on/off and disposals

	2020–21		Restated 2019–20 <sup>1</sup>	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Depreciation of property, plant and equipment (PPE) <sup>2</sup>	6,023.5	6,034.4	5,838.4	5,848.9
Amortisation of intangible assets	1,426.2	1,426.2	1,337.0	1,337.0
Impairments – intangible assets, property, plant and equipment and assets held for sale <sup>1,4</sup>	2,008.2	2,008.2	1,228.7	1,228.7
Impairment reversals – intangible assets, property, plant and equipment and assets held for sale <sup>1</sup>	(537.6)	(537.6)	(713.1)	(713.1)
Adjustments to capital projects, inventory and bad debts <sup>1,3</sup>	(60.1)	(60.1)	(226.7)	(226.7)
Non-cash cost of disposal of property, plant and equipment and intangible assets	100.7	100.7	87.4	87.4
Net movement in intangible and property, plant and equipment assets written-on and written-off <sup>1,4</sup>	963.6	969.7	18.6	41.5
	<b>9,924.5</b>	<b>9,941.5</b>	<b>7,570.3</b>	<b>7,603.7</b>

1. As a result of a review of write-ons and write-offs the classification between intangible & PPE and other write-ons and write-offs has been adjusted. In addition impairments and impairment reversals are now shown on separate lines. Following these reorganisations the comparator figures for 2019–20 have also been realigned.
2. Expenditure by Arm's Length Bodies is classified as: staff costs, depreciation, write-off of PPE, or Other expenditure-administrative costs. Further details of income and expenditure by ALBs is at Annex F.
3. Further details of inventory adjustments are at Note 8.3.
4. The Integrated Review published in March 2021 has resulted in impairments to intangible and PPE assets of £1,440 million and write-offs to intangible and PPE assets of £546 million being recorded in the accounts.

#### 4.4 Provision expenses

	2020–21		Restated 2019–20 <sup>1</sup>	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Increase/(decrease) in:				
Nuclear provisions <sup>2</sup>	783.1	783.1	(266.9)	(266.9)
Other provisions	178.4	178.4	205.4	205.4
Unwinding of discount on provisions	231.3	231.3	230.2	230.2
<b>Total<sup>2</sup></b>	<b>1,192.8</b>	<b>1,192.8</b>	<b>168.7</b>	<b>168.7</b>

1. From 2020–21 the format of the SoCNE has been changed to separately identify 'Provision expenses' as detailed above; the 2019–20 figures are disclosed on the same comparable basis.
2. The increase/(decrease) in nuclear provisions does not include all movements on capitalised provisions; some pass through Other Comprehensive Expenditure. The movement above is mainly due to changes in the discount rate. More information on nuclear provisions can be found at Note 12.

#### 4.5 Other expenditure

	2020–21		Restated 2019–20 <sup>1</sup>	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Movement on derivatives <sup>1</sup>	699.4	699.4	(82.3)	(82.3)
Administrative costs – including recruitment, insurance, public relations, funeral expenses, cadet forces pay and unwinding of discount on payables and receivables <sup>1,2</sup>	479.0	659.7	507.5	735.8
Grants-in-Aid (including to bodies within the accounting boundary)	224.6	25.2	217.0	27.5
Other grants to bodies within the accounting boundary	32.5	-	31.6	-
Auditors' remuneration (for audit work only) – notional (non-cash) cost in respect of the Core Department and Agencies	3.0	3.0	2.9	2.9
Auditors' remuneration (for audit work only) - in respect of Arm's Length Bodies	-	0.5	-	0.4
<b>Total</b>	<b>1,438.5</b>	<b>1,387.8</b>	<b>676.7</b>	<b>684.3</b>

1. From 2020–21 the format of the SoCNE has been changed. Movement on derivatives and some other expenses previously included elsewhere are now disclosed as 'Other expenditure' above. Following these reorganisations the comparator figures for 2019–20 have been restated.
2. Expenditure by Arm's Length Bodies is classified as: staff costs, depreciation, write-off of PPE, or Other expenditure-administrative costs. Further details of income and expenditure by ALBs is at Annex F.



## 5. Consolidated Departmental Group – Intangible Assets

Intangible assets include development expenditure in respect of non-current assets in use and assets under construction. All intangible assets are held by the Core Department and Agencies.

	Single Use Military Equipment £M	Transport £M	AUC £M	Others £M	Total £M
<b>Cost or Valuation</b>					
Balance at 1 April 2019	25,401.0	6,949.2	9,743.9	3,040.4	45,134.5
Additions <sup>1</sup>	-	-	2,017.4	1.2	2,018.6
Write-ons/(offs)	(23.9)	(0.1)	(10.6)	(61.2)	(95.8)
Impairments <sup>2</sup>	(5.9)	-	(4.1)	(0.4)	(10.4)
Impairment reversals <sup>2</sup>	0.3	-	-	0.6	0.9
Revaluations <sup>3</sup>	991.4	263.9	(0.4)	58.1	1,313.0
Reclassifications <sup>4</sup>	(639.4)	32.1	664.3	36.2	93.2
Balance at 31 March 2020	25,723.5	7,245.1	12,410.5	3,074.9	48,454.0
Additions <sup>1</sup>	-	-	2,272.1	14.0	2,286.1
Write-ons/(offs)	(525.4)	(1.5)	(531.3)	(115.7)	(1,173.9)
Impairments <sup>2</sup>	(420.1)	(130.4)	(48.8)	(4.6)	(603.9)
Impairment reversals <sup>2</sup>	0.2	-	23.1	-	23.3
Revaluations <sup>3</sup>	270.5	56.6	(0.2)	13.1	340.0
Reclassifications <sup>4</sup>	745.4	56.1	(1,534.2)	265.9	(466.8)
<b>Balance at 31 March 2021</b>	<b>25,794.1</b>	<b>7,225.9</b>	<b>12,591.2</b>	<b>3,247.6</b>	<b>48,858.8</b>
<b>Amortisation</b>					
Balance at 1 April 2019	(10,783.7)	(3,440.4)	-	(2,091.6)	(16,315.7)
Charged in Year	(914.2)	(235.1)	-	(187.7)	(1,337.0)
Write-(ons)/offs	16.7	0.1	-	59.6	76.4
Impairments <sup>2</sup>	4.2	-	-	0.4	4.6
Impairment reversals <sup>2</sup>	(0.3)	-	-	(0.2)	(0.5)
Revaluations <sup>3</sup>	(418.1)	(135.3)	-	(43.5)	(596.9)
Reclassifications <sup>4</sup>	1.4	-	-	(1.4)	-
Balance at 31 March 2020	(12,094.0)	(3,810.7)	-	(2,264.4)	(18,169.1)
Charged in Year	(1,003.6)	(262.3)	-	(160.3)	(1,426.2)
Write-(ons)/offs	519.7	1.4	-	111.8	632.9
Impairments <sup>2</sup>	280.0	100.1	-	3.5	383.6
Impairment reversals <sup>2</sup>	(0.1)	-	-	-	(0.1)
Revaluations <sup>3</sup>	(105.0)	(23.5)	-	(8.1)	(136.6)
Reclassifications <sup>4</sup>	-	-	-	-	-
<b>Balance at 31 March 2021</b>	<b>(12,403.0)</b>	<b>(3,995.0)</b>	<b>-</b>	<b>(2,317.5)</b>	<b>(18,715.5)</b>
<b>Net Book Value</b>					
Balance at 1 April 2019	14,617.3	3,508.8	9,743.9	948.8	28,818.8
Balance at 31 March 2020	13,629.5	3,434.4	12,410.5	810.5	30,284.9
<b>Balance at 31 March 2021</b>	<b>13,391.1</b>	<b>3,230.9</b>	<b>12,591.2</b>	<b>930.1</b>	<b>30,143.3</b>

1. Additions include accruals of £962.4 million (2019-20: £886.8 million). Information on Frascati compliant R&D expenditure can be found on the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>
2. 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. Reversals of prior year impairments are shown separately. The net impact of impairments and impairment reversals has been taken to the SoCNE.
3. Revaluations include changes due to Modified Historic Cost Accounting through indexation. For AUC the price inflation embedded within contracts provides for a reasonable estimate of value and therefore the additional annual application of indexation is not required for this category of asset. To ensure accurate values for AUC, MOD conducts reviews annually on its AUC and their reclassification to assets in use.
4. Reclassifications in 2019-20 include a reclassification of £757 million from SUME to AUC due to a classification error at 31 March 2019. Reclassifications include assets classified to property, plant and equipment of £467 million (2019-20: from property, plant and equipment of £93 million).

## 5.1 Movement in the revaluation reserve relating to intangible assets

	2020–21 £M	2019–20 £M
Balance – 1 April	2,879.3	2,402.2
Revaluation	203.4	716.1
Realised reserve transferred to the General Fund	(364.1)	(239.0)
<b>Balance – 31 March</b>	<b>2,718.6</b>	<b>2,879.3</b>

## 5.2 Intangible assets with a net book value greater than £500 million

Description <sup>1</sup> Development costs and other intangible assets are associated with the following platforms and equipment:	Net Book Value 31 March 2021 £M	Remaining Useful Economic Life (to the nearest year)
Typhoon	5,352.3	19 years
Lightning II	1,730.4	27 years
Merlin helicopter	1,381.5	10 years
Type 45 destroyer	1,208.4	18 years
AJAX armoured vehicles	829.6	Under Construction
Type 26 global combat ship	824.6	Under Construction
Airbus A400M Atlas	810.6	30 years
Lynx Wildcat helicopter	658.3	24 years
Type 23 frigate	604.6	14 years
Meteor air-to-air missile	531.9	19 years
SPEAR 3 air-to-surface missile	519.2	Under Construction
Spearfish torpedo	512.4	28 years
Description <sup>1</sup> Development costs and other intangible assets are associated with the following platforms and equipment:	Net Book Value 31 March 2020 £M	Remaining Useful Economic Life (to the nearest year)
Typhoon	5,419.1	20 years
Lightning II	1,608.2	28 years
Merlin helicopter	1,523.8	11 years
Type 45 destroyer	1,210.1	19 years
Type 26 global combat ship	821.4	Under Construction
AJAX armoured vehicles	813.4	Under Construction
Airbus A400M Atlas	766.1	31 years
Type 23 frigate	664.5	15 years
Lynx Wildcat helicopter	658.7	25 years
Spearfish torpedo	512.9	29 years

1. In the interests of national security, details of other platforms with intangible assets valued in excess of £500 million (net book value) are not disclosed.

