



Ministry of Defence Annual Report and Accounts 2021–22

For the year ended 31 March 2022

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

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Performance Report

For the year ended
31 March 2022

A Ukrainian soldier stands with a British soldier during a capability demonstration at Copehill Down Village in the UK

Foreword by Secretary of State for Defence



2021-22 has seen significant challenges to the international order and global freedoms. Russia's illegal invasion of Ukraine shows more than ever that the UK must be ready to defend and deter threats emanating from our adversaries in a deteriorating global security environment. We will continue to protect our people, country and its territories, championing the values of our nation and our allies by being more present and active in a competitive world. It is a testimony to the UK's capability that we were able to provide support and aid to Ukraine so quickly, while simultaneously boosting our NATO presence along the Eastern flanks.

Engagement with partners has been crucial to improving regional strength and stability. We have bolstered our partnership with Japan during visits, emphasising our common strategic interests and demonstrated our commitment to Oman and the Gulf, through hosting joint land, sea and air exercises with Omani Forces.

Our record Spending Review settlement paves the way for a modernisation of defence. This year's Defence Equipment plan is one of the most important in recent times. It lays out an affordable plan for the next ten years that will ensure our armed forces remain capable and credible.

We have pledged at least £6.6 billion on next generation capability and research, which will drive investment and prosperity across the Union and contribute to strategic advantage.

The Defence and Security Industrial Strategy sets the framework for a deeper, more sophisticated, and strategic relationship with industry. We refreshed the National Shipbuilding strategy this year, allocating £4.3 billion to support our ambition to transform the UK shipbuilding industry's capabilities.

We are transforming the British Army through our Future Soldier Programme delivering a modern Army that is fit for the challenges of the future and have stood up the new Ranger Regiment as part of the newly established Army Special Operations Brigade.

I am grateful to the Permanent Secretary, Chief of Defence Staff and all our people in defence for all their tireless work in keeping our nation and our people safe.

The Rt Hon Ben Wallace
Secretary of State for Defence

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



In the first year of our Spending Review settlement, the department's financial outturn was delivered within all Parliamentary Control Totals and our 2021 Equipment Plan reports overall affordability.

Defence now has a very clear direction from the government, a renewed sense of purpose, and the additional funding required for the armed forces to become more lethal, more integrated and more active in the world. Our priority is to lead the department to deliver the Integrated Review and Defence Command Plan. Across all our work, we need to make sure that we are providing the best value for the taxpayer, and that we are making the most of the extraordinary capabilities, skills, and potential that exist within defence.

The last year has seen the most serious threat to European security since the end of the Cold War, and the United Kingdom has worked from the outset to support Ukraine and counter Russian aggression. The armed forces have reinforced their leading role within NATO through additional airspace policing in Eastern Europe, leading NATO's enhanced Forward Presence in Estonia, and increased patrols at sea.

Beyond Europe, the Indo-Pacific tilt is a reality, with last year's successful Carrier Strike Group deployment and the arrival of two patrol ships in the region on a permanent basis. We have

also continued our support of the UN, reacted to calls for humanitarian aid and demonstrated the UK's role as a partner of choice through operations and exercises worldwide. Meanwhile, at home, we deployed almost 8,000 personnel in support of civil taskings, including more than seventy COVID-19 related requests.

We continue to work with industry, academia and international partners to deliver our commitments under the Defence Security and Industrial Strategy (DSIS), and in 2021-22 the refreshed National Shipbuilding Strategy, the Defence Space Strategy and the Land Industrial Strategy were released.

We are committed to ensuring that defence is an inclusive environment, where people feel valued and are empowered to make full use of their talents and we recognise the need for a step change in our diversity recruitment and retention ambitions. Our aim to more than double our inflow of women into the armed forces, by setting a Level of Ambition of 30% inflow by 2030, is an important part of defence's journey to better reflecting the diversity of the UK.

None of these accomplishments would be possible without the dedication and skill of everyone working in defence. We are grateful to everyone, armed forces and Civil Service, for their hard work to deliver what has been asked of them, and more, in another challenging but fulfilling year.

David Williams CB

Permanent Secretary for the Ministry of Defence

Admiral Sir Tony Radakin KCB ADC

Chief of the Defence Staff

Ministry of Defence – Organisation and Purpose

The main purpose of the Ministry of Defence (MOD) is to protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies. We are prepared for the present and fit for the future. We will:

1. Protect the UK and its Overseas Territories
2. Enhance global security through persistent engagement and response to crises
3. Understand and counter state and non-state threats
4. Contribute to NATO collective deterrence and defence
5. Modernise and integrate defence capabilities by taking a whole force approach to our people and increasing the use of technology and innovation

Defence is led at the official level by the Permanent Secretary, who is the Secretary of State's principal policy adviser; the second Permanent Secretary who oversees delivery of the Integrated Review and Defence Command Paper; and the Chief of the Defence Staff, who is the professional head of the armed forces and principal military adviser to the government and is supported by the Vice Chief of the Defence Staff. The Permanent Secretary is also Defence's Accounting Officer, with personal accountability to Parliament for ensuring the economic, efficient, and effective use of defence resources.

The Defence Operating Model sets out how all parts of defence work together to deliver defence outputs and describes the key roles,

responsibilities, authorities and accountabilities for all activities and decision-making processes. Defence has 15 top level budget organisations, including the Front Line Commands, and 12 Enabling Organisations. More detail can be found in the How Defence Works publication¹.

The Annual Report and Accounts exists to hold the department to account before Parliament and the public. It 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 2021–22.

The Performance Report is based around the Priority Outcomes agreed as part of the Ministry of Defence Outcome Delivery Plan for 2021–22.²

Defence Risks

Defence is a complex business and risk is an inherent part of everything we do. Our management of risk determines our success both in operations and in the activities that support them. Defence has a risk management policy to identify and manage risks to avoid unwanted surprises and to identify opportunities. Some risks identified are associated with:

- the right numbers of people with the right skills
- the alignment of the workforce to planned outputs
- the delivery of operational capability
- the affordability of the vision for defence
- the failure of industry in delivery of outputs.

¹ [How Defence Works \(September 2020\)](https://www.gov.uk/government/publications/how-defence-works) (publishing.service.gov.uk)

² <https://www.gov.uk/government/publications/ministry-of-defence-outcome-delivery-plan/ministry-of-defence-outcome-delivery-plan-2021-to-2022>

Key Achievements across the year

We continue to support partners in **Eastern Europe** and beyond to build their resilience to Russian state threats.

We have published the refreshed **National Shipbuilding Strategy**, the **Defence Space Strategy** and the **Land Industrial Strategy**

Permanent location of the **National Cyber Force** announced; a partnership between defence and intelligence, responsible for operating in and through cyberspace to counter threats

We have established a **UK Space Command** to deliver the UK's command and control of space



Members of the armed forces during Operation PITTING

We are helping eligible **Afghans** reach third party countries, and move them to the UK as quickly as possible

Our support to the **Indo-Pacific tilt** continues. Our Offshore Patrol Vessels arrived via Panama to inaugurate our persistent presence and begin programmes of engagement with our Australian and Indian partners

The **Ranger Regiment** was created establishing more self-sufficient tactical units

Russia/Ukraine

During 2021-22, Russia's actions have posed the most serious threat to Euro-Atlantic security. In response to increasing aggression towards Ukraine, and their subsequent invasion of this sovereign and democratic state on 24 February 2022, the UK has collaborated closely with Allies and partners to enable Ukraine to defend itself. The UK has assembled an unprecedented support package of military lethal and non-lethal aid as well as political engagement to reassure Ukraine and galvanise the international community to contribute their support.

The United Kingdom continued to build the resilience of the Ukrainian Armed Forces through Operation ORBITAL, delivering tactically focused training such as medical, logistics and counter-Improvised Explosive Devices and providing defensive training to over 22,000 Ukrainian troops between 2015 and its suspension in February 2022. The training was conducted outside of the Donbas region, focusing on skills which the Ukrainians sought our assistance on. This was expanded during 2020 to include the Maritime Training Initiative, which provides opportunities to enhance interoperability between our maritime forces. The security assistance package complements the training and capabilities that Ukraine already has, and those that are also being provided by the UK and other Allies in Europe and the United States.

A bilateral treaty between Ukraine and the UK has also allowed Ukraine to enter a financing arrangement with UK Export Finance, to support the £1.7 billion Ukrainian Naval Capabilities Enhancement Programme (UNCEP). The UK also supports Ukraine's wider defence and security reform efforts through the provision of a UK Special Defence Advisor, embedded within the Ukrainian MOD, and through UK representation on the Ukraine Defence Reform Advisory Board.

In the first quarter of 2022, we were the first European country to provide lethal aid to Ukraine in January 2022 and by the end of March we had delivered more than 4,000 Next Generation Light Anti-Tank (NLAW) weapons, a consignment of electronic warfare equipment and had committed to providing Starstreak anti-air missiles. We had also provided extensive non-lethal aid that included body armour and helmets. The UK also took a leading role in organising international donations of military equipment, with the Defence Secretary hosting two international donor conferences to coordinate military aid from 35 partner nations.

COVID-19

During 2021-22, in response to the COVID-19 pandemic, our armed forces responded to over 70 requests for Military Aid to Civilian Authorities (MACA). We provided 2,245 service personnel, comprising of registered health care professionals, defence medics, general duties vaccinators, ambulance drivers, military planners, and command & control staff. These personnel supported the NHS and local emergency resilience teams

across vaccination sites, hospitals and ambulance teams. In 2021, focus shifted to the government vaccination and mass booster programmes and personnel from all three services were deployed to all parts of the UK to help accelerate the vaccination programme with an estimated 521,700 COVID-19 jabs administered by service personnel.

Over **740** personnel supported NHS England with the COVID-19 booster vaccine programme, including **120** planners and over **620** vaccinators available to administer vaccines across the country



Royal Marines personnel helping with the vaccination effort

200 armed forces personnel have been made available to support the NHS in London amid staff shortages due to COVID-19. The Ministry of Defence has provided **40** defence medics and **160** general duty personnel to support NHS hospitals across the capital.

313 armed forces personnel have been made available to support the Welsh Ambulance Service NHS Trust, to increase the resilience of emergency responders during the winter period.

Financial Performance Summary



Director General Finance – Charlie Pate

The finance function made a crucial contribution to the delivery of the Department’s objectives during 2021-22 whilst also continuing to make tangible improvements to performance through our functional leadership and transformation programme.

To support this improvement we developed and introduced a financial strategy which ensures that the Department’s financial approach fully aligns with the goals of the 2021 Integrated Review (IR) and associated Spending Review 2020 funding settlement for Defence. This has included refinement of our financial plans to fully reflect the outcome of the IR as demonstrated by the overall affordability reported in the 2021 Equipment Plan.

2021-22 was the first full year of the funding settlement and we have begun to deliver the step change in capital investment on those programmes prioritised in the Integrated Review.

More recently the function has played an important role in supporting the supply of both lethal and non-lethal aid to Ukraine as part of wider Government commitments. We have also been working to understand and grapple with the potential consequences of higher inflation on our assumptions and plans.

Performance in 2021–22

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.

We have effectively balanced the Capital Departmental Expenditure Limit (DEL) to within 0.6% of the budget, which is a more notable achievement in view of the significant increase in capital expenditure in 2021-22 (£2.4 billion higher than in 2020-21). The non-ringfenced Resource DEL was also delivered to within 0.1% of the budgeted position. This performance consolidates the improvements in forecast accuracy and capability seen in previous years. This was achieved in 2021-22 without the need for a centrally driven savings exercise.

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 (CAAS) has continued to assure Equipment Plan (EP) costings through Independent Cost Estimate (ICE) reviews. During 2021-22, CAAS conducted 63 ICE reviews covering around 54% of the EP against a target of 50%. This has helped to build confidence in costings and with individual programme and overall affordability of the EP.

Professionalism & Skills

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 31 March 2022 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 1,230 (43%). We continue to support professional development with 536 (18%) studying for a professional qualification, of which 202 (38%) are on apprenticeship programmes.

48 (84%) of the Finance SCS profession are qualified, with 6 (11%) studying. 322 (73%) Grade 7/6 personnel have relevant qualifications to ensure the necessary expertise and oversight.

There are currently 80 CAAS staff in the finance function undertaking cost management activity. Of these, 65 have an accountancy qualification and a further one has a cost management qualification. The proposed inclusion of Estimating and Cost Engineering staff in the function will increase

CAAS numbers in finance to 210. Of these additional Estimating and Cost Engineering staff, 5 are qualified accountants and 25 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.

Embedding the Government Finance Function's Career Framework will detail roles requiring professional qualifications. This is being implemented as part of the Finance Service Delivery Model within the Finance Functional Leadership Programme.

Internal Control and Assurance Framework

We have continued to improve and sustain 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. The target was to sustain financial control compliance above 90% for each quarter. As reported in the functions Annual Assurance Report 2021-22, this was achieved with a compliance of 93%, 94%, 92% and 94% across the quarters.

Financial Accounting and Audit

The Department has made further progress with improving the quality and consistency of financial accounting performance as reflected in improved audit outcomes. Management of the Statement of Financial Position (SOFP) has been overseen by a senior level board with improved management information in the form of a SOFP Dashboard introduced to target areas of known accounting issues. This targeted approach was informed by issues and errors identified by internal and external audits. Financial accounting risks and issues are regularly reviewed by the Financial

Management Executive and my Finance Committee. As a result, we have sustained the significant improvement reported by NAO in their 2020-21 audit where a sampling error rate of 5% was reported (compared to 15% and 22% in the preceding 2 years).

These and other initiatives are being driven forward through the Department's Finance Functional Leadership Programme (FFLP).

The programme is monitored on a quarterly basis by the Finance Function Board (FFB) which I chair with all Finance Directors and other senior finance staff in attendance to assess progress with change initiatives and to monitor the overall health of the Finance Function.

Progress made this year has included:

- In line with the cross-Government approach, we have established a Finance Service Delivery Model (SDM) which is now in being rolled out across the main business units in the Department, with a number in the final phase of moving to their new structures.
- As part of the adoption of the SDM we have identified three critical behaviours as part of a workstrand of interventions covering culture and behaviours. We have successfully piloted these interventions and are now in the process of rolling them out more widely as part of the adoption of the SDM.
- The Department continues to develop a standard and comprehensive Management Information suite for forecasting which is used by all business units and Head Office.

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 nonbudget 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 Expenditure

Comparison of Estimate to Outturn	Estimate £ billion	Outturn £ billion	Variance £ billion	Variance %
Resource DEL (non ringfenced); of which	31.271	31.239	0.032	0%
<i>Admin Costs</i>	<i>1.783</i>	<i>1.753</i>	<i>0.030</i>	<i>2%</i>
Resource DEL (ringfenced)	7.988	7.988	0.000	0%
Cost of Operations (ringfenced)	0.562	0.511	0.051	9%
Total Resource DEL	39.821	39.738	0.083	0%
Capital DEL (non ringfenced)	14.226	14.189	0.037	0%
Cost of Operations (ringfenced)	0.039	(0.009)	0.048	123%
Total Capital DEL	14.265	14.180	0.085	1%
AME (Resource)	10.809	10.787	0.022	0%

The majority of the Resource Departmental Expenditure Limit (RDEL) variance in core expenditure of £0.083 billion (0.2%) was in non-ringfenced RDEL and principally reflected lower ringfenced operational costs and expenditure on administrative expenditure in the Department.

The Capital Departmental Expenditure Limit (CDEL) outturn variance was £0.085 billion (0.6%) and related to minor movements on a number of capital investment programmes.

For Annually Managed Expenditure (AME), which by its nature is demand led and volatile, the outturn was £10.787 billion against an estimate of £10.809 billion. The majority of the £0.022 billion variance (0.2%) related 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 2021–22.

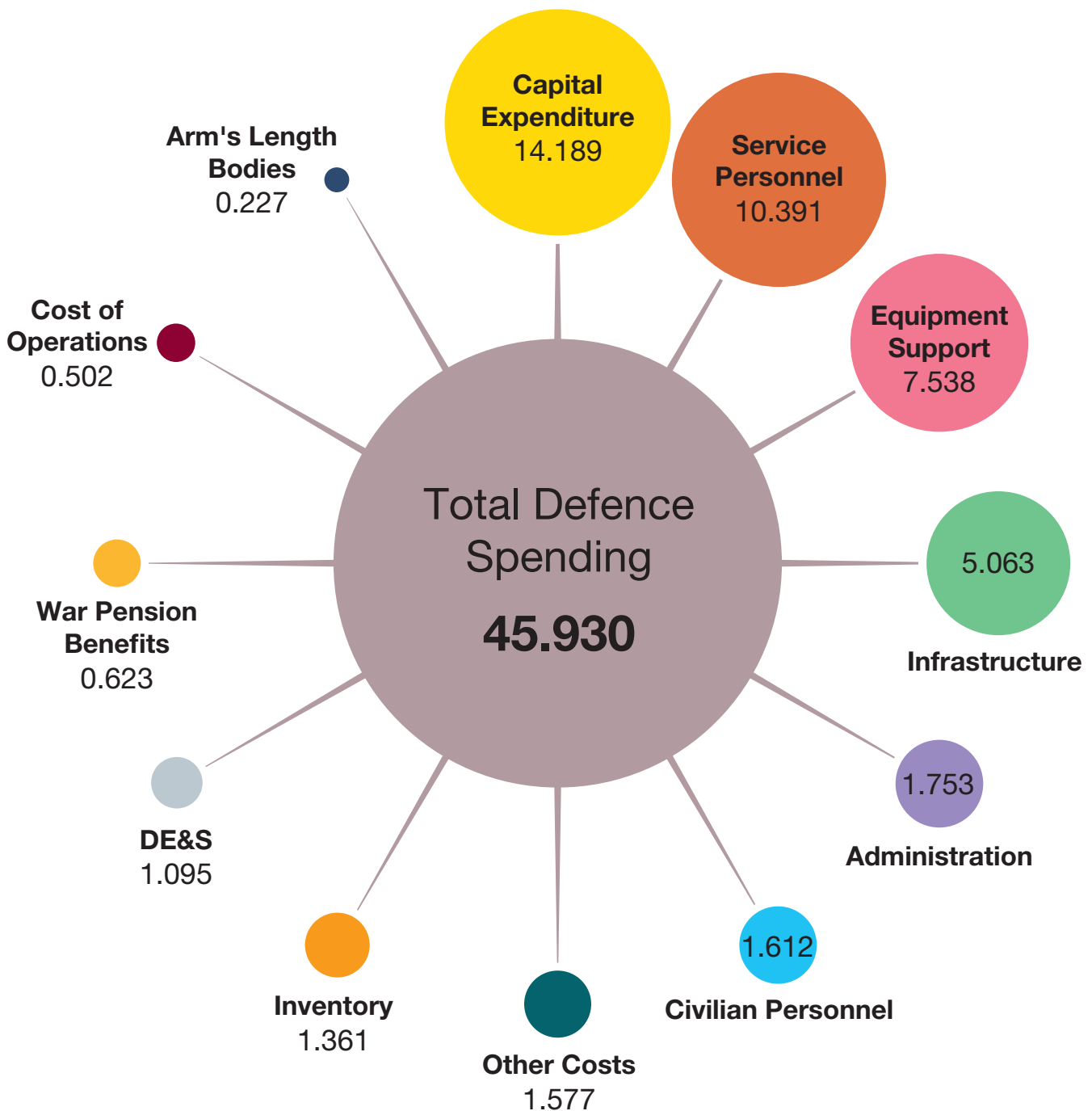
Further detail on the Reconciliation of Outturn to Net Expenditure can be found in the Accountability Report SOPS Note 2.

Where We Spent Our Money in 2021–22

The chart that follows provides a breakdown of all non-ringfenced expenditure and operational ringfenced expenditure incurred by the Department in 2021–22. 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 2021-22
Expenditure (£Billion)



Category totals reflect separate rounded values in SOPS note 1. This creates a minor anomaly whereby the total sum of these rounded values are £45.931 billion against total spending which is correctly stated as £45.930 billion.

Operational Spend Achievements

Costs of operations are described in terms of the net additional costs incurred taking account of any contributions from other departments. 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.

In 2021-22, net additional costs were incurred against a variety of operations, including the military assisted evacuation in Afghanistan, overseas counter-terrorism and widescale military support to Ukraine and broader regional activity.

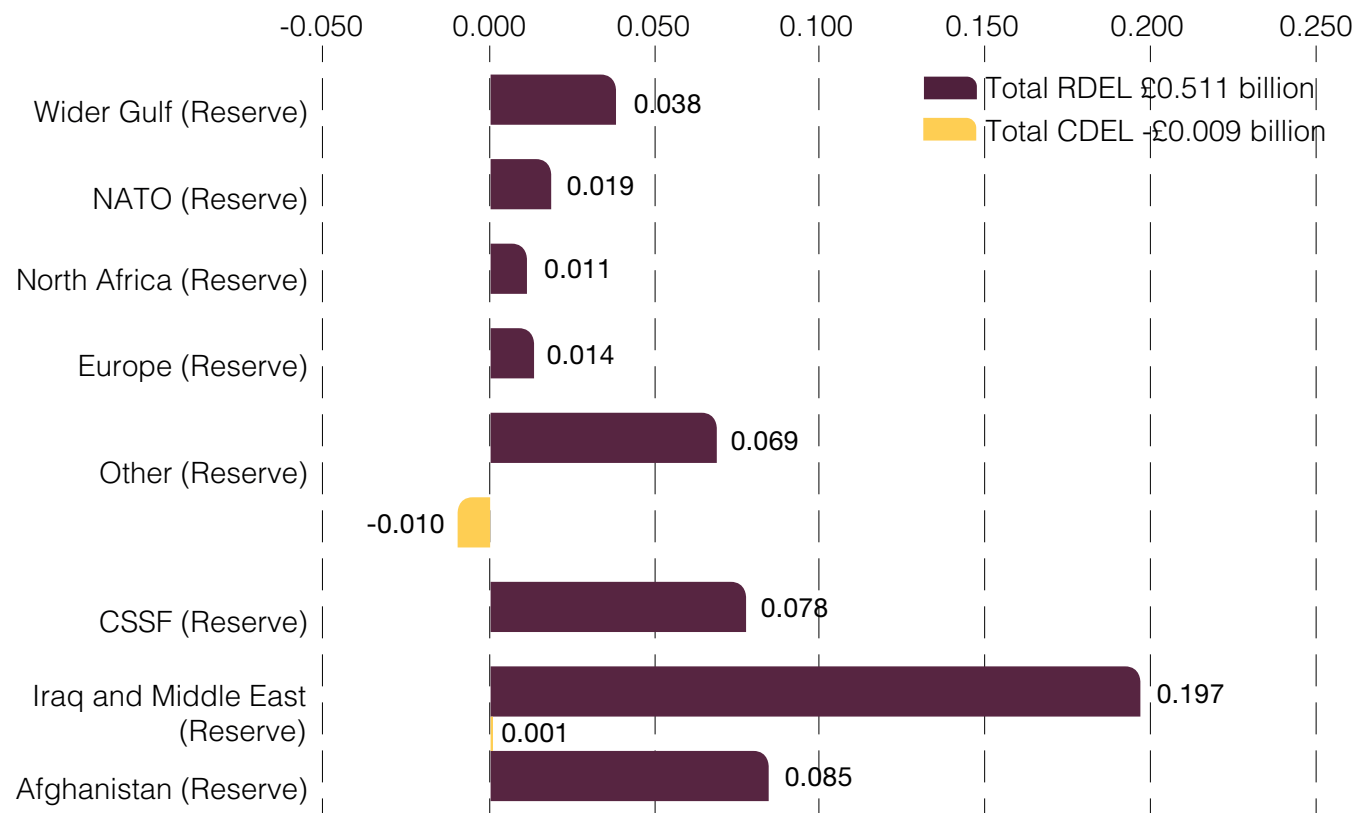
The Deployed Military Activity Pool (DMAP) is a joint HM Treasury and MOD initiative to make available resources to fund the initial and short-term costs of any unforeseen military activity. In 2021–22, MOD also received the annual allocation from the Conflict, Stability and Security Fund (CSSF), a cross-HMG 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 2021–22:

Net Additional Cost of Operations

Expenditure (£Billion)



Long Term Expenditure Trends

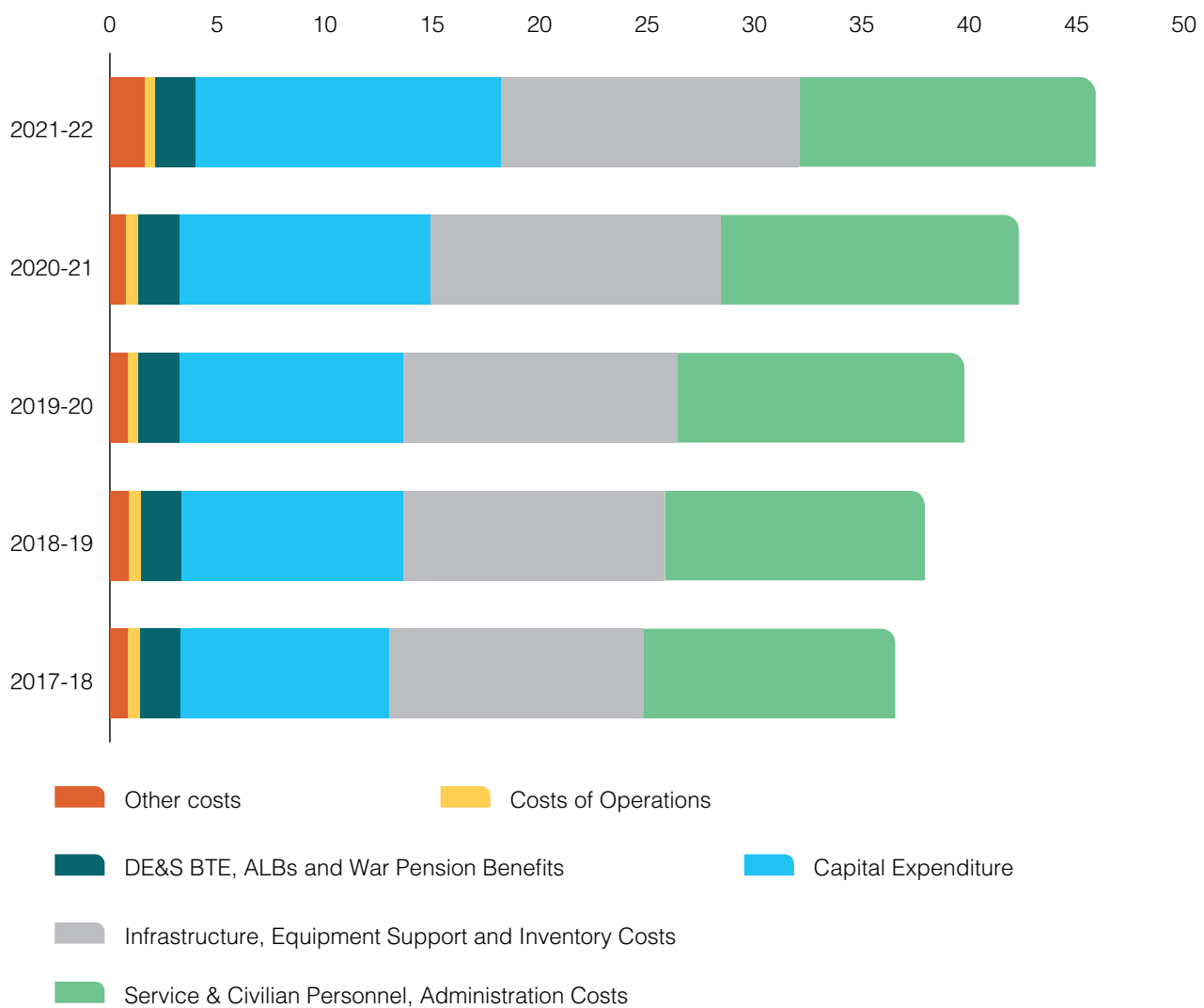
As confirmed in the funding settlement for Defence announced in November 2021, the Government remains firmly committed to NATO in spending at least 2% of our Gross Domestic Product on defence and security every year. The additional funding made available through the funding settlement is enabling the UK to invest in programmes that

are most relevant to the threats we face now and in the future. The increase reported in 2021-22 is principally driven by the additional capital investments being made by the Department in that regard.

The graph below shows the long-term trend for Resource and Capital expenditure, excluding asset depreciation and impairment, from 2017-18 to 2021-22.

Analysis of Capital DEL and Cash Resource DEL by Type of Expenditure

Expenditure (£Billion)



Impact of COVID-19

The Department continued to mitigate the impact of the pandemic on delivery of output and support the timely and effective recovery of programmes and activities.

The impact of COVID-19 has become a less prominent issue for the Department during 2021-22. This has meant we have not needed to repeat the central interventions made during 2020-21 to address the impact of the pandemic on the cost and schedule of our major programmes. The residual impact of the pandemic is now being dealt with as a matter of business as usual on an individual programme cost and approval basis.

Impact of EU withdrawal

EU withdrawal has not significantly impacted on the Department during 2021-22 and where issues have arisen such as those relating to movements of goods through military sea and air ports, they have been specifically addressed and resolved through engagement with HMRC. Costs for assistance given to other Government Departments on this matter have been limited and less than £300K.

Priorities for 2022–23

The Department is actively assessing the impact of the ongoing conflict in Ukraine and high inflation on our financial plans and assumptions with both likely to be enduring issues over the year.

In respect to Ukraine, we are working closely with HM Treasury to deal with the practical budgetary consequences of the support being provided such as replenishment of stockpiles and direct procurement costs. We will continue to assess the impact on our financial plans by any change in assessment of the threat posed by Russia.

On inflation, the Department is undertaking detailed analysis to establish an understanding of our overall potential exposure recognising that firm and target cost incentive pricing arrangements provide at least some protection against programme cost growth as does earlier procurement of long lead items where this represents value for money. This will also require close engagement with HM Treasury.

In taking these actions we must protect the sustainable and affordable financial foundations that were established through the 2021 Integrated Review and associated funding settlement. This includes ensuring that the Equipment Plan for 2022 continues to demonstrate affordability of the Department's programmes.

We have also formally adopted the new lease accounting standard (IFRS16) from April 2022 in line with the mandatory date set by HM Treasury for public bodies. The implementation of IFRS16 across the Department has been a complex undertaking and we will fully embed lease accounting as business as usual over the next year which will provide the basis for removal of the long-standing qualification of the Department's accounts in 2022-23.

We will also fully implement the Service Delivery Model developed by the Finance Functional Leadership Programme which standardises ways of working and delivers increased consistency in organisational structure to optimise resources and eliminate duplication.

The Model covers 4 key elements:

- Strategic Head Office – ensuring our structure, skills and capability support wider reform and delivery.

- Finance in the Business – delivering a stronger Finance Business Partnering presence and influence throughout Defence.
- Centres of Excellence – creating an environment for individuals to become real experts and for this knowledge to be accessible by wider Defence.
- Shared Services – reducing duplication, exploiting automation opportunities to improve efficiency and quality of transactional activities.

We will also continue to play a key role in developing and implementing Acquisition Reform within the Department, driving further improvements in cost estimating and control, streamlining processes and addressing project resourcing challenges. The function will also support the other key themes targeted for reform to improve relationships with industry, achieving greater alignment between programme requirements and strategic priorities and empowering programme leadership.

The finance function has proven to be a key enabler in the delivery of Defence outputs and demonstrated both resilience and adaptability in meeting new, emergent challenges. I am confident that we have established the core functional strength coupled with an enduring ambition to improve that will deliver our finance vision to protect, drive and add value and to place finance at the heart of Defence decision making.

Charlie Pate

Director General Finance

The RAF Falcons
officially launched
their 2022 display
season.

Performance Analysis

Priority Outcome 1

Protect the UK and its Overseas Territories

Our priority is and always will be to protect the UK, its people, and its territory. Threats across all domains (air, land, sea, space and cyber) continue to evolve. As a result, the UK and its Overseas Territories (OTs) remain at risk from both state and non-state actors. Defence plays a unique role in protecting and promoting the three fundamental national interests of sovereignty, security, and prosperity. In 2021-22, we began delivering

our Integrated Review commitments enhancing national resilience and strengthening defence through the Continuous At Sea Deterrent, Quick Reaction Alert aircraft and Military Aid to Civilian Authorities. The MOD also provided humanitarian and other assistance programmes to aid in protecting the UK and OTs.

PO1 Key Achievements

We have provided a **Continuous At Sea Deterrence (CASD)** for **over 50 years**. Nuclear risks to the UK and allies have not gone away. The UK's CASD is a vital component of our defence strategy

Our **Military Aid to Civil Authorities** delivered personnel to support the COVID-19 vaccine rollout, HGV drivers to transport fuel, and medics to support hospitals

The permanent location of the **National Cyber Force** was announced as Samsbury in the North-West of England

We have established a **UK Space Command** which conducts 24/7 space operations

Deter and Defend

In 2021-22, we continued to defend UK airspace from potential air terror attacks 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.

Alongside NATO partners, we have demonstrated that some states continue to

expand and diversify their nuclear arsenal and capabilities.

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 at sea on deterrent patrol under Operation RELENTLESS.

Cyberspace and space pose significant challenges, not least because of the advanced technology already developed and states increasingly seeking to integrate these technologies into the conventional military domains.

Cyber

We continue to adapt and respond to the evolving cyber threat landscape. We will play a key role in supporting the National Cyber Strategy 2022³, which recognises the need for a ‘whole of society’ approach to successfully mitigate threats and realise opportunities.

The National Cyber Force (NCF) is responsible for operating in and through cyberspace to disrupt, deny, degrade and contest those who would do harm to the UK and its allies. In its second year of operations, it has successfully integrated defence and intelligence capabilities and is driving a more operational focus. In October 2021, the permanent future location of the NCF was announced as Samsbury. The move will stimulate technology, digital and defence sectors, as well as encouraging partnerships between government, industry and universities.

In 2021-22, we continued to protect networks, systems and people from cyber threats, in conjunction with the National Cyber Security Centre. In parallel, defensive cyber operations responded and reacted to complex and routine cyber events from across the federated Cyber Security Operations Capability. Allied to a new Cyber Mission Assurance approach, matured through Operation FORTIS, this has enhanced operational resilience.

Defence needs to be seen as an attractive and aspirational choice for those seeking to work across the cyber spectrum. We have

introduced initiatives including, introducing a cyber aptitude assessment to identify new talent, developing dedicated cyber career pathways and skills-based remuneration. We have worked to establish a Defence Cyber Academy and recruitment to the specialist Cyber Reserves remains buoyant, offering significant operational opportunity.

Space

We established a UK Space Command in April 2021, which conducts 24/7 space operations on behalf of UK Defence. Space Command will deliver the UK’s command and control of space and generate and cohere capability to provide unity of effort across the defence space enterprise.

We published the UK’s Defence Space Strategy in February 2022. This articulates how we will deliver one of the National Space Strategy’s key goals: to protect and defend UK interests in and through space, as well as supporting the national ambition to make the UK a meaningful actor in space.

We continue to work closely with the Foreign, Commonwealth and Development Office (FCDO) on the landmark UN General Assembly resolution on reducing space threats through norms, rules and principles of responsible behaviours. We will also be using the Combined Space Operations (CSpO) initiative (5 Eyes (UK, the USA, Canada, Australia, and New Zealand) France and Germany) to understand and align positions on space behaviours. In December 2021, we signed a Statement of Intent with the US Deputy Defense Secretary to enhance US/UK space collaboration across policy, operations, and capability generation.

³ <https://www.gov.uk/government/publications/national-cyber-strategy-2022>

Military Aid to Civil Authorities

In addition to supporting the national response to the COVID-19 pandemic, including support provided to dependent populations in our permanent joint overseas bases, we assisted with a national shortage in HGV drivers. Defence made available 248 military fuel tanker drivers and supported the Department for Business, Energy, and Industrial Strategy (BEIS) with ensuring the continuity of fuel supplies around Great Britain.

Defence medics were deployed to support hospitals in need across Northern Ireland, helping deliver front-line services in intensive care units, emergency departments and respiratory wards. Personnel were also deployed to support the Welsh Ambulance Service NHS Trust (WAST) in late 2021. This was to help ease pressures resulting from the pandemic and ensure that the Ambulance Trust continued to provide their essential service. Defence augmented the service with non-emergency drivers, who assisted with lower priority calls, freeing up the WAST resources for immediate risk to life calls. 225 armed forces personnel were also deployed



A Soldier is taught to drive a HGV, to support Operation ESCALIN.

to support the Scottish Ambulance Service in the fight against COVID-19. Our work on MACA has also supported skills sharing with the devolved nations.

Defence has also undertaken work with the Home Office, to take over primacy for the delivery of HMG’s counter irregular migration operations in the Channel.

In 2021-22 MOD Delivered:

Military Aid to Civilian Authorities

264 Operations

Down from 487
(2020-21)

**7,790 Personnel
Deployed**

Counter Narcotics teams stopped
Over 11 metric tonnes
of illicit drugs

worth c.£230 million
had those drugs reached the UK⁴

Explosive Ordnance Disposal
teams performed

**2,032 Conventional
Munitions Disposals**

Down from 2,422
(2020-21)

**204 Improvised Explosive
Devices disposed**

Down from 454
(2020-21)

⁴ **Caveat:** The drug market is dynamic, and prices fluctuate.

Fleet Towed Escort teams escorted

81 Russian ships through UK waters

Quick Reaction Alert Aircraft

Tracked **87** National Incidents with **3** launches in response to potential counter terrorism incidents and **5** launches to shadow long range aviation

Counter Terrorism Support

In 2021-22, we continued to maintain specialist personnel and capabilities at readiness to support the Police and Home Office in the delivery of counter-terrorism objectives within the UK. This includes Operation TEMPERER – the plan to surge military support to respond to exceptional incidents within the UK. Operation TEMPERER was not activated in 2021-22.

Defence has continued to support the overseas element of the UK's counter terrorism strategy (CONTEST) and protect British nationals overseas by supporting partner nations to develop their own counter-terrorist capabilities in priority locations. Throughout 2021-22, this work, conducted under Operation MONOGRAM, has supported 24 projects across 21 nations, helping to suppress threats to British nationals and regional instability across the globe.

Protect Overseas Territories

The protection of the Overseas Territories (OTs) and their people is one of the UK government's most important responsibilities. All Front Line Commands continued to deliver their standing military commitments to the defence of the UK OTs in the South Atlantic.

In the Antarctic, the Royal Navy Ice Patrol Ship HMS PROTECTOR deployed around the British Antarctic Territory, delivering UK obligations under the Antarctic Treaty System and supported the British Antarctic Survey's ground-breaking scientific endeavours. In the Caribbean, our Royal Navy presence ensured we were on hand to provide immediate humanitarian relief from natural disasters and assist in the interdiction of illicit narcotics. In the Sovereign Base Areas of Cyprus, our RAF footprint has increased to help counter Russian malign activity in the East Mediterranean. In Gibraltar, the Royal Navy continues to respond to incursions into British Gibraltar Territorial Waters. The Gibraltar Squadron strength stands at two patrol boats and three Rigid-Hull Inflatable Boats (RHIB). The Archer-class P2000 patrol boats are currently being replaced with two new, purpose-built Cutlass-class fast patrol boats. HMS CUTLASS arrived in Gibraltar in November 2021, with HMS DAGGER expected to complete sea trials during Quarter 3 of 2022.



HMS PRINCE OF WALES approaches The Rock of Gibraltar

Priority Outcome 2

Enhance global security through persistent engagement and response to crises

Global security enables freedom. Hostile state and non-state actors employ a variety of methods, both above and below the threshold for conflict. Alongside these human adversaries, there are also natural phenomena, such as natural disasters, floods, and hurricanes. MOD is committed to aiding our allies and the global community to eliminate or at least reduce the harmful consequences of the above threats. This helps our understanding shaping, and influencing of the global environment. In

2021-22, we made progress in delivering our Integrated Review commitments to strengthen security and defence at home and overseas by: supporting the building of capacity and resilience of like-minded partners to evolving security threats; conducting non-combatant evacuation operations when needed, including from Afghanistan where over 15,000 people were successfully evacuated under Operation PITTING; and playing our role as part of the government’s effort to reduce the frequency and incidence of conflict.

PO2 Key Achievements

The Australia, UK and US partnership (AUKUS)

demonstrated the UK’s Integrated Review ambition to deepen ties and tilt towards the Indo-Pacific.

Number of Defence Attachés/Advisors

145

(June 2022)
Up from 138
(2020-21)

HMS QUEEN ELIZABETH

docked at Duqm port in Oman, as the UK Armed Forces carried out joint land, sea and air exercises with the Omani Forces.

Carrier Strike Group achieved

244 days at sea and
500,000 cumulative nautical miles

Carrier Air Wing

4,723 flying hours

Engaged with

44 countries

Evacuated over **15,000 people** from Afghanistan during **Operation PITTING**

Overseas Defence Activity (including UN)

In 2021-22, we made progress in delivering our Integrated Review commitments to strengthen security and defence at home and overseas and shape the open international order of the future. We focussed on our contribution to NATO and on Russia's renewed invasion of Ukraine. We also conducted Operation PITTING, the military evacuation of thousands of people from Afghanistan. We provided support to the Global Coalition against Daesh in Iraq and Syria and supported UN peacekeeping operations as part of the government's effort to reduce the frequency and incidence of conflict. We also contributed to the deployment of technology based on democratic values through the UK/US joint Cyber Management Review.

The MOD continues to demonstrate an effective contribution to the UN's peacekeeping mission in Mali (MINUSMA) through the Long Range Reconnaissance Group. In 2021-22, we have completed numerous successful interventions and activities, including detaining suspected Daesh terrorists, seizing weapons and disrupting non-compliant armed groups that have been threatening local communities and assisting in the investigation of a massacre in September 2021.

