



# Ministry of Defence Annual Report and Accounts 2019–20

For the year ended 31 March 2020

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

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

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HC 811



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# Performance Report

For the year ended  
31 March 2020

## Foreword by Secretary of State for Defence



The first duty of Government is always to defend our country and to keep our people safe. The threats to that security are evolving, as well as the tools with which we counter them, but the determination and professionalism of the men and women in Defence remains constant – I am proud and grateful for all that they continue to achieve.

This has been a year like no other. We have continued to deliver critical operations at home and overseas, fulfilling our commitments to NATO and the UN, but all while supporting a national response to the Coronavirus pandemic.

Our contribution has showcased the very best of the UK Armed Forces and all those civilian experts who support them. It has highlighted new ways of working that employ all our expertise in planning, command and control, technical analysis and specialist skills. Most importantly, it has been integrated across Government and brought the readiness and resilience that are the hallmarks of this new approach to Defence.

It is precisely these attributes that we have been seeking to enhance through the current Integrated Review of foreign, security, defence and development policy. I have no doubt that the review will still deliver Armed Forces that are the most innovative and effective for their size in the world.

They will, however, be constructed from our present forces and the report that follows demonstrates just how firm the foundations are on which we can build.

I am grateful to the Permanent Secretary and the Chief of the Defence Staff for preparing this report and for their tireless work, alongside all our people in Defence, ensuring that we continue to fulfil our purpose – prepared for the present and fit for the future.

A handwritten signature in black ink, appearing to read 'Ben Wallace'.

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



The purpose of Defence is to protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies and the last year has shown that we continue to deliver these aims.

We continue to conduct overseas defence activity unilaterally or as part of a coalition/alliance. In Iraq and Syria, Daesh remains a threat and we have kept up the pressure since the territorial defeat in 2019 with 1,100 troops deployed on Op SHADER. In Afghanistan UK Armed Forces remain at the heart of the 'Train, Advise and Assist' NATO mission and continue to provide the Kabul Security Force to protect UK and NATO personnel in Kabul. In the Middle East our maritime assets have remained active protecting vital shipping lanes in the Gulf including stationing a Type 23 frigate in the Gulf on a long-term basis. In the Caribbean RFA MOUNTS BAY was pre-positioned to offer immediate help to the Bahamas in the aftermath of hurricane Dorian. We have contributed to several large-scale exercises over the last year including Ex RED FLAG (a multinational combat training exercise), Ex BALTIC PROTECTOR and Ex DEFENDER.

We have continued to provide vital military assistance to Civil Authorities most notably to support the response to the Coronavirus pandemic. We are extremely proud of our Military and Civilian personnel who bolstered the planning

and delivery capability of national and local partners; supported the establishment of the temporary Nightingale facilities; delivered PPE to NHS trusts; and provided extensive support to the national COVID testing programme.

We continue to modernise and embrace new technologies to ensure we have the competitive edge. We have undertaken further trials of our carrier strike capability including trials of the F-35 Lightning Aircraft from the HMS QUEEN ELIZABETH aircraft carrier, delivered a step change in our marine patrol capability through the receipt of the first Poseidon Marine Patrol aircraft, and enhanced our new STRIKE brigade through securing a contract for state-of-the-art armoured fighting vehicles for the British Army. We are also delivering digital capabilities, through new centres of expertise, that enable sustainable military and business advantage.

We are continuing to transform our business. We are investing in a workforce of the future which is more diverse and inclusive and which harnesses the power of difference. Last year, we began the pilots for the Future Accommodation Model and laid the groundwork for trials of the wrap around childcare for children of serving personnel. We increased the number of cadet units parading in schools to over 500 and we are proud to be one of the largest deliverers of apprenticeships achieving the 50,000 apprenticeship enrolments target over a year early.

We remain grateful and proud of the hard work of all our people as they work to deliver the Defence purpose despite increasing challenges – we are prepared for the present and fit for the future.

*Stephen Langmore Nick Carter*

## Defence Purpose

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

### Our aims:

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

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

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

We must keep pace with our adversaries by accelerating the development of new capabilities.

This is about investing in new technology and equipment. We must build strength in the space and cyber domains. But this is also about investing in our people – making sure we have the right skills and that we maximise our talent.

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

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



The Annual Report and Accounts consists of a Performance Report, an Accountability Report and the Annual Accounts providing detail on defence activity undertaken during financial year

2019–20. Defence Objectives are set out in the Single Departmental Plan.<sup>1</sup> Risks and issues on our performance are explained in the Governance Statement.

1 <https://www.gov.uk/government/publications/ministry-of-defence-single-departmental-plan/ministry-of-defence-single-departmental-plan-2019>



## Defence Operating Model

The Ministry of Defence (MOD) is a Department of State and a Strategic Military Headquarters that directs Military Operations on behalf of the Government. It comprises the Royal Navy, Army, Royal Air Force and Strategic Command<sup>2</sup> (the four Military Commands), the Defence Nuclear Organisation (DNO), twelve Enabling Organisations providing a range of supporting services, and the Head Office providing strategic direction and leadership.

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

The Defence Operating Model sets out how all the parts of MOD work together to deliver Defence outputs and describes the key roles, responsibilities, authorities, accountabilities and decision-making processes. A revised version of the Defence Operating Model was developed in 2019–20. As Design Authority for the operating

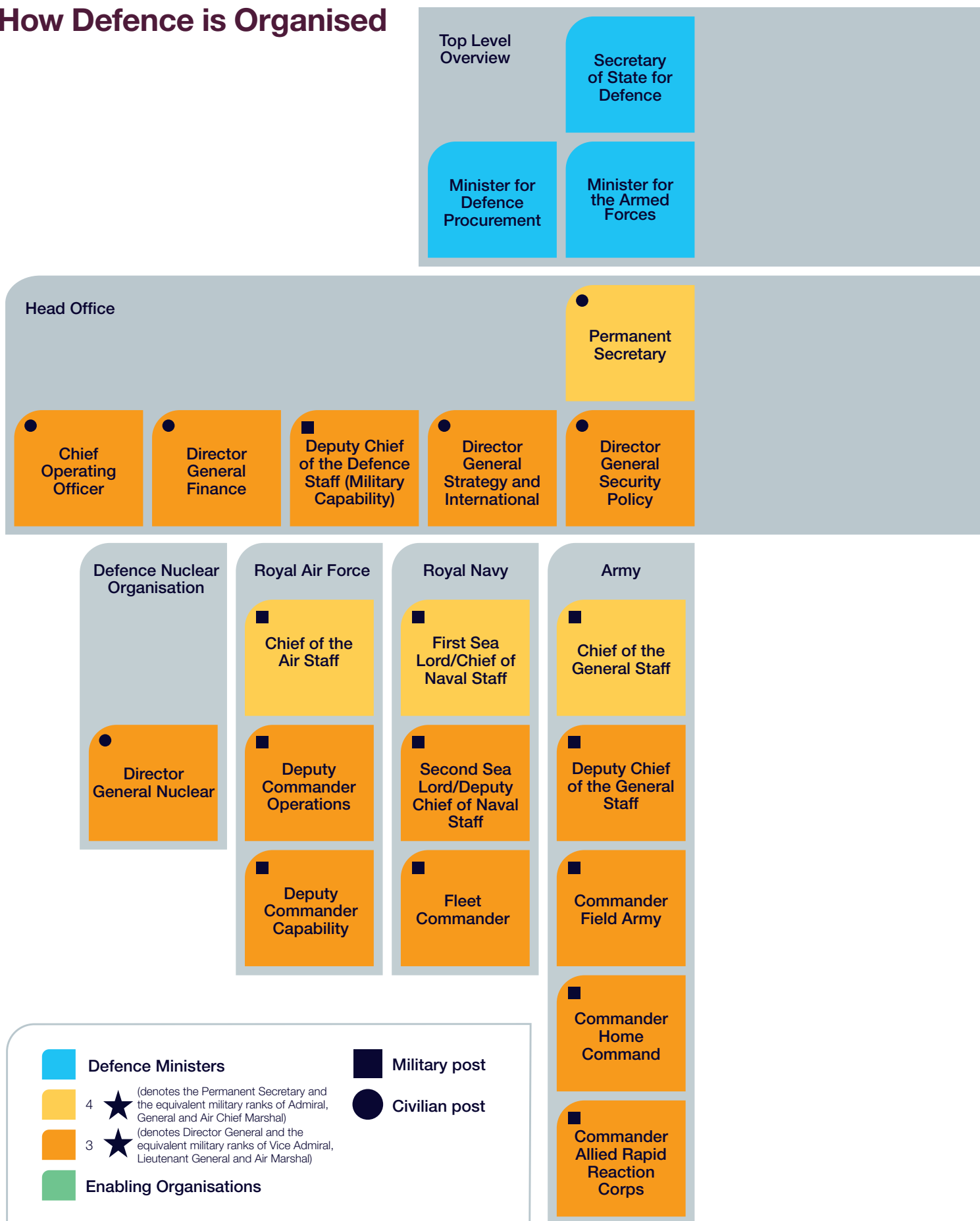
model, the Chief Operating Officer is responsible for its future development and for the coherence of department-wide change.

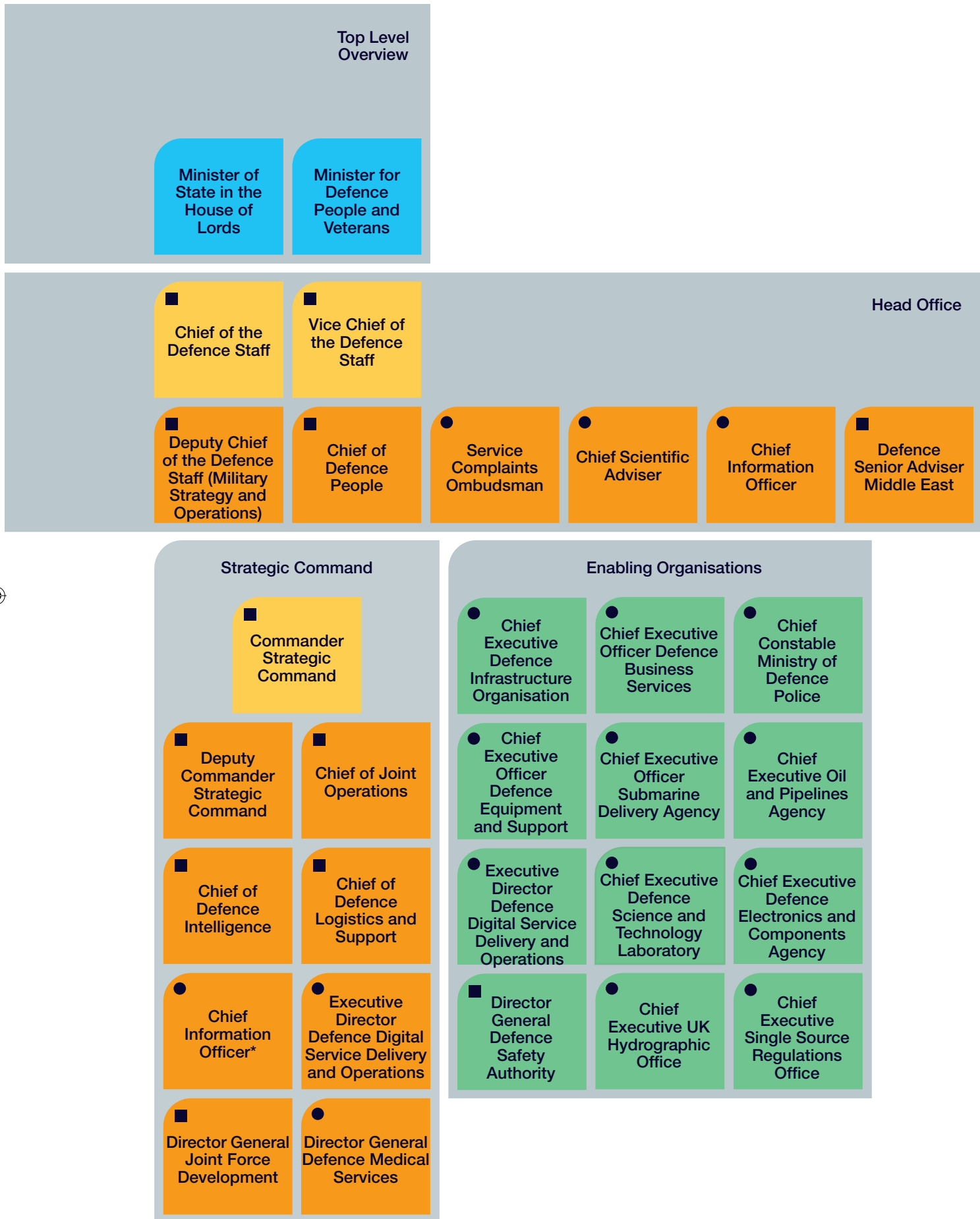
A key aim of the revised Defence Operating Model is to reinforce the role of Head Office in providing strategic direction to the whole of Defence. To this end, in April 2020 the former Head Office and Corporate Services budget organisation was disbanded. Its activities have been delegated to the Head Office Directors General (and some Enabling Organisations), better aligning resources with responsibility, accountability and delivery. A new Head Office Board has been established to oversee the new structure and provide coherence across the disaggregated business units on central and cross-cutting initiatives.

The Head Office is being further strengthened by the implementation of Functional Leadership<sup>3</sup> across Defence, which ensures important cross-cutting activities are delivered effectively, efficiently and in line with wider government policy. It complements and reinforces delegation to Commands and Enabling Organisations, via the annual Defence Plan, and supports wider transformation and modernisation. It also supports the new Head Office arrangements by providing direct support and expertise to the business through finance, HR and commercial functional business partners.

- 
- 2 Following a review of the role of Joint Forces Command, from December 2019 the organisation was renamed Strategic Command (UKStratCom), as the first step towards delivering the integrated Joint Force of the future. Almost eight years after the launch of Joint Forces Command (JFC), Strategic Command will build on its successes by addressing and making vital contributions towards the demands of the modern national security environment.
- 3 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/418869/The\\_Functional\\_Model.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/418869/The_Functional_Model.pdf)

# How Defence is Organised





## Supporting the Coronavirus Pandemic Response

Supporting the national response to the COVID-19 pandemic became our main effort and highest priority from March 2020. The Defence response started in January 2020 with the assisted departure of British nationals and other eligible people from Wuhan, China.

Two operations were activated:

- Operation RESCRIPT to deliver COVID-19 activity in the UK and Crown Dependencies, including the provision of Military Aid to Civil Authorities (MACA), other support to government departments and local responders, and Departmental business continuity and resilience
- Operation BROADSHARE to deliver operations and activity outside the UK, including the Permanent Joint Operating Bases, the Defence overseas network, overseas training teams, support to the Overseas Territories, and HMG's overseas operational and business continuity activity

A multi-disciplinary COVID-19 Response Team was quickly established to direct our response and manage MACA delivery, and the Standing Joint Commander (UK) (SJC(UK)) was reinforced as Joint Commander for military activity within the UK. A COVID Support Force (CSF) of approximately 20,000 military personnel was established at high readiness to support civil authorities as requested. In addition to the CSF, personnel from across Defence contributed to the response, from medics to intelligence analysts and scientists to commercial experts.

Support was primarily provided to the Department for Health and Social Care and NHS but also local authorities and other departments. It covered a broad range of activities, including liaison and planning support; assistance with the building of temporary hospitals; Defence medical personnel within the NHS; support to the National Testing Programme; logistical support; support to PPE procurement; repatriation of British citizens; and

support to Overseas Territories. These activities grew in intensity over the final quarter covered by this report and continued to do so into the early part of the 2020–21 financial year.

Our response was not only the contribution to the Government's effort to mitigate the effects of COVID-19 but also encompassed Departmental resilience activity. Core outputs and non-discretionary tasks were maintained, and we put measures in place to safeguard and reduce the risks to our people and their families, consistent with wider government guidance.



1. Troops unload the airlift of Protective Equipment
2. A Nightingale Hospital
3. Military's COVID-19 Support Force

## Support the delivery of EU Exit

In line with Central Government direction, the MOD prepared for a potential No Deal exit from the European Union, activating its crisis management arrangements to ensure that Defence's interests were protected, but also so it could respond in a timely manner if called upon to support OGDs; in parallel we continued to focus on priority areas of MOD's business that would be affected by EU Exit: our bases and people in Europe, and our future engagement with the EU's military operations and missions. Work continued assessing the impact of No Deal on our supply chains, and examined options for dealing with supplier fragility in a No Deal scenario. Over 500 MOD volunteers supported the cross-government response by either starting an assignment, or by being held at readiness with an expectation to start imminently. MOD continued to input to negotiations concerning the Political Declaration, and prepare for Phase II negotiations.

## Financial Performance Summary

I was appointed to the role of Director General Finance for the Department in March 20, towards the end of a complex and challenging year during which we have continued to make progress in improving our financial performance and strengthening our governance and controls.



Director General Finance – Charlie Pate

### Performance in 2019–20

We have taken direct and positive action to enable us to remain within our 2019–20 Parliamentary Control Totals. This has been achieved through effective and timely scrutiny and challenge of our in-year finances. It was necessary to undertake a wide ranging and ultimately successful mid-year savings exercise to address emergent budgetary pressures. In these respects, our delegated model has served us well with clear lines of accountability for financial performance to the Chiefs of the Front Line Commands and other Top Level Budget Holders and with their Finance Directors having a dual reporting line to their Chiefs and me. Each Finance Director's number 1 objective is to remain within budget. We have also fully utilised improved and clearer financial management information up to and including to the Defence Board which shows how well individual Top Level Budget Holders are performing and timely identification of areas of pressure and emergent risk.

As a direct result of the improved capability and accountability of our finance function and the discipline brought to bear in financial management by each TLB and corporately, we successfully delivered within the 1% forecasting accuracy restriction. Specifically, the year-end outturn position for the non-ringfenced Resource Departmental Expenditure Limit (DEL) was a minor underspend of £26 million and £34 million underspend in Capital DEL. Across both DELs, variance from estimate was <0.3% indicating a high degree of forecast accuracy by the Department and delivering on the commitment made in the 2018–19 financial performance summary.

This outcome was not without consequence for the department with the mid-year savings exercise resulting in the deferral and descoping of a number of defence activities. That said, the improvements in our forecasting capability meant we were able to take necessary proportionate and targeted decisions with confidence and with a clear understanding of their longer-term impacts.

As well as forecast accuracy, we also committed last year to monitoring and improving performance in the following areas:

- Cost Assurance and Risk Management – The Cost Assurance and Analysis Service provides assurance on the accuracy of Equipment Programme costings through Independent Cost Estimate (ICE) reviews. A total of 78 ICE reviews were undertaken by CAAS during 2019–20 representing coverage of 55% against a target of 50%. We have also recruited 40 new graduate cost estimators to further enhance our cost assurance and risk management capability.
- Finance Professionals and Skills – The level of qualified/part qualified staff within the finance function remains at 41% noting a further 8% are currently studying for professional qualifications. We recognised that professionalism and skills will remain vital in consolidating the financial management improvements already achieved and those further improvements we remain committed to making. The target remains to reach 60% qualified/part qualified in the next 3 to 5 years.

- Internal Control and Assurance Framework (ICAF) – Compliance with financial internal controls is key to delivery of consistent, robust and reliable financial outputs. Compliance is monitored through the department’s ICAF, supported by quarterly self-assessment reporting by the TLBs and independent review by Defence Internal Audit. In 2019–20, 82% control compliance was achieved (73% in 2018–19) showing continued improved performance and we remain committed to meeting the target of 90% compliance by March 2022.
- Financial Accounting and Audit – We have introduced a range of initiatives to improve our financial accounting and audit performance most particularly in respect to our management and validation of the Statement of Financial Position (SFP). Specifically, we have established a senior level SFP review group, introduced improved SFP management information to support targeted exercises addressing areas of enduring weakness (static asset balances and overdue asset deliveries). The volume of audit errors reported by NAO remains a concern and the department recognises the requirement to further improve internal controls and assurance of our financial accounts. To that end, accounting and audit issues are regularly reviewed at the Financial Management Executive and my Finance Committee.

In terms of improving finance capability across the Department, the Finance Functional Leadership programme (FFLP), put in place to deliver the Finance Functional Leadership Strategy (published July 2018) has made progress with regards to:

- Further development of a consistent finance MI pack for use across the Department;
- Finance Operating Model definition and design;
- Process Reviews for budgeting and Order to Cash;
- Strategic workforce “as-is” assessments which will assist with the development of a Strategic Workforce Plan for the Function.

## 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.

The Treasury is responsible for the design of the budgeting system against which the Department is controlled. DEL limits are set in the Spending Review and departments may 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 the Treasury and any expected increases require Treasury Approval. There is also a non-budget section of the Statement of 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 table below:

## Performance Report

### Analysis of Departmental Performance

Comparison of Estimate to Outturn	Estimate £ billion	Outturn £ billion	Variance £ billion	Variance %
Resource DEL (non ringfenced); of which	29.095	29.069	0.026	0
<i>Admin Costs</i>	1.910	1.908	0.002	0
Resource DEL (ringfenced)	7.802	7.187	0.615	8
Cost of Operations (ringfenced)	0.525	0.451	0.074	14
<b>Total Resource DEL</b>	<b>37.422</b>	<b>36.707</b>	<b>0.715</b>	<b>2</b>
Capital DEL (non ringfenced)	10.323	10.289	0.034	0
Cost of Operations (ringfenced)	0.031	0.025	0.006	19
<b>Total Capital DEL</b>	<b>10.354</b>	<b>10.314</b>	<b>0.040</b>	<b>0</b>
AME (Resource)	1.719	0.060	1.659	97
Non-Budget (Resource)	-	-	-	-

In 2019–20 our total voted core non ringfenced Resource Departmental Expenditure Limit (DEL) was £29.1 billion against which we underspent by £26 million (0.09%).

The majority of the Total Resource DEL variance in core expenditure of (£0.715 billion) was in ringfenced RDEL (£0.615 billion) and reflected changes in assumptions on the valuation of assets and depreciation for example in relation to the retained estate.

The majority of the Total Capital DEL budget is for non ringfenced expenditure where there was a variance of £34 million against estimate of £10.3 billion (0.33%).

For Annually Managed Expenditure (AME), which by its nature is demand led and volatile, the outturn was £0.060 billion against an estimate of £1.72 billion. The majority of the (£1.66 billion) variance is due to movements in depreciation and impairment costs.



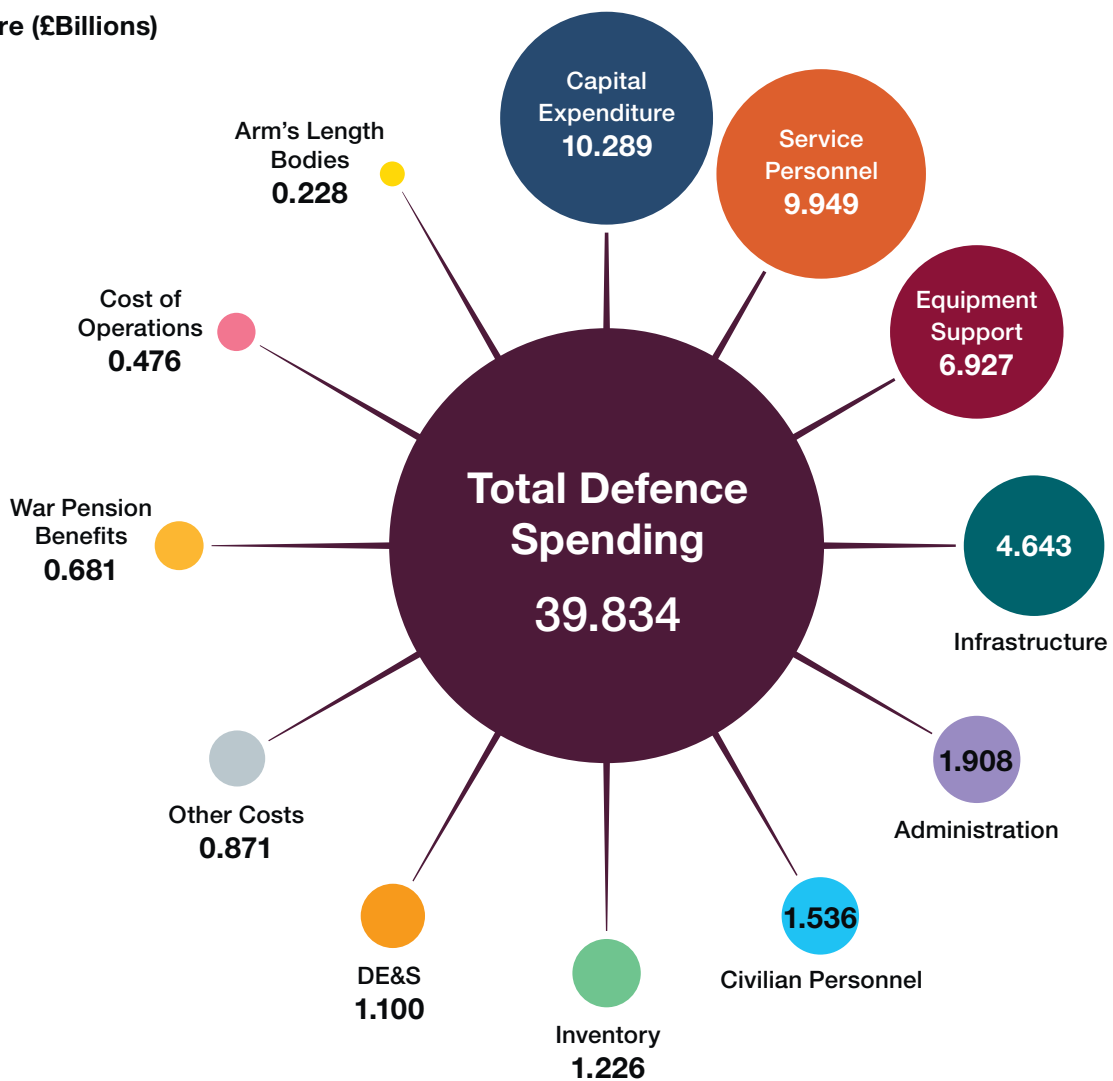
## Where We Spent Our Money in 2019–20

The chart below provides a breakdown of all non-ringfenced expenditure and operational ringfenced expenditure incurred by the Department in 2019–20. This expenditure is controlled by the

Department through close scrutiny of the In-Year Management Process. It is this close scrutiny that has resulted in the Departments outturn against non-ringfenced RDEL and CDEL being delivered closely to but still within the approved estimates.

*Where We Spent Our Money in 2019–20*

### Expenditure (£Billions)



## Operational Spend Achievements

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

In 2019–20, a £75 million allocation from the HM Treasury Special Reserve was made available in addition to the MOD funding of the same amount. 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 2019–20, the DMAP provided funding for elements of Counter-Daesh and Overseas Counter-Terrorism, NATO Air Policing and Naval activity in the Asia Pacific region.

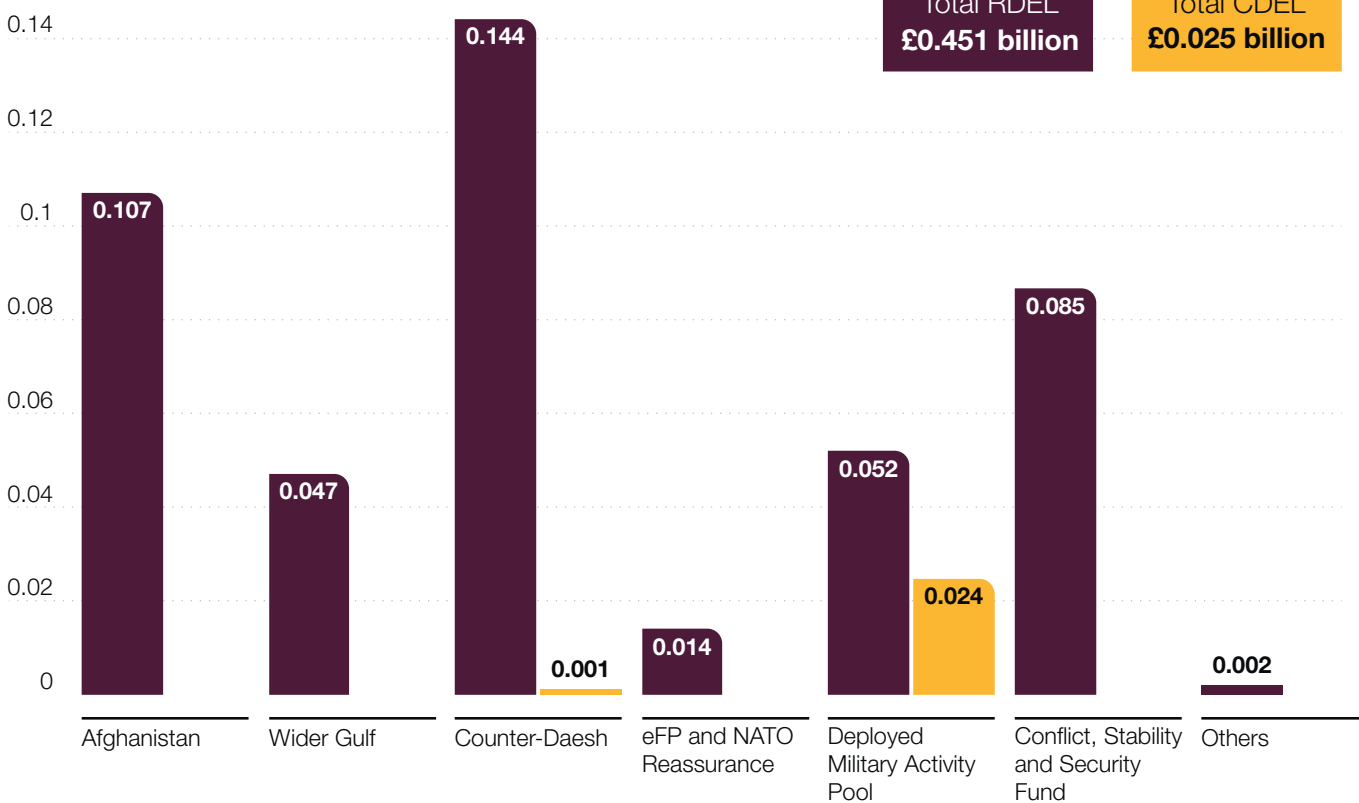
In 2019–20, MOD also received the annual allocation from The Conflict, Stability and Security Fund (CSSF), a cross-HMG fund enabling funding for conflict prevention, stabilisation, security and peacekeeping activities, under the strategic direction of the National Security Council (NSC). MOD spent 99.8% of its CSSF allocation, allowing the Department to provide hurricane disaster relief in the Caribbean in addition to carrying out a range of peacekeeping operations within Africa.

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

The graph below reflects the spend on the main areas of conflict in 2019–20.

### Net Additional Cost of Operations

Expenditure (£ Billion)

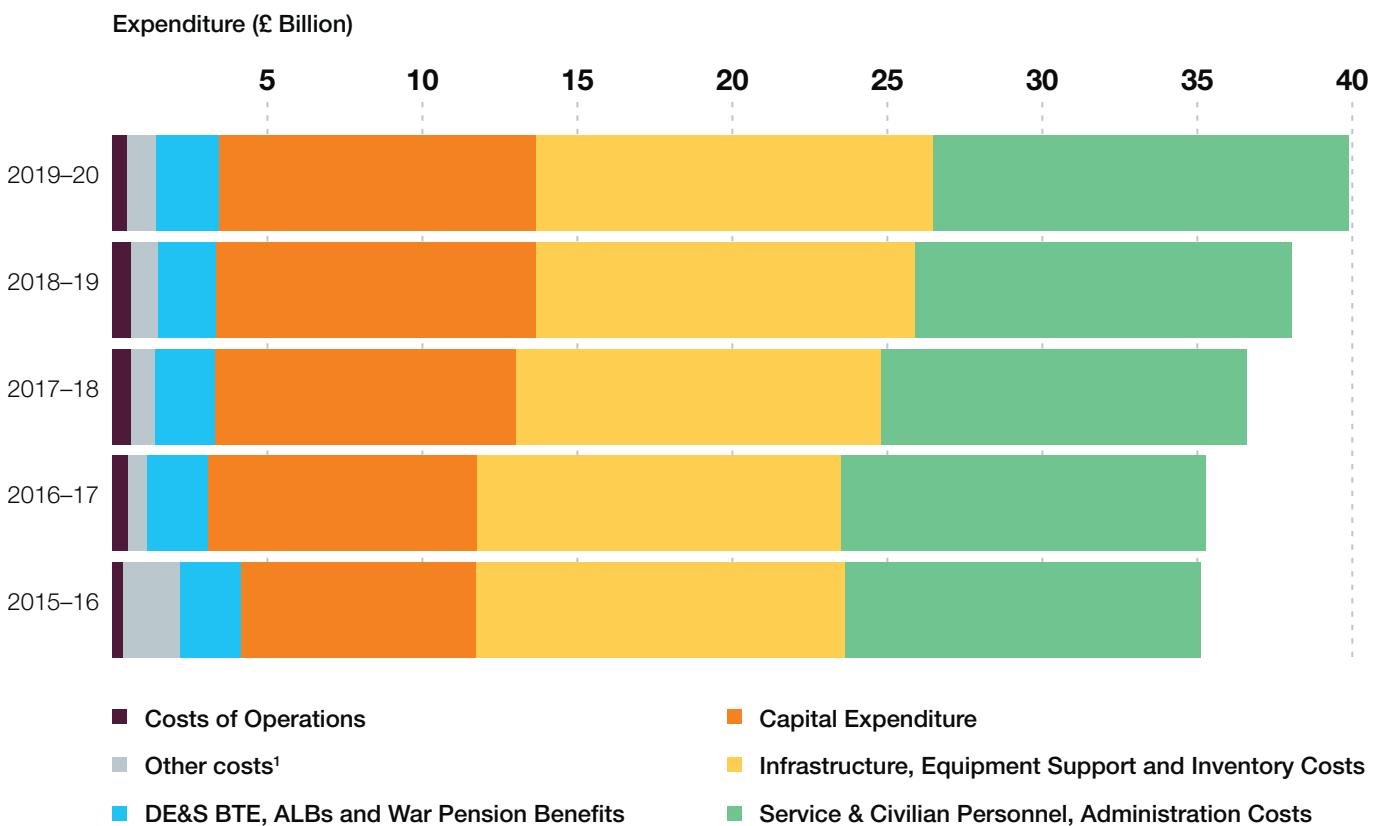


## Long Term Expenditure Trends

As confirmed during the Summer Budget 2015, the Government has committed to spending 2% of our Gross Domestic Product on defence and security every year of this Parliament. There was also a commitment that the MOD budget will continue to rise by 0.5% above inflation annually during this Parliament.

The graph below shows the long-term trend for Resource and Capital expenditure, excluding asset depreciation and impairment, from 2015–16 to the current year.

Analysis of Capital DEL and Cash Resource DEL by Type of Expenditure 2015–16 to 2019–20



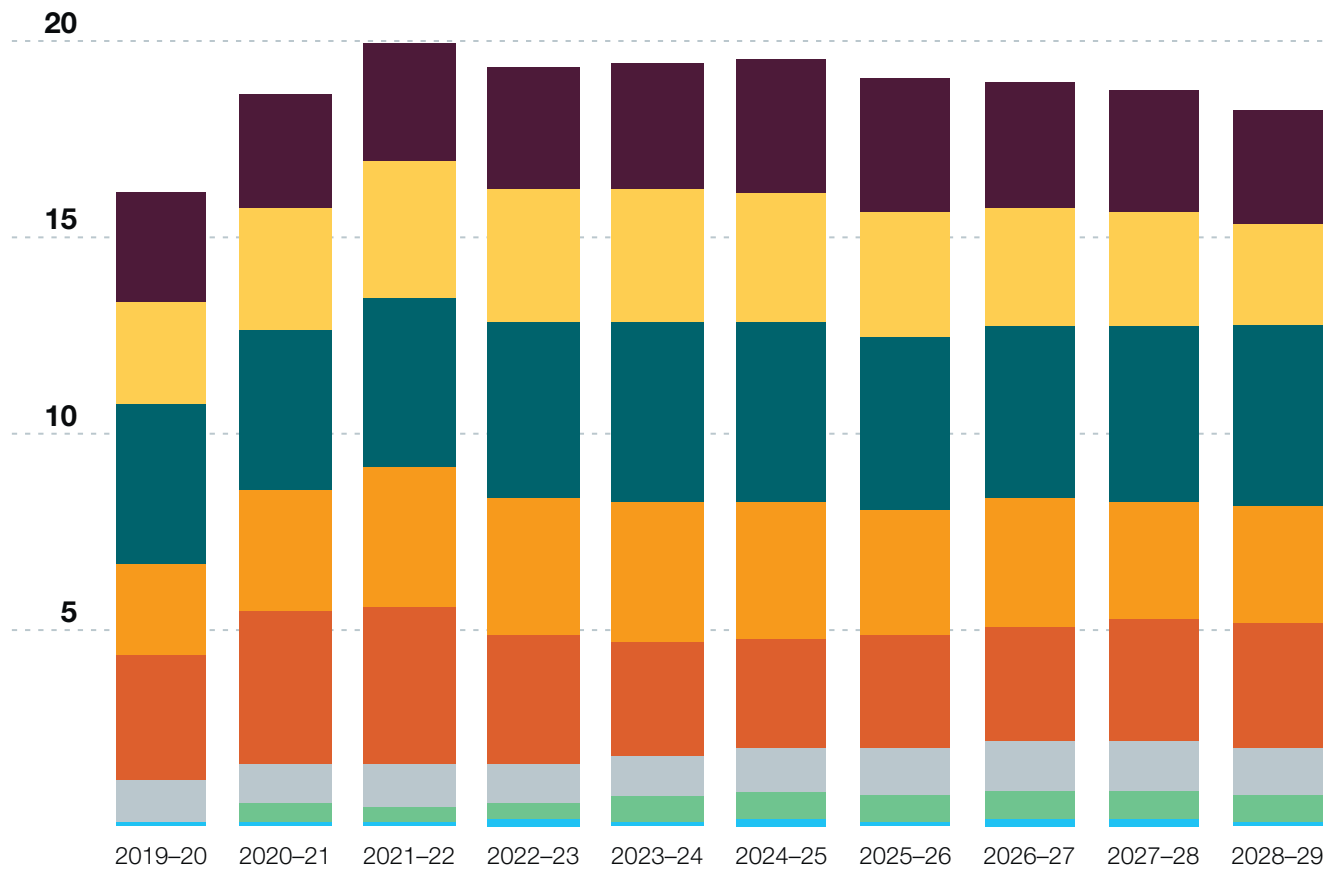
1. Other Costs – During 2015–16, following the introduction of ESA10, the reclassification of Research and Development costs caused an increase in Capital DEL and a corresponding decrease in Resource DEL.

# Performance Report

The following graph shows the long-term trend of Equipment Programme (EP) spend by TLB, the EP is a subset of Total Defence Spending.

## Long Term Equipment Programme Spend by TLB<sup>1</sup>

Expenditure (£ Billion)



- Defence Equipment + Support
- Strategic Programmes
- Army Command
- Strategic Command
- Head Office
- Air Command
- Defence Nuclear Organisation
- Navy Command

1. Source: Equipment Programme (EP) 2019<sup>4</sup>

4 <https://www.gov.uk/government/publications/the-defence-equipment-plan-2019>

## Notable Achievements within 2019–20

The year saw the return of a two carrier Royal Navy with both HMS QUEEN ELIZABETH and HMS PRINCE OF WALES at sea; the first embarkation of F-35B aircraft on the carriers in home waters and the completion of the Carrier support facilities in Portsmouth. The competitive design phase and build contract let for the five new Type 31 General Purpose Frigates was also completed creating 3,400 jobs within the National Shipbuilding Strategy. Operationally, the Royal Navy escorted 10 million tonnes of cargo through international choke points and globally deployed warships and personnel; conducted 140 port visits in 66 countries, enabling Defence Engagements and supporting Defence Sales around the globe.

On 25 February 2020, Parliament was notified of the intention to replace the UK's current nuclear warhead. HMS AUDACIOUS, the fourth boat in the Astute Class of nuclear-powered submarines, was completed and prepared to leave Barrow on the first spring tide in April 2020. The Dreadnought submarine programme continued at pace and remains on track to deliver the first boat in the Class to enter service in the early 2030s.

The RAF took delivery of the first two of nine new Poseidon Maritime Patrol Aircraft, based at RAF Lossiemouth in Scotland, which will re-establish UK long-range maritime capability. The Lightning Force conducted the first operational test of UK F-35B onboard HMS QUEEN ELIZABETH. At the heart of the Government's crisis response, the RAF deployed more than 7,000 personnel on 26 operations worldwide.

In July 2019 the Army created 6th Division, a specialist division designed to be permanently engaged in the so-called Grey Zone. The realisation of STRIKE took another significant step with contract approval for over 500 Boxer Mechanised Infantry Vehicles in November 2019. Delivery of the first suite of AJAX Training Simulation equipment will transform the way the Army trains. The Army continues to be deployed across the globe and it is noteworthy that at any

one-time British soldiers have a footprint in a quarter of the world's countries.

Strategic Command has launched the Defence Digital organisation as the engine room of a wider Defence Digital Function. The Defence Digital Operations HQ was established providing 24/7 support to a diverse and complex range of Defence live digital services worldwide. Defence Healthcare Delivery Optimisation (DHDO) programme delivered an on-line healthcare access service to all personnel and the Defence Medical Rehabilitation Centre, Stanford Hall, reached full operating capability in September 2019. As part of the departmental initiative to give personnel, the tools and confidence to challenge inappropriate behaviour 'Active Bystander' training has been made available across Defence. Permanent Joint Headquarters (PJHQ) has delivered operational success and support to the UK Government, NATO and Partner Nations through the delivery of 30 overseas operations.

Defence Infrastructure Organisation has continued to deliver a portfolio of major projects and programmes to support the transformation of Defence capability including the £1.8 billion Army Basing Programme which saw over 900 service families successfully rehoused in new build accommodation. Works have been completed on the second jetty at Portsmouth to support the arrival of HMS PRINCE OF WALES and the runway resurfacing at RAF Northolt.

## Impact of COVID-19

The impact of COVID-19 and in particular the lockdown measures implemented by UK Government coming as they did in the last week of the financial year had no material impact on the financial performance or position of the Department in 2019–20.

That said, I am proud of the role the finance and commercial functions have played in establishing governance and internal controls for the implementation of COVID-19 related government measures, specifically in the early months of

2020–21 the following arrangements were put in place:

- providing cash-flow relief to Defence Suppliers in the form of interim payments where a clear value for money case exists and where this is necessary to maintain the supply of critical goods and services. This reflects the additional authority given to government departments by HM Treasury and the Cabinet Office which seeks to mitigate where possible the impact of the pandemic on the defence programme.
- working alongside the Office for Veterans Affairs, MOD submitted a bid for funding from the Voluntary, Community and Social Enterprise (VCSE) scheme, with a total of £6M available for distribution to Armed Forces Charities. The MOD bid was targeted to support 8 areas most negatively affected by COVID-19: Welfare; Mental and Physical Health; Housing; Criminal Justice System; Support to the Elderly (including Care Homes); Domestic Violence; Service Families (including Childcare); and Bereavement.
- relief to commercial tenants of the MOD estate in the form of rent deferrals, abatements and write-offs where the COVID-19 restrictions have severely limited or wholly prevented tenants from trading.

It will inevitably take some time to fully understand the medium and longer term impact of the pandemic on our activities and we will continue to work closely with our suppliers in identifying and managing the consequences.

We have also undertaken a separate COVID-19 review of the Accounts to determine what impact the pandemic would have on our financial statements and disclosures. The results of this review have been delineated between those deemed to be adjusting events in the financial statements where the impact was apparent at 31 March or non-adjusting post balance sheet events where the impact has only now become clear.

## Priorities in 2020–21

In the short term it will be necessary to continue to deploy the commitment controls and other techniques and tools we deployed successfully in 2019–20 in order to stay within our budget allocation for 2020–21. We will also look to improve our cash forecasting capability and performance with specific initiatives being implemented to improve management information and accountability in this area.

Both 2020–21 and longer-term financial decisions will need to be informed by the work we have commissioned to assess and quantify the impact of COVID-19 on defence programmes.

We will also build upon the improved governance and controls we have introduced in respect to management of the Statement Of Financial Position and to progress the successful and full implementation of the new lease accounting standard (IFRS16) in line with the direction from HM-Treasury to adopt the standard from April 2021. Achievement of the latter would provide the basis for removing the long-standing accounts audit qualification for non-compliance with earlier lease accounting standards.

The Finance Functional Leadership Focus for 2020–21 will build upon the work already carried out, enabling the programme to start the transition and implementation of the Finance Operating Model across Defence. The following activities have been prioritised, recognising that the pace of delivery will be impacted by COVID-19:

- Completion of elements of the Finance Function detailed design, including Finance Business Partnering, role of the budget holder, culture and behaviours, and reviews of key processes. All this will aid implementation across the organisation;
- Mobilisation of Finance Functional Leadership transformation/implementation projects;

- Implementation of the In-Year Management Control Total setting and Order to Cash process improvement/efficiencies; these will be prioritised into short and longer term benefits;
- Continued development of the Strategic Workforce Strategy – for launch in 2021–22;
- Implementation of COGNOS Business Intelligence software and exploring further automation opportunities with the aim of increasing efficiency in targeted transactional processes.

Finance Functional Leadership is an ambitious programme to build capability and strengthen the Function. The programme, as stated from the outset, will take between three and five years to deliver.

There remain significant financial challenges for the Department, but I consider we have the right strategy to deliver the necessary further improvements in our financial management capability and performance.



**Charlie Pate**  
Director General Finance

## Strategic Objectives: 2019–20 Notable Achievements

### Protect Our People



- Provided Military Aid to Civil Authorities on 163 occasions for Covid 19 as at 1 June 2020
- Over 5,000 signatories to the Armed Forces Covenant
- Protected vital shipping lanes in the Gulf
- Uninterrupted Continuous At Sea Deterrent for more than 50 years

### Project Our Global Influence



- Completion of UN mission in South Sudan and deployment to peace keeping in Mali
- Offered 2,247 International Defence training places to other nations
- Completion of drawdown of forces in Germany
- Increased contribution to NATO command structure adaptation to 1,000 posts

### Promote Our Prosperity



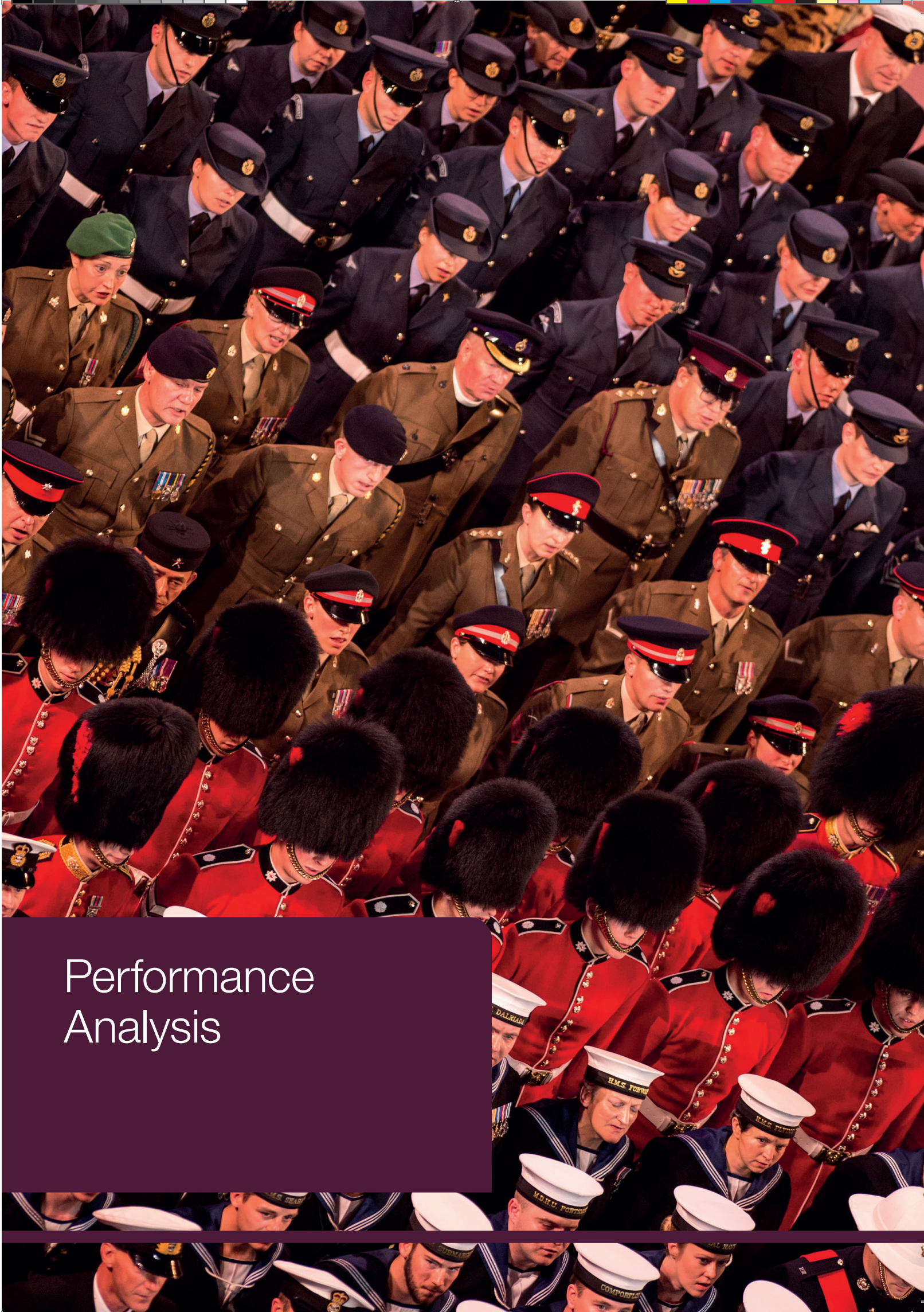
- Funded over 70 new projects from the Defence Innovation Fund – £44 million
- Achieved the March 2020 500 cadet units parading in schools target
- Funded 240 projects through the Defence and Security Accelerator – £42 million
- 19.3% of procurement spend on Small and Medium Enterprises

### Transform the way we do business



- Contract signed for 500 armoured fighting vehicles for the British Army
- Introduction of the Overseas Operations Bill, including legal protections for service personnel and veterans
- Contract awarded for five Type 31 frigates
- Reduction in Green House Gas Emissions by 45%





# Performance Analysis

## National Strategic Objective 1: Protect Our People

Defend and contribute to the security and resilience of the UK and Overseas Territories against state and non-state threats. Deliver nuclear deterrence and the Defence Nuclear Enterprise. Conduct overseas defence activity.

### Key achievements in 2019–20:

- Uninterrupted Continuous at Sea Deterrent (CASD) and, to date, **£2.9 billion** has been spent on the second delivery phase of the Dreadnought Programme
- Provided MACA (Military Aid to Civil Authorities) on **129 occasions** in 2019 and **210 occasions** in 2020 (up to 26 June 2020) including to support the coronavirus pandemic response
- Conducted operations to protect vital shipping lanes in the Gulf and provided assistance to the Bahamas after Hurricane Dorian
- Launched Flexible Service, HeadFIT and Discover My Benefits to support our people
- Over **5,000 signatories** to the Armed Forces Covenant
- **11.7%** of total intake into the combined UK Regular Forces and the Future Reserves 2020 were BAME in the 12 months to 31 March 2020



## Defence of the United Kingdom

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

In 2019–20 we continued to defend UK airspace with 24 hours 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 such capabilities to police NATO airspace alongside our Allies.

We provided Royal Navy assets to defend our territorial waters and overseas territories, and since April 1969, the Royal Navy's ballistic missile submarines – the Resolution Class and now the Vanguard Class – have conducted uninterrupted deterrent patrol missions under Operation RELENTLESS, which delivers the CASD posture.

