



MINISTRY OF DEFENCE

The Government's Expenditure Plans 2005-06 to 2007-08



Ministry of Defence



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**THE GOVERNMENT'S
EXPENDITURE PLANS
2005-06 TO 2007-08**

Presented to Parliament by
the Secretary of State for Defence and
the Chief Secretary to the Treasury
By Command of Her Majesty

2005

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Introduction

This report provides details of the Government's plans for Defence expenditure for the three years 2005-06 to 2007-08, as set in Spending Review 2004. Together with the Ministry of Defence's Annual Report and Accounts 2003/04 (HC 1080, October 2004), it forms part of a series of reports published by all Government Departments.

Other related sources of information on the strategy, goals and performance of the Department include:

- The Defence White Paper (Cm 6041, December 2003);
<http://www.mod.uk/publications/whitepaper2003/index.html>
- Delivering Security in a Changing World: Future Capability (Cm 6269 July 2004);
http://www.mod.uk/linked_files/issues/security/cm6269/cm6269.pdf
- The Spending Review 2004 White Paper (Cm 6237, July 2004);
http://www.hm-treasury.gov.uk/media/749/F2/sr2004_ch13.pdf
- The Spending Review 2002 White Paper (Cm 5571, July 2002);
http://www.hm-treasury.gov.uk/Spending_Review/spend_sr02/report/spend_sr02_repchap12.cfmm
- UK Defence Statistics 2004 (September 2004); and
<http://www.dasa.mod.uk/natstats/ukds/2004/ukds.html>
- Defence Departmental Investment Strategy (March 2005);
http://www.mod.uk/linked_files/issues/finance/investment_strategy04.pdf

The role of the Ministry of Defence and the Armed Forces

Aim

To deliver security for the people of the United Kingdom and the Overseas Territories, by defending them, including against terrorism, and to act as a force for good by strengthening international peace and stability.

Role

The Defence White Paper, *Delivering Security in a Changing World*¹, published in December 2003, provided a comprehensive statement of Defence policy, building on the expeditionary strategy articulated in the 1998 Strategic Defence Review (SDR)² and the conclusions reached in the SDR New Chapter³ of 2002, adapted to reflect recent operational experience and the changing security environment. While much of the SDR remains entirely valid today, we are now better able to appreciate the nature of the challenges that have come to face us since the end of the Cold War: the threats posed by international terrorism and the proliferation of weapons of mass destruction, and the consequences of failed and failing states.

Experience of the pattern of operations since the SDR demonstrates that we should plan to be able to support three concurrent small and medium scale operations, at least one of which is an enduring peace support operation. In building this into our planning, we must ensure that our Armed Forces still retain the ability to adapt themselves at longer notice for the much less frequent, but more demanding, large scale operations, such as Operation TELIC in Iraq. This is in addition to our standing military tasks and overseas commitments.

The analysis in the Defence White Paper 2003 formed the baseline for the publication of *Delivering Security in a Changing World: Future Capabilities*⁴ in July 2004, which identified future force structure and capability development. It acknowledged that the nuclear deterrent remained key to deterring strategic threats, but emphasised the importance of ensuring we have flexible, deployable armed forces to deter less traditional threats, such as terrorists. It also stated that our Armed Forces needed to be equipped to deliver these new objectives, for example through Network Enabled Capability (NEC), which will enable us to operate more effectively through the efficient sharing and exploitation of information both between UK Armed Forces and across coalition partners.

Where military action is used, it is clear that it is most effective when it is brought to bear through multinational coalitions or alliances. The ability to operate alongside others, particularly with our NATO and European allies and partners, is at a premium. We therefore plan to maintain a broad spectrum of capabilities to ensure that we are able to conduct both national operations and be the lead or framework nation for coalition operations, at small to medium scale. But we do not envisage having to generate large-scale capabilities across the same spectrum given that, in the most demanding operation, it is highly unlikely that the United States would not be involved (either leading a coalition or as part of NATO).

¹ Defence White Paper, *Delivering Security in a Changing World* (Cm 6041).

² Strategic Defence Review White Paper (Cm 3999).

³ *SDR: A New Chapter* (Cm 5566).

⁴ Defence White Paper, *Delivering Security in a Changing World: Future Capabilities* (Cm 6269).

The UK has played a major role in the redevelopment of Iraq, first as an Occupying Power, then as part of the Multinational Force providing security assistance to the Iraqi Government under a UN mandate. The first democratic elections in Iraq for fifty years took place successfully on 30 January 2005, with approximately 60% of those registered actually voting. How long there remains a British presence in Iraq will now depend upon the wishes of the newly elected democratic Iraqi Government. They still need a great deal of support in developing their own security forces and the UK is committed to providing this support for as long as it is needed and wanted.

The UK has also been a key contributor of international military support to Afghanistan, through the successful NATO-led International Security Assistance Force (ISAF), which helped the central government extend its influence in the provinces and the Afghan authorities provide security during the presidential elections in October 2004. In addition, we have participated in two international combined military/civilian Provincial Reconstruction Teams in Mazar-e-Sharif and Meymaneh in the north, provision of the Forward Support Base in Mazar-e-Sharif for all the Provincial Reconstruction Teams in northern Afghanistan and supplied military and civilian advisors to assist the Afghan Ministry of Defence reform and develop the Afghan National Army.

Defence policy also puts the emphasis on prevention rather than cure; early engagement in potentially unstable areas of the world can prevent the need for dangerous and costly intervention later. The Government's Global and African Conflict Prevention Pools (run jointly by the Ministry of Defence, the Foreign & Commonwealth Office and the Department for International Development) make funding available for measures such as security sector reform and post-conflict recovery, which help to tackle the underlying causes of instability in many of the world's potential flashpoints. In recent years, the Armed Forces have made a significant contribution to peace support operations in Bosnia, Kosovo, Sierra Leone, East Timor and the Democratic Republic of Congo. More widely, the Ministry of Defence has undertaken Defence Diplomacy activities to encourage the responsible development of military capabilities. These commitments have proved crucial in the support of stability in numerous countries.

Our Armed Forces contribute to the peacetime security of the United Kingdom and to the security of the Overseas Territories and provide assistance as required to other Government Departments, such as during the foot and mouth crisis and the firemen's dispute. They may also be called on to evacuate British citizens from countries where their safety might be at risk, such as the evacuation operation from Côte d'Ivoire in November 2004.

The Structure of the MoD

A Brief History

From 1946 to 1964 there were five Departments of State involved in Defence: the Admiralty, the War Office, the Air Ministry, the Ministry of Aviation and the then smaller Ministry of Defence⁵. In 1964 the Admiralty, the War Office, the Air Ministry and the MoD were amalgamated. The defence functions of the Ministry of Aviation Supply (as it had then become) were absorbed into the MoD in 1971. The aims of having Defence functions under a single Ministry were: to simplify the chain of command; reduce duplication of effort across the three Services and encourage an integrated approach to operations; and to improve the quality of Defence (rather than single Service) advice to politicians.

Political Control

The Secretary of State for Defence is responsible for the formulation and conduct of defence policy, and for providing the means by which it is conducted. He is supported by a Minister of State for the Armed Forces, a Parliamentary Under-Secretary of State and Minister for Defence Procurement and by a Parliamentary Under-Secretary of State and Minister for Veterans. The Secretary of State and his three Ministerial colleagues are accountable to Parliament – which votes public money to the MoD for defence purposes – for all defence matters. Parliament exercises its oversight through Parliamentary Questions; debates in both Houses of Parliament on defence-related issues; the House of Commons Public Accounts Committee (PAC), which is responsible for investigating the Department's use of public funds; and the House of Commons Defence Committee (HCDC), which conducts inquiries on a wide range of defence issues.

The Principal Advisers

Ministers are supported by the senior management of the MoD, headed jointly by the (military) Chief of the Defence Staff and the (civilian) Permanent Under Secretary. Neither of these is subordinate to the other. They share responsibility for much of the Department's business and their roles reflect the importance of both military and civilian advice on political, financial, administrative and operational matters.