Building Partners' capacity and Defence engagement

We continue to work with our partners and allies to ensure global security and build each other's capacity. MOD has taken a campaigning approach to building partners' capacity, with a capability optimised to work alongside our partners. This includes training, advising, assisting and, when necessary, accompanying them. The UK will be prepared to operate with partners in hostile environments.

We are delivering the defence contribution of the UK's tilt to the Indo-Pacific. We are building and strengthening partnerships bilaterally, multilaterally and in groupings across the region, increasing our presence and engagement, including with Australia, Japan, India, Indonesia, Thailand, and Republic of Korea. The Carrier Strike Group 21 (CSG 21) demonstrated the Indo-Pacific tilt in action, providing a platform for engagement with key regional allies. Although primarily a defence mission, the UK leveraged the CSG for progress on industrial cooperation and economic ties. The deployment of the Littoral Response Group South next year will build on these achievements and demonstrate enduring UK interest and presence in the region. The deployment of the Offshore Patrol Vessels HMS SPEY and HMS TAMAR has already proven its worth through sanctions enforcement on Democratic People's Republic of Korea and the provision of humanitarian assistance to Tonga.

The following pages show our engagement across the various regions.

The Americas

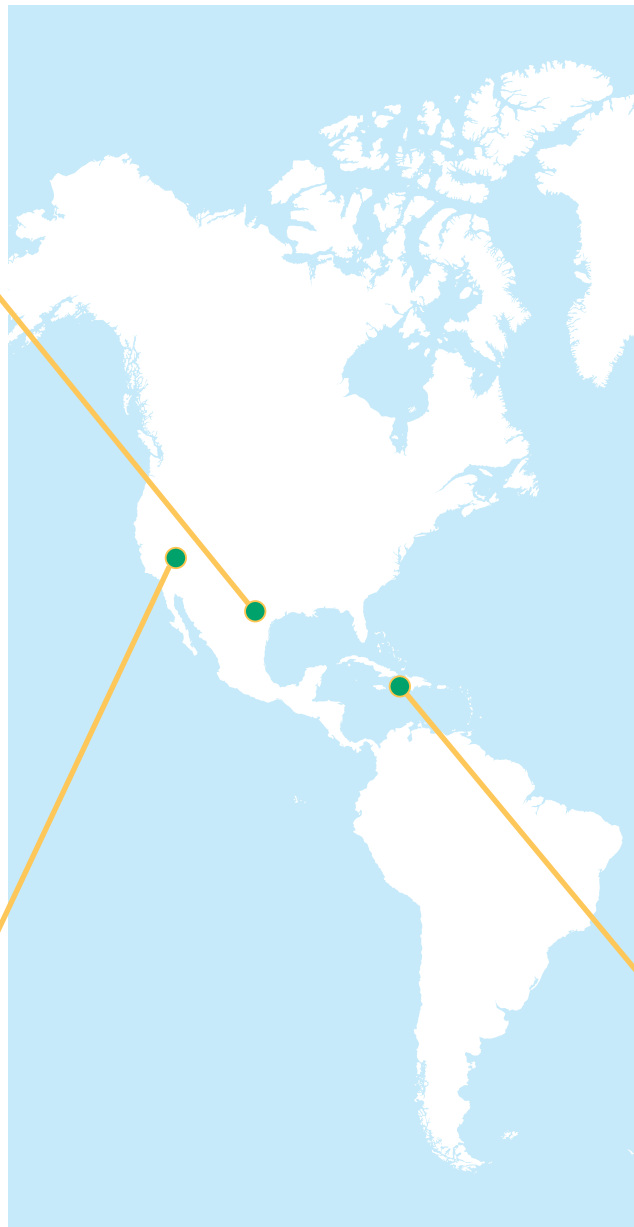
Our special relationship with the USA remains the cornerstone of modern global security. Alongside Canada, as a 5 Eyes partner, we continue to conduct joint exercises and have unparalleled scientific and nuclear cooperation. These relationships serve to protect global interests. Through security and foreign policy, we continue to seek new opportunities to strengthen our bilateral defence and interoperability across all Services, at all levels.

1,300 British Army personnel from 3 (UK) Division took part in Exercise WARFIGHTER in Texas in April 2021

Royal Marines completed Mojave Desert Exercise GREEN DAGGER, taking on the US Marine Corps in October 2021

A Landmark Technology Partnership was agreed between the Prime Minister/ US President at Carbis Bay, UK in June 2021

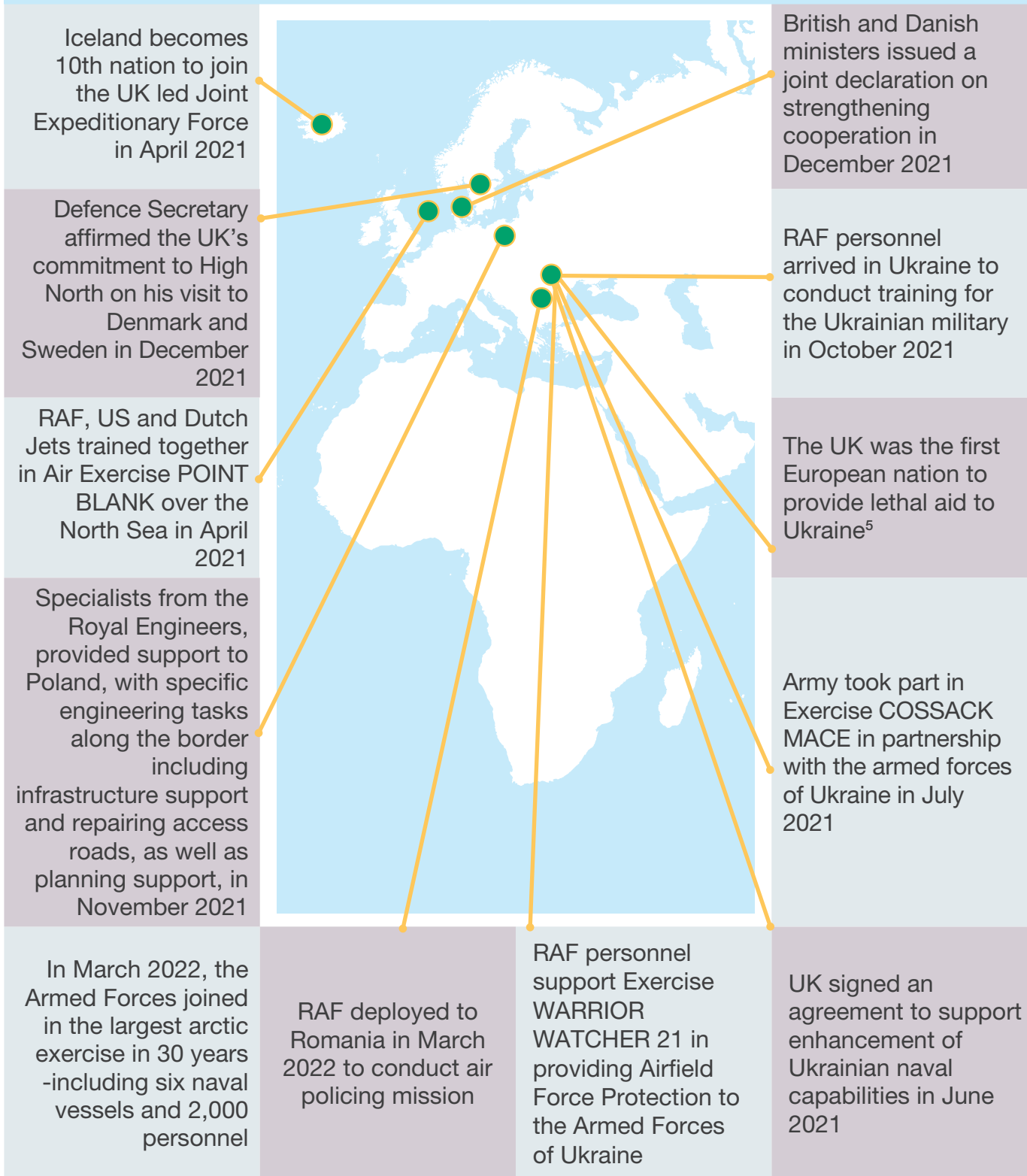
The Royal Navy's persistent maritime presence in the Caribbean supported humanitarian efforts in June 2021, following the St Vincent volcanic eruption, and in August 2021, following the Haitian earthquake



The AUKUS security partnership has begun collaboration on nuclear-powered submarines and other advanced capabilities

Europe and Russia

We continue to contribute to NATO's forward presence and we continue to deepen our relationships with our allies through joint exercises. The security of Europe depends on these alliances and persistent engagement.



⁵ Statement by the Defence Secretary in the House of Commons, 17 January 2022 - GOV.UK (www.gov.uk)

Africa and the Middle East

In delivering an enhanced presence in Africa, we are seeking to deepen partnerships with key partners such as Kenya, Ghana and Nigeria to support them to tackle upstream threats. We have also been contributing to building stability in fragile states such as through our contributions in Mali and Somalia. Further investment and deployments have demonstrated that our commitment to security and stability in the region is enduring, with a view on the long term. In the Middle East, the UK remains committed to building long term stability and prosperity. This is achieved through regular capability building activity and developing successful partnerships.

In Mali, the Long Range Reconnaissance Group (LRRG) has successfully detained suspected terrorists and munitions near sites of recent attacks against civilians as part of the MOD's contribution to the UN's peacekeeping mission

UK continues support for Iraqi stability and security through the NATO Mission in Iraq and the US-led Coalition

The Defence Secretary visited Oman to demonstrate our commitment to the country and wider Gulf region, while British and Omani forces trained on Exercise KHANJAR OMAN, in October 2021

We have provided training to the Somali National Army (SNA) in the South-West State, making the UK the only nation providing training to the SNA outside of Mogadishu

In Ghana, MOD has led a sustainable UN deployable Improvised Explosive Device Disposal (IEDD) programme

In Nigeria, MOD training has shifted from training individuals to formed units across all three Services, as well as supporting Nigeria's Defence Transformation programme at the institutional level

In October 2021, HMS TRENT visited the Gulf of Guinea, Nigeria, Ghana, and Senegal to provide support to counter-piracy and counter-narcotics efforts

In Kenya, MOD has focused on developing our bilateral relationship in the land, maritime and air domains, by hosting a series of high-level engagements and targeted activity

Indo-Pacific Region

The growing impact of the Indo-Pacific region has been reflected in the Defence contribution to the Indo Pacific tilt. China poses a complex systematic challenge. We have remained resolute with our allies and have continued to grow important alliances. This will increase interoperability and burden sharing across the world.

1st Battalion Grenadier Guards deployed for Exercise PANTHER GOLD with Thailand in March 2022

The UK and Japan signed a Letter of Arrangement (LOA), to jointly conduct cooperative research on a world-leading fighter jet engine technology

In May 2021 UK/India signed the 2030 Roadmap. This maps out greater partnership on connecting our two countries' trade and prosperity, defence and security, climate and health

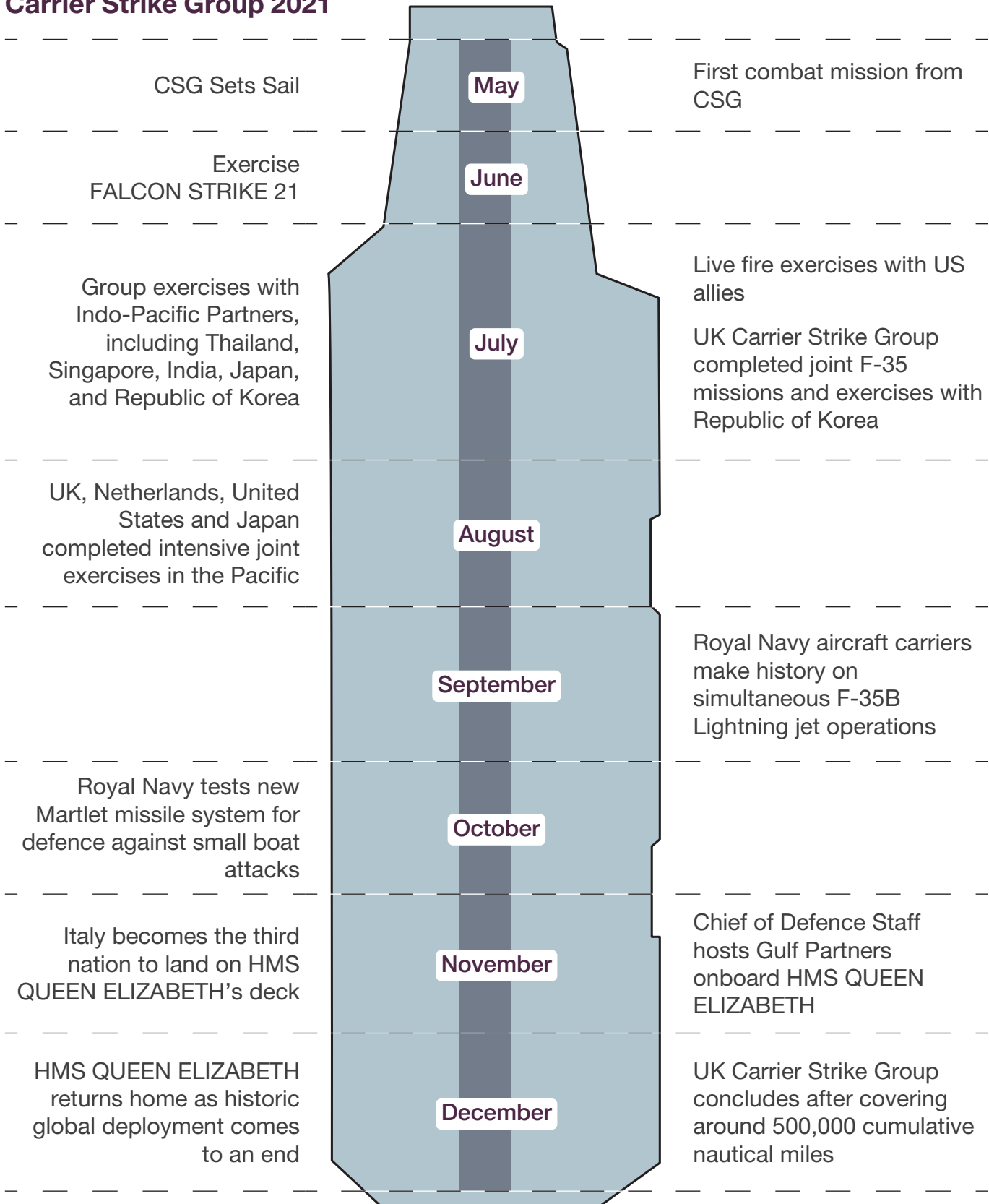
In September 2021, UK conducted UN sanctions enforcement to counter The Democratic People's Republic of Korea weapons programmes

In January 2022, the UK sent vital humanitarian assistance to support Tonga in response to the catastrophic tsunami that hit the islands. HMS SPEY was also redeployed to work alongside the Royal New Zealand and Royal Australian Navies in delivering essential water and medical supplies

In September 2021 British Forces Brunei continue military support to testing and vaccine delivery programmes

Forward deployment of HMS TAMAR and HMS SPEY in September 2021, was the Royal Navy's first permanent Pacific presence in a quarter of a century

Carrier Strike Group 2021



EU Exit

Work continued to assess the possible impact on our bases and people in Europe, and on our supply chains in the period following exit and transition. Defence has remained ready to advise and assist where needed.

Global Networks

The Defence Command Paper committed defence to expanding our network of attachés and advisors. The global network continues to evolve to meet changing defence and wider governmental priorities.

The number of Defence Attachés/Advisors and British Defence Staffs

164

(June 2022)

Up from 149
(2020-21)

Defence has commenced a programme to transform the Permanent Joint Overseas Bases in Gibraltar and Cyprus to enable both UK Defence activity but also that of our Allies and Partners; we have also developed Duqm as a Global Hub, including the expansion of the Joint Logistics Support Base and supporting the Army in developing the Ras Madrakah training area in Oman.

International Training Places

Aiding 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. The number of training places we have been able to offer over the last year has increased as restrictions on international travel have been relaxed.

Training places offered

2,051

Up from 1,078
(2020-21)

Human Security

In December 2021, the MOD published updated policy on Human Security in Military Operations⁶, outlining how the UK military can protect civilians from human rights violations in all that we do. This provides the MOD with a heightened understanding of conflict drivers, enabling the UK armed forces to be more impactful on the global stage. The MOD continued to support international partners through specialist Human Security training, including carrying out specialist training in Nigeria and Vietnam. The UK Human Security Advisers' military training programme trained 32 officers, 29 from the UK and 3 from overseas, 39% of which were women. The UK delivered training including on female engagement and human security to 22 countries across Africa through the British Peace Support Team (Africa).

Official Development Assistance Spend

The MOD is involved in Official Development Assistance (ODA) because it has the unique capability to support development outcomes by contributing to stability and security. Defence training, education, and disaster management and assistance are ways in which MOD can assist. These methods all support welfare and economic development by contributing to increased security and stability. In 2021 we spent £3.5 million on ODA.

⁶ <https://www.gov.uk/government/publications/human-security-in-defence-jsp-985>

Priority Outcome 3

Understand and counter state and non-state threats

There have been continuing geopolitical shifts during 2021-22, with China and Russia's increasing assertiveness the key examples. Competition between states and differing value systems, as well as rapidly evolving technologies create an uncertain global environment. This means that the UK faces a wider range of state and non-state threats.

Intelligence

Our use of intelligence is at the heart of our decision-making. We have strengthened the Chief of Defence Intelligence's role by formally making them the functional owner for intelligence across MOD and the armed forces. For the first time, we have invested in the generation of a strategy to drive our acquisition, employment and deployment of intelligence, surveillance, and reconnaissance capabilities. These are key enablers for harnessing all elements of defence's intelligence enterprise to ensure intelligence coherence, effectiveness, and integration across all five domains (air, land, sea, space and cyber).

At the centre of our intelligence machinery is Defence Intelligence (DI) which has led cross-government understanding of those strategic events which have shaped the defence agenda in 2021-22. As Russia continues to threaten European security in ways not seen since the Second World War, DI has provided decision-makers across government and amongst our international allies with crucial insight during the build-up to, and the invasion of, Ukraine. Working in new ways with information, tapping into open-source as well as classified sources of information, DI has delivered a step-change in our ability to

share information with both traditional and non-traditional allies and, also with the public more widely. This has ensured that there is a much better understanding of both Russian threats and duplicity that informs debate and decision-making.

China's increasingly authoritarian and assertive behaviours seek to impose Chinese standards and norms, through both economic power and investment in its armed forces capabilities; this activity continues to attract our attention. DI has monitored China's defence spending and its modernisation, alongside its stifling of democracy in Hong Kong and continued extraction of intellectual property. The recent Carrier Strike Group deployment to the Far East provided unique opportunities to develop understanding and enhance intelligence interoperability with other nations.

Iran and the Democratic People's Republic of Korea continued to pose regional challenges with their nuclear and cyber programmes threatening global stability. We have contributed to the cross-government effort to encourage Iran's return to the Joint Comprehensive Plan of Action, which is the best option to prevent nuclear weapon development. We also continued to monitor the activities of violent extremist organisations in Iraq and Syria which facilitated UK decision-making on RAF missions in Iraq and Syria.

We provided vital intelligence support to key-decision-makers and operational commanders as the evacuation of entitled persons from Afghanistan unfolded. We continue to build new intelligence

capability. The data revolution, particularly that originating from publicly available information, is providing us with new opportunities to leverage understanding, alongside our traditional methods. The latest generation open-source capability was successfully delivered during the year, and we are also starting to develop machine learning and artificial intelligence.

Secretary of State's New Office of Net Assessment and Challenge (SONAC)

The Secretary of State's Office of Net Assessment and Challenge (SONAC) was set up in 2020 to improve existing strategy and inform future strategy through net assessment, strategic analysis, challenge, and bringing external thinking into the department.

SONAC coordinates and produces balance of advantage assessments to identify strategic asymmetries in support of future defence strategy making and uses strategic analysis (e.g. historical analysis and wargaming) and challenge methods (e.g. red teaming) to test current strategies and inform emerging strategies.

Over the past year, SONAC has provided a formal red teaming function in the department to challenge emerging decisions. Most notably, SONAC has provided challenge and alternative thinking throughout the current Ukraine crisis. Additionally, SONAC has worked with Defence Intelligence (DI) and the Defence Science and Technology Laboratory (Dstl) to run a series of wargames to ensure our strategies are future-proofed and tested by independent and diverse voices before they are implemented.



The Parachute Regiment training Kuwaiti soldiers in reconnaissance techniques using drones

Priority Outcome 4

Contribute to NATO collective deterrence and defence

NATO allies face the same threats as the UK including: the emergence of space and cyberspace as operational and warfighting domains; the proliferation of arms, especially advanced weaponry; the ability for non-state actors to acquire these advanced weapons and use them in unconventional warfare; and the threat posed by global powers such as Russia and China.

The UK knows it is stronger with allies and partners and its commitment to NATO is unwavering. In 2021-22, we made progress in delivering our Integrated Review commitments to contribute to deterrence by supporting NATO's eastern flank through the enhanced Forward Presence (eFP) battlegroup in Estonia and Poland. We also

contributed naval groups in the Euro-Atlantic area and increased our exercise presence with allies. Before the Russian invasion of Ukraine, the UK maintained a presence in Ukraine, delivering military training to the Ukrainian Armed Forces. The UK continues to play a central role in the international response to the Russian invasion of Ukraine.

To underpin our support and commitment we have maintained the nuclear deterrent as well as contributing well-supported and highly equipped conventional fighting forces across all domains. This allowed a truly joint, high readiness force that integrates seamlessly across technology and fighting capabilities. We have also remained the highest spending European partner.

PO4 Key Achievements

The UK has made the **largest offer of any NATO ally** to the NATO Readiness Initiative (NRI)

Deployed **up to 1,000** personnel on enhanced Forward Presence missions

We have **exceeded** our NATO pledge to spend **2% of GDP** on defence spending

The UK has achieved a **93% fill rate** for NATO positions. This has been consistently above 90% for the last 4 years

NATO New Deterrence and Defence Concept

The UK is fully committed to NATO's Concept for Deterrence and Defence of the Euro-Atlantic Area. This is one of two main UK-inspired NATO concepts, the other being the NATO Warfighting Capstone Concept. The deterrence and defence concept focuses on force employment to deter and defend the Euro-Atlantic Area, and the warfighting concept focuses on the long-term development of warfighting capability. Thanks to UK 'thought leadership', both reflect the major themes of the Integrated Review and Defence Command Paper.

The UK contributes more than any other European nation across the spectrum of Alliance operations, missions and activities:

Enhanced NATO Response Force/Very High Readiness Joint Task Force. The UK's training exercises across Europe prepare our soldiers to this rapid deployment and allows them to gain experience across various environments. The UK is currently making preparations to be the Very High Readiness Joint Task Force (Land) Framework Lead in 2024.

NATO's Forward Presence. The UK is one of the highest contributors to enhanced Forward Presence (eFP), leading as the Framework Nation in Estonia. We also contribute to the eFP in Poland, headed by the US. We regularly send multiple units to train across Eastern Europe, preparing our personnel in the event of rapid deployment anywhere in Europe.

Standing Naval Forces. The UK contributes considerable force and expertise to NATO's naval presence, helping protect our waters.

Air Policing. To protect the Eastern flank of the alliance, the UK directly supports air policing through Operation BILOXI, providing Quick Reaction Alert (QRA) aircraft in Romania.

Support and Assurance for Turkey. To reinforce air defence, and to support decision makers with timely information and intelligence.

Joint Intelligence, Surveillance and Reconnaissance (ISR). The UK has developed highly advanced ISR capabilities, which are routinely offered to support and bolster NATO's joint ISR capabilities



The Secretary of State for Defence (left), seen here with Polish Defence Minister (right) in Olsztyn, Poland.

Commit Full Spectrum Forces

HMS TRENT demonstrates our commitment to stability across the Southern flank, conducting NATO exercises with Merlin Helicopters and RAF P8 Poseidon Maritime Patrol Aircraft in the Mediterranean. Challenger 2 tanks, armoured vehicles and additional troops have doubled our Estonian deployment. Typhoons flying from bases in Cyprus and the UK are now patrolling NATO airspace.

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

Our adversaries have advanced their technology, from hostile groups having access to sophisticated equipment such as drones, to large state actors developing advanced weaponry such as high-speed ballistic missiles. Defence's advances need to outpace our adversaries, to ensure we can effectively compete and, if necessary, defeat.

To address these challenges, we have continued to improve our equipment and accompanying equipment support, modernising, and better integrating the capabilities of our armed forces. Investment has continued in the domains of cyberspace and space, and in modern platforms and weapons systems that will enable us to extend our technological advantage over our competitors. In 2021-22, we have made progress in delivering our Integrated Review commitments to sustain strategic advantage through science and technology (S&T) and innovation, guided by our S&T strategy⁷, and our commitment to invest at least £6.6 billion in R&D over the next four years.

We have prioritised higher-risk research to support the modernisation of our armed forces. We aim to deliver an enduring military edge in areas including space, directed energy weapons and advanced high-speed missiles. We also committed to accelerating the modernisation of digital capability, in support of military and business advantage, and multi-domain integration. We have continued to secure our data, systems,

and digital infrastructure, to reduce cyber security risk.

Through the Defence and Security Industrial Strategy (DSIS), we have adopted a more strategic approach to our industrial base to ensure the UK continues to have competitive, innovative, and world-class defence and security industries. Government and industry are working closely together to deliver the DSIS commitments, to drive innovation and improvements in productivity and efficiency, and strengthen the resilience of the defence sector.

Our focus will be matched by a more modern approach to our workforce. Our people – military and civilian – will remain fundamental to delivering our competitive advantage, our links to society, and our global standing.

We will publish an updated Defence Accommodation Strategy in the autumn of 2022. We have continued to invest in Defence Infrastructure; including investing more in single living accommodation to improve the lived experience for service personnel. We have also made progress on the Defence Estate Optimisation Programme, as part of a wider portfolio of infrastructure optimisation, and ensured that we have supported the delivery of our sustainability targets through improvements to our estate.

⁷ <https://www.gov.uk/government/publications/mod-science-and-technology-strategy-2020>

PO5 Key Achievements

The National Shipbuilding Strategy Refresh was published in March 2022 and sets out the vision for a globally successful, innovative, and sustainable UK shipbuilding enterprise.

The Defence Artificial Intelligence Centre achieved Initial Operating Capacity in April 2022, as part of the wider Digital Foundry

As part of the **Novel Weapons Programme**, we have awarded three contracts to UK industry to produce advanced laser and radio frequency demonstrators

We are **expanding our regional footprint** including £17.5 million to develop technology in North-East England and Scotland, and a £9.1 million project led from Northern Ireland

Defence Security and Industrial Strategy includes a wide range of initiatives to support our industry and grow our prosperity. Over the past year, government, industry, and academia have worked together to deliver these commitments

Our **female representation**, in the armed forces, continued to increase in 2021-22 to **11.3%** (up from 11% in April 2021)

Since April 2021, **Defence and Security Accelerator (DASA)**⁸ has allocated over £30 million across **138** projects, of which **64%** were with Small and Medium Enterprises

The **Ranger Regiment** was created establishing more self-sufficient tactical units

⁸ <https://www.gov.uk/government/organisations/defence-and-security-accelerator>

Defence Security and Industrial Strategy

In March 2021, the MOD published the Defence and Security Industrial Strategy (DSIS).⁹

DSIS is a step change in our approach to industry. We now think about our defence and security industries as a strategic capability in their own right and consider the wider industrial impacts of our decisions. We have moved away from ‘global competition by default’ in favour of a more sophisticated and nuanced approach. This ensures the UK continues to have a world-leading defence and security industrial base with a broad footprint across the nation. The industries make a significant contribution to our economy through jobs, skills, research and development, and exports. They also have a crucial role in maintaining the UK’s global influence. DSIS includes a wide range of initiatives to support our industry and grow our industrial resilience.

Over the past year, government, industry, and academia have worked together to deliver the DSIS commitments, to drive innovation and improvements in productivity and efficiency, and strengthen the resilience of the defence sector. Over 50 activities were announced in the strategy and significant progress has been achieved in several key areas, with the publication of the refreshed National Shipbuilding Strategy, the Defence Space Strategy, the Land Industrial Strategy, the latest Equipment Plan, the new Small and Medium sized Enterprises (SME) Action Plan,¹⁰ and the annual Joint Economic Data Hub (JEDHub) Economic Report,¹¹ as well as changing ways of working and challenging long-standing patterns of thinking, to reflect the new strategic approach.

There is recognition that there is more to do, and work continues to drive change in how government and industry work together, how they innovate, and how they develop new technologies and pull them through to capability more rapidly.



32 Engineers Regiment use specialist carpentry skills to build the first prototype concept Observation Post

⁹ <https://www.gov.uk/government/publications/defence-and-security-industrial-strategy>

¹⁰ [Defence SME Action Plan](#)

¹¹ [JEDHub Economic Report](#)

Shipbuilding and Submarines

£4.3 billion

of MOD expenditure was attributed to shipbuilding and repair, with £1.5 billion focused on the North of England.¹²

27,100 jobs

were directly supported by MOD shipbuilding and repair across the UK, including 9,300 direct jobs in the North of England and 7,500 in Scotland.¹³

72.5%

of UK shipbuilding industry revenue in 2021-22 was on warship products, valued around £4.4 billion

The National Shipbuilding Strategy Refresh was published in March 2022¹⁴ and sets out the shared government and industry vision for a globally successful, innovative, and sustainable UK shipbuilding enterprise. The department is making a major contribution through its procurements for the Royal Navy.

There has been substantial progress in the National Shipbuilding ventures since announcing the National Shipbuilding Office in September 2021.

First steel was cut for the Royal Navy Type 31 Frigate, HMS VENTURER, by the Defence Secretary during a ceremony held at Rosyth dockyard. The event marks a significant milestone in the programme for the Royal Navy, defence, and shipbuilding in Scotland, with all five vessels to be built by Babcock on the Firth of the Forth.

Pre-concept development work is underway for the Type 32 Frigate and Multi-Role Support Ship programmes which will deliver platforms to protect our territorial waters, provide persistent presence overseas and support littoral strike capability in the early 2030s. Together these are the key future enablers for the Littoral Response Groups and the Future Commando Force. We are also assessing opportunities to deliver the Multi-Role Ocean Surveillance capability which will be a key element of our future seabed warfare capability, together with the ability to conduct Deep Water Military Data Gathering and protect our undersea critical national infrastructure in the North Atlantic.

A design competition is underway for the National Flagship that will be used as a diplomatic and trade platform, showcasing UK engineering and the use of green marine technologies; it will bridge the gap between soft and hard power.

¹² Data as of 2020-21 <https://www.gov.uk/government/statistics/mod-regional-expenditure-with-uk-industry-and-supported-employment-202021>

¹³ Data as of 2019-20 <https://www.gov.uk/government/collections/mod-regional-expenditure-with-uk-industry-and-supported-employment-index>

¹⁴ <https://www.gov.uk/government/publications/refresh-to-the-national-shipbuilding-strategy>

Submarines

The approach to the submarine industry is set out in the Defence Industrial Strategy, which seeks to create efficiency through the adoption of a vessel delivery drumbeat that drives optimised flow within the supply chain and production programme.

Design work for the next generation of Royal Navy submarines is underway, following the award of two contracts to UK industry. The contracts will deliver design work to inform a future decision which will help define the replacement approach for the Astute Class

submarines, the nuclear-powered fleet of submarines (SSNs), currently in service with the Royal Navy.

The Vanguard Class submarines are to be replaced by the Dreadnought Class in the coming years, tasked with continuing to deliver CASD. Four boats are being built by BAE Systems which will form the Dreadnought Class. These will offer cutting-edge technology, borrowing the ‘fly-by-wire’ technology from our aircraft, and introducing it to the Navy’s next generation submarines.

Future Combat Air System (FCAS)

More than **£2 billion** of UK Government spending on the project from 2021-25

Initial **£250 million** contract with British industry ‘Team Tempest’ partners placed for Concept and Assessment activities

FCAS employs **2,400** skilled people

The Future Combat Air System (FCAS) is being developed to provide the UK with next generation combat air capability and deliver operational advantage in the skies. It is being designed as a system of systems, with an aircraft as the integrated heart of a wider network of capabilities. In the March 2021 Defence Command Paper, we committed to investing more than £2 billion in FCAS over the following four years. In July 2021, MOD signed a contract initially worth £250 million with BAE Systems, one of the four founding members of ‘Team Tempest’, which also

includes partners Leonardo UK, Rolls Royce and MBDA UK, to drive forward the Concept and Assessment phase of the programme. The programme is seeing large investment in a ‘digital first’ approach, whereby digital design and testing significantly reduce costs, time, and emissions. FCAS employs over 2,000 skilled people, including in engineering and design roles, spread across combat air manufacturing hubs around the UK, including Lancashire, Edinburgh, Luton, Stevenage, and Bristol.

Complex Weapons

Around **£4 billion**
of UK Government
spending on the project
over the next 4 years

£2.8 billion
contracted with British
industry partners

Around **1,000** jobs
supported by the
contracts are based in
the North of England

The Complex Weapons Strategy, initially established 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 whilst supporting and maintaining UK jobs and industrial capability in complex weapon design, manufacture, and its supporting supply chain. Over the last 12 months, we have continued to deliver key capabilities and milestones, including delivery of Martlet Initial Operating Capability, contracting Future Cruise Anti-Ship Weapon Assessment Phase and progressed contracting of Sea Viper Evolution.



First MARTLET live firing

The MOD has also awarded three contracts to UK industry to produce advanced laser and radio frequency demonstrators as part of the Novel Weapons Programme. Known collectively as Directed Energy Weapons, these next-generation technologies could

revolutionise the battlefield and reduce the risk of collateral damage. The systems are powered by electricity and operate without ammunition, significantly reducing operating costs, increasing platform endurance, and providing unprecedented offensive and defensive flexibility to personnel on the frontline.

Land Industrial Strategy

The Land Industrial Strategy was published in May 2022 setting out how defence will leverage its £41.3 billion investment in land equipment and support over the next decade to foster an innovative, globally competitive, and highly skilled industrial base. Implementation has already started. A land capability campaigns office has been established under the leadership of Defence and Security Exports. It will help co-ordinate efforts across government and industry to secure increased sales that help build industrial resilience and reduce procurement and through-life support costs.

The Land Integrated Operating Services Project has also been established to assess the long-term benefits of adopting a more partnered and through-life approach to supporting and upgrading land equipment. The MERCURY R&D project has been initiated, with Army HQ, the DE&S Future Capability Group, industry, and academia working together to define the next iteration of mission system technologies and the most efficient and effective routes to market.

Levelling Up

The MOD has a significant presence across all parts of the UK and continues to look for opportunities to develop, grow and invest in all nations and regions of the UK. The February 2022 Levelling Up White Paper¹⁵ outlined some of the ways in which defence activity is supporting the spreading of opportunity more equitably across the UK.

As set out in the DSIS, the MOD will enhance and accelerate R&D spend across the UK. This includes £17.5 million to develop active electronically scanned array seeker technology, working with industry in North-East England and Scotland. As well as a £9.1 million project led from Northern Ireland to develop land complex weapons and common systems architecture. In Spring 2022, Dstl launched a Science & Technology Experimentation Hub in Newcastle, specialising in AI and data science.

In October 2021, the permanent future location of the NCF was announced as Samlesbury, making it a key part of the proposed North West Cyber Corridor from Manchester through to Lancaster and beyond. The move will stimulate technology, digital and defence sectors, as well as encouraging partnerships between government, industry and universities in the region, reinforcing NCF's enduring contribution to the National Cyber Strategy's ecosystem pillar.

The MOD will increase the geographic diversity of its Extra Mural Research (EMR), by increasing the proportion of MOD Chief Scientific Adviser's EMR contracts placed outside the Greater South-East.

The Defence and Security Accelerator (DASA) will continue to promote growth through a £3.1 million Regional Partnerships (RP) Fund

over four years to target regional innovators. It seeks to leverage regional-based equity by mandating that any RP funding is matched to 50% by regional investment. A network of 12 innovation partners are regionally based across all of England, Scotland, Wales, and Northern Ireland.

Regional Defence and Security Clusters (RDSCs) will be a physical and virtual network that brings industry and government together to share challenges and ideas to promote both collaboration and commercialisation. The initial RDSC in South-West England is already proving successful, with 140 participating member organisations (of which 45 are new to defence), 90 of these being SMEs.

Beyond procurement and R&D, MOD is also giving more students the transformative opportunity to join the cadets, through providing more support to the state school sector to increase combined cadet force participation. This will include linking funding of cadet units in private schools with a requirement to ensure support for the expansion of cadet forces in state schools and open access to nearby state school students.

Procurement and Acquisition

Across the acquisition system we have delivered practical interventions to set programmes up for success from the outset and improve overall delivery. These include the roll out from April 2022 of a new pan-Defence Risk and Complexity Assessment to help Senior Responsible Owners (SROs) better understand and address strategic programme challenges at an early stage. We have delivered a new digital workflow tool to improve tracking and management of our investment decisions and made further progress in implementing pan-defence

¹⁵ <https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>

category management and in increasing the capacity and capability of our SROs. Over the last year a number of programmes, such as the Vehicle Storage and Support Programme and the Type 26, have used new risk based approaches to drive greater pace in delivery and decision making.

We are now building on these achievements and going further to drive improved accuracy and pace by aligning Acquisition Reform activity under five themes: improving cost estimating and cost control; improving relationships with industry; delivering strategic intent and defence priorities through our requirements; empowering and enabling programme leadership; streamlining processes and addressing project resourcing challenges.

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 our new relationship with the European Union and the impact of COVID-19 and mitigate risks with our strategic suppliers and our extended critical supply chain. We continue to invest in a department-wide programme designed to map and understand our most-critical supply chains. We are collaborating across government and internationally to share intelligence and best practice on common critical supply chains and materials. Our strategic partnering programme implementation continues, building stronger

and more effective relationships with our strategic suppliers.

We have achieved 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. Our collective engagement with industry through the Defence Supplier Forum is operating effectively and was a key enabler to our response to COVID-19.

Military Capability

The Defence Equipment Plan, published in February 2022, laid out the plans to deliver and support the equipment for our armed forces.¹⁶ We are making good progress in each sector.

Navy Command Type 26 Frigate

The Type 26 Global Combat Ship will replace the specialist Anti-Submarine Warfare Type 23 frigate, undertaking the Royal Navy's three core roles - warfighting, maritime security and international engagement on the world stage. Work continues with BAE Systems on the programme. Work has stabilised in both cost and time for the delivery of ships 1, 2 and 3. Lessons are being taken forward as negotiations continue with BAE Systems for the remaining five Batch 2 ships.

Type 31 Frigate

The programme is on schedule and within budget, with the first ship due in service by 2027. The Type 31s will replace the general-purpose Type 23s. The Navy is progressing opportunities for the early buy of Type 31 support items that will ensure timely and affordable delivery.

¹⁶ [The defence equipment plan 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/104222/Defence-Equipment-Plan-2021.pdf)

Fleet Solid Support (FSS)

The FSS ships will keep the Queen Elizabeth-class aircraft carriers and amphibious task groups supplied with everything from ammunition to food. FSS competition remains in good health with four viable bidders and is on track to deliver the capability the Navy needs, including the recapitalisation of a UK capability.

Autonomous technologies

The Type 23 Frigate, HMS ARGYLL, successfully managed to control an un-crewed Pacific 24 rigid inflatable boat (RIB) while sailing at sea. As well as operating the RIB from up to 10 miles away, the ship was able to successfully send instructions to the RIB for it to carry out basic missions, such as identifying targets on the water and cueing its camera and remote weapon station to track targets.

The Navy, through 700X Squadron, has also developed options and capabilities for future uncrewed rotary systems to replace some of its crewed capabilities as they go out of service. These include a Future Tactical Unmanned Aircraft System to work alongside Wildcat, and a deployable supply drone to operate within the Carrier Strike Group.



The uncrewed Pacific 24 being boat controlled by HMS ARGYLL

Mine-hunting technology

The Navy has taken delivery of its Maritime Mine Counter Measures demonstrator which is now undergoing extensive system test and evaluation. Production of the Mine Hunting Capability Block 1 systems continues, and contracts have been signed for an additional Uncrewed Surface Vessel and for three Medium Autonomous Underwater Vehicle systems. System operational evaluation on the Clyde has commenced and on current plans, will follow in the Gulf in 2023.

Future Commando Force

We have provided new investment to transform the UK's amphibious capability. It will be persistently deployed and capable of special operations to train, advise and accompany partners in high threat environments, where they will seek to integrate capability across all five operational domains and advanced autonomous systems. The force will operate alongside our allies and partners in areas of UK interest, ready to strike from the sea, pre-empt and deter sub-threshold activity, and counter state threats. Investment in 2021-22 has enabled enhancements in Command and Control (C2) systems, maritime situational awareness, autonomous Uncrewed Aerial Vehicle (UAVs), weapon upgrades and dismounted Intelligence, Surveillance and Reconnaissance (ISR) systems.

Army Command Armoured Cavalry

The Armoured Cavalry Programme will provide the UK's next generation of ground mounted reconnaissance capability to deliver operational advantage in deep find and strike via the Ajax platform. Ajax is a fully digitised, open architecture, system enabled for incremental future growth. Equipped with

multiple sensors it will provide a step change in digital integration and intelligence, surveillance, target acquisition, and reconnaissance (ISTAR) capability. Following issues in 2021, significant trials remain underway to understand the noise and vibration situation to design, validate and verify solutions. The Armoured Cavalry programme will agree an affordable forward schedule to Full Operating Capability. A schedule for introduction into service will only follow once solutions for noise and vibration have been validated.