To maintain the deterrent beyond the life of the existing system we are building four new Dreadnought Class submarines to replace the Vanguard Class. So far, over £2.9 billion has been spent in the second delivery phase of the Dreadnought programme, which commenced in April 2018.<sup>5</sup> Of this, £1.6 billion was spent in 2019–20. On 25 February 2020 the Secretary of State announced that we would also be replacing the nuclear warhead, while remaining compatible with the Trident II D5 missile. The new submarines and warheads will ensure that the UK has a credible, independent and capable nuclear deterrent out to the 2060s and beyond.

### Military Aid to the Civil Authorities

The Home Secretary is responsible for the safety and security of the UK and its citizens. Under the Civil Contingencies Act 2004, lead Government Departments are allocated to deal with the most likely high-impact, disruptive events. With a few

exceptions, the MOD is not the lead for any civil contingency, but if required can provide support through the MACA process.

Three Army battalions totalling up to 1,200 soldiers are on 24-hour standby on an enduring basis and can be called upon by Government Departments to support efforts in the event of winter flooding, or other events of national importance requiring an urgent response across the country.

Defence provided MACA on 129 occasions in 2019 and 210 occasions in 2020 (up to 26 June 2020).

In Spring 2019 (and again in October 2019) we generated a Prudent Standby Package of approximately 3,000 service personnel to ensure that Defence resource was available to support wider HMG implement their No Deal Brexit contingency plans, if required. In addition to this, we also made more than 500 military and civilian personnel available to support other Departments with their No Deal Brexit contingency planning.

In the second half of 2019 we supported local partners responding to several instances of severe weather events, this included the provision of aviation and personnel in support of the flooding in Wainfleet, Lincolnshire (Operation BIOGRAPHY), the breach of Toddbrook Dam (Operation INITIATE) and flooding in the North of England (Operation ALMON).

Most notably in 2020 we have made supporting the UK response to the COVID-19 pandemic our highest priority, and, as of 1 June 2020, have undertaken 163 tasks at the request of the civil authorities and Devolved Administrations. During April, May and June, we had approximately 4,000 personnel deployed supporting the national COVID-19 effort. While the support we provided

<sup>5</sup> The Annual Report and Accounts for FY 2018–19 incorrectly included spend relating to the Core Production Capability, which is not classified as part of the main Dreadnought programme, and stated that the spend on the second phase of the Dreadnought programme was £1.5 billion. The 2018–19 restated comparison of spend was £1.3 billion.



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1. Military support to flood relief 2. RAF Chinook spread sandbags into a dam wall 3. RAF Chinook helping pump rain water 4. Army helping the Environment Agency with flood defence

varied in accordance with the local need, the primary areas of support provided by Defence included: the provision of over 300 hundred military planners to bolster the planning and delivery capability of national and local partners; support to the establishment of the temporary Nightingale facilities; delivery of PPE to NHS trusts; and extensive support to the national COVID testing programme. We also used our aviation capability to carry out 8 medical emergency transfers of critical COVID-19 patients to ensure that they could receive the best treatment available.

### Cyber Resilience

We continue to lead the effort to protect our people at home and abroad, creating a UK that

is secure and resilient to cyber threats, and prosperous and confident in the digital world. We have collaborated year-round with the National Cyber Security Centre (NCSC) to advance our mission to make the UK the safest place in the world to do online business, and to project UK influence in cyber space.

We continue to work in partnership with the Government Communications Headquarters (GCHQ) to defend the nation 24/7 from cyber-attacks. Through the National Offensive Cyber Programme – a partnership between MOD and GCHQ since 2015 – we have strengthened our capabilities and have continued to employ offensive cyber alongside the conventional capabilities of our Armed Forces.

We have increased investment in the Cyber Security Operating Capability, enhancing our ability to sense and respond to unexpected network activity, and invested in the cyber skills of our people, which is critical to maintaining robust cyber capabilities. Our state-of-the-art Defence Cyber School, which is at the heart of delivering progressive cyber training, is in its second year of operation. UK forces have tested their cyber capabilities through participation in a programme of national and large-scale international exercises throughout the year.

The threats and opportunities presented through cyberspace extend across national boundaries, so it is vital we work with other nations and multinational institutions to enable us to operate effectively in a wide range of defence and security situations. In May 2019 the UK held the second NATO Cyber Defence Pledge Conference, a NATO driven initiative where allies declare their cyber defence stance to show their commitments to ensuring NATO networks. The UK continues to be a thought leader in NATO.

## Space

The National Space Council was announced in 2019 to provide coherence on Space activities across Whitehall. We are engaged in cross-government efforts in establishing the National Space Council, and in the development of a UK National Space Strategy under Cabinet Office leadership.

We have continued to work in partnership with the UK Space Agency (UKSA) on options to develop resilient Position Navigation and Timing (PNT) capabilities. Complementary to this is the £70 million announced for investment in the Robust Global Navigation System, a multi-constellation open signals receiver that will add to the PNT resilience of military capability. We also continue to work with them on the UK Space Operations Centre.

On military satellite communications, we have continued the Skynet 6 programme and procurement activity for a Ballistic Missile Defence Radar, and continued the £50 million, 5-year Space Science and Technology (S&T) programme to deliver world-leading research and development into space concepts and technologies in collaboration with industry, academia, and government across the UK and internationally.

Operationally, we have continued to enhance our strategic partnership with Australia, Canada, France, Germany, New Zealand, and the United States through the “Combined Space Operations (CSpO) Initiative”. In February 2019, the UK attended the Steering Group meeting of senior officials and military officers to agree proposals for strengthening space co-operation.

Following an internal review into Defence Space governance, we have established a dedicated Space Directorate in Head Office to drive capability and policy coherence.

## Explosives Ordnance Disposal (EOD)

The MOD provides 24 hours-a-day EOD support to the police in the UK.

### In 2019–20 EOD Teams responded to

**450** Improvised Explosive Device Disposal incidents (450 in 2018–19)

**1,617** Conventional Munition Disposal incidents (2,006 in 2018–19)

## Fisheries Protection

Through a formal agreement between the Ministry of Defence and the Marine Management Organisation (MMO), the Fishery Protection Squadron (FPS) is currently responsible for the inspection of all fishing vessels in UK waters (with the exception of Scottish waters).

### In 2019–20 the Fisheries Protection Squadron

Completed over **150** patrol days

Boarded **149** fishing vessels

Issued: **27** verbal rebriefs, **8** official written warnings, **3** financial written penalties

Forwarded written statements regarding **6** fishing vessels to the MMO for further investigation and subsequent enforcement action

Increased coordination between UK maritime and security assets through the Joint Maritime Operations and Coordination Centre (JMOCC) has seen FPS assets used to support counter migration operations in the English Channel. FPS has contributed significantly to cross-government maritime security preparedness work.

## Counter-Narcotics

Defence has continued to support UK Government and international efforts to tackle the threat from illicit drugs, which remains significant in the UK.

### Tackling the threat of illicit drugs in 2019–20

The Royal Fleet Auxiliary (RFA) seized or disrupted **1.1 metric tonnes** of cocaine and cannabis, worth over **£88 million** in the Caribbean and Atlantic

The Royal Navy seized or disrupted **3.5 metric tonnes of hashish and over 300 kg of heroin and crystal meth**, worth over **£15 million** in the Indian Ocean



1. The crew boarded fishing vessel and seized hash  
2. HMS DEFENDER crew with drug seizure

## Overseas Defence Activity

The UK continues to conduct overseas defence activity unilaterally or as part of a coalition/alliance. In **Iraq/Syria**, the Coalition and its partners have kept up the pressure on Daesh since the territorial defeat of Daesh in 2019. The group's leader, Abu Bakr al-Baghdadi, was killed on 27 October 2019, their finances have been severely reduced, and their narrative has been compromised. Despite this, recent reporting of an increase in attacks in the region reminds us that they have not been fully defeated and are aiming to reconsolidate their position.

In **Afghanistan**, working with a coalition of almost 40 countries, UK Armed Forces have been at the heart of NATO's non-combat Resolute Support mission – the Alliance's largest overseas deployment, to which we provide the third largest contribution. As the needs of Afghanistan changed, so has the mission and the UK has been at the centre of the 'Train, Advise and Assist' mission since 2014.

In **Europe**, the UK contributed widely to NATO and EU operations whilst continuing to provide important bi-lateral support to Ukraine, and in the **Middle East**, the MOD maintains an extensive military presence with permanent bases in several Gulf states. This is backed up by significant military deployments including, since 2019, the stationing of a Type 23 frigate in the Gulf on a long-term basis, enabled by our Naval Support Facility in Bahrain.

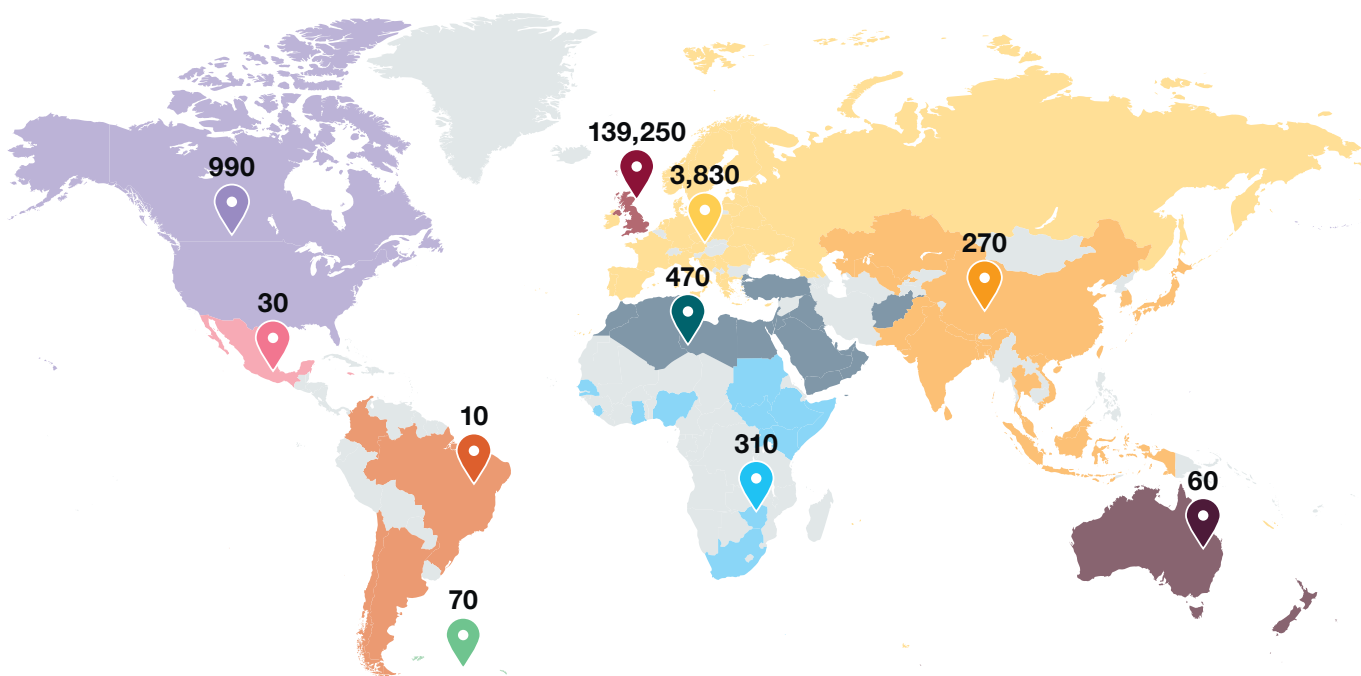
Operation MONOGRAM is delivered in the **Middle East, Africa and Asia** to support the overseas element of HMG's counter-terrorism strategy (CONTEST) and continues to contribute to conflict prevention and stabilisation work alongside wider CONTEST objectives. Operation MONOGRAM is the MOD's programme for two lines of effort: providing counter-terrorism capacity building to foreign security forces; and support to the CONTEST Unit through liaison officers across the world in the Counter Terrorism and Extremism Network (CTEN) Hubs. It has supported the 'PURSUE' strand of CONTEST through its capability to disrupt terrorist groups overseas. It also supports the 'PREPARE' strand through focused counter-terrorism capacity building for partner nations and support to overseas law enforcement and security agencies.

We remained fully and demonstrably committed to the defence of **UK Territories in the South Atlantic**, continuing to defend the right of the Falkland Islanders to determine their own political future and to maintain their way of life against whatever threats may arise, and to maintaining a Defence presence in the Caribbean for counter-smuggling and counter-narcotics tasking, and in support of the **UK Overseas Territories (OTs)**.

## Location of UK Regular Forces\*

(1 April 2020)

← Total 145,320 →



- North America
- Central America/Caribbean
- South America
- South Atlantic
- UK
- North Africa/Middle East
- Sub Saharan Africa
- Europe (exc. UK)
- Asia (exc. Middle East)
- Oceania
- Unallocated (20)

\*The UK Regular Forces comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists. Personnel deployed on operations and temporary assignments are shown against their permanent stationed location. As such figures for locations such as North Africa/Middle East & South Atlantic exclude large numbers of personnel deployed in those locations

### Embedded Forces

Number of UK Service Personnel embedded in another nation or organisation's Armed Forces, who are deployed on operations together with those who work on operations in deployed coalition or single nation headquarters roles.

Numbers as at 31 March 2019	Embedded HQ Staff	Embedded Exchange Officers
Australia	0	15
Canada	0	7
Coalition HQs	119	0
Denmark	0	1
EU HQs	37	0
France	1	15
Germany	0	4
Italy	0	1
Netherlands	0	10
New Zealand	0	4
NATO	18	0
Spain	0	1
UN HQs	18	0
United States of America	9	41
<b>Total</b>	<b>202</b>	<b>99</b>



Specific UK Overseas Defence Activity in 2019–20 included:

<p><b>Counter Daesh – Iraq/Syria</b></p>	<p>At the end of 2019–20, around 1,100 Military Personnel were deployed on Operation SHADER (the UK contribution to defeating Daesh in Iraq and Syria), of which around two thirds were based within the region supporting the air campaign and in key staff roles at coalition HQs. The remaining personnel were on the ground in Iraq providing training and military advice.</p> <p>The UK delivers an enduring air capability across the full spectrum of air power. In the course of the campaign, the RAF has employed its full range of precision ground attack weaponry including Brimstone and Hellfire missiles, laser- and GPS-guided bombs – predominantly Paveway IV – and, on occasion, the long-range Storm Shadow cruise missile.</p> <p>We continue to develop a committed security partnership with Iraq. MoD officials have developed a range of Defence activities which are delivering a continued contribution to the Coalition training effort and focused investment on transforming priority areas of Iraqi military capability such as officer training. To date we have helped train over 117,000 Iraqi Security Forces (including the Peshmerga) in preparation for operations against Daesh.</p>
<p><b>Afghanistan</b></p>	<p>The UK contribution to the NATO mission currently sits at 1,100 troops.</p> <p>Our troops lead the Kabul Security Force, which provides protection for UK and wider NATO military and civilian personnel working within the city. The ANDSF (Afghan National Defence and Security Forces) retain overall responsibility for delivering security for the Afghan population within Kabul.</p> <p>The UK is the coalition lead for the Afghan National Army Officer Academy (ANAOA), known locally as ‘Sandhurst in the Sand’. and owing to our mentoring support, Afghans are now self-sufficient in delivering training at the Academy. By spring 2020, over 5000 officers had graduated from the Academy, including over 300 females. Female ANAOA graduates are now operating throughout the Armed Forces in intelligence, logistics, HR and combat support roles.</p> <p>We are delivering leadership support helping to foster capable leadership at the institutional level through our mentoring of the Afghan Security Ministries. The Defence Section based in the British Embassy, Kabul, manage a Conflict Stabilisation and Security funded programme whereby the highest calibre Afghan security leaders train at our most prestigious institutions back in the UK.</p>

## NATO and Europe

We have been the leading contributor to NATO's Enhanced Forward Presence (eFP) with around 1,000 troops in Estonia and Poland.

Through Operation TRACTABLE, the rotation of UK troops to Estonia (where we lead the NATO presence), we demonstrated our ability to deploy forces by land, sea and air through the movement of over 200 armoured vehicles across Europe. The UK's E3-D Airborne Early Warning aircraft contributed to NATO's assurance measures, Baltic Air Policing was conducted from Estonia and additional air policing activity was conducted for the first time from Iceland.

The UK continued to contribute to four CSDP (Common Security and Defence Policy) military operations and missions: Operation ALTHEA (Bosnia), EU training missions (EUTM Mali and EUTM Somalia), and SOPHIA (Mediterranean), as well as three civilian missions.

### NATO Response Force (NRF)

In the **maritime** environment, the UK provided the Amphibious element of the NATO Response Force (NRF) (this included two amphibious landing ships and a refuelling ship as well as a Battalion sized Landing Force). We also committed a frigate and a destroyer to NATO's contingency forces and provided four ships in support of NATO's Standing Naval Forces.

In the **land** environment, the UK Allied Rapid Reaction Corps Headquarters fulfilled the role NATO's Warfighting Corps Headquarters during 2019–20 as part of our contribution to the Alliance's Long-Term Commitments Plan.

In the **air** environment, the UK held a broad range of combat and support aircraft at high-readiness in support of the NRF. We also provided air-to-air refuelling and air transport support to NATO operations when required.

### NATO Readiness Initiative

At the December 2019 Leaders' Meeting NATO confirmed that 30 ships, 30 battalions, and 30 air squadrons had been committed to the NATO Readiness Initiative with plans to make them available at 30 days' notice. The UK made the strongest offer and we are providing a Carrier Strike Group consisting of HMS QUEEN ELIZABETH, a nuclear-powered submarine, two Type 45 Destroyers and two Type 23 Frigates, an Armoured Infantry Brigade with over 5,000 troops, and a squadron of 5th generation F-35B and a squadron of Typhoon.

<p><b>Middle East</b></p>	<p>2019 witnessed an increase in regional tensions, especially at sea. UK maritime assets have remained active from the Gulf to the Red Sea, allowing the UK to contribute to the protection of vital shipping lanes on which much of global trade and energy supplies depend. This enduring support is exemplified by the UK's contribution to the International Maritime Security Construct (IMSC), established in September 2019 to conduct maritime surveillance, provide a deterrent to illegal activity and reassure commercial shipping. The UK took up the rotational leadership of IMSC in January 2020.</p>
<p><b>Africa</b></p>	<p>In the <b>Sahel</b>, the UK extended its deployment of three CH47 helicopters to assist the French-led counter terrorism mission Operation BARKHANE, providing logistical support to reduce the risks involved in dangerous road moves through a hostile and remote environment.</p> <p>As lead international partner in the Lake <b>Chad</b> Basin, we are coordinating the P3 (UK, US and France) support to the region to counter Boko Haram and Islamic State West Africa, including providing numerous enduring and short-term specialist training teams in both <b>Cameroon and Nigeria</b>: in Nigeria alone, we have trained over 2000 personnel in the last year.</p>
<p><b>UK Overseas Territories</b></p>	<p>We have committed 600 personnel to the UK's Permanent Joint Operating Base in the <b>Falkland Isles</b> and around 100 to the UK's Permanent Joint Operating Base in <b>Gibraltar</b>.</p> <p>All three services continued to deliver their standing military commitments to the defence of <b>UK Territories in the South Atlantic</b>. UK forces continued to defend the right of the Falkland Islanders to determine their own political future and to maintain their way of life against whatever threats may arise. The MOD has continued to employ Quick Reaction Alert Typhoon aircraft in the Falklands.</p> <p>The UK has maintained a Defence presence in the <b>Caribbean</b> (250 deployed) for counter-smuggling and counter-narcotics tasking, and in support of the <b>UK Overseas Territories (OTs)</b> following the response to hurricanes Irma and Maria in 2017. In September 2019 during hurricane Dorian, RFA MOUNTS BAY was pre-positioned in order to offer immediate support to the Bahamas in the aftermath of the hurricane, with troops working to re-open lines of communication and facilitate access. This allowed other UK Government departments and allies to join the wider response.</p>



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1. HMS MONTROSE escorting a tanker 2. Operation TRACTABLE – vehicles through Europe 3. Troops hand out aid whilst on route clearance duties in The Bahamas

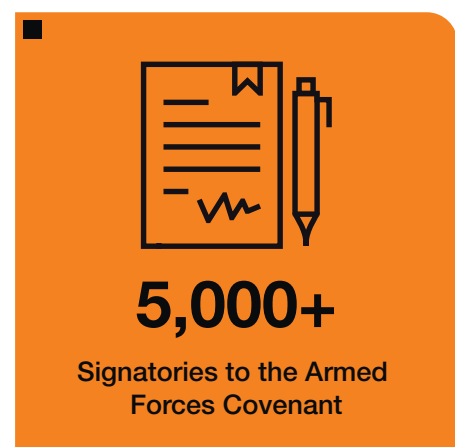
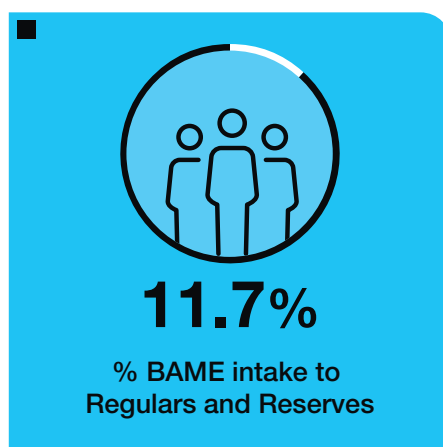
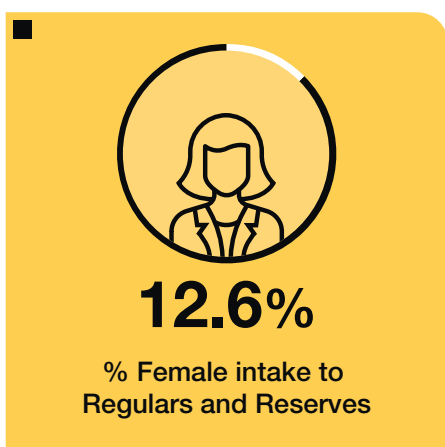
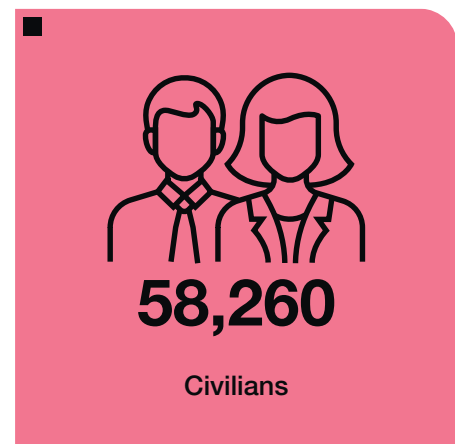
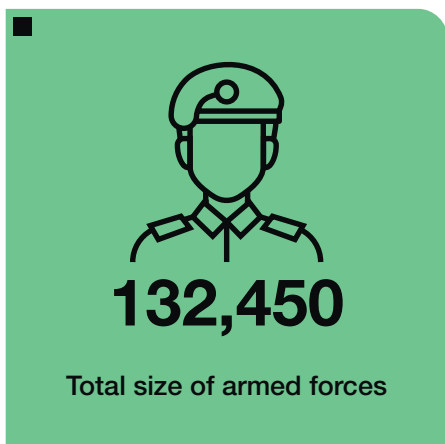
## People

People are at the heart of Defence capability, and we continue to invest in both our Regular and Reserve Armed Forces and our Civil Service. We continue our work to look after Service families and veterans, and strengthen the Armed Forces Covenant with society.

Progress in 2019–20 has been made in several areas. Flexible Service has now been in operation for a year and is already helping Defence to retain personnel by offering the option for a work/life balance better suited to the modern world and improving overall wellbeing. We have also launched ‘Discover My Benefits’, an online tool

to help Service personnel navigate a challenging area and improve their ability to access the help and support available. Work has been completed on our new high level Defence People Strategy, the first time such an overarching strategy has been formulated for Defence People, and we are moving forward with the People Transformation Programme.

We continue to modernise our approach to ensure we provide an adaptable and sustainable workforce that adjusts quickly to evolving demands, maximises the use of talent, and that attracts and retains the right talent.



■ 2019–20 data

## Workforce Size, Shape and Dynamics<sup>6</sup>

The total size of the Defence workforce (Trained Regular and Reserve Service Personnel and Civil Servants) decreased over the year from 224,620 to 223,630.

The shortfall in Full Time Trained Regular Armed Forces strength reflects relatively high outflow over several years and, more recently, shortfalls in Armed Forces recruitment. Despite shortfalls in Trained Strength the Armed Forces continue to meet all their current commitments. The Army’s significant improved recruitment of Other Ranks in 2019 which was expected to translate into an increase in Trained Strength during 2020–21.

### *Military Full-Time Trained Strength against Workforce Requirement*

Military Full Time Trained (RN/RM and RAF) and Trade Trained (Army) Strength and Civilians	01 April 2020	2020 Target
Royal Navy/Royal Marines	29,040	30,450
Army	73,720	82,000
RAF	29,690	31,750
Total Full Time Trained (RN/RM and RAF) and Trade Trained (Army) strength	132,450	144,200
Civilian	58,260	
<b>Total Personnel</b>	<b>190,710</b>	
Future Reserves 2020 Trained Strength	01 April 2020	2020 Target
Maritime Reserve	2,870	3,100
Army Reserve	27,300	30,100
RAF Reserves	2,740	1,860
<b>Total Reserves</b>	<b>32,920</b>	<b>35,060</b>

## Diversity and Inclusion

The Defence Diversity and Inclusion Strategy 2018–2030,<sup>7</sup> published in 2018, sets out the vision for Defence to harness the power of difference to deliver capability that safeguards our nation’s security and stability.

The Armed Forces conducts a large amount of ‘outreach’ to ensure that we can connect with society. Such activities are critical to maintaining the link between the Armed Forces and the society it serves at a time of declining awareness of our role in society.

The Armed Forces also deliver resettlement through the Career Transition Partnership to make sure that Service personnel transition successfully from a military career. The partnership helps by supporting the ex-Service personnel to, either make best use of the world class training they have received or identify planning and access to facilities that aid their chosen change of direction. ONS statistics released in February 2020 for 2018–19 showed that 86% of Service leavers were employed post discharge. The employment rate is higher than the UK population during the same period, which was 76%.

The Armed Forces have also been working towards a recruitment target of 10% of recruits to come from Black, Asian and Minority Ethnic (BAME) backgrounds by 2020 and 15% of recruits to be women by 2020. These are challenging targets, in a tough recruiting environment. Considerable progress has been made in BAME recruitment, particularly in the Army, and the BAME target was met. There was a notable increase in the number of BAME of Non-UK nationality joining the UK regular forces compared to the previous year. The target for women was not met.

6 Further information on workforce size, shape and dynamics can be found at: **Service Personnel Statistics (Regulars and Reserves):** <https://www.gov.uk/government/collections/quarterly-service-personnel-statistics-index> **Service Personnel Diversity Statistics:** <https://www.gov.uk/government/collections/uk-armed-forces-biannual-diversity-statistics-index> **Civilian Personnel Report:** <https://www.gov.uk/government/collections/mod-biannual-civilian-personnel-statisticsindex> **Civilian Diversity Dashboard:** <https://www.gov.uk/government/collections/mod-diversity-dashboard-index>  
 7 <https://www.gov.uk/government/publications/defence-diversity-and-inclusion-strategy-2018-to-2030-a-force-for-inclusion#:~:text=Defence%20is%20increasingly%20challenging%20itself,Civil%20Service%20and%20to%20society>

*BAME intake to the UK Regulars and Reserves*

12 Months Ending:	2018		2019		2020	Target
	31 Mar	30 Sep	31 Mar	30 Sep	31 Mar	
All Services	8.3%	6.6%	7.1%	9.1%	11.7%	10%
RN/RM	6.0%	6.1%	5.2%	5.6%	7.4%	
Army	10.0%	7.3%	8.3%	11.2%	14.4%	
RAF	4.4%	4.7%	5.6%	5.8%	5.8%	

1. Intake to UK Regular Forces Comprises new entrants, re-entrants, direct trained entrants (including Professionally Qualified Officers) and intake from the reserves. It excludes all movements within the Regular Forces; including flows from the untrained to trained strength, transfers between Services and flows from Ranks to Officer due to promotion.
2. Intake to FR20 Volunteer Reserve Forces Comprises new entrants, Regular to Reserve transfers, Reserve re-joiners, and Reserve personnel joining from another part of the Reserves that are not included in the FR20 target population.

*Female intake to the UK Regulars and Reserves*

12 Months Ending:	2018		2019		2020	Target
	31 Mar	30 Sep	31 Mar	30 Sep	31 Mar	
All Services	12.2%	12.4%	12.1%	12.1%	12.6%	15%
RN/RM	9.8%	10.8%	10.7%	11.8%	12.3%	
Army	11.8%	11.7%	10.7%	10.4%	11.3%	
RAF	17.1%	17.1%	19.2%	20.0%	19.0%	

1. Intake to UK Regular Forces Comprises new entrants, re-entrants, direct trained entrants (including Professionally Qualified Officers) and intake from the reserves. It excludes all movements within the Regular Forces; including flows from the untrained to trained strength, transfers between Services and flows from Ranks to Officer due to promotion.
2. Intake to FR20 Volunteer Reserve Forces Comprises new entrants, Regular to Reserve transfers, Reserve re-joiners, and Reserve personnel joining from another part of the Reserves that are not included in the FR20 target population.

**Skills Gaps**

Defence monitors the impact of skills gaps on the delivery of outputs through a Pinch Points process for the Armed Forces and Civilians. In response to NAO recommendations in 2019, we introduced a more systematic approach for reviewing the Service recovery plans for the most critical of Armed Forces Pinch Points which are reported to the MOD People Committee. At January 2020, the Operational Pinch Points (OPPs) were:

- Naval Service: Nineteen OPPs (including four in the Royal Fleet Auxiliary), the same as in April 2019. The most significant pinch points relate to Engineering roles, Royal Marines General Duties and Chefs
- Army: Seventeen OPPs an increase of ten since April 2019. The most significant pinch points relate to Communications, Intelligence and Engineering
- RAF: A review reduced OPPs to zero this year down from seven in April 2019. Many of the skills gaps previously considered an OPP were re-assessed as Sustainability Pinch Points including Pilots, Intelligence Analysts and Air Operations Controllers. Sustainability Pinch Points are defined as shortfalls in trained personnel that have a detrimental impact on the sustainability of a trade or cadre

Further work to address skills gaps both in the short and long term have been developed, consisting of 3 main workstreams:

- How Defence can work collaboratively with industry partners to share solutions to shared problems related to skills. We are trialling this approach with the Army later this year by providing 45 drivers an opportunity to work with the private sector to increase their driving skills and gain qualifications and experience not currently possible in their core Defence role
- Working with Front Line Commands (FLC) to deliver a pan-Defence policy framework for re-joiners and lateral entry in order to recruit and retain specialist skills as well as being able to access a much more diverse range of talents and skills from the external market
- Development of a pan-Defence skills framework that will provide one clear view of the skills and people capabilities across Defence, enabling more pro-active identification and management of skills gaps

### People Transformation

In response to the changing character of conflict, fierce competition for talent and the expectations of an increasingly diverse population, we will modernise the way we shape, manage and support the Defence workforce to enable it to adapt quickly to the new and unpredictable demands of the modern world.

We have completed work on a new high level Defence People Strategy that provides a vision for the future Defence workforce. This strategy is based around four objectives:

- An adaptable and sustainable workforce that adjusts quickly to evolving demands, while harnessing modern technologies to drive greater efficiency and effectiveness
- Maximise the use of talent across the military and civilian workforce by ensuring that our people are developed and employed where they are needed most

- Provide attractive offers that access and retain the right talent, providing more choice to individuals in how they live and work, in a way that resonates with a wide and increasingly diverse workforce
- Build a stronger, more effective and collaborative People Function that is integrated with wider departmental capability planning

Work to implement a strong, effective and collaborative People Function to support military and civilian personnel throughout their careers is underway. This includes providing specialist expertise in key areas such as recruitment, pay and workforce planning through Centres of Expertise. The first of these, focused on Research and Analysis, was launched in January 2020 to provide the necessary tools, data and insight to support decision-making.

In 2019–20 work has started – or continued – on several activities that support the new Strategy, including Flexible Service and Future Accommodation Model (FAM).

### Flexible Service

Flexible Service became law on 1 April 2019. The new policy has already enabled over 250 Regular personnel to temporarily work part-time and/or restrict their separation from home base. This has helped them balance their busy committed careers with personal responsibilities and the changing circumstances in their lives.

Flexible Service is already helping Defence to retain personnel. Benefits include reduced stress, an improved work/life balance and greater peace of mind. For many users, it has enabled continued service while fulfilling caring responsibilities, taking respite or pursuing personal development.

### Future Accommodation Model

The 3-year Future Accommodation Model (FAM) pilot was launched at HMNB Clyde in September 2019, with Aldershot Garrison going live in



January 2020, and RAF Wittering on 1 June 2020. This pilot supports MOD's commitment to make a career in the Armed Forces better balanced with family life, reflecting the realities of modern life, whilst also better meeting the enduring operational and financial needs of the department.

Through greater use of the private rental sector and support for home ownership, alongside existing subsidised Single Living Accommodation and Service Family Accommodation options, FAM aims to improve choice regarding where, with whom and how service personnel choose to live, with entitlement based on need, rather than service, rank, age or marital status.

We are working closely with all involved to gather and evaluate evidence generated during the pilot which will inform plans for wider roll-out across the UK through the 2020s and 2030s.

## Cohabitation Policy

In April 2019, we introduced the Cohabitation Policy in the UK, where surplus Service Family Accommodation could be used for Service personnel in long term relationships or who have residential responsibility for a child, if they meet the required criteria. In February 2020, we widened eligibility from those who have four years' service to all Service personnel who can provide the necessary evidence. This policy change reflects modern society and has been widely welcomed, with over 1000 Service personnel benefitting to date. This policy delivered early on the principle of accommodation choice to support our modern demographic that the Future Accommodation Model now builds upon.

## Armed Forces Continuous Attitude Survey<sup>8</sup>

The Armed Forces Continuous Attitude Survey (AFCAS) is a key source of information on the attitudes, opinions and experiences of Armed Forces Regular Service personnel and their

perceptions of working in the Armed Forces. Evidence from AFCAS is used to inform the development of policy and measure the impact of decisions affecting personnel, including major programmes.

The Armed Forces Continuous Attitude Survey 2020 shows the overall engagement index remains stable at 61%. Satisfaction with Service life in general is at 45% while 58% are satisfied with their job in general, both similar to last year. Three quarters of Service personnel are proud to be in their Service, unchanged from 2019, and satisfaction with basic pay has continued to improve following a dip in 2017 and 2018.

A third are now satisfied with the opportunity to work flexibly, an improvement from last year. Attitudes towards team members remain highly positive; 81% agree they have confidence in themselves as a team and 77% agree that the people in their team can be relied upon to help when things get difficult in the job, both stable. 12% reported that they believe they had been the subject of bullying, harassment or discrimination, with 10% of those making a formal complaint. Both figures are consistent with previous years and the department continues to monitor this closely.

## MOD People Survey

The People Survey is a tool for measuring the experience and engagement levels of our people. The results provide a sound basis of measuring and tracking colleague engagement as well as facilitating continual improvements for Civil Servants in MoD. The response rate for 2019 was 67%, which is increasing year on year. Actions to drive improvements for staff experience in 2019–20 have been focused on improving leadership, change management and safety to challenge the status quo. In addition, there has been a particular emphasis placed on improving the employer brand, increasing uptake of learning and development as well as driving improvements in the diversity and inclusive practices of our organisation.

<sup>8</sup> <https://www.gov.uk/government/statistics/armed-forces-continuous-attitude-survey-2020>

## Support to the Armed Forces Community

### The Armed Forces Covenant and Veterans

The Armed Forces Covenant is a promise by the nation that those who serve or who have served, and their families, will be treated fairly and suffer no disadvantage from their Service in accessing public and private services, in comparison with the general population, and that special provision may be appropriate for those who have sacrificed the most.

#### In delivering the Armed Forces Covenant...

HM Government provide **£10 million** per year to support Covenant delivery

Over **5,000** organisations across the country are now proud signatories to the Armed Forces Covenant

Over **77,000** Service children benefiting from **£23 million** of Service Pupil Premium fund

In December 2019 the Secretary of State, Rt Hon Ben Wallace MP, laid before Parliament the Armed Forces Covenant Annual Report<sup>9</sup> on progress delivering the Covenant, setting out the key deliverables under the Covenant in the period between October 2018 and October 2019.

The Covenant Reference Group sets the priorities for the Covenant, including for the award of grants under the £10 million per annum Covenant Fund, disbursed by the independent Armed Forces Covenant Fund Trust. During 2019–20 funds were

allocated through priority streams: Removing Barriers to Family Life; Positive Pathways, which supports veteran mental health; Veterans' Community Centres; and the Armed Forces Covenant Local Grants programme.

With the creation of the Office for Veterans Affairs, Veterans are now represented at Cabinet level by the Chancellor of the Duchy of Lancaster, as Minister for the Cabinet Office. In addition, the MOD's Minister for Defence People and Veterans, now has a joint position as the Cabinet Office Minister for Veterans leading the Office for Veterans Affairs. The Secretary of State for Defence continues to speak for the Serving community and their families in Cabinet and retains responsibility for the Armed Forces Covenant.

### Families

Progress against the 2018–20 Families Action Plan is being assessed by the Service Families Working Group. Alongside the Andrew Selous MP review into the support provided to Service families, this will form the basis of the refreshed UK Armed Forces Families Strategy for 2020 and beyond. Priorities for the action plan during 2019 have included improving the support provided to Service children's education and wellbeing and launching the MOD Local Authority Partnership which is helping define best practice and shared values in the provision of education and specialist care to children with Special Educational Needs and/or Disability.

We are continuing to work with DHSC and DfE to ensure that the needs of Service children are reflected in the setup of the trailblazer mental health teams, and 2019 saw the launch of the Families Federations Forces Families Jobs Platform which hosts a specific area for the MOD Employer Recognition Scheme award winners.

9 <https://www.gov.uk/government/publications/armed-forces-covenant-annual-report-2019>

We are committed to improving the support given to service families including childcare in order to enable them to balance the needs of Service life with childcaring responsibilities and so enhance their quality of life and opportunity, underpin deployable operational capability and improve retention. As part of this, we launched a pilot for wraparound childcare in September 2020 at RAF High Wycombe and RAF Halton. This will be followed up by further pilots at Plymouth and Catterick in January 2021.

Under the No Defence for Abuse Strategy we launched a whole force domestic abuse awareness campaign in Nov 2019, and we are using external and private sector expertise to re-write our domestic abuse policy from a whole force perspective.

## Health and Wellbeing

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

By strengthening existing and forging new partnerships with the Department of Health and Social Care, the NHS, the Devolved Governments and the Charitable Sector we continue to uphold and progress shared best practice and resources to ensure a flexible, integrated through-life approach to health, including mental health, and wellbeing. In December 2019, the Department introduced an Employee Assistance Programme (EAP), which provides a complete support network offering expert advice

and compassionate guidance covering a wide range of issues, 24 hours a day, 7 days a week.

Following a partnership with the Royal Foundation in 2017, we have co-developed HeadFIT: a website that hosts a suite of video, audio and text-based tools to support mental fitness and promote the good management of good mental health. The HeadFIT launch was accelerated in response to the Coronavirus pandemic, launching in May 2020 to support our personnel during this time.

The Defence Suicide Prevention Review Implementation Board is implementing the recommendations from the Defence-focused review on Suicide Prevention among serving personnel. Substantial progress has been made in driving the implementation of suicide prevention measures. Becoming a member of the National Suicide Prevention Alliance, continued monitoring of suicide rates in Service Personnel and the publication of an annual statistical note on suicide<sup>10</sup> helps identify areas for further improvement and enable greater senior oversight.

Work continues in rolling out a phased Smoke Free Work Environment across Defence by 2022; currently in the pilot stage, units across Defence will be able to go Smoke-Free from January 2021.

Completion of the Defence Recovery Capability Review resulted in 42 recommendations being endorsed in April 2020. Work on options delivery through partnership with the third sector is underway, with project completion expected by the end of 2022.

<sup>10</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/880253/20200326\\_UK\\_AF\\_Suicide\\_National\\_Statistic\\_2020\\_O.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/880253/20200326_UK_AF_Suicide_National_Statistic_2020_O.pdf)



## Performance Report

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### Welfare

The MoneyForce Programme is maintained and delivered in collaboration with the Royal British Legion. Improved access to credit via Joining Forces Credit Union has given additional choice to our people when they consider their financial options.

The Navy, Army and Air Force Institutes (NAAFI) continues as a successful business supporting UK Armed Forces across the globe. Profits from NAAFI's many facilities are reinvested in the business and provide additional funding for welfare projects across the wider Armed Forces community.

The Defence Discount Service continues to go from strength to strength with 13,800 companies and 585,000 members (including both serving Personnel and Veterans).

A 'Discover My Benefits' website has been live since May 2019, providing Service Personnel (Regulars and Reservists), their families and those interested in joining the Armed Forces with information on the benefits, allowances and support available to them.



## National Strategic Objective 2: Project Our Global Influence

### Influence through international Defence Engagement.

Key achievements in 2019–20:

- Increased our contribution to NATO Command Structure Adaptation to **1000 posts** (up 100 posts)
- Completed the UN mission (UNMISS) in South Sudan and the drawdown of British Forces in Germany
- UK F-35 aircraft took part in **Exercise RED FLAG**, a multi-national combat training exercise
- Offered **2,247 places** on our flagship **International Defence Training** courses to other nations
- Provided technical advice on a proposal to add the Novichok nerve agent to Schedule 1A of the Chemical Weapons Convention (CWC)
- **Trained over 17,000 Ukraine Armed Forces personnel** (to date) under **Operation ORBITAL**



## Defence Engagement

The term ‘Defence Engagement’ encapsulates all internationally-focused defence activity (short of combat operations) that we use to influence our allies, partners, and adversaries worldwide. ‘International by Design’ is one of 6 key policies which will continue to underpin Defence’s approach to engagement activity, placing allies and partners at the heart of what we do, and forming a major part of the Defence contribution to the Government’s Global Britain policy. This means that our policies and strategies consider allies and partners from the outset, working in conjunction to achieve mutual and national objectives.

This year, we have maintained Defence Engagement activity at the levels of the previous year, whilst laying plans to enhance activity further in support of Global Britain.

### Defence Advisers and Attachés

As part of our approach, Defence maintains an extensive global network with 142 Defence

Attaché posts in 90 Defence Sections worldwide, with another 77 non-resident accreditations. There are 16 Loan Service teams and 4 regional British Defence Staff teams in addition to liaison officers and exchange officers deployed around the world. The global network continues to evolve to meet changing Defence and wider Governmental priorities. This year, the network has developed to include Defence Sections in Belgium and Mali.

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

#### Location of Defence Advisers / Attachés

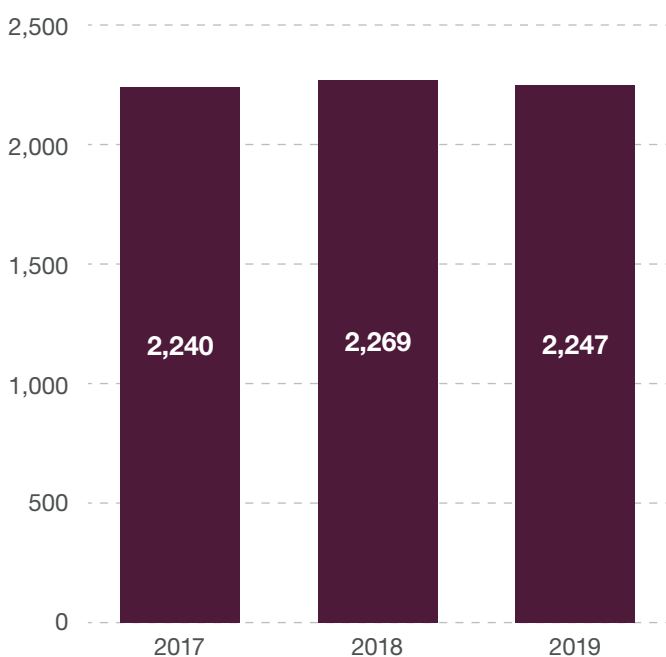
Region	Number of Defence Sections	Countries
Asia (exc. Middle East)	16	Bangladesh, Brunei, China, India, Indonesia, Japan, Kazakhstan, South Korea, Malaysia, Nepal, Pakistan, Singapore, Sri Lanka, Thailand, Uzbekistan, Vietnam
Central America / Caribbean	2	Jamaica, Mexico
Europe (exc. UK)	31	Albania, Austria, Belarus, Belgium, Bosnia & Herzegovina, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Ireland, Italy, Latvia, Lithuania, North Macedonia, Moldova, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Spain, Sweden, Ukraine
North Africa / Middle East	18	Afghanistan, Algeria, Bahrain, Egypt, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, Turkey, United Arab Emirates, Yemen
North America	2	Canada, United States of America
Oceania	2	Australia, New Zealand
South America	4	Argentina, Brazil, Chile, Colombia
Sub Saharan Africa	13	Ethiopia, Ghana, Kenya, Mali, Nigeria, Senegal, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Uganda, Zimbabwe
Others	2	United Nations, Organization for Security and Co-operation in Europe
<b>Total</b>	<b>90</b>	

## Defence Training

UK training remains highly prized, and the offering of places can have a direct impact on relations with international partners or can help secure specific short-term UK goals, particularly in countries where the military are influential and/or defence is a significant element of wider UK engagement. We have maintained the substantial number of international places being offered on our flagship International Defence Training courses.

Defence training can offer very specific and immediate benefits to our international partners; for example, helping to prepare forces which are to deploy on peacekeeping missions or improving the capacity of partners to deal with internal security challenges. It can also have a longer-term impact through helping to develop strategic leadership skills, improve defence and crisis management and promote responsible approaches to the conduct of defence activity.

### *International Defence Training Places Offered*



## Official Development Assistance

MOD is involved in spending ODA because it has unique capabilities which can contribute to development outcomes. Defence education and training can contribute to the development of effective, accountable and inclusive institutions, recognised in the UN Sustainable Development Goals. The MOD spent approximately £6.25 million of Official Development assistance (ODA) in 2019.<sup>11</sup> The main activities reported as ODA were: certain aspects of defence education and training which fall within ODA guidelines; elements of the support to international partners in maritime charting provided by the UK Hydrographic Office; assistance to refugees in the UK Sovereign Base Areas in Cyprus; and a retraining programme for local staff in Afghanistan.

Additionally, elements of activity delivered by MOD, but funded from other government sources, have been reported as ODA against the relevant budgets, including for example programmes to support security sector reform, funded from the Conflict, Stability & Security Fund, or work to counter Illegal Wildlife Trade, funded by DEFRA.

## NATO

NATO is the cornerstone of UK defence and security and the last year has seen the UK continue to play a leading role within the Alliance. UK forces have been active across the full range of Alliance activities and NATO Assurance Measures, demonstrating our commitment to meeting the evolving and intensifying challenges the Euro-Atlantic area faces. We are increasing our contribution to NATO Command Structure Adaptation by over 100 posts, taking our total to over 1,000 staff. Our average fill rate is over 90%. We remain committed to providing high quality staff to the NATO Command and Force Structures.

<sup>11</sup> ODA is reported on the basis of Calendar Years rather than the UK Financial Year and is reported on a cash rather than an accruals basis. This is a provisional figure as official Statistics on International Development for 2019 have not yet been published.

On 3 December 2019, the UK hosted the NATO Leaders' Meeting in London marking 70 successful years of the Alliance. The meeting highlighted significant progress on burden sharing, with the NATO Secretary General announcing an increase in non-US defence investment of \$130 billion from 2016–2020, expected to rise to \$400 billion by 2024. On this, the UK, as one of nine Allies currently meeting the 2% NATO defence spending commitment, continues to lead by example.

### United Nations

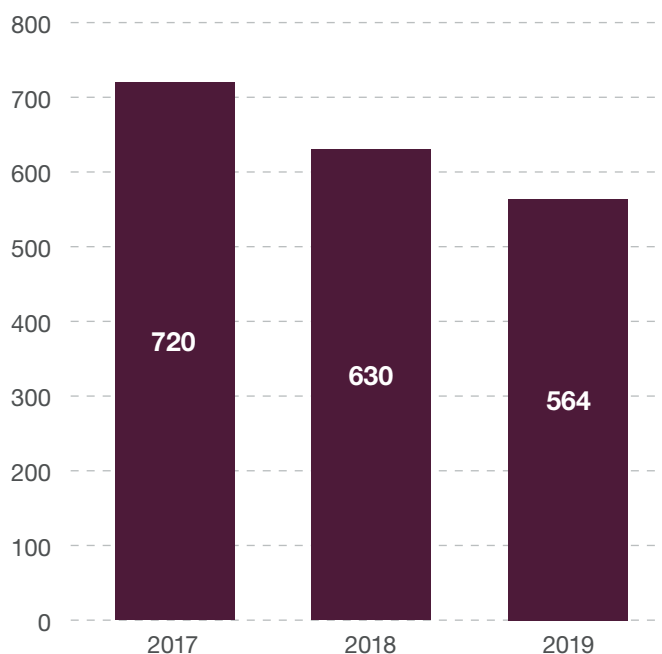
UN Peacekeeping plays a significant role in containing some of the worst consequences of armed conflict globally. In the last year, we have supported six UN missions with nearly 600 troops and staff officers deployed to South Sudan, the Democratic Republic of Congo (DRC), Somalia, Mali, Libya and Cyprus. The UK's largest deployment was to South Sudan with some 300 personnel providing an Engineering Task Force. Following a one-year extension, the deployment completed in March 2020.

Following the drawdown in South Sudan the UK will deploy 250 military personnel to MINUSMA, the United Nations' peacekeeping operation in Mali, in 2020. Based from Gao but separate from the UK contribution to the French-led Operation BARKHANE, a UK Task Group will deploy in support of the UN mission. UK Troops will form part of a 15,000-strong international force including military, police and civilians from 57 different countries.

In support of improving peacekeeping performance, the UK provides training to troop and police contributing countries, particularly in Africa where the British Peace Support Team (Africa) provide training to around 11,000 peacekeepers annually. In the last year, this included pre-deployment training to Malawian and Zambian battalions deploying to DRC and the Central African Republic (CAR).

Our long-standing commitment to the UN mission in Cyprus continues, with around 260 Service Personnel deployed.

*Number of UK Military Personnel Deployed on UN-Led Peacekeeping Operations*



### Women, Peace and Security

The UK continues to support Canada's Elsie Initiative, both as a Contact Group member and by providing £800,000 from the Conflict Stability and Security Fund in 2019–20 to promote more uniformed women in UN peacekeeping and making peacekeeping operations more sensitive to the different needs of women peacekeepers. In July 2019, the UK held the first meeting of the Women Peace and Security Chiefs of Defence (CHOD) Network at UNHQ in New York, bringing 42 member states together to discuss gender perspectives and promoting the role of women in peacekeeping. At the event, the UK handed over the chair to Bangladesh and Canada.

In May 2019 the then Secretary of State announced the UK's commitment to deploying more women on its operations. The UK is



committed to meeting benchmark targets set by the UN – 6.5% for contingents and 17% for staff officers in 2020, increasing annually by 1% until they reach 15% and 25% respectively in 2028. Women currently make up 7% of UK peacekeeping contingents, but only 10% of our staff officers. The planned deployment, in 2020, of combat units to Cyprus and Mali will make meeting these targets more challenging.

## Arms Control and Counter Proliferation USA

The MOD and Defence Science and Technology Laboratory (Dstl) have played an important part in implementing the Government's Biological Security Strategy, published in July 2018.

We have implemented biosecurity projects under the International Biological Security Programme, primarily in Central Asia, the Middle East and North Africa, and provided funding and technical expertise to support US and Canadian biological security projects in Iraq, Libya and West Africa.

We have worked with the Foreign and Commonwealth Office (FCO) and international partners with the goal of achieving the full declaration and destruction of Syria's entire chemical weapons programme, and of ensuring effective investigation and response to the use of chemical weapons in Syria.

We provided technical advice on a proposal to subject the Novichok nerve agent used in Salisbury to controls under the Chemical Weapons Convention (CWC). Following active UK support, this proposal was adopted by States Parties to the CWC in November 2019.