The Permanent Under Secretary is the Government's principal civilian adviser on Defence and has the primary responsibility for policy, finance and administration in the Department. He is the MoD's Accounting Officer, reflecting his responsibility to the Secretary of State for the overall organisation, management and staffing of the Department and for financial procedures and other matters. He is also personally accountable to Parliament for the expenditure of all public money voted for Defence purposes.

The Chief of the Defence Staff (CDS) is the professional head of the Armed Forces and the principal military adviser to the Secretary of State and the Government. The chain of command for the planning and conduct of military operations flows from the Cabinet and the Secretary of State to CDS, and from him to operational commanders at various levels.

⁵ The pre-1964 Ministry of Defence was established to continue co-ordination of defence activity after the war. Taking the central role in formulation of unified defence policy, its executive control over the single Service Ministries grew until formal unification became the next logical step in 1964.

The Defence Council

The formal legal basis for the conduct of defence in the UK rests on a range of powers vested by statute and Letters Patent in the Defence Council, chaired by the Secretary of State for Defence. Boards for each Service, (the Admiralty, Army and Air Force Boards) report to the Defence Council. The Defence Council currently comprises four Defence Ministers and ten senior officials:

MINISTERS	SENIOR OFFICIALS
The Secretary of State for Defence	Permanent Under Secretary (PUS)
The Minister of State for the Armed Forces	Chief of the Defence Staff (CDS)
The Parliamentary Under Secretary of State and Minister for Defence Procurement	Chief of the Naval Staff (CNS)
The Parliamentary Under Secretary of State and Minister for Veterans	Chief of the General Staff (CGS)
	Chief of the Air Staff (CAS)
	Vice Chief of the Defence Staff (VCDS)
	Chief Scientific Adviser (CSA)
	2nd Permanent Under Secretary (2nd PUS)
	Chief of Defence Procurement (CDP)
	Chief of Defence Logistics (CDL)

The Defence Management Board

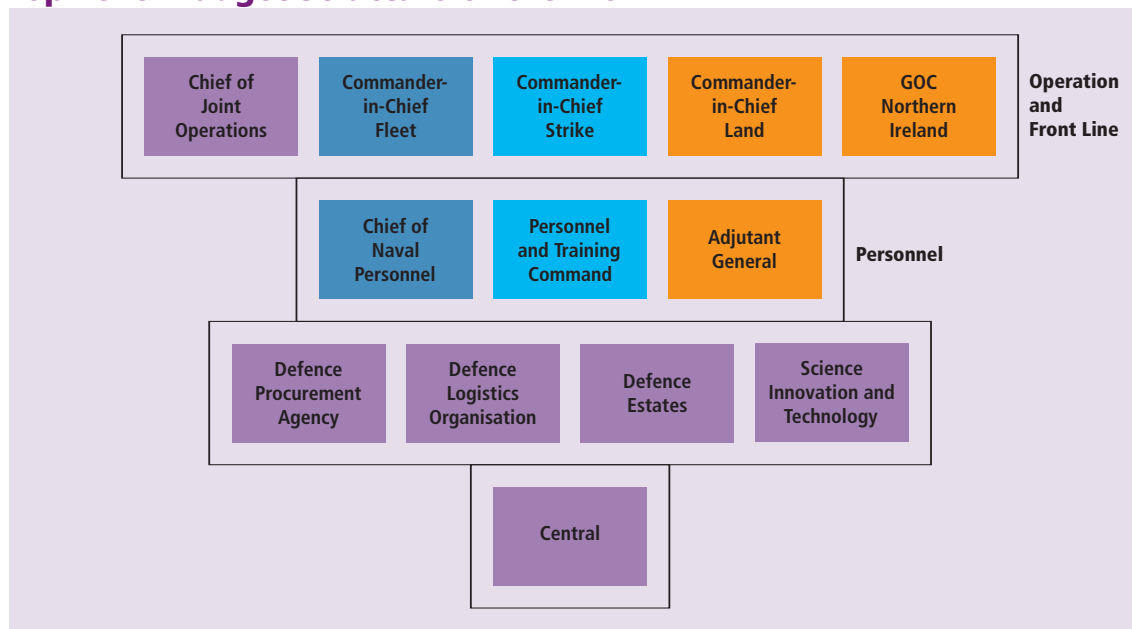
The Defence Management Board (DMB) is the highest non-Ministerial committee in the MoD, chaired by the Permanent Under Secretary, and comprising the ten non-Ministerial members of the Defence Council, as well as the Finance Director and two non-executive members. It acts as the main executive board of the MoD, providing senior level leadership and strategic management of Defence and is responsible for:

- **Providing strategic direction**, vision and values;
- **Objectives and targets** – establishing the key priorities and defence capabilities necessary to deliver the MoD's Departmental objectives;
- **Resource allocation and strategic balance of investment** to match Defence priorities and objectives; and
- **Performance management** – managing and driving corporate performance.

Top Level Budgets

Most defence activity takes place outside the MoD head office and is managed through thirteen Top Level Budget (TLB) holders and five Trading Funds. The Permanent Under Secretary grants each TLB-holder extensive delegated powers over personnel, infrastructure and budget. Each TLB holder has a 'contract' with the MoD head office, known as a Service Delivery Agreement, which specifies the outputs required of that TLB, the resources they are given to deliver these outputs, and the underpinning performance management regime.

Top Level Budget Structure of the MoD



Top Level Budget Roles

Central TLB

The Central TLB has responsibility for the MoD Head Office, covering Defence policy as well as Departmental policy on the equipment programme, resources, finance, personnel and security. However, some 25% of Central TLB involve non-Head Office functions, providing a diverse range of corporate services for the MoD as a whole. These include pay, estate management, bill payment, consultancy services, accountancy, some training, statistical analysis, central IT systems, public relations, defence exports and policing. The Central TLB's remit also encompasses the management of Service housing and the provision of medical services.

Chief of Joint Operations (CJO)

With a few exceptions, CJO is responsible for running all military operations from the Permanent Joint Headquarters in Northwood. Military assets are assigned to CJO for the duration of the operation only. In addition to his operational responsibilities, CJO is responsible for the Sovereign Base Areas and British forces in Cyprus, Gibraltar, the South Atlantic Islands and Diego Garcia.

Commander-in-Chief Fleet (CINCFLEET)

CINCFLEET is responsible for delivery of warships and trained crews and Royal Marines to CJO at agreed readiness states. CINCFLEET maintains an operational command and control capability, in particular for the nuclear deterrent force. The CINCFLEET TLB is due to merge with the CNH (see below) TLB in 2006.

Land Command (LAND)

CinC LAND is responsible for the delivery of land component military capability (Army formation and equipment) to CJO and to GOC NI at agreed readiness states through collective training and the generation of military capability of units, brigades and divisions.

Strike Command (STC)

Strike Command is the RAF's operational TLB and is responsible for providing aircraft and trained aircrews to CJO at agreed readiness states. In addition, STC maintains aircraft and aircrew for Quick Reaction Alert to defend UK airspace and conduct Search and Rescue Operations.

General Officer Commanding Northern Ireland (GOCNI)

GOCNI is responsible for military aid to the civil power and counter terrorist operations in Northern Ireland. Although it is a joint-Service TLB, GOCNI is mainly staffed by the Army which provides the bulk of the Service personnel committed to Northern Ireland.

Chief of Naval Personnel/Commander-in-Chief Naval Home Command (CNH)

Chief of Naval Personnel is responsible for providing the 'raw material' of trained naval officers and sailors to CINCFLEET, recruitment into the Navy and individual training. Bringing individuals together into coherent ships' crews remains the responsibility of CINCFLEET. This TLB is due to merge with CINCFLEET's TLB in 2006.

Adjutant General (AG)

AG is responsible for providing trained officers and soldiers, principally to allow CinC LAND to meet commitments to CJO and other TLBs. AG is also responsible for recruitment into the Army and for individual training.

Royal Air Force Personnel and Training Command (RAF PTC)

PTC is responsible for the recruitment and training of RAF personnel who are subsequently employed in STC and other TLBs. PTC is also responsible for providing basic flying training for all three services.