## 6. Consolidated Departmental Group – Property, Plant and Equipment

Cost or Valuation	Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Other Buildings £M	Single Use Military Equipment (SUME) £M	Plant and Machinery £M	Transport £M	IT and Communication Equipment £M	AUC (SUME) <sup>1</sup> £M	AUC (Other) <sup>1</sup> £M	Total £M
Balance at 1 April 2019	2,502.1	7,229.9	16,376.5	29,453.4	81,132.2	4,026.3	20,361.9	4,819.1	16,062.5	8,059.4	190,023.3
Additions <sup>2</sup>	-	0.4	43.9	10.3	501.9	18.6	9.1	21.1	4,994.5	2,020.5	7,620.3
Write-ons/(offs)	(41.4)	(151.4)	(115.4)	(349.6)	(1,778.9)	(81.4)	(868.0)	(751.5)	24.3	11.9	(4,101.4)
Impairments <sup>3</sup>	(46.5)	(38.9)	(248.7)	(729.6)	(300.8)	(1.7)	(99.7)	(1.9)	-	(10.9)	(1,478.7)
Impairment reversals <sup>3</sup>	174.2	95.1	126.2	271.2	182.1	0.6	25.1	6.7	1.8	-	883.0
Reclassifications <sup>4</sup>	18.9	199.3	447.3	982.4	3,129.5	187.3	121.2	229.0	(3,753.7)	(3,108.8)	(1,547.6)
Revaluations <sup>5</sup>	213.8	(126.2)	1,542.9	2,464.0	2,884.4	104.7	705.8	70.3	171.1	67.8	8,098.6
Balance at 31 March 2020	2,821.1	7,208.2	18,172.7	32,102.1	85,750.4	4,254.4	20,255.4	4,392.8	17,500.5	7,039.9	199,497.5
Additions	12.2	2.6	24.8	12.9	467.8	14.0	6.8	77.9	5,498.7	2,419.0	8,536.7
Write-ons/(offs)	(20.2)	(35.6)	(139.3)	(780.1)	(2,024.9)	(91.9)	(127.4)	(152.4)	(22.2)	(105.9)	(3,499.9)
Impairments <sup>3</sup>	(32.0)	(33.6)	(133.5)	(255.6)	(3,543.8)	(96.9)	(1,570.7)	(8.6)	(124.9)	(13.5)	(5,813.1)
Impairment reversals <sup>3</sup>	181.3	51.4	131.9	114.6	110.3	0.5	4.5	1.9	-	-	596.4
Reclassifications <sup>4</sup>	(1.3)	65.9	83.2	1,030.4	1,395.8	327.0	102.6	238.1	(2,013.3)	(1,338.1)	(109.7)
Revaluations <sup>5</sup>	44.9	62.0	1,910.9	2,469.1	1,618.3	37.5	179.5	21.1	105.6	2.5	6,451.4
Balance at 31 March 2021	3,006.0	7,320.9	20,050.7	34,693.4	83,773.9	4,444.6	18,850.7	4,570.8	20,944.4	8,003.9	205,659.3

Depreciation	Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Other Buildings £M	Single Use Military Equipment (SUME) £M	Plant and Machinery £M	Transport £M	IT and Communication Equipment £M	AUC (SUME) £M	AUC (Other) £M	Total £M
Balance at 1 April 2019	(164.5)	(58.9)	(5,859.4)	(15,831.1)	(43,327.2)	(1,984.7)	(8,875.7)	(3,102.6)	-	-	(79,204.1)
Additions <sup>2</sup>	(3.5)	(9.4)	(367.9)	(677.4)	(3,144.7)	(341.3)	(852.9)	(451.8)	-	-	(5,848.9)
Write-(ons)/offs	12.4	67.4	125.6	502.5	1,727.5	77.5	827.2	739.2	-	-	4,079.3
Impairments <sup>3</sup>	1.3	-	38.1	70.4	58.4	-	89.3	-	-	-	257.5
Impairment reversals <sup>3</sup>	(27.2)	-	(16.6)	(69.8)	(45.0)	(0.6)	(4.4)	(6.7)	-	-	(170.3)
Reclassifications <sup>4</sup>	0.1	-	(0.3)	(103.6)	1,421.4	126.9	43.5	0.6	-	-	1,488.6
Revaluations <sup>5</sup>	(75.6)	(1.1)	(610.2)	(1,692.8)	(1,225.4)	(47.5)	(283.0)	(43.6)	-	-	(3,979.2)
Balance at 31 March 2020	(257.0)	(2.0)	(6,690.7)	(17,801.8)	(44,535.0)	(2,169.7)	(9,056.0)	(2,864.9)	-	-	(83,377.1)
Additions	(22.3)	(0.3)	(390.7)	(960.2)	(3,080.5)	(219.9)	(997.6)	(362.9)	-	-	(6,034.4)
Write-(ons)/offs	1.0	-	94.3	959.9	1,648.8	90.1	136.4	140.7	-	-	3,071.2
Impairments <sup>3</sup>	2.0	-	56.2	68.4	2,823.9	59.1	1,012.6	5.9	-	-	4,028.1
Impairment reversals <sup>3</sup>	(11.9)	-	(23.3)	(41.8)	-	(0.4)	(3.1)	(1.5)	-	-	(82.0)
Reclassifications <sup>4</sup>	-	-	-	36.8	539.7	(46.4)	146.6	(9.5)	-	-	667.2
Revaluations <sup>5</sup>	(12.9)	-	(864.4)	(1,736.4)	(779.5)	(19.8)	(35.0)	(12.3)	-	-	(3,460.3)
Balance at 31 March 2021	(301.1)	(2.3)	(7,818.6)	(19,475.1)	(43,382.6)	(2,307.0)	(8,796.1)	(3,104.5)	-	-	(85,187.3)

Net Book Value	Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Other Buildings £M	Single Use Military Equipment (SUME) £M	Plant and Machinery £M	Transport £M	IT and Communication Equipment £M	AUC (SUME) £M	AUC (Other) £M	Total £M
Balance at 1 April 2019	2,337.6	7,171.0	10,517.1	13,622.3	37,805.0	2,041.6	11,486.2	1,716.5	16,062.5	8,059.4	110,819.2
Balance at 31 March 2020 <sup>6</sup>	2,564.1	7,206.2	11,482.0	14,300.3	41,215.4	2,084.7	11,199.4	1,527.9	17,500.5	7,039.9	116,120.4
Balance at 31 March 2021 <sup>6</sup>	<b>2,704.9</b>	<b>7,318.6</b>	<b>12,232.1</b>	<b>15,218.3</b>	<b>40,391.3</b>	<b>2,137.6</b>	<b>10,054.6</b>	<b>1,466.3</b>	<b>20,944.4</b>	<b>8,003.9</b>	<b>120,472.0</b>

1. The revaluation in AUC (SUME) in 2019–20 relates to the capitalised decommissioning provision being created for an asset not yet in service; the provision and capitalised asset have to be recognised as soon as the obliging event has occurred. The revaluation in AUC (Other) is in respect of the MARS tanker where evidence indicated that a fair value adjustment to AUC was appropriate.
2. Additions include accruals of £2,493 million (2019–20: £2,200 million). Write-ons were previously included in additions; they are now disclosed (for the current and prior years) in the separate write-ons / (offs) line.
3. Assets are impaired for a variety of reasons e.g. loss, damage, obsolescence, abandonment of AUC, as part of the disposal process and have been charged or credited (impairment reversals) to operating costs.
4. Reclassifications do not net to zero because they include assets reclassified in and out of PPE. In 2020–21 these movements included reclassifications: from inventory of £157 million, from intangible assets of £467 million and to assets reclassified to assets held for sale of £48 million. In 2019–20 these movements included reclassifications: from inventory of £82 million, to intangible assets of £93 million and assets reclassified to assets held for sale of £48 million.
5. Revaluations include changes due to indexation. For AUC the price inflation embedded within contracts provides for a reasonable estimate of value therefore the additional annual application of indexation is not required for this category of asset. To ensure accurate values for AUC, MOD conducts reviews annually on its AUC and on their reclassification to assets in use.
6. Property, plant and equipment as at 31 March 2021 include capitalised provisions (net cost) of £1,612 million (31 March 2020: £1,156 million).

Asset Financing	Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Other Buildings £M	Single Use Military Equipment (SUME) £M	Plant and Machinery £M	Transport £M	IT and Communication Equipment £M	AUC (SUME) £M	AUC (Other) £M	Total £M
Owned	748.7	7,185.5	5,851.2	13,720.1	40,391.3	1,695.5	6,507.4	981.7	20,944.4	8,003.9	106,029.7
Leased	1,887.3	35.7	5,440.7	138.2	-	-	33.1	-	-	-	7,535.0
Service Concession Arrangements	68.9	97.4	940.2	1,360.0	-	442.1	3,514.1	484.6	-	-	6,907.3
<b>Balance at 31 March 2021</b>	<b>2,704.9</b>	<b>7,318.6</b>	<b>12,232.1</b>	<b>15,218.3</b>	<b>40,391.3</b>	<b>2,137.6</b>	<b>10,054.6</b>	<b>1,466.3</b>	<b>20,944.4</b>	<b>8,003.9</b>	<b>120,472.0</b>

Of the total	Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Other Buildings £M	Single Use Military Equipment (SUME) £M	Plant and Machinery £M	Transport £M	IT and Communication Equipment £M	AUC (SUME) £M	AUC (Other) £M	Total £M
Core Department and Agencies	2,665.0	7,271.6	12,149.4	14,969.3	40,391.3	1,894.9	10,043.8	1,465.2	20,944.4	7,998.9	119,793.8
Arm's Length Bodies	39.9	47.0	82.7	249.0	-	242.7	10.8	1.1	-	5.0	678.2
<b>Total</b>	<b>2,704.9</b>	<b>7,318.6</b>	<b>12,232.1</b>	<b>15,218.3</b>	<b>40,391.3</b>	<b>2,137.6</b>	<b>10,054.6</b>	<b>1,466.3</b>	<b>20,944.4</b>	<b>8,003.9</b>	<b>120,472.0</b>

**6.1** Land and Buildings, with the exception of AUC, are subject to Quinquennial Revaluation (QQR). The current QQR cycle (QQR5) is a transitional period whereby approximately 25% of the estate will be valued in each of the first 4 years, with the final year of the current cycle used to revalue 20% of the estate valued in the previous 4 years. This will enable future valuation cycles to be phased evenly over a 5 year period which will include a review of new / refurbished assets where a valuation is required and not due during that year. 2020-21 represents the third year of the current cycle.

**6.2** Valuations for the UK estate were performed by the Valuation Office Agency (VOA) and for the overseas estate in-house by Defence Infrastructure Organisation (DIO) personnel and reviewed by VOA. All valuations are carried out by Royal Institution of Chartered Surveyors (RICS) qualified surveyors in accordance with RICS Valuation – Global Standards. 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.

**6.3** Further information on the methods of valuation, including the valuation of plant and equipment, can be found at Note 1 – Accounting Policies.

**6.4** Assets held by the Department for disposal are excluded from valuation; defined as those assets which have been formally transferred to DIO for disposal and those identified for disposal within 2 years of a relevant Valuation Date. If disposal does not occur within the 2 year period, the Department may elect to include the asset in the valuation programme for the following year. Assets are excluded from valuation where the value falls below the Department's materiality threshold of £50,000.

**6.5** Data from the 2020-21 QQR resulted in a £131.63 million increase in the value of Land and a £1,289.17 million increase in the value of Buildings at Net Book Value. Valuations received during the year were dated 1 November 2020 and were effective from 1 April 2020; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 April 2020.

**6.6** The net charge to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings assets is a £71.27 million impairment reversal. This is made up of: Land, £58.21 million net impairment reversal; Buildings, £13.06 million net impairment reversal. The figures include all Land and Building assets professionally valued during Financial Year 2020-21, including Donated, IFRIC 12 and IAS 17 leased assets.

## 7. Financial Instruments and Investments

**7.1** The cash requirements of the Department are met mainly through the Supply funding process. Financial instruments therefore play a more limited role in creating and managing 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 credit, liquidity or market risk.

**7.2** The Department is subject to some 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. These foreign currency forward contracts are not in hedging relationships.

**7.3** The Department is subject to some fuel price risk and has fuel fixed price swap contracts to manage exposure to fluctuations in the market prices of aviation, marine and other fuels.

**7.4** The net gains and losses from the currency forward purchase contracts and fuel fixed price swap contracts are disclosed in Note 4.5 as 'Movement on derivatives'.

**7.5** The total financial assets held by the Departmental Group is £2,701.2 million (31 March 2020: £3,197.5 million). The Departmental Group's financial liabilities total £9,194.7 million (31 March 2020: £8,694.0 million).