We have collaborated with partners across government to examine the threat posed by the misuse of drones, and is exploring technical, behavioural and legislative solutions to mitigate the threat. We have maintained counter-drone capability at readiness to protect Defence Critical National Infrastructure. This could also be made

available through the MACA process to support UK civil authorities in extraordinary circumstances.

We hosted five inward missions and a five-yearly military contacts Vienna Document visit, which checked that the UK was compliant with Conventional Arms Control agreements and led or participated in 30 verification missions in other countries.

Our defence relationship with the US enables the UK to maintain globally-deployable Armed Forces with cutting-edge military capabilities that would be much less affordable otherwise. In April 2019, the British Army again exercised the integration of a UK division into a US Corps; as the only foreign army operating with the US at this level.



HMS Queen Elizabeth with US war ships

HMS QUEEN ELIZABETH and escorts sailed to the US eastern seaboard from September to November 2019 to conduct F-35B Lightning operational flying tests alongside US counterparts. In January 2020, for the first time, UK F-35 aircraft took part in Exercise RED FLAG, a multi-national combat training exercise which involved flying alongside various aircraft from other nations to maximise combat readiness, capability and interoperability.

The Red Arrows deployed to North America from August to October 2019 to conduct 25 displays

and 100 ground events across the US and Canada, achieving their aim of promoting the best of British and deepening partnerships with allies. These events also provided a platform to develop our trade and business relationships, promote Science Technology Engineering and Maths (STEM) skills to young people throughout the USA, and showcase women working in the defence and security sector.



The Red Arrows flypast with the USAF F-35Bs

Our ambition is to share leadership on defence issues with the US, and in doing so advance UK/US cooperation on developing next generation technologies and improve UK access to US technology and systems enabling enhanced acquisition, trade and prosperity.

In October 2019 we took possession of the first of 9 UK P-8A Poseidon maritime patrol aircraft from Boeing, Seattle, marking a significant upgrade to the UK's ability to conduct anti-submarine operations.

British Defence Staff – United States (BDSUS) led the US influencing campaign for Team UK's success in the second major assignment of work by the US Department of Defense for F-35 Maintenance, Repair, Overhaul and Upgrade (MRO&U) services, worth some £500 million to UK industry.

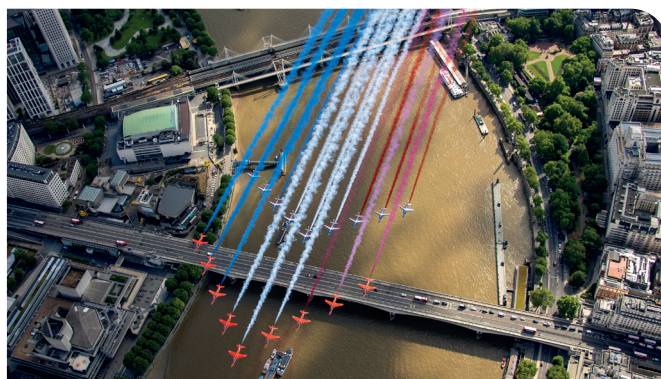
In 2019–20 we signed 47 new Foreign Military Sales agreements with the USA for a total of \$548 million and made 52 Amendments & Modifications for a total value of \$241 million.

The total case portfolio is currently 392 active Cases at \$13 billion.

## France

UK and French Armed Forces continued to operate and train together closely throughout the year, including:

- In Europe, where we worked together to respond to Russian air and maritime activity in the North Atlantic and around our coasts, and a French company supported the UK-led NATO enhanced Forward Presence force in Estonia
- In the Middle East, where we provided combined staff support to the maritime Coalition Task Force 150 in the Gulf
- In Africa, where three RAF CH47 Chinook helicopters and a UK-French Multinational Combined Petroleum Unit in Mali continued to support France's Operation BARKHANE in the Sahel
- Through a series of single-Service and joint exercises to develop our Combined Joint Expeditionary Force (CJEF) capability



The Red Arrows welcoming president Macron

We have continued to make good progress on a range of complex weapons programmes, including the concept phase for a possible Future Cruise/Anti-Ship Weapon, and our joint Maritime Mine Countermeasures project has continued to develop world-leading maritime autonomous technology.

## Germany

As Europe marked the 75th anniversary of the D Day landings and the 70th anniversary of the Berlin Airlift, our bilateral relationship with Germany continued to strengthen. In July 2019 the UK announced it would be sending forces to join the UN Mission in Mali (MINUSMA), to be based alongside German forces in an extension to the German Camp Castor in Gao.

The UK completed the drawdown of British Forces Germany in Summer 2019. A UK footprint in Germany will be retained at Sennelager Training Area, the combined river crossing capability in Minden and the vehicle storage facility at Ayrshire Barracks. These facilities will continue to provide important assets for UK forces, and support to German and other NATO forces.

Capability cooperation has continued to deepen, and the UK signed the contract to procure 500 Boxer vehicles to meet the mechanised infantry requirement in November 2019.



Exercise DYNAMIC MONGOOSE – HMS KENT sails with allied warships

## Europe

The UK continues to play a leading role in the defence and security of Europe. We have further strengthened key bilateral relationships by putting in place several defence agreements, including Memoranda of Understanding (MOU) with **Italy** and **Sweden** on co-operating on Future Combat Air, an MOU on Defence and Security Co-operation with **Cyprus**, a Statement of Intent with **Hungary**, and an Action Plan for Defence Co-operation with **Poland**.



Exercise BALTIC PROTECTOR – Royal Marines parachuting over Denmark

As well as working bilaterally with our Allies and partners in Europe, we are increasingly working in small groupings. The first meeting of **Visegrad 4**<sup>12</sup> Defence Ministers was held in February 2020 and we continue to engage with partners in the **European Intervention Initiative (EI2)**<sup>13</sup> – a flexible forum for discussing issues of mutual interest with key European partners to improve defence cooperation and coordination.

<sup>12</sup> The V4 countries are: Czech Republic, Hungary, Poland and Slovakia.

<sup>13</sup> The EI2 countries are: Belgium, Denmark, Estonia, Finland, France, Germany, Italy, Netherlands, Norway, Portugal, Romania, Spain, Sweden and the UK.



Exercise BALTIC PROTECTOR – Royal Marines beach landing in Estonia

The UK-led **Joint Expeditionary Force (JEF)**<sup>14</sup> continues to develop as an important contributor to European security and demonstrated its potential during the maritime deployment, BALTIC PROTECTOR which took place from May to July 2019. A JEF Readiness Declaration was signed in February 2020, through which the seven JEF partners, who are also NATO Allies, committed to making an enduring and substantial contribution to NATO’s Readiness Initiative.

The 12-strong **Northern Group**<sup>15</sup> continued to cement its role as a forum for promoting more coherent and effective defence and security co-operation in Northern Europe under the joint chairmanship in 2019 of Germany and Sweden. Latvia held the chair from January to June 2020.

## Ukraine

The UK remains a steadfast partner to the Armed Forces of Ukraine and its Ministry of Defence. The UK’s military training mission Operation ORBITAL continues to deliver training designed to build resilience and capacity in the Armed Forces of Ukraine and has been extended until 2023.

ORBITAL’s short-term training teams have now directly trained in the region of 17,500 personnel and the Operation has been expanded into the maritime domain. In 2019, the UK deployed Royal

Navy Ships HMS ECHO and HMS DUNCAN to the Black Sea in support of freedom of navigation. We also assisted the Ukrainian Navy in inspecting the three vessels returned following their seizure by Russia in November 2018.

Alongside Operation ORBITAL, the UK continues to fund and manage a wide-ranging programme in support of Ukraine’s ambitious and far-ranging defence reform programme. This is led by the UK Special Defence Advisor embedded in the Ukrainian MOD.

## Russia

Russia remains an enduring security challenge for the UK. The MOD is a major contributor to the cross-government HMG Russia Strategy. We continue to protect the UK from the Russian military threat, both in terms of the conventional military threat and newer hybrid threats. Our overseas Russia-facing defence approach is primarily delivered through NATO.

UK Defence contributed to several large-scale Exercises in 2019, including several ships in Exercise BALTIC PROTECTOR and by conducting Operation TRACTABLE, the land movement of forces to Estonia through mainland Europe. We continue to show our agility and ability to deliver greater effect through and with others.

In May 2020, the UK were the major European Ally supporting the US on Exercise DEFENDER 2020. The UK provided 2,500 personnel to support the largest reinforcement of Northern Europe from the US (some 25,000 US troops) since the end of the Cold War. This tested the US’ ability to move multiple brigades to Europe in the event of conflict to support NATO. This was purely defensive and a temporary reinforcement to maintain the credibility of deterrence.

With our Allies we are also bolstering our channels of communication with Russia to reduce the risk

14 Denmark, Estonia, Finland, Latvia, Lithuania, the Netherlands, Norway, Sweden and the UK.

15 Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, the Netherlands, Norway, Poland, Sweden and the UK.

of miscalculation and avoid military incidents. In 2019, we established a senior channel with the Russian MOD.

## West Balkans

In the Western Balkans, the UK remains committed to supporting a stable, more resilient region which has improved capacity to tackle its own problems. We extended our commitment to the Kosovo Force (KFOR) and EU Force (EUFOR) missions in **Kosovo and Bosnia & Herzegovina** until December 2020: both are tasked with supporting a safe and secure environment.

The MOD has invested heavily in assisting **North Macedonia** with driving forward the reforms required for NATO accession. The signing of a Defence Cooperation Arrangement between the UK and North Macedonian Defence Ministers in February 2020 highlighted the importance of this key relationship and set the footing for the future relationship.

The UK continued to expand the breadth of its wide-ranging defence assistance programme in 2019–20 to include key activities such as a gender audit in the **Bosnian** Armed Forces, an MOD Ministerial visit with **Montenegro**, and a regional military exercise in **Albania**.

## Middle East and North Africa

Bilateral and multilateral exercises continue at scale and pace with the UK conducting almost 20 across the region last year. We continue to deliver training activities, almost 200 last year, designed to develop our partners' armed forces and enable them to play a growing role in the security of the region.

In the **United Arab Emirates**, with support from the Emiratis, the UK continued to improve work facilities and living conditions for our deployed personnel at Minhad airbase, the UK's regional airbridge supporting operations in Afghanistan.

Following the signature of the Joint Defence Agreement in February 2019, the UK has further strengthened its defence co-operation with **Oman** to develop capabilities and promote regional stability. The MOD has invested in the port of Duqm, which provides the UK with a Joint Logistics Support Base in the region. We continue to regularly exercise with Oman, including joint training in the Musandam peninsular.

The deployment of Giraffe radars to Riyadh in February 2020 will help **Saudi Arabia** better track and identify objects in its airspace, and in **Jordan**, the UK-led Mohammed Bin Zayed (MBZ) Brigade capability development project saw a notable achievement through its deployment to the UAE at short notice for multi-lateral training.

In **Lebanon**, the first Puma helicopter came out of long-term maintenance. The project was completed by the Lebanese Armed Forces Air Force for the first time, with the RAF providing and continuing to provide essential advice and training. This new capability builds on previous assistance from the UK to help the Lebanese Armed Forces independently secure their borders.

In addition, in August 2019 we signed a Memorandum of Understanding with **Iraq** focused on military education, as well as wider training and development of the Iraqi Security Forces; in February 2020, the first Strategic Leadership Programme was delivered in **Tunisia**; and **Egypt** and the UK conducted their first ever joint exercise in 2019, deepening bilateral defence cooperation at a time of greater cross-government engagement with Egypt.

## Africa

In **Somalia**, the MOD has continued to play a key role, providing staff to every major multilateral mission in the country. This year we have made significant progress in South West State, providing stabilisation operations training, command and leadership training, convoy protection and

reconnaissance skills to around 400 soldiers and officers within the Somali National Army to help strengthen Somalia's national capability.

The UK's contribution to the UN Mission in **South Sudan** (UNMISS) was completed on 31 March 2020. The end of mission, and handover to Pakistan, follows the completion of niche tasks exploiting the UK Task Force's outstanding engineering capability such as the construction of a permanent hospital in Bentiu. The UK taskforce have led the way in going above and beyond the parameters of their tasks undertaking extra humanitarian work including self-defence to women and girls. We continue to provide 8 staff officers to UNMISS (reducing to circa 5), predominately based in Juba.

## Asia Pacific and Oceania

Over the past year we have further strengthened our defence relationships across South East Asia, East Asia and Oceania. Following four deployments in the previous year we now aim to establish a persistent naval presence in the region, currently fulfilled through the deployment of HMS ENTERPRISE.

We have also participated in several high-profile exercises in the region. The Army conducted Exercise Cobra Gold with the Royal Thai Army in October 19 underlying our growing relationship with **Thailand**.

In **Australia**, we contributed the largest number of UK forces yet to Exercise Talisman Sabre 19, the largest US/Australian joint exercise, and we continue to support the US Pacific Partnership exercise simultaneously deepening our relationship with the US and many other Pacific nations.

We continued to support to the Combined Command Post Training exercise series in the **Republic of Korea** and enforce sanctions on the

Democratic People's Republic of Korea, showing our support for a stable and peaceful Korean peninsula. We continue to support the Five Power Defence Arrangements, with RAF Typhoons and a Voyager successfully supporting Exercise Bersama Lima 19.

With **Australia**, we have continued to build our joint approach to developing the T26 Global Combat Ship and in October 2019 the Australians announced their intention to purchase the MQ-9B Sky Guardian (known as Protector in the UK) remotely piloted aircraft system.

## South Asia

In April 2019, the UK-**India** Defence industrial relationship was enhanced with the signing of the Defence Equipment Cooperation Memorandum of Understanding, to identify mutual defence and security capability needs and collaborate on solutions. In August 2019, the UK Navy exercised with the Indian Navy in the English Channel when Indian Navy Ship TARKASH joined HMS DEFENDER, before HMS DEFENDER transited to Goa in November 2019, this visit included a demonstration of the Type 45's electric propulsion system.

The UK recognises the critical role **Pakistan** has to play in facilitating stability in the region, and in enabling the conditions for meaningful peace talks between Afghanistan and the Taliban. Military education and exchange programmes underpin the bilateral Defence relationship. This year more than 50 Pakistani personnel have visited the UK on formal visits or to undertake courses at the Royal Military Academy Sandhurst, Royal College of Defence Studies and the Defence Academy. The UK has aided the Pakistan Army to build the capacity and capability of their Bomb Disposal Teams, reducing loss to life. The Stabilisation Conference, a keystone annual event in the UK Pakistan Defence relationship, was hosted by the UK in 2019.

The **Sri Lanka** and UK defence relationship was significantly strengthened in 2019 with the appointment of a resident Defence Adviser. HMS MONTROSE visited Colombo in April 2019 as part of her deployment in the Indian Ocean and completed a joint exercise with the Sri Lankan Navy. Following the Easter Sunday terrorist attacks in 2019, the UK offered support to the Sri Lankan authorities including providing counter-Improvised Explosive Device training, with some Sri Lankan students attending training in the UK.

In **Bangladesh**, we continue to focus on education and training to professionalise the Bangladeshi military and we are a key strategic partner in Humanitarian Assistance and Disaster Response training for cross-governmental agencies. In **Nepal**, we continue to enhance the Nepalese Army's capabilities and professionalise the Nepal Army through military education and training to ensure that they remain a major troop contributing country to UN Peacekeeping Operations.

## Latin America and the Caribbean

Across Latin America the UK has continued to build links with partner nations, in support of Counter Narcotics operations, International Peacekeeping Operations, air safety, human security, and the development of maritime expertise.

In **Belize**, the expansion of our training, provided through the British Army jungle training facility, continues, with regular inclusion from partner nations across the Caribbean.

In 2019–20 the MOD delivered valuable search and rescue exercises in the region and provided assistance to the Chilean Air Force following the tragic loss of a military aircraft in the Southern Ocean.

## National Strategic Objective 3: Promote Our Prosperity

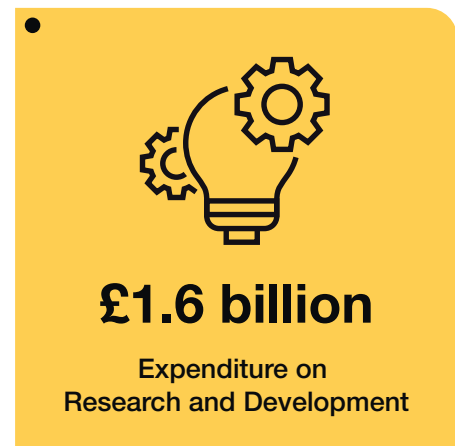
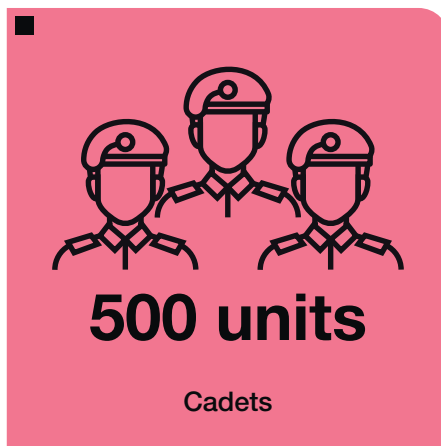
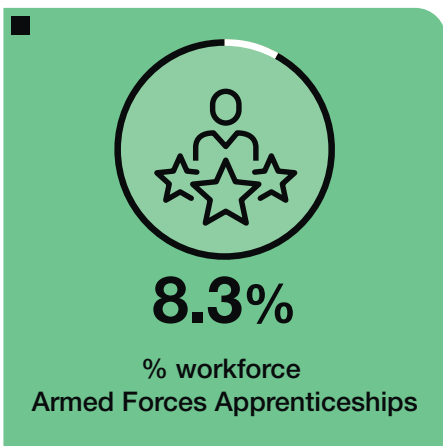
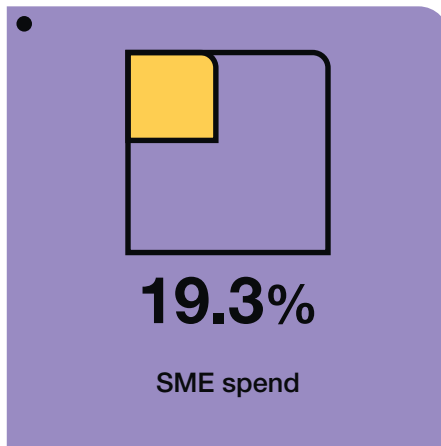
### Promote UK prosperity and civil society.

Key achievements in 2019–20:

- Launched the **Defence Prosperity Programme**
- Led the launch of a cross-Government review into the UK's defence and security industrial sectors
- Funded over **70 new projects** from the Defence Innovation Fund **spending £44 million**
- Funded **240 projects** through the **Defence and Security Accelerator**
- The **Defence and Security Accelerator** (DASA) rapidly launched a Coronavirus (COVID-19) competition and directly supported national mitigation efforts
- **19.3% spend on SMEs** – third successive year our SME spend has risen
- Achieved the target for **50,000 apprenticeships** between April 2015 and March 2020, over a year ahead of target
- Achieved the target for **500 cadet units** parading in schools by March 2020







■ 2019–20 data ● 2018–19 data

## Prosperity

Our economic security depends on our national security. Without a secure and stable environment, that encourages investment and innovation, the UK cannot prosper. We contribute to UK prosperity through the protection it provides from external threats and aggression, allowing the economy to function peacefully. Strong and credible UK armed forces are central to preserving the international rules-based system in which growth in the global economy can take place. A growing global economy helps to reduce poverty and build security for all.

## Defence Prosperity Programme

The Defence Prosperity Programme was launched in March 2019. Informed by Philip Dunne’s MP independent review “Growing the Contribution of Defence to UK Prosperity”,<sup>16</sup> our Refreshed Defence Industrial Policy and the Government’s Industrial Strategy, the programme focuses around four major areas of work:

- Embedding prosperity into MOD policy, process and culture
- Quantifying the Defence contribution to the UK economy

<sup>16</sup> <https://www.gov.uk/government/publications/growing-the-contribution-of-defence-to-uk-prosperity-a-report-for-the-secretary-of-state-for-defence-by-philip-dunne-mp>

- Sustaining an internationally competitive and productive defence sector for the UK
- Growing exports and inward investment.

During 2019–20 we have been driving this programme of work forward, working jointly with Other Government Departments, industry and academia. Progress includes:

- Working with the Defence Growth Partnership (DGP) and the Department for Business, Energy and Industrial Strategy (BEIS) to establish a new Joint Economic Data Hub (JEDHub) within the UK Defence Solutions Centre, which aims to provide consistent and impartial data on the sector. Good progress has been made including launching a proof of concept pilot with DGP companies
- Joint working with the Devolved Administrations on initiatives that benefit Defence, regional prosperity and the UK Government's wider strategy in support of the Union, including a pilot Defence Technology Exploitation Programme (DTEP) with Invest Northern Ireland to connect SMEs to major defence companies to help them bring new technologies to market
- Working closely with the Welsh Government and industry to develop an Advanced Technology Research Centre alongside the MOD's Defence Electronics Components Agency (DECA) at Sealand in North Wales
- Holding a Defence Prosperity Conference in March 2020, jointly with King's College London, to improve the understanding of how Defence creates value across the UK
- Launching a pilot project to develop, test and validate how Defence can make better use of government investments in supply chain development initiatives across different sectors. This is funded by the Defence Innovation Fund

- With other Departments and the Aerospace, Defence and Security trade group, organised a major trade mission to Boeing in Seattle involving 34 UK companies from across the UK. Coinciding with the visit of the Red Arrows, and as part of a series of UK-focussed events supported by the British Consulate, the trade mission help strengthen UK companies position to win new export contracts

### Defence Industrial Policy

As part of the **National Ship Building Strategy**, in September 2019 the Prime Minister appointed the Defence Secretary the Shipbuilding Tsar demonstrating the Government and Defence's ambition and commitment to reinvigorate the British shipbuilding industry.

Significant progress has been made on the Combat Air Acquisition Programme, initiated through the **Combat Air Strategy** with Government to Government agreements signed with Italy and Sweden in 2019. The Combat Air Sector is strategically important to UK prosperity, providing an annual turnover of approximately £6.5 billion, directly supporting approximately 18,000 jobs and around an additional 28,000 jobs in the wider supply chain.<sup>17</sup>

### Working closely with industry

In 2018–19 the MOD spent £19.2 billion with UK industry and commerce, directly supporting 119,000 jobs and many thousands more in the wider supply chain. We have continued to explore new ways of working with industry to unlock value for the UK economy and deliver benefits for UK companies.

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<sup>17</sup> These figures are based on RAND analysis using 2016 data, completed for the Combat Air Strategy report.

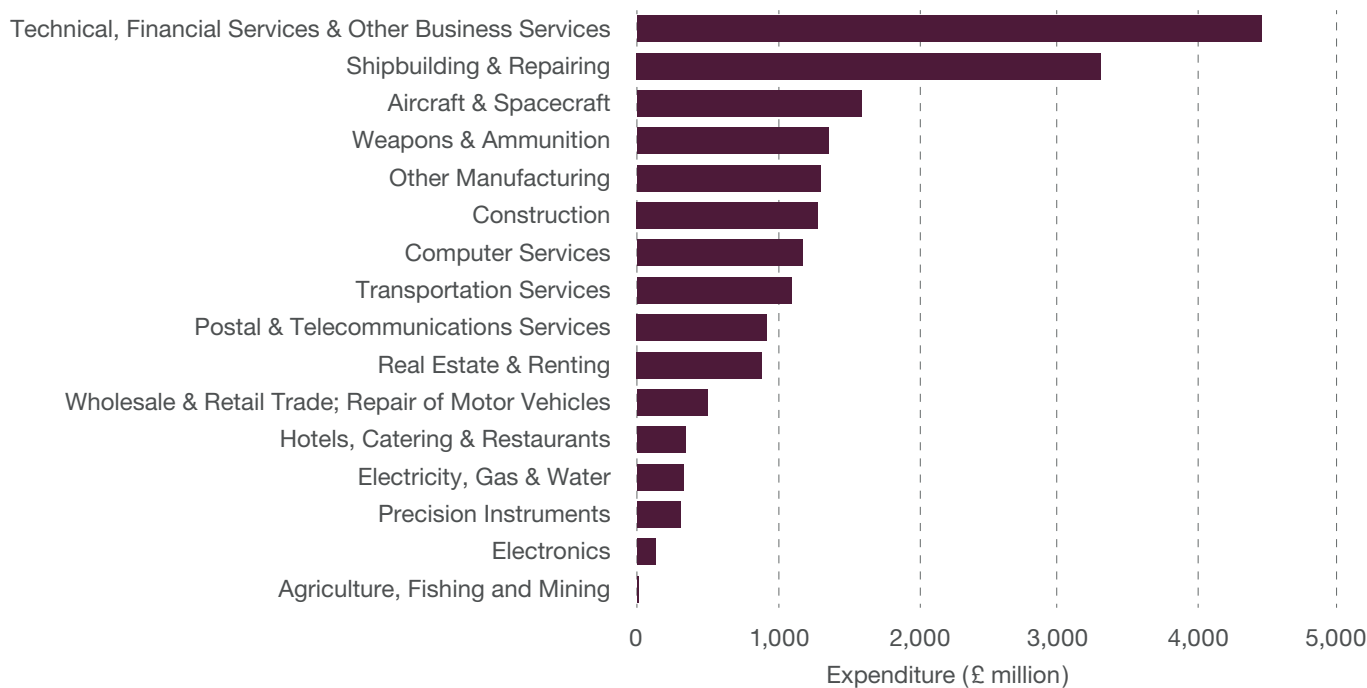
Key elements of this engagement include:

- The Defence Suppliers Forum (DSF), jointly chaired by the Secretary of State for Defence and a CEO from the Defence industry, which continues to provide a forum for strategic engagement between Government (MOD) and the Defence Industry. In 2019 the DSF received exceptional feedback with 92% stakeholder satisfaction from the MOD and Industry community, successfully delivering amongst other things the ‘Women in Defence Charter’, launched in September 2019 by the then Minister for Defence Procurement committing to work together to build a more gender balanced environment
- The Defence Growth Partnership (DGP), a partnership between Government and industry, working together to ensure the UK’s Defence Sector grows in the future by strengthening our global competitiveness. The DGP undertakes several activities to support export growth such

as supporting the UK value chain, enhancing our market intelligence, and developing skills. A core pillar of the DGP, the UK Defence Solutions Centre (UKDSC) facilitates closer collaboration with customers, partners and industry to make the UK Defence industry more successful in international markets

- A cross-Government review into the UK’s defence and security industrial sectors was launched in March 2020. The review will identify how we can enhance our strategic approach to ensure that the UK has competitive, innovative and world-class defence and security industries that drive investment and prosperity across the Union, which can underpin our national security now and in the future. The analysis undertaken as part of the review will be fed in to the Government’s broader Integrated Review of Defence, Security, Development and Foreign Policy. This review is being carried out by a cross-Government team led by the MOD

MOD Expenditure with UK Industry, by Industry Group: 2018–19<sup>18</sup>



18 <https://www.gov.uk/government/publications/mod-regional-expenditure-with-uk-industry-and-supported-employment-201819/finance-and-economics-annual-statistical-bulletin-mod-regional-expenditure-with-uk-industry-and-commerce-and-supported-employment-201819#mod-expenditure-with-uk-industry-by-industry-group>

## Supporting Small and Medium Enterprises

The MOD remains strongly committed to improving access to opportunities throughout its supply-chain for smaller and non-traditional suppliers. We are making excellent progress towards our challenging target that 25% of procurement spend should go to Small and Medium-sized Enterprises (SMEs) by 2022. In 2018–19 19.3% of our procurement spend went to SMEs, representing some £3,941 million – an increase of £623 million on the previous year. This is the third successive year that our SME spend has risen.

A major part of our approach is to work collaboratively with our 19 Strategic Suppliers to support engagement with SMEs throughout the defence supply-chain. To support this approach each of the Strategic Suppliers has appointed a senior SME Champion to drive improved behaviours through their organisation. We are working closely with the SME Champions to make it easier for smaller businesses to find and compete for opportunities.

Initiatives run by the Defence and Security Accelerator<sup>19</sup> and Dstl's SME Searchlight<sup>20</sup> programme, provide a mechanism to target SMEs in strategically important areas.

We have refreshed our MOD Supplier Portal, hosted on Defence Contracts Online which brings together supplier-focused information in one place, and introduced new approaches to supporting suppliers including hosting webinars and a dedicated Twitter channel, @DefenceProc.

Underpinning all of these activities is the long-standing MOD outreach service, known as 'Doing Business with Defence' which provides direct advice and guidance to new suppliers and plays a key role in the Department's efforts to improve

access to contracting opportunities and support for smaller businesses.

Our commitment to SMEs has been further reinforced through Ministerial engagement. The Defence SME Forum is chaired by the Minister for Defence Procurement and is held at locations across the UK to allow a wide range of suppliers to engage. Our most recent event was hosted by Raytheon in North Wales.

## Defence Exports

The Department for International Trade's Defence & Security Organisation (DSO) has overall government responsibility for defence export promotion and we continue to support them on various export campaigns such as the Type 26 frigate and the future Type 31 programme, which will have exportability as a fundamental consideration from the outset.

We have also been leading campaigns for Typhoon, Complex Weapons and the F-35 Maintenance, Repair, Overhaul and Upgrade programme, working closely with British industry on prospective export opportunities.

During 2019–20 notable achievements in support to industry have included:

- The Defence and Security Equipment International (DSEI) 2019 which facilitated successful ministerial and senior-led engagement with overseas counterparts and industry, in support of our key objectives. With over 76,000 people in attendance, the departments current and future capabilities were on show to a wide customer base and feedback on these was very positive
- MOD support to BAE Systems in successfully submitting a Eurofighter response to Request for Quotation 2 (RFQ2) to Finland as part of the

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<sup>19</sup> <https://www.gov.uk/government/organisations/defence-and-security-accelerator>

<sup>20</sup> <https://www.gov.uk/government/news/defence-science-and-technology-laboratory-launches-sme-searchlight-to-harness-innovation>

HX competition at the beginning of 2020. RFQ2 was the most complex and comprehensive RFQ received for Eurofighter to date, and was aimed at preparation for the invitation of Best and Final Offer in mid/late summer 2020

An MOD team, part of the Government's Export Control Joint Unit (ECJU), acts as the authority that enables the Government to ensure the controlled release of classified equipment and information by UK companies to overseas nationals without comprising the UK's national security (MOD Form 680). We assess the proposed release by companies to foreign entities of equipment or information with a classification of OFFICIAL SENSITIVE or above. The target is to clear 60% of applications within 30 working days, which was again exceeded this year. In 2019 the MOD processed 62% of applications within this timescale.

## Innovation

The MOD has continued to deliver the Defence Innovation Initiative. In 2019–20 Defence published the *Defence Innovation Priorities*.<sup>21</sup> Published in parallel with the *Defence Technology Framework*<sup>22</sup> both documents are central to how we respond to the threats facing Defence.

The Innovation Priorities outline where Defence's most pressing problems can be addressed through collaboration with the civil sector. The Priorities have encouraged and established new relationships, and harnessed ideas from outside traditional boundaries, quickly and affordably.

Across Defence there remains a vibrant innovation community.

- The **Defence and Security Accelerator (DASA)** finds and funds exploitable innovation to support UK Defence and security. During the year, DASA has worked closely with Government organisations to launch 15 themed

competitions reaching out to the supplier base, and has also run 6 cycles of the Open Call for Innovation, enabling suppliers to push their ideas into Defence and security. Since April 2019, DASA has received more than 1,200 proposals from over 650 organisations, funded 240 of these (55% from SMEs), and allocated over £42 million in funding. DASA also rapidly launched a Coronavirus (Covid-19) competition and directly supported national mitigation efforts. DASA worked on behalf of the Welsh Government running a call for Rapid Sanitising Technology appealing to industry for innovative solutions and novel ideas to clean ambulances quicker, which resulted in 12 innovations being fast tracked for development. The COVID-19 Innovation Fast-track Open Call helped the Armed Forces counter coronavirus and similar future threats with £1 million funding from the Defence Innovation Fund

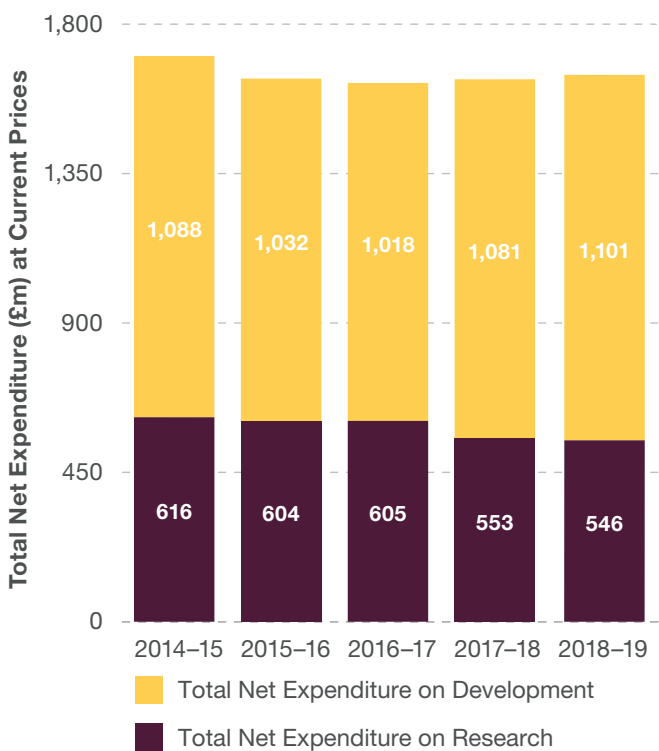
- The Secretary of State's **Defence Innovation Advisory Panel (DIAP)** is made up of external innovation experts that advise, identify opportunities and challenge Defence innovation culture thinking and practices. A notable success was the Senior Leadership Defence Innovation Workshop, facilitated by DIAP and the Defence Innovation Unit (DIU) in November 2019. This provided a forum for leaders across Defence to reflect on the progress made in innovation and to discuss the changes that need to be made to accelerate and scale up the Defence Innovation agenda. The outcome of this forum aims to fundamentally change the way the Armed Forces fight, deliver a change of pace, and make major inroads into the challenges we face
- The **Defence Innovation Fund** of around £800 million over 10 years, aims to incentivise changes in behaviours, provides freedoms to pursue and deliver innovative solutions, and helps to overcome identified barriers to the realisation of the Initiative as a whole. In the financial year 2019–20, the Department funded over 70 new projects from the Defence Innovation Fund, spending around £44 million

<sup>21</sup> <https://www.gov.uk/government/publications/defence-innovation-priorities>

<sup>22</sup> <https://www.gov.uk/government/publications/defence-technology-framework>

- Work on the **Spearhead Programmes** commenced in April 2019. These are part of an approach in which the MOD accepts higher levels of risk when pursuing novel ideas utilising new technologies and innovation to deliver transformative capability improvements to the front line at pace. This includes adopting more flexible business approaches. The programmes are focussed on Anti-Submarine Warfare (ASW), Intelligence Surveillance and Reconnaissance (ISR), and Enhanced Command & Control (EC2)

MOD Research & Development Expenditure 2014–2019



Note: 2019–20 figures are not available until completion of a survey run by Defence Statistics for the Office for National Statistics to identify R&D expenditure in the Annual Report and Accounts that meets the Frascati international definition of R&D.

## Science & Technology

Science and Technology (S&T) is essential to the Defence and Security of the United Kingdom. Professor Dame Angela McLean was appointed as the MOD's Chief Scientific Adviser (CSA) in September 2019. As CSA she has a range of responsibilities, including being the senior adviser to Ministers (and leading Defence's Scientific Advice function), setting the strategic direction for Defence S&T, and overseeing the commissioning of MOD's Research Programme. Her budget is defined as no less than 1.2% of the Defence budget.

Throughout the year, our world-class S&T capabilities have continued to support both Military and Civilian efforts, most recently in response to the COVID-19 pandemic.

The Defence Technology Framework was published alongside the Defence Innovation Priorities in September 2019. The framework is helping to inform and shape Defence policy, strategy and investment planning, helping our external partners to understand our requirements, and providing the foundation for deepening engagement for UK security and prosperity. The fundamental technologies identified will be critical to the development of capabilities that achieve decisive and affordable military effect in future conflict.

## Property and Infrastructure

A new Strategy for Defence Infrastructure is being developed which will set out how we plan to overcome the issues on the Defence Estate, such as optimising the Estate to deliver current and future Military Capability, addressing how we will address the Sustainability and Net Zero challenge on the Estate, and how we will drive improvements in productivity and resilience.

We have established an Infrastructure Function to drive a more coherent approach to the management of the Defence Estate, and the Defence Infrastructure Organisation (DIO) is now in Phase 3 of its transformation programme to reflect its changed role as the expert infrastructure adviser and primary infrastructure delivery agent.

Delivering the Defence Estate Optimisation (DEO) Portfolio and the commitment to create a more cost-effective, modern and capability-aligned estate between now and 2040 remains a priority for the MOD. We continue to progress the Portfolio's disposal plan, with 14 sites released for sale since the 2016 announcement of a "A Better Defence Estate".

## Land Release

We have continued to release land no longer required for defence purposes, contributing to the Government's public sector land for housing programme. The Department is currently forecast to achieve this commitment by 2040. During 2019–20 we have released land with the potential for 2,350 homes, bringing its total up to 9,212 units, through a combination of land release, land transferred to Homes England, and the building of new service family accommodation and single living accommodation. We are working with the Ministry of Housing, Communities and Local Government to agree our commitment for land release for housing during 2020–25. Land released by us has also been used for development to benefit local economies and job creation.

## Government Estate Strategy

Our office utilisation benchmarking performance is 11.26 sqm per full time equivalent in 2019–20 against a target of 6 sqm per full time equivalent. We recognise there is still more work to be done to bring this figure down further.

We continue to put in place the foundations to meet the Building Information Modelling (BIM) Level 2 mandate (Capital phase) by the end of 2020, in accordance with the Government Construction Strategy.

## MOD Apprenticeships

The Ministry of Defence is proud to be one of the largest deliverers of apprenticeships in the UK, with over 20,000 personnel engaged on a nationally recognised apprenticeship programme at any one time and over 90 per cent of our non-commissioned military recruits offered an apprenticeship on the back of their trade training.

Public sector bodies with 250 or more staff have a target to employ an average of at least 2.3% of their staff as new apprentice starts over the period 1 April 2017 to 31 March 2021. The Armed Forces are exceeding this target with an average of 8.3% of employees starting an apprenticeship in 2017–2019. The MOD's Civil Service is currently falling below this target achieving on average 1.45% apprentice starts over years 2017–2019.

We committed to enrolling 50,000 apprenticeships between 1 April 2015 and 31 March 2020 and we exceeded that target in November 2018, over a year ahead of target.

Fully supportive of the Government's Apprenticeship Reform aimed at improving the quality of apprenticeships for all, we are involved in Trailblazer groups which are developing new Apprenticeship Standards. We are extending a number of our schemes for civilian staff and looking to embed apprenticeships as part of the Defence People attraction and workforce planning strategies. We are a member of the Apprenticeship Ambassador Network and the 5% Club, the latter being an employer movement working to drive forward a nationwide 'Earn and Learn' agenda.

## Cadets

There are just over **130,000** cadets in the UK supported by nearly **29,000** adult volunteers

The Ministry of Defence sponsors and supports five different cadet forces (voluntary youth organisations): the Sea Cadet Corps, the Volunteer Cadet Corps, the Army Cadet Force and the Air Training Corps in the community, and the Combined Cadet Force based in schools. In total, there are over 130,000 cadets in around 3,500 units across the UK.

In 2015 the Government committed £50 million from LIBOR fines to the joint MOD/Department for Education Cadet Expansion Programme to

increase the number of cadet units parading in UK schools to 500 by 2020. The programme met its target in November 2019 and work is now progressing on the Government’s further ambition to grow the number of cadets in school units from 43,000 to 60,000 by 2024. In 2019 we launched an initiative to deliver elements of the National Cyber Security Centre’s CyberFirst training programme for up to 2,000 cadets per year.

All face-to-face cadet activity was suspended in March 2020 due to COVID-19. To support retention and to prepare for recommencement of activities, the cadet organisations introduced virtual training. A significant effort by Cadet Force Adult Volunteers to engage cadets resulted in over 70% of cadet units participating. Planning is now underway for a gradual return to face-to-face activities when Government COVID-19 guidance allows.



1. Apprentice working towards Level 2 Apprenticeship 2. Hands on learning at the Royal School of Military Engineering, Chatham 3. Cadets in the Virtual Reality RAF Stand 4. Cadets on a STEM Focused Day



## Strategic Objective 4: Transform the way we do business

### Direct Defence and deliver key enabling functions.

Key achievements in 2019–20:

- Established **a new Defence Support organisation**, which will modernise the way we support our military equipment and front-line personnel
- Awarded a contract to **design and build five T31 frigates**
- Signed a contract to provide more than **500 armoured fighting vehicles** to the British Army
- Operational testing of the new Queen Elizabeth Class ships and Lightning Aircraft
- Introduction of the Overseas Operations Bill including legal protections for service personnel and veterans who serve on overseas operations
- **Reduced Greenhouse Gas Emissions** from Estate Energy and Business Travel **by 45%**



## Defence's Transformation Journey

In January 2018, the then Secretary of State launched the Modernising Defence Programme, which looked at how Defence operated as well as what Defence required.

As part of the Modernising Defence Programme, we commissioned an independent review of our efficiency programme – including progress against the £7.8 billion efficiency target agreed as part of the 2015 Spending Review. The review confirmed our internal assessment that considerable progress had been made – with plans in place to deliver around 64% of the target. To deliver (and indeed exceed) the remainder, the review recommended a more strategic approach based on fundamental transformation and reform.

To meet the remaining efficiency challenge and to deliver the Defence Enterprise of the future, we established the ambitious Defence Transformation Programme in 2018.

Defence Transformation focuses on five key areas:

- **People Transformation**, delivering a workforce of the future which is more diverse and inclusive, with far greater career agility, and which possesses a fundamentally different skill set from the past
- **Digital Transformation**, delivering the capabilities that enable sustainable military and business advantage, including through Centres of Expertise for automation and data & analytics, data centre rationalisation, and effective supplier management
- **Acquisition and Approvals**, enabling a more flexible and agile acquisition system that delivers at pace, supported by a stronger Commercial Function and strategic supplier management
- **Support**, delivering a Support Network that is strategically prepared, responsive and operationally effective, through modernisation of its business practices, and a reformed Defence Support Operating Model

- **Centrally-driven enablers** including delivering behavioural and cultural change to enable a workforce which is empowered, committed, collaborative, curious and challenging, and establishing a data-driven central portfolio office

Though we are relatively early in our Transformation journey, there are already examples of tangible delivery, we have:

- Modernised the way we provide healthcare to our servicemen and women, to provide greater flexibility, minimise travel and waiting time, and improve service
- Established an Automation Centre of Excellence, which has already seen over 38,000 transactions automated to improve efficiency and service-levels
- Established a new Defence Support organisation, which will modernise the way we support our military equipment and front-line personnel, whilst also drastically reducing our carbon footprint
- Conducted intensive evidence-gathering to baseline levels of empowerment across Defence and implemented a series of solutions to improve working cultures and behaviours

Defence Transformation is amongst the very highest priorities for the Department, and it is committed to building upon these early benefits to unlock the full potential of the programme – both in terms of multi-billion pound savings, and in delivering a transformed Defence Enterprise. Change of this scale and ambition will take time and will require significant up-front investment but work to date indicates that it has the potential to meet (and even potentially exceed) current efficiency targets.

## Joint Force 2025 – Delivery of Major Projects

The Defence Major Programmes Portfolio (DMPP) consists of 38 of the most strategically important and technically challenging programmes across the Ministry of Defence, of which 35 are in the Government Major Programmes Portfolio. The Department ensures that a system of appropriate governance is applied to all projects and Programmes (not just those on the DMPP) to minimise the risks to delivery, including strict adherence to both Departmental and HMT Investment Policy.

To provide independent oversight, all programmes that are also in the Government Major Programmes Portfolio are subject to a series of reviews by the Infrastructure and Project Authority throughout the programme lifecycle. In 2019–20, the Infrastructure and Project Authority carried out 29 such reviews. The overall Portfolio delivery confidence remains at Amber – the portfolio still faces some significant challenges including skills and capability shortages and supplier performance, which we are continuing to address.



1. HMS PRINCE OF WALES sailing from Rosyth Dockyard
2. Boxer – Army's modern Strike capability
3. F-35 from HMS QUEEN ELIZABETH

Delivery highlights across the breadth of the DMPP in this financial year include:

<p><b>Type 31</b></p>	<p>Type 31 will be at the heart of the Royal Navy’s surface fleet, deterring aggression and maintaining the security of the UK’s interests. They will work alongside our Allies to deliver UK warship presence across the globe. Flexible and adaptable by design, Type 31 frigates will undertake missions such as interception and disruption of those using the sea for unlawful purposes, collecting intelligence, conducting Defence engagement and assisting those in need.</p> <p>2019–20 has seen significant progress with a 7-month competitive phase and subsequent evaluation concluding in August 2019. Following a successful cross-government investment decision, a contract to Design &amp; Build five Type 31 frigates was awarded to Babcock International on 15 November 2019. The contract will see Babcock deliver all five frigates to the Royal Navy by the end of 2028.</p>
<p><b>Mechanised Infantry Vehicle – Boxer</b></p>	<p>Boxer will provide Agile Infantry Mass able to operate at reach, at speed, in complex terrain and with low logistic need. It will be employed across the full spectrum of scenarios, including divisional warfighting as part of our contribution to NATO in Europe. Boxer’s future-proof, modular digital design allows cyclical upgrades when technology evolves, enabling the harnessing of future information manoeuvre technologies, and an out-of-service date beyond 2060.</p> <p>The Main Gate Business Case was approved in November 2019 for the Mechanised Infantry programme to deliver the Boxer armoured vehicles and form part of the Army’s Strike brigades. A contract worth £2.8 billion was signed with ARTEC (the industrial consortium between Rheinmetall and Kraus Maffai Wegman (KMW) who currently manufacture Boxer for other nations) to provide more than 500 armoured fighting vehicles to the British Army. 60% by value of the Contract amendment will be manufactured in the UK, centred on factories in Telford and Stockport with a nationwide supply chain.</p>
<p><b>Carrier Enabled Power Projection</b></p>	<p>The core Carrier Enabled Power Projection Programme is made up of the Queen Elizabeth class ship, Lightning aircraft and the Crowsnest Airborne Early Warning and Control Capability on board the Merlin Mk 2 aircraft.</p> <p>In 2019–20:</p> <p>HMS QUEEN ELIZABETH sailed on WESTLANT19 to conduct F-35B Operational Testing, Rotary Wing Trials and Warm Weather Acclimatisation, with the deployment seeing the first UK F-35B aircraft operate from HMS QUEEN ELIZABETH</p> <p>HMS PRINCE OF WALES commenced her sea trials and was formally declared an operational Royal Navy Ship in February 2020</p> <p>With significant advances in capability, the Carrier Enabled Power Projection programme now moves forward towards the declaration of a Carrier Strike Initial Operating Capability in December 2020 and the first operational deployment in spring 2021.</p>

## F-35 – Lightning II

The F-35 Lightning is an advanced, multirole 5th Generation aircraft procured as part of the UK's Combat Air portfolio. The aircraft combines advanced sensors and mission systems with low observable technology, or 'stealth', which enables it to operate in high-threat environments that other combat aircraft are not able to penetrate. Enhanced through highly effective sensor fusion, Lightning's integrated sensors and data links provide the pilot with unprecedented situational awareness, maximising the lethality and survivability of this potent air system. The F-35B Lightning's short take-off and vertical landing capability allows it to operate from the new Queen Elizabeth class aircraft carriers and similar vessels of allied nations, as well as short strips.

Initial Operating Capability was declared in December 2018. In 2019–20:

The Lightning Force undertook their first overseas deployment in June 2019 to test logistics and support at range. Due to early success, the Lightning Force were able to conduct their first operational missions from RAF Akrotiri in Cyprus in support of Operation SHADER.

17 Squadron, the UK's US-based F-35 Operational Test and Evaluation squadron, successfully embarked on HMS QUEEN ELIZABETH off the coast of the USA in order to conduct the second phase of First of Class Flying Trials (Fixed Wing) in November 2019

617 Squadron took part in Exercise RED FLAG in January 2020. This significant milestone saw UK's F-35 Lightning aircraft participate in this preeminent exercise for the first time, flying alongside myriad aircraft from other nations to maximise combat readiness, capability and interoperability.

UK Lightning Force conducted carrier qualification training on HMS QUEEN ELIZABETH in February 2020. This was the first fixed wing carrier operations in British Waters for 10 years. The first Carrier Strike Group operational deployment is planned for early 2021.

## Marshall

The Marshall programme was established to provide a sustainable Terminal Air Traffic Management capability. This will enable air vehicles to operate safely and effectively with tactical freedom in all weather conditions and in any environment, within the areas of UK responsibility, including permanent overseas airfields and when deployed.

Marshall will enable compliance with extant and new mandatory regulatory requirements. It will address obsolescence issues facing much of the current equipment, will drive significant financial efficiencies, and enable the reduction of Military Manpower.

This year witnessed successful completion of the roll-out of 8.33 KHz frequency-spacing radios to meet the Civil Aviation Authority regulatory compliance deadline of 30 June 2019. Further, all equipment required to enable the achievement of Initial Operating Capability, including Wide Area Multilateration (WAM) systems, was installed and tested successfully ahead of schedule and we installed the highly reliable replacement Primary Surveillance Radar: STAR-NG. Full Operating Capability is expected to be achieved in December 2023.

**Protector**

Reaper currently provides the United Kingdom’s Medium Altitude Long Endurance Remotely Piloted Aircraft System capability. The Protector programme will replace Reaper but will be a generational leap in remotely piloted technology with the world’s first certified, and autonomy enabled, armed Intelligence Surveillance Target Acquisition and Reconnaissance capability.

This element of the Protector programme is primed to deliver three operational packages from two deployable locations. This output will be enabled by the acquisition of sixteen Protector RG Mk1 aircraft and growth to eighty Remotely Piloted Aircraft System crews; plus supporting elements such as maintainers and Ground Control Stations, and an information and communications link.

During 2019–20, an £100 million contract for the Test and Evaluation of the capability was announced and the contract for the procurement of the first three aircraft of this world-leading system was signed on 29-May-2020. The announcement by both Belgium and Australia in 2019 that they will also procure the MQ-9B/Protector capability opens up opportunities for synergies in certification, training and future operations. Significant progress towards integration of Protector into UK airspace has been made, this is a novel and ambitious effort to introduce remotely piloted aircraft into UK airspace for the first time, and support from stakeholders in both Civil Aviation Authority and Military Aviation Authority has been critical in achieving forward momentum.

**Legal Challenges Against Military Personnel**

Service Police Legacy Investigations (SPLI) took on the remaining legacy cases from the Iraq Historic Allegations Team (IHAT) in July 2017. The SPLI expects to complete the small number of remaining investigations by the end of 2020. The investigative phase of Operation NORTHMOOR – into a number of allegations from Afghanistan concluded in July 2019.

We undertook a 12-week public consultation in the summer of 2019 on proposed legal protections measures for Armed Forces personnel and veterans who served in operations outside the UK. The consultation focused on three proposed protections measures: a statutory presumption against prosecution for alleged offences that occurred abroad over 10 years ago, a new partial defence to murder, and a 10-year limit on personal injury/death civil litigation claims. The consultation received

over 4,200 responses, with the majority supportive of the introduction of enhanced legal protections for serving personnel and veterans on overseas operations. The Department's response to the consultation was published on 17 September 2020.

The consultation has been used to help inform the development of the measures which have now been brought forward in the Overseas Operations (Service Personnel and Veterans) Bill, which was introduced to Parliament on 18 March 2020. The Bill comprises important legal protections for service personnel and veterans who serve on overseas operations. It will help to reduce the uncertainty faced by our Armed Forces, who perform exceptional feats in incredibly difficult circumstances to protect this country. It also looks to the future, providing a better legal framework for dealing with allegations or claims from any future overseas conflicts, recognising the unique burden and pressures placed on our personnel.

Making progress on dealing with the legacy of the past in Northern Ireland, including delivering on our commitment to NI veterans, remains a priority for the Government, and is being taken forward separately.