Defence Procurement Agency (DPA)

Responsibility for the procurement of equipment to meet future requirements lies with the Defence Procurement Agency (DPA), located mainly at Abbey Wood, Bristol.

Defence Logistics Organisation (DLO)

The DLO provides logistic support to the frontline of all three services.

Science Innovation Technology (SIT)

This TLB, headed by the Chief Scientific Adviser, was formed on 1 April 2004. The prime output of this TLB is the delivery of expert advice and the development of scientific and technological solutions to satisfy the MoD's needs and problems.

Defence Estates (DE)

DE became a TLB on 1 April 2005. DE is responsible for managing and developing the defence estate in a sustainable manner, in line with acknowledged best practice and Government policy.

Defence Agencies and Trading Funds

The MoD has five Trading Funds and 26 On-Vote Defence Agencies, although the number of agencies is likely to decrease from April 2005. These were set up as part of the Government's Next Steps programme, to improve the effectiveness and efficiency of service delivery to customers. The aim was to emphasise performance standards, greater freedom and exposure to commercial disciplines, customer focus, delegation of authority and personal accountability. All Trading Funds and Agencies have a framework document that sets out their role, responsibilities and delegations. Each organisation also publishes separate Key Targets, Corporate Plans and Annual Reports and Accounts.

The MoD's five Trading Funds are ABRO (Army Base Repair Organisation), the Defence Aviation and Repair Agency, the Met Office, the UK Hydrographic Office and the Defence Science and Technology Laboratory. The Trading Funds lie outside the Department's TLB structure and provide services on repayment to other parts of the MoD and to external customers. The MoD is likely to remain the largest single customer for all Trading Funds.

MoD's 26 On-Vote agencies each have a TLB "Owner" who provides strategic direction and funding. These agencies provide a range of intermediate outputs (e.g. trained military personnel or storage and distribution services) or corporate services to other parts of MoD (e.g. payroll or personnel vetting services). They are different from most other Government agencies in that the majority of their customers tend to be internal rather than external.

Public Service Agreement

The Department's Public Service Agreement (PSA) for 2005-06 to 2007-08 was published in the White Paper "Spending Review 2004: Public Service Agreements 2005-08" (Cm 6238, July 2004, available at www.hm-treasury.gov.uk). It sets out the objectives, key targets and resources for the Department for that period. Progress against the Public Service Agreement is published annually in the Department's Annual Report and Accounts (HC 1080, October 2004) and every quarter on the MoD and HM Treasury websites at www.mod.uk and www.hm-treasury.gov.uk.

The Treasury and Prime Minister's Delivery Unit (PMDU) have asked departments to follow an evolutionary approach to the development of targets, as well as reducing their number. All the new targets have been developed from the SR02 PSAs and there were no radical changes to the previous targets. The new targets more closely reflect the core outputs of the department. The targets are SMART (specific, measurable, achievable, realistic and timely). They have clear owners and can be linked to significant cost drivers.

Aim

"Deliver security for the people of the United Kingdom and the Overseas Territories, by defending them, including against terrorism, and act as a force for good by strengthening international peace and stability".

Objectives and performance targets

The MoD has agreed three specific objectives:

Objective I: Achieve success in the military tasks that we undertake at home and abroad.

1. Achieve the objectives established by Ministers for Operations and Military Tasks in which the United Kingdom's Armed Forces are involved, including those providing support to our civil communities.
2. By 2008, deliver improved effectiveness of the UK and international support for conflict prevention by addressing long-term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular Africa, Asia, Balkans and the Middle East. (Joint Target with DFID and FCO).

Objective II: Be ready to respond to tasks that might arise.

3. Generate forces which can be deployed, sustained and recovered at the scales of effort required to meet the Government's strategic objectives.
4. Play a leading role in the development of the European Security Agenda, and enhance capabilities to undertake timely and effective security operations, by successfully encouraging a more efficient and effective NATO, a more coherent and effective European Security Defence Policy (ESDP) operating in strategic partnership with NATO, and enhanced European Defence capabilities. (Joint target with FCO).
5. Recruit, train, motivate and retain sufficient military personnel to provide the military capability necessary to meet the Government's strategic objectives.

Objective III: Build for the future.

6. Deliver the Equipment Programme to cost and time.

Who is responsible for delivery?

The Secretary of State for Defence is responsible for delivery of this PSA. MoD and the Foreign and Commonwealth Office share responsibility for delivery of target 4 on NATO and European security, whilst MoD, the Foreign and Commonwealth Office and the Department for International Development share responsibility for target 2 on conflict prevention.

Efficiency

As part of the Spending Review 2004 settlement, MoD committed itself to making a minimum of 2.5% efficiency gains each year from 2005/06 to 2007/08, which equates to £2.8bn by 1 April 2008.

Efficiencies will be delivered by modernising business processes, rationalising support functions, and organisational changes. They include diverse initiatives such as modernising human resource management and improving the way we deliver logistic support to the front line. Other measures fall from the force structure changes set out in the July 2004 Defence White Paper *Delivering Security in a Changing World: Future Capabilities* (Cm 6269) which will transform the Armed Forces to meet future requirements. Together these measures will help resource the creation of the flexible and adaptable Armed Forces the UK needs to meet the challenges of the 21st Century.

The Efficiency Technical Note (ETN) published in October 2004 set out how we would deliver and measure these efficiency gains. Since then work has centred on refining the targets included in the Efficiency Technical Note (an updated version will be published in the autumn); embedding efficiency targets within the Top Level Budget (TLB) areas' financial control totals, and developing robust methods to track delivery, including through Service Delivery Agreements. Extensive work has also taken place to refine the associated civilian and military head count reductions.

In addition, a number of early efficiencies have already been delivered in areas such as Whole Fleet Management (which delivered £17m of efficiencies in 2004/05) and from the force structure changes announced in 2004. The Defence Logistics Transformation Programme has also delivered some £300m of new efficiencies, £30m of which were delivered by new category management teams who buy across-platform requirements. Additionally, estate disposals valued at over £200m were achieved. The contract for the Joint Personnel Administration programme has been signed, and the preferred bidder for Increment 1 of the Defence Information Infrastructure (DII), a key enabling programme, has been awarded.

Progress has also been made to meet the relocation commitments made as part of the initial Lyons Review. Army Junior Training has been relocated, with the resulting closure of the Army Technical Foundation College at Arborfield in March, allowing the relocation of 1230 posts from the South East and generating annual savings of £16M.

In 2005/06 MoD will build upon the efficiencies that have already been delivered. The Defence Logistics Transformation Programme will continue to deliver new efficiencies. Roll out of DII across more of the Department will bring further benefits. Looking further ahead, HQ mergers and collocations are expected to deliver efficiencies in the SR'04 period, following approval of the RAF and Navy's collocation programmes and a decision on the Army's expected later in 2005.

MoD also remains on course to meet target 7 of the 2002 PSA, that committed the Department to increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. Year-on-year output efficiency gains of 2.5% have been made since 2002/03 and will continue to be made in 2005/06, including through a 20% output efficiency gain in the DLO.

Summary of PSA Performance

The following summarises the MoD's performance as at 31 March 2005 (i.e. fourth quarter performance), against the objectives and targets specified in the Spending Review 2002 Public Service Agreement.

Quarterly performance reports are published in full at www.mod.uk and at www.hm-treasury.gov.uk.