**7.6** Details of assets and liabilities classified as financial assets and liabilities in the SoFP are set out below:

	31 March 2021		31 March 2020	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Financial Assets</b>				
<b>Non-current</b>				
Investment in UK Hydrographic Office	13.3	13.3	13.3	13.3
Total non-current financial assets	13.3	13.3	13.3	13.3
<b>Current</b>				
Foreign currency forward purchase contracts	22.3	22.3	389.1	389.1
Fuel fixed swap contracts	15.7	15.7	-	-
Investment in Ploughshare Innovations Limited	1.4	1.4	1.7	1.7
Investment in Sealand Support Services Limited	5.5	5.5	6.8	6.8
Deposits and other investments held by Arm's Length Bodies	-	33.6	-	34.0
Total current financial assets	44.9	78.5	397.6	431.6

	31 March 2021		31 March 2020	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Financial Liabilities</b>				
<b>Current</b>				
Foreign currency forward purchase contracts	492.4	492.4	80.3	80.3
Fuel fixed swap contracts	23.0	23.0	215.2	215.2
Total current financial liabilities	515.4	515.4	295.5	295.5



## 7.7 Ownership of Investments

Investments held by the Core Department and Agencies are:	
Organisation	Details of investments
UK Hydrographic Office	100% of the Public Dividend Capital owned by MOD
Ploughshare Innovations Limited	Wholly owned by Dstl. Dstl is a MOD Agency
Sealand Support Services Limited	Equal shareholdings between three entities - DECA (a MOD Agency) and two private sector companies
International Military Services Limited <sup>1</sup>	The Department has a 100% interest in the shares of IMS Ltd <sup>1</sup>

1. 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.

Investments held by Arm's Length Bodies are:	
Arm's Length Body	Details of investments
National Museum of the Royal Navy	A mixture of UK and Overseas – government and fixed interest securities, bonds, equities and portfolio funds

**7.8** Special Shares confer on the Secretary of State for Defence 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. As at 31 March 2021 the Department held a Preferential Special Share valued at £1 in each of the following companies.

Company	Registration Number
Devonport Royal Dockyard Limited	02077752
Rosyth Royal Dockyard Limited	SC101959
AWE plc	02763902
QinetiQ Group plc	04586941
QinetiQ Holdings Limited	04154556
QinetiQ Limited	03796233
BAE Systems Marine (Holdings) Limited	01957765
CLH Pipeline System (CLH-PS) Ltd	09497223

**7.9** As at 31 March 2021, 7.5% non-cumulative irredeemable preference shares at £1 each were held in the following companies:

Company	Registration Number	Number of shares
The Chamber of Shipping Ltd	02107383	688
The British Shipping Federation Limited	02107375	55,040

The shares are valued at 1p each reflecting the value at which they 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.

## 8. Departmental Group – Inventories

**8.1** 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 640,000 different types and over 740 million items. The type and range of items accounted for include: Guided Weapons, Missiles and Bombs (GWMB) and significant equipment spares (e.g. engines) some of which are reported in the accounts at Note 6 – Property Plant and Equipment (as part of the Single Use Military Equipment figures); as well as Raw Materials and Consumables (RMC) which are reported in the table at 8.3. Raw materials are purchased for conversion and incorporation into Property, Plant and Equipment assets. Consumables are not repairable and consist of items such as ammunition, fuel and support items.

**8.2** The total, approximate, gross value of all these different ‘categories’ is £26.3 billion, £21.8 billion is included in Note 6 and £4.5 billion in inventory (as at 31 March 2020 these figures were £25.9 billion with £21.3 billion in Note 6 and £4.6 billion in inventory).

**8.3** The net book value – i.e. after adjusting for depreciation and other costs (to reflect net realisable value, for example for when items become surplus, unserviceable, defective, obsolescent or for when values increase e.g. as a result of reviews of the useful life of munitions or resulting from the write-on of inventory) – of all the ‘categories’ is £10.6 billion, of which £6.9 billion is included in Note 6 and £3.7 billion in the following table, (as at 31 March 2020 these figures were £10.8 billion with £7.0 billion in Note 6 and £3.8 billion in the following table).

	31 March 2021 £M	31 March 2020 £M
Munitions	906.4	926.6
Clothing & textiles	146.0	171.9
Engineering & technical	2,311.9	2,283.9
General	164.6	150.3
Medical, dental & veterinary	56.6	32.6
Oil, fuel & lubricants	154.0	209.1
Work in Progress	0.1	0.3
<b>Total Core Department and Agencies</b>	<b>3,739.6</b>	<b>3,774.7</b>
Inventory held by ALBs	8.2	8.2
<b>Total Departmental Group</b>	<b>3,747.8</b>	<b>3,782.9</b>

**8.4** 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 contractors’ premises, in stores or both. The value of these items is not included in the figures above.

## 9. Trade Receivables and Other Assets

	31 March 2021		31 March 2020	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Amounts falling due within one year:</b>				
Trade receivables	549.6	550.5	429.1	431.0
Value Added Tax	670.3	671.3	577.7	578.3
Other receivables	608.5	664.8	583.6	590.2
Prepayments and accrued income	1,601.4	1,607.0	1,544.8	1,551.1
Current part of Service Concession Arrangement prepayment	1.3	1.3	-	-
	3,431.1	3,494.9	3,135.2	3,150.6
<b>Amounts falling due after one year:</b>				
Trade receivables	41.8	41.8	7.3	7.3
Other receivables	193.9	193.9	142.0	188.6
Prepayments and accrued income	411.0	411.0	428.9	428.9
	646.7	646.7	578.2	624.8
<b>Total Receivables</b>	<b>4,077.8</b>	<b>4,141.6</b>	<b>3,713.4</b>	<b>3,775.4</b>

**9.1** The Department holds cash in accounts with foreign governments due to contractual requirements to trade with defence contractors through foreign military sales. These have been recognised as prepayments.

## 10. Cash and Cash Equivalents

	2020–21		2019–20	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Balance at 1 April	1,381.6	1,529.0	1,407.5	1,533.4
Net change in cash and cash equivalents	(379.3)	(375.9)	(25.9)	(4.4)
<b>Balance at 31 March</b>	<b>1,002.3</b>	<b>1,153.1</b>	<b>1,381.6</b>	<b>1,529.0</b>

**10.1** The commercial banks and cash in hand figure as at 31 March 2021 includes £621.5 million (31 March 2020: £924.2 million) 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.

	31 March 2021		31 March 2020	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
The following balances were held at:				
Government Banking Service	217.5	235.9	257.0	279.3
Commercial banks and cash in hand	784.8	917.2	1,124.6	1,249.7
<b>Totals</b>	<b>1,002.3</b>	<b>1,153.1</b>	<b>1,381.6</b>	<b>1,529.0</b>

## 11. Trade Payables and Other Liabilities

	31 March 2021		31 March 2020	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Amounts falling due within one year:</b>				
VAT	51.0	51.0	47.7	47.7
Other taxation and social security	233.6	233.8	237.9	238.2
Trade payables	503.4	512.5	446.1	451.1
Other payables <sup>1</sup>	1,464.4	1,539.2	1,865.0	1,938.8
Accruals and deferred income	7,632.9	7,676.5	6,638.6	6,700.4
Current part of finance leases	10.6	10.6	9.9	9.9
Current part of imputed finance lease element of Service Concession Arrangement contracts	405.8	405.8	382.7	382.7
Current part of NLF loans <sup>2</sup>	2.5	2.5	2.5	2.5
Supply payable <sup>3</sup>	380.8	380.8	457.4	457.4
	10,685.0	10,812.7	10,087.8	10,228.7
<b>Amounts falling due after one year:</b>				
Other payables	28.1	28.3	52.2	71.6
Accruals and deferred income	6.1	6.1	4.0	4.0
Finance leases	1,586.3	1,586.3	1,596.9	1,596.9
Imputed finance lease element of Service Concession Arrangement contracts	3,560.9	3,560.9	3,926.0	3,926.0
NLF loans <sup>2</sup>	12.5	12.5	15.1	15.1
	5,193.9	5,194.1	5,594.2	5,613.6
<b>Total Payables</b>	<b>15,878.9</b>	<b>16,006.8</b>	<b>15,682.0</b>	<b>15,842.3</b>

1. Other payables for the Group includes: amounts advanced by foreign governments in respect of various collaborative projects where the United Kingdom is the host nation of £621.5 million (2019–20 : £924.2 million) and a further £386.5 million (2019–20 £456.4 million) lodged with the Court Funds Office.
2. Under the Armed Forces (Housing Loans) Acts 1949, 1958 and 1965, £94 million was borrowed from the National Loans Fund for the construction of families accommodation 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.
3. Amounts received from the Consolidated Fund for Supply but not spent as at 31 March.

## 12. Provisions for Liabilities and Charges

### 12.1 Departmental Group – Provisions for Liabilities and Charges

	Nuclear Decommissioning £M	Other Decommissioning and Restoration Costs £M	Early Retirement Commitments £M	Legal £M	Other <sup>1</sup> £M	Total <sup>2</sup> £M
Balance at 1 April 2019	11,414.5	39.4	76.9	639.5	198.7	12,369.0
Increase in provisions in-year	882.7	15.9	1.9	222.6	96.0	1,219.1
Provisions written back and reclassifications	(695.2)	(22.7)	(8.2)	(139.4)	34.4	(831.1)
Provisions utilised in-year	(147.0)	(0.9)	(12.2)	(151.6)	(207.5)	(519.2)
Unwinding of, and changes in, discount rates	220.6	(1.1)	(5.3)	(7.0)	0.4	207.6
Balance at 31 March 2020	11,675.6	30.6	53.1	564.1	122.0	12,445.4
Increase in provisions in-year	<b>1,660.5</b>	<b>5.8</b>	<b>2.3</b>	<b>169.2</b>	<b>57.6</b>	<b>1,895.4</b>
Provisions written back and reclassifications	<b>(222.2)</b>	<b>(12.0)</b>	<b>(0.9)</b>	<b>(20.4)</b>	<b>1.8</b>	<b>(253.7)</b>
Provisions utilised in-year	<b>(158.8)</b>	<b>(10.4)</b>	<b>(3.0)</b>	<b>(125.3)</b>	<b>(5.0)</b>	<b>(302.5)</b>
Unwinding of, and changes in, discount rates	<b>223.4</b>	<b>0.1</b>	<b>11.1</b>	<b>(3.1)</b>	<b>0.4</b>	<b>231.9</b>
<b>Balance at 31 March 2021</b>	<b>13,178.5</b>	<b>14.1</b>	<b>62.6</b>	<b>584.5</b>	<b>176.8</b>	<b>14,016.5</b>

1. Other includes provision, £93 million (2019–20: £93 million) for future payments under the Enhanced Learning Credit Scheme which helps qualifying Service Personnel or Service Leavers with the cost of learning.

2. Movements in provisions pass through operating costs (see Note 4.4) or, for some changes in capitalised decommissioning liabilities, through Other Comprehensive Expenditure.