Ajax and Boxer side by side

Mechanised Infantry

As a critical component of the Brigade Combat Team (BCT), Boxer will enable strategic and tactical deployment of dismounted infantry from a platform with digital communications, to better share and exploit information. There are 623 vehicles with four different mission modules on contract. Production is now underway, and delivery is on track to meet a 'ready for train' date by December 2022. Export potential is currently being investigated, with several countries expressing interest in buying UK-manufactured Boxer platforms.

Main Battle Tank

The Army's Armour (Main Battle Tank) Programme will deliver 148 Challenger CR3 MBTs with enhanced lethality, survivability, and mobility, able to meet current and emerging threats from its Initial Operating Capability (IOC) in 2027. It will be at the heart of the Army's Armoured BCT, alongside Ajax and Boxer, with a digitalised vehicle electronic architecture enabling target hand off and multiple sensor-to-shooter engagement combinations. It will form a critical part of the Army's armoured warfighting capability and contribution to NATO deterrence. Rheinmetall BAE Systems Land (RBSL) have been on contract since March 2021 and work remains on schedule. The next major milestone is the critical design review for Challenger 3 in October 2022. This will freeze the design ahead of manufacturing the first vehicles for trials which are due to commence in late 2023-24. 2021-22 has also seen the first UK-funded development trials of Rafael's Trophy Active Protection System and further development trials for the Dstl-designed New Modular Armour scheme which will deliver unparalleled levels of survivability.

Land Environment Tactical Communication and Information Systems (LETacCIS)

This programme will deliver the next generation of tactical military communications in the land environment, forming an integral part of the land domain's deployed digital backbone. It will provide the means to make informed and timely decisions through agile Communication Information Systems (CIS); connecting sensors, decision makers and effectors through the exploitation of open architectures and leveraging of software definition, to enable information advantage over adversaries. Successes over the recent year include the successful appointment of the Dismounted Situational Awareness (DSA) Design and

Integration Partner, Rowden Technologies, and user trials involving the prototype capability are proving to be successful. Additionally, in May 2021, Babcock was awarded the Logistic Support Contract for LETacCIS. Significant work is also ongoing in relation to Defence's tactical radio system (MORPHEUS) which will provide several critical battlefield applications. The initial elements of this programme are facing delays, but we are continuing to work closely with a range of partners, including General Dynamics Mission Systems, to ensure its delivery and we are actively looking at options available to mitigate the impact.

C-17 Transport Aircraft and CH-47 Chinook Helicopter

The RAF will be boosted by an investment of almost £400 million to enhance the capabilities of two of its vital assets, the C-17 Globemaster aircraft and the CH-47 Chinook helicopter. The UK's C-17 fleet, which recently played a key role in the UK's evacuation from Afghanistan, will receive a £324 million investment to upgrade software and hardware to improve airlift capability as part of a contract with the US Air Force.



Chinooks drop off soldiers from the 2nd battalion Parachute Regiment

Air Command

F-35B Lightning aircraft

48 F-35B Lightning aircraft are on contract. We have made provision to buy additional aircraft, and our planning assumption is that we will purchase additional F-35B Lightning aircraft, but this remains subject to negotiation. One of these is a replacement of the one lost during CSG 21. The approvals for the advanced electronically scanned array radar programme are complete and will see a prototype radar, ready for integration and flight trials on Typhoon, in 2023.

Protector

Protector is a remotely piloted aircraft system that will provide critical surveillance capability for the RAF and will be equipped with a suite of surveillance equipment and precision strike weapons to deploy against potential adversaries around the globe, all while being operated from RAF Waddington in Lincolnshire.

Poseidon

In July 2021, a contract worth over £230 million for the RAF's Poseidon Maritime Aircraft fleet has been signed with Boeing Defence UK.

Space Command

Space plays a critical role in our daily lives. Satellites orbiting the Earth support our present and future security and prosperity, enabling us to navigate the oceans, keep our troops safe, monitor the climate and forecast the weather. The space sector is a vital part of the UK's economy contributing to diverse and exciting roles such as scientists, engineers, entrepreneurs, and innovators.

In September 2021, we launched the UK's first integrated National Space Strategy¹⁷ with BEIS. This was followed in February 2022 by the Defence Space Strategy, to set out a plan for the UK to become a more significant space player on the global stage, and we have now shifted firmly into implementation mode.

Underpinned by the additional £1.5 billion assigned to space in Spending Review 2020, we have designed and are now delivering a balanced Defence Space Portfolio. This comprises of £1.4 billion in defence space capabilities over the next 10 years under a single, coherent space capability pillar, increasing our experimentation to rapidly evolve high tech demonstrators and deliver fast paced capability programmes. We are also investing more than £100 million of innovation funding over the next four years on Programme Minerva to develop the digital backbone upon which our space enterprise will depend.

The UK will invest around £5 billion over the next 10 years in our military satellite communications programme, delivering through the Skynet 6 programme and we will develop a constellation of small Earth Observation (EO) and Intelligence, Surveillance and Reconnaissance (ISR) satellites with supporting architectures and invest in both earth observation data infrastructure and hardware development capability. Good progress is being made across all these programmes.

Strategic Command

Multi Domain Integration

As Defence's integrator, Strategic Command is responsible for realising the Department's ambition for Multi Domain Integration (MDI), as set out by the Integrated Operating Concept.¹⁸

There are three core pillars to MDI: people; capability; and force development and operational experimentation. Our people are the key to developing an adaptive edge; training, education and inculcating operational lessons provide the ways to change our culture so we integrate by instinct. The MDI Change Programme is stimulating innovation and integration across all lines of capability to resolve policy challenges. We are testing alternative force structures, as well as assessing the threats and opportunities of new technology. Exercise INTEGRATED WARRIOR provides the conceptual focus, but bold experimentation on operations and exercises will accelerate progress.

Digital and Data

Over the next ten years, we are investing an additional £1 billion in the Digital Backbone. Digital investment will support Defence's Transformation programme, migrating IT services to hyperscale multi-classification cloud, growing the skills and talent required to leverage battle winning technology, improving our cyber defences and exploiting advances in synthetics for training and decision support. We will fund the Digital Foundry, a federated partnership between digital innovators pioneering agile delivery methods, and a new Defence Artificial Intelligence Centre (DAIC). Together, the Foundry and DAIC will unleash the power of defence's data, exploiting AI and

¹⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1034313/national-space-strategy.pdf

¹⁸ [Defence Integrated Operating Concept](#)

next generation technologies. These ambitions are outlined in the Digital Strategy for Defence, which was published in May 2021.

Cyber and Electromagnetic domain

Strategic Command will lead the development of the cyber and electromagnetic domain, delivering our ability to conduct both defensive and offensive cyber operations and supporting the UK's ambition to be a leading, responsible, democratic cyber power. Central to this endeavour, the Joint Crypt Key programme will deliver the next generation of sovereign crypt-key capabilities. Commander Strategic Command also oversees the functional coherence and delivery of Defence's Electromagnetic Activities (EMA) strategy by ensuring that Defence is appropriately structured, resourced and its personnel trained to understand, defend and attack in and through the Electromagnetic Environment.

Intelligence, Surveillance and Reconnaissance (ISR)

The ISR Strategy has provided an important baseline for the ISR Enterprise and defines the outcomes we must achieve to remedy them. Project ODYSSEY will provide a common access portal with advanced data analytics, to deliver an all-source intelligence data exploitation capability across defence. The Mission Data 4 Information Advantage programme will also improve the production and dissemination of mission data across multiple platforms. The operational concept demonstrator for ultra-persistent wide area surveillance using a high-altitude platform station successfully completed a series of test flights. The outcome was incorporated into Project AETHER, which has been funded for an assessment phase to further understand its utility.

Modelling and Simulation

The IR recognised the increasing importance of modelling, simulation and synthetic environments. To drive integration and maximise value from our investments in modelling and simulation, Strategic Command has launched a Defence Simulation Environment Programme to deliver a virtual representation of live environments, representing a commitment of over £250 million over ten years and potentially more.

Support

The overarching Support vision is that, by 2035, Defence Support continually secures Support Advantage, enabling defence to outpace, outwit and where necessary out-fight its enemies. To realise this, Business Modernisation for Support is a critical enabler and force multiplier to enable effective, efficient and resilient digital Support capability that can meet defence outputs whilst realising significant cost savings. In addition, significant work is underway to increase the resilience and optimise the Strategic Base capability and new and sustainable defence support capabilities are being developed in strategic sea lift, rail, storage and support infrastructure.

Medical

Strategic Command is delivering Project CORTISONE to deliver a sustainable, integrated, cohesive and enduring information capability and the Medical Estate Rationalisation programme continues to optimise the footprint in the UK.

Research and Development

Defence investment in Science, Technology and Innovation is critical in accelerating armed forces modernisation and HMG's wider

‘Great Science Power’ objectives. The 2020 Spending Review (SR20) created a £6.6 billion ringfence for R&D spending over four years (2021-22 to 2024-25). This R&D ringfence includes funding for Science & Technology, Innovation, R&D Pipelines, FCAS and Nuclear, as well as wider R&D across defence.

We have established five strategic and long-term R&D pipelines focused on our highest priority military capability challenges, funded by MOD core R&D money, and enhanced by £1.1 billion over the Spending Review period and supported by a new knowledge management and insights framework.

Implementation of the MOD Science and Technology Strategy 2020 continues at pace, increasingly pivoting our core S&T investments towards high-risk high-reward technologies that will underpin generation after next military capabilities (e.g. Artificial Intelligence (AI), engineering biology and quantum technologies). We announced a new S&T Futures programme as part of the new portfolio launch in April 2022 to understand emerging threats and act as an engine room for change, while in parallel continuing to invest in the S&T capabilities that defence (and wider national security) will require for the future.



UK Carrier Strike Group entered the port of Limassol, Cyprus

The new Defence AI Strategy will set out our approach, our priorities and how MOD will strengthen partnerships with industry, academia, and international partners.

AI is amongst the most transformative, ubiquitous, and disruptive of the new technologies. The Defence AI Centre achieved initial operating capacity in April 2022. This is the core element within defence that will drive coherence and co-ordination to harness the game-changing power of AI. It will act as a visionary hub to champion the use of AI, rapidly develop, and scale AI projects, and provide common services, tools, and platforms to support local adoption of AI. Although supporting a range of AI projects throughout defence, AI research will initially focus on machine speed multi-domain C2, automating the ISR Enterprise and machine speed strategic analysis.

The Defence Innovation Fund invested over £75 million, contributing to over £200 million of the £800 million to be spent over a ten-year period. This includes continued funding to the Spearhead Programmes which has enabled rapid progress on key elements of R&D, and to the wider Defence Innovation hubs to support the delivery of freedoms to pursue and deliver innovative solutions to defence problems. The Innovation Gamechangers in Directed Energy Weapons, Integrated Space, and Multi-Domain Integrated Swarms have supported the R&D portfolio.

The Defence and Security Accelerator (DASA) launched seven themed competitions and ran six cycles of the Open Call for Innovation, enabling suppliers to accelerate their ideas into defence and security. Since April 2021, DASA allocated over £30 million across 138 projects, of which 64% were with SMEs. The Security Open Call, funded via the Treasury,

was launched to support innovators to develop solutions to enhance UK security.

International partners are critical to our modernisation drive, and to delivering the objectives set out in the Integrated Review. The role of S&T international engagement and research collaboration is outlined in the MOD S&T Strategy, structured around the concept of collaboration by design; this is now being implemented with identified partners.

People

In order to deliver post-Integrated Review (IR) defence outputs, we seek a diverse workforce with the right number of people, equipped with the right skills, in the right place and at the right cost, capable of delivering success now and in the future. The Defence People Strategy recognises the changing character of warfare (the changing demand for skills) and the changing nature of the workforce (the changing supply). The four strategic objectives of the Defence People Strategy are: an adaptable and sustainable workforce; to maximise talent; to provide attractive offers that access and retain talent and a stronger, more effective, and collaborative People function.

Strategic Workforce Planning

In the last year, defence has successfully implemented a new whole force approach to strategic workforce planning (civilian and military regular and reservists). Our Strategic Workforce Planning (SWP) process has given budget holders the freedoms and incentives to design a whole-force workforce cost envelope to deliver our commitments under the Integrated Review and Spending Review. As a result, we can now cohere the workforce picture to ensure we have the right people, at the right time, in the right location to deliver defence outputs.



PROJECT HERMOD showcasing innovation, and digitisation

We have matched our focus on exploiting technology with a more modern approach to our people. As the challenges have changed, we have continued to invest in our people, equipping them with skills, technologies and resilience required to win in an era of global systemic competition. Defence requires a more highly skilled and integrated workforce, fit for the digital age with a growing demand for specialists. We continued to offer apprenticeships to approximately 90% of armed forces recruits, with over 50% of those in science and technology fields.

Reduction from **53 to 48**
on skills pinch points assessed as significant and above (as at March 2022)

In response to recommendations made by the National Audit Office, we 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 pinch points that were assessed as significant or above. These included engineering, communications, cyber and medical skills.

Future Soldier

Implementation of the Future Soldier plan, announced in November 2021, continues at pace. The priority has been the reorganisation of command and control nodes and relationships. This includes the redesign of the Army HQ which was completed by April 2022. Priorities in 2022-23 include the establishment of the Brigade Combat Teams and the development of the Ranger Regiment, which stood up in December 2021.

Collectively, these changes will enable the Army to reduce its workforce requirement. Army HQ have already made structural reductions amounting to nearly 20% of the 2025 Future Soldier target.

Reserve Forces

During the year, approximately 1,000 reservists were mobilised to UK operations and approximately 1,100 to overseas operations, bringing niche skills or reinforcing regular forces. The Reserves Forces 2030 Review¹⁹ complements the Future Soldier Strategy and redefines the relationship of the reserves with society, expands their roles, unlocks their potential, and transforms the support to the reserves. Reserve policy continues to expand, providing direct support to commitments as well as to reserve integration with single service and Strategic Command transformation programmes. During the pan-defence Exercise AGILE STANCE Campaign Plan, the Reserve Forces and Cadets' directorate successfully delivered the first pan-Reserves Annual Capability Audit, focussed on preparedness.

Cadets

The Ministry of Defence sponsors five cadet forces: The Sea Cadet Corps, the Volunteer Cadet Corps, the Army Cadet Force, and the Air Training Corps all based in the community, and the Combined Cadet Force based in schools. There are over 120,000 young people and nearly 27,500 adult volunteers in approximately 3,500 cadet units across the UK. Independent research carried out by the University of Northampton²⁰ clearly demonstrated that the valuable life skills gained from the cadet experience including self-discipline, confidence, and resilience can improve employability and social mobility. The cadet forces are recovering well from the impact of COVID-19 and through the joint MOD and Department for Education Cadet Expansion Programme, work is progressing on the government's ambition to increase the number of cadets in schools to 60,000 by 2024.

¹⁹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/985593/20210512_Reserve_Forces_Review_2030.pdf

²⁰ <https://www.northampton.ac.uk/research/research-institutes-and-centres/institute-for-social-innovation-and-impact/social-impact-resulting-from-expenditure-on-cadets/>

People Numbers

UK Armed Forces Personnel²¹

	Naval Service	Army	Royal Air Force	Total	Armed Forces Apprenticeships (starts since 2015)
As at 1 April 2022	40,131	118,235	37,878	196,244	92,604
As at 1 April 2021	40,402	120,660	37,813	198,875	81,633

Of total Armed Forces Personnel – UK Regular Armed Forces

	Royal Navy	Army	Royal Air Force
As at 1 April 2022	33,929	80,730	33,319
As at 1 April 2021	33,848	82,231	33,201

Of total Armed Forces Personnel – Trained Future Reserves 2020

	Maritime Reserve	Army Reserve	Royal Air Force Reserve
As at 1 April 2022	2,871	25,729	2,881
As at 1 April 2021	2,868	26,942	2,890

Other Personnel Figures

	Civil Service (FTE)	Civil Service Apprenticeships starts	Cadets
As at 1 April 2022	60,012	790	124,080
As at 1 April 2021	60,005	652	120,110

Diversity and Inclusion

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, faith, belief, or background.

We will deliver our Defence Diversity and Inclusion Strategy²² that clearly sets out our commitments that will enhance the experience of our people out to 2030

Our three key goals are:

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

Our armed forces and civilian personnel are at their best when they are diverse, so we are taking practical steps to make defence and the armed forces a career of choice for more women and those from minority backgrounds. We are also pursuing cross-government

²¹ All UK Forces Service Personnel comprises UK Regular Forces, Gurkhas, Military Provost Guard Service (MPGS), Locally Engaged Personnel (LEP), Volunteer Reserve, Serving Regular Reserve, Sponsored Reserve, and FTRS of unknown origin. University Officer Cadets are excluded. Unless otherwise stated, includes trained and untrained personnel.

²² [Defence Diversity and Inclusion Strategy](#)

approaches to further opportunities for people with disabilities.

The armed forces represent a key element of our national identity. We recruit nationally and base ourselves across all parts of the UK. We provide unparalleled opportunities for social mobility and personal development, and we represent the UK's interests overseas as a unified entity. Defence has also prepared its armed forces for after service life with 11,650 service personnel transitioning through the Career Transition Partnership programme between 1 April 2021 and 31 March 2022.

Regular Forces Representation:²³

	Female	Ethnic Minority
1 April 2022	11.3%	9.6%
1 April 2021	11.0%	9.2%

The MOD and UK armed forces are committed to improving both civilian and armed forces life for women. Our representation continues to increase and, through initiatives such as improving women's health policies, enhancing flexible service options, and providing professionally fitted clothing and body armour as standard, we expect this trend to carry on. Our aim to more than double our inflow of women into the armed forces, by setting a Level of Ambition of 30% inflow by 2030, is an important part of defence's journey to better reflecting the diversity of the UK.

MOD Civilian Representation

	Female	Ethnic Minority	LGBTQ+	Disabled
1 October 2021	44.3%	6.4%	3.2%	11.9%
1 October 2020	43.8%	5.9%	2.8%	12.2%

²³ https://view.officeapps.live.com/op/view.aspx?src=https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1042422/ODS_UK_armed_forces_biannual_diversity_statistics_1_October_2021.ods&wdOrigin=BROWSELINK

New changes to dress and personal appearance policies, published in late 2021, will allow more freedom of choice and inclusivity for female soldiers. Furthermore, updated combat clothing and body armour will be available to British military personnel from April 2022, as announced in March 2022. The armour, known as the Virtus Scalable Tactical Vest (STV), has been adapted following extensive trials with serving female soldiers, ensuring personnel have more tailored protective equipment and demonstrates defence's commitment to meet the needs of the growing number of servicewomen. We are seeing the benefits of improvements to our maternity leave offering; notably, the British Army was joint awarded the 2021 Best for Mothers award, by work-life balance charity Working Families.

Ethnic minority representation continues to increase across the armed forces. One of our Army officers became the first woman of colour to ski solo and unsupported to the South Pole.

Defence continues to nurture the talent of its civil servants with the launch of the Rise and Elevate talent programme, aimed at nurturing our junior talent for more demanding senior roles in the future, utilising apprenticeships as the basis for the schemes. During 2021-22, 329 employees took part in talent schemes ranging from the Summer Diversity Internship for entry grade talent to the Senior Leaders scheme, preparing Deputy Directors for Director-level positions.

Armed Forces Families Strategy

A new Armed Forces Families Strategy was launched in January 2022²⁴, replacing an existing strategy published in 2016. Its aim is to create the conditions where armed forces personnel want to continue in service because they are able to have a family rather than leave service because they want to start one. Progress in delivering the strategy's aims is being driven by an action plan divided into nine separate workstreams.

Wraparound Childcare

The government has committed to funding term time wraparound childcare for children aged 4-11 of eligible service personnel. Pilot programmes were launched in September 2020. In October 2021 new pilots were launched at various RAF sites in the East of England and at Woolwich barracks in London. As of March 2022, the number of personnel who have benefitted from the scheme stood at just under 2,000. Subject to final approval, the aim is to roll this service out to all eligible personnel in the UK in Autumn 2022. The wraparound childcare project is valued at £1.2 billion over 10 years.

Future Accommodation Model

The Future Accommodation Model (FAM) pilots have continued to run successfully at Her Majesty's Naval Base Clyde, Aldershot Garrison and RAF Wittering. These pilots have seen that more significant numbers of service personnel have opted to maintain their own home, rather than take up service accommodation.

Defence has reviewed its policies which has increased the number of service personnel eligible for the FAM options. If approved in

December 2022, FAM will roll out to all service personnel from April 2023.

Armed Forces Review into Reward and Incentivisation

A review into how the armed forces should be rewarded and incentivised is underway and aims to meet the commitment made in the Defence Command Paper for such a review to be completed within two years. It will consider global best practice and consult widely to consider what defence's long-term strategy on reward and incentivisation for service personnel should be. It will also take a holistic, agile, and differentiated approach to all the financial and non-financial parts of the offer.

Armed Forces Covenant

The number of Signatories to the Armed Forces Covenant is

8,604

Up from 5,802 in
(2020-21)

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. This promise was strengthened further with a new statutory duty introduced by the Armed Forces Act 2021 for relevant public bodies to give due regard to the principles of the Covenant.

The Armed Forces Covenant Fund Trust (a MOD Non-Departmental Public Body and a charity) has awarded over £50 million to more

²⁴ <https://www.gov.uk/government/publications/uk-armed-forces-families-strategy-2022-to-2032>

than 1,200 projects since 2020, to support the armed forces community across the UK. In 2021-22, the Trust's awards included: £1 million to projects to support veterans impacted by the situation in Afghanistan; £5 million through the Afghanistan Veterans Fund (with the Office of Veterans Affairs); over £1.6 million in small grants that enable veterans and service families to access better support locally; over £9 million to develop and deliver better local support for veterans with mental health needs; and £5 million to support existing charitable services that were already used and valued, where these regular activities or projects had been impacted by the COVID-19 pandemic.

Defence Employer Recognition Scheme Gold Awards are awarded to those that employ and support those who serve, veterans and their families. 493 organisations across the UK now hold this Award, providing paid time off for reservists to fulfil their military commitments and with supportive HR policies for veterans, reserves, and cadet force adult volunteers, as well as spouses and partners of those serving in the armed forces.

Allegations of Serious Criminal Wrongdoing

In October 2020, the Secretary of State announced the commissioning of a review by Sir Richard Henriques, to build upon the recommendations of the Service Justice System review (SJSR) by HH Shaun Lyons and Sir Jon Murphy. The aim was to ensure that, in relation to complex and serious allegations of wrongdoing against UK forces on overseas operations, defence has the most up to date and future-proof framework, skills and processes in place, and that improvements can be made where necessary.

Sir Richard concluded that the Service Justice System was broadly fit for purpose.

Focussing on the evolution of the Service Justice System he made 64 recommendations, 20 of these related to the creation of a Defence Serious Crime Unit (DSCU). The initial concept of a DSCU had arose as recommendations from the Lyons / Murphy review, Sir Richard agreed with these and made further operational and functional proposals.

A new post of 'Provost Marshal Serious Crime' was created with amendments to primary legislation to facilitate the appointment, and the creation of the DSCU being completed through the Armed Forces Act 2021.

Commanded by the Provost Marshall Serious Crime, the DCSU Headquarters was stood up in April 2022, its initial focus will be on the continued development and implementation of the DSCU to full operational capability by December 2022.

The Service Prosecuting Authority (SPA)

The SPA restructured its prosecution teams to establish a dedicated Rape and Sexual Offence and Domestic Abuse (RASODA) team, bringing together experienced and specialist prosecutors to deal with these complex cases. There were 51 cases advised upon in 2021, 84% of which received a response within the target of five working days.

The SPA continued to deliver independent, efficient consideration of criminal cases and offences contrary to service discipline, with 314 Court Martials undertaken in 2021 with 71% successful prosecutions. They also dealt with a record number (601) of pre-charge advice requests from the Service Police, 89% of which received a response within 24 hours.

Infrastructure

The defence estate is one of the UK's largest and most diverse property portfolios and managing the estate accounts for approximately 10% of the defence budget. Defence continues to reform the management of this estate with the aim of redressing some long-term challenges.

The Strategy for Defence Infrastructure²⁵, published in January 2022, provides a clear vision to modernise and optimise the estate, to enable MOD to best deliver defence capability requirements and operational outputs. It provides the strategic direction upon which to strengthen long-term estate planning and to improve coherence with the new capability requirements arising from the Integrated Review (IR).

The Future Defence Infrastructure Services contracts across the built estate, accommodation and training estate will deliver key benefits that will enable the delivery of works to be done faster, more reliably and to budget.

A substantial new Permitted Development Right came into effect in January 2022. This allows greater flexibility, speed and cost reduction for infrastructure development in England, enabling 35% more development of workspace and 25% Single Living Accommodation (SLA), without the need for full planning permission.

Defence recognises that the built estate is still too large. Defence will 'right size' the estate to meet its current and future needs. The Defence Estate Optimisation (DEO) Portfolio is key to this estate transformation. A refreshed DEO Portfolio plan reflecting the IR capability

has now been implemented, this includes a detailed 10-year plan.

In December 2021, the MOD closed the site rent review and completed negotiations with Annington Homes. Due to the impact of the pandemic and other challenges, MOD has not been able to meet the 10% void target for families accommodation by March 2022. A revised target date has been agreed as Autumn 2023.

Strategy for Defence Infrastructure/ Objectives:

1. Ensure the right current and future size and location of infrastructure
2. Arrest and reverse decline of estate condition
3. Estate resilient to current and future security threats, natural hazards, and climate change impact
4. Preserve the value of estate assets, improving utilisation (including service family accommodation and SLA) and productivity
5. Ensure living and working environment meet future force needs and support delivery of the Defence Accommodation Strategy
6. Enhance sustainability across the estate
7. Exploit innovation and transform construction and procurement
8. Provide effective and integrated infrastructure skills and capacity to enable defence outputs
9. Build and leverage strong partnerships to support MOD in delivering our objectives

²⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1049769/20220125-Strategy_for_Defence_Infrastructure.pdf

Defence has access to one of the largest estates in the country, accounting for

1.4%
of the UK landmass²⁶

The Defence estate consists of approximately

132,000
assets across
1,097
establishments spread globally

106 hectares

Land released for 2021-22
124 hectares
(2020-21)

£219 million

Gross disposal receipts from confirmed sales in 2021-22
£106 million
(2020-21)

Sustainability

The Defence Climate Change and Sustainability Strategic Approach²⁷ published at the end of March 2021 sets out the department's 2050 ambition, the guiding principles, and the initial plan for adapting its capabilities to a changing climate, reducing, and mitigating our emissions and environmental impact, and increasing our sustainability activity.

MOD Greening Government Commitments (GGC)

A key element in the delivery of the Strategic Approach is Defence's Greening Government Commitments (GGCs). The GGCs set out the actions UK government departments and their partner organisations will take to reduce their impacts on the environment. A new set of GGC are now in place to cover the target period 2021 to 2025.

The MOD's performance for 2021-22 against these new GGC are set out in the table below. The intent is for these commitments to be disaggregated to Top Level Budgets holders and Enabling organisations to drive delivery through a sectoral approach to defence decarbonisation.²⁸ In addition, we continue to progress with the removal of consumer single use plastic from the office estate in line with the ongoing Government commitment.



Army's first solar farm at the Defence School of Transport (DST) in Leconfield, East Yorkshire

²⁶ <https://www.gov.uk/government/statistics/mod-land-holdings-bulletin-2021/mod-land-holdings-2000-to-2021>

²⁷ [Defence Climate Change and Sustainability Approach](#)

²⁸ [Greening Government Commitments 2021 to 2025 - GOV.UK \(www.gov.uk\)](#)

Greening Government Commitment [‡]	Baseline	Past year		Current year		GGC 2025 Targets
	2017-18	2019-20	2020-21 [†]	2021-22 [‡]	Performance against baseline (%)	
MOD Committed Target						
CO ₂ Emissions (Millions of tonnes) Estate	1.26	1.02	0.99	*0.90	(29%)	(30%)
CO ₂ Emissions (Millions of tonnes) Direct Estate	0.57	0.55	0.60	*0.52	(8%)	(10%)
CO ₂ Emissions (Millions of tonnes) Travel	0.08	0.08	0.05	0.06	(27%)	(30%)
CO ₂ Emissions (Thousands of tonnes) Domestic Flights	6.53	8.09	0.81	2.46	(62%)	(30%)
New stream under GGC 2021-25 Framework						
Total Waste (Thousands of tonnes)	#46.52	55.68	46.61	46.27	(0.50%)	(15%)
% Waste to Landfill	15%	3%	5%	2%	N/A	Reducing waste to Landfill to 5% of total waste
% Waste to Recycle	30%	32%	25%	30%	N/A	Increasing recycling to 70% of total waste
Water (Millions cubic metres)	15.24	15.62	15.31	15.23	(0.02%)	(8%)
Paper (Millions of A4 equivalent)	0.94	0.75	0.48	0.46	(51%)	(50%)
New Stream under GGC 2021-2025 framework						
International Flight travel distance (Millions of km)	–	–	–	328	N/A	No target set
Ultra-Low Emission Vehicle (ULEV) (% Fleet)	–	0.2%	7.3%	9.36%	N/A	By 31 December 2021, 25% car fleet to be ULEV

Caveat:

- Approximately 25% of estate emission data in 2021-22 is from MOD energy suppliers' estimations and maybe subject to change.
- # Approximately 10% of the waste data in 2017-18 are estimated due to data availability.
- † Performance has been impacted by COVID-19.
- ‡ Figures are based on a new GGC scope which is different to that used in previous Annual Report and Accounts.

Governance

The new Climate Change and Sustainability Directorate was established and the department's first Director of Climate Change and Sustainability appointed in September 2021. The directorate is responsible for leading defence's engagement on all climate change, climate security and sustainability related activities. The directorate will work closely with the Sustainability Champions in each Top-Level Budget Holder and Enabling Organisation to cohere and coordinate related activity and ensure that sustainability considerations are integrated into defence's policies and processes. Delivery of the Strategic Approach is currently overseen by the second Permanent Secretary and VCDS chaired Defence Safety and Environment Committee (DSEC).

Sustainability Activities

Innovation

Since the publication of the Strategic Approach, investment into innovative decarbonisation and sustainability activity has been increased across the department. The following examples illustrate the breadth of initiatives ongoing across defence:

- The Army are investing through Project PROMETHUS in on-site renewable energy generation opening the first of four solar farms at the Defence School of Transport in Leconfield.
- A new market exploration was launched with the aim of identifying hybrid powertrain technologies for the Royal Navy and Royal Fleet Auxiliary ships.
- Research into ensuring that future offshore windfarms are compatible with crucial military communication capabilities is underway following government investment.

- The Net Carbon Accommodation Programme (NetCAP) will deliver 40 new carbon efficient accommodation blocks, providing more than 1,700 bed spaces across the UK Defence Training Estate. This programme has seen the construction of Defence's first carbon negative buildings.
- In November 2021 the RAF and Zero Petroleum were awarded a Guinness World Record for the world's first successful flight using only synthetic fuel.

Sustainable Procurement

Through the implementation of a social value model and the prioritisation of three of the five social value themes (tackling economic inequality, fighting climate change and equal opportunities) defence has begun to embed sustainability considerations into our procurement decisions.

Defence Standard 00-051 was refreshed in 2021-22, following public consultation, which sets out the standard required for defence suppliers to demonstrate that they have minimised environmental impacts during the contracting for defence systems. The revised version also identifies our commitment to adapt to support the UK's Net Zero commitment as well as the need to use resources efficiently and reduce waste.

Nature recovery

In 2021-22, MOD developed an initial Inventory of Carbon Stocks on the MOD's UK rural estate. Additional projects are planned for 2022-23 including a full natural capital inventory of the MOD estate with a spatially linked decision support tool, plus guidelines for a breadth of activities from woodland creation to balanced biodiversity and carbon sequestration.

MOD holds 169 Sites of Special Scientific Interest (SSSI), which is equivalent to 6% of the UK total and 38% of the MOD estate. This includes:

- 31,000 ha of parkland across 13 National Parks
- 19,000 ha of Areas of Natural Beauties across 33 sites
- 19,500ha of woodland (UK)
- 64,000ha of peatland (UK)

MOD SSSIs	2020-21	2021-22
Total Area (ha)	82,292	82,232
% in Favourable Condition*	48.4%	48.4%
% in Favourable or Recovering Condition*	97.4%	97.4%

*England only

Historic Environment (Heritage)

MOD Listed Buildings	2020-21	2021-22
Total number	839	853
Good Condition	59%	61%
Moderate Condition	30%	29%
Poor Condition	8%	8%
Unassessed	3%	2%

MOD Scheduled Monuments	2020-21	2021-22
Total number	781	771
Good Condition	38%	40%
Moderate Condition	40%	42%
Poor Condition	20%	14%
Unassessed	2% ¹	3%

¹ Scheduled Monuments with unknown condition are now defined as Unassessed and this year have been separated out from Poor Condition, which were grouped together in MOD ARAc 2020-21 publication.

²⁹ <https://www.gov.uk/government/publications/national-infrastructure-strategy>

Sustainable Construction

The vision for high quality, sustainable, resilient infrastructure set out in the National Infrastructure Strategy²⁹ is central to MOD's ongoing commitment to the sustainability of its built assets. Work progresses to strengthen energy targets for new builds and major refurbishments to meet the sustainability targets in the Strategy for Defence Infrastructure (SDI).

ICT and Digital Service Strategy

We have drawn on the Greening Government: ICT and Digital Services Strategy, to develop our own Strategic Framework for Sustainable Digital Technology and Services which was published in June 2021. A Sustainable ICT implementation plan is in development which will support the MOD's corporate climate change and sustainability initiatives. Specific decarbonisation activity includes: a rationalisation programme to close on-premises data centres and move services to the Cloud; the letting of a contract for a managed print service that will reduce device numbers, paper usage, energy consumption and waste; and extending the life of over 10,000 laptops to reduce Scope 3 carbon emissions, cost, and waste.

Defence Carbon Footprint

This year is Year One for a new GGC framework running from 2021-25. This has provided the opportunity for defence itself to widen the scope of the GGC's to cover all UK establishments.

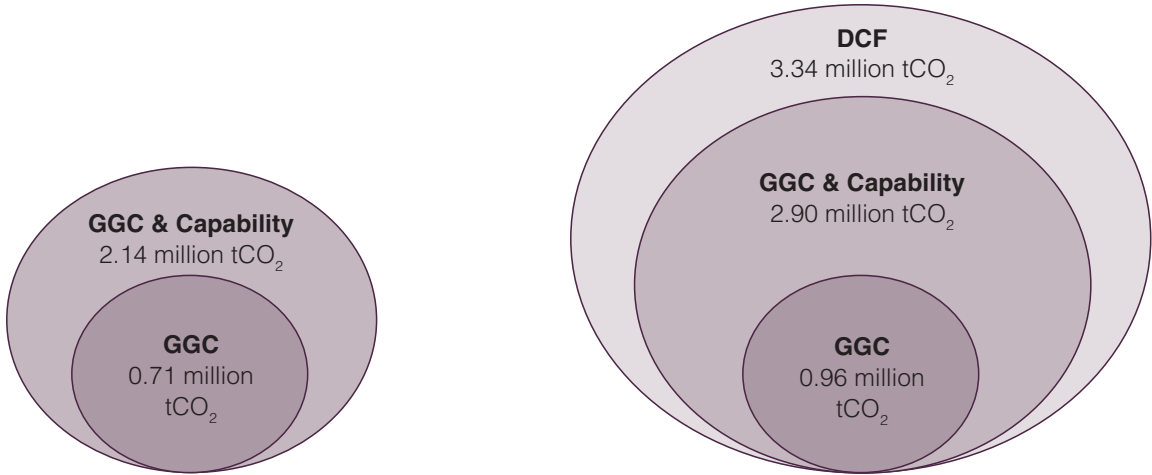
Additionally, we have expanded our reporting of our carbon emissions to ensure that our

future decarbonisation activity is underpinned by a comprehensive baseline. This expanded baseline is aligned to the Green House Gas Protocol and covers emissions that defence can directly influence across Scope 1, 2 and 3. An illustration of how this has changed the reporting from the GGC's to the new Defence Carbon Footprint (DCF) is below:³⁰

Illustration showing expansion of carbon emission reporting

2020-21 MOD Carbon Emission reporting

2021-22 MOD Carbon Emission reporting



Prior to 2021-22, Defence carbon emission reporting only covered GGC and Military Capability Fuels only.

From 2021-22 onward, Defence in addition to reporting its emissions covered by the GGCs and Capabilities will also be reporting its Defence Carbon Footprint (DCF)

³⁰ Defence Carbon Footprint cover emission that defence can directly influence including: Scope 1 (Estate fuels, Military capability fuels, Fugitive gas leak); Scope 2 (Estate Electricity) and; part of Scope 3 (All aspect of business travelling both domestics and International, Employee commuting, Waste, Service Family Accommodation energy).

Sustainable Development Goals

United Nations Sustainable Development Goals ³¹	Priority Outcome	Links to Goals
	<p>PO1 – Protect the UK and its Overseas Territories</p> <p>PO2 – Enhance global security through persistent engagement and response to crises</p> <p>PO3 – Understand and counter state and non-state threats</p> <p>PO4 – Contribute to NATO collective deterrence and defence</p>	<ul style="list-style-type: none"> • UK Security • Cyber Security • Military Aid to the Civil Authorities • Building Partners capability and Defence Engagement • Global Networks • International Training Places • Human Security • Official Development Assistance • Intelligence
         	<p>PO5 – Modernise and integrate defence capabilities by taking a whole force approach to our people and increasing the use of technology and innovation</p>	<ul style="list-style-type: none"> • Defence Security and Industrial Strategy • Shipbuilding • Levelling Up • Procurement and Acquisition • Research and Development • Defence People Strategy • Infrastructure • Greening Government Commitments • Nature Recovery

³¹ <https://sdgs.un.org/goals>

Enabling Outcome 1

Transform and Manage Defence

Our focus on exploiting technology at pace, an evolving global threat picture and modernising our approach to our finest asset – our people – must be matched by changes we need to make to transforming our ways of working. Our Defence Transformation Portfolio has consisted of the department's most important, and impactful programmes from across the key areas of people, digital, support, acquisition, empowerment, and operations. In 2021-22, we have made progress in delivering our Integrated Review commitments to transforming and managing defence by delivering value through:

- Our People portfolio which has introduced a new strategic workforce planning system, focussing on the whole force, which has also been effectively integrated with our financial planning. We also successfully established the Reserves Forces 30 implementation programme, enabling us to ensure that the priorities of reserve forces across all three services are on track.
- Our Digital portfolio where we have launched an associated skills assessment, as well as introducing three new learning pathways. This will help individuals reach their potential and support continued professional development, whilst enabling a capable, skilled, and agile workforce. One of our key enablers of digital transformation is the implementation of cloud services. It provides us with UK-hosted data which can be accessed over a secure connection, protected by identity management and

a suite of other cyber security tooling. This will allow use of an increasing number of powerful applications.

- Our Empowerment programme which is promoting the importance of empowerment across the department and introducing new ways of working to increase our defence outputs.
- Our Operate Portfolio established the Multi Domain Integration Change Programme approach. This will help to drive operational benefit in 2022.
- Our Support portfolio, where we are driving improvements in logistics, engineering and equipment which includes improved reliability of systems and data, enhanced productivity of our workforce and greater resilience across defence support. Two years in, we have laid strong foundations that will greatly improve business intelligence, enhance data quality, and achieve efficiencies.
- Our acquisition portfolio will develop an agile commercial toolkit which will enable the tailoring of programme methods across defence towards acquisitions and approvals, ensuring alignment in approach and a unified endeavour.

Work continues with functional owners to enhance the governance, controls, and systems, required to drive transformation, compliance and coherence across defence through the Defence Operating Model (DOM) process. Our focus is now on improving clarity and embedding the authorities and

accountabilities across defence and ensuring there is a common understanding of governance across the department. In 2021-22, we have;

- Maintained and updated the DOM and reviewed and assured compliance across defence.
- Supported the development of each function's governance processes, consultation mechanisms and accountability.
- Developed the required top-level governance process to embed functional leadership within defence, enabling it to (begin to) deliver the expected transformational benefits.
- Overseen and embedded sponsorship of MOD's 12 enabling organisations, who operate fully within MOD but at 'arm's length' from Head Office.
- Overseen and developed defence's public appointments policy, ensuring public appointments are made in a fair and transparent way in line with overarching government policy.



Irish Guards on Parade at Mons Barracks

David Williams CB

Accounting Officer

11 July 2022

A portrait of Captain Preet Chandi upon her arrival to Heathrow Airport after her successful solo expedition to the South Pole



Accountability Report

For the year ended 31 March 2022

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 2021–22. They also include detail on the number of meetings attended during the year.

Ministerial Members of the Defence Board		
Ministers	Role	Defence Board
The Rt Hon Ben Wallace MP	Secretary of State for Defence	5 of 6
Baroness Goldie DL	Minister of State in the House of Lords	6 of 6
Johnny Mercer MP (to 20 April 2021)	Minister for Defence People and Veterans	0 of 0
Leo Docherty MP (from 21 April 2021)	Minister for Defence People and Veterans	5 of 6
James Heap MP	Minister for the Armed Forces	4 of 6
Jeremy Quin MP	Minister of State for Defence Procurement	5 of 6

Non-Executive Board Members	Role	Defence Board	People Committee	Defence Audit and Risk Assurance Committee
Brian McBride	Non-Executive Board Member	6 of 6		
Simon Henry ¹	Non-Executive Board Member	5 of 6		6 of 6
Danuta Gray (to 31 July 2021)	Non-Executive Board Member	2 of 4	2 of 2	
Kate Guthrie (from 1 January 2022)	Non-Executive Board Member	2 of 2		
Robin Marshall	Non-Executive Board Member	6 of 6		
Tracy Myhill (from 10 June 2021)	Non-Executive Member		2 of 2	
Helen Miles (to 30 June 2021)	Non-Executive Member			2 of 3
Tim Walton	Non-Executive Member			6 of 6
Paul Smith	Non-Executive Member			6 of 6

¹ Simon Henry stepped down from his role in April 2022 and a replacement is pending.