PSA Target	Assessment at 31 March 2005
Objective I – Achieve success in the military tasks that we undertake at home and abroad.	
<p>1. Achieve the objectives established by Ministers for Operations and Military Tasks in which the UK's Armed Forces are involved, including those providing support to our civil communities.</p>	<p>On Course</p> <p>The Armed Forces continue to achieve a high degree of success against the objectives set for all Operations, including in Iraq, Afghanistan, the Balkans, Sierra Leone, and the Democratic Republic of Congo.</p>
<p>2. Improve effectiveness of the UK contribution to conflict prevention and management as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and a reduction in potential sources of future conflict, where the UK can make a significant contribution.</p> <p>JOINT TARGET WITH DfID AND FCO.</p>	<p>Too early to say</p> <p>The Africa Conflict Prevention Pool (ACPP) <i>is on course to meet two of four sub-targets</i>. Trends in Africa show an overall reduction in violent conflict but with ongoing instability; reductions in deaths have been sharp but numbers of refugees and Internally Displaced Persons remain high. The ACPP continues to play a pivotal role in African and International conflict prevention efforts.</p> <p>The Global Conflict Prevention Pool <i>is on course to meet three of its four sub-targets, and only marginally off on Internally Displaced Persons figures</i>. The statistics for 2003 are encouraging but should be considered in the light of the situation in each focus country and region. Further details can be found in the Q4 report at http://www.mod.uk/issues/finance/psa/psaqtrrpts.htm</p>
Objective II – Be ready to respond to the tasks that might arise.	
<p>3. By 2006 ensure that a minimum of 90% of high-readiness forces are at their required states of readiness with no critical weakness.</p> <p>(As set out in MoD's 2002/03 Annual Report and Accounts, from 1 April 2003 reporting against this target covers all forces, not just those at high readiness.)</p>	<p>On Course</p> <p>At Q4 04/05, 100% of forces were at their required readiness levels without any critical weaknesses reported. This continues to exceed the target.</p>
<p>4. Recruit, retain and motivate the personnel needed to meet the manning requirement of the Armed Forces, so that by the end of 2004, the Royal Navy and RAF achieve, and thereafter maintain, manning balance, and that by the end of 2005, the Army achieves, and thereafter maintains, manning balance.</p> <p>(Manning balance is defined as between –2% and +1% of the requirement, and is measured against the target prevailing at the time. Since the total manning requirement of whole Service manning is dynamic, this target will itself fluctuate over the PSA period.)</p>	<p>Slippage</p> <p>The Navy (including the Royal Marines) is currently 2.8% below the manning balance. Both the Army and Royal Air Force are currently within the target range, though manpower structures within some specialist groups are fragile.</p> <p>The Navy (including the Royal Marines) achieved the guidelines on deployed separated service. Due to operational commitments, the Army and Royal Air Force breached the guidelines, though the Army position has improved.</p> <p>Good progress has continued to be made to improve the living conditions of Service personnel and their families, with 1862 Single Living Accommodation units and 2610 Service family houses upgraded since April 04.</p>

Objective II – Be ready to respond to the tasks that might arise. (continued)	
<p>5. Strengthen European security through an enlarged and modernised NATO, an effective EU military crisis management capacity and enhanced European defence capabilities.</p> <p>JOINT TARGET WITH FCO.</p>	<p>On Course</p> <p>Good progress made: NATO Response Force has achieved its initial operational capability and is on course to achieve full capability by July 2006. The UK is currently commanding the EUFOR mission in Bosnia with the EU and NATO cooperating successfully under the Berlin Plus arrangements. The new European Defence Agency has been established. The Department continues to be at the forefront of developing European defence capabilities that will strengthen both NATO and the EU. The UK is working effectively to ensure coherence between the two organisations.</p>
Objective III – Build for the future.	
<p>6. Develop and deliver to time and cost targets military capability for the future, including battle-winning technology, equipment and systems, matched to the changing strategic environment.</p>	<p>Slippage</p> <p>SMART major projects are currently reporting an average of 1.6 months in-year In Service Date (ISD) slippage. This compares with an average in-year ISD slippage of 2.2 months in 2003/04.</p> <p>Legacy major projects have reported an average of 3.0 months in-year ISD slippage. This compares with an average in-year ISD slippage of 2.8 months in 2003/04.</p> <p>Major projects are reporting that 99% of customers' key requirements are being met. This compares with an average of 98.8% customer's key requirements met in 2003/04.</p> <p>Major projects are reporting an average of cost reduction of 3.2% since April 04 measured against project approval levels set out in the Major Project Report. This compares with an average 2.7% cost growth in 2003/04.</p>
Value for Money	
<p>7. Increase value for money by making improvements in the efficiency and effectiveness of the key processes for delivering military capability. Year-on-year output efficiency gains of 2.5% will be made each year from 02/03 to 05/06, including through a 20% output efficiency gain in the DLO.</p>	<p>On Course</p> <p>Reduction of the Defence Logistics Organisation Costs represents the major performance indicator for this target. The Defence Logistics Organisation has achieved over £400m (subject to validation) of new efficiency is on track to achieve the 20% reduction in output costs by April 2006.</p>

Spending Plans

The spending plans for the Department set out in this report for the financial years 2005-06 to 2007-08 are based on the Government's Spending Review 2004, which set budgets from 2005-06 to 2007-08. The key points as announced in July 2004 by the Secretary of State under the Spending Review 2004 are:

- the Defence Budget will increase by £3.7 bn between 2004/05 and 2007/08, representing 1.4% average annual real terms growth over the next three years.
- MoD has committed itself to achieving £2.8 bn of efficiencies by 2007/08. This will be reinvested in Defence. This includes under the Gershon review a reduction of 15,000 posts by 2007/08 – over 10,000 civilian posts and 5,000 service posts in administrative and support functions.
- MoD is also committed to relocating some 3,900 civilian and service posts out of London and the South East by 2010.

The Defence White Paper (2003) set out our analysis of the future security environment, the implications for defence, our strategic priorities and how we intend to adapt our planning and force structures to meet potential threats. This policy built on the SDR strategy and the conclusions of the SDR New Chapter and recent operational experience. These measures, and those set out in the 'Future Capabilities' paper, have shaped to our spending plan. Future equipment spending plans will continue the shift in emphasis away from measuring capability in terms of numbers of ships, tanks and aircraft and towards the delivery of military effect. Also, investment in the defence estate and business modernisation will be required to respond to changes in our Force Structure and to reallocate resources to the 'front line.'

The outturn figures also take into account subsequent developments, including costs arising from operations (which are borne by the cross-Departmental Conflict Prevention funds or by the Government's central Reserve), transfers of resources into and out of the Department and movements of resources from one financial year to another.

The Data

The MoD's Main Estimates, and detailed Supplementary Budgetary Information, have been published separately (2005-06 Main Supply Estimates (HC 2 May 2005) and Supplementary Budgetary Information (Command Paper 6489 May 2005).

The financial tables in this report use figures based on Resource Accounting and Budgeting (RAB). Government departments across Whitehall are now working on a full RAB basis. Therefore, unless otherwise stated, the tables in this report include non-cash charges such as depreciation and capital charges in the Departmental Expenditure Limits (DELs). Expenditure in AME (War Pensions and Allowances and Armed Forces Retired Pay and Pensions) remains outside DEL and is shown separately.

As in previous years, tables are included showing key information on costs and staff numbers.

Defence Investment Strategy

The Department's plans for capital investment for the period covered by this document are described in greater detail in the Defence Departmental Investment Strategy (published in March 2005, and available at <http://www.mod.uk>).

The Department's Long-Term Investment Strategy

Capital investment in the MoD consists of investment in fighting equipment, capital spares, high value munitions, and infrastructure (land, buildings, Information Technology, plant etc) required to achieve our PSA objectives. To ensure best value for money in the delivery of these objectives, we use both direct investment and indirect investment under Public Private Partnerships (PPP) or Private Finance Initiatives (PFI).

Investment Plans

The Department's investment plans are summarised below:

Capability modernisation: The 2003 Defence White Paper built on the SDR by setting out the future capability needs of the Armed Forces, as they move to an effects-based approach to warfare. The Defence equipment programme is constructed to provide the equipment capability the Armed Forces require to deliver the overall military capability required. The emphasis is on capabilities that improve military effectiveness, deliver efficiency improvements and exploit technological advances.

Non-equipment: In conjunction with equipment procurement, defence also invests in non-equipment, such as the defence estate, business modernisation and IT/communications. Examples of non-equipment projects are Allenby/Connaught which aims to deliver nearly 11,000 single room en-suite bed spaces over the next 8 years and Defence Information Infrastructure, which is attempting to rationalize the 6,000 IT applications to a figure below 1,000, partly through the Defence Change Programme (DCP) and other initiatives, enabling many current paper-based processes to be replaced by equivalent electronic services.