### 12.2 Analysis of Expected Timing of Discounted Cash Flows

	Nuclear Decommissioning £M	Other Decommissioning and Restoration Costs £M	Early Retirement Commitments £M	Other Provisions £M	Total £M
Due within 1 year	213.8	11.2	0.8	193.0	418.8
Due over 1 year and less than 5 years	867.9	19.4	1.1	196.0	1,084.4
Due over 5 years	10,299.5	-	51.2	297.1	10,647.8
Assets held solely for decommissioning	294.4	-	-	-	294.4
Balance at 31 March 2020	11,675.6	30.6	53.1	686.1	12,445.4
Due within 1 year	<b>241.1</b>	<b>13.1</b>	<b>3.8</b>	<b>159.2</b>	<b>417.2</b>
Due over 1 year and less than 5 years	<b>950.1</b>	<b>1.0</b>	<b>3.1</b>	<b>309.1</b>	<b>1,263.3</b>
Due over 5 years	<b>11,701.2</b>	-	<b>55.7</b>	<b>293.0</b>	<b>12,049.9</b>
Assets held solely for decommissioning	<b>286.1</b>	-	-	-	<b>286.1</b>
<b>Balance at 31 March 2021</b>	<b>13,178.5</b>	<b>14.1</b>	<b>62.6</b>	<b>761.3</b>	<b>14,016.5</b>

## Nuclear Decommissioning

### *Critical accounting judgements and key sources of estimation uncertainty*

**12.3** Provisions have been made for the cost of the treatment, storage and disposal of the nuclear materials, Irradiated Fuel and Radioactive Waste arising from the Defence Nuclear Programme as well as for the decommissioning of sites, facilities and 31 out of service and operational submarines for which the MOD is ultimately responsible.

**12.4** The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 117 years. In estimating the value of the provision required to settle the Department's obligations, there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them. Should outcomes differ from assumptions in any of the following areas this may require material adjustments to the value of the nuclear decommissioning provisions and related assets and liabilities:

- The time over which the work will be delivered with the programme of work not scheduled to conclude until well into the next century;
- Interdependencies between programmes of work, for example, a Geological Disposal Facility (GDF) is assumed to be the end point for MOD's higher activity waste. If the assumptions underpinning a GDF were to change, this would have a direct impact on the provisions held by the Department;

- Uncertainty over future Government policy positions and potential regulatory changes;
- Possible technological advances which could impact the work to be undertaken to decommission and clean up the sites.

**12.5** The discounted nuclear provision at the end of 2019-20 was £11.676 billion. Since then, the movements have been:

- Changes in accounting estimates £1.279 billion;
- Effect of unwinding and changes to existing discount rates applied to the provision every year £0.223 billion.

These movements bring the 2020-21 MOD estimate for nuclear decommissioning to £13.178 billion discounted.

### *General Assumptions*

**12.6** A key assumption that impacts the value of the nuclear decommissioning provisions is HM Treasury's general discount rate. While the undiscounted provision is £33.380 billion, the application of discounting decreases the provision to £13.178 billion in 2020-21.

**12.7** From 2018-19 onwards, HM Treasury introduced a very long-term discount rate and changed the methodology for calculating the discount rates to be applied to provisions. Instead of real rates, HM Treasury has issued nominal rates based on the yield curves of Bank of England conventional gilts, as a proxy for a risk-free rate which does not include an inflationary factor.



Time Frame	Short Term Rate (0–5 years)	Medium Term Rate (5–10 years)	Long Term Rate (10–40 years)	Very Long Term Rate (>40 years)	Impact of change (£M) Increase/(Decrease)
2017–18	(2.42)%	(1.85)%	(1.56)%	(1.56)%	5,366
2018–19	0.76%	1.14%	1.99%	1.99%	(11,536)
2019–20	0.51%	0.55%	1.99%	1.99%	(62)
2020–21	(0.02)%	0.18%	1.99%	1.99%	(67)

**12.8** HM Treasury has issued a rebuttable presumption that when inflating provision cash flows the Office of Budget Responsibility (OBR)'s CPI forecasts will be used. These rates are generally deemed the most statistically reliable measure of inflation and are commonly used across the Public Sector. The CPI inflation rates are:

Time Frame	Year 1	Year 2	Into perpetuity
2018–19	2.00%	2.00%	2.10%
2019–20	1.90%	2.00%	2.00%
2020–21	1.20%	1.60%	2.00%

**12.9** The department has carried out an assessment on whether it meets the criteria set out by HM Treasury to rebut the presumption that OBR CPI rates will be used. Unless there are contractual obligations, or an alternative rate has been recommended by independent experts as being more applicable than CPI, the department has used the inflation rates listed above. Where the inflation assumption has been rebutted, the inflation rates used in the provisions range from 1.6% to 3%.

**12.10** To illustrate further the sensitivity of provision values to changes in:

- Discount rates – a reduction of 0.5% would result in a £2.972 billion increase in the nuclear decommissioning provisions.

Conversely, an increase of 0.5% in the four rates would result in a £2.209 billion decrease in the value.

- Inflation rate – a variation in the OBR CPI inflation rate of +/-0.25% would result in the value of inflation in the provision changing by £1.246 billion for an increase or £1.045 billion for a decrease.

### Capitalised Asset Provisions

**12.11** Under IAS 16: *Property Plant and Equipment*, decommissioning provisions relating to operational assets are capitalised to the cost of that asset. The Department applies the revaluation model approach detailed in IFRIC 1: *Changes in Existing Decommissioning, Restoration and Similar Liabilities* to the capitalised provision asset, consistent with the revaluation model used for Property, Plant and Equipment.

**12.12** Under this method, the Department uses the revised year-end provision liability to update the respective asset gross value. The Department has assessed that the year-end provision liability provides the best estimate of fair value of the asset in accordance with IFRIC 1 and IAS 16, as the liability reflects the latest decommissioning assumptions and their associated costs and the latest estimate of future economic conditions within which the decommissioning activities will take place.

**12.13** The value of the capitalised asset provisions included in property, plant and equipment is disclosed at Note 6.

### *Significant Provisions*

**Nuclear Fuel Management £3.217 billion – 24.4% of total provisions, (2019–20 £3.24 billion – 27.8% of the value of the provision)**

**12.14** Since 1968, irradiated fuel from the defueling of submarines has been stored at the NDA's Sellafield site. The current policy is to consolidate all the Department's irradiated fuel at Sellafield in the Wet Inlet Facility (WIF). The value of this element of the provision assumes that the costs of storage will continue at a broadly constant level, with a reduction when all material is consolidated in the WIF.

**12.15** The costs of the conditioning facility to enable safe storage are inherently uncertain as the assumption is that construction will not commence for over fifty years. It has been estimated that a variation of 1% in the costs of the construction, operation, post operational clean out and decommission (increase or decrease) would lead to a £0.022 billion change in the value of the provision.

**12.16** Once opened the Irradiated fuel will be moved to the GDF facility, and it has been estimated that if the date when a GDF will be available is delayed by ten years, for example, the provision would increase by £0.108 billion as the MOD would incur additional storage/maintenance costs.

**Geological Disposal Facility £1.981 billion – 15.0% of total provisions (2019–20 £1.82 billion – 15.6% of the value of the provision)**

**12.17** One of the key assumptions that underpin several of the individual provisions is the availability of a GDF as an end point for MOD's higher activity waste. The construction of a GDF is managed by the NDA and the value of the Department's nuclear decommissioning provision currently includes a share of the forecast project costs provided by the NDA based on the total inventory to be held within the facility. The current planned date for the facility to receive waste is 2043–44. The key sensitivities for this provision are as follows:

- Following a review of the High Heat Generating Waste it has been identified that a 5% change in the amount of this type of waste stored in the GDF will result in a £0.064 billion movement to the liability.
- The cost of constructing and operating a repository in the long term which, dependent on the location and construction requirements, range from a reduction of £0.990 billion in the provision value to an increase of £3.962 billion; and
- The NDA has identified a risk that the construction and opening of a facility may be delayed. Such a delay may increase the costs of a facility as well as increasing the discounted value of such costs. A delay of a small number of years is considered to be within the overall tolerance of the estimate for GDF construction and waste transfer and is not considered to have a material impact on the provision estimate. It is estimated that a longer delay, for example for ten years, would increase the current provision by £0.099 billion.

**Submarine 'Afloat' provisions £2.192 billion – 16.6% of the value of the provision (2019–20 £1.62 billion – 14.0% of the value of the provision)**

**12.18** The MOD incurs costs for the maintenance and safe storage of out of service nuclear submarines prior to disposal. This element of the provision is calculated from projections of these costs which include removal of fuels and an allocation of overhead costs incurred. The provision covers all nuclear submarines up to and including the four Astute Class submarines (three In Service and one undergoing sea trials) although for the Astute Class submarines only the fixed cost elements are included; the variable elements are accounted for separately.

**12.19** As the provision is primarily driven by fixed costs, the overall length of the programme is a key assumption. The provision is therefore routinely updated to reflect the impact of any changes to the submarine programme (specifically in respect to vessel out of service dates and the knock-on impact these have on the timing of platforms entering the dismantling phase). The MSDf contracts ceased in 2021 and cash flow estimates were developed based on expected replacement arrangements. For every 1% change in costs after this point (increase or decrease), it is estimated that the liability would change by £0.002 billion.

**Atomic Weapons Establishment £1.322 billion – 10.0% of the value of the provision (2019–20 £1.31 billion – 11.2% of the value of the provision)**

**12.20** The Atomic Weapons Establishment (AWE) is responsible for the design, manufacture and support of warheads for the United Kingdom's strategic nuclear deterrent. The Department holds provisions for the decommissioning of facilities, decontamination and storage of materials relating to the warhead programme; the largest of which is for the decommissioning of AWE's sites at Aldermaston and Burghfield.

**12.21** The AWE provision is based upon the cost of decommissioning current and redundant facilities, and other ancillary activities to support this i.e. waste management activities. The provision does not consider any facilities that have yet to be built or are not contaminated. The provision assumes decommissioning timeframes as set out in the AWE annual liabilities report as agreed by the Office of Nuclear Regulation. AWE provide cost information at Minimum / Most Likely / Maximum estimate levels which consider programme risk and timescale uncertainty. The department ordinarily uses the Most Likely estimate level as the basis for investment decisions as it reflects the risk adjusted Most Likely estimate of programme costs. This rationale has also been applied in the costing of provisions as it reflects the best estimate available on the cost of decommissioning activities. To place this in some context, the Most Likely estimate is £1.514 billion (at current prices, undiscounted and excluding management fees), the difference between the Most Likely estimate for AWE and the Minimum estimate is circa

–£0.2 billion and between the Most Likely and Maximum estimate is circa +£0.4 billion

**12.22** The AWE provision currently assumes a GDF is the end point for any higher activity waste. It has been estimated that if the date when a GDF will be available is delayed by, for example, ten years the AWE provision would increase (at current prices, including discounting and management fees) by £0.005 billion.

**Submarine Dismantling Project £1.265 billion – 9.6% of the value of the provision (2019-20 £0.98 billion 8.4% of the value of the provision)**

**12.23** The Submarine Dismantling Project (SDP) aims to deliver safe, environmentally responsible and cost-effective dismantling of 27 of the UK's defueled nuclear-powered submarines (the dismantling costs for the current four Astute Class submarines are provided for separately outside the scope of this Project). The Department has yet to fully dismantle any of its nuclear-powered submarines and, as such, the estimates of the time and cost of dismantling are inherently uncertain. The SDP provision cashflows are predicated on the planning assumption that, 5 submarines are forecast to undergo initial dismantling in two stages and the remaining submarines will then be dismantled in a single stage; both the two stage and single stage approach taking approximately 18 months for each submarine.

**12.24** A six month delay to the 27 submarines (in relation to either the phase 2 work for the first 5 boats or to the single phase for the remainder) results in an estimated increase to the provision of £0.618 billion, with an

increased schedule for works of 14 years. Only 6 years of this 14-year delay relates to the 27 submarines within the SDP provision; the remaining 8 years relating to submarines provided for outside of the SDP.

**12.25** A demonstrator submarine is being used to define and refine the process, and whilst it and a second submarine have now completed initial dismantling the department does not expect to have a fully developed process for steady state disposal until 2026. As the demonstrator programme progresses, the outcomes will provide more certainty in the future costings within the SDP provision. To illustrate the sensitivity, currently, a +/- 1% change in the SDP costs, would change the estimated liability by £0.013 billion.