The review of the Cabinet Office Consolidated Guidance on the detention and interviewing of detainees overseas concluded in 2019. As a result, 'the Principles relating to the detention and interviewing of detainees overseas and the passing and receipt of intelligence relating to detainees' entered into force on 1 January 2020 replacing the Cabinet Office Consolidated Guidance. This wide-ranging review and the newly implemented Principles serve to ensure that the UK's commitment to international humanitarian and human rights law is second to none.

## Chilcot

We are learning from the Iraq Inquiry (Chilcot) Report which is now embedded and the use of the handbook "The Good Operation" is widespread. 'Guide to Reasonable Challenge' reproduced at the inside back cover of TGO will cultivate and improve the challenge culture. We continue to support a Civil Service Leadership Academy immersive learning course based on the lessons of Chilcot; and maintain a dialogue with relevant NGOs on Chilcot's finding (Section 17 of the Report) that "a Government has a responsibility to make every reasonable effort to understand the likely and actual effects of its military actions on civilians".

## Counter Fraud and Corruption

We continue to respond robustly to the threat of fraud and corruption to ensure the Defence Purpose can be met free from the destructive impact of fraud and corruption: our values are supported and enforced through policies, procedures, behaviours, cultures and actions optimised for the disruption and prevention of fraud and corruption.

We pursue a zero-tolerance approach to fraud and corruption, reinforced by the standards and behaviours enshrined in the values of Armed Services and the Civil Service Code.

The MOD Counter Fraud Function provides strategic coordination of our response to fraud and corruption. We work collaboratively across government in support of the UK Anti-Corruption Strategy and the Government Counter Fraud Functional Strategy. We work closely with our international allies and in conjunction with the NATO Building Integrity programme.

As a key component of supporting the international community the Department funded Building Integrity UK Programme has continued to extend its reach overseas. Since 2014, more than 2,500 senior officials from over 100 countries ranging from Afghanistan to Uzbekistan have benefitted from the programme.

## Sustainable MOD

The UK Government is a signatory to the United Nations Sustainable Development Goals (UN SDGs) to which defence makes a significant contribution as well as to the UK's own sustainable development objectives.

In a defence context, sustainability is about ensuring that we have the people, equipment, training and resources to deliver against our strategic objectives efficiently whilst respecting the environment and cultures, at home and abroad, now and going forward. It is about planning for changes in future operating environments, the availability of resources and finances, changes in the geopolitical arena, and factoring these into design and delivery.

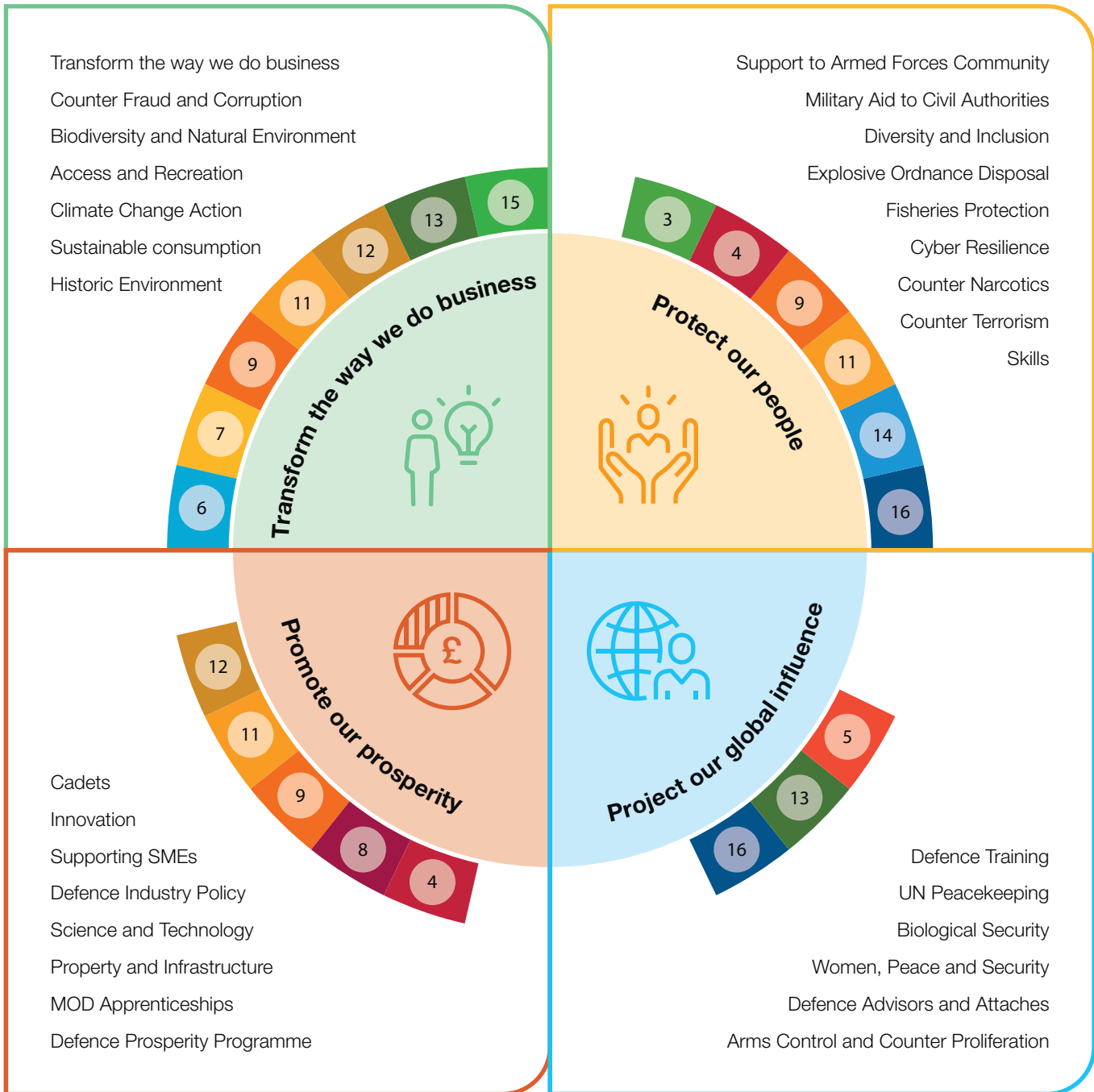
The MOD Climate Change and Sustainability (CC&S) Review will refresh the Department's governance framework and clarify responsibilities in the Defence Operating Model. The Review is due to report in Dec 2020.

## Sustainable Development Goals

The MOD is not a lead Department for the UK's delivery of any of the UN SDGs, however we contribute to delivery of several of the goals. The diagram overleaf shows the linkage between defence activities and a range of UN SDGs.



## Sustainable Development Goals



## Greening Government Commitments

The Greening Government Commitments (GGC) 2016 – 2020 are operational targets and commitments to reduce our impact on the environment. Departmental Greening Government Commitment (GGC) returns are scrutinised externally by the Building Research Establishment (BRE) who quality assure them on behalf of Department for Environment Food and Rural Affairs (Defra).

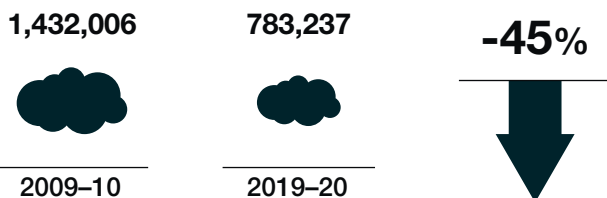
A full breakdown of estates emissions, water, consumption and waste generation are in Annex D and E.

## Environmental Sustainability

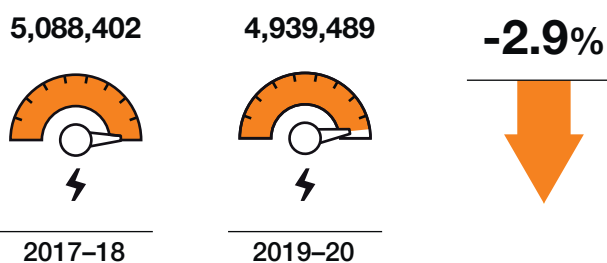
### Reduce Estate Energy & Business Travel

#### GHG emissions (Tonnes CO<sub>2</sub>e)

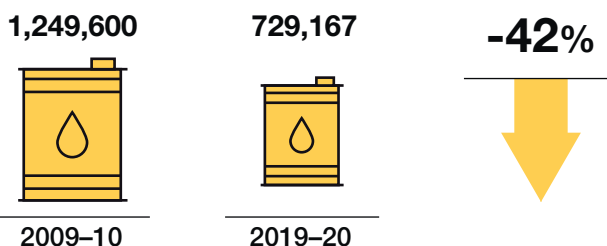
Target: Reduce GHG Emissions from Estate Energy and Business Travel by 39.9%



#### Reduce estate energy consumption (MWh-year)



#### Capability Fuels ('000 litres)



## Estate Energy

We have achieved an estate carbon emissions reduction of 48% against the 2009–10 baseline. Along with decarbonisation of the national grid this reduction in carbon emissions has been achieved through a combination of a reduction in defence activities, targeted energy efficiency investment, low carbon energy supplies and co-ordinated awareness and behaviour change campaigns.

The 10% MOD estate energy reduction target focuses on efficiencies and extends the scope of the current GGC coverage to the whole of the UK estate plus main overseas bases. Good progress has been made with a 2.9% reduction, 2 years into a 7-year program.

Various renewable and low carbon technologies are being incorporated across the estate, such as, air and ground source heat pumps, building mounted solar voltaic panels and biomass boiler plants. Further, several pilots are underway to test new approaches to construction, mitigate our emissions footprint and increase on-site generation of renewable energy.

Two MOD locations (Catterick Garrison and HMS Collingwood) are part of a government funded Modern Energy Partners (MEP) Pilot Programme to develop and deliver site energy systems and emission reduction roadmaps with a view to reduce emissions by 50% by 2032.

## Business Travel

In 2019–20, we reduced GHG emissions from business travel by 12% compared to the 2009–10 baseline. We continue to embed modern ways of working including roll out of laptops with remote access to MOD systems and on-line meeting software to enable more flexible working and reduce the need for business travel. IT Service providers have been asked to provide management information as the first step in exposing demand and measuring benefits in terms of staff efficiency, travel costs, and emissions avoidance.

Progress has been made to meet the commitment that 25% of the Government car fleet will be Ultra Low Emissions (ULEV) by 2022. We currently have 12 ULEV on fleet with a further 405 on order for delivery by December 2020 totalling 6% of the projected car fleet size.

### Capability Energy

Energy is critical to the delivery of military capability and a balance needs to be struck between delivering the right capability and meeting GHG emission targets. Ways to operate equipment more efficiently are constantly examined, however, equipment fuel consumption and associated GHG emissions are closely linked to operational tempo and for this reason they are not covered by the Greening Government Commitments.

Further detail can be found in the MOD Sanctuary Magazine 2019.<sup>23</sup>

In 2019–20 we consumed 729 million litres of fuel, up 9% from last year but, still 42% below the 2009–10 baseline. This equates to a 39% reduction<sup>24</sup> in carbon emissions. While early performance has been achieved largely due to a reduction in operational activity, further reductions have been delivered through synthetic training, equipment modernisation and improvements in logistical planning. Reducing consumption further will be a challenge as fuel demand is heavily dependent on operational activity and defence capability. We will continue to identify opportunities to find innovative solutions to maintain capability while enhancing sustainability.

## Case Study:

### Fuel Efficiencies and Emissions Reduction Project, RAF Brize Norton

The Fuel Efficiencies and Emissions Reduction project, in delivery by Air Mobility Force, RAF Brize Norton, is the vanguard of delivering efficiencies in the military environment, adopting Air Industry Best Practice and tailoring initiatives to the Air Mobility. The project is implementing over 60 efficiency initiatives on four aircraft types. The project looks at the way they fly, how they are tasked, how their aircraft perform, how much fuel they carry, what they pay for fuel, how they are contracted and invoiced, and how they reduce their carbon footprint. Fuel initiatives have realised £24.9 million in benefits to date



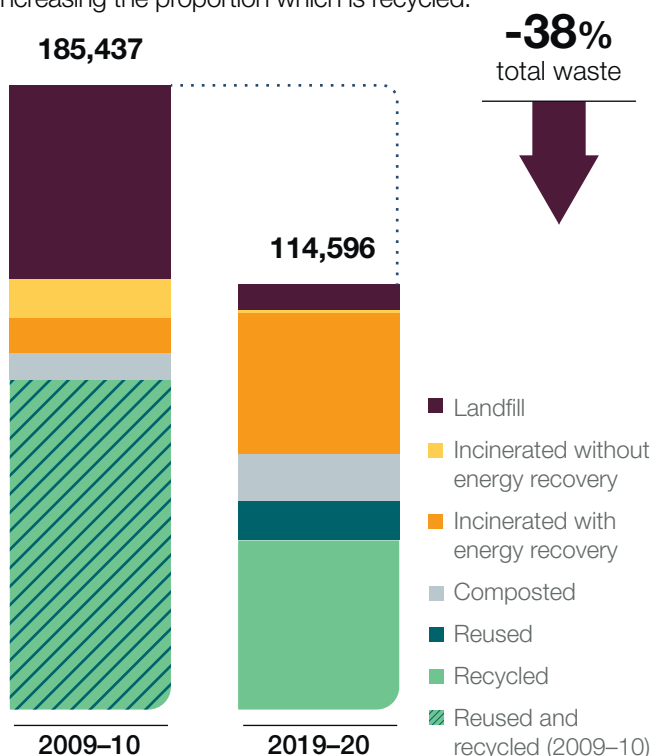
<sup>23</sup> <https://www.gov.uk/government/publications/sanctuary>

<sup>24</sup> All calculations based on BEIS conversion factors for 2019. This is due to the conversion factors for 2009–10 being no longer available.

## Waste

### Reduce waste (Tonnes)

Target: Reduce the amount of waste going to landfill to less than 10%. Also continue to improve our waste management by reducing the overall amount of waste generated and increasing the proportion which is recycled.



Our total waste for 2019–20 was 114,596 tonnes, down 38% on the GGC baseline with 7% going to landfill, 56% assigned for recycling, 12% composted or anaerobically digested and the remaining 36% incinerated with energy recovery.

Activities undertaken within areas of MOD to contribute to waste reduction include construction of a segregation centre on the Falkland Islands, regular engagement between TLBs, industry partners and suppliers, and MOD establishments implementing stand-alone projects including auditing recycling bins, donating unused Ration Packs to a food charity and environmental awareness campaigns.

A combination of contractual and cost implications has resulted in the MOD not fully meeting the requirements of the Government Consumer Single Use Plastic elimination target, however work is ongoing to address these issues.

## Case Study

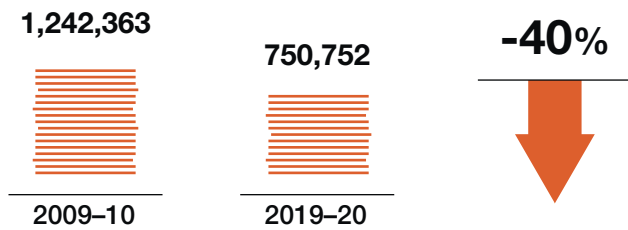
### Waste Management and Recycling in the Falkland Islands.

The Defence Infrastructure Organisation Regional Delivery (DIO RD) (South Atlantic) and British Forces South Atlantic Islands (BFSAI) are on track to have partially commissioned a new waste recycling facility in the Falkland Islands to segregate and process recyclable domestic waste collected from accommodation and office buildings across Mount Pleasant Complex (MPC). The waste recycling facility is designed to process waste streams which initially include glass, cardboard, wood and mixed metals.



## Paper

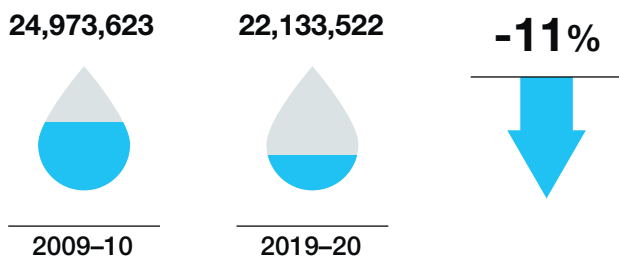
**Reduce paper consumption** (A4 Reams equivalent)  
Target: Reduce paper use by 50%.



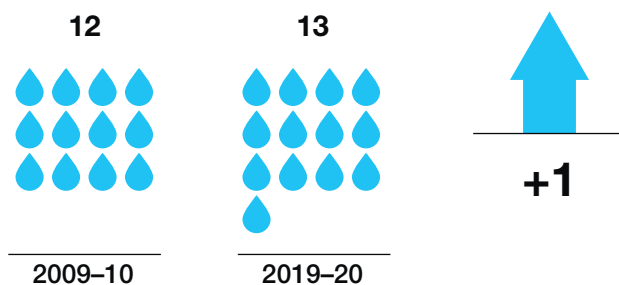
In 2016-17 the GGC target for reducing paper demand was increased from 10% to 50%. There remains moderate improvement against this target with a reduction of 40% compared to the 2009-10 baseline.

## Water

**Reduce estate wide water use** (m<sup>3</sup>)  
Target: Reduce water consumption on sites in Great Britain by 15%.



**Reduce office water use** (m<sup>3</sup>-FTE)  
Target – Reduce consumption at locations defined as the government office estate, to less than 6m<sup>3</sup> per FTE.



## Estate Wide Water Use

We set ourselves a target to reduce water consumption by 15% by 2019-20 from a 2009-10 baseline. Our water consumption has reduced from 25M m<sup>3</sup> to 22M m<sup>3</sup>. Good progress was made over the first 5 years but has significantly slowed over the last 5 years.

Over the reporting period the accuracy of the consumption data has increased putting us in a stronger position to monitor the impacts of water saving initiatives. Our key water savings initiative was a targeted Water Consumption Reduction Programme which involved addressing constant flows in faulty infrastructure on more than 85 sites. Despite this positive progress, several factors have contributed to a counteracting effect which include dilapidations, reduction in proactive maintenance and increased water infrastructure failures.

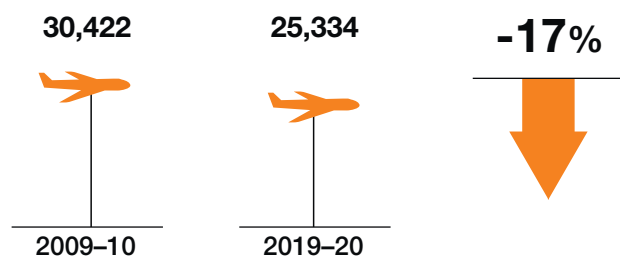
## Office Water Use

Water consumption at six of the MOD's office sites is included in the GGC Office Benchmark reporting. Currently consumption is averaging at 13m<sup>3</sup>/FTE. Two of our largest office complexes use water for large catering facilities and industrial processes in addition to normal office amenities. At present there is insufficient granularity of information to separate the different water uses.

## Domestic Air Travel

**Reduce number of domestic business flights**  
(No. of flights)

Target: Reduce the number of domestic business flights by at least 30% (excludes front line command military flights).



We have seen a slight increase of 3% against last year's performance now standing at a 17% reduction against the baseline. We have a UK wide presence and business and operational requirements often necessitate the need for air travel given distances travelled and viability in terms of cost and time in using alternative transport modes.

## Sustainable Construction and the Defence Related Environmental Assessment Methodology

### Sustainable Construction

We are committed to optimising the positive impact of construction activities and minimising any adverse impacts that construction has on the environment.

Defence's Construction Category Strategy is focused on four areas; Project Management; Design and Advisory; Build, Installation and Completion; and Materials and Supplies. The strategy supports current plans in the short and mid-term and is identifying the long-term initiatives to investigate and plan.

MOD Construction Standards are designed to be able to deliver capital projects through either traditional methods or the use of Modern Methods of Construction. This is key to achieving sustainable construction.

Further detail can be found in the MOD Sanctuary Magazine.<sup>25</sup>

Our policy requires appropriate environmental assessments on all new construction and

refurbishment projects with the Defence Related Environmental Assessment Methodology (DREAM) being the preferred methodology. DREAM was developed by MOD to specifically address the unique nature of our buildings and to offer an alternative to the industry equivalent BREEAM. We undertook 62 Assessments in 2019–20 of which 43 reached the mandatory Government Buying Standards for building projects. Of the 19 that did not meet the standard, 17 were overseas buildings where project and location constraints prevented the target being met. A further 2 were specialist buildings where the intended use of the buildings prevented the target being met.

### Sustainable ICT

Defence Digital is supporting the defined Sustainable ICT Vision for 2025. The energy efficiency of services are being improved through the Data Centre Rationalisation initiative. Existing data centres are being closed and services are being centred on more modern, less carbon-intensive environments designed to maximise energy efficiency. In addition, MOD Cloud provides a hosting environment for a growing number of applications. Energy requirements of end-user devices is also being reduced through the replacement of an aged desktop fleet with new laptops which consume up to 50% less power.

Whilst current performance on minimising ICT waste to landfill is good, there is more potential to promote re-use of equipment rather than recycling or disposal. We are working with Defra and Crown Commercial Services to investigate the possibility of device re-use across government departments in order to promote a circular economy in ICT and reduce costs.

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<sup>25</sup> <https://www.gov.uk/government/publications/sanctuary>

## Case Study

### Re-used PCs in new RAF Cadets IT Suite.

In 2019, Defence Digital Operations delivered several used corporate PCs and monitors to Royal Air Force Air Cadets in Bristol. Not only did this improve ICT sustainability and save money, but the Squadron has experienced a doubling in the number of cadets passing their cadet classification examinations, demonstrating the benefit that these PCs have brought to the unit.



## Sustainable Procurement

We continue to engage with defence suppliers on environmental matters. This includes drawing on expertise from the private sector and encouraging the use of emerging technologies and circular economy principles, for example use of additive manufacturing (3D printing).

Where applicable the Government Buying Standards (GBS) are included in specification, however, they are not always applicable to military environment. Relevant social and ethical criteria are also covered including the requirements under the Public Services (Social Value) Act 2012 and the Modern Slavery Act 2015 and meeting the contracting requirements of MOD Defcon 550 'Child Labour and Employment Law'.

The wider MOD procurement element of the GGC transparency reporting will be included in the Government GGC Annual Report for 2019–20 published by Defra.

## Climate Adaptation

During 2019–20 we have completed ten new Climate Impact Risk Assessment Methodology (CIRAM) in addition to completing eleven 5-yearly reviews of CIRAMs previously undertaken. We have increased capability and capacity within the department by the developing and delivering training on climate resilience, promoting climate resilience in internal publications and the Sanctuary Magazine, and updating processes to ensure climate risks are appropriately identified and managed. This has included the development of a pan MOD Climate Resilience Maturity Matrix which will help assure that CIRAMs are being monitored, reviewed and correctly applied.

## Biodiversity & Natural Environment

The importance of the defence estate for wildlife, heritage and landscape is highlighted by the proportion of our estate that is within protected landscapes. The defence estate includes land in 13 different National Parks covering 31,020 hectares. In addition to this it includes land within 33 Areas of Outstanding Natural Beauty (England, Wales and Northern Ireland) covering 17,459 hectares and 11 National Scenic Areas (Scotland) across a further 1272 ha. Natural England has assessed 48% of the Department's English sites as in 'favourable' condition, comparing well to the English average of 39%.

As part of its Conservation Stewardship Fund (CSF) we directly invested £1.14 million in managing Sites of Special Scientific Interest (SSSIs) across our estate in the financial year 2019–20. In addition to SSSI delivery £186,000 of CSF funding was invested in projects to improve priority habitats and species and Local Wildlife Sites across the UK and £447,000 was invested in managing the natural environment overseas in Cyprus, Belize and Kenya.

We continue to work with Natural England and the other statutory agencies to achieve government targets for SSSI condition as part of its wider Natural Capital objectives. There was a small increase in the percentage of SSSI in both Favourable and Recovering condition in England in this period. SSSI condition data for Wales, Scotland and Northern Ireland did not change significantly due a pause in site condition monitoring in those countries.

## Historic Environment (Heritage)

MOD is steward of the largest historic estate in Government ownership, being responsible for a wide range of heritage and historic assets in the UK and overseas. The overall number of Scheduled Monuments under our management remains at 777 and Listed Buildings have

increased to 810. Protecting and improving assets classified as Heritage at Risk remains an important part of our work, and we have been working with Historic England and the devolved administrations to address this difficult issue. We have 57 assets in the Historic England Heritage at Risk register 2017–19. Further detail for MOD can be found in the Biennial Report into the Care of the Government Historic Estate 2017–19.<sup>26</sup>

## Access and Recreation

MOD follows a policy presumption in favour of public access wherever this is compatible with operational and military training uses, public safety, security, conservation and the interests of tenants.

This year has seen improvements to numerous community links and rural pathways to enable access for a wide range of users and abilities, encouraging active participation to improve physical and mental well-being. This has included the relaunch of the Imber Range Perimeter Path on Salisbury Plain. Originally opened as a long-distance footpath in 1962, this 30-mile route, set outside the busy Imber Range, is now also rideable on both horse and bicycle in its entirety. This work will be accompanied by steps to ensure Imber Range is a safe place to train, out of bounds to the public.

Digital and real-time platforms are used to inform our visitors about safe use of the estate. This year this has been enhanced through partnership work to extend our reach to a wider audience. Digital information is being endorsed and shared by key stakeholders to raise awareness and highlight how we are engaged and working with other agencies.



**Sir Stephen Lovegrove, KCB**  
Accounting Officer  
13 October 2020

<sup>26</sup> <https://historicengland.org.uk/images-books/publications/biennial-report-care-of-government-historic-estate-2017-19/>





# Accountability Report

For the year ended  
31 March 2020

**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

The Corporate Governance Report outlines the composition and organisation of MOD, what our governance structures are, and how they support our 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 tables overleaf 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 2019–20. They also include detail on the number of meetings attended during the year.

Ministers	Role	Defence Board <sup>1</sup>
The Rt Hon Ben Wallace MP (from 24 July 19)	Secretary of State for Defence	2 of 2
The Rt Hon Penny Mordaunt MP (to 23 July 19)	Secretary of State for Defence	1 of 1
The Rt Hon Gavin Williamson CBE MP (to 30 April 19) <sup>2</sup>	Secretary of State for Defence	0 of 0
Baroness Goldie (from 26 July 19)	Minister of State in the House of Lords	1 of 1
The Rt Hon The Earl Howe PC (to 25 July 19)	Minister of State in the House of Lords	1 of 1
Johnny Mercer MP (from 28 July 19)	Minister for Defence People and Veterans	0 of 1
James Heapey MP (from 16 December 19) <sup>3</sup>	Minister for the Armed Forces	1 of 1
Anne-Marie Trevelyan MP (to 13 February 20) <sup>4</sup>	Minister of State for the Armed Forces	0 of 1
The Rt Hon Mark Lancaster TD MP (to 15 December 19)	Minister of State for the Armed Forces	1 of 1
Jeremy Quin MP (from 14 February 20)	Minister of State for Defence Procurement	0 of 0

- As requested by SofS at the Defence Board Meeting of 12 September 19, all Defence Ministers became members of the Defence Board. The next meeting took place on 11 February 20, prior to this date only Defence Board members are listed (not all Ministers).
- Gavin Williamson did not attend a Defence Board meeting in 2019–2020 as the first Defence Board meeting did not take place until 18 July 19.
- James Heapey was appointed Minister for Defence Procurement on 16 December 19 and then became Minister for the Armed Forces on 14 February 20, he was a member of the Defence Board in both roles, starting from 16 December 19. The table shows his current role.
- Anne-Marie Trevelyan was Minister for Defence Procurement 27 July 19 to 15 December 19, then became Minister for Armed Forces from 16 December 19 to 13 February 20, she was a member of the Defence Board in both roles from September 19.
- The role of Parliamentary Under Secretary of State and Minister of Defence Procurement changed to become Minister of State and Minister for Defence Procurement in July 2019.
- The role of Minister of State for the Armed Forces changed to become Parliamentary Under Secretary of State and Minister of the Armed Forces in July 2019.

Non-Executive Members <sup>1</sup>	Role	Defence Board	People Committee	Defence Audit and Risk Assurance Committee
Lord Grimstone of Boscobel (to 26 March 20) <sup>2</sup>	Non-Executive Board Member	3 of 3		
Simon Henry	Non-Executive Board Member	2 of 3		5 of 5
Danuta Gray	Non-Executive Board Member	2 of 3	7 of 7	
Paul Skinner CBE (to 31 May 19) <sup>3</sup>	Non-Executive Board Member	0 of 0		
Laura Whyte	Non-Executive Member		5 of 7	
Helen Miles (from 2 January 20)	Non-Executive Member			1 of 1
Tim Walton (from 2 January 20)	Non-Executive Member			1 of 1
Paul Smith (from 1 November 19)	Non-Executive Member			2 of 2
Mary Hardy (to 12 September 19)	Non-Executive Member			3 of 3
Stephen Barrett (to 14 November 19)	Non-Executive Member			4 of 4

- Robin Marshall joined the Defence Board as Non-Executive Member on 1 June 20.
- Lord Grimstone left in March 20 and Brian McBride became Lead Non-Executive Defence Board Member on 1 June 20.
- Paul Skinner left prior to the first Defence Board of 2019–20 held in July 19.

## Accountability Report

Executive Members of the Defence Board and Executive Committee	Role	Defence Board	Executive Committee (ExCo)	Defence Audit and Risk Assurance Committee <sup>1</sup>
Sir Stephen Lovegrove KCB	Permanent Secretary	3 of 3	24 of 30	2 of 5
General Sir Nick Carter GCB CBE DSO ADC Gen	Chief of the Defence Staff (CDS)	2 of 3	23 of 30	
Admiral Sir Tim Fraser CB ADC (from 13 May 19)	Vice Chief of the Defence Staff (VCDS)	3 of 3	20 of 27	
General Sir Gordon Messenger KCB DSO* OBE (to 12 May 19)	Vice Chief of the Defence Staff (VCDS)		2 of 3	
Charlie Pate (from 12 March 20)	Director General Finance (DG Finance)		3 of 3	
Catherine Little (to 11 March 20)	Director General Finance (DG Finance)	3 of 3	26 of 27	5 of 5
Air Marshal Richard Knighton CB	Deputy Chief of the Defence Staff (Financial and Military Capability) (DCDS (Mil Cap))		24 of 30	
Lieutenant General Doug Chalmers DSO OBE	Deputy Chief of the Defence Staff (Military Strategy and Operations) (DCDS (MSO))		20 of 30	
Lieutenant General James Swift (from 27 February 20)	Chief of Defence People (CDP)		2 of 3	
Lieutenant General Richard E Nugee CVO CBE (to 26 February 20)	Chief of Defence People (CDP)		24 of 27	
David Goldstone (CBE) <sup>2</sup>	Chief Operating Officer (COO)		24 of 30	
Charlie Forte	Chief Information Officer (CIO)		27 of 30	
Angus Lapsley	Director General Strategy and International (DG Strat & Int)		21 of 30	
Dominic Wilson	Director General Security Policy		25 of 30	
Vanessa Nicholls (from 6 May 19)	Director General Nuclear (DG Nuclear)		21 of 27	
Nicole Kett (to 5 May 19)	Director General Nuclear (DG Nuclear)		3 of 3	
Prof Dame Angela McLean (from 2 September 19)	Chief Scientific Adviser (CSA)		13 of 18	
Dr Simon Cholerton (to 1 September 19)	Chief Scientific Adviser (CSA)		12 of 12	

1. The Terms of Reference of the DARAC indicate attendance by either DG Finance or Permanent Secretary.  
 2. Mike Baker took up the Chief Operating Officer role on temporary promotion in April 20.

## Directorships and Significant Interests

Details of directorships and other significant interests held by Ministers are set out in the Register of Lords' Interests and the Register of Members' Financial Interests which are available on the UK Parliament website at: <https://www.parliament.uk/mps-lords-and-offices/standards-and-financial-interests/>. The Department provides information to individuals who hold appointments in outside organisations where a conflict of interest might arise or might be perceived.

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

## 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 set out overleaf details of the Department's personal data related incidents during the year.

### 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
July 19	Sub-contractor incorrectly disposed of MOD originated material, leading to unauthorised disclosure.	Personnel and health data of former employees.	2
July 19	Unauthorised access to patient notes.	Health data (dental).	1
August 19	Loss of files identified during archiving process.	Criminal investigation files.	16
December 19	Details of the outcome of disciplinary action was disclosed in error to a third party.	Personnel and disciplinary data.	1
January 20	Unauthorised access to, and disclosure of, mental health data to a third party. Currently under investigation by Royal Military Police under the Computer Misuse Act.	Health data.	1
February 20	A recorded delivery package containing claim forms relating to five individuals was lost in transit between two stations. Notified on advice of ICO.	Personnel and health data.	5
March 20	A whistleblowing report that had not been properly anonymised was issued to the subject of the report. It was deleted 32 hours after being issued via email.	Partially anonymised personal identifiers of whistle-blowers, and their statements.	9
<b>Total number of incidents is 7</b>			

### Summary of Other Protected Personal Data Related Incidents

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.

Category	Nature of Incident	2019-20	2018-19
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	49	62
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	19	21
III	Insecure disposal of inadequately protected paper documents.	1	-
IV	Unauthorised disclosure.	454	352
V	Other.	23	28
<b>Total</b>		<b>546</b>	<b>463</b>

## The Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Ministry of Defence to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of and the use of resources, during the year by the Department. These accounts are inclusive of its Executive Agencies and its sponsored Non-Departmental and other Arm's Length Bodies (ALBs) designated by order made under the GRAA by Statutory Instrument 2020 No.17 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 20 to the Accounts). The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the Accounts, the Accounting Officer of the Department must comply with the requirements of the Government Financial Reporting Manual (the 'FReM') and in particular to:

- Observe the Accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Ensure that MOD has appropriate and reliable systems in place and procedures to carry out the consolidation process.

- Make judgements and estimates on a reasonable basis, including those involved in consolidating the accounting information provided by Non-Departmental and other ALBs.
- State whether applicable accounting standards as set out in the FReM have been followed and disclose and explain any material departures in the Accounts.
- Prepare the Accounts on a going concern basis.

Sir Stephen Lovegrove KCB was appointed as the Permanent Secretary and the Accounting Officer of the Ministry of Defence by Permanent Secretary of HM Treasury on 25 April 2016.<sup>27</sup>

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.<sup>28</sup>

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.

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27 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/884206/HMT\\_appointed\\_AO\\_MAY\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/884206/HMT_appointed_AO_MAY_2020.pdf)

28 <https://www.gov.uk/government/publications/mod-accounting-officer-system-statement>

## Accounting Officer Confirmation

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

The Annual Report and Accounts as a whole is fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

## The Governance Statement

### Introduction

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

I am supported in preparing the Governance Statement by:

- Insight into the Department's performance from Internal Audit, including an audit opinion on the quality of the systems of governance, management and risk control.
- Feedback from those senior individuals appointed as Function Leads, Defence Authorities and Top-Level Budget (TLB) Holders, each of whom is required to provide me with an Annual Assurance Report capturing key risks and outlining how relevant controls have operated during the year. These reports are distilled, and an overall independent assessment is provided by Defence Risk and Assurance (DRA).
- Information from the Department's ALBs on the performance of these organisations and their relevant boards.
- Independent advice from the Defence Audit and Risk Assurance Committee as to the effectiveness of the policies and processes in use in the Department.

COVID-19 has had a significant impact on the way we work in the MOD. As an employer the Ministry of Defence has an obligation to maintain a safe working environment for all personnel. From the outset we have put measures in place to ensure staff have access to the tools to enable them to work securely from home where appropriate and ensured that our offices are COVID compliant to provide a safe environment for those returning to the office. To ensure that all staff are aware of the latest guidance and policy, I and other senior leaders within the MOD are holding regular all staff calls so that everyone is able to understand first hand, how our ways of working have to be adapted to the unprecedented situation within which we found ourselves. A dedicated webpage has been maintained to keep staff informed of latest developments and provide guidance and advice on a wide range of policy and personnel issues. To ensure that we protect the Health and Safety of our workforce we have introduced a health and safety escalation policy to allow staff to raise any specific concerns. In line with Government guidelines, a risk assessment is required before any staff members are given approval to return to work.

The COVID-19 pandemic also has implications for the capability of industry to deliver Defence Outputs. We have increased our monitoring of the whole of the Defence Sector and we are working very closely with Defence Prime Contractors to ensure they are disclosing their responsibilities

to second, third and fourth tier suppliers. We are working closely with colleagues in the Department for Business, Energy & Industrial Strategy (BEIS), the Cabinet Office and HM Treasury in order to implement specific interventions for companies that are currently in very difficult commercial circumstances.

A number of changes to the board structure were introduced during 2018–19 and these are now fully embedded into the Department's Governance regime. The only significant change introduced during 2019–20 was the inclusion of all Defence Ministers as members of the Defence Board as requested by the Secretary of State. However in 2020–21 we intend to establish a Risk, Performance and Assurance Committee, to be chaired by me, which will be a formal sub group of the Executive Committee.

In January 2020, we launched the new Defence Operating Model (DOM) which explains how Defence works, including who at a senior level is responsible for what, and how key decisions are made.<sup>29</sup> The new DOM reflects changes made over the last two years including improved Defence-wide planning and accountability, clearer governance within Head Office, the introduction of Functional Leadership and new Sponsorship arrangements to allow MOD's 12 enabling organisations to operate effectively within Defence, but at arms-length from Head Office. This also reflected the results of a review undertaken of Joint Forces Command which validated the contribution of JFC since it was formed in 2012 and recommended that the organisation should take on an enhanced role in cyber, pan-command capabilities, space, training and coordination of joint operations. To reflect this broader contribution to defence, JFC was renamed as UK Strategic Command.

The Modernising Defence Programme (MDP) has established a set of policy approaches and capability investments that will help to keep us on track to deliver the right UK Defence for the

coming decade. In SR19 Defence secured an additional £2.2 billion over 2019–20 and 2020–21, enabling our world-class Armed Forces to begin to modernise and meet the ever-changing threat including prioritising investment in key capabilities, such as shipbuilding, offensive cyber and the nuclear deterrent.

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

### Significant Control Risks

#### Workforce and Skills

The ability of Defence to recruit and retain Suitably Qualified and Experienced Personnel (SQEP) in the key areas of engineering, commercial, Project, Programme and Portfolio Management (P3M) remains a significant challenge despite targeted programmes and improvements to policies and processes. Focus is also given to cyber and information skills reflecting national demand in these areas.

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

We have made progress to close the existing skills gap, secure new skills and improve resilience. The introduction of the Securing Skills in Defence

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<sup>29</sup> <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>



(SSiD) Programme will accelerate this work. SSiD will test how enterprise and agile approaches can be cohered pan-Defence to improve workforce flexibility across the Whole Force as well as wider industry. We are developing a comprehensive skills framework to support our workforce agility and are strengthening our Strategic Workforce Planning to better anticipate and identify the demand for these skills. As part of this we are bringing some skills that exist across all the Services (Cyber and medical) together into a Unified Career Management model which will improve the recruitment, delivery and retention of these personnel. Further, we are adjusting how we can better compete in recruitment markets for specialist skills by looking at improving entry of skilled personnel at different levels. Improvements made to the recruitment process to support candidates has led to a significant increase in the number of Armed Forces basic trained starts this financial year. Finally the department is taking an active role on a range of cross-government function initiatives such as those relating to finance, commercial, analysis and digital. In that respect MOD, is helping to drive and shape improvements to function performance and in many cases we are leading the debate.

The Flexible Service Law came into effect on 1 April 2019 with the aim to improve work/life balance, better meet the expectations of future Armed Forces recruits and provide more flexibility in future accommodation provision. We continue to modernise the “offer” to new Armed Forces recruits by improved targeting of pay and retention issues and diversity and inclusion. We have worked at pace to address the recommendations in the report on “Inappropriate Behaviours in Defence” published in July 2019.<sup>30</sup> Initial focus, following the Wigston report, has been on how we can reduce inappropriate behaviours such as bullying, harassment and discrimination. This has included a new Bullying, Harrassment and Discrimination (BHD) helpline for all in Defence which went live in September

2020, new training courses on active bystander awareness which went live in July 2020, revised policy and communications materials, and senior messaging. A team has been stood up to lead on the implementation of the recommendations outlined in the report.

The People Committee regularly reviews progress across these areas.

## Management of Change and Transformation

Across the whole of the enterprise, Defence is engaged upon a number of change and transformation initiatives of varying size and scale. Change brings many benefits but, when it is poorly managed or appears incoherent, it can carry significant risk. The ability of Defence to absorb, properly support, and coordinate these initiatives such that the result is a net positive remains a significant challenge, despite several governance structures that have been set up to manage individual elements.

Many of these transformation activities have been initiated in order to manage and reduce risk in other areas (e.g. workforce). Failing to address the risk of change means failing to properly mitigate risk in these areas and, as a consequence, there is a risk of cascade failure as many of those things the Department relied upon to solve problems in other parts of the business fail to deliver. Failure to deliver the Digital Transformation, for example, places at risk not only our ability to deliver the modern capabilities we need to support our operational commitments, but also our ability to recruit and retain the best people.

We have made significant progress this year to build a strong and stable foundation for our Transformation Portfolio that will allow us to manage a wider range of activities. The Department has already witnessed substantial transformation activity from within the TLBs

<sup>30</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/817838/20190607\\_Defence\\_Report\\_Inappropriate\\_Behaviours\\_Final\\_ZKL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817838/20190607_Defence_Report_Inappropriate_Behaviours_Final_ZKL.pdf)

and enabling organisations and we continue to mature strong links across Functional and TLB change portfolios. Our approach is putting the mechanisms in place to allow us to drive mutually reinforcing efficiencies by building a system that allows Defence, for the first time, to understand its landscape of change. We are also concentrating on achieving collectively agreed delivery milestones across the breadth and depth of the pan-Defence transformation sub-portfolios and programmes. This includes working with TLBs to understand what they need from functional transformation programmes.

A recent review by the Infrastructure and Projects Authority (IPA) which gave Transformation an Amber/Green rating has lended confidence to our assessment that we have built the structures and processes necessary to deliver success. The IPA made a series of further recommendations to strengthen Transformation in the Department and set the conditions for success. We are taking forward actions in response to all of the IPA's recommendations, taken together with the findings and recommendations from other independent assessments by Oliver Wyman and PwC over Summer 2020.

We have also made steps to understand the full scope of change activity across Defence, undertaking a comprehensive stocktake of what is already underway and developing a mechanism for aligning our activity against our ambition. We have also begun releasing funds to support investment and expansion in front-line capabilities, maintaining a strong focus on delivery of financial efficiency.

We are working on delivering a 'gear change' for Transformation, doubling down on the time invested to date and driving hard to deliver those improvements that offer significant benefit. In the Support Portfolio, for example, we have invested heavily in anticipation of significant benefit that will not only help to reduce financial risk in the Department, but also reduce risk to our capability and our ability to support our forces at distance.

Supporting all of this, we are placing considerable resource in delivering the cultural and behavioural changes that we need to make. It requires a lot of effort for people to respond to and make a success of changes and, as well as making sure that we do not overload our people with changes, we are looking to give them the tools and support to allow them to respond positively and productively.

The Transformation Board regularly reviews activity across all of these areas, supported by Transformation Programme Boards in the Functions and the Front Line Commands.

### Business and Financial Planning

We continue to work towards a sustainable, long term balance between the available budget and the cost of the Defence programme. This year, we have continued to build a common understanding of our baseline requirement and capability to better inform strategic decision-making and enable me to strike a long-term balance between this and the available resources. We have regular dialogue and information sharing with Senior Managers, enhancing transparency and a clear line of sight from approvals to spend profiles. In Spending Round 19 (SR19) Defence secured an additional £2.2 billion over 2019–20 and 2020–21, of which £1.5 billion was programme spending and £0.7 billion was for pensions. This is an increase of 2.6% above inflation for the period. This recognises the critical role Defence plays in ensuring the safety and security of the British people at home and abroad, in supporting our key allies, projecting our influence and promoting UK prosperity. Whilst this additional funding is much needed, the challenges faced are ever more complex, placing significant pressure on our resources. The annual nature of allocating funding continues to provide a significant challenge to an organisation with projects and programmes that span several financial years.

It is recognised that the additional investment incurred by the Government in supporting the

economy through the COVID-19 pandemic, will place additional spending pressures on Defence in the short to medium-term. We are continually reviewing the effects of these pressures on the existing Equipment Plan.<sup>31</sup>

Several programmes are underway, and these will, over the short to medium-term, result in an improved control framework, with streamlined processes which will ultimately enable us to achieve better value for money. These programmes include: Acquisition and Approvals Transformation the Transformation portfolio mentioned above and the implementation of Finance Functional Leadership Programme. The latter is focused on enhancing the capability of the finance function, including increasing the numbers of staff undertaking professional qualifications; designing a revised operating model for finance and embedding cultural and behavioural change. Another area of note is the creation of the Project Delivery Function which aims to improve the project delivery environment and skills in Defence. The function is collectively led by professionals across Defence to drive improvements on Senior Responsible Owner training and appointments, learning from experience, project delivery standards, project assurance and improving the overall maturity of portfolio, programme and project delivery in the Department. This work supports Number 10's Project Speed initiative to drive quality and pace in infrastructure projects. We recognise that this along with other areas of Functional Leadership (e.g. commercial and finance) is key to achieving the improvements we require in order to deliver the complex Defence programme.

## Commercial Capability and Governance

We are part of the established Government Commercial Function. The Department has strengthened its senior commercial leadership team through the Government Commercial Organisation (GCO), and this has an increased focus on activity across the acquisition life cycle, including Strategic

Supplier Management. A shortage of professional commercial staff remains an issue. We have strengthened the operating model for commercial to improve our overall commercial capability.

The Defence Commercial Function encompasses a community of circa 2,100 commercial professionals across Defence, embedded within Top Level Budgets and Enabling Organisations (around 50% of the total are in Defence Equipment and Support and the Submarine Delivery Agency), supported by a central Head Office team; and forms part of the wider established Government Commercial Function (GCF) community of circa 4,000 across Government.

Work is progressing under the People and Capability workstream to understand and analyse the future size and shape of the Department's Commercial Function. A Resourcing and Recruitment Strategy, a Strategic Workforce Plan and a Skills and Capability Model are all being developed in 2020–21. This will enable the Department to better forecast the staff and skills needed, ensure we attract and retain the best commercial talent and improve our diversity and inclusivity. The commercial Market Skills Allowance introduced at the end of 2018 is showing early signs of promise. We will build flexibility to meet fluctuations in demand and will establish arrangements with a Commercial Delivery Partner (CDP). The CDP skilled resource will progress the Departments commercial transformation and bring innovation so we can identify and exploit opportunities and realise savings from efficiencies.

A comprehensive training programme is progressing to test and accredit staff to evidence and achieve required professional commercial standards, further enhancing the Department's commercial skills and professionalism.

As reported last year, significant investment is being made in improving contract management capability across Government. The Department supports the pan-government Contract

<sup>31</sup> <https://www.gov.uk/government/publications/the-defence-equipment-plan-2019>

Management Capability Programme (CMCP), offering training and development to all staff who could benefit, in particular non-commercial staff responsible for the management of key contracts and supplier relationships. By April this year, over 2,000 staff have registered for that programme from across the Department, though the higher levels of training are currently suspended due to COVID-19.

In July 2019 the Defence Fire and Rescue contract was awarded to Capita Business Services Ltd, following an out of court settlement with Serco Ltd after a legal challenge. Considering this challenge, I commissioned an independent review to ensure that the Department learnt lessons from that acquisition process. The review has now concluded, and the report published.<sup>32</sup> I am pleased to say that the review found no evidence of bias in the treatment of the two bidders and concluded that the evaluation methodology was fit for purpose. However, it highlighted a number of deficiencies in the conduct and recording of the evaluation that made the procurement open to challenge and made recommendations to address them. Despite these issues it concluded it unlikely that a more robust process would have led to a different outcome from the competition. The Department is now implementing the recommendations.

### Strategic Suppliers and the Supply Chain

Our focus remains on understanding and monitoring supply chain fragility and risk, including gaining better visibility of our indirect supply chain and its impact on Defence outputs. Significant work has been completed to understand and plan for the impact of EU Exit and in mitigating risks with our strategic suppliers and our extended supply chain. This work was expanded to monitor and mitigate the potential impacts of COVID-19. 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 Subject Matter Expertise, spend and prompt payment performance. Further work aims to deliver improved performance and relationships with individual suppliers and our collective engagement with industry. The Defence Supplier Forum restructure is operating effectively under a rationalised number of working groups and this aligns with our vision. This structure is also used to engage with Industry on the Defence Security and Industrial Strategy (DSIS) review and Acquisition reform.

### Estates and Infrastructure

#### *Condition*

The Department continues to address the consequence of past approaches to the management and funding of the Estate. The Estate has approximately 134,000 built assets across 1,153 establishments spread globally. Almost half of the assets are over 50 years old with much of the estate in long-term decline with approximately 30% not in the condition which the Department considers acceptable. The focus this year has been on identifying and prioritising investment and delivering the next phase of the Future Defence Infrastructure Services, which will establish facilities management contracts, which will roll out from 2021. The Department is also investing significantly through the Defence Estate Optimisation Portfolio to deliver a more cost-effective, modern and capability-aligned built estate and critical infrastructure, with around £1.5 billion over the next 4 years planned for reinvestment back in the estate across the whole of the UK. The Portfolio also delivers wider Government objectives, including the release of public sector land for housing. In July 2020 the Chancellor announced an additional £199.83 million to improve Service

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<sup>32</sup> <https://www.gov.uk/government/publications/defence-fire-and-rescue-project-dfrp-independent-review-and-lessons-learned-report>

accommodation assets over two years. The funding will be targeted towards refurbishment of Service Family Accommodation (SFA) and improvements to Single Living Accommodation (SLA), including replacing accommodation on the Training Estate.

In November 2019, the Department invited the Independent Projects Authority (IPA) to review the Portfolio to provide an independent assessment of its current position and confirm the intended work required to ensure a sustainable position is re-established. The report's findings clearly recognised the rationale for the Portfolio and provided recommendations aimed at improving delivery. Following the IPA's return in May 2020, this subsequent review concluded that four of the five critical recommendations and one of the two essential recommendations are complete. The Portfolio's progress against the recommendations has uplifted the IPA's assessment from Red to Amber/Red. The remaining critical affordability recommendation, whilst substantively complete, requires further refinement to support requirements for delivery of a comprehensive plan in the event that the funding gap cannot be resolved. The Portfolio looks forward to completing these recommendations and providing evidence to the IPA in Spring 2021.

### **Infrastructure Function**

A maturity assessment of the infrastructure operating model in October 2019 showed an overall improvement since 2017 and identified areas for further development before the Department reaches the desired state. The Strategy for Defence Infrastructure is being updated and will set the future priorities. Progress has been made to align the current Operating Model with industry best practice (ISO 55000) for Asset Management. The update will clearly drive asset cost and performance and should allow understanding and management of risks to increase at the heart of all infrastructure activity. This is the next phase of improvement and remains a weakness in the Department's control framework for infrastructure.

The MOD Infrastructure Function was established at the beginning of 2020 to bring coordination and better manage activity across the estate. The estate and infrastructure are key strategic assets and the Function will aim to build capability to enable the systems and services to support delivery. Activity over the next year will further develop an infrastructure assurance framework to monitor maturity and progress of the Function, including Asset management, the operating model, and the Infrastructure Profession. A professionalisation plan, aligned to the Government Property profession, began implementation in December 2019 to improve skills across both military and civilian personnel involved in infrastructure. The plan includes developing a better understanding of the skills and development needs across the enterprise, growing the skills framework and common set of competences across civilian and military personnel, facilitating access to training for the infrastructure community, and developing graduate and apprenticeship programmes.

### **Contract Management**

This year, the Defence Infrastructure Organisation (DIO) conducted an Approval Review during August 2019 which highlighted several legacy contracts that were incorrectly registered as "live". All legacy contracts identified as "live" have been reviewed. We have successfully closed 828 contracts and currently have 84 contracts currently under contract closure activity. Remaining contracts have been extended or in "Handover & Close-Out" phase. The Government Commercial Function (GCF) Contract Management Capability Programme has been launched across MOD which will enable staff to undertake appropriate and accredited professional training underwritten by the Cabinet Office and aimed at enhancing skills especially amongst non-commercial staff. This is covered more generally in the preceding paragraphs. The initiative within DIO was in response to a known problem in that TLB, but over the coming 12 months we will extend the lessons from this activity into the wider business.