Asset Management

MoD's asset base is large, diverse, geographically dispersed and varies significantly in age. At any time there are many items approaching the end of their useful life and many others entering service with, in the case of fighting equipment and buildings, a life of perhaps 25-50 years. Management of our assets is therefore a substantial task. More detail on MoD assets can be found in the Departmental Investment strategy at www.mod.uk.

Asset disposals

The Department is committed to ensuring that it does not hold assets which are no longer required to meet operational needs. This is carried out by Defence Estates, whose strategy is to provide an estate of the right size and quality which is managed and developed effectively in line with acknowledged best practice, and is sensitive to social and environmental considerations. This involves managing the defence estate as a corporate asset and focusing the MoD's activities onto fewer, larger sites, allowing the disposal of land, building and facilities, although this may be offset to an extent by some acquisition or new build at 'core' sites.

The scope for disposing of assets is restricted by operational requirements, which directly or indirectly drive the need for all MoD's holdings. Practical constraints such as marketability, legal and regulatory requirements (listed buildings, environmental regulations, limitations on arms transfers, etc) also impact on disposals.

Wider Markets Initiative

The aim of the Wider Markets Initiative is the commercial exploitation of the Department's assets which need to be retained but are not fully used. Subject to certain conditions, the revenue generated can be used as extra income to fund departmental activities.

Much of MoD's Wider Markets income comes from numerous small local arrangements for the loan of manpower, equipment, land and facilities. Wider Markets projects in MoD include:

- An apprentice training contract between the Naval Recruiting and Training Agency (with their partners, Flagship) and Network Rail.
- A partnering arrangement with Landmarc for the management of the Army training estate, from which MoD receives a major share of any third-party income generated.
- A contract between the Defence Communication Services Agency and ntl to exploit the spare capacity of the Boxer Communication Towers.
- The publication of potential MoD film locations on a dedicated website.

Public Spending

This table sets out, in resource terms, a summary of expenditure from 2000-01 to 2007-08. This is split into consumption of resources, and capital spending.

£'000	2000-01 Outturn ^[2]	2001-02 Outturn ^[2]	2002-03 Outturn ^[3]	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Consumption of Resources:								
Provision of Defence capability	33,393,769	31,839,494	36,972,809	29,979,374	31,472,635	32,325,862	32,579,200	32,889,064
Unprogrammed operations/ conflict prevention ^[4,5]	–	530,016	1,117,429	1,232,152	949,884	45,040	–	–
War pensions and allowances	1,411,782	1,237,535	1,165,411	1,116,047	1,106,936	1,068,972	1,026,077	991,180
Armed forces pay and pensions ^[6]	3,007,874	3,208,776	3,317,558	3,597,451	3,795,579	4,387,782	4,548,147	4,707,442
Total resource budget	37,813,425	36,815,821	42,573,207	35,925,024	37,325,034	37,827,656	38,153,424	38,587,686
of which Resource DEL ^[7]	33,393,725	32,333,830	36,422,227	31,316,091	32,590,917	32,505,726	32,706,957	33,025,785
Capital spending:								
Provision for Defence capability	5,391,429	5,890,323	5,780,827	5,808,811	6,341,500	6,864,000	6,963,000	7,584,800
Unprogrammed operations/ conflict prevention ^[4,5]	–	56,069	318,690	260,275	223,151	–	–	–
Total capital budget	5,391,429	5,946,392	6,099,517	6,069,086	6,564,651	6,864,000	6,963,000	7,584,800
of which Capital DEL ^[7]	5,391,429	5,835,512	6,149,417	6,073,300	6,592,651	6,880,000	6,970,000	7,600,000
Total public spending ^[8]	35,885,439	35,341,241	35,413,263	35,681,381	36,015,676	36,250,656	37,515,424	39,001,486
Notes:								
^[1] Figures are presented on the basis of SR2002 accounting treatment and historic figures may vary from those in previous Expenditure Plans. Plans for FY 2005-06 and beyond have been compiled to SR2004 guidelines and HMT instructions.								
^[2] Figures for years up to and including 2001-02 have not been restated to reflect the Treasury Discount Rate change and are therefore not comparable to the following years.								
^[3] Includes an unusually large increase in non-cash expenditure in line with asset management policy agreed with Her Majesty's Treasury.								
^[4] As unprogrammed operations/conflict prevention costs fluctuate significantly in-year due to changes in demand for military involvement in such activities, this year the Department will ask Parliament to vote on more accurate figures in the Supplementary Estimates.								
^[5] Operational and conflict prevention costs are only estimated one year in advance.								
^[6] As a consequence of adopting Financial Reporting Standard 17 'Retirement Benefits', the Resource Accounts of pension schemes administered by central government now account for the accruing cost of providing pensions rather than just the benefits payable and contributions receivable. There have been other technical changes to cost attribution. Historic figures may vary from previous expenditure plans.								
^[7] Departmental Expenditure Limits (DELs), set as part of the 2002 Spending Review plus operational and conflict prevention costs. The DEL in 00-01 is illustrative, as Departments were controlled in cash terms at that time.								
^[8] Total public spending calculated as the total of the resource budget plus the capital budget, less depreciation.								

Consumption of Resource by Activity

Table 2 gives a functional breakdown of the Department's resource spending plans from 2000-01 to 2007-08.

£'000	2000-01 Outturn ^[1]	2001-02 Outturn ^[1]	2002-03 Outturn ^[1,2]	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Consumption of Resources by Activity:								
Provision of Defence capability	33,393,769	31,839,494	36,972,809	29,979,374	31,472,635	32,325,862	32,579,200	32,889,064
of which:								
Operations	13,761,878	13,784,077	15,576,532	12,882,390	13,734,085	14,000,787	14,215,517	14,385,830
of which:								
Commander-in-Chief Fleet General Officer Commanding (Northern Ireland)	3,819,606	3,636,056	4,597,475	3,240,612	3,542,918	3,558,148	3,369,909	3,378,926
Commander-in-Chief Land Command	646,993	614,237	695,775	649,280	642,754	609,487	626,939	596,411
Commander-in-Chief Strike Command	4,849,049	4,945,023	5,227,393	5,078,537	5,414,000	5,620,440	5,822,750	5,967,530
Chief of Joint Operations	3,890,978	4,128,258	4,546,080	3,384,907	3,674,690	3,672,124	3,865,010	3,896,444
Chief of Joint Operations	555,252	460,503	509,809	529,054	459,723	540,588	530,909	546,519
Personnel	3,187,787	3,321,203	3,500,024	3,430,990	3,472,932	3,404,935	3,482,567	3,575,110
of which:								
2nd Sea Lord/Commander-in-Chief Naval Home Command	669,285	684,056	725,301	692,975	717,142	729,033	737,328	768,847
Adjutant General	1,627,070	1,709,922	1,717,792	1,743,157	1,754,209	1,764,898	1,816,852	1,843,945
Commander-in-Chief Personnel and Training Command	891,432	927,225	1,056,931	994,858	1,001,581	911,004	928,387	962,318
Logistics	11,010,232	8,964,801	10,598,111	7,692,468	7,750,993	7,597,620	7,865,587	8,075,078
of which:								
Chief of Defence Logistics	11,010,232	8,964,801	10,598,111	7,692,468	7,750,993	7,597,620	7,865,587	8,075,078
Central	2,678,908	2,615,070	2,564,140	2,714,077	2,832,847	4,179,965	3,854,388	3,656,239
of which:								
Central	2,678,908	2,615,070	2,564,140	2,714,077	2,662,847	2,320,555	2,341,561	2,389,295
Defence Estates	–	–	–	–	–	974,410	1,042,827	1,066,944
Departmental Unallocated Provision ^[3]	–	–	–	–	170,000	885,000	470,000	200,000
Procurement	2,754,964	3,154,343	4,734,002	3,259,449	3,681,778	3,142,555	3,161,141	3,196,807
of which:								
Defence Procurement Agency	2,324,418	2,709,593	4,307,948	2,839,449	3,186,742	2,638,612	2,629,782	2,645,546
Science Innovation Technology ^[4]	430,546	444,750	426,054	420,000	495,036	503,943	531,359	551,261
Operations/Conflict Prevention ^[5,6]	–	530,016	1,117,429	1,232,152	949,884	45,040	–	–
Armed Forces Pay and Pensions	3,007,874	3,208,776	3,317,558	3,597,451	3,795,579	4,387,782	4,548,147	4,707,442
War Pensions and Allowances	1,411,782	1,237,535	1,165,411	1,116,047	1,106,936	1,068,972	1,026,977	991,180
Total Resource Budget	37,813,425	36,815,821	42,573,207	35,925,024	37,325,034	37,827,656	38,153,424	38,587,686

Notes:

^[1] Figures for years upto and including 2001-02 have not been restated to reflect the Treasury Discount Rate change and are therefore not comparable to those for the plan years.