**12.26** The availability of a GDF as an end point is important to the SDP with any delays resulting in additional costs for the interim storage of waste. It has been estimated that if the date when a GDF will be available is delayed by, for example, ten years the SDP provision would increase by £0.046 billion.

## Other Decommissioning and Restoration

**12.27** 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 using the Treasury discount rates listed at paragraph 12.7.

## Early Retirement

**12.28** 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: -0.95% with effect from 31 March 2021 (-0.5% from 31 March 2020). Employees who retire early now do so on a 'clean break' basis, so no provision is required as there are no costs in future years. During 2020-21 increases of £2.3 million were made to existing schemes and early retirement/redundancy costs paid during the period amounted to £2.9 million.

## Legal

**12.29** Legal liabilities include amounts payable under guarantees, litigation and contractual arrangements; some legal liabilities (where the probability of settlement against the Department is less certain) have been reported as contingent liabilities.

## Other

**12.30** Other provisions include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

## 13. Retirement Benefit Schemes

**13.1** 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. Although the funding for the benefits provided by these schemes is voted separately by Parliament and accounted for in the AFPS Accounts, the staff and other costs of ensuring that pension and compensation payments due are made in a timely and accurate manner, as well as the employer contributions, falls to and is included in the Department's accounts. Separate accounts are prepared for the schemes and can be found at: <https://www.gov.uk/government/collections/armed-forces-pension-scheme-annual-accounts>

**13.2** The Department's share of the transactions and balances of other unfunded multi-employer defined benefit pension schemes to which employees belong (e.g. under Civil Service Pension (CSP) arrangements, the NHS Superannuation Scheme and the Teachers' Pension Scheme) cannot be separately identified. The schemes are therefore accounted for as defined contribution schemes in accordance with IAS 19. Separate accounts are prepared for the schemes and details can be found at:

<https://www.civilservicepensionscheme.org.uk>

<https://www.gov.uk/government/collections/teachers-pension-scheme>

<https://www.nhsbsa.nhs.uk/nhs-pensions>

**13.3** Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians overseas. The liabilities for unfunded schemes are included as 'Retirement benefit scheme liabilities' as part of the non-current liabilities on the Department's SoFP. For the funded pension schemes within the accounting boundary i.e. the Commonwealth War Graves Commission Superannuation Scheme and the Reserve Forces and Cadets Associations Pension Scheme; estimates of the 'Retirement benefit scheme assets and liabilities' are included as part of the non-current assets and non-current liabilities on the Group SoFP. Further details of these smaller schemes are set out below.

**13.4** The Department's three unfunded, defined benefit pension schemes are:

- the British Forces Cyprus pension scheme – a pension scheme for locally engaged fire fighters, employed by the MOD in Cyprus;
- the Sovereign Bases Administration Areas (SBAA) pension scheme – a pension scheme for locally engaged police and civilian grades in Cyprus; and
- the United Kingdom Departments Gibraltar (UKDG) pension scheme – for locally employed staff in Gibraltar.

**13.5** The Government Actuary's Department (GAD) completes a full valuation of each scheme every four years and for the intervening years produces actuarial reports using the full valuations as a basis. Full valuations were completed: for the UKDG as at 31 March 2019 and for BFC and SBAA as at 31 March 2018. Details of the liabilities and other information used by GAD in their calculations are shown in the tables below:

	2020–21				2019–20			
	British Forces Cyprus (BFC) £M	Sovereign Bases Administration Areas (SBAA) £M	United Kingdom Departments Gibraltar (UKDG) £M	Total £M	British Forces Cyprus (BFC) £M	Sovereign Bases Administration Areas (SBAA) £M	United Kingdom Departments Gibraltar (UKDG) £M	Total £M
Opening Balances	69.6	172.4	371.4	613.4	56.7	139.1	360.5	556.3
Current Service Cost	2.4	6.9	9.4	18.7	2.1	6.0	7.3	15.4
Interest Charges	1.3	3.2	6.7	11.2	1.7	4.1	10.4	16.2
Changes in assumptions	4.5	11.7	27.1	43.3	8.9	22.4	35.0	66.3
Benefits Paid	(1.1)	(2.5)	(11.3)	(14.9)	(1.4)	(3.2)	(11.6)	(16.2)
Exchange Rate (gain)/loss	(2.7)	(6.1)	-	(8.8)	1.6	4.0	-	5.6
Experience (gain)/loss <sup>1</sup>	-	-	-	-	-	-	(30.2)	(30.2)
Closing Balances	74.0	185.6	403.3	662.9	69.6	172.4	371.4	613.4

1. The changes due to experience gains and losses arise due to scheme experience that has not coincided with the actuarial assumptions made for the latest valuation. The main reasons for this difference are: a period of pay restraint for active members of these schemes during the inter-valuation period; and a higher than expected rate of pensioner mortality during the inter-valuation period.



**13.6** GAD has completed sensitivity analysis on the key assumptions underlying their valuations of the schemes' liabilities. The analysis showed that there has been no

material movement in the total liability for any of the schemes as a result of the assumptions made. The principal actuarial assumptions as at 31 March are below:

	2020-21	2019-20
Discount Rate	1.25%	1.80%
Future Salary Increases	2.22%	4.10%
Future Pension Increases	3.72%	2.35%

The numbers of members used in the calculations for each scheme were:

	Number of Members as at the Current Valuation Date <sup>1</sup>			Number of Members as at the Previous Valuation Date <sup>1</sup>		
	Active	Pensioners	Deferred Pensioners	Active	Pensioners	Deferred Pensioners
British Forces Cyprus (BFC)	109	46	1	117	47	1
Sovereign Bases Administration Areas (SBAA)	293	132	2	340	106	1
United Kingdom Departments Gibraltar (UKDG)	488	1,134	270	570	1,161	305

1. In accordance with the FReM, actuarial valuations of the schemes are carried out every 4 years. The membership data above reflects the updated information used at the time of these valuations. The current valuations for BFC and SBAA are as at 31 March 2018, the previous valuations are as at 31 March 2014. The current valuation for UKDG is as at 31 March 2019, the previous valuation is as at 31 March 2015.

**13.7** The Group Accounts also include two funded, defined benefit schemes:

- the Commonwealth War Graves Commission Superannuation Scheme (this scheme was closed to future benefit accrual from 31 March 2016); and
- the Reserve Forces and Cadets Associations Pension Scheme.

**13.8** Details of the assets, liabilities and number of members (set out in the following tables) are also reviewed by GAD and include sensitivity analysis on the key assumptions underlying the valuations. The analysis showed that there has been no material movement in the total liability for either of the schemes as a result of the assumptions made.

	2020–21			2019–20		
	Reserve Forces and Cadets Association Pension Scheme £M	Commonwealth War Graves Commission Superannuation Scheme £M	Total £M	Reserve Forces and Cadets Association Pension Scheme £M	Commonwealth War Graves Commission Superannuation Scheme £M	Total £M
<b>Scheme Assets</b>						
Opening Asset Balances	128.3	87.9	216.2	113.6	87.0	200.6
Net increase/(decrease) <sup>1</sup>	-	3.5	3.5	14.7	0.9	15.6
Closing Asset Balances	128.3	91.4	219.7	128.3	87.9	216.2
<b>Scheme Liabilities</b>						
Opening Liability Balances	(119.4)	(124.5)	(243.9)	(97.7)	(116.1)	(213.8)
Net (increase)/decrease <sup>1</sup>	-	(6.0)	(6.0)	(21.7)	(8.4)	(30.1)
Closing Liability Balances	(119.4)	(130.5)	(249.9)	(119.4)	(124.5)	(243.9)
<b>Net Scheme Asset/(Liabilities)</b>	<b>8.9</b>	<b>(39.1)</b>	<b>(30.2)</b>	<b>8.9</b>	<b>(36.6)</b>	<b>(27.7)</b>

1. The increase or decrease in the valuations is the net total of individual movements (current service cost, interest charges, contributions by members, enhancements, past service costs, transfers, changes in assumptions, benefits paid, exchange rate gains or losses, and experience gains or losses) which, separately, are not considered material and are not disclosed.

### 13.9 The numbers of members used in the calculations for each scheme were:

	Current Number of Members <sup>1</sup>			Previous Number of Members <sup>1</sup>		
	Active	Pensioners	Deferred Pensioners	Active	Pensioners	Deferred Pensioners
Reserve Forces and Cadets Association Pension Scheme	901	1,164	340	855	1,126	305
Commonwealth War Graves Commission Superannuation Scheme	202	405	169	190	408	169

1. The Reserve Forces and Cadets Association Pension Scheme's figures for the current number of members is as at 1 August 2018, the previous number of members is as at 1 August 2015. The Commonwealth War Graves Commission Superannuation Scheme's figures for the current number of members is as at 31 March 2016, the previous number of members is as at 30 November 2013.

## 14. Departmental Group – Capital Commitments

**14.1** In addition to the liabilities listed in the Statement of Financial Position the Department, as part of its ongoing work enters into undertakings for substantial future capital expenditure which, when the liability is incurred, will be recorded in future financial statements. The following future capital commitments are not yet accounted for in the financial statements:

	31 March 2021 £M	31 March 2020 £M
Intangible assets	3,578.1	2,324.3
Property, plant and equipment	19,502.9	21,444.8
<b>Total</b>	<b>23,081.0</b>	23,769.1

## 15. Departmental Group – Other Financial Commitments

**15.1** The MOD has entered into non-cancellable contracts which are not leases or PFI contracts. Details of the payments to which the MOD is committed are disclosed below, analysed by the period during which the commitment expires. These commitments cover thousands of contracts including contracts relating to equipment support, estate maintenance, and information and communications support.

	31 March 2021 £M	31 March 2020 £M
Not later than 1 year	4,359.0	3,856.7
Later than 1 year but not later than 5 years	6,335.6	6,798.0
Later than 5 years	2,323.8	2,485.7
<b>Total</b>	<b>13,018.4</b>	13,140.4

## 16. Departmental Group – Commitments under Leases

**16.1** The totals of future minimum lease payments under operating and finance leases for the periods: not later than one year; later than one year and not later than five years and later than five years are set out below.

### 16.2 Operating leases:

	31 March 2021 £M	31 March 2020 £M
Obligations under operating leases comprise:		
<b>Land</b>		
Not later than one year	6.8	7.4
Later than one year and not later than five years	13.3	9.8
Later than five years	54.4	20.4
	<b>74.5</b>	37.6
<b>Buildings</b>		
Not later than one year	54.6	51.9
Later than one year and not later than five years	123.5	93.8
Later than five years	96.4	78.8
	<b>274.5</b>	224.5
<b>Other</b>		
Not later than one year	147.8	116.0
Later than one year and not later than five years	266.1	209.8
Later than five years	40.6	20.0
	<b>454.5</b>	345.8

**16.3** The most significant land operating lease commitment as at 31 March 2021 is a new lease for £17 million for land leased in Portsmouth.

**16.4** The most significant operating leases for buildings, as at 31 March 2021, are for: Service Families Accommodation £18 million (2019–20: £26 million), Aldershot Health Centre £21 million (2019–20: £25 million), Cromwell House £17 million (2019–20: £18 million) and Dstl sites £16 million (2019–20: £18 million).

**16.5** Other operating lease commitments include leased vehicles (including operational support vehicles) of £228 million (2019-20: £211 million), two new leases: MITER £85 million and Future Forces Broadcasting Services £48 million, Defence Fuels Global Resupply Capability £37 million (2019-20: £43 million), Light Aircraft Handling Training £20 million (2019-20: £42million). Each of the remaining lease commitments is less than £10 million.