### **Strategic Management**

Following the termination of the contract with the Strategic Business Partner in June 2019, Defence Infrastructure Organisation (DIO) has achieved the transition to be wholly Civil Service-led and a new Strategy to set direction and embed change is being developed. Work to strengthen capability to enable delivery and advice to the Department will complete by the end of 2020.

### **Service Accommodation**

Providing good quality accommodation is one of the Departments top priorities, and we are committed to improving the accommodation offer for Service personnel and their families. In particular, the Department is taking action on the recommendations from the Public Accounts Committee Report on Military Housing in June 2019 on providing greater housing choice (through the Future Accommodation Model and widening eligibility to Service Families Accommodation (SFA)); managing the SFA estate more efficiently; continuing to invest in SFA improvement works; and by focusing on the Annington Site Rent Review to deliver the best outcome for Defence.<sup>33</sup> In April 2019 the Department strengthened governance over accommodation to better align and articulate accountability, responsibility and authority for Defence accommodation with requirements set by the Front-Line Commands.

Over 97% of Service Families Accommodation (SFA) are now either at, or exceed, the Decent Homes Standard with no properties allocated that fall below the standard. This year, our investment was £123 million bringing the total invested over the last 5 years to over £615 million. Work completed has included fitting external wall insulation, replacing windows, doors, roofs and boilers to improve thermal efficiency, installing new kitchens and bathrooms and general refurbishment. A total of 917 new builds have been delivered at Salisbury Plain to support Army re-basing from Germany, and 112 properties at Hereford, Thorney Island and Catterick. Improvements to the National Housing Prime contract previously reported have been sustained and although recent supplier problems have impacted progress slightly, confidence remains in the ability of the contractor to deliver the level of service expected by our Armed forces and their families.

Agreement reached in 2019 with Annington Property Ltd to streamline and accelerate the formal Site Rent Review process for the c38,000 properties currently leased will mean the Department can hand back a minimum of 500 properties per year for the next 7 years. This will assist in reducing the number of empty properties across the SFA estate and the level of void properties has reduced from 23.35% on 1 April 2019 to 21.5% on 31 March 2020.<sup>34</sup>

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33 The Chancellor's announcement in July 2020 of £200 million new funding for Service accommodation of which £122 million will be invested in improving Defence housing in 2020–21 and 2021–22.

34 The COVID-19 pandemic has imposed a number of constraints on our ability to manage SFA, leading to a slower than anticipated reduction in properties void rates against the agreed Departmental management margin.

## Health, Safety and Environmental Protection

The safety and wellbeing of all our military and civilian personnel is a priority. This commitment is set out in the Health, Safety and Environmental Protection (HS&EP) Policy Statement issued by the Secretary of State for Defence. It covers the health and safety of those who deliver Defence activities, including the Armed Forces, MOD civilians, and contractors, and those who may be affected by Defence activities. In addition, the Policy Statement sets out the MOD's commitment to protection of the environment.

In 2018, a review was commissioned to determine the optimal role for Head Office in relation to HS&EP and how this role should be discharged. The Review's recommendations were endorsed by the Executive Committee in January 2019. The new arrangements are reflected in a revised HS&EP Policy Statement which was agreed by the Secretary of State for Defence in April 2020. A new Head Office policy unit led by a new Director for HS&EP has been established to provide central oversight of the Departments safety policy, risk, and performance. It reached initial operating capability in April 2020.

The Defence Safety and Environment Committee (DSEC) was created during 2018–19, provides governance and is the principal forum for reviewing and directing the overarching policy and regulatory framework. The DSEC will ensure consistency in the management of the policy and oversee performance and risk management, ensuring these are reflected in the Defence Planning process and resourced appropriately. At its inaugural meeting on 24 April 2019, the

DSEC endorsed and prioritised work to address the shortfalls in management information. The Director HS&EP has been tasked to establish a system of consistent, timely, and accurate safety management information, based on a suite of input and output metrics to provide assurance over performance and risk. A business case is being developed for a new Health and Safety Reporting System but it will require resource to be agreed. The Director HS&EP developed a Functional Strategy that incorporated an implementation plan, it was widely consulted and approved by the DSEC and the Executive Committee (ExCo), it was published in July 2020. A key objective of the Functional Strategy is to strengthen the safety culture across Defence, including transparency and the 'tone from the top'.

An important element of our HS&EP construct is the role of the Defence Safety Authority (DSA), which provides independent regulation and assurance. A revised DSA Charter was signed by the Secretary of State for Defence in April 2020 to reflect the new Head Office arrangements. It confirms the DSA's independent status and ability to challenge Defence institutions to improve the safety of our people. The DSA also carries out independent Service Inquiries (SIs) into serious incidents, providing reassurance to individuals, families, the Department and the public that lessons will be identified, and failings corrected.

Alongside the DSA, our relationship with the Statutory HS&EP Regulators is critical to ensuring the Departments policy reflects international best practice. In support of this, my intention is to agree a new Memorandum of Understanding with the Health & Safety Executive (HSE) to reflect the new arrangement in Head Office.

### Management Information

Good progress has been made in establishing a multi-year programme to improve the ability to deploy modern information and digital technologies to improve Defence outputs. The programme extends across the Department and will ensure that data is accessed and used as a strategic asset to improve management insights and better, faster decision making in all domains. The new Digital and Information functional strategy will drive an integrated response and will address risks to information protection and resilience of operations by implementing a new data management plan, building a stronger cyber defence, implanting a modern digital technology platform and ensuring the right skills are in place to support Defence's ambition. The priority last year was to establish a single, cohesive functional approach, to build centres of expertise in cyber, data and analytics and to begin the design and build of the common digital backbone platform. The teams have been re-structured, and we have successfully recruited internally and from across Government and industry ensuring we have multi-discipline talent to drive exploitation. There is a great deal to do in this key area for the Department, we need good quality information to underpin informed decision making. The foundations are in place and we plan to progressively reduce risk and deliver new value as an iterative process.

### Business Resilience

Last year we reported that improvements in resilience had been integrated into Defence Planning and a new Security and Resilience governance structure was embedded, successfully mitigating this as a significant control risk. With the United Kingdom's response to the COVID-19 pandemic accelerating in March 2020 our business resilience was put to the test in the most exceptional of circumstances.

### Cyber

The Department's cyber risk continues to be complex, evolving and escalating at pace: as a consequence, this risk is subject to active management by a dedicated team and very high levels of vigilance and governance. The Department has an interconnected portfolio of military capability and cyber risk has the potential to impact our ability to protect and defend the UK. We continue to apply a risk-based approach to managing threats, allowing agile responses to the way we design and protect our systems. This year we have established a new Directorate of Cyber Defence & Risk and through this we have significantly enhanced our understanding of the Cyber risk landscape, unifying the management and response activity across the Department under a single framework. We have worked to bring forward implementation of new capabilities and expanded scope in other areas allowing us to improve real time cyber situational awareness so that our core IT and communication systems are better protected.

We have continued, with our partners across government, allies and industry, to strengthen supply chain cyber security, build robust security into our new military capabilities and, introduce a Departmental campaign to enhance cyber awareness. We believe we have an approach which balances protection and collaboration and allows us to deliver effective, current and enduring responses to a dynamic risk profile.



## IT Obsolescence

IT obsolescence affects system support, safety, performance, reliability, through life costs and limits our ability to fully exploit information. A number of themes contribute to the Department's obsolescence challenge: rapidly changing technology and shorter lifetime of components; systems running beyond their planned out-of-service date; the increasing need to manage the Defence estate as a single entity with strong inventory management operations processes that deliver on shorter cycle times. This year we have reset and enhanced our risk management approach, working across Defence and with suppliers to establish stronger controls delivering a more proactive stance. We have strengthened governance, improved understanding of the size and scope of the challenge, implementing clear Defence wide operations processes with clear compliance expectations and are prioritising specific risk mitigation actions to remove or reduce known risk exposures. New systems and services are subject to more stringent technical design authority scrutiny which ensure through life management plans are in place from the outset and with evergreening where appropriate. This topic will remain a priority for increased investment in technology, management process maturity and skills uplift as we build a modern and secure digital backbone on which we intend to exploit digital for transformed military and business outcomes.

## Physical Security of Assets and Infrastructure

Governance over the security of assets and infrastructure and the effectiveness of performance assessment arrangements has continued to improve, enhancing oversight of threats, risks and mitigating actions. Adherence to HMG's Security Policy Framework for Physical Security Guidance provides the Departments overarching framework, supported by Counter Sabotage and Operational Resilience Surveys to accurately identify critical assets and assess the quality of the security protecting them. The use of a Guarding Assessment tool provides consistency to how we guard our sites and continues to improve how we protect our critically important assets and infrastructure.

## COVID-19 Pandemic

The impact of the COVID-19 pandemic on the Department and the United Kingdom is recognised but its extent and enduring impact is not yet fully known. We took immediate steps to protect the welfare of staff, re-prioritising tasks as necessary, maintaining an appropriate level of control over payments, including interim payments to suppliers (in line with authority given by Cabinet Office and HM Treasury). We ensured critical outputs to protect the United Kingdom would be delivered and that we could also provide support to the wider Government response. Costs will be incurred recovering and re-engineering business processes and working practices to account for the requirements of social distancing and these, as well as the effects on our people, are being monitored. The Pandemic led to the Department standing up its Business Continuity Plans. We will have lessons to learn but initial assessments show we have been successful and agile in delivery.

## National Audit Office Management Letter

The NAO Management Letter on the audit of the 2018–19 MOD financial accounts reported a relatively high level of audit sample error arising from enduring weaknesses in the management of the Statement of Financial Position within the Department although recognised that some historic issues had been addressed by prior period adjustments. It also acknowledged that the department was implementing improved processes in 2019–20 including the embedding of documented and regular senior management review of the Statement of Financial Position by all business areas and improved management information to support targeted review of areas of specific weakness. These are examples of some of the practical actions being taken as part of the broader delivery of the Finance Functional Leadership and Financial Management Improvement Plans which are substantive business transformation initiatives being progressively delivered over a 3 to 5 year period.

The Finance Committee regularly reviews financial accounting and audit risks and issues. This includes progress with the implementation plan for adopting the new lease accounting standard (IFRS 16) by the April 2021 effective date set by HM Treasury. The departmental accounts are the subject of a long-standing audit qualification on lease accounting and the introduction of the new standard provides an opportunity to resolve this matter.

### Accounts Qualification

MOD has not complied with the IFRIC 4 requirement in the Financial Reporting Manual to

assess its supplier arrangements to determine whether they have the characteristics of a lease and if so to classify leases as operating or finance leases in accordance with IAS 17. The Department has decided, with the support of HM Treasury, not to implement IFRIC 4 for existing contractual arrangements, as it does not represent value for money, given the complexity, time and considerable costs involved in doing so. The Department policy is to implement IFRIC 4 for new contracts which involve single use contractor sites under one Departmental contract. As a result of this decision, MOD's accounts have continued to receive a qualified opinion in respect of the material omission of assets held under finance leases and the associated liabilities that should be recognised under IAS 17.

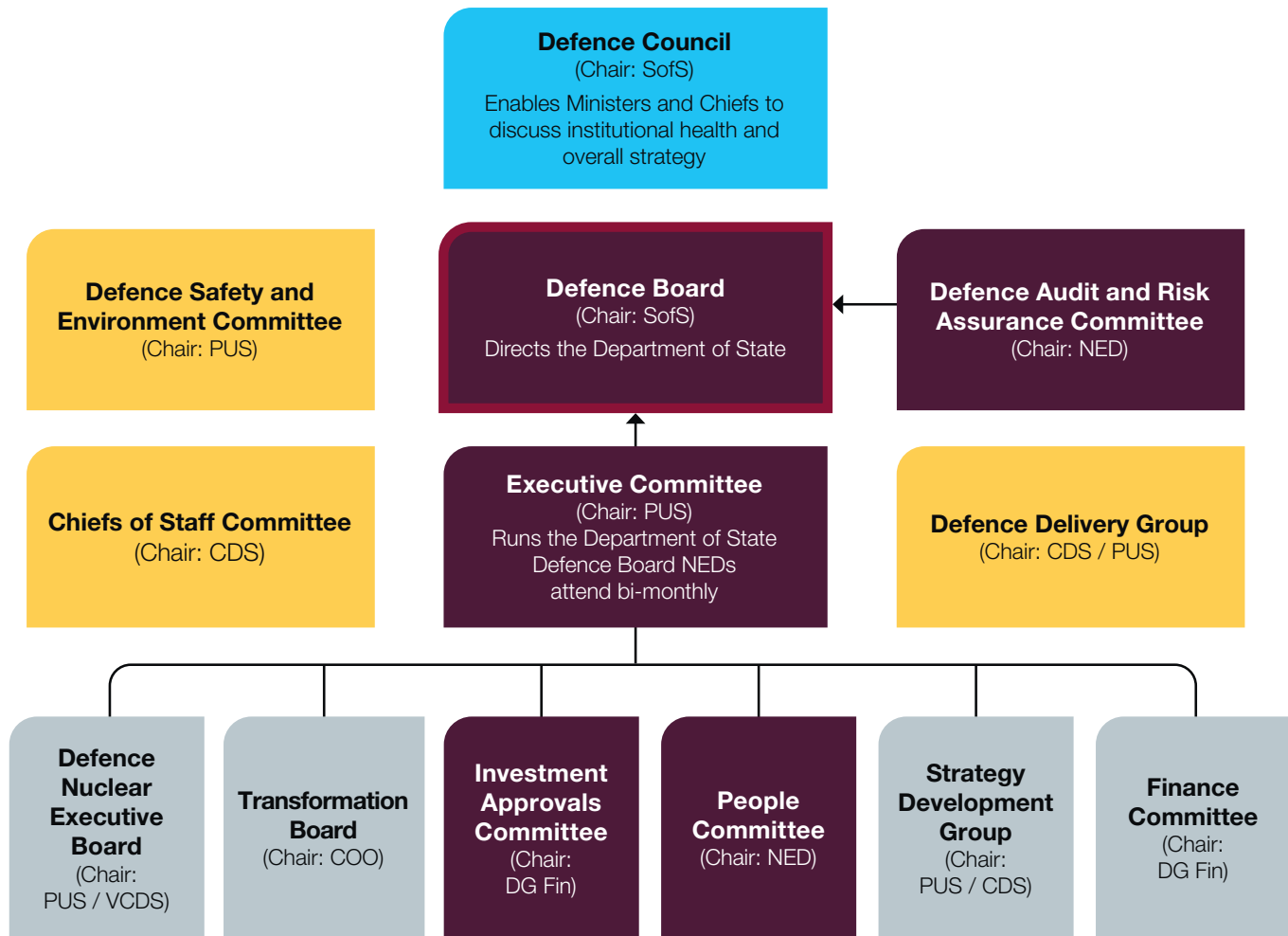
A new accounting standard on leases (IFRS 16) will be effective from 2021–22 onwards, noting that adoption was deferred 12 months to 2020–21 by HM Treasury due to the impact on public bodies of the COVID-19 pandemic. The Department is working towards establishing the quantitative impact of the introduction of IFRS 16 and aims to have completed its assessment later in the year. Further details are included within 1.12 to 1.21 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 following diagram details the MOD Board structure and its sub-committees.

Defence Board Sub-Committees and the Executive Committee



■ **Standalone advisory bodies**
■ **Formal subcommittees of the Defence Board**

Not all other committees are shown, but all will escalate their business to, and formally report to, ExCo.

### Defence Council

Created by Letters Patent in 1964 and is essential to the legal functioning of the MOD. Via powers of prerogative, it gives the Secretary of State the ability to administer and command the Armed Forces by the Service Boards.



#### Membership

Chaired by SoFS, attended by Defence Ministers, Perm Sec, CDS, VCDS, DG Fin, 4 NEDs.

#### Frequency

As requested by the Secretary of State

#### Summary of discussions

Defence Council did not meet during 2019-2020.



### Defence Board

Provides top-level strategic leadership of the Department, focusing on strategy and plans for generating military forces, including financial planning, performance against those plans, and risk.

#### Membership

Chaired by SoFS, attended by Defence Ministers, Perm Sec, CDS, VCDS, DG Fin, Lead NED and 3 NEDs.

#### Frequency

Normally 6-8 times per year

#### Summary of discussions

Refreshed its view of strategic risks at the start of the year and received regular reports, combined with risk profile and the shorter-term delivery risks to the current Defence Plan. Visibility of the key risks being managed by the TLB Holders and Defence Task owners. There was a reduced number of meetings this year, largely due to the suspension of Parliament for the election. The meeting scheduled to take place in March 2020 was cancelled due to the Coronavirus pandemic.



### Executive Committee

Provides top-level leadership across Defence, as a Department of State, by: Owning the operating model of Defence and managing its risks; Agreeing plans for delivery of defence objectives; Ensuring coherence; Leading transformation. Drives the annual Defence Plan.

#### Membership

Perm Sec (Chair), CDS, VCDS, MOD Directors General, DCDS(MI Cap), DCDS(Mil Strat Ops), CSA, CIO, CDP.

#### Frequency

Fortnightly (except August)

#### Summary of discussions

Key decisions on cross cutting issues including main elements of the Single Departmental Plan, Defence Infrastructure Model, Corporate and Future Defence Business Services, Diversity and Pay and more recently to discuss and manage the impact of COVID-19. Met 30 times during 2019-20.

### Defence Audit and Risk Assurance Committee

Reviews and challenges the Department's approach to internal control and provides independent advice both to the Defence Board and Permanent Secretary, as the Accounting Officer, on the effectiveness of the policies and processes in use. Main focus is to assure the integrity of financial reporting and effectiveness of risk management, and to advise on the Department's transformation activities. Provides assurance that financial reporting, systems, risk and internal controls and processes are designed effectively and are operating as they should.



#### Membership

A Non-Executive Director Chair who is a member of the Defence Board, 3 Non-Executive Directors.

#### Frequency

Normally 6 times per year

#### Summary of discussions

Focus on the Department's Transformation programme, specifically Digital and IT and the Acquisition process in addition to the Defence Operating Model and Fraud and Corruption. Reviewed the Departmental Annual Report and Accounts, Governance Statement and progress of key audit issues. The Committee was satisfied that the Governance Statement reflected the aggregate assessment of assurance from the TLB Holders, Defence Authorities and Functional Owners. Met 5 times during 2019-20.



### Investment Approval Committee

Responsible for considering major investment proposals on behalf of the Defence Board

#### Membership

DG Fin (Chair), VCDS, COO, DCDS (Mil Cap), CSA, CIO, NED (for in-committee cases only).

#### Frequency

Monthly

#### Summary of discussions

During 2019-20 the IAC considered a broad range of projects, including: Dreadnought and Astute-class submarines, Armed Forces Recruitment Programme, Type 31 Frigate, Mechanised Infantry Vehicle (Boxer), SkyNet 6 (Future UK Military Satellite Communications Capability), Next Generation Communications Network, MODNET Evolve (MOD Networks Evolve), Global Connectivity, UK Military Flying Training System and Future Combat Air System. Met 14 times in 2019-20.

### People Committee

Provides Departmental direction, guidance and oversight on all strategic Defence people and training matters, oversees the delivery of the People Change Portfolio and holds CDP to account for delivery and for his role as the Defence Authority for People. It also assures the Defence Board that people issues are being appropriately managed.



#### Membership

A Non-Executive Director Chair who is a member of the Defence Board, CDS, Perm Sec, VCDS, CDP, DCDS (MI Cap), COO, DG Fin and one non-executive member.

#### Frequency

Normally 6-8 times per year

#### Summary of discussions

Discussed and continued to take decisions on the main elements of the Armed Forces People Programme, including Flexible Service and gender balance within the Military. It has also held in-depth examinations of the Department's performance on recruitment, retention and has conducted a broader culture review to underpin diversity and inclusion. Work to review and implement the recommendations of the Wigston report continues along with a review of the Service Complaints procedure. Met 7 times during 2019-20.

### Defence Safety and Environment Committee

Provides a clear focus for the governance of Health, Safety & Environmental Protection within Defence and a forum in which pan-Defence performance, risks and issues can be addressed.

#### Membership

Perm Sec (Chair), VCDS, CAS, CGS, CNS, CEO DE&S, CE DIO, DG Nuc, CE Dstl, CE SDA and one Non-Executive Director, DG DSA (attendee only).

#### Frequency

3 times a year

#### Summary of discussions

Provides a clear focus for the governance of HS&EP within Defence. Its focus has been on the HS&EP functional strategy the safety Annual Assurance report and the transition of the new HS&EP team. Met 3 times during 2019-20.

### Chiefs of Staff Committee

Brings together professional and informed military judgment to the core decision making processes in the Department. Principal means through which the Chief of the Defence Staff (CDS) gathers the collective military advice of the Service Chiefs in advance of other governance meetings in CDS's role as the professional Head of the Armed Forces.

#### Membership

CDS (Chair), VCDS, CAS, CGS, CNS, Comd UK Strat Com

#### Frequency

Fortnightly (except August)

#### Summary of discussions

Principle topics of discussion have been on operations and Strategic Frameworks for operations, The People Transformation Programme and associated workstrands, including Diversity and Inclusion and capability discussions in advance of the Integrated Review and Spending Review. Met 21 times during 2019-20.

### Defence Delivery Group

Established to engage all relevant stakeholders, not just TLB Holders, and develop mutual understanding of priorities and planning, to provide context, to collectively hold to account those responsible for delivery, and to help drive transformation.

#### Membership

Perm Sec & CDS (Co-Chairs), VCDS, CAS, CGS, CNS, Comd UK Strat Com, CEO DE&S, CE DIO, DG Fin, COO, DG Sec & Pol, DCDS (Mil Cap), DCDS (Mil Strat Ops), DG Strat&Int, DG Nuc, CSA, CIO, CDP.

#### Frequency

Monthly (except August)

#### Summary of discussions

The focus has included the Transformation programme, specifically Digital and IT and People in addition to Diversity and Inclusion and the Union. Met 5 times during 2019-20.

### Strategy Development Group

Integrates long term thinking and strategic planning and enables MOD to develop its own position on defence and security matters to inform National Security Council (NSC) discussions.

#### Membership

Perm Sec & CDS (Co-Chairs), VCDS, DG Strat&Int, DG Sec Pol, DCDS (Mil Cap), DG Fin, DCDS (Mil Strat Ops), CDP, COO, CSA, CDI.

#### Frequency

Monthly (except August)

#### Summary of discussions

The focus has been the Comprehensive Spending Round and the Integrated Review. Met 10 times during 2019-20.

### Transformation Board

Receives regular updates on the development of the four Functional Transformation Portfolios (People, Support, Digital & Information Technology, Acquisition) and provides endorsement/approval for pan-Defence transformation activities.

#### Membership

COO (Chair), DTrans, Air-DCoMCom-AMP, VCDS, CDLS, DCGS, UKStratCom-DCoM-AMA, CEO DIO, CIO, DE&S SE-DG, FMC-DCDS(MilCap), SPO DGSec&Pol, DG Strat&Int, 2SL, DG Fin, GDP.

#### Frequency

Monthly

#### Summary of discussions

Key discussions made were: (i) to agree a new risk & maturity methodology for understanding financial benefits; (ii) to agree the recommendations of the Oliver Wyman review of the Modernising Defence Programme; (iii) to agree the allocation of the Modernisation Fund and contents of the Transformation Portfolio. The launch of the Empowerment Programme was regularly discussed to tackle the cultural barriers embedded across Defence. Met 12 times in 2019-20.

### Defence Nuclear Executive Board

Deals exclusively with nuclear-related matters, provides a forum to oversee and assure the delivery of Continuous at Sea Deterrence (CASD) and the associated Defence Nuclear Enterprise on behalf of the Defence Board. As part of the assurance function the chairs hold to account DG Nuc for the delivery of the Defence Nuclear Enterprise, and the First Sea Lord and the Second Sea Lord for the delivery of CASD and the in-service elements of the Enterprise. DNEB is a sub-group of the Defence Board.

#### Membership

Perm Sec & VCDS (Co-Chairs), DG Nuc, 1SL, 2SL, DG Fin, DCDS(MilCap), DG Strat&Int, CEO SDA, CSA(Nuc).

#### Frequency

Monthly

#### Summary of discussions

Security classified discussions on topics to support assurance and oversight of the delivery of CASD and the associated Defence Nuclear Enterprise. Met 11 times in 2019-20.

### Finance Committee

Ensures delivery of a balanced budget and coherent programme, supporting DG Finance as Finance Function Owner in overseeing effective financial management. It is the key forum for Finance Directors and senior Head Office finance staff to discuss and agree actions on strategic financial management issues and other finance matters, supported by a monthly Management Information pack, the single version of MOD's financial performance.

#### Membership

DG Fin (Chair), D Financial Planning & Scrutiny, ACDS - Capability & Force Design, Directors of Finance - Navy, Army, RAF, DNO, DIO, StratCom, Head Office & Strat Prog, CIO, SDA, DG Res DE&S, CCO, DFinStrat, D Analysis, D Assurance and Head UK Government Investments.

#### Frequency

Monthly

#### Summary of discussions

Financial Management discussion supported by monthly MI Pack, Net Cash Requirement, multi-year planning and Spending Round, Efficiency and Transformation, Financial Statements and audit programme, Supplier Priorities and relationship with MOD's strategic suppliers. Met 10 times in 2019-20.

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

*Defence has faced a number of challenges over the past year in the build up to the EU exit and preparation for both the Integrated Review and Spending Review. As we approach the end of the year the Department is now fully engaged along with the rest of Whitehall in supporting the nation's efforts to tackle the Coronavirus pandemic.*

*In the last 12 months Defence Board agendas have included preparing for EU Exit, reflecting the continued need to develop plans for the period up to the end of January 2020. The Board also continued its focus on managing performance and risk, and undertook deep dives into industry, cyber and emerging threats. The Board also discussed Diversity and Inclusion to help ensure that the Department continues to drive forward important initiatives in that arena.*

*The Department has had three different Defence Secretaries this year which has led to some disruption in the Board's operating rhythm. However, it is pleasing to record that the Board's Committees (Audit & Risk, People, Investment Approvals) continued to function effectively with full Non-Executive Director (NED) involvement. Likewise, the NEDs have had very significant interaction with the Department's Executive Committee and have been involved in supporting senior colleagues (both civilian and military) across a wide range of topics. A refresh of the Defence Board NEDs will help reinvigorate the agenda and bring a new set of perspectives to the discussions. This refresh will include the appointment of a new Lead NED as I stepped down from the role in March on being appointed the Government's Minister for Investment. It has been a privilege to serve the MOD in different roles for over 20 years. During my time I have seen the MOD deal with many complex and evolving threats, and I leave during a period of extreme*

*global uncertainty that will test the Department's ability to make best use of the skills and experience of its staff. The coronavirus pandemic will no doubt change many things about how the world operates but I am confident that the MOD will rise to the challenge supported by the skills and dedication of the NEDs throughout Defence.*

Lord Grimstone of Boscobel<sup>35</sup>  
26 March 2020

### Review and Challenge

There is a cross-government requirement to conduct an annual board effectiveness review. Although a formal annual board effectiveness review was not conducted for 2019–20 as a result of the COVID-19 pandemic, the MOD has completed a return to the Cabinet Office from the Lead Non-Executive Board member, which in summary reported that the Board's Committees (Audit & Risk, People, Investment Approvals) continued to function effectively with full and appropriate involvement from NEDs.

To prevent group-think and to ensure challenge is embedded in the heart of the business, a number of senior Boards and Committees within Defence, including the ExCo and some of the Service Command Boards, operate a shadow or Challenge Board system. This is where more junior members of staff meet ahead of the main Board or Committee to consider the same agenda items. The Challenge Boards then submit their comments on each item to the main Board and two members attend in person to reflect the views and opinions raised.

Performance and Risk Review meetings are held quarterly to review the performance of the Commands and Enabling Organisations through a formal challenge and support session between the Head Office and the Chief or Chief Executive. The Defence Nuclear Organisation Performance and Risk Reviews are conducted as part of the Defence Nuclear Executive Board agenda.

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<sup>35</sup> Lord Grimstone of Boscobel to March 2020, Brian McBride became Lead Non-Executive Defence Board Member on 1 June 2020.

## 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, UK Hydrographic Office (UKHO), which is outside the Departmental accounting boundary. The Chief Executive is an Accounting Officer in his own right and prepares a Governance Statement for their Annual Report and Accounts.

Non-Executive Non-Departmental Public Bodies (NDPBs), the National Museum of the Royal Navy (NMRN) with Executive Functions, the National Army Museum (NAM), the Royal Air Force Museum (RAFM), the Single Source Regulations Office (SSRO), the Armed Forces Covenant Fund Trust (AFCFT) are sponsored by the Department and fall within the Departmental accounting boundary. Each has an Accounting Officer appointed by me and produces an Annual Report and Accounts. In addition, there are a number of NDPBs with Advisory Functions, details of these are held within the Accounting Officer Systems Statement (AOSS). Full details of all the accountability relationships within the MOD are included in the Accounting Officer Systems Statement<sup>36</sup> which is updated and published annually. International Military Services Limited (IMS) became a Designated Body of the MOD from financial year 2019–20.

## Functional Leadership

Functional Leadership best practice is being rolled out across Defence. This includes eight core Government functions, such as Finance and Commercial, as well as a number of other cross-cutting activities specific to Defence, such as Support and Infrastructure, that the Executive Committee judges need to be carried out in a

coherent way across all of the organisations in Defence. Each function is led by a 3\*/Director General-level Functional Owner.

The functional approach has in most cases replaced the previous Defence Authority framework; arrangements for former Defence Authorities that will not become functions are being considered as part of the implementation.

Functional Owners (and remaining Defence Authorities) are held to account for how effective their function is, how proportionate its rules are and its development to reflect changes to regulation or strategic direction. Each Functional Owner is required to provide me with an Annual Assurance Report capturing risks and outlining how relevant controls have operated during the year.

## The Risk and Control Framework

The Department's overall approach to risk management is summarised in 'How Defence Works'.<sup>37</sup> 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, ensuring the control framework operates effectively,
- Third, providing reasonable (not absolute) assurance to the Permanent Secretary and the Defence Board of the overall effectiveness of the control framework.

<sup>36</sup> <https://www.gov.uk/government/publications/mod-accounting-officer-system-statement>

<sup>37</sup> <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>

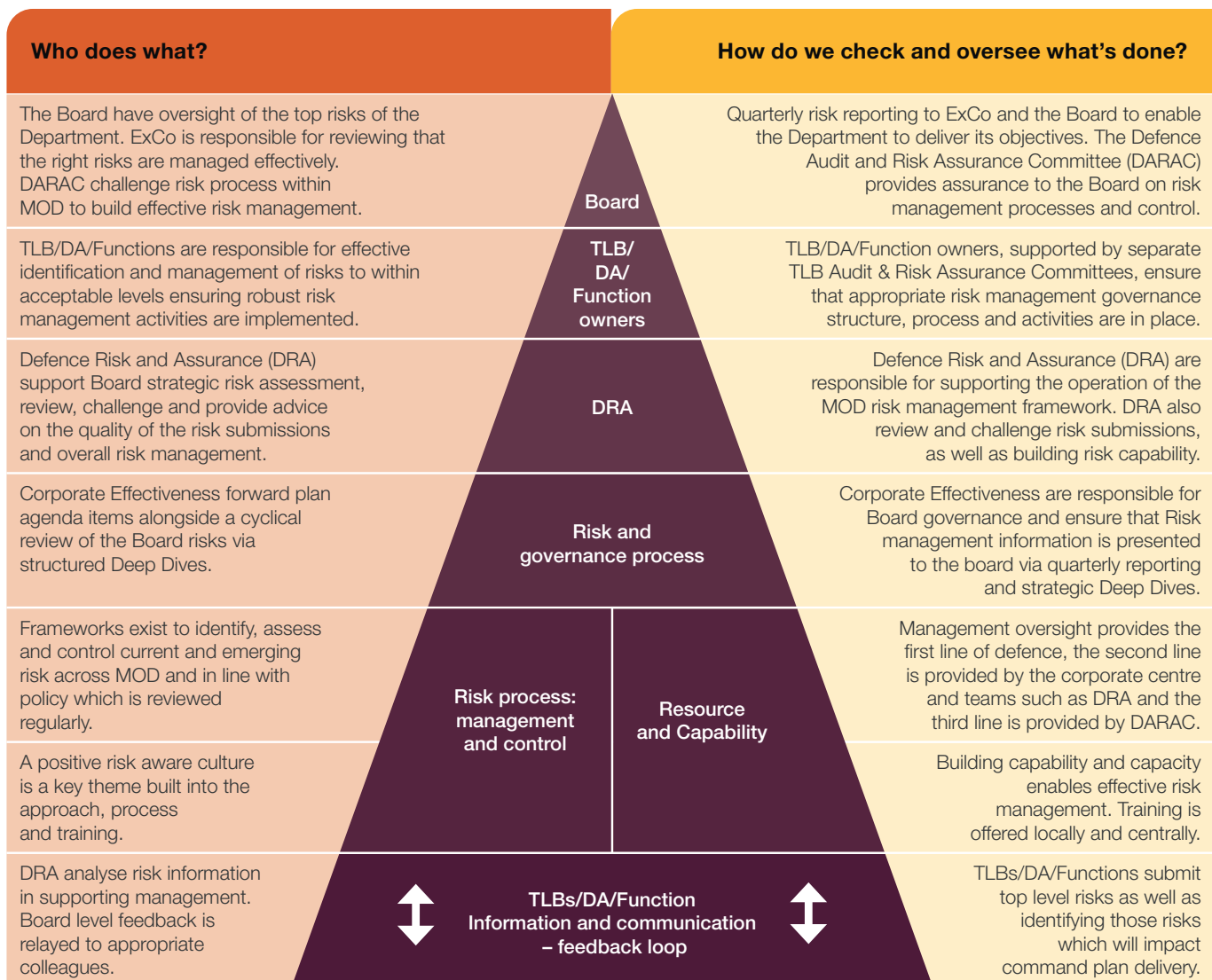
# Accountability Report

An internal Joint Service Publication sets out the mandatory requirements for risk management activities within the MOD. This is currently being refreshed to align with current capability and wider risk management best practice.

The detailed list of risks is not published for reasons of national security, but it includes risks 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 effectiveness of governance arrangements.
- The affordability of the vision for Defence.
- The failure of industry in delivery of outputs.
- Protection of our assets and people, including from cyber-attack.
- A disruptive event such as a terrorist attack on our personnel and assets.

## Risk Management Framework





The risk management framework continues to mature and remains fully aligned to the Cabinet Office's guidance on the Management of Risk in Government,<sup>38</sup> which was published in January 2017. The framework and principles have also been assessed as being broadly compliant with the principles contained in the Orange Book,<sup>39</sup> published in January 2020, with an action plan in place to strengthen compliance where necessary.

When the ExCo and the Defence Board review the regular risk reports they confirm whether the risks currently assessed, and their expected assessment once the benefits of funded activities are realised, remain tolerable or whether investment should be re-balanced to ensure the risks remain within the Board's risk appetite.

The Department has continued to operate the Annual Assurance Reporting process which uses a standard reporting template supported by a questionnaire, assurance map and assurance plan which covers key governance, risk management, assurance and internal control matters. These are completed by the TLB Holders, Function Leads, Defence Authorities and Arm's Length Bodies. For the TLBs, these are reviewed by their Audit Committees. Defence Risk and Assurance (DRA) reviews all Annual Assurance Reports and provides a briefing note to aid the scrutiny process which is undertaken by the relevant Management Boards and Audit Committees. In addition, DRA has produced an overall Departmental Annual Assurance Report for me and the DARAC highlighting key internal control issues. DRA has provided an overall opinion of 'limited assurance' for 2019–20. This opinion remains the same as reported in 2018–19, however, steps continue to be taken and robust processes have been implemented to strengthen risk assurance reporting in Defence. The key internal control issues and management action 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.

TLB Holders and Enabling Organisations, except for Defence Nuclear Organisation (DNO), are supported by an Audit Committee or equivalent, which is chaired by a Non-Executive director and at which representatives of the internal and external auditors are present. These Audit Committees focus their activities on providing advice on wider business risk and assurance processes. The DARAC meets the Chairs of the TLB and large Enabling Organisation Audit Committees twice a year. DNO were due to stand up their Audit Committee in early 2020, however, due to the COVID-19 pandemic it has been postponed. DNO's TLB Board has reviewed the Annual Assurance Report, in the absence of the planned Audit Committee, to ensure it is appropriately scrutinised. Furthermore, SDA have an Audit Committee which has reviewed the DNO's Annual Assurance Report for 2019–20, covering elements of DNO's overarching deliverables.

Other sources of independent assurance include the Defence Internal Audit, Defence Safety Authority, the Health and Safety Executive, the Single Source Regulations Office, Care Quality Commission, OFSTED and the NAO.

### Opinion of Group Head of Internal Audit (GHIA)

Overall, the opinion provided by Group Head of Internal Audit (GHIA) for 2019–20 is one of Limited Assurance.<sup>40</sup> There has continued to be an increase in the number of internal audit assignments which received a substantial assurance opinion. Internal Audit work identified that core controls reviewed in Finance, Commercial and selected People

38 <https://www.gov.uk/government/publications/management-of-risk-in-government-framework>

39 <https://www.gov.uk/government/publications/orange-book>

40 Limited: System of internal control operating effectively except for some areas where significant weaknesses have been identified.

processes were largely operating effectively. However, the following key themes were identified in the annual internal audit report:

- Weaknesses in Digital and Cyber relating to risk management, the operation of end to end processes and the availability of key skills and experience.
- The need for a sustained improvement in Project Delivery controls to ensure the embedding of key principles across the Department.
- The need to continue to develop the Department's second line of defence, with further focus on developing processes to implement, monitor and assure compliance with good practice.
- Core financial controls appear to have been adequately maintained, despite the impact of the COVID-19 crisis and changes to working practices.

### Quality Assurance of Analytical Models

The Department has well established arrangements in its core analytical areas and we have continued to test and build on these in the last year.

In line with the delegated model recommended in the Levene review, quality assurance in MOD is delegated to individual TLBs and ALBs. This works particularly well as the different TLBs and ALBs produce different types of model which require different types of quality assurance. Head Office works with the TLBs and ALBs to help facilitate and develop these processes and to share best practice.

Consequently, different areas of Defence have different quality assurance arrangements in place. For example, critical business cases which are to go to Ministers, or the Investment Approval Committee are required to have the value for money evidence endorsed by Defence Economics and this evidence typically includes a report from within the

Departmental organisation responsible. This report states what quality assurance has been undertaken and fulfilled in accordance with the Aqua Book<sup>41</sup> and internal standards to meet the requirements of the Macpherson Review<sup>42</sup> of quality assurance of government analytical models. To give another example, the Cost Assurance and Analysis Service (CAAS) has developed a range of supporting materials which include standards and guidance on validation and verification, training for model Senior Responsible Officers and a standardised baseline model for Category C and D projects.

The Department has been effective in extending this good practice to other parts of the business and it will continue to focus on this in the coming year. In a department of the size and complexity of MOD there is a continual need to be proactive in maintaining standards. Not doing so risks serious consequences. We recognise this challenge and, whilst there is much good practice in the Department, have identified some areas where analytical quality assurance is less well understood. To ensure consistent standards across models we:

- Run a Quality Assurance Working Group, with representatives from each organisation responsible for analytical models within MOD.
- Have made Quality Assurance of Analytical models a key part of the Standards workstream of the Analysis Function – launched in 2019 – to drive up the quality of analysis across Defence including promotion of Macpherson principles and improving our tools and guidance on effective quality assurance.
- Collate and publish a list of our latest business critical models. MOD is one of the leading departments in taking forward this recommendation of the Macpherson review.

The Department will continue to look for opportunities to build on its quality assurance framework.

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41 Aqua Book <https://www.gov.uk/government/publications/the-aqua-book-guidance-on-producing-quality-analysis-for-government>

42 Macpherson Review <https://www.gov.uk/government/publications/review-of-quality-assurance-of-government-models>

## Compliance with the Corporate Governance Code

I have reviewed the Department's compliance with the Code of Good Practice<sup>43</sup> issued in April 2017 and confirm that the Department complies with all the requirements, with three exceptions.

Section 5.9 of the code requires that at least one Non-Executive Defence Board Member should sit on the Audit Committee, in addition to the Chair. Although the DARAC is chaired by one of the Defence Board Non-Executive Board Members, rather than having two Non-Executive Defence Board Members, I have chosen three other Non-Executive Members to attend the DARAC. The Non-Executive Defence Board Members provide independent support to a range of governance meetings. The other three Non-Executive Members on DARAC represent a selection of the Commands' and Enabling Organisations' Audit and Risk Assurance Committees to add independent challenge from the wider organisation to the Head Office views of risk, assurance and governance. I believe that the current mix of Non-Executive support to the DARAC membership provides a broad perspective of the Department's business, whilst maintaining the necessary independence of Audit Committee members.

Section 5.2 requires the Board to take the lead on and oversee the preparation of the Department's Governance Statement. The Governance Statement has been reviewed by members of the ExCo. In addition, the DARAC reviews the Governance Statement and provides advice to me, as the Accounting Officer. Given the expertise of the members of the DARAC and their on-going involvement in matters of governance, risk and internal control through the year, I believe these arrangements provide the right level of review and scrutiny.

Section 4.12 of the code to undertake a formal board effectiveness evaluation has not been

possible in 2019–20 for the reasons already explained under the Review and Challenge section.

## Effectiveness of Whistleblowing

Defence values the important role of Whistleblower's who, by raising their concerns, help us get things right. The Defence Confidential Hotline continues to provide a secure single point of contact for all of our people — whether service, civilian, contractor, defence Industry or members of the public.

We provide management information on the nature and conduct of our whistleblowing cases to the Cabinet Office every 12 months. MOD's Whistleblowing and Raising a Concern policy is in the process of being updated to align to with the new Civil Service Employment Policy's (CSEP) Whistleblowing Policy (a policy development that has reflected MOD's contribution). It remains a measure of success that, prior to COVID-19, the Confidential Hotline continued to receive a large number of reports providing the Department with the opportunity to investigate and resolve the concerns raised.

The COVID-19 crisis has had an effect on the operation of the Confidential Hotline. Due to COVID-19 working conditions the team lost the ability to take live phone referrals for two months and since lockdown there has been an overall reduction in reports. Whilst some reduction may be due to the absence of the phone referrals, early indications suggest this is also due to a reduction in oversight of staff whilst working from home and redeployment or work reprioritisation in response to COVID-19.

We anticipate an upturn of referrals once the Department achieves stable new business as usual working which includes proportionate post event assurance activity. We have received reporting directly related to COVID-19, involving a range of allegations from personnel related fraud to procurement contract fraud. MOD's

<sup>43</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

Confidential Hotline have been supporting the Cabinet Office's central co-ordinated response to the crisis and have provided additional support to the Department of Health.

The Department continues to publicise the Confidential Hotline, our expectations of our people in reporting concerns and supporting those that do. Increased awareness was given prominence during this year's Fraud Awareness Week programme. We also fully engaged with the National Speak Up Week which included a video from the Chief of Defence People and articles from Defence Policing and the Nominated Officer.

### Tackling Fraud and Corruption

During the year Defence has continued to improve management and understanding of its fraud and corruption risk. Initiatives have taken place to support this, which include implementing an improved lesson's learned process and increased awareness activity.

Defence continues to contribute to the developing Government Counter Fraud Profession and Function. We successfully identify and report fraud loss, meeting the Government Counter Fraud Standard (achieving 100% compliance with the Standard's 13 measures in 2019).

Defence is working with the National Fraud Initiative to deliver proof of concept exercises to identify potential fraud across Government Departments. We have been supporting the Cabinet Office led counter fraud response to the COVID-19 crisis, providing functional expertise and resource in key areas of procurement and fraud risk. This includes supporting the Department of Health/NHS to reduce the risk of fraud and counterfeit product in their emergency procurement of PPE and Ventilators. This has been delivered through a cross functional response from counter fraud, cost assurance, quality assurance, audit, commercial and procurement experts across the MOD.

In response to a historic whistle-blowing case, the Non-Executive Chair of the DARAC conducted an independent review for the Accounting Officer. The review completed in September 2020. Throughout the review, as lessons have been identified in relation to the Department's approach to approvals, acquisition, project delivery, whistleblowing and raising a concern, the Department has made appropriate changes or fed the lessons into ongoing change and transformation programmes.

### Ministerial Directions

There were no Ministerial Directions to me as Accounting Officer during 2019–20.

### Conclusion

There remain challenges in a complex Department operating with a delegated model. Coupled with the significant control risks detailed earlier in this report and the COVID-19 impact, I am proud of the steps taken within my Department to maintain levels of governance. It is unclear what the economic impact of the COVID-19 pandemic will have on Departmental programmes and funding levels going forward into future years. However, the Governance processes that are in place put the Department in a strong position to respond to any capability and investment decisions that may need to be made to make the Defence Programme affordable in future years. The transformation activity we have undertaken to date will enable the Department to be more effective but it is imperative that we increase momentum if we are to realise our long-term goals and address the challenges we face.



**Sir Stephen Lovegrove, KCB**

Accounting Officer  
13 October 2020

# The Remuneration and Staff Report

*(The Remuneration and Staff Report has been subject to audit except where otherwise stated)*

**The Remuneration and Staff Report summarises our policy on Ministerial, Defence Board Member, Non-Executive Board Member (NEBM) and staff pay. It also provides details of actual costs incurred and contractual arrangements in place.**

## Remuneration Report

### Remuneration Policy

Senior civil servants (SCS) and senior officers of the Armed Forces pay is set by the Prime Minister following independent advice from the Review Body on Senior Salaries (SSRB).

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

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

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

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at <https://www.gov.uk/government/publications/senior-salaries-review-body-report-2020>.

There is an established Departmental procedure for the appointment of NEBMs which requires a transparent recruitment and selection process, with appointment on merit, thus mirroring the Civil Service Commission's Recruitment Principles. NEBMs receive a Letter of Appointment setting out, amongst other things, details of the agreed remuneration which is in accordance with the *Corporate Governance in Central Government Departments: Code of Good Practice*. NEBMs have the option to waive their remuneration.

### Performance and Reward

Salary and reward for Permanent Secretaries is considered annually by the Permanent Secretaries' Remuneration Committee within the Cabinet Office.

For the SCS below Permanent Secretary level, MOD implements its own pay and non-consolidated award arrangements within the Cabinet Office framework through an agreed pay strategy. Any non-consolidated award is based on a judgement of how well an individual has performed

and awards are made to individuals judged to have made the highest contribution to MOD's business objectives. There is no restriction on the nature of the contribution; the only requirement is that it benefits the Department or Defence more widely. Recommendations for awards must be linked to demonstrable evidence of delivery.

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

Senior (2-star and above) military officers' pay is dependent on their performance, time in rank and position on the pay scale. Individuals can be awarded a single increment or no increment, and progress accordingly up the incremental pay scale for their rank. The average value of one incremental rise was 2.6% of salary in 2019–20 (2018–19: 2.6%). Exceptions to this are the Chief of the Defence Staff (CDS) who automatically receives an annual increment (subject to having served 6 months in post for the reporting period), and senior medical and dental officers who are paid from spot rates of pay for their rank.

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

## Senior Manager Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, civilian officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commission can be found at <https://civilservicecommission.independent.gov.uk/>

The lead NEBM appointment to the Defence Board was approved by the Prime Minister from a list of candidates recommended by the Cabinet Office. The appointment was for an initial period of three years, which was extended for a further three years and then for a further two years to March 2020. The lead NEBM appointment in June 2020 was approved by the Prime Minister and has an initial period of three years.

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

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

## Remuneration and Pension Entitlements

The following pages contain details of the pay, pensions and benefits-in-kind of individuals who served as Ministers or 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

The salaries, allowances and taxable benefits in kind for the Ministers who had responsibility for the Department during the year are set out overleaf:

### Ministerial salary, benefits in kind and pension benefits

	2019–20			2018–19			Total £ (to nearest £1,000)
	Benefits- in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000) <sup>1</sup>	Total £ (to the nearest £1,000)	Benefits- in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £ (to nearest £1,000)	
<b>Secretary of State for Defence</b>							
The Rt Hon Ben Wallace MP (from 24 July 2019)							
	46,455	Nil	11,000	57,000	Nil	Nil	Nil
<i>Full year equivalent salary</i>	67,505						
The Rt Hon Penny Mordaunt MP (from 1 May to 23 July 2019)							
	15,606	Nil	4,000	20,000	Nil	Nil	Nil
<i>Full year equivalent salary</i>	67,505						
The Rt Hon Gavin Williamson CBE MP (to 30 April 2019)							
	5,625	Nil	1,000	7,000	67,505	Nil	17,000
<i>Full year equivalent salary</i>	67,505						85,000
<b>Minister of State and Spokesperson on Defence in The House of Lords</b>							
Baroness Goldie DL <sup>2</sup> (from 27 July 2019)							
	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>							
The Rt Hon The Earl Howe PC <sup>2</sup> (to 26 July 2019)							
	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>							
<b>Minister of State and Minister for Defence Procurement<sup>3</sup></b>							
Jeremy Quin MP (from 14 February 2020)							
	4,097	Nil	1,000	5,000	Nil	Nil	Nil
<i>Full year equivalent salary</i>	31,680						
Stuart Andrew MP (to 26 July 2019)							
	7,158	Nil	1,000	8,000	15,819	Nil	4,000
<i>Full year equivalent salary</i>	22,375				22,375		20,000

## Accountability Report

	2019–20			2018–19				
	Salary £	Benefits- in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000) <sup>1</sup>	Total £ (to the nearest £1,000)	Salary £	Benefits- in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £ (to nearest £1,000)
<b>Parliamentary Under Secretary of State and Minister for the Armed Forces<sup>4</sup></b>								
James Heapey MP <sup>5</sup>								
(from 14 February 2020)	6,931	Nil	2,000	9,000	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>	22,375							
Anne Marie Trevelyan MP <sup>6</sup>								
(from 16 December 2019 to 13 February 2020)	13,847	Nil	3,000	17,000	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>	31,680							
The Rt Hon Mark Lancaster TD MP								
(to 15 December 2019)	22,397	Nil	5,000	27,000	31,680	Nil	8,000	40,000
<i>Full year equivalent salary</i>	31,680							
<b>Parliamentary Under Secretary of State and Minister for Defence People and Veterans</b>								
Johnny Mercer MP								
(from 27 July 2019)	15,217	Nil	4,000	19,000	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>	22,375							
The Rt Hon Tobias Ellwood MP								
(to 26 July 2019)	7,158	Nil	2,000	9,000	22,375	Nil	6,000	28,000
<i>Full year equivalent salary</i>	22,375							

- 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.
- Both Baroness Goldie and Earl Howe have waived their rights to remuneration.
- The role of Parliamentary Under Secretary of State and Minister of Defence Procurement (Full Year Equivalent Salary £22,375) changed to become Minister of State and Minister for Defence Procurement (Full Year Equivalent Salary £31,680) in July 2019.
- The role of Minister of State for the Armed Forces (Full Year Equivalent Salary £31,680) changed to become Parliamentary Under Secretary of State and Minister for the Armed Forces (Full Year Equivalent Salary £22,375) in July 2019.
- James Heapey MP also served as Parliamentary Under Secretary of State and Minister for Defence Procurement from 16 December 2019 to 13 February 2020 (full year equivalent salary was £22,375).
- Anne-Marie Trevelyan was Minister for Defence Procurement 27 July 19 to 15 December 19 (full year equivalent salary was £22,375), then became Minister for Armed Forces from 16 December 19 to 13 February 20.

### Compensation for loss of office

Ministers who, on leaving office, have not attained the age of 65 and are not appointed to a relevant Ministerial or other paid office within three weeks, are eligible for a tax free severance payment of three months of their annual equivalent salary being paid. During 2019–20, severance payments of £16,876 to both The Rt Hon Gavin Williamson MP and The Rt Hon Penny Mordaunt MP, £5,594 to The Rt Hon Tobias Ellwood MP and £7,920 to

The Rt Hon Mark Lancaster MP were made (in 2018–19 a single severance payment of £5,594 was made to Guto Bebb MP).