^[2] Includes an unusually large increase of non-cash expenditure in line with agreed asset management policy agreed with Her Majesty's Treasury.

^[3] A Departmental Unallocated Provision has been established to provide flexibility to manage potential non-cash pressures such as impairments and write downs.

^[4] Science Innovation Technology replaces the Corporate Science and Technology Budget shown in previous years.

^[5] As Operations/conflict prevention prevention costs fluctuate significantly in-year due to changes in demand for military involvement in those activities, this year the Department will ask Parliament to vote on more accurate figures in the Supplementary Estimates.

^[6] Operational and conflict prevention costs are only estimated one year in advance.

Capital Expenditure by Activity

Table 3 gives a functional breakdown of the MoD's investment or capital spending plans from 2000-01 to 2007-08.

£'000	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Capital Spending by Activity: ^[1]								
Provision of Defence capability	5,391,429	5,890,323	5,780,827	5,808,811	6,341,500	6,864,000	6,963,000	7,584,800
of which:								
Operations	-91,186	285,475	244,842	328,923	245,904	241,972	371,928	396,568
of which:								
Commander-in-Chief Fleet General Officer Commanding (Northern Ireland)	17,366	151,885	15,965	37,401	29,173	16,990	35,249	27,830
Commander-in-Chief Land Command	14,430	24,128	107,190	43,380	26,833	27,198	47,300	48,951
Commander-in-Chief Strike Command	58,354	8,241	29,280	185,766	132,571	121,000	176,501	177,588
Chief of Joint Operations	-187,951	75,292	66,591	40,376	29,224	49,000	86,117	76,112
Personnel	6,615	25,929	25,816	22,000	28,103	27,784	26,761	66,087
Personnel	50,619	56,051	55,113	74,984	88,775	55,196	56,218	81,006
of which:								
2nd Sea Lord/Commander-in-Chief Naval Home Command	1,214	7,136	15,417	28,047	37,635	13,376	12,368	25,286
Adjutant General	35,707	31,713	24,820	29,004	28,243	21,710	18,252	24,966
Commander-in-Chief Personnel and Training Command	13,698	17,202	14,876	17,933	22,897	20,110	25,598	30,754
Logistics	1,059,227	1,319,019	1,221,172	1,210,004	1,174,523	1,188,805	1,126,654	1,362,213
of which:								
Chief of Defence Logistics	1,059,227	1,319,019	1,221,172	1,210,004	1,174,523	1,188,805	1,126,654	1,362,213
Central	-166,050	-116,577	-121,593	-100,638	241,346	436	86,002	-82,800
of which:								
Central	-166,050	-116,577	-121,593	-100,638	241,346	27,450	43,002	69,200
Defence Estates	-	-	-	-	-	-27,014	43,000	-152,000
Procurement	4,538,819	4,346,355	4,381,293	4,295,538	4,590,952	5,377,591	5,322,198	5,827,813
of which:								
Defence Procurement Agency	4,532,156	4,346,355	4,381,293	4,295,538	4,590,952	5,377,591	5,322,198	5,827,813
Science Innovation Technology ^[2]	6,663	-	-	-	-	-	-	-
Unprogrammed Operations/ Conflict Prevention ^[3]	-	56,069	318,690	260,275	223,151	-	-	-
Total Capital Budget	5,391,429	5,946,392	6,099,517	6,069,086	6,564,651	6,864,000	6,963,000	7,584,800

Notes:

^[1] Where the value of disposals exceeds the value of additions the figure will be negative.

^[2] Science Innovation Technology replaces the Corporate Science and Technology Budget.

^[3] As unprogrammed operations/conflict prevention costs fluctuate significantly in-year due to changes in demand for military involvement in such activities, this year the Department will ask Parliament to vote on more accurate figures in the Supplementary Estimates.

MoD Capital Employed

Table 4 sets out Total Capital Employed by the department.

Table 4: MoD Capital Employed								
£M	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Assets on Balance Sheet:								
Fixed Assets	87,779	88,339	86,313	87,345	87,540	89,009	92,087	95,800
of which:								
Land and Buildings	14,377	14,348	15,342	15,299	15,174	14,907	15,275	15,754
Fighting Equipment	27,492	27,281	26,526	27,157	26,430	28,426	30,375	31,371
Plant, Machinery and Vehicles	4,648	4,142	4,296	3,453	2,934	2,669	2,646	2,629
IT and Communications Equipment	828	814	897	1,220	1,367	1,564	1,744	1,744
Assets in the Course of Construction	11,888	13,984	12,511	13,177	13,609	13,088	12,901	14,179
Capital Spares	8,207	7,558	6,955	6,754	7,109	6,491	6,071	5,839
Intangible Assets	19,901	19,527	19,438	20,187	20,718	21,767	22,968	23,999
Investments	391	671	430	421	346	294	287	285
Current assets	7,822	8,285	7,955	9,306	8,743	9,230	9,507	9,742
of which:								
Stock & work in progress	6,515	6,396	5,337	6,318	6,188	6,205	6,387	6,541
Debtors	1,004	1,257	2,202	2,676	2,329	2,799	2,913	3,003
Cash at bank and in hand	303	632	416	312	226	226	207	198
Creditors (< 1 year)	-4,218	-4,662	-5,384	-5,663	-4,927	-4,837	-4,864	-4,807
Creditors (> 1 year) ^[3]	-397	-448	-450	-452	-799	-1,078	-1,209	-1,353
Provisions ^[1]	-4,405	-4,337	-5,112	-6,994	-9,368	-9,228	-9,241	
Capital employed within Main Department	86,649	86,402	81,440	81,147	81,398	83,125	86,235	89,949
NDPBs' Net Assets ^[4]	335	331	331	331	331	331	331	331
Total capital employed in departmental group	86,984	86,733	81,771	81,478	81,729	86,244	86,566	90,280
Note:								
^[1] Outturn figures for years 1999-00 to 2002-03 are restated Departmental Resources Accounts figures.								
^[2] Figures for years up to and including 2001-02 have not been restated to reflect the Treasury Discount Rate change and are therefore not comparable to those for the plan years.								
^[3] Includes PFI Contracts.								
^[4] NDPB data – only Royal Hospital Chelsea has been shown. At the time of preparation the figures are unavailable for Museums & Oil & Pipe Lines Agency.								

Staff Numbers

Table 5 sets out the number of staff employed within the Department.

	01 Apr 01 Actual	01 Apr 02 Actual	01 Apr 03 Actual	01 Apr 04 Actual	01 Apr 05 Actual	01 Apr 06 Forecast	01 Apr 07 Forecast	01 Apr 08 Forecast
Service Personnel ^[2,3]	215,000	214,500	217,000	216,900	210,100	207,200 ^[4]	202,700 ^[4]	200,800 ^[4]
UK Based Civilians ^[5]	104,800	96,000	93,700	93,600	92,800	90,200	87,400	82,000
UK Based Civilians Permanent	103,300	94,300	92,400	92,500	91,600	.. ^[6]	.. ^[6]	.. ^[6]
UK Based Civilians Casual	1,500	1,700	1,300	1,200	1,200	.. ^[6]	.. ^[6]	.. ^[6]
Locally Engaged Civilians (Non Operational)	13,300	12,500	12,800	13,200	12,800	12,300	12,000	12,100
Locally Engaged Civilians (Operational)	~	1,600	1,100	2,200	2,900	2,900	2,900	2,900
Civilian Personnel Trading Funds ^[7]	18,800	12,400	12,200	11,400	10,800	.. ^[9]	.. ^[9]	.. ^[9]
Civilian Personnel ^[8]	118,100	110,100	107,600	109,000	108,500	105,400	102,300	97,000
Total MoD Manpower	333,100	324,600	324,600	326,000	318,600	312,600	305,000	297,800
Volunteer Reserves & Auxiliary Forces ^[2,10,11]	47,600	46,600	45,300	43,700	42,350	42,350	42,350	42,350

~ denotes fewer than 100
 .. Denotes not available

Notes:

^[1] Totals and sub-totals have been rounded separately and so may not appear to be the sum of their parts.