**16.6** Finance leases:

	31 March 2021 £M	31 March 2020 £M
Obligations under finance leases comprise:		
<b>Land</b>		
Not later than one year	44.0	44.0
Later than one year and not later than five years	176.2	176.2
Later than five years	7,511.3	7,555.4
	7,731.5	7,775.6
Less interest element	(6,953.4)	(6,997.5)
	778.1	778.1
<b>Buildings</b>		
Not later than one year	43.9	43.8
Later than one year and not later than five years	175.5	175.5
Later than five years	7,481.1	7,525.0
	7,700.5	7,744.3
Less interest element	(6,925.5)	(6,969.3)
	775.0	775.0
<b>Other</b>		
Not later than one year	13.3	13.3
Later than one year and not later than five years	36.7	50.0
Later than five years	-	-
	50.0	63.3
Less interest element	(6.2)	(9.6)
	43.8	53.7

**16.7** The Land and Buildings finance leases relate to the arrangement with Annington Homes Ltd for the provision of homes for service personnel and their families £1,553 million (2019-20: £1,553 million). The Other finance lease is an arrangement for strategic sealift £44 million (2019-20: £54 million).

## 17. Departmental Group – Commitments under Service Concession Arrangements

**17.1** The following arrangements that fulfilled the criteria for IFRIC 12, including those that ended during the reporting period, have been accounted for as assets of the Department during 2020-21; details of the assets financed under these arrangements are included at Note 6 – Property, Plant and Equipment:

Project Description	Contract Start <sup>1</sup>	Contract End
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-23
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
Veolia PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage at Tidworth.	Feb-98	Aug-23
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 families accommodation.	Jun-98	Aug-28
Family Accommodation Yeovilton: Provision of family accommodation for 88 Service families at RNAS Yeovilton	Jul-98	Jul-28
Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities at Lyneham.	Aug-98	Mar-24
RAF Fylingdales: Provision of guaranteed power supply.	Dec-98	Mar-24
RAF Cosford / RAF Shawbury Family Accommodation: Provision of 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
Central Scotland Family Accommodation: Provision of accommodation for 164 Service families in Central Scotland.	Aug-99	Mar-22
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
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington.	Jul-00	Mar-23
Family accommodation at Wattisham: Provision of accommodation for 250 Service families	May-01	May-28
Training: Provision of a training environment for crewmen and maintainers to support submarines.	Sep-01	Sep-37
Family accommodation at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families	Nov-01	Oct-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
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-21
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
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	May-21
Portsmouth 2 Housing: Provision of accommodation for 148 Service families in Portsmouth.	Oct-05	May-32
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

Project Description	Contract Start <sup>1</sup>	Contract End
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 and Fixed Wing Training.	May-08	May-33
Corsham Development Project: Rebuild, refurbishment, management and operation of facilities at the Basil Hill site.	Aug-08	Jul-33

1. Date when contract signed.

**17.2** 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 (interest), a repayment of capital and a service charge. Service and interest charges are accounted for within the SoCNE. Service charges for 2020–21 were £1.3 billion (2019–20: £1.3 billion) and interest charges for 2020–21 were £0.3 billion (2019–20: £0.3 billion). Total obligations under SCA (consisting of the minimum lease payments, interest and any minimum service charges) analysed by time periods are shown in the following table:

	31 March 2021 £M	31 March 2020 £M
<b>Details of the imputed finance lease charges</b>		
Not later than one year	643.8	650.0
Later than one year and not later than five years	1,751.6	1,993.9
Later than five years	3,364.0	3,766.4
<b>Total</b>	<b>5,759.4</b>	<b>6,410.3</b>
Less interest element	(1,792.7)	(2,101.6)
<b>Present value of obligations</b>	<b>3,966.7</b>	<b>4,308.7</b>
<b>Details of the minimum service charge</b>		
Not later than one year	1,139.8	1,145.8
Later than one year and not later than five years	3,367.0	3,734.9
Later than five years	6,068.4	7,126.3
<b>Total</b>	<b>10,575.2</b>	<b>12,007.0</b>

**17.3** The Service Concession Arrangements with obligations over £100 million are:

- Future Strategic Tanker Aircraft (FSTA) – providing air to air refuelling and passenger air transport capabilities £1,885 million (2019–20: £1,967 million).
- Colchester Garrison – redevelopment, rebuilding and refurbishment to provide accommodation and associated services £460 million (2019–20: £464 million).
- Skynet 5 – satellite services £206 million (2019–20: £356 million).
- Project Allenby Connaught – a project for the rebuild, refurbishment, management and operation of facilities for Service accommodation at: Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down £375 million (2019–20: £387 million).
- Main Building refurbishment £249 million (2019–20: £263 million).
- UK Military Flying Training System – ground based training equipment element £166 million (2019–20: £216 million).
- Northwood – rebuild, refurbishment, management and operation of facilities £105 million (2019–20: £112 million).



## 18. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed under IAS 37

### Contingent Liabilities

**18.1** The following liabilities are either: possible obligations arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Department's control; or present obligations where it is not probable that an outflow of economic resources will be required to settle the obligation. There are some liabilities where details, other than the estimated amounts are not given due to reasons of commercial confidentiality and /

or national security. Due to the nature of the liabilities disclosed below it is not considered possible for any reimbursement to occur.

**18.2** There is potential that the decisions taken as part of the Defence Command Paper – Defence in a Competitive Age published on 22 March 2021 could necessitate a review of contracts relating to programmes that are being cancelled, descope or retired early from service. Until the Department has progressed this activity, we cannot estimate the potential impact, if any, of these reviews and therefore, there is insufficient evidence to justify the creation of a provision

**18.3** The following quantifiable contingent liabilities have been identified and the estimates shown are based on the most likely value.

### Quantifiable Contingent Liabilities under IAS 37

Description and Key Uncertainties	31 March 2020 £M	Increase/ (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2021 £M
<b>Indemnity to contractors for third party claims</b> There are uncertainties around the likelihood of a case being brought against the MOD and determining the value of any potential case. The scope of potential cases is wide ranging, and the timing cannot be predetermined.	282.0	-	-	-	<b>282.0</b>
<b>Contractor claims as result of contract termination</b> There are several costs that are associated with a production line coming to an end, this includes reimbursement for site and workforce rationalisation costs. The full cost is dependent on future export opportunities.	207.8	-	-	(0.6)	<b>207.2</b>
<b>Liability for redundancy</b> There are several uncertainties relating to redundancies in this category. Some are due to timing of individuals death, whether any dependants remain and the value of the entitlement.	19.0	-	(0.2)	(0.1)	<b>18.7</b>
<b>Legal claims (personal)</b> This liability is created by the percentage of legal claims that are repudiated by the Company who manage the Department's legal claims. The percentage remains variable.	39.5	1.1	-	(16.0)	<b>24.6</b>
<b>Environmental clean up costs</b> There are several uncertainties, whether mitigation action has been suitably effective. As a programme of work progresses this could uncover further clean up work is required at any time.	44.5	0.4	-	-	<b>44.9</b>

Description and Key Uncertainties	31 March 2020 £M	Increase/ (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2021 £M
<b>Potential liability arising from the Colchester Garrison PFI</b> Private Finance Initiative liability due to a qualifying change in law. There is uncertainty around whether this will occur and also the timing of such a change occurring.	20.0	-	-	-	<b>20.0</b>
<b>Indemnity for utilities and services following the sale of Service housing</b> There is uncertainty as to whether MOD will hand a site back before the determination date and if the utilities agreement is extended. There is further uncertainty of value of outflow and the timing in which this might occur.	21.4	-	-	-	<b>21.4</b>
<b>Sensitive</b> Not disclosed due to reasons of commercial confidentiality and/or national security.	16.4	971.8	-	-	<b>988.2</b>
<b>New Fair Deal arrangements for staff pensions: staff transferred from Central Government</b> There is uncertainty as to whether eligible personnel will choose to transfer accrued pension benefits into Principal Civil Service Pension Scheme and the difference in value between private and public pension entitlements over time.	2.2	-	-	-	<b>2.2</b>
<b>Indemnity related to potential damage to cables by third parties</b> There is uncertainty around whether any damage to the cables will occur and the potential rectification costs.	1.1	-	-	-	<b>1.1</b>
<b>Total quantifiable contingent liabilities</b>	<b>653.9</b>	<b>973.3</b>	<b>(0.2)</b>	<b>(16.7)</b>	<b>1,610.3</b>

**18.4** The Department has the following unquantifiable liabilities in accordance with IAS 37. This could be due to a variety of reasons such as: the possibility of multiple scenarios and permutations (often involving complex and changing technology); and the variety and the uncertainty surrounding the events that may lead to crystallisation of any obligation. Objective evidence to support valuations of these liabilities is not available and hence they cannot be measured with sufficient reliability. The liabilities will remain for the foreseeable future because they relate to possible obligations in respect of enduring companies, products, projects, equipment, technologies and property. The liabilities are:

- The Department has a number of sites where it may be necessary to carry out decontamination work. It is not

practicable or cost effective to identify all contamination at these sites. Any possible liability is therefore not quantified and possible site remediation exposure is recognised as an unquantifiable contingent liability. Uncertainty whether this will occur is dependent on the site and this is only known as the decontamination work progresses; therefore, timing and costs are uncertain.

- Service Life Insurance is a life insurance scheme for Service personnel which aims to guarantee access to life insurance cover throughout their service. The insurer undertakes to cover the risk for all deaths regardless of cause within a contracted mortality rate of 75 deaths per 100,000 members. Above this mortality rate MOD would be liable. There is uncertainty relating to whether such an event will occur

to trigger the liability and the scale that might be involved.

- Indemnity to third parties for damage caused by live firing of missiles at overseas ranges. There is uncertainty as to whether such an event will occur and the level of rectification costs that may be incurred as a result.
- Under the Defence Marine Services contract losses or claims which relate to towing are handled according to the terms of the International Ocean Towing Agreement (TOWCON). Under TOWCON the contractor is indemnified by the MOD for injury to persons on towed vessels, loss or damage caused to towed vessels, and loss or damage caused to 3rd parties by towed vessels. The uncertainty relates to the multiple potential scenarios that would trigger this liability which are numerous in their nature, scale and potential financial impact
- Potential liability for staff transferred from the Department to request access to pension schemes available under New Fair Deal Arrangements. The uncertainty relating to New Fair Deal comes through not knowing how many entitled personnel will transfer onto the public sector pension scheme and what their accrued benefits would be at the point of transfer compared to their private pension scheme.
- Indemnity to contractors for potential third party risks arising from the construction of the Queen Elizabeth Class carriers. There are uncertainties around the likelihood of a case being brought against the MOD and determining the value of any potential case. The scope of any potential case is

wide ranging and the timing cannot be predetermined.

- The Department has environmental and safety responsibility for a large number of shipwrecks both in UK waters and globally. The timing, scope and value of any necessary interventions remains uncertain and therefore the scale of the risk associated is unquantifiable.

## 19. Related Party Transactions

**19.1** The Department is the parent of the agencies (DE&S BTE, DECA, Dstl and SDA) and other bodies, and sponsor of the non-departmental public bodies shown in Note 20 – Entities Within the Departmental Boundary. These bodies are regarded as related parties with which the Department has had various transactions during the year.

**19.2** In addition, the Department has had a number of transactions with other government departments and other central government bodies.

**19.3** Details of individuals who served as Ministers and Board Members during the year are listed in the Remuneration Report. No Minister or Board Member or their related parties has undertaken any material transactions with the Department during the year.