Executive Members of the Defence Board, Executive Committee and DARAC	Role	Defence Board	Executive Committee (ExCo)²	Defence Audit and Risk Assurance Committee
Sir Stephen Lovegrove KCB to (to 5 April 2021) ¹	Permanent Secretary	0 of 0	0 of 0	0 of 0
David Williams CB (from 6 April 2021)	Permanent Secretary	6 of 6	8 of 8	5 of 6
Laurence Lee (from 3 June 2021)	Second Permanent Secretary	5 of 6	3 of 4	
General Sir Nick Carter GCB CBE DSO ADC Gen (to 30 November 2021)	Chief of the Defence Staff (CDS)	4 of 4	6 of 6	
Admiral Sir Tony Radakin KCB ADC (from 30 November 2021)	Chief of the Defence Staff (CDS)	2 of 2	2 of 2	
Admiral Sir Tim Fraser KCB ADC	Vice Chief of the Defence Staff (VCDS)	4 of 6	8 of 8	
Charlie Pate	Director General Finance	6 of 6	8 of 8	5 of 6
Air Marshal Richard Knighton CB (to 11 May 2022) ³	Deputy Chief of the Defence Staff (Financial and Military Capability) (DCDS(Mil Cap))		4 of 6	

Executive Members of the Defence Board, Executive Committee and DARAC (continued)	Role	Defence Board	Executive Committee (ExCo)²	Defence Audit and Risk Assurance Committee
Lieutenant General Doug Chalmers DSO OBE (to 17 April 2021)	Deputy Chief of the Defence Staff (Military Strategy and Operations) (DCDS(MSO))		0 of 0	
Lieutenant General Charles Walker DSO (from 17 April 2021)	Deputy Chief of the Defence Staff (Military Strategy and Operations) (DCDS(MSO))		6 of 6	
Lieutenant General James Swift	Chief of Defence People (CDP)		5 of 6	
Mike Baker CBE (to 31 January 2022)	Chief Operating Officer (COO)		3 of 6	
David Blackall (temporary (from 6 Jan 2022) ⁴	Chief Operating Officer (COO)		0 of 0	
Charlie Forte	Chief Information Officer (CIO)		6 of 6	
Angus Lapsley (to 16 July 2021)	Director General Strategy and International (DG Strat & Int)		2 of 6	
Damian Parmenter (from 16 August 2021)	Director General Strategy and International (DG Strat & Int)		0 of 0	
Dominic Wilson	Director General Security Policy		6 of 6	
Vanessa Nicholls	Director General Nuclear (DG Nuclear)		3 of 6	
Prof Dame Angela McLean	Chief Scientific Adviser (CSA)		6 of 8	

- 1 Sir Stephen Lovegrove KCB continued to discharge the Accounting Officer role until 5 April 2021.
- 2 Terms of reference and composition of the Executive Committee (Ex Co) changed on 13 Dec 2021. ExCo moved to monthly meetings and membership updated to PUS, CDS, VCDS, 2PUS, DG Fin, CSA and DG Delivery and Strategy. DG Delivery and Strategy is a new post and is currently vacant.
- 3 Lieutenant General Robert Magowan took up the post of DCDS Mil Cap on 11 May 2022
- 4 Nina Cope replaced David Blackhall as COO on 6 June 2022.

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 Interest³²

The names and titles of all ministers and senior officials 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 or key manager has undertaken any material transactions with the Ministry of Defence during the year.

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 31 March 2022.

³² Section relates to IAS24 – Related party transactions

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
June	A promotion list was shared outside MOD via email and WhatsApp.	Names and station location, current and promoted rank	1,182
August	Internal guidance on how to deal with media enquiries concerning conduct of a service person were released on social media.	Information on alleged conduct of an individual	1
September	Sharing of e-mail contact details through a distribution list of individuals seeking Afghan Relocations and Assistance Policy (ARAP) support	Names and email addresses	245
September	Sharing of e-mail contact details through a distribution list of individuals seeking ARAP support	Names and email addresses	55
October	Disclosure of personal data through incorrect access to online data collection	Name, email address, other contact details	1
October	Sharing of e-mail contact details through a distribution list of individuals seeking ARAP support	Names and email addresses	13
November	Details of disciplinary cases of service personnel leaked to the press.	Names, disciplinary case details	3
January	A non-MODnet system was infected with malware.	Names, Rank, Dates of birth, Marital status, Passport number, Nationality, Travel information, Photographs, Passwords	263
February	Sharing of e-mail contact details through a distribution list of individuals seeking ARAP support	Names and email addresses	10
March	An individual shared the content of a service complaint they had raised.	Names, ranks, allegations against individuals	22
March	Details of Army recruitment candidates were leaked to the dark web by twitter activists.	Names, e-mail addresses, mobile phone, login details	124
March	A laptop, notebook, and electronic storage device were stolen.	Names, witness statements, witness interviews.	10
	Total number of incidents is 12		

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	2021-22	2020-21
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	36	27
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	13	7
III	Insecure disposal of inadequately protected paper documents.	2	2
IV	Unauthorised disclosure.	482	479
V	Other.	47	37
Total		580	552

The MOD takes the security of its personnel, data and establishments very seriously. Every data incident reported, including near misses, is investigated to determine the root cause and the MOD Data Protection Officer’s team works with business areas to reduce the likelihood of re-occurrence. As most of the incidents relate to human error, training and awareness activities are regularly undertaken to continuously improve staff knowledge and understanding of the data protection principles and the processes and procedures that must be followed to secure data.

MOD, through its Cyber Defence and Risk Directorate, is working to drive down cyber risk on a number of fronts. Examples of what is being done to reduce risk are annotated below:

- Cyber security policies have been updated and re-written to make them clearer and more usable.

- The Secure by Design programme is modernising accreditation and reinforcing the accountability for cyber security of project managers and system owners.
- The Awareness, Behaviours and Culture campaign is promoting good cyber security behaviours across the whole of Defence with campaigns focussed on sharing of information, the use of social media, clicking on links and use of USB devices.
- A new document labelling tool, which forces users to correctly label emails and documents has been successfully trialled and is being rolled out across wider MOD. This should significantly reduce the number of unauthorised disclosures.

This approach enables a culture of proactive risk management and appropriate security consideration in all aspects of our work, connecting cyber security principles, roles, processes, tools and techniques to achieve secure systems.

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 2021 No.1441 (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.

David Williams CB was appointed as the Permanent Secretary and the Accounting Officer of the Ministry of Defence by the Permanent Secretary of HM Treasury, on 6 April 2021. The former Permanent Secretary Sir Stephen Lovegrove, continued to discharge his Accounting Officer role until 5 April 2021.

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 (AOSS).

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 Accounting Officer until my arrival on 6 April 2021. I have taken all of 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 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 continued to have an impact on the way we worked in the Ministry of Defence. As an employer the MOD has an obligation to maintain a safe working environment for all personnel. We continued 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 continued to hold regular all staff calls throughout 2021-22.

We continued to work closely with Defence Prime Contractors in order to manage the impact of the COVID-19 pandemic and the return to more normal ways of working and our response to the Russian invasion of Ukraine. This has included regular gathering of supply-chain risk and fragility data from primes, allowing us to safeguard critical defence outputs. As a result, we have 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 have continued to discharge their responsibilities to second, third and fourth tier suppliers.

Following an initial review of the top level governance structure, the Defence Delivery Group (DDG) has taken on oversight of delivery in MOD governance and will be supporting the Defence Board by identifying and taking steps to address risks and issues that affect the delivery of defence outputs. The Executive Committee has moved to a monthly reporting cycle focusing on directing and refining the strategic function of the department. The Executive Committee will work closely with the DDG in support of the delivery function. The ongoing Head Office Review will continue to implement further recommended changes. There are further workstreams underway, due for implementation over the course of this year.

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 broadly 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, which are detailed in the sections that follow along with the actions we are taking.

Significant Control Risks

The Department identifies several control risks which have the potential to affect the control environment should they occur. These risks are identified and monitored through the Annual Assurance Reporting (AAR) and holding to account processes. Our review of these risks takes in to account the impact of global events such as the conflict in Ukraine and rising inflation in the global financial

market as well as other factors. The following sections detail these risks:

Workforce and Skills

There is a risk that the lack of a coherent pan defence strategic workforce plan leads to skills gaps and recruitment and retention challenges, which has a direct impact on the ability of the department to deliver agreed outcomes. Prior to 2021-22, workforce planning was controlled top down, through input controls on the overall size of workforce, which largely removed TLB incentives and freedoms to specifically design a workforce against outputs. There was little or no demonstrable and deliberate co-ordination between internal stakeholders on workforce planning and holding to account. Also there was a lack of a common skills framework and taxonomy across whole-force workforce.

Defence's Strategic Workforce Planning (SWP) process now provides Top Level Budget (TLB) holders the freedoms and incentives to design their whole-force workforce to maximise outcomes while, driving value for money and productivity and has locked workforce planning into the Annual Budgeting Cycle and Defence Force Development. Our new approach to SWP is iterative and provides agility to respond to new workforce challenges to mitigate risk. We can now bring together the workforce picture and develop pan-defence interventions to assure we have the right people, at the right time, in the right location to deliver defence outputs.

Our work over the last year has set the foundation to better understand new capabilities and align with future workforce skill requirements to deliver competitive advantage in the digital era, and lever modern technology so that our workforce becomes more efficient and productive. It also provides

the opportunity to respond to wider government reform agenda through initiatives such as Places for Growth, Levelling Up and improving flexibility and adaptability.

We are working across functions and professions to establish annual SWP maturity assessments, providing skills insights on future workforce trends in the wider industry and labour market to identify potential gaps early. We will also continue to engage with the Civil Service Reform agenda and work with the Government Skills and Curriculum Unit (GSCU), to take full advantage of the case for upskilling and available learning that strengthens core skills such as leadership, and Commercial UK Public Procurement Reform needs, Contract Management skills to reduce contract leakage and overspend. The outputs from this work will provide more granular data on the skills that our employees have, improving our ability to more readily identify skills gaps and creating opportunities for more efficient job/skills matches across the MOD and career development of our people, as well as allowing us to access and use a greater range of levers to meet any skills gaps.

From TLB workforce plans we have now distilled several cross-cutting risks, opportunities and wider dependencies to be integrated into departmental plans and activity, including the Armed Forces Reward and Incentive Review (AFRIR) which will take a holistic, agile and differentiated approach to all the financial and non-financial parts of the Offer, developing a Civil Service Workforce Strategy, and also the Pan-Defence Skills Framework (PDSF). The acquisition and retention of key skills is a common theme, with critical skills collectively highlighted including nuclear, science and engineering, digital and cyber, commercial, medical, programme and project delivery. We are now

developing a pan-defence whole force skills picture over 5 and 10 years, drawing on TLB Plans and major transformation programmes. There is also work ongoing on Civil Service Modernisation and Reform priorities, such as improving flexibility and adaptability and reducing reliance on contingent labour within our resourcing strategy. Opportunities for further automation are to be investigated and aligned with our strategic intent of ensuring we have the right workforce to deliver Defence outputs.

Commercial Capability and Governance

There is a risk that a lack of staff with commercial delegation holding the required level of professionalism and having the required skills to contract effectively leaves the MOD with less ability and leverage to be an intelligent customer to Industry. Raising the capability and capacity of MOD commercial staff remains a key focus for the function.

The Department remains on track to ensure all staff holding a commercial delegation will be commercially accredited by March 2023.

Raising the professionalism is supported by the successful transition of training and assessment to virtual platforms. We have a comprehensive plan to ensure our capability targets are met. However, accreditation of staff at Grade 7 and above is dependent upon the capacity of Government Commercial Office.

Progress against the targets is rigorously monitored through a new monthly Defence Commercial Capacity and Capability Dashboard. The risk is further reduced through the Succession Planning process that is in place for critical posts.

Significant investment continues to be 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 including non-commercial staff responsible for the management of key contracts and supplier relationships. By April 2022, over 5,500 staff have accredited at Foundation level and 150 candidates have been put forward for higher level training.

Strategic Suppliers and the Supply Chain

The Equipment Plan and maintenance of military capability relies on a significant national and international supply chain. This will remain a significant control risk until global economies have settled to new normal following the COVID-19 pandemic, and once the full impact of the current conflict in Ukraine and of rising inflation are fully understood and assessed.

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 has been completed to understand and plan for our new relationship with the European Union and the impact of COVID-19 and mitigate risks with our strategic suppliers and our extended critical supply chain. We continue to invest in a Department wide programme designed to map and understand our most-critical supply chains. We are collaborating across government and internationally to share intelligence and best practice on common critical supply chains and materials. We operate a robust end to end supplier fragility process which has strengthened the monitoring, understanding and mitigation of risks in our supply chains.

With our strategic suppliers, our Strategic Partnering Programme has continued to provide a framework for the engagement, supporting Delivery Agencies to address programme performance concerns, promoting more co-operative and collaborative ways of working. Through building stronger and more effective relationships between the Department and its strategic suppliers the programme has promoted greater levels of mutual understanding and transparency.

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. Our collective engagement with industry through the Defence Supplier Forum (DSF) is operating effectively and was a key enabler to our response to COVID-19. The DSF is also used to engage with Industry on the implementation of the Defence Security and Industrial Strategy (DSIS) review and Acquisition Reform.

Digital and Cyber

Digital

Our primary risk in delivering transformative digital capabilities to Defence is an identified weakness around business rigour and the need to establish common standards, governance and processes to deliver safe and secure improvements in efficiency and cohered investment aligned to our strategic intent. As a result, we have implemented a programme of work that has delivered tangible outcomes in our business rigour including stabilising our Defence Major Programmes Portfolio (DMPP)/Government Major Projects Portfolio (GMPP) programmes.

These controls include: a Quarterly Performance Review Process with external NEDs in addition to Monthly Management Boards, to drive business performance and rigour; support to Governmental Functional oversight through the Central Digital and Data Office (CDDO) Quarterly Business Review; establishing a Quarterly Business Rigour session with Finance, Scrutiny and Commercial professionals to identify best practice and areas for improvement. The positive improvement in the management of programmes has also helped to identify legacy issues in some of our long-term programmes. As a result, we have developed plans to address the issues identified.

This year we have focused on developing and embedding our Digital strategy and the related delivery plan to build capability and embed new levels of process/control maturity. In April 2021 we published a new Digital Strategy for Defence which has been followed by supporting sub-strategies e.g. the Data Strategy for Defence and the Cyber Resilience Strategy. TLB digital sub-strategies are also being refreshed to build alignment and cohesion.

Our ability to deliver our strategic goals has further been supported through the Integrated Review financial settlement which gave us the ability to plan on a longer-term horizon and to begin implementation of the steps we must take to put in place the enablers of a Digital Backbone. Multi-year funding is now in place for key activities in our transformation portfolio which has, at its core, an integrated set of themes in 1) People, 2) Process, 3) Data, and 4) Technology. We continue to work on the Digital Foundry, a key foundation of the Digital Theme in the Integrated Review and which is needed to enable fast paced and at scale exploitation of the technological/data game-changers.

Cyber

Addressing cyber risk is one of the Department's top priorities and a robust disaggregated risk approach has been embedded across Defence with centrally funded cyber risk managers augmenting local teams. This year Top Level Budgets (TLB)/ Enabling Organisations (EOs) have made good progress identifying critical systems and understanding the cyber risks associated with them. An industry-standard cyber compliance framework is also in place to ensure we understand the effectiveness of our response plans which are detailed in a new cyber resilience strategy.

In the operational environment, the implementation of Cyber Mission Assurance (understanding the cyber risk to each of our core operations) has continued to grow in maturity and scope within the Front Line Commands, Defence Digital Ops and Permanent Joint Headquarters (PJHQ). This approach has given operational commanders a much greater understanding of the cyber risk they are exposed to, and the priority remediation activity needed. Our risk response plans cover people, process and technology and their scope extends from our frontline forces operating globally down into our extensive supply chain.

Three defensive cyber programmes provide the primary risk mitigations; Cyber Resilience Programme, the Defensive Cyber Operations (DCO) Programme and the Joint Crypt-Key Programme. DCO specifically ensures that planning and execution of defence missions and tasks are subject to rigorous cyber risk assessment and mitigation. The recent events in Eastern Europe have heightened the importance of this activity. The Defence Board Cyber Security and Resilience risk has been refreshed to make it more specific,

bounded and with clear measures of success linked to response plan outcomes. This risk is overseen through the Cyber Defence & Risk (CyDR) team in MOD with further Governance being exercised through the 3* Cyber Resilience Oversight Board and informally through engagement between CyDR and TLB/Enabling Organisations teams.

Acquisition

Project and Programme Management

The department needs to drive increased pace and agility into acquisition so that we can respond to evolving threats and rapid developments in technology. In this context, resourcing of acquisition projects and programmes with sufficient qualified and experienced project delivery professionals remains a challenge. There are a large number of vacancies in project delivery roles in defence, reflecting recruitment and retention difficulties and a similar picture in this area across government.

We are embedding the changes delivered through acquisition and approvals transformation and driving further reform and continuous improvement across the acquisition system in support of Integrated Review (IR) and Defence and Security Industrial Strategy (DSIS) objectives. This includes a range of mitigations led by the Project Delivery Function to address the resourcing challenge including the creation of talent and career management for senior project professionals, and the recruitment of a Senior Responsible Owner (SRO) Pool.

Health and Safety – Lessons Learnt from Ajax Programme

The Health Safety and Environmental Protection Review of Noise & Vibration in the Ajax armoured vehicle found weaknesses in

our acquisition processes. The result was that personnel worked on a vehicle that had the potential to cause harm and that we failed to seize opportunities earlier to keep the programme safely on track. The Review found that the failure was complex and systemic; a culture exists of not treating safety as equally important as cost and time in the acquisition process; and from a cultural perspective, the Army did not believe it was potentially causing harm to people, especially from vibration, as it was tacitly expected that soldiers can and should endure such issues. Overall, the report made 20 recommendations which included measures focussed on improving the consideration of safety within assurance and approvals process for projects within the MOD.

Implementation of the report's 20 recommendations is now underway. Some have already been implemented in full, for example the Army has stood up its noise and vibration working groups; future trials of armoured vehicles will have real-time measurement of noise and vibration; and we were already taking action to ensure our Senior Responsible Owners (SROs) and project leads stay in post longer. The remainder are being progressed. We continue to consider the recommendation relating to the overlap of demonstration and manufacture stages to ensure it is implemented in a way that does not hinder our efforts to create a more agile approach to defence acquisition, consistent with the Defence & Security Industrial Strategy, and which reflects the industrial processes in different sectors.

Security of Information and Assets

Mishandling information is an ongoing risk for MOD which can have serious consequences, for individuals, for MOD and for partners.

It is vital that all information assets are appropriately protected and handled at all stages from creation, through-life to destruction. MOD relies on its information and the systems which process it for the delivery of its core business and operations. All personnel must handle and protect information in accordance with its classification which includes storing and processing it on devices authorised to hold it. This includes only sharing information with those who have a need-to-know.

Security culture and awareness of MOD personnel is therefore critical and extensive work is being delivered to drive modern campaigns to raise security awareness and measure security culture. Security policy has been refreshed in order to provide clearer instructions and guidance for MOD personnel. MOD is implementing technology in order to support the easy classification and handling of information including data loss prevention.

The Chief Data Officer (CDO), as part of an integrated Defence Digital team, fully recognised that the data compliance, training, culture, and behaviours across Defence were not as developed as required, in order to conduct data centric and reliant missions. This was immediately addressed in line with the Data Strategy, positioning secure data as the core asset that enables operations. Defence Digital (DD) is committed to the delivery of secure data services in support of operations. The recent events demonstrate the critical importance of Data Protection, Information Security good Data Management, Governance and Culture. The CDO via the Data Strategy and supported by the Digital Foundry, has created the foundations that enable the data environment of the future. The strengthening of these foundations as directed by this strategy, supported by the increased focus on training will greatly reduce

the risks associated with similar scenarios and deployments.

Behavioural insights tell us that training will only prove effective if routinely reinforced in a supportive culture. This has been particularly challenging during COVID-19. A Cyber Awareness Behaviours & Culture team has been established and is using behavioural science to deliver general awareness training and targeted interventions to help improve security behaviours. We are also developing an integrated culture plan which includes major campaigns, a regular drumbeat of blogs, articles, and announcements reiterating the importance of security, together with mainstreaming, which is attempting to integrate security into key Defence policies and processes, so that security becomes designed-in from the outset, rather than an additional last-minute hurdle.

Business Resilience

There is a risk that delivery of critical defence outputs could be impacted should there be a failure of business resilience and continuity responses designed to meet potential threats. Defence has well established policies for Resilience and Business Continuity, including processes for identifying, assessing and reporting on Defence Critical National Infrastructure which are essential to the delivery of our most important outputs. Our policies focus on identifying our critical activities, assets and people and ensuring appropriate business continuity planning is in place.

Defence's business resilience to COVID-19 proved to be broadly effective in the face of the unique challenge of the pandemic. Reviews of how Defence coped with COVID-19 showed that Business Continuity planning was adaptable and appropriate. A

number of lessons were identified through these reviews and we are reviewing and adjusting our resilience policies and processes as a result.

Defence is developing an updated approach to Defence Resilience that will focus attention on the resilience of critical Defence outputs and will align with the objectives of the Government's proposed National Resilience Strategy, a product of the Integrated Review.

In response to the COVID-19 lessons, Defence's Resilience policy is being updated and will be broken out of The Defence Manual of Security and Resilience into its own dedicated policy document. The new Defence Manual of Resilience will be launched in 2022-23. In addition, to support the new policies an expanded Resilience team is being recruited to provide greater assurance for Defence Resilience.

Estates and Infrastructure

The primary estate risk is that declining infrastructure condition starts to adversely impact on the generation or operation of military capability. This is complicated by the age, complexity, and geographical dispersal of the estate; by the scale of the deferred maintenance backlog; and by the impact of current supply chain cost inflation and materials availability. Estate intelligence and infrastructure delivery capacity remain internal control challenges. Addressing this is a long-term challenge.

Estate Strategy and Sustainability

Firstly, Defence continues to reform its management of the Estate. The new Strategy for Defence Infrastructure (SDI) was published in January 2022 as part of continued work to mature the Infrastructure Function across Defence. SDI sets out our ambition for a

transformed estate that is alive to security threats and the impacts of climate change; that is designed to meet the needs of Defence capability and our people today and in the future; and that assists in delivering Department decarbonisation and wider sustainability commitments. The strategy will be used to drive change and to continue to develop our Infrastructure Function, so that we effectively address the most pressing risks to military capability arising from our estate.

The Department is on track to develop and integrate asset management processes, systems and data sets into the Infrastructure Function, working towards an ISO55001 maturity level 3 competence by the end of 2025; a target benchmarked against industry and other Departments of similar scale and complexity.

Defence's Spending Review settlement provided 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, starting with our most critical assets. Our delegated operating model continues to allow Front Line Commands (FLCs) to also make balance of investment decisions across equipment, people and infrastructure, to best meet their capability needs. The Future Defence Infrastructure Services (FDIS) contracts, which enter service in 2022, are an important step in enabling TLBs to deliver condition improvements.

Estate Optimisation

Defence recognises that part of the risk is that our built estate is not yet optimised and has committed in the Strategy for Defence Infrastructure to delivering an affordable, appropriately sized and configured estate to enable defence capability.

The department continues to review the Estate to ensure it is appropriately located, resilient and sustainable and that it provides value for money. This includes disposing of assets and sites that we no longer require. The Department has already disposed of over 200 surplus sites since 2015, realising forecast receipts of over £1 billion. We have established key relationships with local authorities and communities. We continue to work with the Infrastructure and Projects Authority and our specialist advisers to improve development opportunities of each disposal site, and we use reference class data to ensure that the costs of site preparation for disposal are better understood, matured, and factored into project planning and estimating. Our estate optimisation will make substantial long-term savings in running costs, reduced maintenance and life-cycle replacement. We also actively collaborate with OGDs to meet wider Government initiatives wherever possible.

The Defence Estate Optimisation (DEO) portfolio is our largest estate optimisation intervention. It is now fully funded. Over the next decade DEO will invest in core MOD sites across the UK, building and refurbishing over 25,000 military homes and single living accommodation bed spaces, as well as specialist training, office space, workshops, firing ranges, hangars, and medical centres. The Portfolio has conducted significant schedule and cost model re-baselining, to align with the capability requirements set out in the 2021 Integrated Review. A new Delivery, Commercial and Procurement strategy to be launched in Summer 2022 will deliver key benefits from early engagement with industry using modern procurement mechanisms which match industry best practice. The Department is also refreshing building design standards to ensure that it constructs more cost-effective, modern and capability-aligned assets which meet both the

military requirement and the expectations of Defence personnel.

Transformation

Without the engagement and coordination across multiple organisations, the Department will not be able to deliver the financial and non-financial benefits of transformation, both in the short-term and long-term. In order to improve our understanding of the forecasts and ensure successful delivery of financial outputs, we have implemented several strands of activity, including monthly Senior Level Efficiency Coherence Groups and Director General-chaired Finance Deep Dives with both TLB and sub-portfolio attendance. These provide an opportunity to scrutinise the latest quarterly financial benefit forecasts and hold sub-portfolios to account. Separately, sub-portfolios report through their functional boards, such as the Acquisition Board and Support Board to raise and escalate any issues or risks as appropriate.

The Department continues to strive to bring greater cohesion to the transformation portfolio, including documented review and agreement between all stakeholders on the forecasts, and how collectively we will deliver against our SR target.

The Transformation Directorate works closely to support teams in the identification, mitigation and management of potential risks to transformation delivery. This is done via the monthly submission of programmatic risk data, which is reviewed and scrutinised at a senior level and escalated where appropriate. This is supported by analysis of cross cutting risks at a departmental level through forums such as the Transformation Executive Steering Group and 3* Finance Deep Dives, which enables Defence Transformation to effectively manage risk to delivery of both financial and non-financial benefits.

Additionally, teams have their own risk management plans. These have clear roles and responsibilities, escalation routes identified and clear approaches to risk management, with an overall aim to plan and execute responses to reduce the likelihood of threats to programmes and their expected benefits.

Through our Transformation programme we are also embedding an improved approach to identifying and developing efficiencies, which we hope to conclude in mid-2022-23. This will allow greater insight into the risks and maturity of these efficiencies, ensuring we focus on delivering the fundamental changes to ensure we remain at the cutting edge, as well as meet the commitments we have to balance our budget.

Financial Controls

Difficult decisions have been taken to manage risks around the Equipment Plan and in conjunction with £16.5 billion additional funding in Spending Review 20, Defence has delivered a plan that is affordable, as outlined in the Equipment Plan 21 report. Financial risk management has continued to improve, enabling the Department to identify and treat risks to financial outcomes more effectively. We also have savings targets built into our budget, and we will continue to carefully monitor delivery against these targets, and to develop plans to meet them.

The Department recognises the potential threat posed by rising inflation to financial assumptions in the spending review and equipment plan. There are some existing measures in place to limit the impact of inflation including forward purchase of foreign exchange, firm price contracts and purchase of long-lead items. MOD also builds levels of contingency and risk into the budget and equipment plan. However, if current levels of

inflation are enduring then further reviews of long-term financial plans and assumptions will need to be undertaken.

The Finance Functional Leadership programme continues to make progress in standardising financial controls and improving the consistency and quality of financial outcomes. In 2021-22 the FFL programme developed and commenced rollout of a Service Delivery Model which has been agreed with all business units. The model addresses 4 key elements (Strategic Head Office, Finance in the Business, Centres of Excellence and Defence Business Services) and will drive greater consistency in organisational structure and build stronger finance communities and linkages with the wider Government Finance Function. Compliance with the finance internal control and assurance framework continues to improve with performance in excess of the 90% target reported throughout 2021-22. These and other improvements enabled the function to achieve a Substantial Assurance (previously Limited) assessment for the first time in the 2021-22 annual assurance report.

The Department complies with the suite of Cabinet Office controls, including changes to the scope of controls during 2021-22 which impacted on approvals for Consultancy, Contingent Labour and Professional Services.

The Department will be discussing and agreeing with HM Treasury during 2022-23 the arrangements for the handling and disclosures associated with compensation payments made under common law principles. This will include consideration of the Department's delegated authority in this area.

National Audit Office Management Letter

The NAO Management Letter on the audit of the 2020-21 MOD financial accounts reported a significant improvement in the quality and robustness of the accounts and supporting evidence. This reflected improvements in the Department's management of the Statement of Financial Position including timelier and more effective asset verification and reclassification of assets on entry into service with the latter supported by a new management information dashboard.

The NAO continued to report weaknesses in the timely communication between some TLBs and functions and in the quality of the data held on infrastructure assets and the associated reliance placed on the work of the Valuation Office Agency. In respect to the latter, senior level engagements have been held with the VOA and improvements implemented.

Looking more broadly, improvements in financial capability are being delivered by the Finance Functional Leadership programme and in particular the Service Delivery Model which seeks to bring greater consistency and quality in financial outputs.

The Finance Committee regularly reviewed financial accounting and audit risks. This included regular examination of progress made with audits and implementation of lease accounting. The Finance Function Board has also monitored delivery of financial transformation.

The Department's accounts remain subject to a long standing audit qualification for historic non-compliance with lease accounting standards.

Accounts Qualification

The Department has not fully complied with the lease accounting requirements in HM Treasury's Financial Reporting Manual to assess whether its contracts have the characteristics of a lease and if so to classify leases as operating or finance leases in accordance IAS17. The Department has previously decided, with the support of HM Treasury, not to fully implement lease accounting for existing contractual arrangements as it did not represent value for money given the complexity and considerable costs of doing so.

The introduction of a new lease accounting standard (IFRS16) presented an opportunity for the Department to address this matter given that it included a simplification in the categorisation of leases. MOD has therefore formally adopted IFRS16 from April 2022 which was the mandatory adoption date set for public bodies by HM Treasury.

This adoption has been supported by a complex implementation programme including full deployment of a lease accounting tool and extensive training package across all business units and development and rollout of business as usual procedures for dealing with leases in approvals, forecasting and financial planning.

The Department's budgets have, in agreement with HM Treasury, been reclassified for 2022-23 to reflect the impact of lease accounting.

The Department are working with the NAO and anticipate the first full year of IFRS16 adoption will remove the need for qualification. Further details are included within Note 1 of the Annual Accounts.

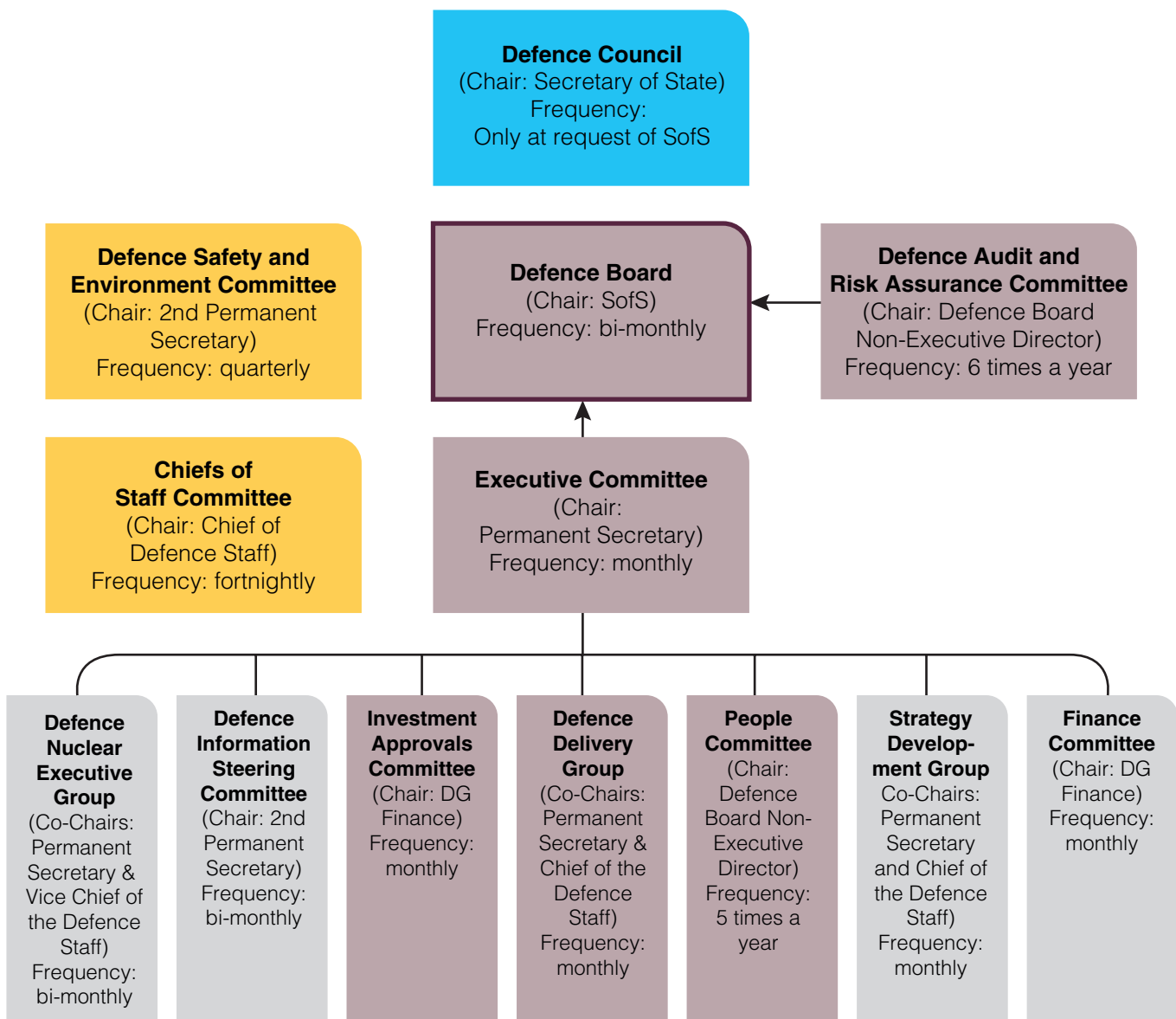
Governance Framework

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 committees.

Defence Board Sub-Committees and the Executive Committee



Standalone advisory bodies Formal Committees of the Defence Board

Not all other committees are shown but all will escalate their business to and formally report to the Executive Committee.

A separate Investment Approvals Committee for Defence Nuclear is chaired by the Permanent Secretary.

Summary of discussions of the Key Committees and Boards	
Defence Council	The Defence Council is an authority structure and does not meet in the conventional way. Defence business is managed through the Defence Board and Front Line Commands although the Defence Council can be called at any time, at the request of the SofS. The Defence Council did not meet during 2021–22.
Defence Board	Reviewed strategic risks and priorities at the start of the year, and received regular update reports, including 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. Areas of focus included Head Office Reform, People and Defence and Security Industrial Strategy.
Defence Audit and Risk Assurance Committee	There was a continued focus on the progression of the Acquisition process and the supply chain, including an assessment of payment performance. Discussions included review of Government Internal Audit Agency transition planning, IFRS16 and PFI Contract expiry. There were also detailed discussions on Financial Assurance, including completion of Annual Assurance Assessments, Defence Digital, Infrastructure and Project Delivery, review of the Departmental Annual Report and Accounts and progress of key audit issues. The Committee was satisfied that the 2021-22 Governance Statement reflected the aggregate assessment of assurance from the TLB Holders, Defence Authorities and Functional Owners.
Executive Committee	Key areas of discussion included the annual planning and allocation of resources process, departmental resilience and Public Service Equality Duty. Risk, performance and assurance discussions continued with a focus on risk appetite and horizon scanning.
Investment Approval Committee and Investment Approval Committee (Nuclear)	During 2021–22 the IAC and IAC (Nuclear) considered a broad range of projects, including: Apache Long Term Training and Support Service, Mechanised Infantry Vehicle, Deepcut Disposal, Maritime Electronic Warfare, Dreadnought, Type 26 Support, FCAS Acquisition Programme, Typhoon European Common Radar System, Spearhead Innovation Portfolio, Skynet 6, National Cyber Force, MODNET Sustain.
Defence Delivery Group	Key focus areas included D&I, digital transformation and review of the Defence Plan with more focused sessions on departmental priorities and innovation. Risk and performance assessments continue quarterly.
People Committee	The PC continued to conduct deep dives into programmes including the People Functional Strategy and Strategic Workforce Planning. The Diversity and Inclusion programme continued to take a prominent position along with discussions on gender balance and women in the Armed Forces.

Report on Board Performance by the Lead Non-Executive Defence Board Member

2021-22 financial year has continued to be a challenging one for the MOD. The first half of the reporting year saw the Department continuing to manage through the impact of COVID-19, begin the implementation of the Integrated Review (IR) and manage the evacuation from Afghanistan. The conflict between Ukraine/Russia has required a refocus for the Department but work is still ongoing to manage business as usual activities.

The Defence Board has continued to focus on key risks facing the Department, including Defence Digital, Cyber, Defence and Security Industrial Strategy and Head Office Reform. In addition, I have set up a separate Non-Executive Director meeting with the Senior Leadership team to enable us to hold the department to account and provide assurance that wider departmental priorities are being appropriately managed. I am 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 the Defence Delivery Group and have been involved in supporting senior colleagues (both civilian and military) across a wide range of topics.

With a number of Board membership changes having taken place – new Permanent Secretary, new Minister, new Non-Executive Director and addition of the new Second Permanent Secretary, I have agreed with the Secretary of State to postpone the Annual Board Effectiveness Review until later in 2022. This will allow the Board time to address some of the key issues identified from last year.

I was pleased to also welcome a new NED colleague to the Board in 2022, Kate Guthrie, who will also take on Chair of the People Committee. Kate will make a great addition to Defence and brings with her a wealth of knowledge and expertise.

The focus for the year continues to be implementation of the IR but with a recognition of the need to consider the impact of recent events on strategy and priorities. Digital and Acquisition Reform remain key areas of attention, with focus on skills and workforce planning a must. NEDs will continue to support and advise in these key areas going forward. I am confident that the Department is moving in the right direction and am encouraged by those I engage with and the support that we receive.

Brian McBride

Review and Challenge

There is a cross-government requirement to conduct an Annual Board Effectiveness Review. A significant change in the make-up of the Board has delayed the Board's ability to address some of the key issues identified in last year's Board Effectiveness Review. Therefore, it has been agreed with the Secretary of State and the Lead Non-Executive Director, that this year's Board Review will be postponed until later in the year to allow the Board more time to address the issues raised.

The Board has taken a wide range of papers during the year which covered both strategic and delivery challenges. Alongside the regular risk and performance updates the Board has discussed issues ranging from Defence Digital, cyber, Defence and Security Industrial Strategy, Head Office Reform and the People Survey.

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, People Committee 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 Defence Delivery Group in early 2022.

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 Service 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 Non-Departmental Public Bodies (NDPB) with Executive Functions; the National Museum of the Royal Navy (NMRN), the National Army Museum (NAM), the Royal Air Force Museum (RAFM), the Single Source Regulations Office (SSRO), the Armed Forces Covenant Fund Trust Ltd (AFCFT), and AWE plc, the company that runs the Atomic Weapons Establishment are sponsored by the Department and fall within the Departmental accounting boundary. The International Military Services Limited (IMS) is a Designated Body of the MOD and I am the Accounting Officer.

Each of the Executive Agencies (except the UKHO) and the Executive NDPB's have a Chief Executive appointed by me and 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. Within AWE plc, the Chief Executive is appointed by the Secretary of State and granted AO status by me.

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 will be published alongside the Annual Report and Accounts.

Functional Leadership

Since 2018, Defence has made significant progress with implementing Functional Leadership. We now have fifteen Functions; eight Government Functions and seven specific to Defence, that the Executive Committee judged need to be carried out in a coherent way across Defence. Within this framework all Government Functions are recognised, but some are included in a Defence Function that has a wider remit.

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 all operate under authority directly from Head Office.

A Functional Accountability Body, operating on behalf of the Executive Committee, 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'.