^[2] Strengths are spot figures as at 1st April, consistent with UK Defence Statistics and other MoD publications.

^[3] Service manpower totals exclude Volunteer Reserves and Auxiliaries, but include Full Time Reserve Service, Home Service battalions of the Royal Irish Regiment (RIRISH HS) and locally engaged personnel. Figures are for trained and untrained personnel, with the exception of RIRISH, where only trained personnel are included. (Untrained RIRISH personnel numbers are negligible).

^[4] For Navy untrained, Army FTRS (Home Commitment), Gurkhas and Royal Irish Home Service personnel, strengths at 1 April 2005 (or liability in the case of the Gurkhas) have been projected forward for future years.

^[5] Includes all permanent and casual personnel, Royal Fleet Auxiliary staff and Trading Fund personnel.

^[6] Civilian forecasts are only calculated for aggregated data.

^[7] From 1 April 1995, DERA assumed responsibility for the Defence Research Agency (DRA), the Defence Test and Evaluation Organisation (DTEO), the Center for Defence Analysis (CDA) and the Chemical and Biological Defence Establishment (CBDE). From 1 July 2001 the figures shown reflect the manpower numbers of the Defence Science and Technology Laboratory (DSTL), and do not include the staff who transferred to the privatised QinetiQ plc.

^[8] This table uses the revised definition of Civilian personnel (Level 0). It includes all permanent and casual personnel, Royal Fleet Auxiliary staff, Trading Fund personnel and Locally Engaged Civilians.

^[9] Civilian Personnel Trading Fund forecasts are not available.

^[10] Includes Army Officer Training Corps and non-regular permanent staff and excludes University Air Squadron, University Royal Naval Units and FTRS.

^[11] Forecasts are not available for Volunteer Reserves nor Auxillary Forces. Strengths at 1 April 2005 have, therefore, been projected forward for future years.

Trends in Defence Spending

Table 6: Trends in Defence Spending								
£M	2000-01 Outturn	2001-02 Outturn	2002-03 Outturn	2003-04 Outturn	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Cash Provision ^[2]	23,170	–	–	–	–	–	–	–
Total DEL ^[3,4]	–	–	27,989	29,524	31,499	30,900	32,076	33,455
Stage One RAB/Near Cash ^[5]	–	23,888	24,312	26,115	27,461	27,693	28,794	30,082
Provision in real terms at 2005-06 prices:								
Cash Provision:	26,432	–	–	–	–	–	–	–
Total DEL ^[3]	–	–	30,102	30,861	32,286	30,900	31,232	31,719
Stage One RAB/ Near Cash:	–	26,575	26,148	27,298	28,148	27,693	28,037	28,521
Year-on-year % change in real terms: ^[6]								
Total DEL ^[3]	–	–	–	2.52%	4.62%	–	–	–
Total DEL Planned ^[7]	–	–	–	–	–	1.47%	1.07%	1.56%
Cost of unprogrammed operation/ conflict prevention at outturn prices: ^[8]								
Cash:	382	–	–	–	–	–	–	–
Total DEL:	–	568	1,919	1,340	1112	45	–	–
Notes:								
^[1] Figures may vary from previous Government Expenditure Plans as definitional changes have been made to bring them into line with the Departmental Resource and Accounts.								
^[2] Until 2000-01, the Department was controlled in cash, not on a resource basis.								
^[3] Under Stage 1 Resource Accounting and Budgeting (RAB), for years 2001-02 to 2002-03 the major non-cash items - depreciation and impairments, cost of capital charges and provisions - were treated as Annually Managed Expenditure (AME) outside the DEL. Under Stage 2 RAB, from 2003-04 onwards this non-cash element is included within the Resource DEL.								
^[4] Total DEL defined as the sum of Resource and Capital DELs, less depreciation and impairments.								
^[5] The Near Cash figure from 2003-2004 excludes charges for the cost of capital and depreciation, as well as other changes such as provisions, to allow comparison with Stage One RAB data from 2001-02 to 2002-03.								
^[6] No figure is shown for 2001-02 because meaningful year-on-year comparison is not possible in the light of the transition from cash to RAB in that year.								
^[7] Year on year % change for 2005/06 based on planned Total DEL for 2004/05 SR2004 adjusted to 2005/06 prices								
^[8] These are additional to the figures for cash provision/DELs in previous rows. The figure for 2002-03 includes provision for activity in Afghanistan, Bosnia, Kosovo and Iraq. It also includes for the purposes of comparison, the Sustainability Fund of £500M to meet the wider impact of the recent high rate of operational activity. Conflict Prevention expenditure falling outside the DEL (£35.488M and £36.148M in Resource AME in 2001-02 and 2002-03 respectively) has been excluded from this table.								

Contingent Liabilities

A contingent liability occurs where there is a risk of incurring a financial obligation to pay another party or parties in the future, depending on whether a particular set of circumstances arises. Those above £100,000 are shown in Table 7.

Table 7: Contingent Liabilities in Excess of £100,000		
Statutory Liabilities	RfR	Value
Statutory liabilities in relation to the operation of International Military Services Ltd.	RfR1	Statutory limit £50M (£100M with Commons approval)
Non-Statutory Liabilities	RfR	Value
Residual liability for the remediation of unidentified contamination in parts of the former Rosyth Naval Base which has been sold to Rosyth 2000 plc.	RfR1	Up to £1.0M
Termination liabilities arising out of MoD's association with the Research Council under the Joint Grants Scheme.	RfR1	Up to £17.620M
Indemnity given to the Federal Republic of Germany in respect of additional costs which might be incurred by Daimler Chrysler Aerospace in the event of delays in the development of the European Collaborative Radar 90 for the Eurofighter 2000.	RfR1	Nil
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.	RfR1	Unquantifiable
Liabilities arising from the insurance risk of exhibits on loan to Navy, Army and RAF museums.	RfR1	£1.965M
Contractorisation of AWE: indemnity to Hunting-BRAE Ltd/AWE in respect of nuclear risks under the Nuclear Installations Act 1965.	RfR1	Up to £140M per incident
Indemnity to Devonport Royal Dockyards Ltd (DRDL) in respect of nuclear risks under the Nuclear Installations Act 1965.	RfR1	Unlimited
Indemnity to Babcock Group in respect of nuclear risks under the Nuclear Installations Act 1965.	RfR1	Unquantifiable
Indemnities to Devonport Royal Dockyards Ltd (DRDL) and to the Babcock Group in respect of non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party.	RfR1	Unquantifiable
Product liability to British Aerospace in respect of work carried out by third party contractors on aircraft for which BAe are Design Authority and for which BAe, at MoD's request provide the third party contractor with design advice and verification.	RfR1	Unquantifiable
Liabilities arising from the sale of Married Quarters estate to the Annington Group: to continue to provide utilities – mainly electricity, gas, water and sewerage services on repayment terms to sites that are surrendered in the first 25 to 28 years which depend on adjacent bases for these services; or to contribute to the cost of installing 'public' utility services up to a maximum of £25M across the estate.	RfR1	£18.103M
Indemnity to BAe Systems (formerly GEC Marconi and Vickers Shipbuilding and Engineering Ltd (VSEL), Barrow) for third party risks.	RfR1	Up to £140M per incident
Standard indemnity to BAe Systems (formerly GEC Marconi and VSEL) in respect of fissile material intended for use on the VANGUARD and ASTUTE Classes contract.	RfR1	Unquantifiable