### 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 – £79,468 with effect from 1 April 2019 (£77,379 pa with effect from 1 April 2018) 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 overleaf.

### 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.

### Ministerial Pension

The real increase in the value of the accrued pension compared to the 2019–20 value, is shown in italics (in bands of £2,500) in the first column of the table overleaf:

### 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 Pension Benefits

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>

### 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).

## Accountability Report

### Ministerial Accrued Pension and Cash Equivalent Transfer Value (CETV)

	Total Accrued Pension at Retirement as at 31 March 19 £000	CETV at 31 March 19 or date of Appointment if Later £000	CETV at 31 March 20 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Secretary of State for Defence</b>				
The Rt Hon Ben Wallace MP	0-5			
	0-2.5	35	45	5
The Rt Hon Penny Mordaunt MP	0-5			
	0-2.5	47	51	2
The Rt Hon Gavin Williamson CBE MP	0-5			
	0-2.5	28	29	Nil
<b>Minister of State and Spokesperson on Defence in The House of Lords</b>				
Baroness Goldie DL	Nil	Nil	Nil	Nil
The Rt Hon The Earl Howe PC	Nil	Nil	Nil	Nil
<b>Minister of State and Minister for Defence Procurement</b>				
Jeremy Quin MP	0-5			
	0-2.5	4	5	1
Stuart Andrew MP	0-5			
	0-2.5	8	9	Nil
<b>Parliamentary Under Secretary of State and Minister for the Armed Forces</b>				
James Heapey MP	0-5			
	0-2.5	Nil	1	1
Anne Marie Trevelyan MP	0-5			
	0-2.5	Nil	3	1
The Rt Hon Mark Lancaster TD MP	0-5			
	0-2.5	45 <sup>1</sup>	52	2
<b>Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel</b>				
Johnny Mercer MP	0-5			
	0-2.5	Nil	3	1
The Rt Hon Tobias Ellwood MP	0-5			
	0-2.5	29	31	1

1. The CETV as at 31 March 2019 for The Rt Hon Mark Lancaster TD MP has been restated due to an error in the calculation made in 2018-19.

*Defence Board salaries, awards, benefits-in-kind and pensions benefits*

	2019–2020				2018–2019				Total £000
	Salary £000	Annual Performance Award £000	Benefits-in- kind £ (to the nearest £100)	Pension Benefits <sup>1</sup> £ (to the nearest £1,000)	Annual Performance Award £000	Benefits-in- kind <sup>2</sup> £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)		
<b>Secretary of State for Defence</b>									
The Rt Hon Ben Wallace MP									
The Rt Hon Penny Mordaunt MP									
The Rt Hon Gavin Williamson CBE MP									
<b>Minister of State in the House of Lords</b>									
Baroness Goldie DL									
The Rt Hon The Earl Howe PC									
<b>Minister of State and Minister for Defence Procurement</b>									
Jeremy Quin MP									
<b>Parliamentary Under-Secretary of State and Minister for the Armed Forces</b>									
James Heappey MP									
Anne Marie Trevelyan MP									
The Rt Hon Mark Lancaster TD MP									
<b>Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel</b>									
Johnny Mercer MP									
<b>Permanent Under-Secretary of State</b>									
Sir Stephen Lovegrove KCB 4 (from 25 April 2016)	185–190	15–20	Nil	78,000	280–285	180–185	Nil	77,000	260–265

See Minister's Salary Table

	2019-2020				2018-2019				Total £000
	Salary £000	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)	Pension Benefits <sup>1</sup> £ (to the nearest £1,000)	Total £000	Salary £000	Annual Performance Award £000	Benefits-in- kind <sup>2</sup> £ (to the nearest £100)	
<b>Chief of the Defence Staff</b>									
General Sir Nick Carter GCB CBE DSO ADC Gen									
(from 11 June 2018)	265-270	Nil	90,200	212,000	565-570	205-210	65,600 +	560,000	835-840
<i>full year equivalent salary</i>						255-260			
<b>Vice Chief of the Defence Staff</b>									
Admiral Sir Tim Fraser CB ADC									
(from 13 May 2019)	155-160	Nil	52,000	321,000	530-535	Nil	Nil	Nil	Nil
<i>full year equivalent salary</i>	180-185								
General Sir Gordon Messenger KCB DSO* OBE									
(to 12 May 2019)	20-25	Nil	6,900	Nil	25-30	185-190	55,200 +	32,000	270-275
<i>full year equivalent salary</i>	190-195								
<b>Director General Finance</b>									
Charlie Pate									
(from 12 March 2020)	5-10	Nil	Nil	6,000	10-15	Nil	Nil	Nil	Nil
<i>full year equivalent salary</i>	130-135								
Catherine Little									
(to 11 March 2020)	130-135	10-15	Nil	52,000	195-200	135-140	Nil	53,000	190-195
<i>full year equivalent salary</i>	135-140								
<b>Non-Executive Board Members</b>									
Lord Grimstone of Boscobel <sup>3</sup>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(to 1 March 2020)									
Simon Henry	15-20	Nil	Nil	Nil	15-20	15-20	Nil	Nil	15-20
Paul Skinner CBE <sup>3</sup>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(to 31 May 2019)									
Danuta Gray	15-20	Nil	Nil	Nil	15-20	15-20	Nil	Nil	15-20

- The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum less the contributions made by the individual. The real increase excludes increases due to inflation or any increases or decreases due to transfer of pension rights.
- 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 +
- Lord Grimstone of Boscobel and Paul Skinner have elected to waive the £15,000 fee to which they are entitled.

## 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 2019–20 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 Pension Benefits

Pension benefits for individuals who served on the Defence Board are set out overleaf. NEBMs are not employees and are therefore not enrolled in an employee related pension scheme. The real increase in the pension, from 2018–19, and where applicable the real increase in the lump sum payment, are shown in *italics* in the first column of the table below.

## Accountability Report

### Defence Board Accrued Pension and Cash Equivalent Transfer Value (CETV)

	Total Accrued Pension at Retirement as at 31 Mar 19 £000	CETV at 31 Mar 19 or date of Appointment if Later £000	CETV at 31 Mar 20 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Secretary of State for Defence</b>				
The Rt Hon Ben Wallace MP				
The Rt Hon Penny Mordaunt MP				
The Rt Hon Gavin Williamson CBE MP				
<b>Minister of State and Spokesperson on Defence in the House of Lords</b>				
Baroness Goldie DL				
The Rt Hon The Earl Howe PC				
<b>Minister of State and Minister for Defence Procurement</b>				
Jeremy Quin MP				
<b>Parliamentary Under-Secretary of State and Minister for the Armed Forces</b>				
James Heapey MP				
Anne Marie Trevelyan MP				
The Rt Hon Mark Lancaster TD MP				
<b>Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel</b>				
Johnny Mercer MP				
<b>Permanent Under-Secretary of State</b>	Pension			
Sir Stephen Lovegrove KCB	<b>40-45</b>			
	2.5-5			
	Lump Sum			
	<i>Nil</i>	<b>531</b>	<b>615</b>	<b>46</b>
<b>Chief of the Defence Staff</b>	Pension			
General Sir Nick Carter GCB CBE DSO ADC Gen	<b>150-155</b>			
	7.5-10			
	Lump Sum			
	<b>450-455</b>			
	27.5-30	<b>3,377</b>	<b>3,609</b>	<b>148</b>
<b>Vice Chief of the Defence Staff</b>	Pension			
Admiral Sir Tim Fraser CB ADC	<b>85-90</b>			
	12.5-15			
	Lump Sum			
	<b>265-270</b>			
	40-42.5	<b>1,869</b>	<b>2,292</b>	<b>333</b>
	Pension			
General Sir Gordon Messenger KCB DSO* OBE	<b>95-100</b>			
	0-2.5			
	Lump Sum			
	<b>285-290</b>			
	0-2.5	<b>2,413</b>	<b>2,428</b>	<b>0</b>

See Minister's Pensions Table

	Total Accrued Pension at Retirement as at 31 Mar 19 £000	CETV at 31 Mar 19 or date of Appointment if Later £000	CETV at 31 Mar 20 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Director General Finance</b>	Pension			
Charlie Pate	<b>40–45</b>			
	0–2.5			
	Lump Sum			
	<b>10–15</b>			
	0–2.5	<b>559</b>	<b>563</b>	<b>3</b>
	Pension			
Catherine Little	<b>15–20</b>			
	2.5–5			
	Lump Sum			
	<i>Nil</i>	<b>147</b>	<b>182</b>	<b>18</b>

Further details of various pension schemes available to Armed Forces personnel and MOD employees can be found at Note 13 of the accounts – Retirement Benefit Schemes.

## Pay Multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid Board member in their organisation and the median remuneration of the organisation’s workforce.

Remuneration of the highest paid directors is based on annual equivalents which include salary, performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions or the cash equivalent transfer value of pensions. A separate multiple has been calculated for the Armed Forces – comparing the CDS to the military pay median. The civilian multiple uses a median based on civil service pay i.e. it excludes staff who are paid under arrangements outside the Department’s control, for example: medical personnel, fire fighters, police and teachers; it also excludes locally employed civilians overseas and agency staff covering permanent posts.

## Accountability Report

### Military and Civilian Pay Multiple

	2019–20	2018–19 <sup>1</sup>
<b>Military Pay Multiple</b>		
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning military Board member in the table above	£357,500	£337,500
Median total remuneration of Armed Forces personnel	£35,315	£34,484
Ratio	10.1	9.8
<b>Civilian Pay Multiple</b>		
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian Board member in the table above	£207,500	£182,500
Median total remuneration of civilian staff	£31,393	£30,193
Ratio	6.6	6.0

1. 2018–19 Military Highest Board Member Remuneration restated.

The military pay ratio has increased a little since 2018–19. This is the result of a slight increase in the annual equivalent remuneration of the highest paid Board Member aligned with a corresponding small increase in the median total remuneration of Armed Forces personnel. In 2019–20 the remuneration of military employees ranged from £15,672 to £339,121; and 2 military employees (11 in 2018–19) received remuneration in excess of the highest paid Board Member.

The civilian pay ratio has also increased since 2018–19. This is the result of an increase in the remuneration of the highest paid Board Member due to a Civilian In Year Performance Award. In 2019–20, the remuneration of civilian employees ranged from £16,712 to £475,826 and 7 civilian employees (7 in 2018–19) received remuneration in excess of the highest paid Board Member.



## Staff Report

### Staff Numbers

#### 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. Defence Science and Technology Laboratory (Dstl) is an Executive Agency and their Senior Civil Servants are employed under different terms and conditions to MOD Main, they are also excluded from the table. The total number of Senior Civil Servants within Dstl in 2019–20 is 6 (2018–19: 7).

*Number of Senior Civil Service (SCS) Staff by Pay Band*

	2019–20	2018–19
<b>SCS PAY BAND</b>		
Band 1	186	164
Band 2	45	39
Band 3	9	8
Band 4	1	1

#### DE&S and SDA Senior Leadership Group (SLG)

Defence Equipment and Support (DE&S) and Submarine Delivery Agency (SDA) operate their own grading structure which is not comparable with MOD Main and so are excluded from the above table. The number of employees which DE&S and SDA designate within their Senior Leadership Group (SLG) is as follows:

*Number of DE&S Senior Leadership Group (SLG) Staff as at 31 March 2020*

	2019–20	2018–19
<b>SLG PAY BAND</b>		
Band 1	93	86
Band 2	16	14
Band 3	2	1
Band 4	1	1

*Number of SDA Senior Leadership Group (SLG) Staff as at 31 March 2020*

	2019–20	2018–19 <sup>1</sup>
<b>SLG PAY BAND</b>		
Band 1	17	15
Band 2	4	4
Band 3	1	1

1. SLG figure for 2018–19 restated.

### Staff Composition

The following table provides an analysis of the number of persons of each gender who were Directors, Senior Civil Servants/Senior Military Officers and Military/Civilian MOD employees as at the start of the financial year. The analysis only includes UK regular military personnel and those designated as permanent civilian staff, therefore, a comparison with those contained in the Average Number of Full-Time Equivalent Persons Employed Table is not possible. UKHO is excluded as it is a trading fund. SCS and Equivalent includes Senior Civil Servants, Senior Military Officers (1\* & above), Dstl, DE&S and SDA Senior Leadership Groups.

Of the Defence Board Members, 3 of the male directors and 1 of the female directors are NEBMs (2018–19: Male 3 Female 1). In 2019–20, the staff composition of DE&S SLG and equivalent was: Male 87 Female 25 (2018–19: Male 81 Female 21) for SDA SLG the staff composition was Male 13 Female 9 (2018–19: Male 12 Female 7) for Dstl the staff composition was: Male 4 Female 2 (2018–19: Male 6 Female 1).

## Accountability Report

### Analysis of the Number of Persons of Each Gender

Gender <sup>1</sup>	2019–20			2018–19		
	Defence Board Members <sup>2</sup>	SCS and equivalent	Military/Civilian Employees	Defence Board Members	SCS and equivalent <sup>3</sup>	Military/Civilian Employees
Male	9	713	160,853	8	684	160,127
Female	2	153	37,663	2	132	36,295

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

2. Defence Board Members include all Defence Ministers from Autumn 2019.

3. The numbers for SCS and equivalent have been restated for 2018–19 to correct number of Submarine Delivery Agency Staff Designated as Senior Civil Service or equivalent.

### Analysis of Staff Numbers

The average number of full-time equivalent persons employed are set out in the following table.

	2019–20		2018–19	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff	54,530	57,523	52,140	55,268
Other Staff <sup>1</sup>	6,281	6,472	6,316	6,352
Ministers	5	5	5	5
Special Advisors	2	2	2	2
Armed Forces	156,027	156,027	155,984	155,984
<b>Totals</b>	<b>216,845</b>	<b>220,029</b>	214,447	217,611

1. Other Staff, Fee Earners subtotal – the basis of calculating the subtotal has changed for 2019–20, a comparison with 2018–19 using the same basis of calculation shows an increase in numbers of Fees Earners between 2018–19 and 2019–20 of 149.

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 increased civilian numbers reflect increases in specific business areas including Strategic Command, Defence Infrastructure Organisation, Head Office, Defence Equipment and Support, Defence Science and Technology Laboratory and the Defence Nuclear Organisation, details of the specific rationale for these increases are not collected centrally but are likely to include the

replacement of external contractors with MOD civilian personnel.

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.

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.

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 1st April 2020.

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 Costs

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

### Analysis of Staff Costs

	2019–20					2018–19	
	Permanent Staff £M	Armed Forces £M	Other staff £M	Ministers £M	Special Advisors £M	Departmental Group Total £M	Departmental Group Total £M
Salaries and Wages	2,018.1	6,461.2	332.4	0.2	0.1	<b>8,812.0</b>	8,527.3
Social Security Costs	204.1	606.8	0.2	-	-	<b>811.1</b>	794.6
Pension Costs	453.8	3,805.5	1.5	-	-	<b>4,260.8</b>	3,327.0
Redundancy and Severance Payments	-	0.1	-	-	0.1	<b>0.2</b>	3.5
<b>Sub Total</b>	<b>2,676.0</b>	<b>10,873.6</b>	<b>334.1</b>	<b>0.2</b>	<b>0.2</b>	<b>13,884.1</b>	12,652.4
Less Recoveries in Respect of Outward Secondments	(21.7)	(30.2)	-	-	-	<b>(51.9)</b>	(54.0)
<b>Total net costs</b>	<b>2,654.3</b>	<b>10,843.4</b>	<b>334.1</b>	<b>0.2</b>	<b>0.2</b>	<b>13,832.2</b>	12,598.4

As for staff numbers, the cost of 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.

For the year to 31 March 2020, of the total pension contributions for the Departmental Group in the table above, £455 million (2018–19: £332 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 £471 million (2018–19: £338 million); the movement on non-PCSPS pension provision of -£36 million

(2018–19: -£26 million); and contributions to non-PCSPS of £20 million (2018–19: £19 million). The increase in pension costs in 2019-20 is the result of higher employer contribution rates<sup>44</sup> following the routine revaluation of pension schemes to which staff are members. Where employees have opened a stakeholder pension with an employer contribution, the Department has made contributions of £4.5 million (2018–19 £4 million) to the pension providers; contributions range from 8% to 14.75% depending on the age of the member. MOD also matches any employee contributions up to 3% of pensionable pay and in addition made contributions of £0.8 million (2018–19

<sup>44</sup> <https://www.civilservicepensionscheme.org.uk/employers/employer-contribution-rates/>

£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 (AFPS) are unfunded, non-contributory, defined benefit, salary related, occupational pension schemes. For the year to 31 March 2020 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £3,805 million (2018–19: £2,995 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.

### Special Advisors Costs and Severance Payments

The salaries and other costs of Special Advisors paid during the year was £151,658 (2018–19: £203,706). The amount of severance paid to Special Advisors, in line with the terms of the Model Contract for Special Advisors during the year was £65,848 (2018–19: £14,790). The amount of additional severance paid to Special Advisors, in line with the Prime Ministerial Direction to the Cabinet Office Secretary of 13 July 2016 was Nil. Further details of additional severance payments are available in the Cabinet Office Annual Report and Accounts 2019–20. From August 2019, all Special Advisors are paid by Cabinet Office.

### Staff Redeployment

In order to manage and mitigate the impact of COVID-19 and the UK's exit from the EU, there has been increased redeployment of staff both within and across government departments. The number of staff from the Department on assignment to other government departments for both COVID-19 and EU Exit activities for the period from 1 April 2019 to 31 March 2020 is shown by grade in the tables below. Support provided by Military personnel to the response to the COVID-19 pandemic is covered by the separate MACA arrangements described within the Performance Report.

The Ministry of Defence has been a donor department in this regard i.e. there has not been any redeployment into MOD from other departments in respect to COVID-19 or EU Exit.

Staff redeployed from front line services are deemed to be Programme related whilst those redeployed from administrative roles are treated as Administrative assignments and are for a period greater than 6 months. Programme assignments are disclosed separately for those, less than 6 months and more than 6 months respectively. The average duration of a COVID-19 assignment is 2 weeks and the average duration of an EU Exit assignment is 3.5 weeks. The estimated cost of staff on short-term loan is £0.168 million for COVID-19 and £1.325 million for EU Exit assignments; £0.008 million for COVID-19 administrative assignments.

*Number of Staff Redeployed for COVID-19*

Grade	Assignments		
	Programme		Administration
	Short Term (less than 6 months)	Long Term (more than 6 months)	Short Term (less than 6 months)
SCS or equivalent	5	-	-
Band B or equivalent	20	-	-
Band C or equivalent	32	-	1
Band D and below or equivalent	1	-	-
<b>Total number of staff</b>	<b>58</b>	<b>-</b>	<b>1</b>

*Number of Staff Redeployed for EU Exit*

Grade	Assignments		
	Programme		Administration
	Short Term (less than 6 months)	Long Term (more than 6 months)	Long Term (more than 6 months)
SCS or equivalent	3	-	2
Band B or equivalent	69	-	3
Band C or equivalent	239	1	18
Band D and below or equivalent	69	-	1
<b>Total number of staff</b>	<b>380</b>	<b>1</b>	<b>24</b>

### Civil Service and Other Compensation Schemes – Exit Packages

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 below; 137 individuals retired early on ill-health grounds during 2019–20 (2018–19 171); their total accrued pension liabilities for the year were £0.2 million (2018–19 £0.4 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 table overleaf shows both 2019–20 and for comparison 2018–19 numbers and resource costs in £ million.

Number of Exit Packages and Resource Costs

Exit Package Cost Band	2019-20						2018-19					
	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	-	20	20	2	23	25	-	4	4	4	5	7
£10,000 – £25,000	3	40	43	9	47	56	3	49	52	7	50	57
£25,000 – £50,000	3	38	41	5	39	44	-	29	29	3	35	38
£50,000 – £100,000	-	24	24	-	24	24	-	10	10	-	10	10
£100,000 – £150,000	-	1	1	-	1	1	-	-	-	-	-	-
£150,000 – £200,000	-	-	-	-	-	-	-	-	-	-	-	-
£200,000 – £250,000	-	-	-	-	-	-	-	-	-	-	-	-
£250,000 – £300,000	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Number of Exit Packages</b>	<b>6</b>	<b>123</b>	<b>129</b>	<b>16</b>	<b>134</b>	<b>150</b>	<b>3</b>	<b>92</b>	<b>95</b>	<b>15</b>	<b>102</b>	<b>117</b>
<b>Total Resource Cost £million</b>	<b>£0.125</b>	<b>£4.050</b>	<b>£4.175</b>	<b>£0.296</b>	<b>£4.233</b>	<b>£4.529</b>	<b>£0.041</b>	<b>£2.597</b>	<b>£2.638</b>	<b>£0.283</b>	<b>£2.706</b>	<b>£2.989</b>

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.

## Staff Sickness

*(This section has not been subject to audit)*

Levels of sickness absence for MOD Civil Servants, including UKHO, have increased slightly over the year. The Average Working Days lost per person for the 12 months ending 31 March 2020 was 6.84 (6.68 days for the 12 months ending 31 March 2019). Mental and behavioural disorders continue to be the highest cause of sickness absence at 25% of all absences (2018–19: 24%). The percentage of staff with no sick absence for the 12 months ending 31 March 2020 was 45% (2018–19: 45%).<sup>45</sup>

The Defence People Mental Health and Wellbeing Strategy<sup>46</sup> 2017–2022 was launched in July 2017 to improve the Mental Health and Wellbeing of the Armed Forces, their families, veterans and MOD's Civil Servants, this includes standardised training and improved access to and promotion of the support available.

New Supporting Attendance Policy and Procedures were published internally in 2019 which take a supportive approach to absence with a focus on helping people stay at work or to help them to return as soon as they are able. In June 2020 the Department signed up to the Mental Health at Work Commitment, further demonstrating its ambition to deliver against the objectives set out in the Defence People Mental Health and Wellbeing Strategy 2017–2022 and to strengthen ourselves against the recommendations made in the Thriving at Work Review into mental health. The Department's first workforce (civilian) report into disability, mental health and wellbeing: workforce report<sup>47</sup> was published in October 2019.

## Health and Safety

*(This section has not been subject to audit)*

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 November 2019, can be found at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/845843/Enclosure\\_1\\_MOD\\_Health\\_and\\_Safety\\_Statistics\\_Annual\\_Report\\_2018-19.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/845843/Enclosure_1_MOD_Health_and_Safety_Statistics_Annual_Report_2018-19.pdf)

The recent statistics are due to be published in Autumn 2020 (provisional date).

## Civilian Staff Policies Applied During the Financial Year

*(This section has not been subject to audit.)*

The MOD is dedicated to achieving a more diverse and inclusive civilian workforce and is committed to recruiting the best people regardless of whether they have a disability. The 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

<sup>45</sup> <https://www.gov.uk/government/statistics/mod-civilian-sickness-absence-financial-year-2020>

<sup>46</sup> <https://www.gov.uk/government/news/mod-launches-defence-people-mental-health-and-wellbeing-strategy>

<sup>47</sup> <https://www.gov.uk/government/publications/disability-mental-health-and-wellbeing-civilian-workforce-report-2019/voluntary-reporting-on-disability-mental-health-and-wellbeing-workforce-report-2019>

Leader' since September 2017. Our aims are that disabled staff should feel valued and supported; that line managers of disabled staff should have access to consistent advice and expertise; and that reasonable adjustments will be made in a timely manner.

MOD has a dedicated Reasonable Adjustments Service Team, who are responsible for supporting staff with workplace adjustments. In the last six years they have helped more than 8,600 people with conditions varying from musculo-skeletal conditions, mobility or physical capacity issues, neuro-diverse conditions including dyslexia, ADHD, visual and hearing impairments and mental health issues. The team also plays a significant role in advocating for the disability networks and disabled people to bring about continuous improvement of the lived experience including influencing our IT Provision to ensure we meet disabled peoples' needs. They possess specialist knowledge and experience of making adjustments for people in a diverse range of employment roles including specialisms within the MOD such as MOD Police and Clinicians, capturing our colleagues' workplace experiences, collaborating with others to find best practice, and sharing knowledge across Government. The use of Workplace Adjustment Passport is strongly encouraged and is in use across all Government Departments to make it easier for employees who have a disability, or long-term health condition or who are undergoing gender reassignment to move jobs within the CS. The Passport helps with changes of line manager, aiding new managers to understand the workplace adjustments the employee has in place and avoiding the need to explain circumstances again. It can also be helpful in generating discussion pertaining to non-visible disabilities, such as mental health issues.

MOD has an anonymous sifting process for recruitment to help us ensure a 'level playing field' in the assessment process. The MOD offers a guaranteed interview through the Disability Confident Scheme (DCS), whereby individuals who declare a disability are guaranteed an interview providing they meet the minimum

requirements for the role. To encourage and support applications from a more diverse applicant pool, we do not require minimum educational qualifications for entry roles to the Civil Service. We use the Civil Service 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 Civil Service Success Profiles for recruitment, enabling managers to assess candidate's suitability for the role using a range of selection methods (including personal statements, CVs, online tests etc). We have improved our guidance to managers on selection panels including emphasising the importance of having diverse panels. We have introduced bite size learning videos including how to write a better job advert (to ensure its inclusive and does not discriminate) and how to sift (ensuing people are offered a guaranteed interview if they meet the minimum criteria). Recruiting managers are required to complete unconscious bias training prior to recruiting to help minimise the possibility of unconscious bias within the selection process. For recruitment into the Senior Civil Service (SCS) all selection panels have a BAME and/or disabled member.

The Department is fully committed to supporting staff who become disabled whilst employed by MOD and a range of learning and support is available to them. The Defence Civilian Disability Policy, Procedures and Toolkit was refresh in March 2020 to support disabled staff and their line managers. It offers, amongst other things, information on what employees should do once a diagnosis is confirmed and where they can seek support, including Access to Work, Occupational Health and the external Employee Assistance Programme provide by Health Assured. The DBS Employee Service Team provides HR functions, advice and support to all MOD main employees and also delivers the SpeakSafe bullying and harassment advice and support helpline.

MOD's approach to training, career development and promotion is inclusion, and opportunities are



offered on a fair and open basis. The MOD Talent Management Toolkit offers advice and guidance to managers to ensure that all employees are treated fairly with regards to career advancement. We actively promote talent programmes such as the Positive Action Pathway which is open to under-represented groups, including those with a disability. Also, the Future Leaders Scheme (FLS) for eligible Band B/grade 6&7 and Senior Leaders Scheme (SLS) for eligible senior civil servants; both schemes offer successful candidates an accelerated development offer for those with a declared disability (DELTA).

MOD's approach to attendance management has a strong emphasis on taking a supportive approach, highlighting support options for staff with disabilities – including reasonable adjustments, disability leave, separate absence review points and a focus on line managers working with their employees to support attendance. Line managers are strongly encouraged to seek advice from expert services, such as the Department's Reasonable Adjustment Services Team, Occupational Health and the Casework Service. In December 2019, MOD launched the Employee Assistance Programme, which is available to all civilian staff and their line managers, providing emotional support and advice 24 hours a day.

An Armed Forces Disability Champion (AFDC) was appointed in 2018 to address a gap in Defence support to Service Personnel living with a life-changing 19 or life-limiting 20 condition. Over the past two years, the AFDC and the Defence People with a Significant Illness project lead have worked alongside a group of highly capable and motivated individuals to launch a new Defence Network: The Chronic Conditions and Disability in Defence (CANDID) Network, which launched in April 2019. This aims to better support members of the Armed Forces whose lives have been touched or affected in some way by chronic illness and disability, which has been fully supported by Service chains of command as filling a unique and formally recognised specific agent within the wider Defence Welfare Network.

## Other Employee Matters

*(This section has not been subject to audit.)*

As a large and diverse employer, our activities in respect of other employee matters take in a number of areas:

- Diversity – We operate a Defence Diversity and Inclusivity Programme to increase the diversity of our workforce in line with the targets that we have set. Our diversity statistics are included in the Performance Report.
- People strategies – The Armed Forces People Programme continues work to strengthen the Defence People function, delivering the workforce of the future while meeting the evolving requirements of MOD.
- Armed Forces Covenant (AFC) – The AFC 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.
- Health and wellbeing – 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.
- Employee consultation – We undertake consultation with our people on an ongoing basis, and through two key annual surveys (the Armed Forces Continuous Attitude Survey and MOD People Survey).
- Trade union relationships – 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.
- Human capital management – We work with our people continuously to ensure they have access to support and can access the best of the opportunities we can offer both in MOD and for life afterwards. Further information is included in the section on Staff Policies in the Staff Report.

## Expenditure on Consultancy and Temporary Staff

*(This section has not been subject to audit)*

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 a 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 2019–20. Submarine Delivery Agency and the Armed Forces Covenant Fund Trust (AFCFT) were disclosed for the first time as separate entities in 2018–19.

### Analysis of Consultancy and Temporary Staff

Body	2019–20		2018–19	
	Consultancy £M	Temporary Staff <sup>1</sup> £M	Consultancy £M	Temporary Staff <sup>1</sup> £M
<b>Ministry of Defence Main</b>	103.060	96.611	71.284	71.119
<b>On Vote Agencies</b>				
Defence Equipment & Support Bespoke Trading Entity	13.904	60.623	21.435	17.780
Defence Electronics & Components Agency	-	-	-	-
Defence Science & Technology Laboratory	0.406	19.802	-	13.835
Submarine Delivery Agency	14.385	19.390	21.442	6.915
<b>Executive Non-Departmental Public Bodies<sup>2</sup></b>				
National Museum of the Royal Navy	-	-	-	-
National Army Museum	0.016	-	-	-
Royal Air Force Museum	0.037	0.053	0.022	0.032
Single Source Regulations Office	-	0.032	0.027	0.132
<b>Other Bodies<sup>3</sup></b>	2.819	0.606	2.704	0.717
<b>Total Expenditure</b>	<b>134.627</b>	<b>197.117</b>	<b>116.914</b>	<b>110.530</b>

1. Cabinet Office definitions dated 01/11/2019 show Contingent Labour as Temporary Staff.

2. International Military Services Ltd is consolidated into MOD Accounts for the first time in 2019–20.

3. Other bodies are made up of Commonwealth War Graves Commission, Royal Hospital Chelsea, Reserve Forces and Cadet Associations, Armed Forces Covenant Fund Trust, International Military Services Ltd.

Consultancy is the provision to management of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the ‘business-as-usual’ environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance

with the implementation (but not the delivery) of the solutions.

Temporary staff describes the provision of workers to cover business-as-usual or service delivery activities within an organisation. Temporary staff are also often referred to as “Contingent Labour”.

The Department has undertaken a detailed exercise to improve consistency and accuracy in the reporting of Consultancy and Temporary staff costs in accordance with the definitions issued by Cabinet Office.<sup>48</sup> There has been a requirement to restate the values reported in 2018–19 to reflect the results of this activity in order to provide a comparable assessment with 2019–20. There are a variety of reasons for the reported growth between the 2 years, specifically transformation activities being undertaken across a number of TLBs has led to an increase in consultancy costs. The increase in Temporary staff is driven by a necessary medical recruitment exercise within Strategic Command and increased requirements for support of key delivery programmes in DE&S, SDA and Dstl. These organisations are also increasingly switching to specialist delivery support partner contracts/arrangements in the Project Management, Commercial and Engineering functions. These contracts allot specific individuals to fill roles and discharge activities and therefore score as Temporary staff whereas previously these activities would have been supported through output/task based contracts which scored as other costs.

## Off-Payroll Engagements

*(This section has not been subject to audit)*

HM Treasury requires departments to publish information on their high paid and/or senior off-payroll engagements. There were no high paid and/or senior off-payroll engagements in ALBs. Other bodies are made up of Commonwealth War Graves Commission, Royal Hospital Chelsea, Reserve Forces and Cadet Associations, Armed Forces Covenant Fund Trust, International Military Services Ltd. The total number of Off-Payroll Engagements in 2018–19 have been understated in ARAc 2018–19.

### Off-Payroll Engagements Earning More than £245 Per Day and Lasting Longer than 6 months as at 31 March 2020

Main Department	
Number of existing engagements as of 31 March 2020	865
<b>Of which...</b>	
Number that have existed for less than one year	508
Number that have existed for between one & two years	289
Number that have existed for between two and three years	47
Number that have existed for between three and four years	13
Number that have existed for four or more years	8

Many of our off-payroll engagements are short-term in nature. We have additionally retained a number of long-standing arrangements, particularly in circumstances where specialist skills or experience are critical in providing input to projects/programmes.

### New Off-Payroll Engagements or Those that Reached 6 Months in Duration, Paid More than £245 Per Day between 1 April 2019 and 31 March 2020

Main Department	
Number of new engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020	935
<b>Of which...</b>	
Number assessed to be in-scope of IR35	698
Number assessed to be out of scope of IR35	237
Number engaged directly (via PSC contracted to department) and are on the departmental payroll	0
Number of engagements reassessed for consistency / assurance purposes during the year.	73
Number of engagements that saw a change to IR35 status following the consistency review	4

48 <https://www.gov.uk/guidance/consultancy-spend-controls>

## Accountability Report

46% (430 in number) of the total engagements in Table 2 have been engaged via either Public Sector Resourcing Crown Commercial Services (CCS), or the Temporary Healthcare Worker frameworks. This reflects our policy decision to only engage workers through these frameworks who are on their supplier' payroll.

With respect to the remaining – 54% (500 in number) engagements were placed through DE&S delivery partner arrangements with specialist recruiters and the remaining 1% (5 in number) through other CCS frameworks.

### *On-Payroll Engagements of Board Members and / or Senior Officials with Significant Financial Responsibility between 1 April 2019 and 31 March 2020*

	Main Department	ALBs
Number of individuals that have been deemed “board members, and/or senior officials with significant financial responsibility”, during the financial year.	74	56

## Trade Union Facility Time

The following is a summary of trade union officials and facility time incurred during 2019–20.

### *Number of Trade Union Officials*

Relevant union officials	
Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
145	220,029

### *Percentage of Pay Bill Spent on Facility Time*

Percentage of pay bill spent on facility time	
Total cost of facility time	£326,128
Total pay bill	£2,676,000,000
Percentage of the total pay bill spent on facility time.	0.01%

### *Percentage of Time Spent on Facility Time*

Percentage of time	Number of employees
0%	-
1–50%	145
51%–99%	-
100%	-

### *Time Spent on Trade Union Activities*

Paid trade union activities	
Time spent on paid trade union activities as a percentage of total paid facility time hours	7.16%

# 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 Parliamentary Supply (SoPS)

*(This section has been subject to audit)*

In addition to the primary statements prepared under International Financial Reporting Standard (IFRS) (included in the Financial Statements), the Financial Reporting Manual (FRM) requires us to prepare a 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 won’t exactly tie to cash spent) and administration. The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SOCNE, to tie the SoPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and, an analysis of income payable to the Consolidated Fund (note 4).

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Summary of Resource and Capital Outturn 2019-20

	Note	Outturn			Estimate			Outturn v Estimate Saving/(Excess)			2019-20		2018-19	
		Voted £000	Non Voted £000	Total £000	Voted £000	Non Voted £000	Total £000	Voted £000	Non Voted £000	Total £000	Outturn Total £000	Outturn Total £000		
<b>Departmental Expenditure Limit</b>														
Resource	SoPS 1.1	36,707,038	-	36,707,038	37,422,355	-	37,422,355	715,317	-	715,317	-	-	34,571,491	
Capital	SoPS 1.2	10,313,857	-	10,313,857	10,354,053	-	10,354,053	40,196	-	40,196	-	-	10,294,437	
<b>Total</b>		<b>47,020,895</b>	<b>-</b>	<b>47,020,895</b>	<b>47,776,408</b>	<b>-</b>	<b>47,776,408</b>	<b>755,513</b>	<b>-</b>	<b>755,513</b>	<b>-</b>	<b>-</b>	<b>44,865,928</b>	
<b>Annually Managed Expenditure</b>														
Resource	SoPS 1.1	59,831	-	59,831	1,719,285	-	1,719,285	1,659,454	-	1,659,454	-	-	(7,882,708)	
Capital	SoPS 1.2	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total</b>		<b>59,831</b>	<b>-</b>	<b>59,831</b>	<b>1,719,285</b>	<b>-</b>	<b>1,719,285</b>	<b>1,659,454</b>	<b>-</b>	<b>1,659,454</b>	<b>-</b>	<b>-</b>	<b>(7,882,708)</b>	
<b>Total Budget</b>														
Resource	SoPS 1.1	36,766,869	-	36,766,869	39,141,640	-	39,141,640	2,374,771	-	2,374,771	-	-	26,688,783	
Capital	SoPS 1.2	10,313,857	-	10,313,857	10,354,053	-	10,354,053	40,196	-	40,196	-	-	10,294,437	
<b>Total</b>		<b>47,080,726</b>	<b>-</b>	<b>47,080,726</b>	<b>49,495,693</b>	<b>-</b>	<b>49,495,693</b>	<b>2,414,967</b>	<b>-</b>	<b>2,414,967</b>	<b>-</b>	<b>-</b>	<b>36,983,220</b>	
<b>Non-budget</b>														
Resource		-	-	-	-	-	-	-	-	-	-	-	1,060,400	
<b>Total Budget and Non-budget</b>		<b>47,080,726</b>	<b>-</b>	<b>47,080,726</b>	<b>49,495,693</b>	<b>-</b>	<b>49,495,693</b>	<b>2,414,967</b>	<b>-</b>	<b>2,414,967</b>	<b>-</b>	<b>-</b>	<b>38,043,620</b>	

The majority of Resource DEL variance in core expenditure of (£0.7 billion) was in ringfenced RDEL and reflected changes in assumptions on the valuation of assets and depreciation for example in relation to the retained estate.

The majority of the Capital DEL budget and reported variance (£0.04 billion) relates to non-ringfenced expenditure.

For Annually Managed Expenditure (AME), which by its nature is demand led and volatile, the outturn was £0.060 billion against an estimate of £1.72 billion. The majority of the (£1.66 billion) variance is due to movements in depreciation and impairment costs.

The Net Cash Requirement estimate was increased as part of the Supplementary Estimates review at which time trend analysis suggested that the previous value might be insufficient to cover payments in the remainder of the financial year. This forecast subsequently reduced as actual cash payments were less and recoveries greater than anticipated leading to the end year variance reported. Improvements to departmental cash forecasting are being developed to deliver enhancements to forecast accuracy.

*Net Cash Requirement 2019–20*

	Note	2019–20		Outturn compared to Estimate: Savings/ (Excess) £000	2018–19
		Outturn £000	Estimate £000		Outturn £000
Net Cash Requirement	SoPS 3	41,024,026	41,481,408	457,382	37,757,740

*Administration Costs 2019–20*

	Note	2019–20		Outturn compared with Estimate £000	2018–19
		Outturn £000	Estimate £000		Outturn £000
Administration Costs	SoPS 1.1	1,907,845	1,909,889	2,044	1,680,879

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

## SoPS Note 1 Net Outturn

### SoPS Note 1.1 – Analysis of Net Resource Outturn

Spending in Departmental Expenditure Limits (DEL) Voted Expenditure	2019–20				2018–19			
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared to Estimate £000	Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Resource Outturn £000
A. Provision of Defence Capability – Service Personnel Costs	-	9,949,068	-	<b>9,949,068</b>	9,949,807	739	-	9,093,174
B. Provision of Defence Capability – Civilian Personnel Costs	-	1,535,636	-	<b>1,535,636</b>	1,782,972	247,336	-	1,382,590
C. Provision of Defence Capability – Infrastructure Costs	-	4,643,384	-	<b>4,643,384</b>	4,811,693	168,309	-	4,258,514
D. Provision of Defence Capability – Inventory Consumption	-	1,225,847	-	<b>1,225,847</b>	1,310,821	84,974	-	1,173,172
E. Provision of Defence Capability – Equipment Support Costs	-	6,927,405	-	<b>6,927,405</b>	7,028,411	101,006	-	6,792,882
F. Provision of Defence Capability – Other Costs and Services	-	1,347,553	-	<b>1,347,553</b>	936,714	(410,839)	-	1,345,918
G. Provision of Defence Capability – Receipts and Other Income	-	-	(1,264,898)	<b>(1,264,898)</b>	(1,185,020)	79,878	26,732	(1,088,379)
H. Provision of Defence Capability – Depreciation and Impairment Costs	-	7,185,671	-	<b>7,185,671</b>	7,796,772	611,101	611,101	6,805,446
I. Provision of Defence Capability – Cash Release of Provisions	-	522,739	-	<b>522,739</b>	340,000	(182,739)	-	389,329
N. Provision of Defence Capability – Research and Development Costs	-	265,316	-	<b>265,316</b>	230,653	(34,663)	-	228,963
Q. Operations – Service Personnel Staff Costs	-	39,494	-	<b>39,494</b>	30,760	(8,734)	-	30,728
R. Operations and Peacekeeping – Civilian Personnel Staff Costs	-	1,623	-	<b>1,623</b>	3,291	1,668	1,668	3,014



Spending in Departmental Expenditure Limits (DEL) Voted Expenditure	2019-20						2018-19	
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared to Estimate £000	Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Resource Outturn £000
S. Operations – Infrastructure Costs	-	55,749	-	<b>55,749</b>	61,930	6,181	6,181	63,814
T. Operations – Inventory Consumption	-	110,914	-	<b>110,914</b>	139,345	28,431	28,431	80,522
U. Operations – Equipment Support Costs	-	122,189	-	<b>122,189</b>	155,694	33,505	24,771	271,531
V. Operations – Other Costs and Services	-	41,408	-	<b>41,408</b>	50,474	9,066	9,066	66,477
W. Operations – Receipts and Other Income	-	-	(4,932)	<b>(4,932)</b>	(4,494)	438	438	(2,901)
X. Operations – Depreciation and Impairment Costs	-	1,613	-	<b>1,613</b>	5,000	3,387	3,387	24,585
AA. Arm's Length Bodies Costs	-	228,215	-	<b>228,215</b>	189,472	(38,743)	-	204,025
AC. Defence Capability DE&S BTE	-	1,099,653	-	<b>1,099,653</b>	1,098,400	(1,253)	-	981,367
AD. War Pensions Benefits	-	681,025	-	<b>681,025</b>	691,708	10,683	-	697,262
AE. Conflict, Stability and Security Fund	-	84,521	-	<b>84,521</b>	88,063	3,542	3,542	88,579
<b>Administration Costs<sup>1</sup></b>								
O. Administration Costs – Civilian Personnel Costs	550,640	-	-	<b>550,640</b>	550,000	(640)	-	483,679
P. Administration Costs – Other Costs and Services	642,365	-	-	<b>642,365</b>	628,889	(13,476)	-	530,519
AB. Administration Costs – Service Personnel Costs	702,906	-	-	<b>702,906</b>	721,000	18,094	-	661,235
AF. Administration Costs – Cash Release of Provisions	11,934	-	-	<b>11,934</b>	10,000	(1,934)	-	5,446
<b>Total Spending in DEL</b>	<b>1,907,845</b>	<b>36,069,023</b>	<b>(1,269,830)</b>	<b>36,707,038</b>	<b>37,422,355</b>	<b>715,317</b>	<b>715,317</b>	34,571,491

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

## Accountability Report

Spending in Annually Managed Expenditure (AME) Voted Expenditure	2019-20				2018-19			
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared with Estimate £000	Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Resource Outturn £000
AG. Provision of Defence Capability – Depreciation and Impairment Costs	-	(46,372)	-	<b>(46,372)</b>	952,550	998,922	998,922	70,897
AH. Provision of Defence Capability – Provisions Costs	-	521,986	-	<b>521,986</b>	816,735	294,749	294,749	(7,377,334)
AI. Provision of Defence – Cash Release of Provisions Costs	-	(534,673)	-	<b>(534,673)</b>	(350,000)	184,673	184,673	(394,775)
AJ. Movement on the Fair Value of Financial Instruments	-	118,890	-	<b>118,890</b>	300,000	181,110	181,110	(181,496)
<b>Total Voted Expenditure in AME</b>	-	<b>59,831</b>	-	<b>59,831</b>	<b>1,719,285</b>	<b>1,659,454</b>	<b>1,659,454</b>	(7,882,708)
<b>Total Resource Outturn</b>	<b>1,907,845</b>	<b>36,128,854</b>	<b>(1,269,830)</b>	<b>36,766,869</b>	<b>39,141,640</b>	<b>2,374,771</b>	<b>2,374,771</b>	26,688,783

SoPS Note 1.2 – Analysis of Net Capital Outturn

Capital Spending in Departmental Expenditure Limits (DEL) Capital – Voted Expenditure	2019–20				2018–19		Total Net Outturn Compared with Estimate	Total Net Outturn Compared to Estimate Adjusted for Virements	Total Net Capital Outturn
	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Total Net Capital Outturn £000			
J. Provision of Defence Capability - Capital - Single Use Military Equipment (SUME)	-	6,848,790	-	<b>6,848,790</b>	6,425,550	(423,240)	-	5,817,644	
K. Provision of Defence Capability - Other Capital (Fiscal)	-	2,441,692	-	<b>2,441,692</b>	2,856,518	414,826	-	3,253,912	
L. Provision of Defence Capability - Fiscal Assets / Estate Disposal	-	-	(39,933)	<b>(39,933)</b>	(137,000)	(97,067)	-	(42,725)	
M. Provision of Defence Capability - New Loans and Loan Repayments	-	-	-	-	-	-	-	8,609	
N. Provision of Defence Capability - Research and Development Costs	-	967,940	-	<b>967,940</b>	1,100,574	132,634	26,868	1,110,050	
Y. Operations Capital Single Use Military Equipment (SUME)	-	1,938	-	<b>1,938</b>	18,000	16,062	6,878	75,113	
Z. Operations Other Capital (Fiscal)	-	22,684	-	<b>22,684</b>	13,500	(9,184)	-	18,583	
AA. Arm's Length Bodies	-	12,200	(9,404)	<b>2,796</b>	2,511	(285)	-	2,500	
AC. Defence Capability DE&S BTE	-	67,950	-	<b>67,950</b>	74,400	6,450	6,450	50,751	
AD. Conflict, Stability and Security Fund	-	-	-	-	-	-	-	-	
<b>Total Capital Outturn</b>	<b>-</b>	<b>10,363,194</b>	<b>(49,337)</b>	<b>10,313,857</b>	<b>10,354,053</b>	<b>40,196</b>	<b>40,196</b>	10,294,437	

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in

the Supply Estimates Manual, available on gov.uk. The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

## SoPS Note 2 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	2019–20 Outturn £000	2018–19 Outturn £000
<b>Net Resource Outturn (Statement of Parliamentary Supply)</b>			
– Budget		<b>36,766,869</b>	26,688,783
– Non-budget	SoPS	-	1,060,400
<b>Total Net Resource Outturn</b>	SoPS	<b>36,766,869</b>	27,749,183
Prior Period Adjustments not passing through operating costs in 2018–19. Costs arising from: new provisions and changes to existing provisions, reclassification of assets, changes to asset values and write off of assets. These costs are treated as non-budget in the 2018–19 resource outturn.	SoPS	-	(1,060,400)
Adjustment for changes in discount rates not passing through net operating costs		<b>(86,082)</b>	46,333
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts but treated as off-SoFP for Estimates and Budgets and therefore excluded from the resource outturn but included in operating costs		<b>142,347</b>	19,176
Less income payable to the Consolidated Fund <sup>1</sup>		<b>(45,425)</b>	-
Income in respect of donated assets treated as capital income		-	(98,024)
Loss/ (gain) on foreign exchange in respect of Capital purchases and other adjustments to resource outturn		<b>(120,037)</b>	(53,970)
Less movements on capitalised and other provisions included in resource outturn but not passing through net operating costs		<b>(309,243)</b>	1,473,600
Adjust for the net effect of capital grants included in operating costs but excluded from resource outturn and included in resource outturn but excluded from operating costs		<b>(9,404)</b>	(13,221)
Add capitalised Research and Development Costs included in operating costs but excluded from resource outturn		<b>823,939</b>	722,641
<b>Net Expenditure</b>		<b>37,162,964</b>	28,785,318

1. Income received from the Court Funds Office was paid into the HM Treasury Consolidated Fund and not retained within the Department in line with direction from HM Treasury.

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 Resource Outturn to Net Cash Requirement

	Note	Outturn £000	Estimate £000	Net Total Outturn Compared with Estimate: Savings/(Excess) £000
Net Resource Outturn	SoPS 1.1	36,766,869	39,141,640	2,374,771
Net Capital Outturn	SoPS 1.2	10,313,857	10,354,053	40,196
<b>Adjustments for Arm's Length Bodies (ALBs):</b>				
Remove voted outturn (Resource and Capital)		(231,011)	(191,983)	39,028
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		221,086	188,755	(32,331)
<b>Adjustments to remove non-cash items:</b>				
Depreciation and impairment		(7,141,151)	(9,054,322)	(1,913,171)
New provisions and adjustments to previous provisions		(121,103)	(816,735)	(695,632)
Other non-cash items		(293,430)	-	293,430
<b>Adjustment to reflect movement in working capital:</b>				
Increase/(Decrease) in Inventory		69,683	341,000	271,317
Increase/(Decrease) in Receivables		439,693	583,000	143,307
(Increase)/Decrease in Payables		470,419	586,000	115,581
Use of provisions and unfunded pensions		529,114	350,000	(179,114)
<b>Net Cash Requirement</b>		<b>41,024,026</b>	<b>41,481,408</b>	<b>457,382</b>

As noted in the introduction to the SoPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis.

Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

## SoPS Note 4 – Analysis of Income Payable to the Consolidated Fund

In addition to income retained by the Department, HM Treasury has classified the following income

as payable to the Consolidated Fund (cash receipts being shown in italics):

	Outturn 2019–20		Outturn 2018–19	
	Accruals £000	Cash basis £000	Accruals £000	Cash basis £000
Income outside the ambit of the Estimate <sup>1</sup>	45,425	<i>45,425</i>	-	-
Total amount payable to the Consolidated Fund	<b>45,425</b>	<b><i>45,425</i></b>	-	-

1. Income received from the Court Funds Office was paid into the HM Treasury Consolidated Fund and not retained within the Department in line with direction from HM Treasury

## 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 IAS37 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 quantified liabilities is £2,383 million.

A number of 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 unquantifiable contingent liabilities are also included in the narrative below.

### Sensitive

We have entered into contingent liabilities by offering guarantees, limitations to contractors' liability, indemnities or by giving letters of comfort. There are some liabilities where details are not given due to the reasons of commercial and/or national security, the estimated value of these is £179.4 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 £297.1 million, in addition there are 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 AWE Management Ltd for non-nuclear risks and Babcock Group, Lockheed Martin, QinetiQ, and Leonardo for non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party. The potential value relating to damage caused on Government Property is £1,638.8 million, plus an element of these liabilities are unquantifiable.
- The estimated value for liability for consequential or indirect loss, redundancy, loss or damage arising from Light Aircraft Flying Training is £25 million.
- The Department has provided an indemnity to contractors for loss or damage to issued property with a potential value of £10 million.
- The Department has provided an indemnity for contractor's liability relating to explosion or ignition of Authority owned ammunition or explosives with a value of £2 million.
- There is an unquantified liability relating to the Strategic Weapons System Activities Future Delivery Project where the contract includes an indemnity for non-nuclear events and unintended detonation of explosives.
- The Department has provided an overall cap on contractor liability (unquantifiable) within the future submarine design phase contract with Devonport Royal Dockyard Limited and BAE Systems Ltd. The cap is unquantifiable because 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.

## Nuclear

Indemnities have been provided to several companies relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965. These liabilities are unquantifiable. These companies include:

- Rolls-Royce
- BAE Systems
- AWE Management Ltd
- Babcock Group
- Mott MacDonald, Jacobs and White Young Green in support of framework contracts under Next Generation Estate Contracts.

An unquantifiable indemnity has been issued to Rolls-Royce Power for the non-insurance of the Rolls-Royce Core Factory and the Neptune Test Reactor facility for death and personal injury to a third party.

## People

The MOD has provided a guarantee to the NAAFI pensions Trustees' underwriting the ability to pay full benefits to members with a value £154.9 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 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 £12.9 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 contractorization

### Environmental

The Department has a number of sites where it may be necessary to carry out decontamination work.

- The Government Pipeline and Storage System (GPSS) – 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 quantified and possible site remediation exposure is recognised as an unquantifiable contingent liability.