## 20. Entities within the Departmental Boundary

The entities within the boundary during 2020–21 were as follows:

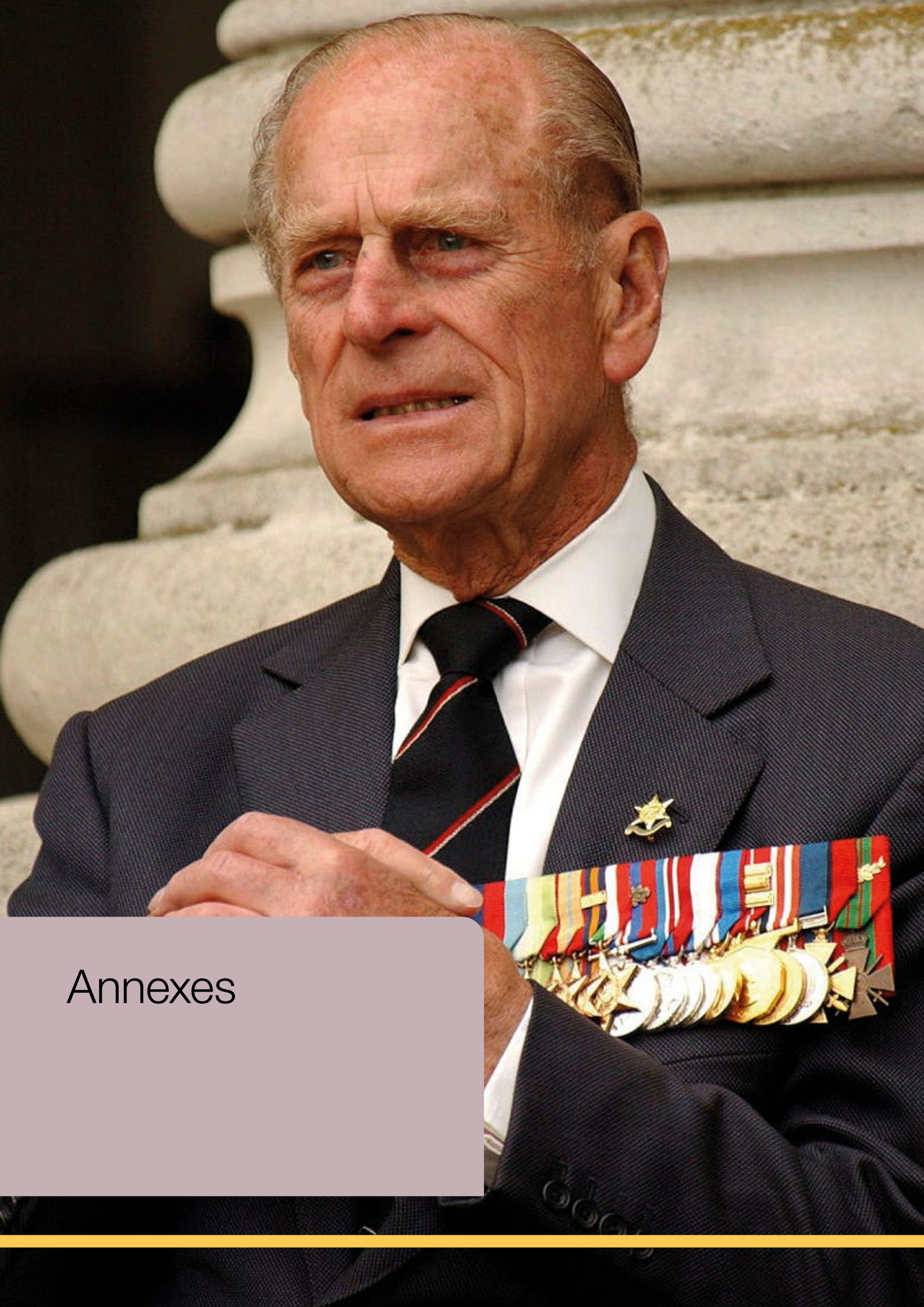
<b>On-Vote Defence Agencies</b>
Defence Electronic Components Agency
Defence Equipment and Support – Bespoke Trading Entity
Defence Science and Technology Laboratory
Submarine Delivery Agency
<b>Non-Departmental Public Bodies</b>
Armed Forces Covenant Fund Trustee Limited
National Museum of the Royal Navy
National Army Museum
Royal Air Force Museum
Single Source Regulations Office
<b>Advisory Non-Departmental Public Bodies</b>
Advisory Committee on Conscientious Objectors
Armed Forces Pay Review Body
Defence Nuclear Safety Committee
Independent Medical Expert Group
Nuclear Research Advisory Council
Science Advisory Committee on the Medical Implications of Less Lethal Weapons
Veterans Advisory and Pensions Committees
<b>Other Bodies</b>
Advisory Group on Military Medicine
Central Advisory Committee on Compensation
Commonwealth War Graves Commission
Defence Science Expert Committee
Independent Monitoring Board for the Military Corrective Training Centre, Colchester
International Military Services Limited
Royal Hospital Chelsea
Service Complaints Ombudsman
Service Prosecuting Authority
Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996 c14

## 21. Events After the Reporting Date

**21.1** Under revised arrangements, effective from 1 July 2021, AWE plc was re-classified as a Non-Departmental Public Body and will be a public limited company wholly owned by the MOD. On 19 August 2021 MOD acquired Sheffield Forgemasters International Limited (SFIL) in order to secure the supply of components for critical current and future UK defence programmes. The cost of the acquisition was £2.56 million for the entire share capital of the company. Neither transaction will have a material impact on the Group Accounts.

**21.2** These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.





Annexes

## Annex A: Statement of Approved Maximum Armed Forces Numbers

### *Maximum Numbers of Personnel to be Maintained for Services with the Armed Forces*

		Numbers Voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Naval Service</b>				
Royal Navy	Officers	7,000	6,170	February 2021
	Men and Women	22,500	20,860	March 2021
	Aggregate	29,500	27,010	March 2021
Royal Marines	Officers	1,000	840	October 2020
	Men and Women	7,200	5,940	December 2020
	Aggregate	8,200	6,770	December 2020
<b>Army Service</b>				
Army (Other than Services below)	Officers	14,490	13,330	February 2021
	Men and Women	88,500	70,720	March 2021
	Aggregate	102,990	83,990	February 2021
Commonwealth, Colonial, &c., troops abroad and Gurkhas	Officers	190	160	December 2020
	Men and Women	4,670	3,920	March 2021
	Aggregate	4,860	4,080	March 2021
<b>Air Force Services</b>				
Royal Air Force	Officers	8,600	7,920	March 2021
	Men and Women	27,800	25,140	March 2021
	Aggregate	36,400	33,060	March 2021

### *Maximum numbers of personnel to be maintained for service with the Reserve Armed Forces*

		Numbers Voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Reserve Naval and Marine Services</b>				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,960	2,170	April 2020
	Men and Women	9,000	2,110	June 2020
	Aggregate	13,960	4,260	April 2020
Royal Fleet Reserve (Marine Officers and Marines)	Officers	470	210	June 2020
	Men and Women	2,610	910	April 2020
	Aggregate	3,080	1,120	April 2020
Royal Naval Reserve	Officers	1,400	1,180	August 2020
	Men and Women	2,300	1,880	March 2021
	Aggregate	3,700	3,030	January 2021
Royal Marine Reserve	Officers	120	90	Tablenote 4
	Men and Women	1,250	930	October 2020
	Aggregate	1,370	1,020	October 2020
Royal Naval Reserve (List 7)	Officers	1,100	970	November 2020



		Numbers Voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Reserve Land Forces</b>				
Army Regular Reserve	Officers	9,380	7,350	April 2020
	Men and Women	23,420	19,740	April 2020
	Aggregate	32,800	27,090	April 2020
Army Reserve	Officers	9,160	6,210	January 2021
	Men and Women	34,840	27,700	March 2021
	Aggregate	44,000	33,900	March 2021
<b>Reserve Air Forces</b>				
Royal Air Force Reserve	Officers	4,500	3,770	June 2020
	Men and Women	9,000	7,300	April 2020
	Aggregate	13,500	11,000	June 2020
Royal Auxiliary Air Force	Officers	950	820	February 2021
	Men and Women	3,850	2,560	December 2020
	Aggregate	4,800	3,360	February 2021

*Maximum numbers of personnel to be maintained for service as special members of the Reserve Forces*

		Numbers Voted by the House of Commons	Maximum Numbers Maintained <sup>1</sup>	Peak Dates
<b>Special Members of The Reserve Naval Forces</b>				
Royal Naval Reserve	Officers	850	670	November 2020
	Men and Women	1,620	1,060	October 2020
	Aggregate	2,470	1,730	November 2020
<b>Special Members of The Reserve Land Forces</b>				
Army Regular Reserve	Officers	20	0	Tablenote 3
	Men and Women	30	0	Tablenote 3
	Aggregate	50	0	Tablenote 3
Army Reserve	Officers	20	~	April 2020
	Men and Women	430	140	February 2021
	Aggregate	450	140	February 2021
<b>Special Members of The Reserve Air Forces</b>				
Royal Air Force Reserve	Officers	100	50	Tablenote 4
	Men and Women	180	150	December 2020
	Aggregate	280	200	December 2020

1. The figures for Maximum Numbers Maintained have been rounded to the nearest 10, with numbers ending in 5 being rounded to the nearest multiple of 20 to prevent systematic bias.
2. Totals and sub-totals have been rounded separately and so may not equal the sum of their rounded parts.  
~denotes 5 or fewer.
3. Strength has been zero for the whole time period.
4. Strength has been more than two months at the highest level.

## Annex B: Sponsorship Agreements over £5,000

Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
<b>AI Fest</b>		
	Northrop Grumman UK Ltd	5,000
	Rowden Technologies Ltd	5,000
	Deloitte MCS Limited	5,000
<b>Battle of Britain Memorial Flight</b>		
	Griffin Military & Diplomatic	71,742
<b>RAF Falcons Parachute Display</b>		
	Summit Air	15,000