Waste management, decommissioning and dismantling costs associated with the MoD's nuclear activities in certain MoD operated sites and sites currently operated by Atomic Weapons Establishment Management Ltd, British Nuclear Fuels Limited, Nuclear Industries Radioactive Waste Executive, Rolls Royce & Associates and UK Atomic Energy Authority.	RfR1	£23.573M
Indemnity to Rolls Royce Power Engineering, Derby for risks associated with the handling of fissile materials.	RfR1	Up to £140M per incident
Standard shipbuilding indemnity (in lieu of insurance) to GEC Marconi as part of the ASTUTE Class contract against loss damage and liability incurred by the submarine builder.	RfR1	Unquantifiable
Contractorisation of AWE: Indemnity to AWE Management Ltd and AWE Plc in respect of non-Nuclear Installations Act 1965 nuclear risks resulting from claims for damage to property or death and personal injury to a third party.	RfR1	Unquantifiable
Contractorisation of AWE: Indemnity to AWE Management Ltd in respect of non-nuclear risks covering Employer's Liability, property damage and business interruption, public and product liability.	RfR1	Unquantifiable
Contractorisation of AWE: Indemnity to AWE Management Ltd and AWE Plc in respect of an employee having a claim on personal insurance policy repudiated because of that employee's involvement with Nuclear Accident Response Team activities.		
Residual commercial Contracts claims liability arising out of the disbanding of DERA as a MoD trading agency and the formation of QINETIQ ^[1] on 1 July 2001.	RfR1	Unquantifiable
Residual employee disease liability arising out of the disbanding of DERA as a MoD trading agency and the formation of QINETIQ on 1 July 2001.	RfR1	Unquantifiable
Residual public liability arising out of the disbanding of DERA as a MoD trading agency and the formation of QINETIQ on 1 July 2001.	RfR1	Unquantifiable
Environmental losses incurred by QINETIQ arising from certain defined materials at specific properties before the formation of QINETIQ on 1 July 2001.	RfR1	Unquantifiable
Certain indemnities and warranties granted by MoD to the Carlyle Group covering possible liabilities relating to the sale of a minority share of QINETIQ.	RfR1	£5.300M
An actuarial adjustment to the QINETIQ pension fund. The need for which to be assessed after 5 years or earlier at the point which the Government's remaining stake in QINETIQ is sold.	RfR1	£40.438M
Notes:		
^[1] QinetiQ must meet the first £250K of losses incurred in each calendar year.		

Public Private Partnerships

The Department seeks to involve the private sector in the delivery of efficient services. Asset use can be maximised through Public Private Partnerships (PPP), under which we get better quality of service and better value for money. PPPs cover a range of service acquisition techniques, including strategic partnering in which private sector partners help make best use of assets including the exploitation of spare capacity. The Private Finance Initiative (PFI) also continues to play an important role in the provision of defence services. During 2004-2005, the Department signed three further PFI deals with a capital value of £495 million, bringing its total number to 52 with capital investment totalling £4.3 billion. The department will continue to use PFI when it clearly presents best value for money and further projects will be identified in due course.

Table 8: Private Finance Initiatives

£M	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans
Estimated Capital Spending of projects on contract	1,228	458	304
Capital Value of projects at preferred bidder stage	15	106	198
Revenue costs	629	694	771

Non-Departmental Public Bodies: Executive Bodies

The Department has seven executive Non-Departmental Public Bodies whose planned expenditure is outlined below.

£'000	2004-05 Estimated Outturn	2005-06 Plans	2006-07 Plans	2007-08 Plans
Name of Body				
Total Gross Expenditure of Body				
Royal Naval Museum	1,494	1,230	1,180	1180
Fleet Air Arm Museum	1,173	1,950	2,000	2,000
Royal Navy Submarine Museum	674	783	791	815
Royal Marines Museum	760	820	847	872
National Army Museum	5,702	5,290	5,467	5365
Royal Air Force Museum	12,390	14,635	8,310	7,500
Oil and Pipelines Agency ^[1]	1,690	1,670	1,730	1,790
Funding from the Defence Budget				
Royal Naval Museum	1,018	892	892	867
Fleet Air Arm Museum	578	592	592	606
Royal Navy Submarine Museum	543	557	556	572
Royal Marines Museum	722	740	740	758
National Army Museum	5,184	4,875	4,992	4,890
Royal Air Force Museum	6,467	7,023	6,591	6,721
Oil and Pipelines Agency ^[1,2]	–	–	–	–
<p>Note:</p> <p>^[1] The running costs of the Oil and Pipelines Agency (OPA) are no longer funded from the Defence Budget. It is funded from any surplus obtained from the operation of the Government Pipeline and Storage System by the OPA. Should a surplus not be generated then MoD would have to bear the cost.</p> <p>^[2] The OPA is formally classified as a public corporation for Government and national accounts.</p>				

Long-term projects

Table 10 details ten major long term non-equipment works, information technology and services projects over the ten year period starting at the beginning of financial year 2005-06.

Projects that will reach completion before the start of 2005-06 have not been shown. Figures include uncommitted but anticipated expenditure alongside projected contract costs.

Further details on MOD projects can be found in the following publications:

- UK Defence Statistics 2004, September 2004 (Table 1.16)
- Major Projects Report (HC1159, November 2004)
- Ministry of Defence Annual Report and Accounts (HC1080, October 2004)

£'000	Year of Start/ Original Estimate of Year of Completion	Current Estimate of Year of Completion	Current Estimates of Expenditure		
			Estimated Provision for 2005-06	Remainder to be spent to end of planning period	Total to be spent across forward planning period
Projects (Capital and Resource)					
DII Future Programme	2005/2015	2014/15	361,100	3,819,300	4,180,400
DFTS(F)	2005/2012	2012/13	177,700	2,165,100	2,342,800
Allenby / Connaught PPP ^[1]	–	–	68,100	2,032,800	2,100,900
Housing Prime	2005/2013	2012/13	86,700	840,457	927,157
SLAM	2002/2011	2012/13	88,266	743,989	832,255
Aquatrine Packages A, B & C	2003/2030	2030	7,588	762,619	770,207
RSME ^[1]	–	–	86,000	682,000	768,000
Main Building Charges	2000/2030	2030	60,301	573,661	663,962
Vanguard Training Estate PPP	2003/2013	2013/14	67,964	500,836	568,800
D154 Ph3	2005/2006	2006/07	14,300	14,200	28,500
Note:					
^[1] These projects are not yet on contract.					

Export of Defence Equipment

The Government fully supports responsible defence exports, enforced by strict export controls, which strengthen the defence of our friends and allies overseas, contribute to our defence through strengthening our defence industry and help reduce the cost of the defence budget. The Defence Export Services Organisation within the Ministry of Defence is tasked with promoting the export of United Kingdom defence equipment. Provision for the administrative expenses of export promotion, for procurement and overseas sales of equipment and management of sales of surplus defence equipment in the United Kingdom and overseas are detailed in Table 11 below.

Table 11: Support to Defence Exports		
£'000	Expenses	Receipts
Administration & Export Promotion		
Provision for the administrative expenses of the Defence Export Services Organisation's staff in the Central TLB		
Administrative expenses	49,658	35,660
Promotion of sales	2,240	1,317
Total	51,898	36,977
Procurement & overseas sales of equipment		
Provision made for procurement explicitly to meet orders from, and for receipts from overseas sales to, foreign Governments (including those for items made available from service stocks)		
Chief of Defence Logistics	3,000	9,860
Disposal Sales/Chief of Defence Logistics ^[1]		
The Defence Logistics Organisation, through its Disposal Services Agency, manages certain sales of surplus Defence Equipment in the United Kingdom and overseas. Provision for associated direct expenditure and for receipts from such sales is made in the budget of the Chief of Defence Logistics TLBs.		
	7,345	7,990
Note:		
^[1] As of the 1 April 2005 the Disposal Services Agency (DSA) became part of the Defence Logistics Organisation (DLO). Consequently the figures for the DSA and DLO, which have been shown separately in previous years, have now been combined.		

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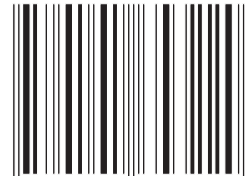
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