- 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.

### EU Exit

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. On 31 January 2020, the Withdrawal Agreement between the UK and the EU became legally binding and the UK left the EU. The future relationship between the EU and the UK will be determined by negotiations taking place during a

transition period ending 31 December 2020. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable contingent liability is disclosed.

### COVID-19

In November 2019 a novel strain of coronavirus was detected and spread rapidly, leading the World Health Organisation to declare a pandemic on 11 March 2020. The pandemic caused significant economic disruption just before the financial year end. The ongoing disruption caused by the pandemic has created significant economic uncertainty, and this uncertainty is expected to continue throughout 2020. As a result, an unquantifiable 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 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 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 a number of newly quantified liabilities arising from legal claims against the MoD. These are currently going through the UK court system and if these contractual encroachments were to materialize then their value would be £7 million.

There are a number of newly quantified liabilities arising from Foreign Military Sales activity with the potential value of £2.2 million. An element of these liabilities are unquantifiable.

The Department incur an unquantifiable statutory liability for International Military Services.

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).

## 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 in to UK ports, should the foreign nation default on payment of the invoice.

## Accountability to Parliament

Ministers have accounted to Parliament during the financial year 2019–20 on all aspects of the Ministry of Defence’s business. Defence Ministers

participated in 27 debates on Defence issues in Parliament. Ministers responded to seven debates in the House of Commons and 11 debates in Westminster Hall. There were seven debates on Defence in the House of Lords. There were two debates on legislation (one in the House of Commons, one in the House of Lords). Details are published in Hansard.

Ministers made two oral statements to the House of Commons and one to the House of Lords – details are published in Hansard. A total of 1,726 oral and written Parliamentary Questions were answered. Ministers also made 35 Written Ministerial Statements to the House of Commons and the House of Lords – details are published on the Parliamentary written questions and answers system at the following link – <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/>

## Ministerial Correspondence

From 1 April 2019 to 31 March 2020, Defence Ministers received 1,997 items of correspondence from Members of Parliament, Peers and members of the public where a Ministerial response was appropriate. Of these, 1,953 (98%) were answered within the target of 20 working days.

## Evidence to the Defence Select Committee

Since 1 April 2019, the Ministry of Defence has given evidence to the Defence Select Committee on a number of occasions covering a wide range of issues, and the Government has responded to a number of the Committee’s reports. All Committee publications, including published evidence given to the Committee, are available at: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/defence-committee/publications/>

Government responses submitted by the Ministry of Defence to Committee reports published during this reporting period are listed overleaf.

## Accountability Report

### *Parliamentary Session 2019–20: MOD responses to reports published in previous Parliamentary Session*

Report	Title	Publication Date
HC 2213	Mental Health and the Armed Forces, Part Two: The Provision of Care: Government Response to the Committee's Fourteenth Report of Session 2017–19	24 May 2019
HC 2464	Missile Misdemeanours: Russia and the INF Treaty: Government response to the Committee's Fifteenth Report of Session 2017–19	01 July 2019
HC 153	Fairness without Fear: Work of the Service Complaints Ombudsman: Government Response to the Committee's Sixteenth Report of Session 2017–19	21 October 2019
HC 162	Armed Forces Covenant Annual Report 2018: Government Response to the Committee's Eighteenth Report of Session 2017–19	09 March 2020

### *Financial Year 2019–20: Defence Select Committee Reports*

Report	Title	Publication Date
HC 1734	Missile Misdemeanours: Russia and the INF Treaty (HC 2464)	04 April 2019
HC 1224	Drawing a line: Protecting veterans by a Statute of Limitations	22 July 2019
HC 1889	Fairness without Fear: The work of the Service Complaints Ombudsman (HC 153)	07 August 2019
HC 1899	Armed Forces Covenant Annual Report 2018 (HC 162)	25 September 2019

### *Financial Year 2019–20: Evidence to Defence Committee Inquiries without Reports*

Select Committee	Inquiry
Defence Committee	Ministry of Defence Annual Report and Accounts
Defence Committee	Evidence from the New Defence Secretary

### *Visits by the Defence Committee to UK Armed Forces*

Date of Visit	Establishment	Related Inquiry
12–15 May 2019	Tapa, Estonia	Hybrid Threats
12 March 2020	Army HQ, Andover, and Salisbury Plain Training Area	N/A

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

Since 1 April 2019, the Ministry of Defence has also given written and oral evidence on various issues to the following Select Committees of the House of Commons:

### Other Select Committee Reports

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

Select Committee	Subject	Publication Date
Welsh Affairs Committee	Wales and the Armed Forces (Evidence Session)	26 July 2019

### Evidence to Other Select Committee Inquiries without Reports

Select Committee	Inquiry
Public Administration and Constitutional Affairs Committee	The Role of Parliament in the UK Constitution: Authorising the Use of Military Force

### Visits by Other Select Committees to UK Armed Forces

Select Committee	Date of Visit	Establishment	Related Inquiry
House of Commons Welsh Affairs Committee	20 May 2019	Infantry Battle School, Dering Lines; Brecon Barracks	Wales and the Armed Forces

## Public Accounts Committee

The Permanent Secretary as the MOD's Accounting Officer is accountable to the Public Accounts Committee.

All Committee publications, including published evidence given to the Committees, are available at: <https://www.parliament.uk/business/committees/committees-a-z/>

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

Report	Title	Hearing Date	Publication Date
HC 2041	Investigation into Submarine defueling and dismantling	01 May 2019	19 June 2019
HC 2136	Military Homes	08 May 2019	28 June 2019
HC 86	Defence Nuclear Infrastructure	11 March 2020	13 May 2020
HC 247	Defence Capability and the Equipment Plan 2019–2029	28 May 2020	15 July 2020
-	Carrier Strike: Preparing for Deployment <sup>1</sup>	28 September 2020	-

1. Report not yet published.

## Performance in Responding to Correspondence from the Public

### *Freedom of Information*

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.

## 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 2019–20, the PHSO received 14 complaints about the MOD. The Ombudsman assessed 3 complaints to decide whether it should investigate the case or whether it could be resolved without a full investigation. No complaints were accepted for investigation.

## Regularity of Expenditure

*(This section has been subject to audit)*

### Losses, Special Payments and Gifts

Further information on the categories of losses and special payments can be found in HM Treasury’s Managing Public Money at: <https://www.gov.uk/government/publications/managing-public-money>

### Losses

#### *Summary of All Closed Cases*

	2019–20		2018–19	
	Number of Cases	£M	Number of Cases	£M
Cash and Overpayment Losses	26	0.018	500	3.607
Bookkeeping Adjustments	32	7.877	1,583	25.622
Stores Losses	5,699	18.172	5,609	7.496
Fruitless Payments	6,156	3.723	2,769	6.019
Constructive Losses	3	1.960	6	80.775
Claims Waived or Abandoned	2,050	4.097	2,926	6.370
<b>Total Losses</b>	<b>13,967</b>	<b>35.847</b>	13,393	129.889

*Details of Closed Cases over £300,000*

Cases	£M
<b>Bookkeeping Adjustments</b>	
Write off of unsupported balances. This loss consists of balances that could not be verified with the information available. This loss consists of four cases.	<b>6.593</b>
<b>Constructive Losses</b>	
Chinook Mk6 Synthetic Training System – engineering training option not taken up.	<b>1.553</b>
Hangar project cancelled.	<b>0.342</b>
<b>Stores Losses</b>	
Damage on landing to a remotely piloted aircraft.	<b>6.015</b>
Medical stores damage following a power outage.	<b>1.896</b>
Damage to electronic counter measures equipment.	<b>0.448</b>
Tornado jettisoned equipment on operational sortie.	<b>0.321</b>
<b>Fruitless Payments</b>	
VAT charged in error.	<b>0.843</b>
The MOD's budget for 2020–21 has been reduced as a result of the Department's cash forecasting performance during 2019–20.	<b>0.368</b>
<b>Claims waived or abandoned</b>	
Supplies and services provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British ports at Clyde, Portsmouth, Devonport and Gibraltar.	<b>0.973</b>
Fuel sale written off after customer went into administration.	<b>0.682</b>
<b>TOTAL CLOSED CASES OVER £300,000</b>	<b>20.034</b>

**Advance Notifications**

HM Treasury's Managing Public Money requires early notification to Parliament of significant losses. Details of open cases identified during the year that are over £300,000 can be found in the table below. The values are estimates and may change when the case is finally closed.

*Advance Notifications over £300,000*

Cases	£M
<b>Constructive Losses</b>	
Reductions arising from the Land Equipment Fleet Optimisation Programme. This loss consists of six cases relating to various types of vehicle.	<b>231.031</b>
Reduction of the Sentry aircraft fleet.	<b>147.485</b>
HMS Quorn withdrawn from service.	<b>21.604</b>
Cessation of a project to procure a new information system.	<b>4.059</b>
<b>Stores Losses</b>	
Loss of sonar equipment.	<b>0.791</b>
Damage to missile pod.	<b>0.640</b>
<b>Fruitless Payments</b>	
Off the shelf IT support packages not fit for purpose.	<b>0.540</b>
<b>TOTAL ADVANCE NOTIFICATIONS OVER £300,000</b>	<b>406.150</b>

## Accountability Report

### Special Payments

#### Details of Special Payments

	2019–20		2018–19	
	Number of Cases	£M	Number of Cases	£M
Total Special Payments – closed cases	2,169	14.073	2,678	9.911

#### Details of Closed Cases over £300,000

Cases	£M
<b>Extra Gratia Payments</b>	
Extra-Contractual payments to settle a legal challenge. This consists of two cases.	13.000
<b>TOTAL ADVANCE NOTIFICATIONS OVER £300,000</b>	<b>13.000</b>

#### Advance Notifications of over £300,000

Cases	£M
<b>Extra Gratia Payments</b>	
Ex-gratia payments to settle a legal challenge. This consists of two cases.	1.829
<b>TOTAL ADVANCE NOTIFICATIONS OVER £300,000</b>	<b>1.829</b>

### Special Severance Payments

During 2019–20, 8 Special Severance Payments with a total £389,000 were made. Further details (to the nearest £1,000) are:

#### Analysis of Special Severance Payments

	(to the nearest £1,000)
Maximum Payment	245,000
Median Payment	11,000
Minimum Payment	10,000

### Gifts

Gifts with a total value of £1,000 (to the nearest £1,000) were made during the year. There have been no individual gifts with a value of £300,000 or more.

The following gift over £300,000 was identified during the year but has yet to be handed over to the recipient.		£M
Four former Navy Historic Flight aircraft, associated spare parts and support equipment to Fly Navy Heritage Trust.		1.810
<b>TOTAL ADVANCE NOTIFICATIONS OF GIFTS</b>		<b>1.810</b>



**Sir Stephen Lovegrove, KCB**  
Accounting Officer  
13 October 2020

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Ministry of Defence and of its Departmental Group for the year ended 31 March 2020 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 2019. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

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

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2020 and of the Department's and Departmental Group's net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Basis for qualified opinion on financial statements

I have qualified my opinion on the financial statements in one respect:

- The Department has not undertaken sufficient work to analyse underlying and supporting documentation to enable it to comply with the Financial Reporting Framework and account for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17, Leases. Consequently, I have concluded that the Ministry of Defence has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2019 and 31 March 2020. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not obtained the records or information required to comply with International Financial Reporting Standards in this respect.

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2020 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 of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) 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 2016. I am independent of the Ministry of Defence in accordance with the ethical requirements that are relevant to my audit and 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

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Ministry of Defence's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Ministry of Defence has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Ministry of Defence's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## 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.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Ministry of Defence's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of



accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.
- Conclude on the appropriateness of the Ministry of Defence's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ministry of Defence's (or where relevant, the group's) ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Ministry of Defence (or where relevant, the group) to cease to continue as a going concern.

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.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure

(Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and 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, 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 parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the group and the Department and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and

- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

In respect solely of the absence of accounting records held by the Department to support the proper application of IAS 17, described above:

- adequate accounting records have not been kept; and,
- I have not received all of the information and explanations I require for my audit.

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

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

### **Opinion on Votes A**

The Ministry of Defence's Votes A is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained for service with the armed forces. As reported in Annex A of the Annual Report, the maximum numbers maintained during 2019-20 for the Naval, Army and Air Force Services in all active and reserve categories were within the numbers voted by Parliament. I obtain evidence sufficient to give reasonable assurance as to whether the Votes A Statement as presented in Annex A properly presents the maximum numbers maintained against voted Parliamentary control totals and whether those totals have not been exceeded.

In my opinion the Votes A Statement properly presents the maximum numbers maintained against voted Parliamentary control totals for the year ended 31 March 2020 and that those totals have not been exceeded.

**Gareth Davies**  
Comptroller and Auditor General  
22 October 2020

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

# Report of the Comptroller and Auditor General to the House of Commons

## Introduction

The Ministry of Defence's (the Department) primary purpose is to protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies. In 2019–20 the Departmental Group incurred £37.2 billion of net operating costs and held assets of £156.0 billion and liabilities of £29.2 billion.

The Department is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury. Under the FReM, the Department is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

## The purpose of my report

This report explains the basis for the qualification of my audit opinion on the Department's 2019–20 financial statements

## Accounting for lease type arrangements

### *Basis of my qualification*

I have qualified my opinion for an eleventh 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 noncompliance 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 in the Department's Statement of Financial Position.

## 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 be finance leases. In addition, the Department recognised that there were significant completeness concerns over the scope of its review and that the scale of the omission of assets and liabilities arising from lease arrangements was highly likely to extend significantly beyond the eight identified contracts. The Department concluded that the omitted contracts would have a material impact on its Statement of Financial Position.

Following this exercise, the Department concluded that compliance with IAS 17 for existing contracts would create significant challenges as further management information and supplier engagement would be needed to complete the review and confirm what values would need to be included in the accounts. As such, the Department has, in agreement with HM Treasury, decided not to obtain more detailed information on the grounds that doing so would not represent value for money. Although the Department has begun a review of its legacy contracts in support of its implementation of the new leasing standard (see IFRS 16 implementation project below), this work remains incomplete and has not addressed IAS 17 non-compliance. I am unable therefore, to quantify the exact impact of the omission of assets and liabilities arising from leasing arrangements on the financial statements because the quality of evidence is insufficient for the purposes of my opinion.

The Department has capitalised some of the historic expenditure incurred in its legacy contracts either as assets under construction or

onto the cost of relevant equipment platforms built at those sites. It has also sought to apply IAS 17 for any new contracts on a single site with a single supplier, although has not identified any new contracts to date. As this prospective application of IAS 17 will not consider any legacy contracts, or new contracts with multiple sites or suppliers, it will not address the reasons for my qualification of the financial statements.

### IFRS 16 implementation project

In January 2016, the International Accounting Standards Board issued a new accounting Standard – IFRS 16 – Leases which will change how all central government bodies will account for their leases, including the treatment of contracts that include lease-type arrangements. In May 2018, HM Treasury published IFRS 16 Exposure Draft 18(01) which confirmed that IFRS 16 will be effective for the public sector, and following a deferral of the implementation date in light of the COVID-19 pandemic, the effective date for the Department to implement IFRS 16 is 1 April 2021. The Department is working towards full adoption of IFRS 16, which if effective, would allow me to lift my qualification.

The Department has adopted a detailed plan for the implementation of IFRS 16, which it began in October 2018, and has committed substantial resources, making use of external assistance to ensure its contract analysis is complete, promoting training for commercial and finance teams to identify contracts affected by the new accounting standard, introducing clauses in new contracts to ensure sufficient information is available to report appropriate lease data, and purchasing an accounting tool to help measure the resultant asset and liability values. Thus far, the Department has collected contract information from across the business, assessed in excess of 11,500 contracts, including those which relate to the complex contractual arrangements which underpin my existing qualification, and has begun the process of capturing the resultant asset and liability values.

Whilst the Department has not sought to address its non-compliance with IAS 17, I support the Department's commitment to improve its processes for assessing its contractual arrangements to support full IFRS 16 compliance in 2021–22. The Department has made progress in delivering against its implementation plan, and although its original implementation timetable has been extended in line with HM Treasury's deferral of the implementation date, the Department considers that it remains on track to implement IFRS 16 in full, from 1 April 2021.

Implementation is a complex process, and despite the progress made to date, the Department still faces a number of remaining challenges before it can be confident of full implementation. Key amongst these will be ensuring the completeness of contracts that contain leases or lease-type arrangements and introducing business as usual procedures to ensure completeness going forward. The calculation of the resultant right of use assets, taking into account any previously capitalised expenditure, and the corresponding lease liability values is a complex exercise, made more difficult by challenges in the management information currently held by the Department, and this is particularly so with those complex sites that underpin my existing qualification.

**Gareth Davies**

Comptroller and Auditor General

22 October 2020

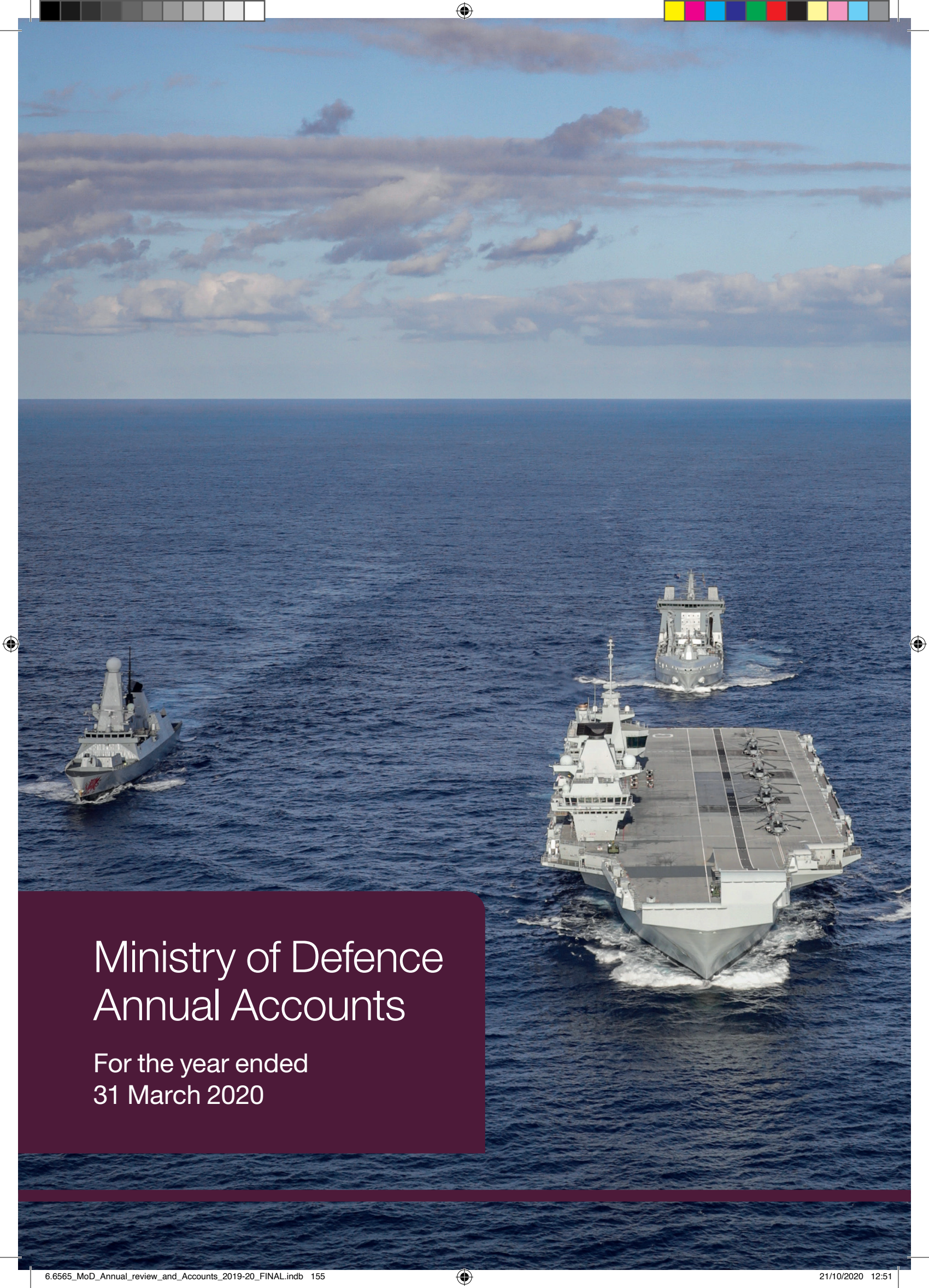
National Audit Office  
157–197 Buckingham Palace Road  
Victoria  
London SW1W 9SP



## Accountability Report

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# Ministry of Defence Annual Accounts

For the year ended  
31 March 2020

## Consolidated Statements of Comprehensive Net Expenditure (SoCNE) for the year ended 31 March 2020

	Note	2019–20		2018–19	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Income from provision of supplies and services	3	(868.1)	(868.1)	(724.2)	(724.2)
Other income	3	(654.7)	(796.2)	(722.1)	(829.1)
<b>Total income</b>		<b>(1,522.8)</b>	<b>(1,664.3)</b>	<b>(1,446.3)</b>	<b>(1,553.3)</b>
Staff costs	4.1	13,728.9	13,832.2	12,499.1	12,598.4
Purchase of goods and services	4.2	15,466.4	15,466.4	14,957.9	14,957.9
Depreciation, impairment, writes on/off and disposals	4.3	7,570.3	7,580.8	7,032.6	7,042.4
Movement on provisions, derivatives and discounted cashflows	4.4	89.4	89.4	(6,172.1)	(6,172.1)
War pensions/benefits		680.3	680.3	697.3	697.3
Interest paid (including on Service Concession Arrangements)		391.7	391.7	451.1	451.1
Other expenditure	4.5	756.0	786.5	770.4	763.6
<b>Total expenditure</b>		<b>38,683.0</b>	<b>38,827.3</b>	<b>30,236.3</b>	<b>30,338.6</b>
<b>Net expenditure for the year</b>		<b>37,160.2</b>	<b>37,163.0</b>	<b>28,790.0</b>	<b>28,785.3</b>
Non-operating gain on the transfer of IMS to the Department		-	(18.6)	-	-
<b>Net expenditure for the year including the non-operating gain on the transfer of IMS to the Department</b>		<b>37,160.2</b>	<b>37,144.4</b>	<b>28,790.0</b>	<b>28,785.3</b>
<b>Other Comprehensive Expenditure</b>					
Net (gain)/loss on revaluation of property, plant and equipment	SoCITE	(4,099.3)	(4,119.4)	(2,358.5)	(2,359.3)
Net (gain)/loss on revaluation of intangible assets	SoCITE	(716.1)	(716.1)	427.1	427.1
Net (gain)/loss on revaluation of assets held for sale	SoCITE	0.3	0.3	1.3	1.3
Net (gain)/loss on pensions	SoCITE	86.2	100.7	(18.8)	(20.5)
Changes in capitalised decommissioning liabilities	SoCITE	309.2	309.2	(1,473.6)	(1,473.6)
Assets written-off (on) and transferred in	SoCITE	(23.5)	(1.9)	(192.7)	(236.4)
Reduction in inventory value following adoption of weighted average cost valuation <sup>1</sup>	SoCITE	-	-	336.1	336.1
<b>Comprehensive Net Expenditure for the Year</b>		<b>32,717.0</b>	<b>32,717.2</b>	<b>25,510.9</b>	<b>25,460.0</b>

1. IAS 2 was adopted in full from financial year 2018–19.

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 2020

	Note	31 March 2020		31 March 2019	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Non-current assets</b>					
Intangible assets	5	30,284.9	30,284.9	28,818.8	28,818.8
Property, plant and equipment	6	115,459.0	116,120.4	110,156.7	110,819.2
Retirement benefit scheme assets	13	-	8.9	-	15.9
Financial assets	7	13.3	13.3	13.3	13.3
Receivables due after more than one year	9	578.2	624.8	591.3	591.4
<b>Total non-current assets</b>		<b>146,335.4</b>	<b>147,052.3</b>	139,580.1	140,258.6
<b>Current assets</b>					
Non-current assets held for sale		35.3	35.3	29.6	29.6
Inventories	8	3,774.7	3,782.9	3,678.9	3,687.2
Receivables due within one year	9	3,135.2	3,150.6	2,706.5	2,724.8
Financial assets	7	397.6	431.6	251.4	287.7
Cash at bank and in hand	10	1,381.6	1,529.0	1,407.5	1,533.4
<b>Total current assets</b>		<b>8,724.4</b>	<b>8,929.4</b>	8,073.9	8,262.7
<b>Total assets</b>		<b>155,059.8</b>	<b>155,981.7</b>	147,654.0	148,521.3
<b>Current liabilities</b>					
Payables due within one year	11	(10,087.8)	(10,228.7)	(10,724.8)	(10,828.8)
Provisions due within one year	12	(414.1)	(418.8)	(343.8)	(344.8)
Financial liabilities	7	(295.5)	(295.5)	(106.6)	(106.6)
<b>Total current liabilities</b>		<b>(10,797.4)</b>	<b>(10,943.0)</b>	(11,175.2)	(11,280.2)
<b>Total assets less current liabilities</b>		<b>144,262.4</b>	<b>145,038.7</b>	136,478.8	137,241.1
<b>Non-current liabilities</b>					
Provisions due after one year	12	(12,026.5)	(12,026.6)	(12,020.2)	(12,024.2)
Retirement benefit scheme liabilities	13	(613.4)	(650.0)	(556.3)	(585.4)
Payables due after more than one year	11	(5,594.2)	(5,613.6)	(6,138.5)	(6,147.3)
<b>Total non-current liabilities</b>		<b>(18,234.1)</b>	<b>(18,290.2)</b>	(18,715.0)	(18,756.9)
<b>Total assets less total liabilities<sup>1</sup></b>		<b>126,028.3</b>	<b>126,748.5</b>	117,763.8	118,484.2
<b>Taxpayers' equity and other reserves</b>					
General fund	SoCiTE	96,022.0	96,022.0	90,542.9	90,542.9
Revaluation reserve	SoCiTE	30,006.3	30,006.3	27,220.9	27,220.9
Arm's Length Bodies' reserves		-	720.2	-	720.4
<b>Total equity</b>		<b>126,028.3</b>	<b>126,748.5</b>	117,763.8	118,484.2

1. The value of assets and liabilities accounted for under leases is understated because contracts, particularly strategic procurement arrangements with key contractors, have not been assessed under IAS 17. Further details of the Department's application of IAS 17 are set out in Note 1 to the accounts Accounting Policies; specifically notes 1.44 to 1.47.



**Sir Stephen Lovegrove KCB**  
Accounting Officer  
13 October 2020

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 2020

	Note	2019–20		2018–19	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Cash flows from operating activities</b>					
Net expenditure for the year	SoCNE	<b>37,160.2</b>	<b>37,163.0</b>	28,790.0	28,785.3
Adjustments for non-cash transactions <sup>1</sup>		<b>(7,487.1)</b>	<b>(7,488.1)</b>	(843.5)	(847.1)
Increase/(decrease) in trade and other receivables	SoFP	<b>415.6</b>	<b>459.2</b>	434.3	440.2
Adjustment for movements on receivables relating to items not passing through operating costs		<b>24.2</b>	<b>24.2</b>	0.6	172.6
Movement in net inventories and financial assets held for sale		<b>69.7</b>	<b>67.3</b>	500.0	500.6
(Increase)/decrease in trade payables	SoFP	<b>1,181.3</b>	<b>1,133.8</b>	21.6	(13.5)
Adjustment for movements in payables relating to items not passing through operating costs		<b>(710.9)</b>	<b>(718.1)</b>	(735.2)	(921.9)
Dividends and equity repayments		<b>41.8</b>	<b>41.8</b>	11.7	11.7
Realised loss/(gain) on derivatives		<b>(98.2)</b>	<b>(98.2)</b>	(170.1)	(170.1)
Use of provisions and unfunded pensions		<b>529.1</b>	<b>529.1</b>	376.1	376.1
<b>Net cash outflow from operating activities</b>		<b>31,125.7</b>	<b>31,114.0</b>	28,385.5	28,333.9
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	6	<b>10,660.4</b>	<b>10,672.6</b>	8,035.1	8,054.0
Purchase of intangible assets	5	<b>2,021.0</b>	<b>2,021.0</b>	1,788.9	1,788.9
Adjustment for non cash movements relating to PPE and intangibles <sup>2</sup>		<b>(3,029.6)</b>	<b>(3,029.6)</b>	(451.4)	(451.4)
Proceeds on disposal of property, plant and equipment		<b>(137.9)</b>	<b>(137.9)</b>	(167.0)	(167.0)
Dividends, equity repayments and other income from investments		<b>(41.8)</b>	<b>(41.8)</b>	(11.7)	(11.7)
Recognition of cash balance on absorption of a new ALB		-	<b>(22.0)</b>	-	-
<b>Net cash outflow from investing activities</b>		<b>9,472.1</b>	<b>9,462.3</b>	9,193.9	9,212.8
<b>Cash flows from financing activities</b>					
Consolidated Fund (Supply) – current year	SoCiTE	<b>(40,976.6)</b>	<b>(40,976.6)</b>	(37,473.0)	(37,473.0)
Repayment of loans from the National Loans Fund		<b>2.5</b>	<b>2.5</b>	2.5	2.5
Capital element of payments in respect of finance leases and Service Concession Arrangements		<b>378.3</b>	<b>378.3</b>	198.9	198.9
Movement on collaborative projects		<b>(21.5)</b>	<b>(21.5)</b>	40.3	40.3
<b>Net financing</b>		<b>(40,617.3)</b>	<b>(40,617.3)</b>	(37,231.3)	(37,231.3)
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for payments to the Consolidated Fund</b>		<b>19.5</b>	<b>41.0</b>	(348.1)	(315.4)
Payment of amounts due to the Consolidated Fund		<b>(45.4)</b>	<b>(45.4)</b>	-	-
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for payments to the Consolidated Fund</b>		<b>(25.9)</b>	<b>(4.4)</b>	(348.1)	(315.4)
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b>1,407.5</b>	<b>1,533.4</b>	1,755.6	1,848.8
<b>Cash and cash equivalents at the end of the period</b>	10	<b>1,381.6</b>	<b>1,529.0</b>	1,407.5	1,533.4

- The main drivers behind the adjustments for non-cash transactions in 2019–20 are depreciation and amortisation on non-current assets of -£7.2 billion. The main drivers in 2018–19 were depreciation and amortisation of -£6.9 billion; and +£5.8 billion change to provisions, mainly driven by the change in rates for discounting nuclear decommissioning provisions.
- The movement relates to write-ons of PPE and Intangible Assets and includes recategorisation of items previously treated as inventory and also restatement of asset platform values and lives such as the Warrior vehicle fleet.

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 2020

	Note	Core Department and Agencies			Departmental Group	
		General Fund' £M	Revaluation Reserve' £M	Taxpayers Equity £M	ALBs' Reserves' £M	Total Reserves £M
Balance at 31 March 2018		80,018.2	25,506.1	105,524.3	669.5	106,193.8
Adjustments for transition to IFRSs 9 and 15		(10.1)	-	(10.1)	-	(10.1)
Balance at 1 April 2018		80,008.1	25,506.1	105,514.2	669.5	106,183.7
Parliamentary Funding – drawn down in-year	SoCF	37,473.0	-	37,473.0	-	37,473.0
Parliamentary Funding – deemed funding		789.6	-	789.6	-	789.6
Parliamentary Funding – Supply payable	11	(504.8)	-	(504.8)	-	(504.8)
Non-cash charge – auditors remuneration	4.5	2.7	-	2.7	-	2.7
Net expenditure for the year	SoCNE	(28,790.0)	-	(28,790.0)	4.7	(28,785.3)
Other net comprehensive expenditure:						
Net (loss)/gain on revaluation of property, plant and equipment	SoCNE	-	2,358.5	2,358.5	0.8	2,359.3
Net (loss)/gain on revaluation of intangible assets	SoCNE	-	(427.1)	(427.1)	-	(427.1)
Net (loss)/gain on revaluation of assets held for sale	SoCNE	-	(1.3)	(1.3)	-	(1.3)
Reduction in inventory value following adoption of weighted average cost valuation	SoCNE	-	(336.1)	(336.1)	-	(336.1)
Net (loss)/gain on pensions	SoCNE	18.8	-	18.8	1.7	20.5
Changes in capitalised decommissioning liabilities		-	1,473.6	1,473.6	-	1,473.6
Assets written-on/(off) and transferred in	SoCNE	192.7	-	192.7	43.7	236.4
Transfers between reserves		1,352.8	(1,352.8)	-	-	-
Balance at 31 March 2019		90,542.9	27,220.9	117,763.8	720.4	118,484.2
Parliamentary Funding – drawn down in-year	SoCF	<b>40,976.6</b>	-	<b>40,976.6</b>	-	<b>40,976.6</b>
Parliamentary Funding – deemed funding		<b>504.8</b>	-	<b>504.8</b>	-	<b>504.8</b>
Parliamentary Funding – Supply payable	11	<b>(457.4)</b>	-	<b>(457.4)</b>	-	<b>(457.4)</b>
Payment of amounts due to the Consolidated Fund		<b>(45.4)</b>	-	<b>(45.4)</b>	-	<b>(45.4)</b>
Gain on the transfer by absorption of IMS		-	-	-	<b>18.6</b>	<b>18.6</b>
Non-cash charge – auditors remuneration	4.5	<b>2.9</b>	-	<b>2.9</b>	-	<b>2.9</b>
Net expenditure for the year	SoCNE	<b>(37,160.2)</b>	-	<b>(37,160.2)</b>	<b>(2.8)</b>	<b>(37,163.0)</b>
Other net comprehensive expenditure:						
Net (loss)/gain on revaluation of property, plant and equipment	SoCNE	-	<b>4,099.3</b>	<b>4,099.3</b>	<b>20.1</b>	<b>4,119.4</b>
Net (loss)/gain on revaluation of intangible assets	SoCNE	-	<b>716.1</b>	<b>716.1</b>	-	<b>716.1</b>
Net (loss)/gain on revaluation of assets held for sale	SoCNE	-	<b>(0.3)</b>	<b>(0.3)</b>	-	<b>(0.3)</b>
Net (loss)/gain on pensions	SoCNE	<b>(86.2)</b>	-	<b>(86.2)</b>	<b>(14.5)</b>	<b>(100.7)</b>
Changes in capitalised decommissioning liabilities	SoCNE	-	<b>(309.2)</b>	<b>(309.2)</b>	-	<b>(309.2)</b>
Assets written-on/(off) and transferred in	SoCNE	<b>22.6</b>	<b>0.9</b>	<b>23.5</b>	<b>(21.6)</b>	<b>1.9</b>
Transfers between reserves		<b>1,721.4</b>	<b>(1,721.4)</b>	-	-	-
<b>Balance at 31 March 2020</b>		<b>96,022.0</b>	<b>30,006.3</b>	<b>126,028.3</b>	<b>720.2</b>	<b>126,748.5</b>

1. The General Fund represents the total assets less liabilities of the Department, to the extent that the total is not represented by other reserves and financing items. The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The total of the Arm's Length Bodies' reserves includes general fund and revalued items but these are not shown separately as the detail is not considered material.

Notes 1 to 21 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

## Notes to the Accounts

### 1. Statement of Accounting Policies

#### Basis of Preparation

**1.1** These Accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adapted and interpreted by the Government Financial Reporting Manual (FReM) 2019–20 issued by HM Treasury except that International Financial Reporting Interpretations Committee (IFRIC) 4: *Determining whether an Arrangement Contains a Lease*, has not been applied. Further information on the reasons for this non-application and the impact on the financial statements are provided in paragraphs 1.44 to 1.47.

**1.2** Where the FReM permits a choice, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. Accounting policies have been applied consistently in dealing with items that are considered material and comply with the requirements of the FReM.

#### Accounting Convention

**1.3** These financial statements have been prepared on an accruals basis under the historic cost convention, modified by the revaluation of intangible assets and property, plant and equipment assets.

#### Impact of COVID-19 Pandemic

**1.4** The World Health Organisation declared COVID-19 as a pandemic on 11 March 2020. The Department has considered whether the pandemic and the associated lockdown measures represent adjusting events necessitating changes to the reported financial statements or disclosure as events after the reporting date. The results of the consideration of COVID-19 are described in the relevant sections below.

#### 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 further considers that this assumption is not impacted by COVID-19. Hence, 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 its Arm's Length Bodies (listed at Note 20) in light of the impact of the COVID-19 pandemic and has concluded that going concern remains a valid assumption for these organisations given ongoing supply funding for on vote agencies and grant support for other bodies where appropriate.

#### Basis of Consolidation

**1.7** The financial statements comprise the consolidation of the Department (including its Agencies); its Non-Departmental Public Bodies (NDPBs) and other Arm's Length Bodies (ALBs). Service Complaints Ombudsman and Service Prosecuting Authority were designated as entities within the departmental boundary from 2019–20; the financial statements for these organisations have previously been reported as part of the Department (including its Agencies) and this presentation has not changed. International Military Services Limited was also designated as within the departmental boundary from 2019–20 and has been consolidated into the Group Accounts.

**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 three categories for consolidation – 'staff costs', 'depreciation'

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.

**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 2019–20 affecting the preparation of the accounts.

## Changes Impacting the Preparation of Future Annual Accounts

**1.11** There are no significant changes impacting the Department in 2020–21. There is one significant change expected to the 2021–22 FReM. This is the adoption of IFRS 16: *Leases* and is expected to have a significant impact for the Department.

## 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 SIC 15: *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 2021 as an adjustment to the opening balances of taxpayers' equity.
- will, having obtained HM Treasury approval, apply IFRS 16 to legacy contracts not previously accounted for under IAS 17 and IFRIC 4 (as detailed in paragraphs 1.44 to 1.47) and account for any changes as an adjustment to the opening balances of taxpayers' equity as part of IFRS 16 implementation in the 2020–21 accounts.
- will not recognise the right-of-use asset and lease liability of short-term leases, where the lease term is less than 12 months, and leases where the underlying asset is of low value. The Department will recognise lease payments associated with these leases as an expense.

**1.17** The Department has two finance leases with finance lease obligations. The carrying amount of these assets and liabilities at 1 April 2021 will be the carrying amount immediately before 1 April 2021 under IAS 17. IFRS 16 will then be applied to these contracts from 1 April 2021.

**1.18** The Department is not applying IFRS 16 to contracts which have a value of less than £25,000 (unless the contract meets the definition of a peppercorn lease), or where the cost of the underlying asset (when new) is less than £25,000, unless there are groups of leases of similar items where application of the threshold would have a material impact, such as car leases. This threshold is consistent with the Department's capitalisation threshold for owned assets as detailed in paragraph 1.23. Where there are right-of-use assets from leases embedded in other contracts, and these right-of-use assets have been fully charged to the Department (either in the current or in previous contracts), then these right-of-use assets will be excluded as the Department will have no further liability.

**1.19** It is expected that, in most cases, the IFRS 16 cost model will be an appropriate proxy for current value in existing use or fair value. This is because the right-of-use assets will generally have shorter useful lives than their corresponding underlying assets and contracts have conditions to update lease payments to market rates.

### ***The Potential Impact on Future Periods***

**1.20** The new leasing Standard will have a significant impact on the Department by bringing right-of-use assets and liabilities onto the Statement of Financial Position. This will be as a result of:

- the recognition of operating leases as a right-of-use asset and associated liability; and
- the recognition of right-of-use assets and associated liabilities of leases not previously recognised under IAS 17 and IFRIC 4 (as detailed in paragraphs 1.44 to 1.47).

**1.21** The Department is in the process of measuring its lease liabilities and associated right-of-use assets for its leases currently classified as operating leases under IAS 17. Additionally, the Department is undertaking significant work in assessing its material legacy contracts in accordance with IFRS 16 to establish if these contracts are, or contain, a lease. If so,

the Department is in the process of measuring the lease liabilities and associated right-of-use assets embedded within these contracts. Due to this significant work in transitioning to IFRS 16, the financial impact of recognising right-of-use assets and liabilities under leases previously classified as operating leases under IAS 17 is not yet known. Similarly, the estimated impact of recognising right-of-use assets identified as embedded in other contracts and the associated liability is not yet known. The Department expects to have a clear understanding of the impact by December 2020.

### **IFRS 17 – Insurance Contracts**

**1.22** IFRS 17: *Insurance Contracts* replaces IFRS 4: *Insurance Contracts* and may be included in the 2023–24 FReM. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The Department will undertake a detailed assessment on the impact of the Standard when its application to the public sector is determined in the FReM.

### **Property, Plant and Equipment Non-Current Assets**

#### ***Recognition***

**1.23** The Department's capitalisation threshold is £25,000. Assets are recognised initially at cost, which comprises purchase price, construction costs (after deducting any discounts or rebates) and any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended.

**1.24** Assets under construction are capitalised during the period of construction and on completion (either of the whole project, or at defined milestones where the contract has separate deliverables) balances are transferred to the appropriate asset category. On completion of the project or on delivery of an asset with phased deliveries the costs are transferred to the asset register.

**1.25** The capitalisation threshold is not applied to individual capital spares (defined in paragraph 1.33) and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, these items are grouped together and accounted for accordingly.

### Valuation

**1.26** Assets are expressed at their fair value through valuation and/or the application of indices. Specialised assets are valued at their Depreciated Replacement Cost (DRC). 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 forecasted and applied at May each financial year. The carrying values of the assets are revised at the year-end via an accrual to reflect the difference between the forecast indices applied at May and revised indices at the year-end (based, for non-property assets, on actual movements in the market for the financial year and, for property assets, actual movements for the first three quarters with a forecast movement for the final quarter of the financial year). The value of the overseas property estate assets is also adjusted to take account of the year-end exchange rates and movements in the country's GDP – also see paragraph 1.101.

**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. In use non-specialised assets are valued at market value in existing use and in use specialised assets are valued at current value in existing use. This is interpreted as the present value of the asset's remaining service potential, which is assumed to be at least equal to the cost of replacing that service potential. Land is valued taking into account region and type. This is further explained in Note 6 – Property, Plant and Equipment.

Property assets are valued as at November 2019 and adjustment made to closing balances if material differences are identified.

**1.29** Assets which are not held for their service potential are valued in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations* or IAS 40: *Investment Property* depending on whether the asset is actively held for sale.

**1.30** Assets which are surplus are valued in accordance with IFRS 13: *Fair Value*. The Department interprets surplus to mean that the assets are no longer required and there is no clear plan to bring them back into service.

### Depreciation

**1.31** All assets are depreciated on a straight-line basis. The useful life of an equipment asset is based on the estimated out of service date, and for other assets the estimated period of use. The Useful Lives of property, plant and equipment are reviewed annually and revised where necessary to reflect changing circumstances such as decisions taken in the latest finalised Annual Budget Cycle or other strategic reviews.

**1.32** The principal asset categories, together with their useful lives, are set out in the following table.

**1.33** Capital Spares are items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion. They are included within the asset category of the prime equipment they support and are depreciated over their useful life, which is consistent with the useful life of this equipment.

**1.34** Capitalised asset provisions are provisions that are capitalised in the cost of the associated asset (to which the provision relates). Further details are at paragraph 1.70. They are included in the asset category of the associated asset and depreciated over its useful life.

*Note to the Accounts Table 1:  
Principal Asset Categories and Useful Lives*

Main Category	Sub-Category	Useful Life
Land and Buildings	Land	Not depreciated unless held under agreement with The Federal Republic of Germany or as part of a finance lease
	Buildings (dwellings and non-dwellings):	
	— permanent	40–50
	— temporary	5–20
	Leasehold	Shorter of expected life and lease period
Single Use Military Equipment (including GWMB)		10–50
Plant and Machinery	Equipment	10–25
	Plant and Machinery	5–30
Transport		3–35
IT and Communications Equipment	Office Machinery	3–10
	Communications Equipment	3–30

## 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. 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.

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

**1.38** The Department has considered whether the COVID-19 pandemic has led to any requirement to impair PPE NCA valuation under IAS 36: *Impairment of assets*. As such, the Department has reviewed the appropriateness of its Property, Plant and Equipment Non-Current Asset valuations as at 31 March 2020 and concluded that the pandemic does not give rise to any impairment of asset valuation.



**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** It is not considered that there has been a reduction in service potential as a result of COVID-19. 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 supplier's facilities (such as a shipyard) are used entirely on Departmental contracts. For 2019–20 (and previous years) the Department concluded, with HM Treasury support, that as a result of complex, resource intensive and costly practical issues, IFRIC 4 would not be applied to existing contracts on the grounds that it does not represent value for money. As a result of the decision not to fully implement IFRIC 4, the Department's accounts receive a qualified audit opinion in respect of the material omission of assets held under finance leases and the associated liabilities that should be recognised under IAS 17. The Department has focused on implementing IFRS 16 fully from 2021–22 and, with the agreement of HM Treasury, will apply IFRS 16 to legacy contracts in existence prior to 1 April 2021 (see paragraph 1.16).

**1.47** The impact on the financial statements of not materially complying with IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the SoFP and Note 16 – Commitments under Leases.

### *Intangible Non-Current Assets*

**1.48** Research costs are charged to the SoCNE in the period in which they are incurred.

**1.49** Development costs are capitalised in accordance with IAS 38: *Intangible Assets* (as adapted in the FReM). Capitalised development costs are amortised, on a straight-line basis, over the planned life of the resultant asset

class, e.g. class of ship or aircraft (the table at paragraph 1.34 above states the useful lives for principal tangible non-current asset categories). Amortisation commences when the asset type first enters operational service.

**1.50** The Department's capitalisation threshold is £25,000. After initial recognition, intangible non-current assets are revalued to current value in existing use, using a market value where an active market exists. Where no market exists, indices are used to revalue the intangible asset to 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. 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.

**1.51** The Department considers that there has not been any identifiable impact from COVID-19 on the values of intangible assets. It considers that the carrying values of capitalised development costs continue to be appropriate and in line with the asset class they support.

### Public Private Partnerships (PPP) Including Private Finance Initiative (PFI) Arrangements

**1.52** Where PPP including PFI arrangements fall within the definition of a Service Concession Arrangement (SCA) in IFRIC 12: *Service Concession Arrangements*, the infrastructure assets and liabilities are reported on the Department's SoFP. This occurs when the Department controls the use of the infrastructure assets and any significant residual interest in the infrastructure at the end of the arrangement (or there is no residual interest). The assets are initially measured following the guidance in IAS 17 and subsequently in alignment with relevant standards, as applied by the FReM, in the same way as other assets of that type. Unitary charges are apportioned between reduction in the capital obligation and charges to the SoCNE for service

performance and finance costs. Where the contract is not separable into these elements, this apportionment is estimated by reference to factors such as the contract, the fair value of the asset and the interest rate implicit in the contract or, where this is not practicable to determine, the HM Treasury's discount rate for investment appraisals.

**1.53** Where PPP including PFI arrangements are outside the scope of IFRIC 12, a new arrangement may be assessed to establish whether it contains a lease under IFRIC 4 (as noted in paragraph 1.45). If it does contain a lease, the lease is accounted for as either a finance or an operating lease in accordance with IAS 17. Where the arrangement does not contain a lease, the expenditure will be recognised as it falls due. As previously noted, the Department's accounts are qualified for non-compliance with IAS 17 / IFRIC 4 and 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 IFRS9 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. 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, such as COVID-19. Sensitivity analysis was undertaken to test the significance of changes to this judgement and the impact was not material (see paragraph 1.62).

**1.58** Expected credit loss provisions are also made against specific receivables. In accordance with the FReM, the balances with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are excluded from recognising Stage 1 and Stage 2 impairments.

**1.59** 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 above.

**1.60** It is considered that staff, and similar, receivables are unlikely to be impacted by COVID-19. The most significant factor to the collectability of staff receivables (and other similar receivables) is the continuity of employment with the MOD (including the Armed Forces) which is not considered to be at risk at this stage.

**1.61** The MOD has considered the potential impact of COVID-19 on the recoverability of trade receivables, and other receivables. This has included review and validation by business units of the highest value receivable items which has shown that the pandemic has not materially compromised the value or timing of expected debt recovery. For example, some of the higher value receivables relate to those due from defence contractors and foreign governments and it is not considered there is an increased risk of reduced debt recovery as a result of COVID-19.

**1.62** The Department 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. For example, the total provision for expected credit losses (for all 3 stages) is £24.4M. Sensitivity analysis for Stage 1 and 2 expected credit losses demonstrated that by multiplying the expected credit loss percentage applied to trade, and similar, receivables by a factor of 3 to model a significant (but unlikely) increase in debts being written off in the future, led to an increase in the expected credit losses of £15.3M, which was not considered a material amount.

## Inventories

**1.63** Inventories are valued at the lower of weighted average cost (the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period) and net realisable value (estimated

selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale).

**1.64** Inventories are recognised on the Department's SoFP from the point of acquisition to the point of issue for consumption, sale, write-off or disposal.

**1.65** Where inventories have become surplus, unserviceable, defective or obsolete, an estimated financial provision is applied to their carrying value to reduce it to net realisable value. Details of inventories balances are given in Note 8 – Inventories.

**1.66** Some items of inventory, for example munitions, have a limited shelf life and provisions/impairments are made on the gross cost of these items, on a straight-line basis, throughout the life of these items.

**1.67** As noted above, the Department makes impairments to Net Realisable Value to reflect inventories which are surplus, unserviceable, defective or obsolete. The Department has concluded that there have been no cancellation or curtailed equipment programmes arising from COVID-19 which would lead to the creation of surplus or obsolete inventory and therefore no impairment to inventory valuation is evident as a result of the pandemic.

## 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 gold coins and 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 2020. For nuclear provisions that utilise indices provided by Defence Economics, no material changes to the underlying indices have been identified. Also, there is no indication that liabilities, which for the bulk of the value relate to long term nuclear decommissioning commitments, have changed nor otherwise been affected by COVID-19. At this point there are no contract specific contingent liabilities approved as a result of the pandemic although a generic contingent liability for potential COVID-19 impact has been approved by HM Treasury.

**1.75** An onerous lease (as defined by IAS37) provision is accounted for in the period in which the contract is identified as onerous. At 31 March 2020, the Department had not identified any leases as onerous and expects to recover all value reported. Even some minor lease contracts are not expected to be onerous – for example, photocopiers, as Departmental buildings have continued to be maintained at an operational level.

## Foreign Currency

**1.76** All transactions denominated in a foreign currency are translated into sterling using the General Accounting Rate (GAR) at the date of each transaction. For each currency, the GAR is updated monthly based on spot rates. Exchange differences arise when a transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. Monetary assets and liabilities are re-translated at the mid-market closing rate at the reporting period date and any exchange differences from their initially-recognised value are reported in the SoCNE.

**1.77** As noted in paragraph 1.69, the Department holds US Dollar and Euro denominated bank accounts and uses foreign currency forward purchase contracts, denominated in US Dollars and Euros, to reduce the risk of changes in exchange rates for the use of its two most significant foreign currencies.

## Income

**1.78** Income principally comprises revenue from the provision of supplies and services; receipts from foreign governments; sale of non-current assets; and investment or dividend income. It is included within operating income, net of related VAT, where applicable.

**1.79** Income from contracts with customers is recognised in accordance with IFRS 15: *Revenue from Contracts with Customers* which has been applied, as adapted by the FReM, in full. The Department follows the five step model in IFRS 15, by applying the following steps:

- step 1: Identify the contract(s) with a customer;
- step 2: Identify the performance obligations in the contract;
- step 3: Determine the transaction price;
- step 4: Allocate the transaction price to the performance obligations in the contract; and
- step 5: Recognise the revenue when (or as) the entity satisfies a performance obligation

**1.80** The bulk of what MOD 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** 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.

**1.83** 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 nor significantly impacted by COVID-19.

## 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. Costs of contracted-out services are included net of recoverable VAT. Surpluses and deficits on disposal of inventory are included in Note 4.3 – Expenditure.

## 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 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 increases 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 it can be ended/withdrawn if conditions subsequently improve. The Departmental accounts do not include a liability for future WPS payments. This is because payments are only recognised when they fall due and therefore accounted for as expenditure in the SoCNE in the period to which

they relate. The two main payment categories are ongoing payments for disablement and ongoing payments to widows which represent approximately 96% of the total.