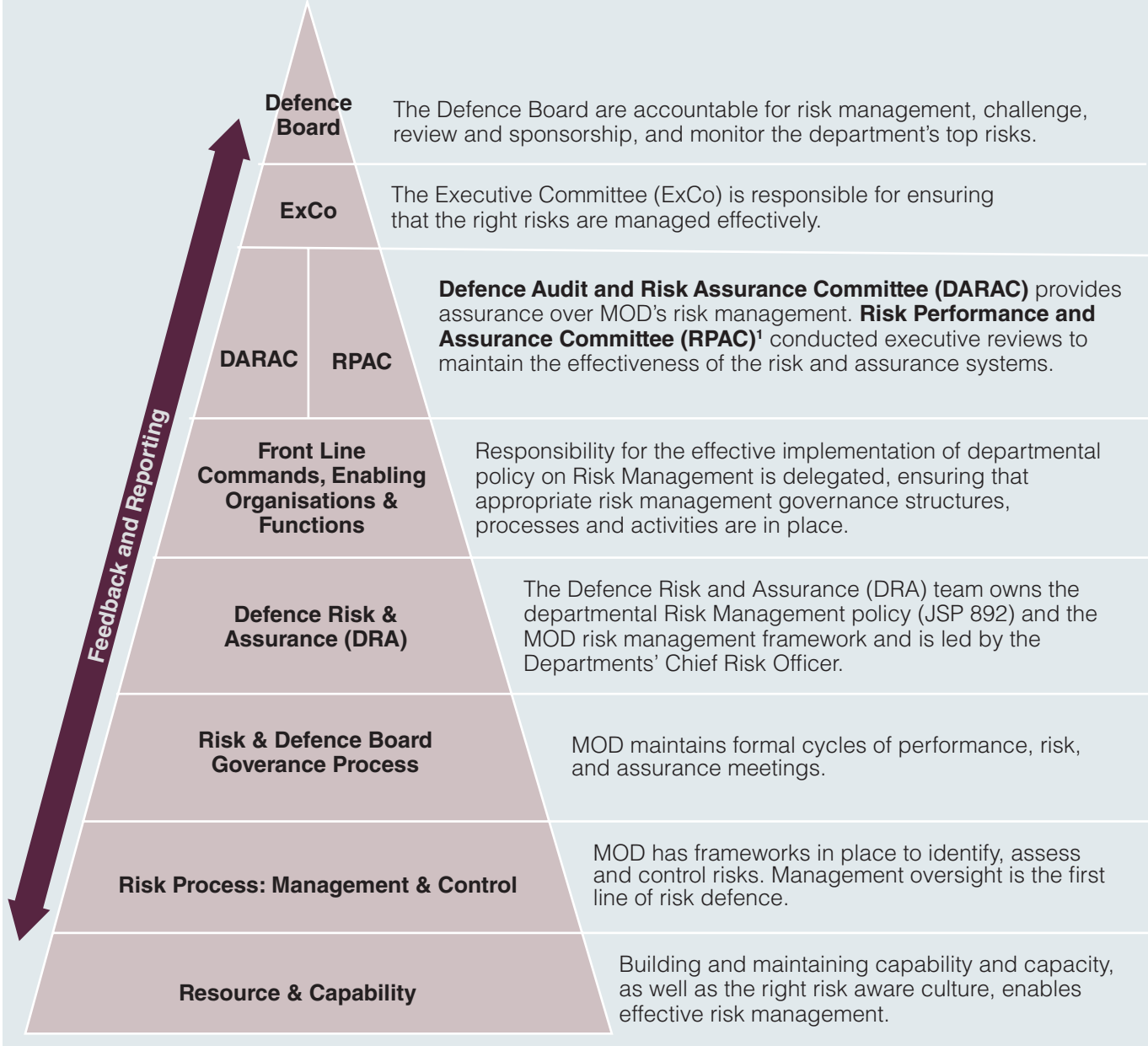
- First, the way the organisation controls and manages risk day-to-day,
- Second, assuring the control framework operates effectively with Head Office risk and assurance teams,
- Third, providing independent assurance to the Permanent Secretary through independent assurance³³ reviews.

An internal Joint Service Publication (JSP 892) sets out the mandatory requirements for risk management activities within the Ministry of Defence (MOD). The refresh of JSP 892, to incorporate the updates that have occurred within the Orange Book, is due to complete in 2022. The detailed list of risks is not published for reasons of national security; however, the table below provides examples of the associated risks and their mitigating activities.

³³ Examples of sources of independent assurance include Defence Internal Audit (DIA), Defence Safety Authority (DSA), the Health and Safety Executive (HSE), the Single Source Regulations Office (SSRO), Care Quality Commission (CQC), Office for Standards in Education (OFSTED) and the National Audit Office (NAO).

Risk		Intended risk management outcomes
	The right numbers of people with the right skills.	Through extensive workforce planning, up to date learning and development packages, the development of a pan-Defence skills framework and a refresh of the Health and Wellbeing strategy we are able to mitigate the risks around personnel with the right skillset as an employer of choice that reflects the society we serve.
	The alignment of the workforce to planned outputs.	We ensure that both military and civilian personnel have fulfilling career paths that map to the requirement of the MOD's outputs. We review civilian and military packages to support the recruitment and retention of military and civilian personnel.
	The delivery of operational capability.	We hold Risk Owners and Senior Responsible Owners (SROs) to account on the risks and programmes which could affect the ability to operate persistently and globally or transition to warfighting.
	The effectiveness of governance arrangements.	We monitor and periodically review how governance arrangements enable the Department's effective operation and make decisions informed by analysis and risk.
	The affordability of the vision for Defence.	We ensure that the risks of operating a global organisation and its costs are understood, managed and provide Value for Money for the UK.
	The failure of industry in delivery of outputs.	We work with industry to ensure 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.
	Protection of our assets and people, including from cyber-attack.	We continuously develop and sustain a strong culture of security and apply proportionate mitigations across the Physical, Personnel, Technical and Cyber security domains.
	A disruptive event caused by a threat or a hazard impacts on the delivery of Defence Outputs.	Beyond the National Security Risk Assessment, we monitor the threat landscape to protect those that protect the UK and plan accordingly.

Key roles and responsibilities



¹ The Risk Performance and Assurance Committee (RPAC) was initially set out to deliver short to medium term targeted discussion around risk and performance. It has delivered on these aims and has now ceased, with the Executive Committee (ExCo) taking on the responsibility for identifying and responding to Departmental risks and issues. The Defence Delivery Group (DDG) is responsible for reviewing the current risk assessments of Defence Board risks and TLBs allowing for the impacts of which to be considered and inform decision making across the department.

The risk management framework continues to be appropriate for the department and the governance structure in which it operates, and it remains consistent with the Cabinet Office's guidance on the Management of Risk in Government.³⁴ The framework and principles have also been assessed as being broadly compliant with the principles contained in the Orange Book.³⁵ In 2021-22 the Department has addressed the initial areas of improvement needed to formally define its appetite for risk and how this informs decision making. An action plan remains in place to further the departments compliance with the Orange Book.

Defence Board risks and the risk environment are reviewed regularly by the Executive Committee and the Defence Board. The Department has continued to operate its Annual Assurance Report (AAR) process with the Military Commands (Mil Comds), Defence Nuclear Organisation (DNO), Functions and Enabling Organisations (EOs) completing a standard template supported by a questionnaire, assurance map and assurance plan. New commands and Non-Departmental Public Bodies are transitioned into this assurance process. Assurance reports are subject to independent scrutiny, including by an Audit & Risk Assurance Committee where it is relevant for one to exist, before being reviewed by DARAC. DNO established an Audit and Risk Assurance Committee for the first time in 2021-22.

Considering this assurance process, the report from the Group Head of Internal Audit, and the review of performance, described separately, I offer 'Limited assurance' over the operation of my internal control environment for 2021-2022. This opinion remains the same as reported in 2020-2021, in spite of the steps

taken and robust processes which have been implemented to strengthen the operation and reporting of control and assurance. I will make further progress in 2022-2023 through the updates to the Defence Operating Model and the creation of a Head Office Operating Model which will further refine and embed an effective functional model 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 me, as the Accounting Officer, as to the effectiveness of the policies and processes in use.

The TLBs, DNO and EOs, 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.

Opinion of the Group Head of Internal Audit (GHIA)

The overall opinion for 2021-22 is one of Limited Assurance.

Overall, Functions have continued to improve their oversight and monitoring processes. However, even the more mature functions had weaknesses in their ability to assure that functional standards are being fully implemented.

³⁴ Cabinet Office, Management of Risk in Government, January 2017

³⁵ HM Treasury, The Orange Book, Management of Risk – Principles and Concepts 2020

Audit work identified further improvement in the design of control and assurance frameworks overall. Improvements in the adequacy and effectiveness of internal controls were noted in People, Finance, and Infrastructure related processes.

Issues were identified with regards to the governance and implementation of transformation programmes in both Head Office and at TLB level. It is noted that changes in governance and oversight of selected transformation portfolios have been implemented during the past year.

Commercial and programme and project management audits continue to identify areas of weakness. There is acknowledgement of ongoing work to mature these areas, but risks to achievement remain. This is in part due to access to suitably experienced and qualified staff.

In Digital related audits, governance and assurance frameworks have improved significantly. However, the increased maturity of the function has also identified the extent of legacy issues to be addressed.

Significant change is planned, and in progress on operating model, departmental governance and in key areas such as Acquisition, Support, Digital and People processes. These changes are ongoing in some cases. In 2021-22 it was too early to assess the full impact on the department's systems of internal control.

Quality Assurance of Analytical Models

In line with the delegated model recommended in the Levene review, quality assurance in MOD is delegated to individual TLBs and ALBs. Accordingly, TLBs and ALBs are responsible for managing their own models and MOD helps to cohere this, provide guidance and share best practice

through our Quality Assurance Working Group (QAWG).

We have continued to expand membership of the QAWG and now have representatives from most TLBs as well as the ALBs / Enabling Organisations that provide key analytical support to the Department, such as DE&S, Dstl, DIO and SDA. We have engaged with the remaining organisations in the Department to ensure appropriate representation from across Defence.

This increasing level of representation has helped aid the coverage of models declared as business-critical. Whilst publication of MOD's business-critical models demonstrates our commitment to transparency, we have recognised that maintaining a list alone does not provide centralised information on the assurance activity that is undertaken.

We have therefore also begun to collect additional information on the management of MOD's business-critical models to better understand the level of assurance and identify any potential areas for concern. We will work with the QAWG representatives to analyse this information and identify areas for further development.

Compliance with the Corporate Governance Code

I have reviewed the Department's compliance with the HMT Corporate Governance in Central Government Departments – 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 Members³⁶, rather than having two Non- Executive Defence Board Members, I have chosen to have three other Non-Executive Members to attend the DARAC. Currently one of these positions is vacant. 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 Executive Committee. 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.³⁷

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 recordkeeping is provided periodically by budget holders.

36 Following the resignation of Simon Henry on 1 April 2022, the DARAC Chair role is being filled on an interim basis by Paul Smith. DARAC updates to the Defence Board are currently provided through the Lead NED and via bi-monthly update reports.

37 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.

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 Finance Director Resources), from SCS Band 1 and 2 at TLB Finance Director 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 special advisers. Advice regarding specific appointments is routinely published at the following site: <https://www.gov.uk/government/collections/mod-businessappointment-rules-index>

Whistleblowing

The MOD has established the Confidential Hotline as the principal route for whistleblowers in order to ensure the department's duty of care is met and that it responds effectively to concerns. It is a specific requirement in MOD policy that all instances of suspected fraud and other financial irregularities against the department are reported to the Confidential Hotline. Once recorded and duty of care matters attended to, the Confidential Hotline quickly moves to refer the concern to the most appropriate

responder such as the police, the Fraud Defence Investigations team or other investigating agencies for non-fraud issues.

The MOD operates a whole force Whistleblowing and Raising a Concern policy for which the Confidential Hotline is the single point of referral. The Confidential Hotline is for all Defence personnel (including civilian, Service personnel and contract staff) and members of the public to report concerns.

The development of the MOD's whistleblowing arrangements is a dedicated workstream in the counter fraud strategic action plan. The Defence Counter Fraud Strategy sets organisational and functional objectives to ensure that there is a dynamic and agile approach to resourcing both the Confidential Hotline and the Counter Fraud Function's Investigations team.

The MOD's civilian HR team continue to progress the Raising a Concern policy review with a separate Service subgroup to address Service specific equivalencies.

MOD reports to the Cabinet Office on whistleblowing cases and other related activity occurring within the Department every year. In all the resolved cases, the whistleblower received an update that their concern has been addressed and where appropriate, what action was taken and details of any organisational learning.

Tackling Fraud and Corruption

Leading the Counter Fraud Function for MOD, Fraud Defence continues to prioritise the department's counter fraud work towards the twelve themed workstreams set out in the functional strategy. The programme of delivery is set out in the Counter Fraud action plan. This is the main tool within MOD for implementation of the objectives to meet the

Government Functional Standard for Counter Fraud (GovS13) and sets out 33 project-based lines of activity with quarterly delivery targets.

Supporting the business in developing their fraud risk maturity, effective fraud mitigation strategies and effective response plans continue to be a priority. Developing maturity in counter fraud risk measures is central to effective fraud prevention and will remain a key theme for the function's development going forward where basic fraud, bribery and corruption awareness is now a mandated course across Defence.

Although work was refocused to respond to COVID-19 during the year the following remain the core priorities of the department's counter fraud work.

Procurement and contract management related fraud and corruption

Procurement is the largest proportion of Defence spending with significant risks at each stage of the procurement and acquisition process (from conceptual stages through to eventual asset disposal).

The Counter Fraud Function, working in partnership with Finance, Commercial and the wider Assurance professional community, has identified procurement as a dominant fraud risk. Many of these risks will sit within complex supply chains.

Identifying red flags for fraud at each stage of the procurement cycle, enables Defence to adopt a proactive approach to fraud where analysis is undertaken to identify irregular payments and to conduct behavioural trend analysis. The engagement also ensures that risks identified through investigations are managed effectively by the appropriate department to provide value for money and integrity of Defence assets.

Fraud and corruption in an operational environment

In the overseas operational environment, instances of fraud & corruption can be harder to detect and can potentially pose more immediate threats to life and successful delivery of operational outcomes. Theft of assets within overseas deployment locations and corruption in the supply chain have presented security concerns and led to significant and high profile financial and material loss, with the potential for operational degradation (and consequential impact) to the UK and coalition partners. The Counter Fraud Function has actively sought to strengthen relationships with business areas and policing partners in order to increase awareness and foster collaborative working to tackle such fraud and corruption. Fraud risk awareness workshops have also been delivered to overseas and operational deployed areas, to assist in the development of bespoke fraud risk registers. These have enabled risk owners to consider recommendations and establish their risk tolerance levels to help formulate specific action plans to mitigate risk.

Intellectual Property theft and counterfeiting

One of the MOD's most valuable assets is the intellectual property that Defence personnel hold in their day to day roles. The Department recognises the risks of intellectual property falling into the wrong hands with regards to operational security and for fair and transparent procurement processes Sensitive information could provide financial advantage to a supplier or competitor, leading to reputational damage and financial loss.

Counterfeit goods entering the MOD's supply chain would introduce significant operational risks, including product failure (with consequential risk of threat to life and

operational failure). Through the provision of a new Joint Service Publication, policy document, greater Intellectual Property fraud awareness will be provided to support the engagement that the Counter Fraud Function has across Defence.

Theft of Attractive to Criminal and Terrorist Organisations (ACTO) assets

The MOD has a significant number of ACTO assets, the loss of which constitutes a threat to life or can support and enable a terrorist or criminal threat. The loss of strategically sensitive technical assets alongside this presents a strategic threat to Defence capacity.

Utilising Intelligence, key lessons help address potential evidential challenges and how MOD assets can be audited and identified for the purpose of prevention and detection.

Ministerial Directions

There were no Ministerial Directions to Sir Stephen Lovegrove KCB or David Williams CB as Accounting Officers, during 2021–22.

Conclusion

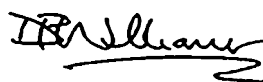
The Department has continued to deliver on the commitments we made as part of the Integrated Review of Security, Defence, Development and Foreign Policy. The

associated funding settlement has largely addressed the historic affordability challenges faced by the Department and presents us with a unique opportunity to transform our business delivery.

There is inevitably more work to do to improve our own internal controls and assurance processes and deliver better outcomes with continuing emphasis needed in addressing the Significant Control Risks highlighted earlier.

There are also external factors which have the potential to disrupt the Department's plans such as the effects of inflation and the events in eastern Europe. In respect to the latter, the Department continues to play an active and important role in providing practical support to Ukraine.

The changes we have made to Board and Committee structures have improved timely identification and management of risks and support more flexible and agile decision making and therefore place us in a stronger position to deal with these and other factors



David Williams CB
Accounting Officer
11 July 2022

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

Pay for senior civil servants (SCS) and senior officers of the armed forces, is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB).

The SSRB 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 SSRB 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 (DELs); and
- The government's inflation target

The SSRB takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the SSRB 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 Non-Executive Directors (NEDs) which requires a transparent recruitment and selection process (including due diligence checks), with appointment on merit, thus following the Governance Code on Public Appointments. NEDs 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. NEDs have the option to waive their remuneration, where applicable.

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 receive an increment on an annual basis on the anniversary of their promotion until they obtain the maximum pay for their rank. Officers who receive an unsatisfactory marking on their annual appraisal do not receive an increment. The average value of one incremental rise was c. 2.7% of salary in 2021–22 (2020–21: 2.6%). Chief of the Defence Staff (CDS) automatically receives an annual increment until the maximum pay for the rank is obtained. Senior medical and dental officers are paid 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, NED's 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 NEDs 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 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: [Civil Service Commission \(independent.gov.uk\)](http://CivilServiceCommission.independent.gov.uk)

The lead Departmental NED appointment to the Defence Board was approved by the Prime Minister from a list of candidates recommended by the Cabinet Office. The lead NED appointment in June 2020 was approved by the Prime Minister and has an initial period of three years.

NEDs/Public Appointments 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 VCDS are appointments made by Her Majesty the Queen on the recommendation of the Prime Minister and the Secretary of State respectively. 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

	2021-22				2020-21			
	Salary £	Benefits- in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000) ¹	Total £ (to nearest £1,000)	Salary £	Benefits- in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £ (to nearest £1,000)
Secretary of State for Defence								
The Rt Hon Ben Wallace MP								
(from 24 July 2019)	67,505	Nil	17,000	85,000	67,505	Nil	17,000	84,000
<i>Full year equivalent salary</i>								
Minister of State and Spokesperson on Defence in The House of Lords								
Baroness Goldie DL ²								
(from 26 July 2019)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>								
Minister of State and Minister for Defence Procurement								
Jeremy Quin MP								
(from 14 February 2020)	31,680	Nil	8,000	40,000	31,680	Nil	8,000	39,000
<i>Full year equivalent salary</i>								
Parliamentary Under Secretary of State and Minister for the Armed Forces								
James Heapey MP								
(from 14 February 2020)	22,375	Nil	6,000	28,000	22,375	Nil	5,000	28,000
<i>Full year equivalent salary</i>								
Parliamentary Under Secretary of State and Minister for Defence People and Veterans								
Leo Docherty MP								
(from 21 April 2021)	20,634	Nil	5,000	26,000	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>	22,375							
Parliamentary Under Secretary of State and Minister for Defence People and Veterans								
Johnny Mercer MP								
(to 20 April 2021)	1,243	Nil	1,000	2,000	22,375	Nil	5,000	28,000
<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.

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 payment of a tax-free severance payment of three months of their annual equivalent salary. No severance payments were made during 2021-22 or 2020-21. Johnny Mercer MP received £5,593 as a contractual payment on termination of employment.

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 2021 (no change from April 2020) 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 2020–21 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 22 £000	CETV at 31 March 21 or date of Appointment if Later £000	CETV at 31 March 22 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Secretary of State for Defence				
The Rt Hon Ben Wallace MP	5-10	63	83	9
	0-2.5			
Minister of State and Spokesperson on Defence in The House of Lords				
Baroness Goldie DL	Nil	Nil	Nil	Nil
Minister of State and Minister for Defence Procurement				
Jeremy Quin MP	0-5	13	21	4
	0-2.5			
Parliamentary Under Secretary of State and Minister for the Armed Forces				
James Heapey MP	0-5	5	10	2
	0-2.5			
Parliamentary Under Secretary of State and Minister for Defence Veterans, Reserves and Personnel				
Leo Docherty MP (from 21 April 21)	5-10	6	11	2
	0-2.5			
Parliamentary Under Secretary of State and Minister for Defence Veterans, Reserves and Personnel				
Johnny Mercer MP (to 20 April 21)	0-5	6	7	0
	0-2.5			

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)

	2021-2022				2020-2021				Total £000
	Salary £000	Annual Performance Award £000	Benefits- in-kind £ (to the nearest £100)	Pension Benefits ¹ £ (to the nearest £1,000)	Salary £000	Annual Performance Award £000	Benefits- in-kind ² £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	
Secretary of State for Defence									
The Rt Hon Ben Wallace MP									
Minister of State in the House of Lords									
Baroness Goldie DL									
Minister of State and Minister for Defence Procurement									
Jeremy Quin MP									
Parliamentary Under Secretary of State and Minister for the Armed Forces									
James Heapey MP									
Parliamentary Under Secretary of State and Minister for Defence Veterans, Reserves and Personnel									
Johnny Mercer MP (to 20 April 2021)									
Leo Docherty MP (from 21 April 2021)									
Permanent Secretary									
David Williams CB (from 6 April 2021)	175-180	Nil	Nil	140,000	Nil	Nil	Nil	Nil	Nil
Permanent Secretary									
Sir Stephen Lovegrove KCB ⁷ (to 21 March 2021)	Nil	Nil	Nil	Nil	185-190	Nil	Nil	80,000	265-270
2nd Permanent Secretary									
Laurence Lee (from 3 June 2021) ⁶	135-140	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>full year equivalent salary</i>	160-165								

See Minister's Salary Table

⁷ 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.

	2021-2022				2020-2021					
	Salary £000	Annual Performance Award £000	Benefits- in-kind £ (to the nearest £100)	Pension Benefits ¹ £ (to the nearest £1,000)	Total £000	Salary £000	Annual Performance Award £000	Benefits- in-kind ² £ (to the nearest £100)	Pension Benefits (to the nearest £1,000)	Total £000
Chief of the Defence Staff										
General Sir Nick Carter GCB CBE DSO ADC Gen (to 30 November 2021)) <i>full year equivalent salary</i>	185-190 280-285	Nil	58,800	30,000	275-280	Nil	92,500	91,000	460-465	
Chief of the Defence Staff										
Admiral Sir Tony Radakin KCB ADC (from 30 November 2021) <i>full year equivalent salary</i>	85-90 265-270	Nil	29,100	325,000	440-445	Nil	Nil	Nil	Nil	
Vice Chief of the Defence Staff										
Admiral Sir Tim Fraser CB ADC (from 13 May 2019)	190-195	Nil	51,000	43,000	285-290	185-190	64,200	103,000	355-360	
Director General Finance										
Charlie Pate (from 12 March 2020)	140-145	0-5	Nil	70,000	210-215	135-140	Nil	126,000	270-275	
Non-Executive Board Members										
Brian McBride ³	5-10	Nil	Nil	Nil	5-10	Nil	Nil	Nil	Nil	
Simon Henry ⁴	20-25	Nil	Nil	Nil	20-25	15-20	Nil	Nil	15-20	
Robin Marshall ⁵	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	
Danuta Gray (to 31st July 2021) <i>full year equivalent salary</i>	5-10 15-20	Nil	Nil	Nil	5-10 15-20	15-20	Nil	Nil	15-20	
Kate Guthrie (from 1 Jan 2022) ³	0-5	Nil	Nil	Nil	0-5	Nil	Nil	Nil	Nil	

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. Fees are paid on daily rate claimable for up to 28 days per year. Fees for 2021-22 are estimates based on board meetings attended in year. Brian McBride was also paid fees of between £15k-20k in 2021-22 which related to 2020-21, but were not previously disclosed.
4. Payments due to Simon Henry are shown in the table and will be paid in the 2022-23 financial year.
5. Robin Marshall has elected to waive the fee of between £15k – £20k to which he is entitled.
6. Laurence Lee's pension costs are borne by his home department. £29,000 (rounded to the nearest thousand) was reimbursed for 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 2021–22 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. NEDs are not employees and are therefore not enrolled in an employee related pension scheme. The real increase in the pension from 2021–22 and where applicable the real increase in the lump sum payment, are shown in italics and in bands of £2,500 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 22 £000	CETV at 31 Mar 21 or date of Appointment if Later £000	CETV at 31 Mar 22 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Secretary of State for Defence The Rt Hon Ben Wallace MP				
Minister of State and Spokesperson on Defence in the House of Lords Baroness Goldie DL				
Minister of State and Minister for Defence Procurement Jeremy Quin MP				
Parliamentary Under Secretary of State and Minister for the Armed Forces James Heapey MP				
Parliamentary Under Secretary of State and Minister for Defence Veterans, Reserves and Personnel Johnny Mercer (to 20 April 2021) Leo Docherty MP (from 21 April 2021)				
Permanent Secretary David Williams CB (from 6 April 2021)	Pension			
	75-80			
	7.5-10			
	Lump Sum			
	155-160			
	7.5-10	1,238	1,420	104
2nd Permanent Secretary Laurence Lee 1 (from 3 June 2021)	Pension			
	Nil			
	Nil			
	Lump Sum			
	Nil			

See Minister's Pensions Table

	Total Accrued Pension at Retirement as at 31 Mar 22 £000	CETV at 31 Mar 21 or date of Appointment if Later £000	CETV at 31 Mar 22 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Chief of the Defence Staff	Pension			
General Sir Nick Carter GCB CBE DSO ADC Gen	160-165			
	0-2.5			
	Lump Sum			
	480-485			
	2.5-5	3,704	3,734	31
Chief of the Defence Staff	Pension			
Admiral Sir Tony Radakin KCB ADC (from 30 November 2021)	110-115			
	12.5-15			
	Lump Sum			
	340-345			
	40-42.5	2,626	2,999	373
Vice Chief of the Defence Staff	Pension			
Admiral Sir Tim Fraser CB ADC	95-100			
	0-2.5			
	Lump Sum			
	290-295			
	5-7.5	2,417	2,420	3
Director General Finance	Pension			
Charlie Pate	55-60			
	2.5-5			
	Lump Sum			
	15-20			
	0-2.5	665	741	34

1 Laurence Lee's pension costs are borne by his home department. £29,000 (rounded to the nearest thousand) was reimbursed for 2021-22

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.

Fair Pay Disclosure

(This section has been subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

Remuneration of the highest paid Defence Board Members 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 lower, median and upper quartile remuneration. The civilian disclosure is 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 mid-point of the banded remuneration of the highest paid military director during 2021-22 was £352,500. This was 10 (2020-21 10.3) times the median remuneration of the military workforce, which was £35,302 (2020-21 £35,715).

The mid-point of the banded remuneration of the highest paid civilian director during 2021-22 was £177,500. This was 5.3 (2020-21 5.8) times the median remuneration of the civilian workforce, which was £33,500 (2020-21 £33,106).

Both civilian and military highest paid board members changed personnel for 2021-22 and both new incumbents were paid a rates lower than those in post in 2020-21. Neither received performance pay or bonuses in the year.

Salary ranges of Military and Civilian staff

Salary Ranges	Military		Civilian	
	2021-22 £	2020-21 £	2021-22 £	2020-21 £
Mid-point of Banded Remuneration of highest paid board member	352,500	367,500	177,500	192,500
Number of employees in receipt of remuneration above the highest paid board member	0	0	8	8
Salary Range for all employees	16,238- 352,500	15,985- 367,500	17,143- 382,190	17,231- 382,122

Percentage change from previous year in total salary & allowances and performance pay & bonuses for the highest paid director and the staff average

Salary & Allowances	2021-22	
	Military	Civilian
Highest paid director ¹	-4.08%	-7.79%
Staff average	-0.60%	1.18%
Performance Pay & Bonuses ²		
Highest paid director	-	-
Staff average	-	-2.04%

1 Pay ratios have decreased due to a change in both military and civilian highest paid board members

2 No performance pay or bonuses were paid to highest paid directors in 2021-22. Military salaries do not attract performance pay.

Ratio between the highest paid directors' total remuneration and the lower quartile, median and upper quartile for staff total pay and benefits.

	Military			Civilian		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
2021-22	13.2:1	10.0:1	7.9:1	6.7:1	5.3:1	4.0:1
2020-21	13.4:1	10.3:1	8.2:1	7.7:1	5.8:1	4.6:1

Lower quartile, median and upper quartile for staff pay for salaries and total pay and benefits.

	Military					
	Lower Quartile		Median		Upper Quartile	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Salary £	26,614	27,389	35,302	35,715	44,818	44,948
Total Pay & Benefits £	26,614	27,389	35,302	35,715	44,818	44,948

	Civilian					
	Lower Quartile		Median		Upper Quartile	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Salary £	25,565	25,092	33,000	33,106	41,353	41,926
Total Pay & Benefits £	26,656	25,092	33,500	33,106	44,131	41,926

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. AWE plc joined the MOD Departmental Group on 1 July 2021, resulting in a step increase in staffing numbers compared with 2020-21.

Number of Senior Civil Service (SCS) Staff by Pay Band at 31 March 2022

SCS PAY BAND	2021-22	2020-21
Band 1	240	212
Band 2	55	54
Band 3	8	8
Band 4	2	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:

Number of DE&S Senior Leadership Group (SLG) Staff as at 31 March 2022

SCS PAY BAND	2021-22	2020-21
Band 1	87	86
Band 2	18	18
Band 3	3	2
Band 4	1	1

Number of SDA Senior Leadership Group (SLG) Staff as at 31 March 2022

SCS PAY BAND	2021-22	2020-21
Band 1	23	22
Band 2	6	6
Band 3	1	1

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), DE&S and SDA Senior Leadership Groups. AWE plc joined the MOD Departmental Group in July 2021 resulting in a step increase in staffing numbers compared with 2020-21.

Of the Defence Board Members, 3 of the male directors and 1 of the female directors are NEBMs (2020-21: Male 3 Female 1). In 2021-22, the staff composition of DE&S SLG and equivalent was: Male 82 Female 27 (2020-21: Male 81 Female 26) for SDA SLG the staff composition was Male 22 Female 8 (2020-21: Male 21 Female 8).

Analysis of the Number of Persons of Each Gender

Gender ¹	2021-22			2020-21		
	Defence Board Members	SCS and equivalent	Military/Civilian Employees	Defence Board Members	SCS and equivalent	Military/Civilian Employees
Male	12	725	163,272	11	725	165,074
Female	2	179	39,242	2	170	39,002

1. Gender information reported is obtained from individuals on joining the Department.

Analysis of Staff Numbers

(This section had been subject to audit)

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

	2021-22		2020-21	
	Core Department & Agencies	Departmental Group ¹	Core Department & Agencies	Departmental Group
Civilian Staff	55,580	64,811	54,470	57,371
Other Staff ²	5,487	5,770	5,855	6,015
Ministers	5	5	5	5
Special Advisors	2	2	2	2
Armed Forces	161,611	161,611	160,232	160,232
Totals	222,685	232,199	220,564	223,625

- 1 AWE plc joined the MOD Departmental Group as an Executive NDPB on 1 July 2021 resulting in a step increase in staffing numbers compared with 2020-21.
- 2 Other is defined as those who are engaged on the objectives of the Department, but are not permanent civilian staff. Includes short term contract staff, agency & 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 2022.

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

	2021-22		2020-21 ¹	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff Turnover	10.6%	11.3%	6.8%	7.3%

1 2020-21 figures were presented incorrectly in 2020-21

	UK Regular Forces Trained Outflow rate in the 12 Months ending 31 Mar 22	UK Regular Forces Trained Outflow rate in the 12 Months ending 31 Mar 21
Military	8.0%	6.6%

1. Figures show outflow from the Trained (RN/RM and RAF) and Trade Trained (Army) 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.
2. Rates are the number of people who leave per 100 of the mean average trained strength. For detail on the calculation used, see Exit Rate in the glossary.
3. 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.
4. Outflow figures here comprise all Regular personnel who completed their Phase 2 training, i.e. Trained

Staff Costs

(This section has been subject to Audit)

The aggregate staff costs including grants and allowances, were as follows:

Analysis of Staff Costs

	2021-22 ¹				Departmental Group Total £M	2020-21 Departmental Group Total £M
	Permanent Staff £M	Armed Forces £M	Other staff ² £M	Ministers £M		
Salaries and Wages	2,329.7	6,722.0	367.4	0.1	9,419.2	9,261.4
Social Security costs	242.9	627.2	0.2	-	870.3	858.1
Pension costs	581.5	3,978.6	0.8	-	4,560.9	4,554.7
Redundancy and severance payments	1.4	0.1	-	-	1.5	24.4
Sub Total	3,155.5	11,327.9	368.4	0.1	14,851.9	14,698.6
Less capitalised staff costs ³	(15.6)	(3.5)	(3.6)	-	(22.7)	-
Less Recoveries in respect of outward secondments	(20.3)	(34.1)	-	-	(54.4)	(57.4)
Total net costs	3,119.6	11,290.3	364.8	0.1	14,774.8	14,641.2

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.

3. Workforce capitalisation began on 1 April 2021 as part of a phased introduction beginning with high value equipment and infrastructure programmes with at least 12 months remaining.

For the year to 31 March 2022, of the total pension contributions for the Departmental Group in the table above, £582.3 million (2020–21: £553 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 £511 million (2020–21: £497 million); the movement on non-PCSPS pension provision of £18.4 million (2020–21: £35 million); and contributions to non-PCSPS of £52.9 million (2020–21: £22 million).

Where employees have opened a stakeholder

pension with an employer contribution, the Department has made contributions of £4.64 million (2020–21 £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 £0.79 million (2020–21 £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 2022 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £3,978.6 million (2020–21 £4,001 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. The Government has announced that due to interactions with wider pension policies, completion of the 2016 valuation process and the review of the cost control mechanism, any changes to employer contribution rates resulting from the 2020 valuations will be delayed from April 2023 to April 2024.

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 2021–22.

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; 86 individuals retired early on ill-health grounds during 2021–22 (2020–21 93); their total accrued pension liabilities for the year were £0.2 million (2020–21 £0.3 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 2021–22 and for comparison 2020–21 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

Exit Package Cost Band	2021-22						2020-21					
	Core Department & Agencies			Departmental Group			Core Department & Agencies			Departmental Group		
	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	2	32	34	9	47	56	-	12	12	20	34	54
£10,000 – £25,000	2	35	37	3	44	47	-	22	22	7	30	37
£25,000 – £50,000	3	39	42	3	42	45	-	33	33	-	34	34
£50,000 – £100,000	1	17	18	1	21	22	-	13	13	-	13	13
£100,000 – £150,000	-	1	1	-	1	1	-	3	3	-	3	3
£150,000 – £200,000	-	-	-	-	-	-	-	-	-	-	-	-
£200,000 – £250,000	-	-	-	-	-	-	-	-	-	-	-	-
£250,000 – £300,000	-	-	-	-	-	-	-	-	-	-	-	-
Total Number of Exit Packages	8	124	132	16	155	171	-	83	83	27	114	141
Total Resource Cost £million	£0.236	£3.438	£3.674	£0.274	£4.059	£4.333	-	£2.859	£2.859	£0.194	£3.101	£3.295

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 2022 was 5.23 (5.94 days for the 12 months ending 31 March 2021). Mental and behavioural disorders continue to be the highest cause of sickness absence at 23% of all absences (2020–21: 28%). The percentage of staff with no sick absence for the 12 months ending 31 March 2022 was 59% (2020–21: 68%) with the residual impact of the COVID-19 pandemic a factor in this regard.

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 Defence People Health and Wellbeing Strategy 2021 – 2026.

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 2022 can be found at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1088146/MOD_Health__Safety_Statistic_Annual_Report_2021-22.pdf.

Civilian Staff Policies Applied During the Financial Year

The MOD continues to be 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 Civil Service (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.

To encourage and support applications from a more diverse applicant pool, we do not require minimum educational qualifications for entry roles to the CS. 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 a 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 bite size learning videos, including advice on how to write a better job advert (to ensure it is 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 Equality and Diversity training prior to recruiting, to help minimise the possibility of unconscious bias within the selection process.

Defence has taken on the responsibilities to deliver Access to Work previously provided by the Department for Work and Pensions. This requirement has been integrated into our policies and procedures to ensure continuity of provision for our personnel.

For recruitment into the Senior Civil Service (SCS), all selection panels have a BAME and / or disabled member.

MOD continues to bear down on bullying, harassment and discrimination (BHD) following the Wigston report. We have introduced new processes which replace line management in the decision making role in BHD cases, with independent decision makers from other parts of the Department. In this way, we are able to assure those that have been subject to BHD, that their complaints will be heard in an independent and impartial way. The number of complaints has doubled since this was introduced, suggesting that complainants feel more confident in the system and are happier to come forward.

The DBS HR Advice & Casework Service provides HR functions, advice and support to all MOD main employees.

MOD has adopted the Redeployment Interview Scheme (RIS) this year, a new scheme which will give Civil Service employees at risk of redundancy, more support in securing alternative employment both within the Ministry of Defence (MOD) and the wider Civil Service. It operates similarly to the Disability Confident Scheme and Great Place to Work for Veterans Scheme (GPTW), where applicants self-identify on the Civil Service Jobs website by ticking a box when completing their application form, that they want to apply for the vacancy using RIS. All MOD Civil Service employees, including the Senior Civil Service (SCS) who are at risk of redundancy, are eligible to use RIS to apply

for vacancies on level move and downgrade. RIS applies to all internal, across government and external vacancies.

We have successfully introduced a new HR platform, Oracle Cloud, which operates on a software as a service basis, known as MyHR. This provides a much more robust, resilient and efficient service and enables MOD to be much more agile in adopting new HR processes, in accordance with industry best practice. All civilian policies were reviewed as part of the programme of work to launch MyHR, updating terminology/language and supporting staff to understand changes.

Civil Service Talent

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. Defence continues to nurture the talent of its civil servants with the launch of the Rise and Elevate talent programme, aimed at nurturing our junior talent for more demanding senior roles in the future, utilising apprenticeships as the basis

for the schemes. During 2021-22, over 400 people in MOD were on talent schemes such as Fast Stream, Future Leaders Scheme and Rise and Elevate.

Civil Service Reform

On 15 June 2021, HM Government published the Declaration on Government Reform, setting an ambitious programme to ensure we serve the whole country better and improve the clarity, quality and speed of prioritisation and decision-making within government. Enhanced corporate functions are set to have their own targets for improved performance, including the financial savings they are expected to occur year-on-year. This will add value, drive innovation and make government more effective.

The Places for Growth programme sets out the single largest effort to decentralise government out of Whitehall, whilst reinforcing the need to relate policy and senior-decision making roles outside of London. Senior Civil Service reform has introduced a new performance management process – better linked to departmental objectives as set out in outcome delivery plans. The talent agenda ensures the government attracts talent and expertise from more diverse backgrounds. We have re-focused our activity on interchanging across the UK government and devolved governments, through offering loans and secondments to help operationalise approaches.

There is a fundamental commitment to build our skills and capability across the Civil Service. It is the golden thread running through all of the People actions in the Declaration on Government Reform. For MOD this means a focus on increasing external SCS hires (including recent adopting of External by Default) and developing and embedding the approach to inward and outward secondments, working closely with the Cabinet Office, internally with TLBs and Head of Profession and externally with industry partners.

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 workstrands; foundation of public administration, working in government, leading and managing, specialist skills and domain knowledge.

Strategic Workforce Planning (SWP)

Defence's approach to SWP provides the agility to respond to new workforce challenges to mitigate risk. Our SWP process provides Top Level Budget holders the freedoms and incentives to design their whole-force workforce to maximise outcomes, while driving value for money and productivity.

To address workforce and skills, a review into how the Armed Forces should be rewarded and incentivised is underway and aims to meet the commitment made in the Defence Command Paper (published March 2021). The Haythornthwaite Review of Armed Forces Incentivisation will take a holistic, agile and differentiated approach to all the financial and non-financial parts of the Offer.

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. Noting that there are some areas of our workforce where our levels of diversity and representation could improve, we are paying particular attention to developing a number of initiatives which support the recruitment, progression and retention of colleagues with disabilities and those from ethnic minorities. More broadly, the introduction of Holistic Allies Training in April 2022 will further support the significant work of the MOD's vast array of networks in ensuring, that all of our people are heard and championed. Our diversity statistics are included in the Performance Report and we continue to implement a number of people strategies including the Armed Forces People Programme, 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 <https://www.gov.uk/government/statistics/armed-forces-continuous-attitude-survey-2022> and the MOD People Survey <https://www.gov.uk/government/publications/civil-service-people-survey-2021-results>). 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 2021–22.

Analysis of Consultancy and Temporary Staff

Body	2021-22		2020-21 ⁴	
	Consultancy £M	Temporary Staff ² £M	Consultancy £M	Temporary Staff £M
Ministry of Defence Main	113.324	325.140	93.003	270.093
On Vote Agencies				
Defence Equipment & Support Bespoke Trading Entity	1.255	97.313	7.252	99.650
Defence Science & Technology Laboratory	0.000	20.925	0.000	21.254
Submarine Delivery Agency	2.063	12.469	6.125	27.248
Executive Non-Departmental Public Bodies				
National Museum of the Royal Navy	0.230	0.036	0.101	0.000
National Army Museum	0.000	0.000	0.011	0.000
Royal Air Force Museum	0.241	0.000	0.219	0.011
Single Source Regulations Office	0.000	0.307	0.082	0.000
AWE plc ³	85.623	25.867	–	–
Armed Forces Covenant Fund Trustee Ltd	0.019	0.030	0.039	0.044
Other Bodies¹	2.219	1.231	2.836	0.650
Total Expenditure	204.974	483.318	109.668	418.950

- 1 Other Bodies comprises Commonwealth War Graves Commission, Royal Hospital Chelsea, Reserve Forces and Cadet Associations and International Military Services Ltd.
- 2 Cabinet Office definitions show Contingent Labour as Temporary Staff.
- 3 AWE plc became an Executive NDPB on 1 July 2021.
- 4 2020-21 numbers have been restated to ensure consistency with the cost reported for 2021-22.

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 of this activity, it has been necessary to restate the value reported for Temporary Staff to more accurately reflect costs incurred by UK Strategic Command.

The apparent increase in the value of Consultancy reported in 2021-22 compared with 2020-21, is mainly driven by the addition of the AWE plc in 2021-22 as an Executive Non-Departmental Public Body. The value of temporary staff has also seen a significant increase from 2020-21 mainly due to increased expenditure by Defence Digital within Strategic Command.