## Annex C: Core Tables

### Organisation (All) Total departmental spending, 2015–16 to 2020–21

£000	2015–16 OUTTURN	2016–17 OUTTURN	2017–18 OUTTURN	2018–19 OUTTURN	2019–20 OUTTURN	2020–21 OUTTURN	2021–22 PLANS
<b>Resource DEL</b>							
Provision of Defence Capability Service Personnel Costs	8,688,284	8,936,726	8,970,633	9,093,174	9,949,068	10,511,526	10,825,008
Provision of Defence Capability Civilian Personnel Costs	1,282,598	1,317,796	1,363,922	1,382,590	1,535,636	1,605,760	2,016,750
Provision of Defence Capability Infrastructure costs	4,127,877	4,109,609	4,057,523	4,258,514	4,643,384	4,914,951	5,651,121
Provision of Defence Capability Inventory Consumption	1,458,575	1,213,611	1,187,498	1,173,172	1,225,847	1,191,875	1,272,880
Provision of Defence Capability Equipment Support Costs	6,308,897	6,440,168	6,548,798	6,792,882	6,927,405	7,364,559	7,653,295
Provision of Defence Capability Other Costs and Services	1,777,086	1,224,403	1,344,094	1,345,918	1,347,553	1,447,813	575,789
Provision of Defence Capability Receipts and other Income	-990,842	-1,001,626	-1,069,897	-1,088,379	-1,264,898	-1,265,160	-1,339,772
Provision of Defence Capability Depreciation and Impairments Costs	7,690,147	8,773,560	7,236,889	6,805,446	7,185,671	9,519,392	10,496,328
Provision of Defence Capability Cash Release of Provisions Costs	238,288	253,552	292,907	389,329	522,739	315,162	350,000
Provision of Defence Capability Research and Development Costs <sup>1</sup>	-	164,191	223,050	228,963	265,316	265,835	195,000
Provision of Defence Capability Administration Civilian Personnel Costs	1,198,116	430,740	363,297	483,679	550,640	578,380	549,660
Provision of Defence Capability Administration Other Costs and Services	465,947	395,656	423,226	530,519	642,365	540,020	702,919
Operations Service Personnel Staff Cost	12,864	27,617	42,608	30,728	39,494	29,744	19,313
Operations and Peacekeeping Civilian Personnel Staff Costs	3,962	4,840	5,621	3,014	1,623	1,830	1,099
Operations Infrastructure Costs	48,926	42,939	56,714	63,814	55,749	81,514	46,811
Operations Inventory Consumption	56,224	66,085	95,821	80,522	110,914	92,763	64,258
Operations Equipment Support Costs	143,437	233,445	282,316	271,531	122,189	131,769	109,794
Operations Other Costs and Services	19,856	41,510	35,451	66,477	41,408	33,802	43,889
Operations Receipts and other Income	-9,969	-16,698	-11,941	-2,901	-4,932	-2,018	-3,164
Operations Depreciation and Impairment Costs	21,029	45,272	49,723	24,585	1,613	-	-
Operations Cash Release of Provisions Costs	-	-	-	-	-	-	-
Conflict Pools Resource Costs	-	-	-	-	-	-	-
Non Departmental Public Bodies Costs	164,842	153,063	164,637	204,025	228,215	228,984	216,346
Defence Capability Admin Service Pers Costs	617,879	658,904	670,653	661,235	702,906	727,290	730,000
Defence Capability DE&S DEL Costs	1,028,443	1,044,059	1,041,063	981,367	1,099,653	1,125,092	1,019,756
War Pension Benefits Programme Costs	-	764,818	723,228	697,262	681,025	652,263	661,754
Conflict, Stability and Security Fund	53,397	86,832	90,994	88,579	84,521	82,056	84,549
Cash Release of Provisions Admin Costs	18,157	11,703	9,908	5,446	11,934	2,550	-
<b>Total Resource DEL</b>	<b>34,424,020</b>	<b>35,422,775</b>	<b>34,198,736</b>	<b>34,571,491</b>	<b>36,707,038</b>	<b>40,177,752</b>	<b>41,943,383</b>

£000	2015-16 OUTTURN	2016-17 OUTTURN	2017-18 OUTTURN	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 PLANS
<b>Resource AME</b>							
Provision of Defence Capability Depreciation and Impairment Costs	562,876	142,253	861,134	70,897	-46,372	-146,748	952,550
Provision of Defence Capability Provisions Costs	6,096,468	501,333	8,548,134	-7,377,334	521,986	1,978,369	616,735
Provision of Defence Cash Release of Provisions Costs	-256,445	-265,255	-302,815	-394,775	-534,673	-317,712	-350,000
Movement On Fair Value of Financial Instruments	-299,576	-589,025	583,912	-181,496	118,890	548,254	299,715
<b>Total Resource AME</b>	<b>6,103,323</b>	<b>-210,694</b>	<b>9,690,365</b>	<b>-7,882,708</b>	<b>59,831</b>	<b>2,062,163</b>	<b>1,519,000</b>
<b>Total Resource Budget</b>	<b>40,527,343</b>	<b>35,212,081</b>	<b>43,889,101</b>	<b>26,688,783</b>	<b>36,766,869</b>	<b>42,239,915</b>	<b>43,462,383</b>
<b>Capital DEL</b>							
Provision of Defence Capability Capital Single Use Military Equipment	4,255,772	5,192,513	5,530,091	5,817,644	6,848,790	7,679,950	9,681,026
Provision of Defence Capability Other Capital (Fiscal)	2,509,470	2,279,278	2,929,616	3,253,912	2,441,692	2,921,672	3,721,325
Provision of Defence Capability Fiscal Assets / Estate Disposal	-423,365	-36,560	-33,224	-42,725	-39,933	-61,162	-96,000
Provision of Defence Capability New Loans and Loan Repayment	-3,220	-63,292	-	8,609	-	-	2,500
Provision of Defence Capability Research and Development Costs <sup>1</sup>	1,921,983	1,104,141	1,007,683	1,110,050	967,940	1,051,694	961,000
Operations Capital Single Use Military Equipment	51,862	111,350	178,258	75,113	1,938	-	-
Operations Other Capital (Fiscal)	1,020	3,616	20,716	18,583	22,684	28,970	18,000
Non Departmental Public Bodies Costs	2,322	2,145	1,754	2,500	2,796	3,099	2,718
Defence Capability DE&S DEL Costs	86,624	94,941	64,315	50,751	67,950	75,898	42,095
Conflict, Stability and Security Fund	-	421	4,377	-	-	6,600	-
<b>Total Capital DEL</b>	<b>8,402,468</b>	<b>8,688,553</b>	<b>9,703,586</b>	<b>10,294,437</b>	<b>10,313,857</b>	<b>11,706,721</b>	<b>14,332,664</b>
<b>Capital AME</b>							
Provision of Defence Capability Provisions Costs	29,130	-	44,486	-	-	-	-
<b>Total Capital AME</b>	<b>29,130</b>	<b>-</b>	<b>44,486</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Capital Budget</b>	<b>8,431,598</b>	<b>8,688,553</b>	<b>9,748,072</b>	<b>10,294,437</b>	<b>10,313,857</b>	<b>11,706,721</b>	<b>14,332,664</b>
<b>Total departmental spending<sup>2</sup></b>	<b>40,967,707</b>	<b>35,516,368</b>	<b>44,857,257</b>	<b>30,254,026</b>	<b>39,820,924</b>	<b>44,025,738</b>	<b>46,046,454</b>

1. The R&D costs have been restated to comply with European System of Accounts (ESA 10) as per HMT directive.

2. Total departmental spending is the sum of the resource budget and the capital budget less depreciation and movement in fair value of financial instruments. 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.

### Administration budget, 2016-17 to 2021-22

£000	2015-16 OUTTURN	2016-17 OUTTURN	2017-18 OUTTURN	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 PLANS
<b>Resource DEL</b>							
Provision of Defence Capability Administration Civilian Personnel Costs	403,342	430,741	363,297	483,679	550,640	578,380	549,660
Provision of Defence Capability Administration Other Costs and Services	465,947	395,656	423,226	530,519	642,365	540,020	702,919
Defence Capability Admin Service Pers Costs	617,879	658,904	670,653	661,235	702,906	727,290	730,000
Cash Release of Provisions Admin Costs	18,157	11,703	9,908	5,446	11,934	2,550	-
<b>Total administration budget</b>	<b>1,505,325</b>	<b>1,497,004</b>	<b>1,467,084</b>	<b>1,680,879</b>	<b>1,907,845</b>	<b>1,848,240</b>	<b>1,982,579</b>

## Annex D: Energy and Carbon Emissions Data

Greenhouse Gas Emissions		2009–10	2018–19	2019–20	2020–21
Non-Financial Indicators tCO <sub>2</sub> e 000s	Total emissions for scopes 1, 2 (Estate) plus Business Travel	1,440	828	783	709
	Totals emissions for scopes 1, 2 (Capability)	3,264	1,822	1,990 <sup>1</sup>	1,435
	Total emissions for scopes 1, 2 plus Business Travel	4,704	2,650	2,773 <sup>1</sup>	2,144
Related Energy Consumption KWh 000s	Electricity: Non-renewable	1,460,770	1,147,963	1,082,913	950,199
	Electricity: Renewable	20,440	0	18,607	19,109
	Gas	2,482,020	1,832,006	1,913,680	2,016,999
	LPG	80,070	37,857	39,897	39,202
	Other	290,598	170,599	168,975	147,946
Related Equipment Energy Consumption Litres 000s	Aviation fuel	827,800	444,787	472,029	385,362
	Ground Fuel	74,300	45,353	57,074	6,799
	Maritime Fuel	340,500	178,581	200,065	141,458
	Petrol	7,000	0	0	0
Financial Indicators £000s	Expenditure on energy	195,715	331,383	347,132	317,890
	Expenditure on GCOF offsets	220	0	0	0
	Expenditure on official business travel	198,747	128,809	156,985	80,651
	Expenditure on equipment energy (fuel)	481,934	330,531	323,339	289,702
Normalisation	Total scopes 1,2 & 3 – tCO <sub>2</sub> e 000	4,704	2,650	2,773 <sup>1</sup>	2,144
	Defence total Spend £000s	37,994,285	38,060,000	39,834,000	42,365,000
	Normalisation – scope 1 & scope 2 emissions 000s/budget £000s	0.00004	0.00002	0.00002	0.00002

1. Previous year's figures restated as expenditure values have been updated to reflect the latest available information.

## Annex E: Water and Waste Data

### Water Data

FINITE RESOURCE CONSUMPTION – Water		2009–10	2018–19	2019–20	2020–21
Non-Financial Indicators 000s m3	Water consumption (office estate)	206	241	208	154
	Per Full Time Equivalent	12.4	14	13	9 <sup>1</sup>
	Water consumption (office & non-office estate)	24,974	22,598	22,134	21,871
Financial Indicators £000s	Water supply costs (whole estate)	100,236	137	142.8	146
Normalisation	Department total spend £000s	37,994,285	38,060,000	39,834,000	42,365,000
	Normalisation – emissions m3 000s/budget £000s	0.0007	0.0006	0.0006	0.0005

1. Only 6 of the MOD Benchmarked Central Civil (Office) Estate are included in this figure.

### Waste data

WASTE		2009–10	2018–19	2019–20	2020–21
Non-Financial Indicators tonnes 000s	Total waste	185	112	115	97
	Hazardous waste	14	0	0	0
	Non-hazardous waste	Landfill	9	8	8
		Reused/Recycled	61	64	49
		Composted	13	14	10
		Incinerated with energy recovery	42	42	38
		Incinerated without energy recovery	6	7	2
Financial Indicators £000s	Total disposal cost	Not known	Not known	Not known	Not known
	Department total spend £000s	37,994,285	38,060,000	39,834,000	42,365,000
Normalisation	Normalisation – waste generated tonnes 000s/total spend £000s	0.000005	0.000003	0.000002	0.000002



## Annex F: Arm's Length Bodies – Additional Information

Arm's Length Body	Total operating income £M	Total operating expenditure £M	Net expenditure for the year (including financing) £M	Permanently employed staff		Other Staff	
				Number of employees	Staff Costs £M	Number of employees	Staff Costs £M
Armed Forces Covenant Fund Trustee Limited	-0.6	26.8	26.2	12	0.7	9	0.1
National Museum of the Royal Navy	-7.8	12.1	4.3	196	5.5	0	0.0
National Army Museum	-0.3	8.7	8.4	72	3.5	21	0.6
Royal Air Force Museum	-0.8	13.3	12.5	201	5.9	0	0.0
Single Source Regulations Office	-0.1	6.5	6.4	37	4.6	1	0.0
Commonwealth War Graves Commission	-18.3	72.2	53.9	1,163	38.9	38	0.3
International Military Services Limited	-0.3	0.5	0.2	2	0.1	0	0.0
Royal Hospital Chelsea	-8.0	23.3	15.3	280	10.6	15	0.2
Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996 c14	-26.7	124.1	97.4	932	31.3	6	0.2
<b>Total</b>	<b>-62.9</b>	<b>287.5</b>	<b>224.6</b>	<b>2,895</b>	<b>101.1</b>	<b>90</b>	<b>1.4</b>

Note: All tabled information was materially correct and accurate as at the approval date of the accompanying annual report and accounts.