Defence Digital has seen a significant growth in their programme portfolio and expenditure from 2020-21 to 2021-22 coupled with a requirement

to accelerate business transformation in this area. This has necessitated increases in both permanent and temporary staff.

Off-Payroll Engagements

HM Treasury requires departments to publish information on their high paid and/or senior off-payroll engagements. HMT requires all engagements irrespective of length to be reported (prior to 2020-21 only those who had been engaged for 6 months or more were shown).

Off-Payroll Engagements Earning More than £245 Per Day as at 31 March 2022

	Core Department	ALBs	Department Group
Number of existing engagements as of 31 March 2022	1,755	173	1,928
Of which...			
Number that have existed for less than one year	1,190	60	1,250
Number that have existed for between one & two years	334	29	363
Number that have existed for between two and three years	172	35	207
Number that have existed for between three and four years	34	14	48
Number that have existed for four or more years	25	35	60

The use of workforce substitutes enables us to supplement our capability and capacity more quickly than we would be able to build a core workforce and offers more flexibility and better value for money overall than trying to build a permanent workforce with the spare capacity to cover every potential addition to the programmes of work. MOD retain several long-standing arrangements, particularly in circumstances where specialist skills or experience are critical in providing input to projects/programmes.

Engagements between 3 and 4 years increased by 19 (66%) compared to 2020-21, and engagements of 4 years or more, increased by 42 (267%) compared to 2020-21. The majority represent specialist contractors holding niche skill sets which are incredibly hard to resource against within the permanent job market. The apparent increase in longer term increase for over 4 year engagements has occurred due to AWE plc becoming an ALB of MOD on 1 July 2021. Having this highly specialist contractor capability is essential when working with our counterparts in the US Department of Defence.

Additional analysis

Although many of our off-payroll engagements are short term in nature, we retain a number of long standing arrangements, particularly in circumstances where specialist skills or experience are critical in providing input to projects/ programmes.

Further analysis of these engagements is shown in the table below:

Analysis of Off – Payroll engagements lasting over 3 years

	Between 3 and 4 years	Over 4 years
Submarine Delivery Agency	4	0
Defence People Team	6	2
UK Strategic Command	6	17
Defence Infrastructure Organisation	0	1
Defence Equipment and Support	18	2
AWE plc	14	35
Security Policy & Operations	0	3
Total	48	60

All temporary Off-Payroll workers engaged at any point during the year ended 31 March 2022, paid more than £245 Per Day

	Core Department	ALBs	Department Group
No. of temporary off-payroll workers engaged during the year ended 31 March 2022	2,565	177	2,742
Of which...			
Not subject to off-payroll legislation	2,295	36	2,331
Subject to off-payroll legislation and determined as in-scope of IR35	121	140	261
Subject to off-payroll legislation and determined as out-of-scope of IR35x	149	1	150
No. of engagements reassessed for compliance or assurance purposes during the year	1,076	142	1,218
Of which: No. of engagements that saw a change to IR35 status following review	3	12	15

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. The total above, 2742, (2320 in FY 2020-21) includes a large number of workers, 2331, (1963 in FY 2020-21) who fall into the category for which the IR35 legislation does not apply.

Of the total engagements of 2742 a breakdown by number and percentage is listed below:

- 42% (1141 in number) engagements were placed through DE&S delivery partner arrangements with specialist recruiters

- 33% (899 in number) have been engaged via either Public Sector Resourcing (PSR), Crown Commercial Services (CCS), or the Temporary Healthcare Worker frameworks
- 14% (395 in number) engagements represent fee earners, such as guest speakers, lecturers, piano tuners, musicians, etc
- 11% (307 in number) come through other CCS frameworks

It should be noted a third, 33% (900 in number), of our off-payroll engagements are short term in nature (less than 6 months).

Off-Payroll Engagements of Board Members and/or Senior Officials with Significant Financial Responsibility between 1 April 2021 and 31 March 2022

	Core Department	ALBs	Departmental Group
Number of off-payroll engagements of board members and/or senior officials, with significant financial responsibility during the financial year.	0	0	0
Total number of individuals, on payroll and off-payroll, that have been deemed “board members and/or senior officials with significant financial responsibility” during the financial year.	27	16	43

In determining those with ‘significant financial responsibility’ within the Department and its Arm’s Length Bodies, the Department has considered the individual’s level of authority over the organisation’s budget and wider public sector spending.

Trade Union Facility Time

The following is a summary of trade union officials and facility time incurred during 2021–22

Number of Trade Union Officials

Relevant union officials	
<i>Number of employees who were relevant union officials during the relevant period</i>	<i>Full-time equivalent employee number</i>
97	232,199

Percentage of Time Spent on Facility Time

Percentage of time	Number of employees
0%	10
1-50%	87
51%-99%	0
100%	0

Percentage of Pay Bill Spent on Facility Time

Percentage of pay bill spent on facility time	
Total cost of facility time	£202,728
Total pay bill	£3,155,500,000
Percentage of the total pay bill spent on facility time.	0.01%

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	8.30%

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 (FRoM) 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, 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 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).

The figures in the summary tables below cover outturn against the Parliamentary Control Totals. Refer to the Supply Estimates guidance manual available on gov.uk, for detail on the control limits voted by Parliament. The SOPS and Estimates are compiled against the budgeting framework is as described in the Performance Report – Financial Performance Summary.

Summary of Resource and Capital Outturn 2021-22

	SOPS Note	2021-22			2020-21
		Total Voted Outturn £000	Total Voted Estimate £000	Outturn compared to Estimate: Savings/ (Excess) £000	Outturn £000
Departmental Expenditure Limit (DEL)					
Resource	1.1	39,737,516	39,820,751	83,235	40,177,752
Capital	1.2	14,179,994	14,265,020	85,026	11,706,721
Total		53,917,510	54,085,771	168,261	51,884,473
Annually Managed Expenditure (AME)					
Resource AME	1.1	10,786,644	10,809,000	22,356	2,062,163
Total Budget					
Resource	1.1	50,524,160	50,629,751	105,591	42,239,915
Capital	1.2	14,179,994	14,265,020	85,026	11,706,721
Total		64,704,154	64,894,771	190,617	53,946,636

The majority of the Resource Departmental Expenditure Limit (RDEL) variance in core expenditure of £0.083 billion (0.2%) was in non-ringfenced RDEL and principally reflected lower expenditure on administration of the Department.

The Capital Departmental Expenditure Limit (CDEL) outturn variance was £0.085 billion

(0.6%) and related to minor movements on a number of capital investment programmes.

For Annually Managed Expenditure (AME), which by its nature is demand led and volatile, the outturn was £10.787 billion against an estimate of £10.809 billion. The majority of the £0.022 billion variance (0.2%) related to movements in the valuation of nuclear decommissioning provisions.

Net Cash Requirement 2021-22

	SOPS Note	2021-22			2020-21
		Outturn £000	Estimate £000	Outturn compared to Estimate: Savings/ (Excess) £000	Outturn £000
Net Cash Requirement	3	43,874,288	45,876,047	2,001,759	41,824,581

Administration Costs 2021–22

	2021-22		2020-21
	SOPS Note	Outturn £000	Estimate £000
	1.1	1,753,062	1,782,526
Administration Costs			29,464
			Outturn £000
			1,848,240

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote

SOPS Note 1 Outturn detail by Estimate Line

SOPS Note 1.1 – Analysis of Resource Outturn by Estimate line

Resource Outturn in Departmental Expenditure Limits (DEL) – Voted Expenditure	2021-22							2020-21	
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Virements £000	Total Net Resource Estimate Including Virements £000	Total Net Resource Outturn Compared to Estimate £000	Total Net Resource Outturn £000
A. Provision of Defence Capability – Service Personnel Costs	-	10,390,528	-	10,390,528	10,399,950	(9,422)	10,390,528	-	10,511,526
B. Provision of Defence Capability – Civilian Personnel Costs	-	1,612,148	-	1,612,148	1,902,385	(290,237)	1,612,148	-	1,605,760
C. Provision of Defence Capability – Infrastructure Costs	-	5,063,419	-	5,063,419	5,489,656	(426,237)	5,063,419	-	4,914,951
D. Provision of Defence Capability – Inventory Consumption	-	1,360,704	-	1,360,704	1,374,570	(13,866)	1,360,704	-	1,191,875
E. Provision of Defence Capability – Equipment Support Costs	-	7,537,696	-	7,537,696	7,539,089	(1,393)	7,537,696	-	7,364,559
F. Provision of Defence Capability – Other Costs and Services	-	2,187,387	-	2,187,387	1,141,886	1,045,501	2,187,387	-	1,447,813
G. Provision of Defence Capability – Receipts and Other Income	-	-	(1,218,848)	(1,218,848)	(1,401,000)	182,152	(1,218,848)	-	(1,265,160)
H. Provision of Defence Capability – Depreciation and Impairment Costs	-	7,987,529	-	7,987,529	8,196,328	(208,799)	7,987,529	-	9,519,392
I. Provision of Defence Capability – Cash Release of Provisions	-	383,636	-	383,636	350,000	33,636	383,636	-	315,162
N. Provision of Defence Capability – Research and Development Costs	-	224,828	-	224,828	230,834	(6,006)	224,828	-	265,835
Q. Operations – Service Personnel Staff Costs	-	25,630	-	25,630	27,561	-	27,561	1,931	29,744
R. Operations and Peacekeeping – Civilian Personnel Staff Costs	-	3,269	-	3,269	2,118	1,151	3,269	-	1,830
S. Operations – Infrastructure Costs	-	107,081	-	107,081	87,269	19,812	107,081	-	81,514
T. Operations – Inventory Consumption	-	69,433	-	69,433	83,482	-	83,482	14,049	92,763
U. Operations – Equipment Support Costs	-	235,490	-	235,490	183,948	51,542	235,490	-	131,769
V. Operations – Other Costs and Services	-	(3,770)	-	(3,770)	97,086	(72,505)	24,581	28,351	33,802

Resource Outturn in Departmental Expenditure Limits (DEL) – Voted Expenditure	2021-22							2020-21	
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Virements £000	Total Net Resource Estimate Including Virements £000	Total Net Resource Outturn Compared to Estimate £000	Total Net Resource Outturn £000
W. Operations – Receipts and Other Income	–	–	(4,271)	(4,271)	(3,164)	–	(3,164)	1,107	(2,018)
Y. Arm's Length Bodies Costs	–	226,707	–	226,707	216,346	12,936	229,282	2,575	228,984
AA. Defence Capability DE&S	–	1,095,298	–	1,095,298	1,204,646	(109,348)	1,095,298	–	1,125,092
AB. War Pensions Benefits	–	622,575	–	622,575	631,966	(9,391)	622,575	–	652,263
AC. Conflict, Stability and Security Fund	–	77,985	–	77,985	83,743	–	83,743	5,758	82,056
Administration Costs¹									
O. Provision of Defence Capability Administration – Civilian Personnel Costs	636,425	–	–	636,425	631,319	5,106	636,425	–	578,380
P. Provision of Defence Capability Administration – Other Costs and Services	345,877	–	–	345,877	563,340	(187,999)	375,341	29,464	540,020
Z. Provision of Defence Capability Administration – Service Personnel Costs	767,735	–	–	767,735	782,393	(14,658)	767,735	–	727,290
AD Cash Release of Provisions Admin Costs	3,025	–	–	3,025	5,000	(1,975)	3,025	–	2,550
Total Spending in Resource DEL	1,753,062	39,207,573	(1,223,119)	39,737,516	39,820,751	–	39,820,751	83,235	40,177,752

1. The Department does not record any income as Administrative.

Resource Outturn in Annually Managed Expenditure (AME) – Voted Expenditure	2021-22							2020-21	
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Virements £000	Total Net Resource Estimate Including Virements £000	Total Net Resource Outturn Compared to Estimate £000	Total Net Resource Outturn £000
AE. Provision of Defence Capability – Depreciation and Impairment Costs	–	129,504	–	129,504	957,550	(828,046)	129,504	–	(146,748)
AF. Provision of Defence Capability – Provisions Costs	–	11,737,047	–	11,737,047	9,906,735	1,830,312	11,737,047	–	1,978,369
AG. Provision of Defence Capability – Cash Release of Provisions Costs	–	(386,661)	–	(386,661)	(355,000)	(9,305)	(364,305)	22,356	(317,712)
AH. Movement on the Fair Value of Financial Instruments	–	(693,246)	–	(693,246)	299,715	(992,961)	(693,246)	–	548,254
Total Spending in Resource AME	–	10,786,644	–	10,786,644	10,809,000	–	10,809,000	22,356	2,062,163
Total Resource Outturn	1,753,062	49,994,217	(1,223,119)	50,524,160	50,629,751	–	50,629,751	105,591	42,239,915

SOPS Note 1.2 – Analysis of Capital Outturn by Estimate Line

Capital Outturn in Departmental Expenditure Limits (DEL) – Voted Expenditure	2021-22							2020-21	
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Virements £000	Total Net Capital Estimate Including Virements £000	Total Net Capital Outturn Compared to Estimate £000	Total Net Capital Outturn £000
J. Provision of Defence Capability – Capital – Single Use Military Equipment	-	8,462,664	-	8,462,664	8,509,854	-	8,509,854	47,190	7,679,950
K. Provision of Defence Capability – Other Capital (Fiscal)	-	3,878,886	-	3,878,886	4,290,582	(404,930)	3,885,652	6,766	2,921,672
L. Provision of Defence Capability – Fiscal Assets / Estate Disposal	-	-	(79,453)	(79,453)	(166,000)	86,547	(79,453)	-	(61,162)
M. Provision of Defence Capability – New Loans and Loan Repayment	-	-	-	-	2,500	-	2,500	2,500	-
N. Provision of Defence Capability – Research and Development Costs	-	1,836,383	-	1,836,383	1,518,000	318,383	1,836,383	-	1,051,694
X. Operations Other Capital (Fiscal)	-	(9,055)	-	(9,055)	39,000	-	39,000	48,055	28,970
Y. Arm's Length Bodies	-	12,200	(9,625)	2,575	2,718	-	2,718	143	3,099
AA. Defence Capability DE&S	-	87,994	-	87,994	68,366	-	68,366	(19,628)	75,898
AC. Conflict, Stability and Security Fund	-	-	-	-	-	-	-	-	6,600
Total Capital Outturn	-	14,269,072	(89,078)	14,179,994	14,265,020	-	14,265,020	85,026	11,706,721

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 is provided in the Supply Estimates Manual, available on 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 Outturn to Net Expenditure

	Note	2021-22	2020-21
		Outturn £000	Outturn £000
Total Net Resource Outturn	SOPS 1.1	50,524,160	42,239,915
Adjustment for changes in discount rates not passing through net expenditure		(73,097)	(54,998)
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts but treated as off-SoFP for Estimates and Budgets and therefore excluded from net resource outturn but included in net expenditure		35,853	76,528
Less income payable to the Consolidated Fund ¹	SOPS 4	–	(56,277)
Income in respect of donated assets and asset disposals, treated as capital income		(40,764)	(33,738)
Loss / (gain) on foreign exchange in respect of Capital purchases and other adjustments to net resource outturn		133,333	48,121
Movements on capitalised and other provisions included in resource or capital outturn but not passing through net expenditure	SoCiTE	(2,334,352)	(687,076)
Adjust for the net effect of capital: grants, income and grants-in-kind included in net expenditure but excluded from net resource outturn		30,165	(15,200)
Movement on payables not passing through net expenditure		(385,897)	–
Add capitalised research and development costs included in net expenditure but excluded from net resource outturn		1,742,162	930,312
Net expenditure for the year in the Statements of Comprehensive Net Expenditure	SoCNE	49,631,563	42,447,587

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	2021-22 Outturn £000	2021-22 Estimate £000	2021-22 Outturn compared to Estimate: Savings/ (Excess) £000
Total Resource Outturn	SOPS 1.1	50,524,160	50,629,751	105,591
Total Capital Outturn	SOPS 1.2	14,179,994	14,265,020	85,026
Adjustments for Arm's Length Bodies (ALBs):				
Remove voted outturn (Resource and Capital)		(229,282)	(219,064)	10,218
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		240,057	215,392	(24,665)
Adjustments to remove non-cash items:				
Depreciation and impairment		(8,117,253)	(9,453,593)	(1,336,340)
New provisions and adjustments to previous provisions		(12,005,000)	(9,906,735)	2,098,265
Other non-cash items		(603,880)	100,000	703,880
Adjustment to reflect movements in working capital:				
Increase / (Decrease) in Inventory		188,274	–	(188,274)
Increase / (Decrease) in Receivables		131,749	–	(131,749)
(Increase) / Decrease in Payables		(789,881)	(109,724)	680,157
Use of provisions and unfunded pensions		355,350	355,000	(350)
Net cash requirement		43,874,288	45,876,047	2,001,759

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. The variation between estimate and outturn reflects judgements and assumptions made over the timing of payments/accruals in forecast outturns. The Department is implementing improved management information to drive greater accuracy in cash forecasting.

SOPS Note 4 Analysis of Income Payable to the Consolidated Fund

None of the income received by the Department in 2021-22 has been classified as payable to the Consolidated Fund.

	Outturn 2021-22		Outturn 2020-21	
	Accruals £000	Cash basis £000	Accruals £000	Cash basis ² £000
Income outside the ambit of the Estimate ¹	–	–	56,277	56,277
Total amount payable to the Consolidated Fund	–	–	56,277	56,277

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.
2. Cash receipts are shown in Italics

In addition to the prior year income shown above, the Department acted, in May 2022, as an agent by receiving and then transferring to the Consolidated Fund the balance of funds held, by the Court Funds Office (CFO), in respect of a long-standing debt held by an Arm's Length Body. At year-end the expected receipt for the funds from the CFO was recorded in the accounts as an Other

Receivable (due in less than one year), at Note 9 – Trade Receivables and Other Assets.

The obligation to transfer these funds to HM Treasury Consolidated Fund was recorded as a payable due within a year, at Note 11 – Trade Payables and Other Liabilities (categorised as Other amounts payable to the Consolidated Fund).

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 £2,065.5 million.

Several remote contingent liabilities are considered unquantifiable. Liabilities may involve multiple improbable scenarios and permutations (often involving complex and changing technology) and the uncertainty surrounding those 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 and hence we cannot measure them with sufficient reliability. The details of any remote unquantifiable remote contingent liabilities are also included in the narrative below. The Department routinely reviews the status of remote unquantified liabilities to determine if circumstances or evidence has arisen that would support quantification.

Sensitive

We have entered into remote 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 the reasons of commercial and / or national security, the estimated value of these is £657 million, there are also some sensitive items where the liability is unquantifiable.

Special and Generic Risk Indemnities

HM Treasury (HMT) have delegated to MOD approval for a range of Special and Generic Risks which can be used 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 £302 million, in addition there are remote unquantifiable liabilities related to Generic and Special Risks, full details 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. These include damage to government property, damage to issued property, default, deferment, termination and indirect and consequential losses and included are some liabilities which are unquantifiable. 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 are set out in standard Defence Conditions (DEFCONs) embedded in contract terms. 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 Babcock Group, Lockheed Martin, Agusta Westland, NavBlue 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 £845.2 million, plus an element of these liabilities are unquantifiable.

- 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 the cap is per incident rather than 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 has been provided to BAE Systems Ltd for Type 26 Global Combat Ship Manufacture Phase 1. These liabilities are unquantifiable.
- An indemnity has been provided for claims that relate to damage to property or death and personal injury to third party relating to post flight checks with a value of £0.2 million.
- An indemnity in respect of submarine production by BAES (British Aerospace Systems) has been provided with a value of £101 million.
- A limit of contractor liability has been provided for shipbuilding, specifically for Dreadnought, with a value of £60 million.

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
- Babcock Group

An unquantifiable indemnity has been issued to Rolls-Royce Submarines for the non-insurance of the Rolls-Royce Core Manufacturing Facility 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 of £58 million. In addition, there is an unquantified guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements which covers the costs of redundancy (on a 90 / 10 basis) of any structural changes that would affect NAAFI operations. This remote liability is unquantified as the Department is unable to ascertain how much this might cost as this will depend on the individual length of service and the grade of those NAAFI employees involved. There is a potential redundancy liability of £11.1 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 contractisation

Environmental

The Department has several sites where it may be necessary to carry out decontamination work.

- The Government Pipeline and Storage System (GPSS) – 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, £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 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 due to 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 remote liability is 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 as they cover a wide variety of events including qualifying changes in law, environmental damage, latent defects and uninsurable events, therefore, are unquantified.

Other Remote 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 and if these contractual encroachments were to materialise then their value would be £5 million.

There are several quantified liabilities arising from Foreign Military Sales activity with the potential value of £3.3 million.

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 Department of Health and Social Care (DHSC). The value of this liability is £0.2 million.

Financial Guarantees

The Department has entered 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 2021-22 on all aspects of the Ministry of Defence's business. Defence Ministers participated in 38 debates on Defence issues in Parliament. Ministers responded to 11 debates in the House of Commons and 4 debates in Westminster Hall. There were 5 debates on Defence in the House of Lords. In addition, there were 18 debates on legislation in both Houses. Details are published in Hansard.

Ministers made 9 oral statements to the House of Commons and 9 to the House of Lords – details are published in Hansard. A total of 2,977 oral and written Parliamentary Questions were answered. Ministers also made 41 Written Ministerial Statements to the House of Commons and 42 to the House of Lords – details are published on the Parliamentary written questions and answers system at the following link – <https://questions-statements.parliament.uk>.

Accounting Officer Assessments

The MOD has published 2 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 2021 to 31 March 2022, Defence Ministers responded to 3,876 items of correspondence from Members of Parliament, Peers and members of the public where a Ministerial response was appropriate. Of these, 3,393 (88%) were answered within the target of 20 working days.

Evidence to the Defence Select Committee

Since 1 April 2021, the Ministry of Defence has given evidence to the Defence Select Committee on a number of occasions, covering a wide range of issues and the Government has responded to a number of the Committee's reports. All Committee publications, including published evidence given to the Committee, are available at: <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 tables that follow.

Parliamentary Session 2021–22: MOD responses to reports published in previous Parliamentary Session

Report	Title	Publication Date
HC 1380	Foreign Involvement in the Defence Supply Chain: Government Response to the Defence Committee's Fourth Report of Session 2019-21	27-Apr-21
HC 221	Obsolescent and outgunned: the British Army's armoured vehicle capability: Government Response to the Defence Committee's Fifth Report of Session 2019-21	21-May-21
HC 552	Manpower or mindset: Defence's contribution to the UK's pandemic response: Government Response to the Defence Committee's Sixth Report of Session 2019-21	09-Jul-21

Financial Year 2021-22: Defence Select Committee Reports

Report	Title	Publication Date
HC 167	Russia and Ukraine border tensions (HC 725)	06-Jul-21
HC 154	Protecting those who protect us: Women in the Armed Forces from Recruitment to Civilian Life (HC 904)	25-Jul-21
HC 168	We're going to need a bigger Navy (HC 1160)	14-Dec-21
HC 1069	Operation Isotope: the use of the military to counter migrant crossings	11-Mar-22

Financial Year 2021–22: Evidence to Defence Committee Inquiries without Reports

Select Committee	Inquiry
Defence Select Committee	Defending Global Britain in a Competitive Age [23 June 2021]
Defence Select Committee	Ajax: recent developments [20 July 2021]
Defence Select Committee	Withdrawal from Afghanistan [26 October 2021]
Defence Select Committee	Work of the Chief of the Defence Staff [9 November 2021]
Defence Sub-Committee	The Treatment of Contracted Staff for the MOD's Ancillary Staff [12 January 2022]
Defence Select Committee	Space Defence (joint with BEIS Minister) [8 March 2022]

Financial Year 2021-22: Visits by the Defence Committee to UK Armed Forces

Date of Visit	Establishment	Related Inquiry
02-Apr-21	RAF Brize Norton & Bovington Camp	N/A
15-Apr-21	HMS PRINCE OF WALES (while docked in Portsmouth)	N/A
28-Jun-21	RAF High Wycombe	N/A
18-Nov-21	Army Foundation College (Harrogate)	Protecting those who protect us: Women in the Armed Forces from Recruitment to Civilian Life

Evidence to other Select Committees of the House of Commons and House of Lords

Since 1 April 2021, 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 2021-22: Other Select Committee Reports

(Government responses, if published, are listed in brackets after the report to which they relate)

Select Committee	Subject	Publication Date
Lords International Relations and Defence Committee	UN Convention on the Law of the Sea (UNCLOS): fit for purpose in the 21st century? HL 159	01-Mar-22

Financial Year 2021-22: Evidence to Other Select Committee Inquiries without Reports.

Select Committee	Inquiry
Lords Risk Assessment and Planning Committee	Risk Assessment and Risk Planning [14 April 2021]
Lords International Relations and Defence Committee	Secretary of State for Defence [27 October 2021]
Foreign Affairs Committee	Government policy on Afghanistan [25 January 2022]
Scottish Affairs Committee	Defence in Scotland [21 March 2022]

Financial Year 2021-22: Visits by Other Select Committees to UK Armed Forces

Select Committee	Date of Visit	Establishment	Related Inquiry
Scottish Affairs	29-Nov-21	Kinloss Barracks & RAF Lossiemouth	Defence in Scotland

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://committees.parliament.uk>.

Evidence to the Committee of Public Accounts and Report Publications Following NAO Value for Money Reports

Report	Title	Hearing Date	Publication Date
HC 940	Improving single living accommodation for service personnel	25-Feb-21	23-Apr-21
HC 179	Optimising the Defence Estate	28-Jun-21	12-Oct-21
HC 185	Improving the performance of defence contracts	12-Jul-21	03-Nov-21
HC 1164	MOD Equipment Plan 2021-2031	28-Feb-22	11-May-22
HC259	Armoured Vehicles: the Ajax Programme	30-Mar-22	3-June-22

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 2021-22, the PHSO received 21 complaints about the MOD (including Veterans UK). The Ombudsman decided 3 complaints following primary investigation. No complaints were accepted for detailed investigation. One detailed investigation was concluded and the complaint was partly upheld.

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>

The Department discloses Losses, Special Payments and Gifts as Advance Notification where an event has arisen but the final costs can only, initially, be estimated. This does mean that an event can be reported as an Advance Notification in one year and reported again as a Closed Case in another when the final value has been determined.

Losses

Details of Closed Cases over £300,000

Cases Closed	2021-22		2020-21	
	Core Department and Agencies	Departmental Group	Core Department and Agencies	Departmental Group
Total Number of Losses	15,820	15,820	9,932	9,932
Total Value of Losses (£'000)	133,682	133,682	82,099	82,099
Details of Losses over £300,000	£000	£000	£000	£000
Write off of unsupported balances. This loss consists of balances that could not be verified with the information available. This loss consists of two cases	5,395	5,395		
Unreconciled aged balances	2,525	2,525		
Total Bookkeeping Adjustments	7,920	7,920	20,954	20,954
Sensitive Item	35,465	35,465		
BATCIS Falcon In Service asset reduction ¹	16,540	16,540		
Defence Geospatial Services withdrawal ¹	5,847	5,847		
Integrated Review decision not to proceed with Multi Role Vehicle – Protected Package 1 project	5,435	5,435		
Integrated Review Milling Machine – surplus following cancellation of Warrior project	2,011	2,011		
Project CASINO cancellation	1,595	1,595		
T45 Capability Sustainment Programme – Cessation of Depth Charge Stowage Design and Sonar S2091 Cables write-off	1,314	1,314		

Cases Closed	2021-22		2020-21	
	Core Department and Agencies	Departmental Group	Core Department and Agencies	Departmental Group
Following decision to cancel Sentinel life extension loss relating to extension of ISSS Services.	1,290	1,290		
HMBB Portsmouth – write-off of materials purchased/minor works to now demolished Blocks A1 and A2 of Building 1/209, 30 Store	588	588		
Total Constructive Losses	70,085	70,085	28,883	28,883
Watchkeeper Write-off following heavy landing event	3,006	3,006		
Accidental damage to Watchkeeper	2,560	2,560		
Stores loss of 3 transmitters relating to the Lynx Platform	2,108	2,108		
Accidental damage to Watchkeeper Ground Equipment during aircraft activity	1,777	1,777		
Warrior Write off due to Fire during 2018 exercise	470	470		
Total Stores Losses	9,921	9,921	5,337	5,337
Write off of AUC Impairment	24,130	24,130		
Late delivery of Government Furnished Equipment	1,648	1,648		
The MOD's budget for 2022–23 has been reduced as a result of the Department's cash forecasting performance during 2021–22	320	320		
Total Fruitless Payments	26,098	26,098	324	324
Overpayment claim abandoned ¹	2,975	2,975		
Total Claims Abandoned or Waived	2,975	2,975	11,199	11,199
TOTAL CLOSED CASES OVER £300,000	116,999	116,999	66,697	66,697

1. These cases have been reported as Advance Notifications in previous years.

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
Loss of F-35B aircraft, ZM152	81.781
Repair of 4 SMEMR Buoys replacement cost circa £2m	2.400
Jackal Vehicle and Equipment destroyed during Wildfire	0.537
Total of Stores Losses	84.718
BATCIS, Termination of contract for delivery of Falcon Cryptographic Solution	7.517
Early disposal of Mastiff, Ridgeback & Wolfhound vehicles	4.133
GMSF Write-off of project sunk costs	1.220
BODYWORK Project cancelled due to failure to meet critical design requirements	1.068
Apache Data tool transfer project suspended	0.745
Damage caused to SD Victoria by power surge on an electrical generator at HMNB Portsmouth	0.359
Total Constructive Losses	15.042
Hellfire Foreign Military Sales - Exchange Rate Loss	2.510
Write off unsupported asset balances – fully depreciated Security Services Group offline assets and unsubstantiated Defence Support Group transferred balances	1.811
Fossil Fuels, Incorrect supplier payment unable to recover as Imperial Bank Kenya in receivership	0.304
Total Bookkeeping Losses	4.625
Non-payment of invoice by overseas regional authority due to political situation	0.645
Total Claims Abandoned or Waived	0.645
TOTAL ADVANCE NOTIFICATIONS OVER £300,000	105.030

Special Payments

Details of Special Payments over £300,000

	2021-22		2020-21	
	Core Departments and Agencies	Departmental Group	Core Departments and Agencies	Departmental Group
Total Number of Special Payments	3,869	3,869	2,371	2,371
Total Value of Special Payments £'000	4,966	4,966	4,764	4,764
Details of Special Payments over £300,000	£000	£000	£000	£000
Contractual Settlement	1,185	1,185		
Charge for Norwegian Defence Department Accommodation not used	684	684		
Settlement payment due to unsuccessful contract bid	475	475		
Interest on Late Payment	354	354		
TOTAL CLOSED CASES OVER £300,000	2,698	2,698	3,240	3,240

Advanced notifications over £300,000

Cases	£M
Extra Gratia Payments	
Contract Termination	0.835
TOTAL ADVANCED NOTIFICATIONS OVER £300,000	0.835

There is another category of payments relating to compensation claims from personnel which are settled under common law principles. HM Treasury approval has been provided where appropriate, for payments against this category and the Department provides disclosure of the volume and value of settlements through the separate publication of annual statistics. The Department will review scope for aligning the disclosure of these payments with others shown in the Annual Report and Accounts during 2022-23.

Special Severance Payments

During 2021–22, 16 Special Severance Payments totalling £520,000 were approved and paid by the Department. Further details (to the nearest £1,000) are:

Analysis of Special Severance Payments

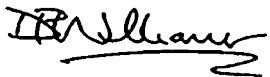
	(to the nearest £1,000)
Maximum Payment	70,000
Median Payment	25,000
Minimum Payment	5,000

There is 1 Special Severance Payment totalling £57,312 which has been approved but not yet paid by the Department as at 31 March 2022.

Gifts

During 2021–22, 200 Gifts with a total value of £98,000 (to the nearest £1,000) were made. One gift over £300,000 was identified during the year as an advanced notification. There have been no individual gifts with a value of £300,000 or more.

The following gifts over £300,000 were identified during the year but have yet to be handed over to the recipient	£M
Devonport Collection given to the National Museum of the Royal Navy – a large number of Royal Navy related artefacts that have been accumulated within Devonport Naval Base and have become known as the Devonport Collection.	654
TOTAL ADVANCE NOTIFICATIONS OF GIFTS	654



David Williams CB
Accounting Officer
11 July 2022

The Certificate of the Comptroller and Auditor General to the House of Commons

Qualified opinion on financial statements

I certify that I have audited the financial statements of the Ministry of Defence (the Department) and of its Departmental Group for the year ended 31 March 2022 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

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards.

In my opinion, except for the effects of the matters described in the *Basis for qualified opinion on financial statements* section below, the financial statements:

- give a true and fair view of the state of the Department and the Departmental Group's affairs as at 31 March 2022 and its 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.

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 2022 and shows that those totals have not been exceeded;
- the Votes A statement presented in Annex A properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2022 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 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 Department and its Group has omitted a material value of leased assets and lease liabilities from its Statement of

Financial Position as at 31 March 2021 and 31 March 2022. I am unable to quantify the impact on the financial statements because the Department has not obtained the records or information required to comply with International Accounting Standards in this respect.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (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 Department and its Group 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 Department and its Group'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 Department or its Group'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 Department and its Group 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 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 financial statements nor my auditor's certificate and report 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 the part of the Remuneration and Staff Report subject to audit has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- 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 and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Department and its Group and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports.

In respect solely of the absence of accounting records held by the Department and its Group

to support the proper application of IAS 17 described in my *Basis of qualified opinion on the financial statements* section 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 subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report subject to audit are not in agreement with the accounting records and returns; 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:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- 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 Department and its Group’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 Department and its Group 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting

non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Department and its Group’s accounting policies, key performance indicators and performance incentives.
- Inquiring of management, the Department’s head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department and its Group’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 Department and its Group’s controls relating to their compliance with the Government Resources and Accounts Act 2000 and Managing Public Money.

- discussing among the Group engagement team and involving relevant internal specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Department and its Group for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, bias in management estimates, significant or unusual transactions and procurement. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I also obtained an understanding of the Department and its Group’s framework of authority as well as other legal and regulatory frameworks in which the Department and its Group operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Department and its Group. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2021, employment law, tax legislation and health and safety legislation.

In addition, I considered:

- the results of analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reviews of internal audit reports; and
- knowledge gained through 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.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit and Risk Assurance Committees and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Boards and internal audit reports;
- 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 and Risk Assurance 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 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. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain appropriate 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.

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 2021–22 for the Navy, Army and Air Force in all active and reserve categories were within the numbers voted by Parliament. I am required to obtain appropriate 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 that those totals have not been exceeded.

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.

Gareth Davies

Comptroller and Auditor General

12 July 2022

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

Report of the Comptroller and Auditor General on the 2021-22 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 2021-22 the Departmental Group incurred £49.6 billion of net expenditure and held assets of £170.1 billion and liabilities of £44.8 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.

The purpose of my report

This report explains the basis for the qualification of my audit opinion on the Department's 2021-22 financial statements.

Accounting for lease type arrangements

Basis of my qualification

I have qualified my opinion for a thirteenth 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.

In 2021-22 the Department completed a review of all live contracts in support of its implementation of the new leasing standard (see IFRS 16 implementation project below). This work does not address IAS 17 non-compliance as it has been performed against different requirements and on a different basis. I am unable therefore, to quantify the exact impact of the omission of assets and liabilities arising from leasing arrangements under IAS17 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 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 should 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 was 1 April 2022. The Department informs me that it has adopted IFRS 16 in full from this date.

The Department adopted a detailed plan for the implementation of IFRS 16, which began in October 2018. The plan committed substantial resources, making use of external assistance to ensure that the 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. The Department 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 calculated the resultant asset and liability values. The asset and liability values calculated are on a different basis and do not provide sufficient information to quantify or lift the IAS 17 non-compliance qualification in 2021-22.

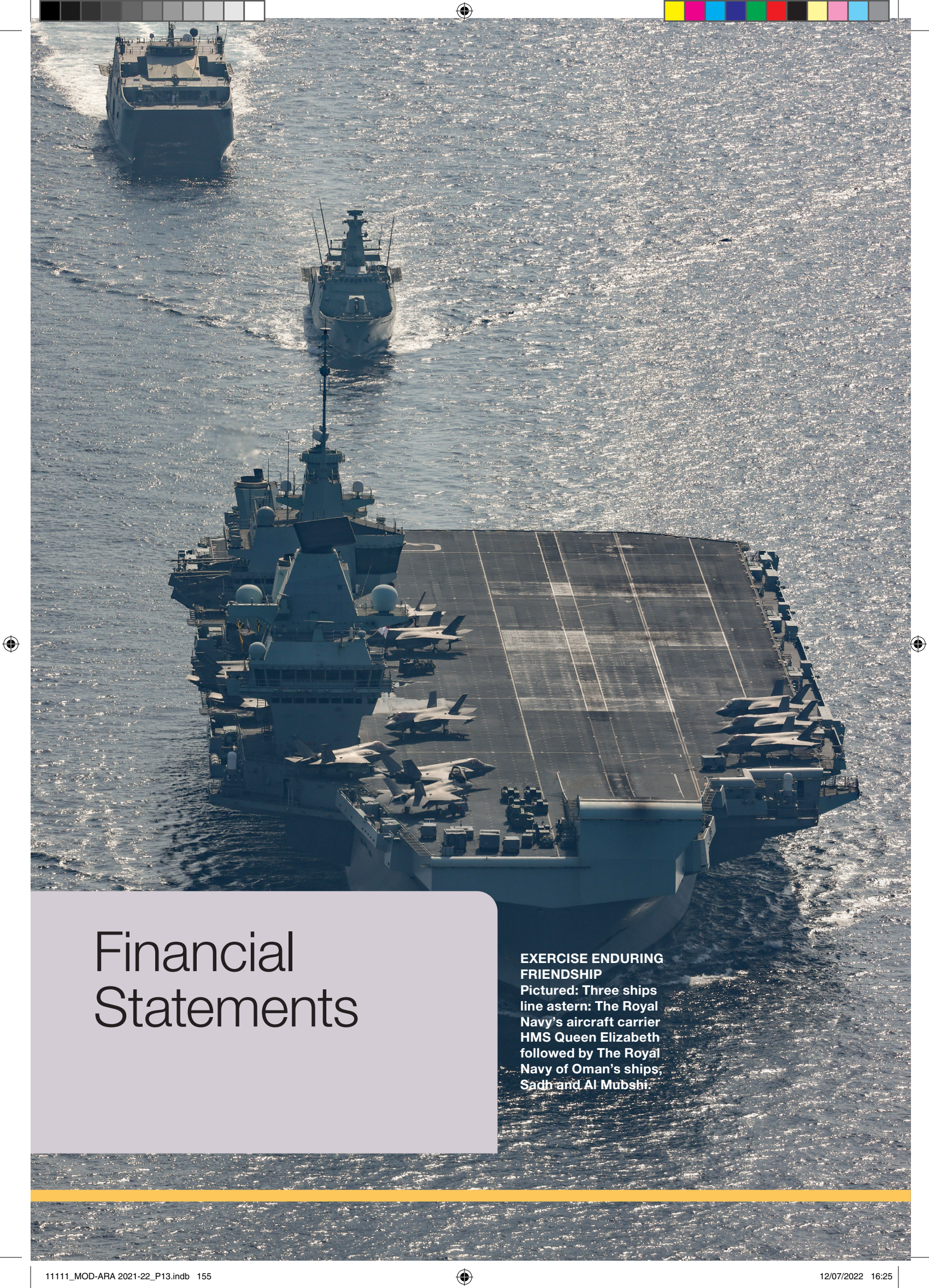
While the Department did not seek to address its non-compliance with IAS 17, I support its commitment to improve processes for assessing contractual arrangements to support full IFRS 16 compliance from 2022-23. The Department has made significant progress during 2021-22 allowing disclosure of the approximate impact on opening balances of adopting IFRS 16 in terms of both previously unrecognised leases and those previously recognised finance leases re-assessed under the new basis from 1 April 2022. My 2022-23 audit will test the IFRS 16 opening and closing balances and transactions in full and depending on the results of my audit work it may be possible to lift this long-standing qualification.

Gareth Davies

Comptroller and Auditor General

12 July 2022

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



Financial Statements

**EXERCISE ENDURING
FRIENDSHIP**
Pictured: Three ships
line astern: The Royal
Navy's aircraft carrier
HMS Queen Elizabeth
followed by The Royal
Navy of Oman's ships,
Sadh and Al Mubshi

Consolidated Statements of Comprehensive Net Expenditure (SoCNE) for the year ended 31 March 2022

	Note	2021-22		2020-21	
		Core Department & Agencies £M	Departmental Group ¹ £M	Core Department & Agencies £M	Departmental Group ¹ £M
Income from provision of supplies and services	3	(865.3)	(865.3)	(950.2)	(950.2)
Other income	3	(710.9)	(822.5)	(530.3)	(606.3)
Total income		(1,576.2)	(1,687.8)	(1,480.5)	(1,556.5)
Staff costs	4.1	14,439.0	14,774.8	14,538.7	14,641.2
Purchase of goods and services	4.2	17,478.1	17,290.3	15,827.9	15,827.9
Depreciation, amortisation, impairment, write-(ons) / offs and disposals	4.3	8,678.6	8,691.5	9,924.5	9,941.5
Provision expense	4.4	9,308.4	9,308.4	1,192.8	1,192.8
War pensions / benefits		622.6	622.6	652.4	652.4
Other expenditure	4.5	351.5	294.3	1,438.5	1,387.8
Total operating expenditure		50,878.2	50,981.9	43,574.8	43,643.6
Net operating expenditure		49,302.0	49,294.1	42,094.3	42,087.1
Finance expense		337.5	337.5	360.5	360.5
Net expenditure for the year		49,639.5	49,631.6	42,454.8	42,447.6
Non-operating loss on the transfer of AWE plc to the Department ²		-	445.9	-	-
Net expenditure for the year including the non-operating loss on the transfer of AWE plc to the Department		49,639.5	50,077.5	42,454.8	42,447.6
Other Comprehensive Expenditure					
Net (gain) or loss on:					
revaluation of property, plant and equipment	SoCITE	(6,020.2)	(6,011.0)	(2,972.5)	(2,991.1)
revaluation of intangible assets	SoCITE	304.7	304.4	(203.4)	(203.4)
revaluation of assets held for sale	SoCITE	2.9	2.9	2.8	2.8
revaluation of pensions	SoCITE	49.7	(321.1)	43.2	45.7
revaluation of capitalised decommissioning liabilities	SoCITE	2,713.5	2,713.5	687.1	687.1
assets written-off or written-on or transferred in	SoCITE	-	(37.9)	1.1	(26.5)
Comprehensive Net Expenditure for the Year		46,690.1	46,728.3	40,013.1	39,962.2

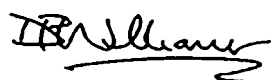
1. The Departmental Group includes income and expenditure by Arm's Length Bodies (ALB). ALB Net operating expenditure is not considered material to the Group Accounts and it is reported as: Other income, Staff costs, Purchase of goods and services - property management, Depreciation, amortisation, impairment, write-(ons) / offs and disposals, or Other expenditure-administrative costs. Further details of income and expenditure by ALBs is at Annex F.
2. On 1 July 2021 AWE plc was re-classified as a Non-Departmental Public Body and became part of the MOD's Group Accounts. Further details of the reclassification are at Notes 20.2 to 20.5.

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 2022

	Note	31 March 2022		31 March 2021	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Non-current assets					
Intangible assets	5	31,005.2	31,005.7	30,143.3	30,143.3
Property, plant and equipment	6	128,667.4	129,335.5	119,793.8	120,472.0
Retirement benefit scheme assets	13	–	8.9	–	8.9
Financial assets	7	76.0	76.0	13.3	13.3
Receivables due after more than one year	9	584.9	588.1	646.7	646.7
Total non-current assets		160,333.5	161,014.2	150,597.1	151,284.2
Current assets					
Non-current assets held for sale		26.9	26.9	39.8	39.8
Inventories	8	3,759.6	3,767.7	3,739.6	3,747.8
Receivables due within one year	9	3,623.5	3,670.2	3,431.1	3,494.9
Financial assets	7	359.6	404.9	44.9	78.5
Cash at bank and in hand	10	974.9	1,243.6	1,002.3	1,153.1
Total current assets		8,744.5	9,113.3	8,257.7	8,514.1
Total assets		169,078.0	170,127.5	158,854.8	159,798.3
Current liabilities					
Payables due within one year	11	(12,911.8)	(13,130.4)	(10,685.0)	(10,812.7)
Provisions due within one year	12	(418.5)	(419.4)	(411.9)	(417.2)
Financial liabilities	7	(161.3)	(161.3)	(515.4)	(515.4)
Total current liabilities		(13,491.6)	(13,711.1)	(11,612.3)	(11,745.3)
Total assets less current liabilities		155,586.4	156,416.4	147,242.5	148,053.0
Non-current liabilities					
Provisions due after one year	12	(25,462.2)	(25,466.9)	(13,599.2)	(13,599.3)
Retirement benefit scheme liabilities	13	(725.7)	(817.0)	(662.9)	(702.0)
Payables due after more than one year	11	(4,810.5)	(4,811.6)	(5,193.9)	(5,194.1)
Total non-current liabilities		(30,998.4)	(31,095.5)	(19,456.0)	(19,495.4)
Total assets less total liabilities¹		124,588.0	125,320.9	127,786.5	128,557.6
Taxpayers' equity and other reserves					
General fund	SoCiTE	93,559.3	93,559.3	98,030.4	98,030.4
Revaluation reserve	SoCiTE	31,028.7	31,028.7	29,756.1	29,756.1
Arm's Length Bodies' reserves		–	732.9	–	771.1
Total equity		124,588.0	125,320.9	127,786.5	128,557.6

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.



David Williams CB

Accounting Officer

11 July 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 2022

	Note	2021-22		2020-21	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Cash flows from operating activities					
Net expenditure for the year	SoCNE	49,639.5	49,631.6	42,454.8	42,447.6
Adjustments for non-cash transactions ¹		(17,220.7)	(16,856.3)	(11,513.7)	(11,558.9)
Movement in trade and other receivables	SoFP	130.6	116.7	364.4	366.2
Adjustment for movements on receivables relating to items not passing through operating costs		1.2	(96.2)	(2.1)	(2.1)
Movement in net inventories and financial assets held for sale		188.3	199.9	158.7	158.3
Movement in trade payables	SoFP	(1,843.4)	(1,935.2)	(196.9)	(164.5)
Adjustment for movements in payables relating to items not passing through operating costs		1,053.6	858.3	(340.4)	(340.4)
Dividends and equity repayments		25.8	25.8	31.8	31.8
Realised (gain) or loss on derivatives		149.3	149.3	(124.6)	(124.6)
Use of provisions and unfunded pensions		355.4	355.4	309.0	309.0
Net cash outflow from operating activities		32,479.6	32,449.3	31,141.0	31,122.4
Cash flows from investing activities					
Purchase of property, plant and equipment	6	9,897.8	9,909.7	8,521.5	8,536.7
Purchase of intangible assets	5	2,409.8	2,410.1	2,286.1	2,286.1
Adjustment for non-cash movements relating to PPE and intangibles		(1,172.8)	(1,172.8)	(441.6)	(441.6)
Proceeds on disposal of property, plant and equipment		(240.2)	(240.2)	(61.3)	(61.3)
Dividends, equity repayments and other income from investments		(25.8)	(25.8)	(31.8)	(31.8)
Recognition of cash balance on absorption of a new ALB		-	(99.8)	-	-
Other investments		66.3	66.3	-	-
Net cash outflow from investing activities		10,935.1	10,847.5	10,272.9	10,288.1

	Note	2021-22		2020-21	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Cash flows from financing activities					
Consolidated Fund (Supply) – current year	SoCiTE	(43,878.8)	(43,878.8)	(41,748.0)	(41,748.0)
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		457.1	457.1	351.9	351.9
Movement on collaborative projects		31.9	31.9	302.7	302.7
Net financing		(43,387.3)	(43,387.3)	(41,090.9)	(41,090.9)
Net increase or (decrease) in cash and cash equivalents in the period before adjustment for payments to the Consolidated Fund		(27.4)	90.5	(323.0)	(319.6)
Payment of amounts due to the Consolidated Fund		-	-	(56.3)	(56.3)
Net increase or (decrease) in cash and cash equivalents in the period after adjustment for payments to the Consolidated Fund		(27.4)	90.5	(379.3)	(375.9)
Cash and cash equivalents at the beginning of the period	10	1,002.3	1,153.1	1,381.6	1,529.0
Cash and cash equivalents at the end of the period	10	974.9	1,243.6	1,002.3	1,153.1

1. The main driver of the adjustment for non-cash transactions in 2021-22 is depreciation, amortisation and impairment on non-current assets of -£7.5 billion; and a -£9.5 billion change in provisions. The main drivers in 2020-21 were 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.

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 2022

	Note	Core Department and Agencies			Departmental Group	
		General Fund ¹ £M	Revaluation Reserve ¹ £M	Taxpayers Equity £M	ALBs' Reserves ¹ £M	Total Reserves £M
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	41,748.0	–	41,748.0	–	41,748.0
Parliamentary Funding – deemed funding		457.4	–	457.4	–	457.4
Parliamentary Funding – Supply payable	11	(380.8)	–	(380.8)	–	(380.8)
Payment of amounts due to the Consolidated Fund		(56.3)	–	(56.3)	–	(56.3)
Non-cash charge – auditors remuneration	4.5	3.0	–	3.0	–	3.0
Net expenditure for the year	SoCNE	(42,454.8)	–	(42,454.8)	7.2	(42,447.6)
Other net comprehensive expenditure						
Net gain or (loss) on:						
revaluation of property, plant and equipment	SoCNE	–	2,972.5	2,972.5	18.6	2,991.1
revaluation of intangible assets	SoCNE	–	203.4	203.4	–	203.4
revaluation of assets held for sale	SoCNE	–	(2.8)	(2.8)	–	(2.8)
revaluation of pensions	SoCNE	(43.2)	–	(43.2)	(2.5)	(45.7)
revaluation of capitalised decommissioning liabilities		–	(687.1)	(687.1)	–	(687.1)
assets written-off or written-on or transferred in	SoCNE	(0.2)	(0.9)	(1.1)	27.6	26.5
Transfers between reserves		2,735.3	(2,735.3)	–	–	–
Balance at 31 March 2021		98,030.4	29,756.1	127,786.5	771.1	128,557.6
Parliamentary Funding - drawn down in-year	SoCF	43,878.8	–	43,878.8	–	43,878.8
Parliamentary Funding - deemed funding		380.8	–	380.8	–	380.8
Parliamentary Funding - Supply payable	11	(385.3)	–	(385.3)	–	(385.3)
Other amount due to the Consolidated Fund		(385.7)	–	(385.7)	–	(385.7)
Non-operating loss on the transfer by absorption of AWE plc		–	–	–	(445.9)	(445.9)
Non-cash charge - auditors remuneration	4.5	3.0	–	3.0	–	3.0
Net expenditure for the year	SoCNE	(49,639.5)	–	(49,639.5)	7.9	(49,631.6)
Other net comprehensive expenditure						
Net gain or (loss) on:						
revaluation of property, plant and equipment	SoCNE	–	6,020.2	6,020.2	(9.2)	6,011.0
revaluation of intangible assets	SoCNE	–	(304.7)	(304.7)	0.3	(304.4)
revaluation of assets held for sale	SoCNE	–	(2.9)	(2.9)	–	(2.9)
revaluation of pensions	SoCNE	(49.7)	–	(49.7)	370.8	321.1
revaluation of capitalised decommissioning liabilities	SoCNE	–	(2,713.5)	(2,713.5)	–	(2,713.5)
assets written-off or written-on or transferred in	SoCNE	–	–	–	37.9	37.9
Transfers between reserves		1,726.5	(1,726.5)	–	–	–
Balance at 31 March 2022		93,559.3	31,028.7	124,588.0	732.9	125,320.9

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) 2021-22 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 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 to 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 impact of the pandemic to have 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) and has concluded that, other than for one entity, the going concern remains a valid assumption for these organisations given ongoing Supply funding for on vote agencies and support for other bodies where appropriate. One entity, the International Military Services Ltd, will be liquidated following the settlement of any remaining liability. The latest assessment of International Military Services Ltd assets and liabilities are reflected in the consolidated accounts and subsequent liquidation is not considered material to these Accounts.

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, amortisation, impairment, write-(ons) / offs and disposals', 'property management' 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 2021-22 affecting the preparation of the Accounts.

Changes Impacting the Preparation of Future Annual Accounts

1.11 There is one significant change to the 2022-23 FReM. This is the adoption of IFRS 16: *Leases* and is expected to have a

significant impact for the Department. IFRS 16 has been issued but is not yet effective for the public sector as a whole in 2021-22. The implementation of IFRS16 by the Department is in line with the mandatory adoption of the Standard by public bodies from 1 April 2022. Therefore, the Department has formally adopted IFRS16 from 1 April 2022 which was the mandatory adoption date set for public bodies by HM Treasury.

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. Hence, as mandated by the FReM, prior year figures and comparatives are not re-stated for the impact of IFRS 16.
- 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. The Department has re-assessed all contracts with a value over £25,000 against the IFRS 16 lease criteria to consider whether they contain a lease under the new standard.
- 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;
- will discount lease liabilities at transition using the discount rate mandated by HM Treasury at transition of 0.95%.

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 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. However, this does not apply to all contracts and the revaluation model will be applied to the Department's contract for the leasing of accommodation for Service personnel and for peppercorn leases.

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;
- 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); and

- remeasuring finance leases (after initial application on 1 April 2022) on an IFRS 16 basis that were previously measured on an IAS 17 basis.

1.21 The Department has measured its lease liabilities and associated right-of-use assets for its leases currently classified as operating leases under IAS 17 together with the lease liabilities and associated right-of-use assets embedded within contracts not previously recognised as a lease. The financial impact of recognising these right-of-use assets and liabilities at 1 April 2022 under IFRS 16 is estimated to be approximately £1.9 billion. We have not sought to quantify the impact on an IFRIC 4/IAS 17 basis. The financial impact of re-measuring finance leases after transition on 1 April 2022 is estimated to be approximately £2.3 billion with the increase in liability being charged to the reserves. Together these changes would increase the Department's right-of-use assets by £1.9 billion and increase liabilities by £4.2 billion. The overall impact on the SoCNE in 2022-23 (i.e. the increases in depreciation and interest charges less the current operating lease charges) is not viewed as material.

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 classifies and measures its *Property, Plant and Equipment* in accordance with IAS 16: *Property, Plant and Equipment* as adapted by the FReM. The Department's capitalisation threshold is £25,000. However, individual non-current assets that are less than £25,000 are capitalised as part of a group where the items are generically similar and due to their total value, are grouped and capitalised. 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 revaluation or indexation. 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 annually in the month of 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 in May and revised indices at the year-end (based on 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, which

can be assumed to be at least equal to the cost of replacing that service potential, i.e. depreciated replacement cost method. Land is valued considering geographical region and type i.e. land use. 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 residual economic lives. Property assets are valued as at November 2021 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 IFRS5: 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. On addition to the Non-Current Asset Register, assets are within the useful lives' range in paragraph

1.32 below, although over time assets may cease to be within this range following useful life changes such as extensions or impairments. There is an exception whereby additions may not adhere to the accounting policy, for example, if the asset lives are being aligned to have the same out of service date as the corresponding parent asset/major platform.

1.32 The principal asset categories, together with their expected 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 – 40
	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. Non-embodied capital spares are generally included in the SUME category and embodied capital spares 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 2021-22 (and previous years) the Department concluded, with HM Treasury support, that because 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 and other intangible assets 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. Other intangible assets are amortised over their estimated useful life.

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. 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.

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. From 1 April 2022, infrastructure assets will be measured following the

guidance in IFRS 16 and IAS 16, as applied by the FReM. The financial impact of this has not yet been quantified but is not anticipated to be material.

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 1.61).

1.59 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 Expected credit loss provisions are also made against specific receivables.

1.61 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.

1.62 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.

Inventories

1.63 Raw Material and Consumables (RMC) inventory are recognised in accordance with IAS 2: *Inventories* as interpreted by the FReM and 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 Capital Spares (CS) and Guided Weapons Missiles and Bombs (GWMB) are recognised in accordance with IAS 16: *Property, Plant and Equipment* as adapted by the FReM and are valued at fair value as at the year-end.

1.65 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.

1.66 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.

1.67 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.

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 2022. 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 2022, the Department had not identified any contracts as onerous and expects to recover all value reported.

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. Where material, 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:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- 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. Unless software licences meet the capitalisation criteria in IAS 38: *Intangible Assets* (as adapted in the FReM) and the Department's capitalisation threshold, their costs are expensed. Where software licences

are expensed, there is a £10,000 threshold for prepayments of software licences. As such, prepayments are recognised for licences greater than £10,000 and those costs 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.

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. The Government has announced that due to interactions with wider pension policies, completion of the 2016 valuation process and the review of the cost control

mechanism, any changes to employer contribution rates resulting from the 2020 valuations will be delayed from April 2023 to April 2024.

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.

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 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 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 2022 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 fair value.

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 AWE 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 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 used to recognise 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 (DNO) oversees all defence nuclear business, excluding operations.

2.6 Defence Equipment and Support (DE&S) is responsible for procurement and support to equipment, excluding submarines.

2.7 The Defence Infrastructure Organisation (DIO) 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	2021-22 £M	2020-21 £M
Royal Navy	7,586.2	6,905.8
Army	11,052.0	10,981.5
Royal Air Force	8,539.7	7,822.2
Strategic Command	6,321.2	5,355.7
Defence Equipment & Support	1,185.1	1,207.7
Defence Infrastructure Organisation	979.4	962.8
Head Office and Enabling Organisations ¹	2,512.0	1,954.8
Defence Nuclear Organisation	5,245.4	4,515.8
Strategic Programme	1,188.7	925.5
Unallocated Equipment Plan ²	(3.3)	120.7
War Pension Benefits	622.6	652.3
Sub total of Resource and Capital reviewed by the Board during the financial year	45,229.0	41,404.8
Outturn (Resource and Capital) for Cost of Operations (excluding depreciation, impairments, provisions)	501.8	487.1
Balance of Resource and Capital Outturn (depreciation, impairment, provisions, Annually Managed Expenditure (AME) and Arm's Length Bodies)	18,973.4	12,054.7
Total Resource and Capital Outturn (See Statement of Outturn against Parliamentary Supply (SOPS))	64,704.2	53,946.6
Reconciliation to Net Expenditure:		
Adjustment for items included in Net Resource Outturn but not included in Net Operating Costs (see SOPS Note 2)	(884.7)	214.9
Adjustment for capital expenditure not included in Net Expenditure (see SOPS Note 1.2)	(14,180.0)	(11,706.7)
Total Departmental Net Expenditure (See Statement of Comprehensive Net Expenditure)	49,639.5	42,454.8

1. Includes: Dstl, DECA and organisations delivering services such as HR, payroll, and policing.
2. Includes a share of receipts paid to MOD, by contractors, for products sold to third parties, where the products sold have been developed using MOD funding.

Equipment Plan Outturn	2021-22 £M	2020-21 £M
Equipment Plan – Resource Outturn		
Royal Navy	1,434.4	1,281.1
Army	1,132.3	1,232.3
Royal Air Force	2,162.3	2,093.1
Strategic Command	2,327.9	1,888.8
Defence Equipment & Support ¹	(3.3)	120.7
Defence Nuclear Organisation	1,084.7	1,039.8
Strategic Programme	373.1	397.2
Equipment Plan – Total Resource Outturn	8,511.4	8,053.0
Equipment Plan – Capital Outturn		
Royal Navy	1,976.7	1,727.0
Army	1,399.8	1,371.7
Royal Air Force	2,553.5	2,392.1
Strategic Command	868.5	581.4
Defence Equipment & Support	1.8	6.8
Defence Nuclear Organisation	3,795.0	3,404.1
Strategic Programme	815.6	528.3
Equipment Plan – Total Capital Outturn	11,410.9	10,011.4

1. Includes a share of receipts paid to MOD, by contractors, for products sold to third parties, where the products sold have been developed using MOD funding.

Infrastructure Plan Outturn	2021-22 £M	2020-21 £M
Infrastructure Plan – Resource Outturn		
Royal Navy	189.3	174.6
Army	1,086.1	1,052.4
Royal Air Force	284.0	273.2
Strategic Command	318.7	319.6
Defence Equipment & Support	108.5	106.9
Defence Infrastructure Organisation	402.2	425.3
Head Office and Enabling Organisations ¹	109.5	109.2
Defence Nuclear Organisation	4.0	5.4
Infrastructure Plan – Total Resource Outturn	2,502.3	2,466.6
Infrastructure Plan – Capital Outturn		
Royal Navy	183.9	193.7
Army	191.4	183.5
Royal Air Force	139.2	129.0
Strategic Command	134.3	111.8
Defence Equipment & Support	22.6	30.9
Defence Infrastructure Organisation	153.6	147.1
Infrastructure Plan – Total Capital Outturn	825.0	796.0

1. Includes: Dstl, DECA and organisations delivering services such as HR, payroll, and policing.

3. Income

	2021-22		2020-21	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Receipts – revenue from contracts with customers	233.0	233.0	158.2	158.2
Receipts – supplies and services	236.5	236.5	272.5	272.5
Receipts – NATO/UN/US Forces/Foreign Governments	332.2	332.2	483.9	483.9
Receipts – sale of fuel	7.3	7.3	5.7	5.7
Rental income – property	56.3	56.3	29.9	29.9
Sub total – Income from provision of supplies and services	865.3	865.3	950.2	950.2
Income Other – receipts personnel	290.4	290.4	282.4	282.4
Income Other – proceeds from the sale of property, plant, equipment and intangible assets	276.6	276.6	126.8	126.8
Income Other – including: dividends, donated assets, ALBs' income, commercial exploitation levies and sundry sales	143.9	255.5	121.1	197.1
Total Income	1,576.2	1,687.8	1,480.5	1,556.5

4. Expenditure

4.1 Staff costs

	2021-22		2020-21	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Staff costs comprise ¹ :				
Salaries and wages	9,078.7	9,342.1	9,121.8	9,204.0
Social security costs	834.4	870.3	847.0	858.1
Pension costs	4,524.4	4,560.9	4,545.5	4,554.7
Redundancy and severance payments	1.5	1.5	24.4	24.4
	14,439.0	14,774.8	14,538.7	14,641.2
Paid to:				
Armed Forces	11,290.3	11,290.3	11,410.6	11,410.6
Civilian	3,148.7	3,484.5	3,128.1	3,230.6
	14,439.0	14,774.8	14,538.7	14,641.2

1. Information on staff numbers, exit packages and other relevant disclosures (including relating to Ministers), is included in the Remuneration and Staff Report section of the Accountability Report.

4.2 Purchase of goods and services

	2021-22		2020-21	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Equipment management:				
Equipment support – owned equipment	5,755.8	5,415.7	5,356.2	5,356.2
Contractor logistic and operational equipment support contracts	1,008.5	1,008.5	1,112.4	1,112.4
Equipment support – under Service Concession Arrangements	330.6	330.6	310.2	310.2
Equipment support – equipment under finance lease	18.1	18.1	17.4	17.4
Payments under operating leases – plant & equipment	3.1	3.1	4.0	4.0
Plant and equipment under Service Concession Arrangements	26.3	26.3	56.0	56.0
Estate management:				
Property management	1,567.8	1,799.9	1,629.5	1,629.5
Property management under Service Concession Arrangements	686.0	686.0	663.9	663.9
Utilities	336.5	336.5	318.7	318.7
Accommodation charges	327.4	327.4	340.6	340.6
Payments under operating leases – other	257.2	257.2	190.4	190.4
Defence housing costs under finance leases	102.1	102.1	103.5	103.5
Inventory:				
Inventory consumption	975.7	975.7	844.4	844.4
Fuel consumption	278.6	278.6	289.7	289.7
Information Technology and communications:				
IT and telecommunications	1,805.9	1,805.9	1,631.8	1,631.8
IT and telecommunications under Service Concession Arrangements	250.5	250.5	222.9	222.9
Transport and Travel:				
Cost of travel, subsistence, relocation, and movement of stores and equipment	539.9	539.9	365.7	365.7
Transport under Service Concession Arrangements	55.7	55.7	52.9	52.9
Other costs:				
Research and development	1,582.0	1,502.2	883.5	883.5
Professional fees	984.9	984.9	911.7	911.7
Training, safety and welfare	585.5	585.5	522.5	522.5
Total	17,478.1	17,290.3	15,827.9	15,827.9

4.3 Depreciation, impairment, writes on/off and disposals

	2021-22		2020-21	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Depreciation of property, plant and equipment (PPE)	6,367.2	6,379.5	6,023.5	6,034.4
Amortisation of intangible assets	1,324.6	1,324.7	1,426.2	1,426.2
Impairments – intangible assets, property, plant and equipment and assets held for sale ¹	1,133.5	1,133.5	2,008.2	2,008.2
Impairment reversals – intangible assets, property, plant and equipment and assets held for sale	(674.3)	(674.3)	(537.6)	(537.6)
Adjustments to capital projects, inventory and bad debts ²	82.6	82.6	(60.1)	(60.1)
Non-cash cost of disposal of property, plant and equipment and intangible assets	114.7	114.7	100.7	100.7
Net movement in intangible and property, plant and equipment assets written-on and written-off ¹	330.3	330.8	963.6	969.7
Total	8,678.6	8,691.5	9,924.5	9,941.5

1. The Integrated Review published in March 2021 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 2020-21 accounts.
2. Further details of inventory adjustments are at Note 8.3.

4.4 Provision expense

	2021-22		2020-21	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Increase or (decrease) in :				
Nuclear provisions ¹	892.8	892.8	783.1	783.1
Other provisions	207.2	207.2	178.4	178.4
Movement due to the change in interest rate including unwinding of discounted provisions	8,208.4	8,208.4	231.3	231.3
Total¹	9,308.4	9,308.4	1,192.8	1,192.8

1. 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

	2021-22		2020-21	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Movement on derivatives and year-end revaluation of foreign exchange cash and bank balances	(485.7)	(485.7)	699.4	699.4
Other costs – including recruitment, insurance, public relations, funeral expenses, cadet forces pay and unwinding of discount on payables and receivables	530.4	698.8	479.0	659.7
Grants-in-Aid (including to bodies within the accounting boundary)	277.6	77.5	224.6	25.2
Other grants to bodies within the accounting boundary	26.2	–	32.5	–
Auditors' remuneration (for audit work only) – notional (non-cash) cost in respect of the Core Department and Agencies	3.0	3.0	3.0	3.0
Auditors' remuneration (for audit work only) – in respect of Arm's Length Bodies	–	0.7	–	0.5
Total	351.5	294.3	1,438.5	1,387.8

1. The Department's derivative financial instruments consist of foreign currency forward purchase contracts and fuel fixed swap contracts. The asset and liability values of these contracts are at Note 7.6.

5. Consolidated Departmental Group – Intangible Assets

Intangible assets include development expenditure in respect of non-current assets in use and assets under construction (AUC).

	Single Use Military Equipment £M	Transport £M	AUC £M	Others £M	Total £M
Cost or Valuation					
Balance at 1 April 2020	25,723.5	7,245.1	12,410.5	3,074.9	48,454.0
Additions ¹	–	–	2,272.1	14.0	2,286.1
Write-ons/(offs)	(525.4)	(1.5)	(531.3)	(115.7)	(1,173.9)
Impairments ²	(420.1)	(130.4)	(48.8)	(4.6)	(603.9)
Impairment reversals ²	0.2	–	23.1	–	23.3
Revaluations ³	270.5	56.6	(0.2)	13.1	340.0
Reclassifications ⁴	745.4	56.1	(1,534.2)	265.9	(466.8)
Balance at 31 March 2021	25,794.1	7,225.9	12,591.2	3,247.6	48,858.8
Additions ¹	–	–	2,396.5	13.6	2,410.1
Write-ons/(offs)	(180.6)	(79.2)	(35.9)	(804.7)	(1,100.4)
Impairments ²	(45.5)	(16.8)	(3.6)	(2.9)	(68.8)
Impairment reversals ²	–	–	3.9	0.2	4.1
Revaluations ³	(402.1)	(212.4)	0.7	28.6	(585.2)
Reclassifications ⁴	1,051.5	192.8	(1,024.9)	(61.3)	158.1
Balance at 31 March 2022	26,217.4	7,110.3	13,927.9	2,421.1	49,676.7

Amortisation					
Balance at 1 April 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 ²	280.0	100.1	–	3.5	383.6
Impairment reversals ²	(0.1)	–	–	–	(0.1)
Revaluations ³	(105.0)	(23.5)	–	(8.1)	(136.6)
Reclassifications ⁴	–	–	–	–	–
Balance at 31 March 2021	(12,403.0)	(3,995.0)	–	(2,317.5)	(18,715.5)

	Single Use Military Equipment £M	Transport £M	AUC £M	Others £M	Total £M
Charged in Year	(910.2)	(282.3)	–	(132.2)	(1,324.7)
Write-(ons)/offs	182.3	79.2	–	804.4	1,065.9
Impairments ²	19.1	3.9	–	2.0	25.0
Impairment reversals ²	(0.5)	–	–	(2.8)	(3.3)
Revaluations ³	163.0	136.5	–	(18.7)	280.8
Reclassifications ⁴	0.7	0.1	–	–	0.8
Balance at 31 March 2022	(12,948.6)	(4,057.6)	–	(1,664.8)	(18,671.0)

Net Book Value					
Balance at 1 April 2020	13,629.5	3,434.4	12,410.5	810.5	30,284.9
Balance at 31 March 2021	13,391.1	3,230.9	12,591.2	930.1	30,143.3
Balance at 31 March 2022	13,268.8	3,052.7	13,927.9	756.3	31,005.7

1. Additions include accruals of £1,012.4 million (2020-21: £962.4 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 on their reclassification to assets in use.
4. Reclassifications include assets classified from property, plant and equipment of £158.7 million (2020-21: to property, plant and equipment of £467 million).

Of the total	Single Use Military Equipment £M	Transport £M	AUC £M	Others £M	Total £M
Core Department and Agencies	13,268.8	3,052.7	13,927.9	755.8	31,005.2
Arm's Length Bodies	–	–	–	0.5	0.5
Total	13,268.8	3,052.7	13,927.9	756.3	31,005.7

5.1 Movement in the revaluation reserve relating to intangible assets

	2021-22 £M	2020-21 £M
Balance – 1 April	2,718.6	2,879.3
Revaluation	(304.4)	203.4
Realised reserve transferred to the General Fund	(263.4)	(364.1)
Balance – 31 March	2,150.8	2,718.6

5.2 Details of Intangible Assets with a Net Book Value greater than £0.5Bn

Description ¹ Development costs and other intangible assets are associated with the following platforms and equipment:	Net Book Value 31 March 2022 £M	Remaining Useful Economic Life (to the nearest year)
Typhoon	5,013.5	18 years
Lightning II	1,646.2	26 years
Merlin Helicopter	1,226.7	8 years
Type 45 destroyer	1,138.9	17 years
AJAX armoured vehicles	837.3	Under Construction
Type 26 global combat ship	826.1	Under Construction
Airbus A400M Atlas	778.7	29 years
Lynx Wildcat helicopter	630.1	23 years
SPEAR 3 air-to-surface missile	616.5	Under Construction
Description ¹ 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

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	Communication Equipment £M	IT and Equipment £M	AUC (SUME) £M	AUC (Other) £M	Total
Balance at 1 April 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 ¹	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 ²	(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 ²	181.3	51.4	131.9	114.6	110.3	0.5	4.5	1.9	-	-	596.4	
Reclassifications ³	(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 ⁴	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	
Additions	-	-	78.6	9.0	440.7	10.3	11.1	102.5	6,144.4	3,113.1	9,909.7	
Write-ons/(offs)	(69.1)	4.6	(176.4)	(81.1)	(2,618.8)	(359.5)	(505.4)	(351.2)	(41.5)	(27.2)	(4,225.6)	
Impairments ²	(21.0)	(15.3)	(134.2)	(553.9)	(321.4)	(25.5)	-	(6.1)	(103.0)	(4.2)	(1,184.6)	
Impairment reversals ²	328.7	58.8	152.8	349.0	2.6	22.1	329.1	5.7	-	-	1,248.8	
Reclassifications ³	8.8	(54.6)	88.5	1,363.2	3,906.4	184.5	347.8	341.2	(4,244.3)	(2,219.4)	(277.9)	
Revaluations ⁴	168.5	276.2	2,998.9	3,876.2	4,632.5	146.7	(468.9)	14.8	-	(2.1)	11,642.8	
Balance at 31 March 2022	3,421.9	7,590.6	23,058.9	39,655.8	89,815.9	4,423.2	18,564.4	4,677.7	22,700.0	8,864.1	222,772.5	

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	Communication Equipment £M	IT and Equipment £M	AUC (SUME) £M	AUC (Other) £M	Total
Balance at 1 April 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)
Charged in Year	(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 ²	2.0	-	56.2	68.4	2,823.9	59.1	1,012.6	5.9	-	-	-	4,028.1
Impairment reversals ²	(11.9)	-	(23.3)	(41.8)	-	(0.4)	(3.1)	(1.5)	-	-	-	(82.0)
Reclassifications ³	-	-	-	36.8	539.7	(46.4)	146.6	(9.5)	-	-	-	667.2
Revaluations ⁴	(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)
Charged in Year	(23.2)	(0.6)	(415.7)	(918.0)	(3,400.2)	(206.8)	(998.4)	(416.6)	-	-	-	(6,379.5)
Write-(ons)/offs	62.7	-	101.8	107.7	2,521.6	318.5	498.8	318.2	-	-	-	3,929.3
Impairments ²	1.3	-	-	82.0	-	8.3	-	3.3	-	-	-	94.9
Impairment reversals ²	(21.6)	-	(82.7)	(93.8)	(40.5)	(16.5)	(315.7)	(4.5)	-	-	-	(575.3)
Reclassifications ³	0.3	-	6.7	(164.3)	312.4	28.3	129.5	(0.2)	-	-	-	312.7
Revaluations ⁴	(25.5)	-	(1,288.6)	(2,618.7)	(1,851.6)	(81.8)	238.8	(4.4)	-	-	-	(5,631.8)
Balance at 31 March 2022	(307.1)	(2.9)	(9,497.1)	(23,080.2)	(45,840.9)	(2,257.0)	(9,243.1)	(3,208.7)	-	-	-	(93,437.0)

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 2020	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 ⁵	2,704.9	7,318.6	12,232.1	15,218.3	40,391.3	2,137.6	10,054.6	1,466.3	20,944.4	8,003.9	120,472.0
Balance at 31 March 2022⁵	3,114.8	7,587.7	13,561.8	16,575.6	43,975.0	2,166.2	9,321.3	1,469.0	22,700.0	8,864.1	129,335.5

- Additions include accruals of £3,597 million (2020-21: £2,493 million).
- Assets are impaired for a variety of reasons e.g. loss, damage, obsolescence, abandonment of AUC, and as part of the disposal process and have been charged or credited (impairment reversals) to operating costs.
- Reclassifications do not net to zero because they include assets reclassified in and out of PPE. In 2021-22 these movements include reclassifications: from inventory of £57.6 million, to intangible assets of £158.7 million and to assets reclassified to assets held for sale of £70 million. In 2020-21 these movements included reclassifications: from inventory of £157 million, from intangible assets of £467 million and assets reclassified to assets held for sale of £48 million.
- 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. MOD conducts reviews, including impairment reviews, at least annually on its AUC and on reclassification of AUC to assets in use.
- Property, plant and equipment as at 31 March 2022 include capitalised provisions (net cost) of £3,307 million (31 March 2021: £1,612 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	701.3	7,446.6	6,250.1	15,085.9	43,975.0	1,912.2	7,616.9	1,065.9	22,700.0	8,864.1	115,618.0
Leased	2,344.2	36.0	6,267.8	138.4	-	-	24.1	-	-	-	8,810.5
Service Concession Arrangements	69.3	105.1	1,043.9	1,351.3	-	254.0	1,680.3	403.1	-	-	4,907.0
Balance at 31 March 2022	3,114.8	7,587.7	13,561.8	16,575.6	43,975.0	2,166.2	9,321.3	1,469.0	22,700.0	8,864.1	129,335.5

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	3,073.1	7,543.7	13,478.7	16,338.1	43,975.0	1,917.0	9,310.4	1,468.1	22,700.0	8,863.3	128,667.4
Arm's Length Bodies	41.7	44.0	83.1	237.5	-	249.2	10.9	0.9	-	0.8	668.1
Total	3,114.8	7,587.7	13,561.8	16,575.6	43,975.0	2,166.2	9,321.3	1,469.0	22,700.0	8,864.1	129,335.5

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. 2021-22 represents the fourth year of the current cycle.

6.2 Valuations for the UK estate were performed by the Valuation Office Agency (VOA). The overseas estate was valued 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 also excluded from valuation where their value (at depreciated replacement cost or equivalent use value) falls below the Department's £50,000 threshold, however they are indexed at the year-end in line with applicable indexation policy.

6.5 Data from the 2021-22 QQR resulted in a £178.4 million increase in the value of Land and a £582.9 million increase in the value of Buildings at Net Book Value. Valuations received during the year were dated 1 November 2021 and were applied retrospectively from 1 April 2021; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 April 2021.

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 £165.7 million impairment. This is made up of: Land, £57.1 million net impairment reversal; Buildings, £222.8 million net impairment. The figures include all Land and Building assets professionally valued during Financial Year 2021-22, 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 part of the 'Movement on derivatives and year-end revaluation of foreign exchange cash and bank balances'.

7.5 The total financial assets held by the Departmental Group is £3,816.7 million (31 March 2021: £2,701.2 million). The Departmental Group's financial liabilities total £10,863.8 million (31 March 2020: £9,194.7 million).

7.6 Details of assets and liabilities classified as financial assets and liabilities in the SoFP are set out below:

	31 March 2022		31 March 2021	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Financial Assets				
Non-current				
UK Hydrographic Office	13.3	13.3	13.3	13.3
Sheffield Forgemasters International Limited (SFIL) ¹	53.9	53.9	-	-
Ploughshare Innovations Limited ¹	1.6	1.6	-	-
Sealand Support Services Limited ¹	7.2	7.2	-	-
Total non-current financial assets	76.0	76.0	13.3	13.3
Current				
Foreign currency forward purchase contracts	133.6	133.6	22.3	22.3
Fuel fixed swap contracts	226.0	226.0	15.7	15.7
Ploughshare Innovations Limited	-	-	1.4	1.4
Sealand Support Services Limited	-	-	5.5	5.5
Deposits and other investments held by Arm's Length Bodies	-	45.3	-	33.6
Total current financial assets	359.6	404.9	44.9	78.5
	31 March 2022		31 March 2021	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Financial Liabilities				
Current				
Foreign currency forward purchase contracts	161.3	161.3	492.4	492.4
Fuel fixed swap contracts	-	-	23.0	23.0
Total current financial liabilities	161.3	161.3	515.4	515.4

1. SFIL was acquired by MOD on 19 August 2021. The investments in Ploughshare Innovations Limited and in Sealand Support Services Limited have been reclassified as non-current financial assets for 2021-22 onwards.

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
Sheffield Forgemasters International Limited (SFIL)	A wholly owned company acquired by MOD on 19 August 2021
International Military Services Limited ¹	Wholly owned by MOD
AWE plc	A wholly owned company acquired by MOD on 1 July 2021. Further details are at Notes 20.2 to 20.5

1. International Military Services Limited ceased trading on 31 July 1991. Following settlement of any outstanding liabilities, the company will be liquidated and any remaining value distributed in accordance with the company's constitution.

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 2022 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
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 2022, 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 £27.1 billion, £22.6 billion is included in Note 6 and £4.5 billion in inventory (as at 31 March 2021 these figures were £26.3 billion with £21.8 billion in Note 6 and £4.5 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 £10.8 billion, of which £7.0 billion is included in Note 6 and £3.8 billion in the following table, (as at 31 March 2021 these figures were £10.6 billion with £6.9 billion in Note 6 and £3.7 billion in the following table).

	31 March 2022 £M	31 March 2021 £M
Munitions	888.2	906.4
Clothing & textiles	173.5	146.0
Engineering & technical	2,273.5	2,311.9
General	157.6	164.6
Medical, dental & veterinary	61.7	56.6
Oil, fuel & lubricants	205.0	154.0
Work in Progress	0.1	0.1
Total Core Department and Agencies	3,759.6	3,739.6
Inventory held by ALBs	8.1	8.2
Total Departmental Group	3,767.7	3,747.8

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 2022		31 March 2021	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Amounts falling due within one year:				
Trade receivables	486.4	345.1	549.6	550.5
Value Added Tax	701.1	702.4	670.3	671.3
Other receivables	1,106.6	1,131.4	608.5	664.8
Prepayments and accrued income	1,328.3	1,490.2	1,601.4	1,607.0
Current part of Service Concession Arrangement prepayment	1.1	1.1	1.3	1.3
	3,623.5	3,670.2	3,431.1	3,494.9
Amounts falling due after one year:				
Trade receivables	28.9	28.9	41.8	41.8
Other receivables	178.7	181.9	193.9	193.9
Prepayments and accrued income	377.3	377.3	411.0	411.0
	584.9	588.1	646.7	646.7
Total Receivables	4,208.4	4,258.3	4,077.8	4,141.6

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

	2021-22		2020-21	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Balance at 1 April	1,002.3	1,153.1	1,381.6	1,529.0
Net change in cash and cash equivalents	(27.4)	90.5	(379.3)	(375.9)
Balance at 31 March	974.9	1,243.6	1,002.3	1,153.1

10.1 The commercial banks and cash in hand figure as at 31 March 2022 includes £589.6 million (31 March 2020: £621.5 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 2022		31 March 2021	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
The following balances were held at:				
Government Banking Service	207.8	326.3	217.5	235.9
Commercial banks and cash in hand	767.1	917.3	784.8	917.2
Totals	974.9	1,243.6	1,002.3	1,153.1

11. Trade Payables and Other Liabilities

	31 March 2022		31 March 2021	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Amounts falling due within one year:				
VAT	130.7	163.8	51.0	51.0
Other taxation and social security	240.3	253.0	233.6	233.8
Trade payables	807.3	750.4	503.4	512.5
Other payables ¹	1,149.6	1,201.0	1,464.4	1,539.2
Accruals and deferred income	9,465.9	9,644.2	7,632.9	7,676.5
Current part of finance leases	13.0	13.0	10.6	10.6
Current part of imputed finance lease element of Service Concession Arrangement contracts	331.5	331.5	405.8	405.8
Current part of NLF loans ²	2.5	2.5	2.5	2.5
Other amounts payable to the Consolidated Fund ³	385.7	385.7	–	–
Supply payable ⁴	385.3	385.3	380.8	380.8
	12,911.8	13,130.4	10,685.0	10,812.7
Amounts falling due after one year:				
Other payables	29.5	29.8	28.1	28.3
Accruals and deferred income	9.1	9.9	6.1	6.1
Finance leases	1,540.4	1,540.4	1,586.3	1,586.3
Imputed finance lease element of Service Concession Arrangement contracts	3,221.7	3,221.7	3,560.9	3,560.9
NLF loans ²	9.8	9.8	12.5	12.5
	4,810.5	4,811.6	5,193.9	5,194.1
Total Payables	17,722.3	17,942.0	15,878.9	16,006.8

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 £589.6 million (2020-21 : £621.5 million).
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. Funds expected to be received from the Court Funds Office on behalf of the Consolidated Fund.
4. 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 ¹ £M	Total ² £M
Balance at 1 April 2020	11,675.6	30.6	53.1	564.1	122.0	12,445.4
Increase in provisions in-year	1,660.5	5.8	2.3	169.2	57.6	1,895.4
Provisions written back and reclassifications	(222.2)	(12.0)	(0.9)	(20.4)	1.8	(253.7)
Provisions utilised in-year	(158.8)	(10.4)	(3.0)	(125.3)	(5.0)	(302.5)
Unwinding of, and changes in, discount rates	223.4	0.1	11.1	(3.1)	0.4	231.9
Balance at 31 March 2021	13,178.5	14.1	62.6	584.5	176.8	14,016.5
Increase in provisions in-year	1,850.2	–	6.7	227.1	41.9	2,125.9
Provisions written back and reclassifications	(292.2)	(3.7)	0.8	(1.4)	(57.3)	(353.8)
Provisions utilised in-year	(199.8)	(10.4)	(3.8)	(130.9)	(30.6)	(375.5)
Unwinding of, and changes in, discount rates	10,449.1	–	(8.2)	33.9	(1.6)	10,473.2
Balance at 31 March 2022	24,985.8	–	58.1	713.2	129.2	25,886.3

1. Other includes provision, £86.4 million (2020-21: £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	Legal and Other Provisions £M	Total £M
Due within 1 year	241.1	13.1	3.8	159.2	417.2
Due over 1 year and less than 5 years	950.1	1.0	3.1	309.1	1,263.3
Due over 5 years	11,701.2	–	55.7	293.0	12,049.9
Assets held solely for decommissioning	286.1	–	–	–	286.1
Balance at 31 March 2021	13,178.5	14.1	62.6	761.3	14,016.5
Due within 1 year	246.9	–	4.6	167.9	419.4
Due over 1 year and less than 5 years	997.9	–	10.5	402.2	1,410.6
Due over 5 years	23,436.8	–	43.0	272.3	23,752.1
Assets held solely for decommissioning	304.2	–	–	–	304.2
Balance at 31 March 2022	24,985.8	–	58.1	842.4	25,886.3

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 116 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 2020-21 was £13.178 billion. Since then, the movements have been:

- Changes in accounting estimates £1.359 billion;
- Effect of unwinding and changes to existing discount rates applied to the provision every year £10.449 billion.

These movements bring the 2021-22 MOD estimate for nuclear decommissioning at the balance sheet date to £24.986 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 £35.679 billion, the application of discounting decreases the provision to £24.986 billion in 2021-22.

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. Recent rates are:

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
2021-22	0.47%	0.70%	0.95%	0.66%	10,194

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%
2021-22	4.00%	2.60%	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 1.8% to 8.2%.

12.10 To illustrate further the sensitivity of provision values to changes in:

- Discount rates – a reduction of 0.5% would result in a £7.210 billion increase in the nuclear decommissioning provisions. Conversely, an increase of 0.5% in the four rates would result in a £5.177 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 £3.195 billion for an increase or £2.720 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 £7.420 billion – 29.7% of total provisions, (2020-21 £3.217 billion – 24.4% 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 £0.056 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 £0.359 billion as the MOD would incur additional storage / maintenance costs.

Geological Disposal Facility £5.024 billion – 20.1% of total provisions (2020-21 £1.981 billion – 15.0% 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 £0.186 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 £2.512 billion in the provision value to an increase of £10.048 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 £0.820 billion.

Submarine 'Afloat' provisions £4.144 billion – 16.6% of the value of the provision (2020-21 £2.192 billion – 16.6% 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 vessels, 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 FMSP contract is scheduled to end during 2026 and cash flow estimates have been created using the new contract. For every 1% change in costs after this point (increase or decrease), it is estimated that the liability would change by £0.041 billion.

AWE £1.677 billion – 6.71% of the value of the provision (2020-21 £1.322 billion – 10.0% of the value of the provision)

12.20 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 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 £1.52 billion (at current prices, undiscounted and excluding management fees), the difference between the Most Likely estimate for AWE and the Minimum estimate is circa –£0.21 billion and between the Most Likely and Maximum estimate is circa +£0.43 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 by £0.127 billion.

Submarine Dismantling Project £1.657 billion – 6.6% of the value of the provision (2020-21 £1.265 billion 9.6% 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 2 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 £0.259 billion, representing an increased schedule for in dock works of 4 years at Rosyth and an increased schedule for in dock works of 10 years at Devonport.

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 £0.017 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 £0.154 billion.

Special Nuclear Materials £2.067 billion – 8.28% of the value of the provision (2020-21 £1.101 billion 8.36% of the value of the provision)

12.27 The Special Nuclear Materials Provision is for the cost of storing materials that are identified as of no further strategic use. The materials are held on an enduring basis unless identified as being consigned to the GDF.

12.28 The provision has become more significant in 2021-22 due to the changes in CPI and HMT Discount rates, rather than changes in the underlying cashflows.

12.29 The provision is estimated using a range of sources including fixed prices in contracts which are extrapolated. The amount of additional material, currently not in long term storage, is estimated using planning assumptions for similar materials and quantities.

12.30 The Special Nuclear Materials provision assumes the 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 provision would increase by £0.071 billion.

Other Decommissioning and Restoration

12.31 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

12.32 Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions: -1.3% with effect from 31 March 2022 (-0.95% from 31 March 2021). 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 2021-22 increases of £2.6 million were made to existing schemes and early retirement / redundancy costs paid during the period amounted to £3.8 million.

Legal

12.33 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

12.34 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. The funding for the benefits provided by these schemes is voted separately by Parliament and accounted for in the AFPS Accounts. The staff costs and other expenses, 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 unfunded pension schemes e.g. schemes for Locally Employed Civilians overseas. The liabilities for these schemes are included as 'Retirement benefit scheme liabilities' as part of the non-current liabilities on the Department's SoFP. There are also funded pension schemes within the accounting boundary i.e. the Commonwealth War Graves Commission Superannuation Scheme, the Council of Reserve Forces and Cadets Associations Pension Scheme and the AWE Pension Scheme; estimates of the 'Retirement benefit scheme net assets and liabilities' of these schemes are included as part of the non-current assets and non-current liabilities on the Group SoFP.

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; the result of each full valuation is reflected in the accounting period following the review. Details of the liabilities and other information used by GAD in their calculations are shown in the following tables:

	2021-22				2020-21			
	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	74.0	185.6	403.3	662.9	69.6	172.4	371.4	613.4
Current Service Cost	2.5	7.3	10.9	20.7	2.4	6.9	9.4	18.7
Interest Charges	0.9	2.4	5.0	8.3	1.3	3.2	6.7	11.2
Changes in assumptions	5.9	15.6	28.2	49.7	4.5	11.7	27.1	43.3
Benefits Paid	(1.0)	(2.4)	(11.2)	(14.6)	(1.1)	(2.5)	(11.3)	(14.9)
Exchange Rate (gain)/loss	(2.5)	(6.2)	-	(8.7)	(2.7)	(6.1)	-	(8.8)
Experience (gain)/loss ¹	2.2	5.3	(0.1)	7.4	-	-	-	-
Closing Balances	82.0	207.6	436.1	725.7	74.0	185.6	403.3	662.9

1. The changes due to experience gains and losses arise from 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 unfunded 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:

	2021-22	2020-21
Discount Rate	1.55%	1.25%
Future Salary Increases	2.90%	2.22%
Future Pension Increases	4.15%	3.72%

13.7 The numbers of members used in the calculations for each scheme were:

	Number of Members as at the Current Valuation Date ¹			Number of Members as at the Previous Valuation Date ¹		
	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.

13.8 The Group Accounts also include three funded defined benefit schemes. Funding for the schemes is provided by ‘the employers’: the Commonwealth War Graves Commission, the Council of Reserve Forces and Cadets Associations and AWE plc. Funding is in accordance with calculations advised by the schemes’ actuaries and the disclosures assume each organisation has a right to refunds from the scheme for which it is, or was, the employer. The retirement and death benefits provided by the schemes are based on final pensionable pay and length of service and increase in line with inflation. The schemes are:

- the Commonwealth War Graves Commission Superannuation Scheme – the assets of the Superannuation Scheme are held separately from those of the Commission and are administered by the Scheme’s trustees. This scheme was closed to future benefit accrual from 31 March 2016;
- the Council of Reserve Forces and Cadets Associations Pension Scheme – the governance of the Scheme is set out in the scheme’s consolidated trust deed and rules which require the trustees to perform

all duties imposed on them by statute or subordinate legislation concerning the administration and management of the Scheme; and;

- the AWE Pension Scheme – the Scheme is managed, in accordance with its trust deeds, by a separate company, AWE Pension Trustees Limited. This scheme was closed to new members, and future accrual for the majority of existing members, on 31 January 2017.

13.9 There have been no gains or losses from settlement or curtailment events, e.g. scheme closure, bulk transfers of members or benefit reductions, during the year. Funding for the schemes is not expected to vary significantly in the next financial year compared to the figures in the following table and funding for the schemes has no significant impact on MOD’s cashflow. Contributions to the schemes are set out in schedules of contributions and are liable to change when reviewed as part of the schemes’ full valuations; for example, the ongoing valuation of the AWE scheme is likely to result in agreement to revised contributions prior to the end of the next accounting period.

Scheme Assets	2021-22				2020-21		
	Reserve Forces and Cadets Association Pension Scheme ¹ £M	Commonwealth War Graves Commission Superannuation Scheme ² £M	AWE Pension Scheme ³ £M	Total £M	Reserve Forces and Cadets Association Pension Scheme ¹ £M	Commonwealth War Graves Commission Superannuation Scheme ² £M	Total £M
Opening Asset Balances	128.3	91.4	1,943.0	2,162.7	128.3	87.9	216.2
Interest on Scheme Assets	–	1.8	18.6	20.4	–	–	–
Benefits and Scheme Expenses Paid	–	(4.0)	(52.2)	(56.2)	–	–	–
Contribution by Employers	–	2.8	43.2	46.0	–	–	–
Other returns on assets and actuarial gain/(loss)	–	1.8	38.4	40.2	–	–	–
Net increase/(decrease) ⁴	–	–	–	–	–	3.5	3.5
Closing Asset Balances	128.3	93.8	1,991.0	2,213.1	128.3	91.4	219.7
Scheme Liabilities							
Opening Liability Balances	(119.4)	(130.5)	(2,366.0)	(2,615.9)	(119.4)	(124.5)	(243.9)
Current Service Cost	–	–	(5.4)	(5.4)	–	–	–
Interest Cost	–	(2.4)	(24.6)	(27.0)	–	–	–
Benefits and Scheme Expenses Paid	–	(4.0)	52.2	48.2	–	–	–
Actuarial gain/(loss)	–	8.8	295.8	304.6	–	–	–
Net (increase)/decrease ⁴	–	–	–	–	–	(6.0)	(6.0)
Closing Liability Balances	(119.4)	(128.1)	(2,048.0)	(2,295.5)	(119.4)	(130.5)	(249.9)
Net Scheme Asset/ (Liabilities)	8.9	(34.3)	(57.0)	(82.4)	8.9	(39.1)	(30.2)

1. The valuations of the Reserve Forces and Cadets Association Pension Scheme is as at 1 August 2018. Details of the latest valuation will be disclosed in the 2022-23 accounts.
2. The 2021-22 values for the Commonwealth War Graves Commission Superannuation Scheme are as at 31 March 2021. The previous year's values are as at 31 March 2016.
3. On 1 July 2021, AWE plc was re-classified as a Non-Departmental Public Body. AWE plc, including its pension scheme, is consolidated in the Department's Group accounts for the first time in 2021-22. The scheme values disclosed are as at 31 March 2022 and the asset and liability movements are for the period since 1 July 2021 based on that valuation.
4. Movements in the valuations of assets and liabilities, previously disclosed as net increases or decreases are, from 2021-22 onwards, where available, disclosed in more detail.

13.10 The valuation of the schemes' assets is inherently volatile as it depends on market conditions and the market values of assets which change from day to day. As an example the details of the assets held by AWE were:

Category of Investment	Value as at 31 March 2022 £M
Equities	496
Property	139
Infrastructure	44
Hedge Funds	334
Bonds	498
Liability Driven Investments	402
Cash & Other	78
Total	1,991

The pension liabilities are a calculation of the current value of future benefit payments. These cashflows are due to be paid over a considerable period of time, for example the average duration of the AWE scheme liabilities is 20 years. Liabilities are therefore uncertain and can only be estimated. The risk represented by the uncertainty in the asset and liability valuations is not considered significant to the MOD.

13.11 The principal actuarial assumptions used in the liability calculations were:

	2021-22 ¹		
	Reserve Forces and Cadets Association Pension Scheme	Commonwealth War Graves Commission Superannuation Scheme	AWE Pension Scheme
Discount Rate	1.70%	1.75%	2.70%
Inflation - Retail Price Index (RPI)	3.40%	3.60%	3.60%
Inflation - Consumer Price Index (CPI)	3.20%	3.10%	3.20%
Pension Increases	3.00%	3.10%	3.20%

1. The actuarial assumptions are disclosed for the first time in 2021-22.

The value of the liability is sensitive to changes in these assumptions. For example, for the AWE pension scheme the actuary estimated the effect of a +/- 0.5% change in the discount rate as a -/+ 10% or -/+ £213 million in the value of the liability and for a +/- 0.5% change in the rate of pension increases the effect was estimated as +/- 9% or +/- £178 million change in the value of the liability.

13.12 The numbers of members used in the calculations for each scheme were:

	Current Number of Members ¹			Previous Number of Members ¹		
	Active	Pensioners	Deferred Pensioners	Active	Pensioners	Deferred Pensioners
Reserve Forces and Cadets Association Pension Scheme	885	1,213	417	903	1,201	405
Commonwealth War Graves Commission Superannuation Scheme	–	405	254	–	416	265
AWE Pension Scheme	25	4,742	6,214	25	4,736	6,492

1. The Reserve Forces and Cadets Association Pension Scheme's figures for the current number of members are as at 31 July 2021, the previous number of members are as at 31 July 2020. The Commonwealth War Graves Commission Superannuation Scheme's figures for the current number of members are as at 31 March 2021, the previous number of members are as at 31 March 2020. For the AWE Pension Scheme, the figures for the current number of members are as at 31 March 2021 and the previous numbers are as at 31 December 2020.

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 2022 £M	31 March 2021 £M
Intangible assets	2,994.1	3,578.1
Property, plant and equipment	21,377.7	19,502.9
Total	24,371.8	23,081.0

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 2022 £M	31 March 2021 £M
Not later than 1 year	5,233.6	4,359.0
Later than 1 year but not later than 5 years	10,589.4	6,335.6
Later than 5 years	4,070.4	2,323.8
Total	19,893.4	13,018.4

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 2022 £M	31 March 2021 £M
Obligations under operating leases comprise:		
Land		
Not later than one year	9.2	6.8
Later than one year and not later than five years	18.3	13.3
Later than five years	73.2	54.4
	100.7	74.5
Buildings		
Not later than one year	77.2	54.6
Later than one year and not later than five years	196.2	123.5
Later than five years	240.6	96.4
	514.0	274.5
Other		
Not later than one year	150.1	147.8
Later than one year and not later than five years	226.9	266.1
Later than five years	18.9	40.6
	395.9	454.5

16.3 The most significant land operating lease commitments, as at 31 March 2022, are a lease for £17 million (2020-21: £17 million) for land leased in Portsmouth and the £14 million lease (2020-21: £0.2 million) of the Lulworth Training Area.

16.4 The most significant operating lease commitments for buildings, as at 31 March 2022, are for: Landgraaf accommodation £29 million (2020-21: £0.4 million), Aldershot Health Centre £20 million (2020-21: £21 million), Cromwell House £16 million (2020-21: £17 million), Waterbeach £15 million (2020-21: £13 million), Service Families Accommodation £12 million (2020-21: £18 million), a Dstl site £4 million (2020-21: £16 million) and, disclosed for the first time USA based property leases £184 million.

16.5 Other operating lease commitments include leased vehicles (including operational support vehicles) of £175 million (2020-21: £228 million), leased construction equipment £73 million (2020-21: £85 million), Helicopters £26 million (2020-21: £9 million), Future Forces Broadcasting Equipment £24 million (2020-21: £48 million), Light Handling Training Aircraft £22 million (2020-21: £20 million), Defence Fuels Global Resupply Capability £13 million (2020-21: £37 million), a new lease for tug boats of £20 million, and, disclosed for the first time, fuel pipeline £16 million. Each of the remaining lease commitments is less than £10 million.

16.6 Finance leases:

	31 March 2022 £M	31 March 2021 £M
Obligations under finance leases comprise:		
Land		
Not later than one year	42.7	44.0
Later than one year and not later than five years	171.0	176.2
Later than five years	7,250.1	7,511.3
	7,463.8	7,731.5
Less interest element	(6,708.6)	(6,953.4)
	755.2	778.1
Buildings		
Not later than one year	42.6	43.9
Later than one year and not later than five years	170.3	175.5
Later than five years	7,218.6	7,481.1
	7,431.5	7,700.5
Less interest element	(6,679.3)	(6,925.5)
	752.2	775.0
Other		
Not later than one year	15.7	13.3
Later than one year and not later than five years	31.8	36.7
Later than five years	13.3	-
	60.8	50.0
Less interest element	(9.7)	(6.2)
	51.1	43.8

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 £1,507 million (2020-21: £1,553 million). The Other finance leases are Strategic Sealift £33 million (2020-21: £44 million) and a new lease, from May 2021 for C17 flight simulator training £18 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 2021-22; details of the assets financed under these arrangements are included at Note 6 – Property, Plant and Equipment:

Project Description	Contract Start ¹	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
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
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

Project Description	Contract Start ¹	Contract End
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
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

2021-22 were £1.3 billion (2020-21: £1.3 billion) and interest charges for 2021-22 were £0.2 billion (2020-21: £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 table following:

	31 March 2022 £M	31 March 2021 £M
Details of the imputed finance lease charges		
Not later than one year	574.5	643.8
Later than one year and not later than five years	1,620.0	1,751.6
Later than five years	2,964.2	3,364.0
Total	5,158.7	5,759.4
Less interest element	(1,605.5)	(1,792.7)
Present value of obligations	3,553.2	3,966.7
Details of the minimum service charge		
Not later than one year	1,063.1	1,139.8
Later than one year and not later than five years	3,146.0	3,367.0
Later than five years	5,317.4	6,068.4
Total	9,526.5	10,575.2

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 £1,799 million (2020-21: £1,885 million).
- Colchester Garrison – redevelopment, rebuilding and refurbishment to provide accommodation and associated services £443 million (2020-21: £460 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 £364 million (2020-21: £375 million).
- Main Building refurbishment £234 million (2020-21: £249 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 The following quantifiable contingent liabilities have been identified, the estimates shown are based on the most likely value:

Quantifiable Contingent Liabilities under IAS 37

Description and Key Uncertainties	31 March 2021 £M	Increase / (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2022 £M
Indemnity to contractors for third party claims					
This obligation has expired following completion of the contract.	282.0	-	-	(282.0)	-
Contractor claims as result of contract termination					
Several costs are associated with closure of a production line, including reimbursement of site and workforce rationalisation costs. The final cost is dependent on future export opportunities.	207.2	5.1	-	-	212.3
Liability for redundancy					
Uncertainties in calculating this liability include: life expectancy, age, length of service, salary and number of dependants.	18.7	(0.1)	-	(11.6)	7.0
Legal claims (personal)					
This estimate, of the liability created by legal claims that have been made against the Department, is based on data provided by the Company managing those claims.	24.6	6.8	-	(0.3)	31.1
Environmental clean-up costs					
Uncertainties include the effectiveness of mitigation action and the possibility of unidentified hazards and damage.	44.9	0.8	-	(30.0)	15.7
Potential liability arising from the Colchester Garrison PFI					
There is uncertainty surrounding the timing, likelihood and impact of a change in the law.	20.0	-	-	-	20.0
Indemnity for utilities and services following the sale of Service housing					
Uncertainty in the timing of sales and changes to related utilities and services' agreements are included in this estimated liability.	21.4	(20.4)	-	-	1.0
Sensitive					
Not disclosed due to reasons of commercial confidentiality and / or national security.	988.2	(0.3)	-	(0.6)	987.3
New Fair Deal arrangements for staff pensions: staff transferred from Central Government					
Uncertainties include: the number of eligible personnel, the value of accrued pension benefits and the relative value of private and public pension schemes.	2.2	0.3	-	-	2.5
Indemnity related to potential damage to items in storage or transit and to cables					
The likelihood and cost of any damage is uncertain.	1.1	0.3	-	-	1.4
Total quantifiable contingent liabilities	1,610.3	(7.5)	-	(324.5)	1,278.3

18.3 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 several 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.
- Service Life Insurance is a life insurance scheme for Service personnel which aims to guarantee access to 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. The likelihood and scale of any triggering event is uncertain.
- 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 likelihood, cost and scale of incidents that might lead to a claim are uncertain.

- The Department has environmental and safety responsibility for many shipwrecks both in UK waters and globally. The timing, scope and value of any necessary interventions remains uncertain.
- Limit of contractor liability provided to Serco Ltd in respect of damage to Government property. This includes consequential and indirect loss under the Brize Services Contract, to supply services at RAF Brize Norton.

19. Related Party Transactions

19.1 The Department is the parent of the: DE&S BTE, DECA, Dstl and SDA agencies and sponsors the non-departmental public bodies and other 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

20.1 The entities within the boundary during 2021-22 were as follows:

On-Vote Defence Agencies
Defence Electronic Components Agency
Defence Equipment and Support – Bespoke Trading Entity
Defence Science and Technology Laboratory
Submarine Delivery Agency
Non-Departmental Public Bodies
Armed Forces Covenant Fund Trustee Limited
AWE plc ¹
National Museum of the Royal Navy
National Army Museum
Royal Air Force Museum
Single Source Regulations Office
Advisory Non-Departmental Public Bodies
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
Other Bodies
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

1. With effect from 1 July 2021, AWE plc was re-classified as a Non-Departmental Public Body forming part of the MOD's Group accounts for the first time in 2021-22.

20.2 On 1 July 2021 AWE plc was re-classified as a Non-Departmental Public Body. AWE plc is a company wholly owned by the MOD, it was designated, under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Amendment Order 2021 (SI 2021/1441), for consolidation as part of the 2021-22 MOD Group Accounts.

20.3 The purpose and functions of AWE plc are to design, manufacture, maintain and when required, safely disassemble nuclear warheads. AWE plc's role includes: holding the site licences granted by the Office for Nuclear Regulation, employing staff and entering into contracts as required to fulfil activities across the entire life cycle of nuclear warheads – from initial concept and design, to manufacture and assembly, in-service support, and decommissioning.

20.4 As a result of the designation of AWE plc for inclusion in the MOD Group Accounts, and in accordance with the FReM, the net assets of AWE plc (£0.1M) have been included in the accounts for 2021-22 (the details are in the following table) and prior year figures have not been adjusted. The net assets were subsequently reduced (by -£446M to -£445.9M) by aligning accounting policies and removing inter-group balances for payables and receivables as set out in the following table.

	AWE plc Balances Transferred 30 June 2021 £M	Adjustments to align accounting policies 1 July 2021 £M	Adjustments to remove inter group balances 1 July 2021 £M	Adjusted balances following absorption of AWE plc into the Group Accounts 1 July 2021 £M
Non-current assets				
Intangible assets	-	-	-	-
Property, plant and equipment	-	-	-	-
Financial assets	-	-	-	-
Receivables due after more than one year	424.6	(423.0)	(1.6)	0.0
Total non-current assets	424.6	(423.0)	(1.6)	-
Current assets				
Non-current assets held for sale	-	-	-	-
Inventories	-	-	-	-
Receivables due within one year	121.4	-	(46.9)	74.5
Financial assets	-	-	-	-
Cash at bank and in hand	99.8	-	-	99.8
Total current assets	221.2	-	(46.9)	174.3
Total assets	645.8	(423.0)	(48.5)	174.3
Current liabilities				
Payables due within one year	(220.5)	-	25.5	(195.0)
Provisions due within one year	(1.1)	-	-	(1.1)
Financial liabilities	-	-	-	-
Total current liabilities	(221.6)	-	25.5	(196.1)
Total assets less current liabilities	424.2	(423.0)	(23.0)	(21.8)
Non-current liabilities				
Provisions due after one year	(1.1)	-	-	(1.1)
Retirement benefit scheme liabilities	(423.0)	-	-	(423.0)
Payables due after more than one year	-	-	-	-
Total non-current liabilities	(424.1)	-	-	(424.1)
Total assets less total liabilities¹	0.1	(423.0)	(23.0)	(445.9)
Taxpayers' equity and other reserves				
General fund	0.1	(423.0)	(23.0)	(445.9)
Total equity	0.1	(423.0)	(23.0)	(445.9)

20.5 The most significant impact of the absorption of AWE plc into the MOD's Group Accounts is the inclusion of the £423M deficit in the AWE Pension Scheme. Further details of the Group's funded retirement benefit schemes including the AWE Pension Scheme are provided at Note 13.

21. Events After the Reporting Date

21.1 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 ¹	Peak Dates
Naval Service				
Royal Navy	Officers	7,000	6,210	February 2022
	Men and Women	23,700	21,210	August 2021
	Aggregate	30,700	27,360	October 2021
Royal Marines	Officers	1,000	860	February 2022
	Men and Women	7,200	5,930	November 2021
	Aggregate	8,200	6,780	November 2021
Army Service				
Army (other than Services below)	Officers	14,610	13,470	October 2021
	Men and Women	88,500	71,500	April 2021
	Aggregate	103,160	84,710	April 2021
Commonwealth, Colonial,&c., troops abroad and Gurkhas	Officers	190	170	October 2021
	Men and Women	5,070	4,100	March 2022
	Aggregate	5,260	4,260	March 2022
Air Force Service				
Royal Air Force	Officers	8,600	8,110	March 2022
	Men and Women	27,800	25,370	August 2021
	Aggregate	36,400	33,400	August 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 ¹	Peak Dates
Reserve Naval and Marine Services				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,960	2,020	April 2021
	Men and Women	9,000	2,040	January 2022
	Aggregate	13,960	4,050	March 2022
Royal Fleet Reserve (Marine Officers and Marines)	Officers	470	200	April 2021
	Men and Women	2,610	790	April 2021
	Aggregate	3,080	980	April 2021
Royal Naval Reserve	Officers	1,400	1,200	August 2021
	Men and Women	2,300	1,910	May 2021
	Aggregate	3,700	3,070	May 2021
Royal Marine Reserve	Officers	120	90	May 2021
	Men and Women	1,250	990	July 2021
	Aggregate	1,370	1,080	July 2021
Royal Naval Reserve (List 7)	Officers	1,100	940	February 2022
Reserve Land Forces				
Army Regular Reserve	Officers	8,830	6,960	April 2021
	Men and Women	23,180	17,680	April 2021
	Aggregate	32,010	24,640	April 2021
Army Reserve	Officers	9,900	6,240	September 2021
	Men and Women	36,430	27,740	May 2021
	Aggregate	46,330	33,940	April 2021
Reserve Air Forces				
Royal Air Force Reserve	Officers	4,500	3,740	March 2022
	Men and Women	9,000	6,780	May 2021
	Aggregate	13,500	10,400	June 2021
Royal Auxiliary Air Force	Officers	950	840	March 2022
	Men and Women	3,850	2,550	May 2021
	Aggregate	4,800	3,370	May 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 Maintained¹	Peak Dates
Special Members of The Reserve Naval Forces				
Royal Naval Reserve	Officers	850	680	August 2021
	Men and Women	1,620	1,070	April 2021
	Aggregate	2,470	1,750	April 2021
Special Members of The Reserve Land Forces				
Army Regular Reserve	Officers	20	0	Table note 2
	Men and Women	130	0	Table note 2
	Aggregate	150	0	Table note 2
Army Reserve	Officers	20	0	Table note 2
	Men and Women	540	140	May 2021
	Aggregate	560	140	May 2021
Special Members of The Reserve Air Forces				
Royal Air Force Reserve	Officers	100	50	April 2021
	Men and Women	180	140	August 2021
	Aggregate	280	200	August 2021

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 Strength has been zero for the whole time period.

Additional Note: Totals and sub-totals have been rounded separately and so may not equal the sum of their rounded parts.

Annex B: Sponsorship Arrangements over £5,000

Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
RAF Falcons Parachute Team		
	Cotswold Outdoors	£10,120
	IrvinGQ	£5,000
	Airtec GmbH & Co. KG Safety Systems	£25,000
RAF Red Arrows (RAFAT)		
	Jeppesen (Boeing Digital Solutions)	£73,150
Typhoon Display Team (TDT)		
	Breitling	£7,000
	Leonardo	£40,000
	BAES	£40,000
Battle of Britain Memorial Flight (BBMF)		
	BAES	£90,000
	Switch Mobility Ltd (formerly Optare)	£25,825
Chinook Display Team		
	Big Blue Door	£5,000
	Level Peaks Associates	£8,000
Force Atlantic Rowing Team		
	Indigo	£5,000
	Technogym	£7,000
	M2M	£15,000
	Pinacle	£10,000
Atlantic Ubique Rowing Team		
	Barratt Developments PLC	£22,500
AT Exped - Ex Northern Antartic Endurance "Polar Preet"		
	Team Army Sports Foundation	£40,000
	BFPS Chalfont rove	£10,000
Red Devils Sponsorship		
	Wescom Defence	£36,305
	5.11	£16,000
	Burton McCall	£19,840
	Hive Communications Ltd (BlueBee)	£5,000
RN Wildcat Display Team		
	Leonardo UK Limited	£10,000
HMS Oardacious		
	Jacobs UK Limited	75,000
	RNRMC (funding from Elba Foundation, as in BC. RNRMC control the funds and Oardacious request the funds from RNRMC to spend)	£100,000

Annex C: Core Tables

Total Departmental Spending, 2017-18 to 2022-23

£000	2017-18 OUTTURN	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 OUTTURN	2022-23 PLANS
Resource DEL						
Provision of Defence Capability Service Personnel Costs	8,970,633	9,093,174	9,949,068	10,511,526	10,390,528	10,523,469
Provision of Defence Capability Civilian Personnel Costs	1,363,922	1,382,590	1,535,636	1,605,760	1,612,148	1,948,992
Provision of Defence Capability Infrastructure costs	4,057,523	4,258,514	4,643,384	4,914,951	5,063,419	5,487,483
Provision of Defence Capability Inventory Consumption	1,187,498	1,173,172	1,225,847	1,191,875	1,360,704	1,224,909
Provision of Defence Capability Equipment Support Costs	6,548,798	6,792,882	6,927,405	7,364,559	7,537,696	7,557,517
Provision of Defence Capability Other Costs and Services	1,344,094	1,345,918	1,347,553	1,447,813	2,187,387	1,774,932
Provision of Defence Capability Receipts and other Income	-1,069,897	-1,088,379	-1,264,898	-1,265,160	-1,218,848	-1,297,000
Provision of Defence Capability Depreciation and Impairments Costs	7,236,889	6,805,446	7,185,671	9,519,392	7,987,529	8,746,070
Provision of Defence Capability Cash Release of Provisions Costs	292,907	389,329	522,739	315,162	383,636	166,740
Provision of Defence Capability Research and Development Costs ¹	223,050	228,963	265,316	265,835	224,828	271,986
Provision of Defence Capability Administration Civilian Personnel Costs	363,297	483,679	550,640	578,380	636,425	599,753
Provision of Defence Capability Administration Other Costs and Services	423,226	530,519	642,365	540,020	345,877	670,683
Operations Service Personnel Staff Cost	42,608	30,728	39,494	29,744	25,630	25,000
Operations and Peacekeeping Civilian Personnel Staff Costs	5,621	3,014	1,623	1,830	3,269	1,500
Operations Infrastructure Costs	56,714	63,814	55,749	81,514	107,081	50,000
Operations Inventory Consumption	95,821	80,522	110,914	92,763	69,433	65,000
Operations Equipment Support Costs	282,316	271,531	122,189	131,769	235,490	118,000
Operations Other Costs and Services	35,451	66,477	41,408	33,802	-3,770	44,000
Operations Receipts and other Income	-11,941	-2,901	-4,932	-2,018	-4,271	-3,500
Operations Depreciation and Impairment Costs	49,723	24,585	1,613	-	-	-
Operations Cash Release of Provisions Costs	-	-	-	-	-	-
Conflict Pools Resource Costs	-	-	-	-	-	-
Non Departmental Public Bodies Costs	164,637	204,025	228,215	228,984	226,707	218,633
Defence Capability Admin Service Pers Costs	670,653	661,235	702,906	727,290	767,735	742,900
Defence Capability DE&S DEL Costs	1,041,063	981,367	1,099,653	1,125,092	1,095,298	1,277,994
War Pension Benefits Programme Costs	723,228	697,262	681,025	652,263	622,575	603,930
Conflict, Stability and Security Fund	90,994	88,579	84,521	82,056	77,985	72,788
Cash Release of Provisions Admin Costs	9,908	5,446	11,934	2,550	3,025	5,000
Total Resource DEL	34,198,736	34,571,491	36,707,038	40,177,752	39,737,516	40,896,779

£000	2017-18 OUTTURN	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 OUTTURN	2022-23 PLANS
Resource AME						
Provision of Defence Capability Depreciation and Impairment Costs	861,134	70,897	-46,372	-146,748	129,504	202,197
Provision of Defence Capability Provisions Costs	8,548,134	-7,377,334	521,986	1,978,369	11,737,047	1,649,640
Provision of Defence Cash Release of Provisions Costs	-302,815	-394,775	-534,673	-317,712	-386,661	-171,740
Movement On Fair Value of Financial Instruments	583,912	-181,496	118,890	548,254	-693,246	247,990
Total Resource AME	9,690,365	-7,882,708	59,831	2,062,163	10,786,644	1,928,087
Total Resource Budget	43,889,101	26,688,783	36,766,869	42,239,915	50,524,160	42,824,866
Capital DEL						
Provision of Defence Capability Capital Single Use Military Equipment	5,530,091	5,817,644	6,848,790	7,679,950	8,462,664	8,432,128
Provision of Defence Capability Other Capital (Fiscal)	2,929,616	3,253,912	2,441,692	2,921,672	3,878,886	8,621,362
Provision of Defence Capability Fiscal Assets / Estate Disposal	-33,224	-42,725	-39,933	-61,162	-79,453	-120,000
Provision of Defence Capability New Loans and Loan Repayment	-	8,609	-	-	-	-
Provision of Defence Capability Research and Development Costs ¹	1,007,683	1,110,050	967,940	1,051,694	1,836,383	1,436,000
Operations Capital Single Use Military Equipment	178,258	75,113	1,938	-	7,229	-
Operations Other Capital (Fiscal)	20,716	18,583	22,684	28,970	-16,284	-
Non Departmental Public Bodies Costs	1,754	2,500	2,796	3,099	2,575	2,501
Defence Capability DE&S DEL Costs	64,315	50,751	67,950	75,898	87,994	118,665
Conflict, Stability and Security Fund	4,377	-	-	6,600	-	-
Total Capital DEL	9,703,586	10,294,437	10,313,857	11,706,721	14,179,994	18,490,656
Capital AME						
Provision of Defence Capability Provisions Costs	44,486	-	-	-	-	-
Total Capital AME	44,486	-	-	-	-	-
Total Capital Budget	9,748,072	10,294,437	10,313,857	11,706,721	14,179,994	18,490,656
Total departmental spending²	44,857,257	30,254,026	39,820,924	44,025,738	57,280,367	52,119,265

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. 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, 2017-18 to 2022-23

£000	2017-18 OUTTURN	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 OUTTURN	2021-22 OUTTURN	2022-23 PLANS
Resource DEL						
Provision of Defence Capability Administration Civilian Personnel Costs	363,297	483,679	550,640	578,380	636,425	599,753
Provision of Defence Capability Administration Other Costs and Services	423,226	530,519	642,365	540,020	345,877	670,683
Defence Capability Admin Service Pers Costs	670,653	661,235	702,906	727,290	767,735	742,900
Cash Release of Provisions Admin Costs	9,908	5,446	11,934	2,550	3,025	5,000
Total administration budget	1,467,084	1,680,879	1,907,845	1,848,240	1,753,062	2,018,336

Annex D: Greenhouse Gas Emissions¹

	Emission Sources	Ref.	2019-20	2020-21	2021-22
Non-Financial Indicators tCO ₂ e 000s	Defence Carbon Footprint (Scopes 1,2 and 3) ²		3,650	2,889	3,341
	Estate Emission and Business Travel UK only (covered by GGC 2025) and Capability Energy (b+d+f+k)		3,084	2,527	2,901
	Estate Emission and Business Travel UK only (covered by GGC 2025) (b+f+k)		1,097	1,043	956
	Scope 1		2,621	2,152	2,538
	Estate Direct Emission (UK and overseas)	a	596	633	558
	<i>of which GGC (UK only)</i>	b	553	597	522
	Capability Energy ³	c	1,987	1,485	1,945
	Fugitive emissions	d	38	34	35
	Scope 2		496	421	399
	Estate electricity and heat (UK and overseas)	e	496	421	399
	<i>of which GGC (UK only)</i>	f	465	395	375
	Scope 3		533	316	403
	Waste Generated	g	4	3	3
	Employee commuting	h	58	41	50
	Service Family Accommodation (SFA)	i	186	184	183
Duty Travel ⁴ (UK and overseas)	j	285	87	168	
<i>of which GGC (UK only)</i>	k	79	51	58	
Related Energy ⁵ Consumption KWh 000s	Electricity: Non-renewable		1,788,171	1,661,414	1,726,487
	Electricity: Renewable		18,748	21,401	20,261
	Natural Gas		2,562,547	2,740,139	2,471,064
	LPG		80,331	91,811	82,106
	Other		417,683	428,035	343,735
Related Equipment Energy Consumption Litres 000s	Aviation fuel		472,029	384,998	424,391
	Ground Fuel		57,074	21,654	32,999
	Maritime Fuel		200,065	141,458	245,307
	Other Fuel ⁶		180	190	287
Financial Indicators £000s	Expenditure on energy		347,132	317,890	336,155
	Expenditure on official business travel		156,985	80,651	78,647
	Expenditure on equipment energy (fuel)		323,339	289,702	278,592

- Greenhouse Gas Emission measurements follow the Greenhouse Gas Protocols (GGC). Within this Annual Report and Accounts, we have reflected a more comprehensive emissions footprint. It is built on previous GGC reporting and captures new emissions areas (Fugitive emission, Employee commuting and emissions from waste) as well as worldwide estate energy consumption and fuel consumption in operations, domestic and international travelling.
- New GGC 2021-25 Scopes cover all MOD UK establishments (excluding Service Family Accommodation) rather than a limited number of UK establishments, increasing estate emissions proportionately in comparison to previous GGC 2016-20 frameworks.
- Capability Energy includes emissions from military aviation, maritime, green fleet, white fleet and charter fuel emissions. Due to data reconciliation in previous years, ground fuel consumptions emission figures are now revised with the latest data recorded.
- Duty Travel covers both overseas and domestic travel including non-operational travel, compassionate travel, resettlement travel. Whereas GGC only focuses on domestic business travel and excludes compassionate travel and resettlement. An estimate for 2020-21 flight and railway travel emissions has been applied due to data availability.
- Related Energy consumption (KWH) reflects the Defence Carbon Footprint total.
- Other fuel in equipment energy consumption includes kerosene.

Annex E: Water and Waste Data

Water Data		2019-20	2020-21	2021-22
Non-Financial Indicators 000s m ³	Water consumption ¹	15,618	15,306	15,235
Financial Indicators £000s	Water and Wastewater supply costs (GB estate within GGC scope)	62,286	63,839	65,374

Waste Data ²		2019-20	2020-21	2021-22
Non-Financial Indicators tonnes 000s	Total waste	56	47	46
	Landfill	2	2	1
	Recycled	18	12	14
	Reused	0	0	1
	Composted	5	5	5
	Incinerated with energy recovery	34	32	32
	Incinerated without energy recovery	2	0	0

1. Water consumption represents the new GGC 2021-25 scope which includes ~2,400 Aquatrone PFI sites in GB. Northern Ireland is excluded. Furthermore, the new GGC scope excludes Distribution Losses and Service Family.
2. Waste data follows the new GGC2021-2025 Scopes which include all MOD UK estates waste generated. The new Scopes exclude military end of life equipment, hazardous waste, waste generated from Service Family Accommodation, sanitary and clinical waste.

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	(3.3)	25.7	22.4	12	0.7	5	0.1
National Museum of the Royal Navy	(14.2)	14.8	0.6	169	5.6	25	0.4
National Army Museum	(0.8)	8.5	7.7	74	3.3	0	–
Royal Air Force Museum	(3.3)	15.4	12.1	178	6.1	0	–
Single Source Regulations Office	(0.2)	6.5	6.3	34	4.3	2	0.3
Commonwealth War Graves Commission	(21.3)	74.5	53.2	1,222	40.3	35	0.2
International Military Services Limited	(0.1)	0.3	0.2	1	–	0	–
Royal Hospital Chelsea	(10.5)	22.4	11.9	260	10.6	15	0.7
Territorial, auxiliary and volunteer reserve associations	(33.8)	129.0	95.2	910	31.3	1	-
AWE plc	(24.1)	452.8	428.7	6,371	211.5	200	20.4
Total	(111.6)	749.9	638.3	9,231	313.7	283	22.1

Note: All tabled information was materially correct and accurate as at the approval date of the accompanying annual report and accounts.