## Retirement Benefit Costs

**1.90** The main pension schemes to which staff belong are not consolidated in the Department's accounts (the schemes prepare separate accounts). The main schemes are either defined contribution, defined benefit or multi-employer defined benefit schemes where the Department's shares of assets and liabilities cannot be identified. In accordance with IAS 19: *Employee Benefits*, these are thus also treated as defined contribution schemes. Examples of the two largest of the main schemes are: the Principal Civil Service Pension Scheme; and the Armed Forces Pension Scheme. All other MOD 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.

**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. 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.

**1.92** 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.

**1.93** The funded defined benefit schemes within the accounting boundary are not deemed to have been impacted by COVID-19 noting that the Government Actuary Department has stated that “with regard to COVID-19, we are aware that the analysis may be affected by risks arising from the pandemic. In particular, mortality assumptions and salary growth assumptions may be affected. However, in general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. Our view is that it is too early to determine whether COVID-19 changes the long-term view of life expectancy for the members covered in this exercise, and too early to speculate on the potential impacts for long-term salary growth, and so it is not unreasonable to retain the current assumptions at this stage”. The assets within the funded defined benefit schemes within the accounting boundary are not deemed to be materially misstated as at 31 March 2020 as the amounts are not material.

## Value Added Tax (VAT)

**1.94** The Department is registered for VAT. Costs of contracted-out services are included net of recoverable VAT. Income from services provided to third parties is included within operating income, net of related VAT. Where it arises, irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets.

## Heritage Assets

**1.95** Operational heritage assets are valued at fair value using the same methodology applied to other assets of the same general type. Non-operational heritage assets are valued at fair value if information can be obtained at a cost commensurate with the benefits to users of the accounts. Heritage assets are not separately disclosed as they are not considered material. Further information is available at: <https://www.gov.uk/government/collections/mod-heritage-reports-index>

## Critical Accounting Judgements and Key Sources of Estimation Uncertainty

**1.96** The preparation of these accounts requires the Department to make judgements, estimates and assumptions in respect of a range of activities that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. 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.

**1.97** 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.

**1.98** There remains some uncertainty of the impact of COVID-19, particularly as the pandemic was declared so close to the 31 March year-end. Potential impacts, and the Department's consideration of them, are explained in the relevant sections above.

## 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 or at 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** Land and property assets are revalued at least every 5 years from the anniversary of their initial recognition in accordance with FReM requirements. Between valuations, the Department updates UK land and property values through the application of indices produced by the Valuation Office Agency. Land and property assets overseas are revalued based on exchange

rate movements and the country's GDP which is provided by Defence Economics within the Department.

**1.101** Non property assets are revalued using indices provided by Defence 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 Economics – Price Indices using data for key economic indicators are taken from the OBR and Oxford Economics.

**1.102** The selection and application of indices represents a key judgement, and there is a risk that this could result in different values in the intervening years compared to a full valuation if these had been undertaken each year.

**1.103** The potential impact of COVID-19 on departmental Non-Current Assets has been assessed by the Department. 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 Royal Institute of Chartered Surveyors (RICS) guidance and direction, the valuers of the UK Estate initially reported a material valuation uncertainty on their property valuations. 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 2020 have materially changed. This is explained in more detail at Note 6.



**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. Further details are provided at Note 6.

**1.105** The useful lives of assets are based on an estimated out of service date or the estimated period of use. The out of service date is subject to change depending on factors such as strategic Defence policy and predicted obsolescence. The useful lives are reviewed annually.

### **Discount Rates**

**1.106** The change in discount rate is treated as a change in estimate (processed in-year) under IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. HM Treasury specifies nominal rates (applied to cash flows which include inflation) to discount general provisions. The impact is that the Department forecasts and applies inflation assumptions to calculate inflationary adjusted cash flows for its general provisions. HM Treasury sets a rebuttable presumption that CPI will be used to calculate inflation. This has been followed by the Department unless stated in Note 12 – Provisions for Liabilities and Charges.

### **Impairments**

**1.107** In addition to considering the valuation of non-current intangible and property, plant and equipment assets, the Department considers more broadly whether there are any indications of impairments to the carrying amounts of the Department's assets. Where such an indication exists, the Department makes a judgement as to the impairment required to bring the asset to the value it considers it should be held at.

### **Accruals**

**1.108** The Department recognises a large number of accruals. Whilst some accruals are

straightforward to identify and quantify, others involve a greater element of judgement, requiring management to make an estimate of the liability accruing to the Department based on the information they hold at that point in time (for example, accruing for the value of work completed but not yet invoiced on the Department's projects). Details are given in Note 11 – Trade Payables and Other Liabilities. The Department only recognises manual accruals above £10,000.

### **Provisions**

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

**1.110** In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. As there is uncertainty surrounding the cash flows required, key assumptions made in this estimate are: the time period over which the provisions are estimated; the costs for the future storage and decommissioning; the VAT rate; the inflation rate; and the discount rate used. While the discount rate applied to the future cash flows is subject to assumptions, the Department has used the discount rate mandated by HM Treasury. Details of how nuclear decommissioning provisions have been calculated, together with the assumptions used and sensitivity analysis, are included in Note 12 – Provisions for Liabilities and Charges.

**1.111** The Department holds a number of other provisions. Judgement is made on the best estimate that can be made of the amount of the obligation in line with IAS 37. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties.

## 2. Segmental Analysis

**2.1** The Department's organisational structure is set out in the Performance Report and is the key factor in determining the reporting segments disclosed below.

**2.2** The Royal Navy, the Army, and the Royal Air Force are supported by: Strategic Command (UKStratCom) – previously Joint Forces Command – which ensures capabilities such as medical services, intelligence and information systems are developed and managed across all five of the land, sea, air, space and cyber domains, it also manages overseas joint operations; Defence Equipment and Support (DE&S) – responsible for procurement and support of equipment; the Defence Nuclear Organisation – which oversees all defence nuclear business, excluding operations; the Defence Infrastructure Organisation – responsible for managing the Defence Estate and Head Office & Corporate Services – responsible for policy, strategy and corporate services such as payroll. In April 2020 the Head Office & Corporate Services budget was disaggregated. Its activities have been delegated to the Head Office Directors General and some Enabling Organisations, better aligning resources with responsibility, accountability and delivery.

**2.3** Forecasts of expenditure against budgets are regularly reviewed by the Defence Board when considering performance and resource allocation. The tables below set out the detail of this net expenditure, by segment (where the Board consider the net expenditure at that level of detail).

**2.4** 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.

**2.5** The prior year figures for the Equipment and Infrastructure Plans have been restated to include inventory consumption; this is consistent with the current year figures and better reflects the costs of these plans as reviewed by the Board. There is no change to the prior year overall total resource and capital outturn reported in the first table below; the restatement redistributes costs from the Balance of Resource and Capital Outturn line to the individual segments as reviewed by the Board. The restatement improves the accuracy and consistency of the costs reported against the Equipment and Infrastructure Plans; overall, £288 million (0.8%) has been redistributed against the two plans.

<b>Resource and Capital Outturn Reviewed by the Board</b>	<b>2019–20 £M</b>	<b>Restated 2018–19 £M</b>
Royal Navy	6,545.7	6,433.7
Army	10,706.7	10,165.7
Royal Air Force	6,826.3	6,655.5
Strategic Command	5,065.4	4,628.2
Defence Equipment & Support	1,173.5	1,046.7
Defence Infrastructure Organisation	917.0	834.4
Head Office & Corporate Services	1,868.1	1,758.1
Defence Nuclear Organisation	4,110.4	3,829.5
Strategic Programme	940.2	992.4
Unallocated Equipment Plan	143.5	145.8
War Pension Benefits	681.0	697.3
<b>Sub total of Resource and Capital reviewed by the Board during the financial year</b>	<b>38,977.8</b>	<b>37,187.3</b>
Outturn (Resource and Capital) for Cost of Operations (excluding depreciation, impairments, provisions)	475.6	698.7
Balance of Resource and Capital Outturn (depreciation, impairment, provisions, Annually Managed Expenditure (AME) and Arm's Length Bodies)	7,627.4	(902.8)
<b>Total Resource and Capital Outturn (See Statement of Parliamentary Supply (SoPS))</b>	<b>47,080.8</b>	<b>36,983.2</b>
Reconciliation to Net Expenditure:		
Adjustment: for items included in Net Resource Outturn but not included in Net Operating Costs (see SoPS Note 2)	393.3	2,101.2
Adjustment for capital expenditure not included in Net Expenditure (see SoPS Note 1.2)	(10,313.9)	(10,294.4)
<b>Total Departmental Net Expenditure (See Statement of Comprehensive Net Expenditure)</b>	<b>37,160.2</b>	<b>28,790.0</b>

<b>Equipment Plan Outturn</b>	<b>2019–20 £M</b>	<b>Restated 2018–19 £M</b>
<b>Equipment Plan – Resource Outturn</b>		
Royal Navy	1,253.1	1,719.0
Army	969.9	1,717.2
Royal Air Force	1,875.3	2,339.0
Strategic Command	1,828.5	1,886.0
Defence Equipment & Support	143.5	145.8
Defence Nuclear Organisation	1,052.8	1,045.8
Strategic Programme	386.4	371.7
<b>Equipment Plan – Total Resource Outturn</b>	<b>7,509.5</b>	<b>9,224.5</b>
<b>Equipment Plan – Capital Outturn</b>		
Royal Navy	1,607.9	1,595.3
Army	1,402.0	300.6
Royal Air Force	1,670.5	1,338.8
Strategic Command	552.0	443.8
Defence Equipment & Support	6.0	12.4
Defence Nuclear Organisation	2,956.3	2,665.5
Strategic Programme	553.8	620.7
<b>Equipment Plan – Total Capital Outturn</b>	<b>8,748.5</b>	<b>6,977.1</b>

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Infrastructure Plan Outturn	2019-20 £M	Restated 2018-19 £M
<b>Infrastructure Plan – Resource Outturn</b>		
Royal Navy	158.1	157.7
Army	988.0	945.8
Royal Air Force	259.8	253.6
Strategic Command	296.5	257.9
Defence Equipment & Support	100.1	77.5
Defence Infrastructure Organisation	479.9	489.3
Head Office & Corporate Services	98.7	98.7
Defence Nuclear Organisation	5.6	5.8
<b>Infrastructure Plan – Total Resource Outturn</b>	<b>2,386.7</b>	<b>2,286.3</b>
<b>Infrastructure Plan – Capital Outturn</b>		
Royal Navy	230.2	224.1
Army	372.1	626.0
Royal Air Force	133.7	147.5
Strategic Command	101.7	67.5
Defence Equipment & Support	24.9	5.0
Defence Infrastructure Organisation	75.4	31.3
<b>Infrastructure Plan – Total Capital Outturn</b>	<b>938.0</b>	<b>1,101.4</b>

### 3. Income

	2019-20		2018-19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Receipts – revenue from contracts with customers	180.1	180.1	121.7	121.7
Receipts – supplies and services	241.1	241.1	219.4	219.4
Receipts – NATO/UN/US Forces/Foreign Governments	381.7	381.7	286.0	286.0
Receipts from sale of fuel	15.1	15.1	47.5	47.5
Rental income – property	50.1	50.1	49.6	49.6
Sub total – Income from provision of supplies and services	868.1	868.1	724.2	724.2
Income Other – receipts personnel	280.1	280.1	277.7	277.7
Income Other – proceeds from the sale of property, plant, equipment and intangible assets	91.1	91.1	217.6	217.6
Income Other – including: dividends, donated assets, ALBs' income, commercial exploitation levies and sundry sales	283.5	425.0	226.8	333.8
<b>Total Income</b>	<b>1,522.8</b>	<b>1,664.3</b>	<b>1,446.3</b>	<b>1,553.3</b>

## 4. Expenditure

### 4.1 Staff costs

	2019–20		2018–19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Staff costs comprise: <sup>1</sup>				
Salaries and wages	<b>8,677.0</b>	<b>8,760.1</b>	8,393.2	8,473.3
Social security costs	<b>799.8</b>	<b>811.1</b>	783.4	794.6
Pension costs <sup>2</sup>	<b>4,251.9</b>	<b>4,260.8</b>	3,319.0	3,327.0
Redundancy and severance payments	<b>0.2</b>	<b>0.2</b>	3.5	3.5
	<b>13,728.9</b>	<b>13,832.2</b>	12,499.1	12,598.4
Paid to:				
Armed Forces	<b>10,843.4</b>	<b>10,843.4</b>	9,931.1	9,931.1
Civilian	<b>2,885.5</b>	<b>2,988.8</b>	2,568.0	2,667.3
	<b>13,728.9</b>	<b>13,832.2</b>	12,499.1	12,598.4

1. Expenditure by Arm's Length Bodies is classified as staff costs, depreciation of PPE, movement on provisions or Other expenditure-administrative costs.
2. The increase in pension costs results from higher employer contribution rates following the routine revaluation of pension schemes to which staff are members.

### 4.2 Purchase of goods and services

	2019–20		2018–19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Equipment management:				
Equipment support – owned equipment	<b>5,064.6</b>	<b>5,064.6</b>	4,869.9	4,869.9
Contractor logistic and operational equipment support contracts	<b>946.9</b>	<b>946.9</b>	1,169.1	1,169.1
Equipment support – under Service Concession Arrangements	<b>316.1</b>	<b>316.1</b>	321.3	321.3
Equipment support – equipment under finance lease	<b>16.7</b>	<b>16.7</b>	16.1	16.1
Payments under operating leases – plant & equipment	<b>5.1</b>	<b>5.1</b>	5.8	5.8
Plant and equipment under Service Concession Arrangements	<b>53.4</b>	<b>53.4</b>	59.1	59.1
Estate management:				
Property management	<b>1,496.7</b>	<b>1,496.7</b>	1,271.4	1,271.4
Property management under Service Concession Arrangements	<b>639.1</b>	<b>639.1</b>	618.4	618.4
Utilities	<b>346.8</b>	<b>346.8</b>	335.3	335.3
Accommodation charges	<b>342.7</b>	<b>342.7</b>	331.6	331.6
Payments under operating leases - other	<b>210.8</b>	<b>210.8</b>	188.7	188.7
Defence housing costs under finance leases	<b>97.5</b>	<b>97.5</b>	85.6	85.6
Inventory:				
Inventory consumption	<b>960.8</b>	<b>960.8</b>	996.0	996.0
Fuel consumption	<b>323.3</b>	<b>323.3</b>	330.5	330.5
Information Technology and communications:				
IT and telecommunications	<b>1,456.8</b>	<b>1,456.8</b>	1,332.4	1,332.4
IT and telecommunications under Service Concession Arrangements	<b>249.3</b>	<b>249.3</b>	272.0	272.0

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	2019–20		2018–19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Transport and Travel:				
Cost of travel, subsistence, relocation, and movement of stores and equipment	610.4	610.4	611.5	611.5
Transport under Service Concession Arrangements	54.0	54.0	52.2	52.2
Other costs:				
Research and development	780.8	780.8	654.3	654.3
Professional fees	903.1	903.1	787.7	787.7
Training, safety and welfare	591.5	591.5	649.0	649.0
<b>Total</b>	<b>15,466.4</b>	<b>15,466.4</b>	14,957.9	14,957.9

### 4.3 Depreciation, impairment, writes on/off and disposals

	2019–20		2018–19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Depreciation of property, plant and equipment (PPE) <sup>1</sup>	5,838.4	5,848.9	5,332.8	5,342.6
Amortisation of intangible assets	1,337.0	1,337.0	1,507.2	1,507.2
Impairment/(impairment reversal) – Arising on quinquennial valuation	252.3	252.3	37.4	37.4
Other impairments	263.3	263.3	(125.4)	(125.4)
Inventory adjustments to net realisable value <sup>2</sup>	(226.7)	(226.7)	(67.2)	(67.2)
Inventory write off/(on) – net	128.5	128.5	(191.0)	(191.0)
Non-cash cost of disposal of property, plant and equipment and intangible assets	87.4	87.4	92.3	92.3
(Surplus)/deficit arising on disposal of inventory – net	(12.0)	(12.0)	(36.2)	(36.2)
Intangible and property, plant and equipment assets write off/(write on) – net	(134.6)	(134.6)	270.0	270.0
Capital project expenditure write off/(write on) – net	35.9	35.9	209.4	209.4
Bad debts written off	1.9	1.9	4.7	4.7
Increase/(Decrease) in bad debt provisions – net	(1.1)	(1.1)	(1.4)	(1.4)
<b>Total</b>	<b>7,570.3</b>	<b>7,580.8</b>	7,032.6	7,042.4

1. Expenditure by Arm's Length Bodies is classified as staff costs, depreciation of PPE, movement on provisions or Other expenditure-administrative costs.
2. Further details of inventory adjustments are at Note 8.3.

#### 4.4 Movement on provisions, derivatives and on the unwinding of discount on payables and receivables

	2019–20		2018–19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Increase/(decrease) in nuclear provisions <sup>1</sup>	<b>(266.9)</b>	<b>(266.9)</b>	(5,517.4)	(5,517.4)
Movement on Derivatives	<b>(82.3)</b>	<b>(82.3)</b>	(342.6)	(342.6)
Increase/(decrease) in other provisions	<b>205.4</b>	<b>205.4</b>	(35.5)	(35.5)
Unwinding of discount on provisions, payables and receivables – net	<b>233.2</b>	<b>233.2</b>	(276.6)	(276.6)
<b>Total</b>	<b>89.4</b>	<b>89.4</b>	(6,172.1)	(6,172.1)

1. The increase/(decrease) in nuclear provisions does not include all movements on capitalised provisions; some pass through Other Comprehensive Expenditure. The movement is mainly due to changes in the discount rate. More information on nuclear provisions can be found at Note 12.

#### 4.5 Other expenditure

	2019–20		2018–19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Administrative costs – including recruitment, insurance, public relations, funeral expenses and cadet forces pay <sup>1</sup>	<b>504.5</b>	<b>755.7</b>	536.0	729.6
Grants-in-Aid (including to bodies within the accounting boundary)	<b>217.0</b>	<b>27.5</b>	216.2	30.9
Other grants to bodies within the accounting boundary	<b>31.6</b>	-	15.5	-
Auditors' remuneration (for audit work only) – notional (non cash) cost in respect of the Core Department and Agencies	<b>2.9</b>	<b>2.9</b>	2.7	2.7
Auditors' remuneration (for audit work only) – in respect of Arm's Length Bodies	-	<b>0.4</b>	-	0.4
<b>Total</b>	<b>756.0</b>	<b>786.5</b>	770.4	763.6

1. Expenditure by Arm's Length Bodies is classified as staff costs, depreciation of PPE, movement on provisions or Other expenditure-administrative costs.

## 5. Consolidated Departmental Group – Intangible Assets

Intangible assets include development expenditure in respect of non current assets in use and assets under construction. All intangible assets are held by the Core Department and Agencies.

	Single Use Military Equipment £M	Transport £M	AUC £M	Others £M	Total £M
<b>Cost or Valuation</b>					
Balance at 1 April 2018	25,260.8	6,600.6	11,775.6	3,056.5	46,693.5
Additions <sup>1</sup>	-	-	1,786.7	2.2	1,788.9
Disposals	(3,846.8)	(4.6)	(245.8)	(79.2)	(4,176.4)
Impairments <sup>2</sup>	-	-	-	-	-
Impairment reversals <sup>2</sup>	1.0	-	-	0.2	1.2
Revaluations <sup>3</sup>	575.9	162.0	(438.6)	27.6	326.9
Reclassifications	3,410.1	191.2	(3,134.0)	33.1	500.4
<b>Balance at 31 March 2019</b>	<b>25,401.0</b>	<b>6,949.2</b>	<b>9,743.9</b>	<b>3,040.4</b>	<b>45,134.5</b>
Additions <sup>1</sup>	-	-	<b>2,019.8</b>	<b>1.2</b>	<b>2,021.0</b>
Disposals	<b>(23.9)</b>	<b>(0.1)</b>	<b>(13.0)</b>	<b>(61.2)</b>	<b>(98.2)</b>
Impairments <sup>2</sup>	<b>(5.9)</b>	-	<b>(4.1)</b>	<b>(0.4)</b>	<b>(10.4)</b>
Impairment reversals <sup>2</sup>	<b>0.3</b>	-	-	<b>0.6</b>	<b>0.9</b>
Revaluations <sup>3</sup>	<b>991.4</b>	<b>263.9</b>	<b>(0.4)</b>	<b>58.1</b>	<b>1,313.0</b>
Reclassifications <sup>4</sup>	<b>(639.4)</b>	<b>32.1</b>	<b>664.3</b>	<b>36.2</b>	<b>93.2</b>
<b>Balance at 31 March 2020</b>	<b>25,723.5</b>	<b>7,245.1</b>	<b>12,410.5</b>	<b>3,074.9</b>	<b>48,454.0</b>
<b>Amortisation</b>					
Balance at 1 April 2018	(13,485.0)	(3,132.2)	-	(1,895.5)	(18,512.7)
Charged in Year	(1,046.0)	(233.1)	-	(228.1)	(1,507.2)
Disposals	4,081.4	2.3	-	55.3	4,139.0
Impairments <sup>2</sup>	-	-	-	-	-
Impairment reversals <sup>2</sup>	(0.4)	-	-	(0.1)	(0.5)
Revaluations <sup>3</sup>	(332.7)	(77.4)	-	(343.9)	(754.0)
Reclassifications	(1.0)	-	-	320.7	319.7
<b>Balance at 31 March 2019</b>	<b>(10,783.7)</b>	<b>(3,440.4)</b>	<b>-</b>	<b>(2,091.6)</b>	<b>(16,315.7)</b>
Charged in Year	<b>(914.2)</b>	<b>(235.1)</b>	<b>-</b>	<b>(187.7)</b>	<b>(1,337.0)</b>
Disposals	<b>16.7</b>	<b>0.1</b>	<b>-</b>	<b>59.6</b>	<b>76.4</b>
Impairments <sup>2</sup>	<b>4.2</b>	<b>-</b>	<b>-</b>	<b>0.4</b>	<b>4.6</b>
Impairment reversals <sup>2</sup>	<b>(0.3)</b>	<b>-</b>	<b>-</b>	<b>(0.2)</b>	<b>(0.5)</b>
Revaluations <sup>3</sup>	<b>(418.1)</b>	<b>(135.3)</b>	<b>-</b>	<b>(43.5)</b>	<b>(596.9)</b>
Reclassifications	<b>1.4</b>	<b>-</b>	<b>-</b>	<b>(1.4)</b>	<b>-</b>
<b>Balance at 31 March 2020</b>	<b>(12,094.0)</b>	<b>(3,810.7)</b>	<b>-</b>	<b>(2,264.4)</b>	<b>(18,169.1)</b>
<b>Net Book Value</b>					
Balance at 1 April 2018	11,775.8	3,468.4	11,775.6	1,161.0	28,180.8
Balance at 31 March 2019	14,617.3	3,508.8	9,743.9	948.8	28,818.8
<b>Balance at 31 March 2020</b>	<b>13,629.5</b>	<b>3,434.4</b>	<b>12,410.5</b>	<b>810.5</b>	<b>30,284.9</b>

1. Additions include accruals of £886.8 million (2018–19: £782.0 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 fair value and therefore the additional annual application of indexation is not required for this category of asset.
4. Reclassifications in 2019–20 include a reclassification of £757 million from SUME to AUC due to a classification error at 31 March 2019, and assets classified from property, plant and equipment of £93 million.



## 5.1 Movement in the revaluation reserve relating to intangible assets

	2019–20 £M	2018–19 £M
Balance – 1 April	<b>2,402.2</b>	2,936.1
Revaluation	<b>716.1</b>	(427.1)
Transfers/reclassifications	-	(31.9)
Realised reserve transferred to the General Fund	<b>(239.0)</b>	(74.9)
<b>Balance – 31 March</b>	<b>2,879.3</b>	2,402.2

## 5.2 Intangible assets with a net book value greater than £500 million

Description <sup>1</sup>	Net Book Value 31 March 2020 £M	Remaining Useful Economic Life
Typhoon development costs	<b>5,419.1</b>	20 years
Lightning II	<b>1,608.2</b>	28 years
Merlin helicopter development costs	<b>1,523.8</b>	10 years 10 months
Type 45 destroyer development costs	<b>1,210.1</b>	19 years 2 months
Type 26 global combat ship development costs <sup>2</sup>	<b>821.4</b>	Under Construction
AJAX armoured vehicles development costs <sup>2</sup>	<b>813.4</b>	Under Construction
Airbus A400M Atlas development costs	<b>766.1</b>	30 years 9 months
Type 23 frigate	<b>664.5</b>	15 years 3 months
Lynx Wildcat helicopter development costs	<b>658.7</b>	24 years 11 months
Spearfish torpedo development costs	<b>512.9</b>	28 years 9 months
Description <sup>1</sup>	Net Book Value 31 March 2019 £M	Remaining Useful Economic Life
Typhoon development costs	5,470.8	21 years
Merlin helicopter development costs	1,615.4	11 years 9 months
Lightning II	1,570.8	29 years
Type 45 destroyer development costs <sup>3</sup>	1,243.0	19 years 10 months
Type 26 global combat ship development costs <sup>2</sup>	821.4	Under Construction
AJAX armoured vehicles development costs <sup>2</sup>	812.0	Under Construction
Airbus A400M Atlas development costs	758.4	31 years 9 months
Lynx Wildcat helicopter development costs	664.4	25 years 11 months
Type 23 frigate	619.4	16 years 3 months
Spearfish torpedo development costs	512.4	29 years 9 months

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.

2. The 2018–19 MOD accounts did not disclose intangible assets under construction with a net book value greater than £500 million. These have been included in the 2019–20 accounts for the first time and comparatives have also been disclosed.

3. The Remaining Useful Economic Life has been re-stated to reflect the out of service date of the last ship in the Type 45 class.

## 6. Consolidated Departmental Group – Property, Plant and Equipment

Cost or Valuation	Land Dwellings		Land Other Buildings		Dwellings		Other Buildings		Single Use Military Equipment (SUME)		Plant and Machinery		Transport		Communication Equipment		IT and		Total
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	
Balance at 1 April 2018	2,433.8	7,063.6	15,057.2	27,924.9	81,938.2	3,897.3	19,788.1	4,880.2	14,504.4	6,629.9	184,117.6								
Additions <sup>1</sup>	1.6	3.7	4.4	294.0	715.2	16.2	5.6	43.4	4,562.2	2,407.7	8,054.0								
Disposals	(61.2)	(10.0)	(21.9)	(784.8)	(2,616.4)	(12.8)	(493.1)	(241.4)	(267.4)	(136.0)	(4,645.0)								
Impairments <sup>2,4</sup>	(36.4)	(35.3)	(89.5)	(357.8)	-	(41.4)	(166.6)	(23.1)	-	-	(750.1)								
Impairment reversals <sup>2,4</sup>	85.1	130.9	99.2	172.8	39.8	1.0	-	2.5	-	-	531.3								
Reclassifications <sup>3</sup>	70.3	7.3	279.4	850.3	(135.8)	140.1	824.8	128.5	(2,736.7)	(862.9)	(1,434.7)								
Revaluations <sup>4</sup>	8.9	69.7	1,047.7	1,354.0	1,191.2	25.9	403.1	29.0	-	20.7	4,150.2								
Balance at 31 March 2019	2,502.1	7,229.9	16,376.5	29,453.4	81,132.2	4,026.3	20,361.9	4,819.1	16,062.5	8,059.4	190,023.3								
Additions	7.0	4.5	98.2	282.2	2,933.4	18.6	211.2	24.7	5,034.8	2,058.0	10,672.6								
Disposals	(48.4)	(155.5)	(169.7)	(621.5)	(4,210.4)	(81.4)	(1,070.1)	(755.1)	(16.0)	(25.6)	(7,153.7)								
Impairments <sup>2,4</sup>	(46.5)	(38.9)	(248.7)	(729.6)	(300.8)	(1.7)	(99.7)	(1.9)	-	(10.9)	(1,478.7)								
Impairment reversals <sup>2,4</sup>	174.2	95.1	126.2	271.2	182.1	0.6	25.1	6.7	1.8	-	883.0								
Reclassifications <sup>3</sup>	18.9	199.3	447.3	982.4	3,129.5	187.3	121.2	229.0	(3,753.7)	(3,108.8)	(1,547.6)								
Revaluations <sup>4</sup>	213.8	(126.2)	1,542.9	2,464.0	2,884.4	104.7	705.8	70.3	171.1	67.8	8,098.6								
<b>Balance at 31 March 2020</b>	<b>2,821.1</b>	<b>7,208.2</b>	<b>18,172.7</b>	<b>32,102.1</b>	<b>85,750.4</b>	<b>4,254.4</b>	<b>20,255.4</b>	<b>4,392.8</b>	<b>17,500.5</b>	<b>7,039.9</b>	<b>199,497.5</b>								

Depreciation	Land Dwellings		Land Other Buildings		Dwellings		Other Buildings		Single Use Military Equipment (SUME)		Plant and Machinery		Transport		Communication Equipment		IT and		Total
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	
Balance at 1 April 2018	(145.6)	(43.2)	(5,143.9)	(14,921.8)	(43,379.4)	(1,849.1)	(8,377.6)	(2,990.8)	-	-	(76,851.4)								
Charged in Year	(15.4)	(8.7)	(331.8)	(750.6)	(2,782.4)	(245.3)	(861.5)	(346.9)	-	-	(5,342.6)								
Disposals	-	0.5	37.0	393.1	1,707.4	76.0	279.5	236.5	-	-	2,730.0								
Impairments <sup>2,4</sup>	1.7	-	20.7	173.2	201.4	40.7	95.4	16.9	-	-	550.0								
Impairment reversals <sup>2,4</sup>	(4.3)	-	(17.0)	(52.4)	(167.0)	(0.8)	(0.4)	(2.0)	-	-	(243.9)								
Reclassifications <sup>3</sup>	-	-	0.6	27.7	1,575.7	(7.9)	150.4	(1.8)	-	-	1,744.7								
Revaluations <sup>4</sup>	(0.9)	(7.5)	(425.0)	(700.3)	(482.9)	1.7	(161.5)	(14.5)	-	-	(1,790.9)								
Balance at 31 March 2019	(164.5)	(58.9)	(5,859.4)	(15,831.1)	(43,327.2)	(1,984.7)	(8,875.7)	(3,102.6)	-	-	(79,204.1)								
Charged in Year	(3.5)	(9.4)	(367.9)	(677.4)	(3,144.7)	(341.3)	(852.9)	(451.8)	-	-	(5,848.9)								
Disposals	12.4	67.4	125.6	502.5	1,727.5	77.5	827.2	739.2	-	-	4,079.3								
Impairments <sup>2,4</sup>	1.3	-	38.1	70.4	58.4	-	89.3	-	-	-	257.5								
Impairment reversals <sup>2,4</sup>	(27.2)	-	(16.6)	(69.8)	(45.0)	(0.6)	(4.4)	(6.7)	-	-	(170.3)								
Reclassifications <sup>3</sup>	0.1	-	(0.3)	(103.6)	1,421.4	126.9	43.5	0.6	-	-	1,488.6								
Revaluations <sup>4</sup>	(75.6)	(1.1)	(610.2)	(1,692.8)	(1,225.4)	(47.5)	(283.0)	(43.6)	-	-	(3,979.2)								
<b>Balance at 31 March 2020</b>	<b>(257.0)</b>	<b>(2.0)</b>	<b>(6,690.7)</b>	<b>(17,801.8)</b>	<b>(44,535.0)</b>	<b>(2,169.7)</b>	<b>(9,056.0)</b>	<b>(2,864.9)</b>	<b>-</b>	<b>-</b>	<b>(83,377.1)</b>								

Net Book Value	Land		Land		Single Use		IT and		AUC		Total
	Dwellings	Other	Buildings	Other	Military	Equipment	Communication	Equipment	(SUME)	(Other)	
	£M	£M	£M	£M	(SUME)	£M	£M	£M	£M	£M	£M
Balance at 1 April 2018	2,288.2	7,020.4	9,913.3	13,003.1	38,558.8	2,048.2	11,410.5	1,889.4	14,504.4	6,629.9	107,266.2
Balance at 31 March 2019 <sup>5</sup>	2,337.6	7,171.0	10,517.1	13,622.3	37,805.0	2,041.6	11,486.2	1,716.5	16,062.5	8,059.4	110,819.2
<b>Balance at 31 March 2020<sup>5</sup></b>	<b>2,564.1</b>	<b>7,206.2</b>	<b>11,482.0</b>	<b>14,300.3</b>	<b>41,215.4</b>	<b>2,084.7</b>	<b>11,199.4</b>	<b>1,527.9</b>	<b>17,500.5</b>	<b>7,039.9</b>	<b>116,120.4</b>

- Additions include accruals of £2,200 million (2018–19: £2,400 million).
- Assets are impaired for a variety of reasons e.g. loss, damage, obsolescence, abandonment of AUC, as part of the disposal process and have been charged or credited (impairment reversals) to operating costs.
- Reclassifications do not net to zero because they include assets reclassified in and out of PPE. In 2019–20 these movements included reclassifications: from inventory of £82 million, to intangible assets of £93 million and assets reclassified to assets held for sale of £48 million.
- Revaluations include changes due to indexation. For AUC the price inflation embedded within contracts provides for a reasonable estimate of fair value therefore the additional annual application of indexation is not required for this category of asset. To ensure accurate fair values for AUC, MOD conducts fair value reviews annually on its AUC and on their reclassification to assets in use.
- Property, plant and equipment as at 31 March 2020 include capitalised provisions (net cost) of £1,156 million (31 March 2019: £1,142 million).
- The revaluation in AUC (SUME) relates to the capitalised decommissioning provision being created for an asset not yet in service; the provision and capitalised asset have to be recognised as soon as the obliging event has occurred. The revaluation in AUC (Other) is in respect of the MARS tanker where evidence indicated that a fair value adjustment to AUC was appropriate.

Asset Financing	Land		Land		Single Use		IT and		AUC		Total
	Dwellings	Other	Buildings	Other	Military	Equipment	Communication	Equipment	(SUME)	(Other)	
	£M	£M	£M	£M	(SUME)	£M	£M	£M	£M	£M	£M
Owned	610.9	7,072.8	5,213.7	12,837.6	41,215.4	1,763.3	9,180.6	925.0	17,500.5	7,039.9	103,359.7
Leased	1,879.4	31.5	5,335.7	138.4	-	-	40.3	-	-	-	7,425.3
Service Concession Arrangements	73.8	101.9	932.6	1,324.3	-	321.4	1,978.5	602.9	-	-	5,335.4
<b>Balance at 31 March 2020</b>	<b>2,564.1</b>	<b>7,206.2</b>	<b>11,482.0</b>	<b>14,300.3</b>	<b>41,215.4</b>	<b>2,084.7</b>	<b>11,199.4</b>	<b>1,527.9</b>	<b>17,500.5</b>	<b>7,039.9</b>	<b>116,120.4</b>

Of the total	Land		Land		Single Use		IT and		AUC		Total
	Dwellings	Other	Buildings	Other	Military	Equipment	Communication	Equipment	(SUME)	(Other)	
	£M	£M	£M	£M	(SUME)	£M	£M	£M	£M	£M	£M
Core Department and Agencies	2,524.5	7,155.4	11,408.1	14,060.1	41,215.2	1,843.1	11,188.9	1,526.6	17,500.5	7,036.6	115,459.0
Arm's Length Bodies	39.6	50.8	73.9	240.2	0.2	241.6	10.5	1.3	-	3.3	661.4
<b>Total</b>	<b>2,564.1</b>	<b>7,206.2</b>	<b>11,482.0</b>	<b>14,300.3</b>	<b>41,215.4</b>	<b>2,084.7</b>	<b>11,199.4</b>	<b>1,527.9</b>	<b>17,500.5</b>	<b>7,039.9</b>	<b>116,120.4</b>

**6.1** Land and Buildings, with the exception of AUC, are subject to Quinquennial Revaluation (QQR). The current QQR cycle (QQR5) is a transitional period whereby approximately 25% of the estate will be valued in each of the first 4 years, with the final year of the current cycle used to revalue 20% of the estate valued in the previous 4 years. This will enable future valuation cycles to be phased evenly over a 5 year period which will include a review of new/refurbished assets where a valuation is required and not due during that year. 2019–20 represents the second year of the current QQR5 cycle (QQR5B).

**6.2** Valuations for the UK estate were performed by the Valuation Office Agency (VOA) and for the overseas estate in-house by Defence Infrastructure Organisation personnel and reviewed by VOA. All valuations are carried out by Royal Institute of Chartered Surveyors (RICS) qualified surveyors in accordance with the institutes Appraisal and Valuation Manual. Non-specialist properties are valued at fair value, interpreted as market value for existing use; specialist properties, for which there is no external market, are valued at depreciated replacement cost.

**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 MOD 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 that 2 year period, the Authority may elect to include the asset in the valuation programme for the following year. Assets are excluded from valuation where the value falls below the MoD Materiality Threshold.

**6.5** Data from the 2019–20 QQR resulted in a £357.2 million decrease in the value of Land and a £910.7 million increase in the value of Buildings

at Net Book Value. Valuations received during the year were dated 1 November 2019 and were effective from 1 April 2019; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 April 2019.

**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 £252.3 million impairment write-off. This is made up of: Land, £58.4 million net impairment reversal; Buildings, £310.7 million net impairment write-off. The figures include all Land and Building assets professionally valued during Financial Year 2019–20, including Donated, IFRIC 12 and IAS 17 leased assets.

### Impact of COVID-19 on Land and Buildings

**6.7** The professional valuers of the UK Estate initially issued their in-year valuations with a Material Valuation Uncertainty Clause to draw management's attention to the fact that the ongoing COVID-19 outbreak (declared a pandemic on 11 March 2020) and subsequent lockdown, introduced significant uncertainty in relation to many factors that have historically acted as drivers for property market activity. This could, therefore, have affected market value assumptions which are used as the basis for the valuation. While this lack of evidence reduced the level of certainty that can be attached to such a valuation, management considers that the valuation provided is an appropriate basis on which to determine the property's fair value at the date of reporting.

**6.8** Both the UK and Overseas professional valuers have since undertaken a further review in September 2020 of subsequent market data and have confirmed that there is little or no empirical evidence available that COVID-19 has had a significant impact on property market activity relating to MOD property assets. The findings of this review has led to the UK professional valuers lifting their Material Valuation Uncertainty Clause previously issued as at the 31st of March 2020.

## 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 4.4 as Movement on Derivatives.

**7.5** The total financial assets held by the Departmental Group is £3,197.5 million (31 March 2019: £3,358.9 million). The Departmental Group's financial liabilities total £8,694.0 million (31 March 2019: £9,322.4 million).

**7.6** Details of assets and liabilities classified as financial assets and liabilities in the SoFP are set out below:

Financial Assets	31 March 2020		31 March 2019	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Non-current</b>				
Investment in UK Hydrographic Office	13.3	13.3	13.3	13.3
Total non-current financial assets	13.3	13.3	13.3	13.3
<b>Current</b>				
Foreign currency forward purchase contracts	389.1	389.1	208.6	208.6
Fuel fixed swap contracts	-	-	34.2	34.2
Investment in Ploughshare Innovations Limited	1.7	1.7	1.8	1.8
Investment in Sealand Support Services Limited	6.8	6.8	6.8	6.8
Deposits and other investments held by Arm's Length Bodies	-	34.0	-	36.3
Total current financial assets	397.6	431.6	251.4	287.7

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Financial Liabilities	31 March 2020		31 March 2019	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Current</b>				
Foreign currency forward purchase contracts	80.3	80.3	100.1	100.1
Fuel fixed swap contracts	215.2	215.2	6.5	6.5
<b>Total current financial liabilities</b>	<b>295.5</b>	<b>295.5</b>	<b>106.6</b>	<b>106.6</b>

### 7.7 Ownership of Investments

Investments held by the Core Department and Agencies are:	
Organisation	Details of investments
UK Hydrographic Office	100% of the Public Dividend Capital owned by MOD
Ploughshare Innovations Limited	Wholly owned by Dstl. Dstl is a MOD Agency
Sealand Support Services Limited	Equal shareholdings between three entities – DECA (a MOD Agency) and two private sector companies
International Military Services Limited <sup>1</sup>	The Department has a 100% interest in the shares of IMS Ltd <sup>1</sup>

1. International Military Services Limited ceased trading on 31 July 1991. Following settlement of outstanding contracts, the company will be liquidated and any remaining value distributed in accordance with the company's constitution. The Department has written down the value of the investment to nil.

Investments held by Arm's Length Bodies are:	
Arm's Length Body	Details of investments
National Museum of the Royal Navy	A mixture of UK and Overseas – government and fixed interest securities, bonds, equities and portfolio funds

**7.8** Special Shares confer on the Secretary of State for Defence rights regarding ownership, influence and control, including voting rights in certain circumstances, under the individual Articles of Association of the relevant companies in which the shares are held. Further detailed information can be obtained from the companies' annual reports and accounts. As at 31 March 2020 the Department held a Preferential Special Share valued at £1 in each of the following companies:

Company	Registration Number
Devonport Royal Dockyard Limited	02077752
Rosyth Royal Dockyard Limited	SC101959
AWE plc	02763902
AWE Pension Trustees Limited	02784144
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 2020, 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 to the right. 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 £25.9 billion, £21.3 billion is included in Note 6 and £4.6 billion in inventory (as at 31 March 2019 these figures were £26.9 billion with £22.2 billion in Note 6 and £4.7 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 or

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 table below, (as at 31 March 2019 these figures were £10.2 billion with £6.5 billion in Note 6 and £3.7 billion in the table below).

	31 March 2020 £M	31 March 2019 £M
Munitions	926.6	886.3
Clothing & textiles	171.9	172.7
Engineering & technical	2,283.9	2,210.3
General	150.3	153.4
Medical, dental & veterinary	32.6	32.5
Oil, fuel & lubricants	209.1	223.6
Work in Progress	0.3	0.1
<b>Total Core Department and Agencies</b>	<b>3,774.7</b>	<b>3,678.9</b>
Inventory held by ALBs	8.2	8.3
<b>Total Departmental Group</b>	<b>3,782.9</b>	<b>3,687.2</b>

**8.4** Where MOD has a Memorandum of Understanding with another country, inventory (including major components such as gas turbines and other supporting inventory) belonging to and held on behalf of that country is included in MOD’s inventory systems. The assets may physically be at the contractors’ premises, in stores or both. The value of these items is not included in the figures above.

## 9. Trade Receivables and Other Assets

	31 March 2020		31 March 2019	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Amounts falling due within one year:</b>				
Trade receivables	429.1	431.0	322.1	325.1
Value Added Tax	577.7	578.3	517.9	518.6
Other receivables	583.6	590.2	480.1	486.5
Prepayments and accrued income	1,544.8	1,551.1	1,363.5	1,371.7
Current part of Service Concession Arrangement prepayment	-	-	22.9	22.9
	<b>3,135.2</b>	<b>3,150.6</b>	<b>2,706.5</b>	<b>2,724.8</b>
<b>Amounts falling due after one year:</b>				
Trade receivables	7.3	7.3	20.0	20.0
Other receivables	142.0	188.6	144.4	144.5
Prepayments and accrued income	428.9	428.9	426.9	426.9
	<b>578.2</b>	<b>624.8</b>	<b>591.3</b>	<b>591.4</b>
<b>Total Receivables</b>	<b>3,713.4</b>	<b>3,775.4</b>	<b>3,297.8</b>	<b>3,316.2</b>

**9.1** The Department holds cash in accounts with foreign governments due to contractual requirements to trade with defence contractors

through foreign military sales. These have been recognised as prepayments.

## 10. Cash and Cash Equivalents

	2019–20		2018–19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Balance at 1 April	1,407.5	1,533.4	1,755.6	1,848.8
Net change in cash and cash equivalents	(25.9)	(4.4)	(348.1)	(315.4)
<b>Balance at 31 March</b>	<b>1,381.6</b>	<b>1,529.0</b>	<b>1,407.5</b>	<b>1,533.4</b>

**10.1** The commercial banks and cash in hand figure as at 31 March 2020 includes £924.2 million (31 March 2019: £902.7 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.

	2019–20		2018–19	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
The following balances were held at:				
Government Banking Service	257.0	279.3	320.7	339.7
Commercial banks and cash in hand	1,124.6	1,249.7	1,086.8	1,193.7
<b>Totals</b>	<b>1,381.6</b>	<b>1,529.0</b>	<b>1,407.5</b>	<b>1,533.4</b>



## 11. Trade Payables and Other Liabilities

	31 March 2020		31 March 2019	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
<b>Amounts falling due within one year:</b>				
VAT	47.7	47.7	94.9	94.9
Other taxation and social security	237.9	238.2	228.1	228.2
Trade payables	446.1	451.1	706.9	714.9
Other payables <sup>1</sup>	1,865.0	1,938.8	1,818.9	1,847.1
Accruals and deferred income	6,638.6	6,700.4	6,992.3	7,060.0
Current part of finance leases	9.9	9.9	9.2	9.2
Current part of imputed finance lease element of Service Concession Arrangement contracts	382.7	382.7	367.2	367.2
Current part of NLF loans <sup>2</sup>	2.5	2.5	2.5	2.5
Supply payable <sup>3</sup>	457.4	457.4	504.8	504.8
	<b>10,087.8</b>	<b>10,228.7</b>	10,724.8	10,828.8
<b>Amounts falling due after one year:</b>				
Other payables	52.2	71.6	20.4	29.2
Accruals and deferred income	4.0	4.0	42.1	42.1
Finance leases	1,596.9	1,596.9	1,747.6	1,747.6
Imputed finance lease element of Service Concession Arrangement contracts	3,926.0	3,926.0	4,310.7	4,310.7
NLF loans <sup>2</sup>	15.1	15.1	17.7	17.7
	<b>5,594.2</b>	<b>5,613.6</b>	6,138.5	6,147.3
<b>Total Payables</b>	<b>15,682.0</b>	<b>15,842.3</b>	16,863.3	16,976.1

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 £924.2 million (2018–19: £902.7 million) and a further £456.4 million (2018–19: £451 million – Departmental element only) lodged with the Court Funds Office.
2. Under the Armed Forces (Housing Loans) Acts 1949, 1958 and 1965, £94M was borrowed from the National Loans Fund for the construction of married quarters over the period 1950–51 to 1967–68. These loans are fully repayable between 2012 and 2028, with the last instalment due on 20 February 2028. Interest on the loans is payable at rates ranging from 4% to 7% per annum.
3. Amounts received from the Consolidated Fund for Supply but not spent as at 31 March.

## 12. Provisions for Liabilities and Charges

### 12.1 Departmental Group – Provisions for Liabilities and Charges

	Nuclear Decommissioning £M	Other Decommissioning and Restoration Costs £M	Early Retirement Commitments £M	Legal £M	Other <sup>1</sup> £M	Total <sup>2</sup> £M
Balance at 1 April 2018	18,831.2	41.6	87.6	596.6	516.0	20,073.0
Increase in provisions in-year	4,348.8	0.6	1.2	239.4	(44.5)	4,545.5
Provisions written back and reclassifications	(884.9)	-	(5.3)	(47.6)	(171.8)	(1,109.6)
Provisions utilised in-year	(146.7)	(1.7)	(6.0)	(117.4)	(109.1)	(380.9)
Unwinding of, and changes in, discount rate <sup>3</sup>	(10,733.9)	(1.1)	(0.6)	(31.5)	8.1	(10,759.0)
<b>Balance at 31 March 2019</b>	<b>11,414.5</b>	<b>39.4</b>	<b>76.9</b>	<b>639.5</b>	<b>198.7</b>	<b>12,369.0</b>
Increase in provisions in-year	<b>882.7</b>	<b>15.9</b>	<b>1.9</b>	<b>222.6</b>	<b>96.0</b>	<b>1,219.1</b>
Provisions written back and reclassifications	<b>(695.2)</b>	<b>(22.7)</b>	<b>(8.2)</b>	<b>(139.4)</b>	<b>34.4</b>	<b>(831.1)</b>
Provisions utilised in-year	<b>(147.0)</b>	<b>(0.9)</b>	<b>(12.2)</b>	<b>(151.6)</b>	<b>(207.5)</b>	<b>(519.2)</b>
Unwinding of, and changes in, discount rate	<b>220.6</b>	<b>(1.1)</b>	<b>(5.3)</b>	<b>(7.0)</b>	<b>0.4</b>	<b>207.6</b>
<b>Balance at 31 March 2020</b>	<b>11,675.6</b>	<b>30.6</b>	<b>53.1</b>	<b>564.1</b>	<b>122.0</b>	<b>12,445.4</b>

1. Other includes provision, £93 million (2018–19: £154 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.
3. Provisions are discounted using HM Treasury's annually issued rates. In 2018–19 there was a significant change to the rates resulting in a large decrease in the value of the Nuclear Decommissioning provision.

### 12.2 Analysis of Expected Timing of Discounted Cash Flows

	Nuclear Decommissioning £M	Other Decommissioning and Restoration Costs £M	Early Retirement Commitments £M	Other Provisions £M	Total £M
Due within 1 year	214.7	16.1	13.3	100.7	344.8
Due over 1 year and less than 5 years	772.0	23.1	9.2	113.3	917.6
Due over 5 years	10,162.6	0.2	54.4	624.2	10,841.4
Assets held solely for decommissioning	265.2	-	-	-	265.2
<b>Balance at 31 March 2019</b>	<b>11,414.5</b>	<b>39.4</b>	<b>76.9</b>	<b>838.2</b>	<b>12,369.0</b>
Due within 1 year	<b>213.8</b>	<b>11.2</b>	<b>0.8</b>	<b>193.0</b>	<b>418.8</b>
Due over 1 year and less than 5 years	<b>867.9</b>	<b>19.4</b>	<b>1.1</b>	<b>196.0</b>	<b>1,084.4</b>
Due over 5 years	<b>10,299.5</b>	<b>-</b>	<b>51.2</b>	<b>297.1</b>	<b>10,647.8</b>
Assets held solely for decommissioning	<b>294.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>294.4</b>
<b>Balance at 31 March 2020</b>	<b>11,675.6</b>	<b>30.6</b>	<b>53.1</b>	<b>686.1</b>	<b>12,445.4</b>

## Nuclear Decommissioning

### *Critical accounting judgements and key sources of estimation uncertainty*

**12.3** Provisions have been made for the cost of the treatment, storage and disposal of the nuclear materials, Irradiated Fuel and Radioactive Waste arising from the Defence Nuclear Programme as well as for the decommissioning of sites, facilities and 31 out of service and operational submarines for which the MOD is ultimately responsible.

**12.4** The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 118 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 2018–19 was £11.415 billion. Since then the movements have been:

- Changes in accounting estimates and new provisions £0.041 billion;
- Effect of unwinding and changes to existing discount rates applied to the provision every year £0.221 billion.

These movements bring the 2019–20 MOD estimate for nuclear decommissioning to £11.676 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 £30.692 billion, the application of discounting decreases the provision to £11.676 billion in 2019–20.

**12.7** From 2018–19 onwards, HM Treasury introduced a very long-term discount rate and changed the methodology for calculating the discount rates to be applied to provisions. Instead of real rates, HM Treasury has issued nominal rates based on the yield curves of Bank of England conventional gilts, as a proxy for a risk-free rate which does not include an inflationary factor.

Time Frame	Short Term Rate (0–5 years)	Medium Term Rate (5–10 years)	Long Term Rate (10–40 years)	Very Long Term Rate (>40 years)	Impact of change (£M) Increase/(Decrease)
2018–19	0.76%	1.14%	1.99%	1.99%	(11,536)
2019–20	0.51%	0.55%	1.99%	1.99%	(62)

**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%

**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 1.3% to 2.9%.

**12.10** To illustrate further the sensitivity of provision values to changes in:

- Discount rates – a reduction of 0.5% (0.01% Short Term, 0.05% Medium Term, 1.49% Long Term and 1.49% Very Long Term) would result in a £2.552 billion increase in the nuclear decommissioning provisions. Conversely, an increase of 0.5% in the four rates would result in a £1.875 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 charge in the provision changing by circa +/-£1 billion.

### 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 £1.156 billion (2018–19 £1.148 billion).

### Significant Provisions

**Nuclear Fuel Management £3.24 billion – 27.8% of total provisions, (2018–19 £3.2 billion – 28% 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. The costs of the conditioning facility 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 £22 million change in the value of the provision; 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 £107 million as the MOD would incur additional storage/maintenance costs.

**Geological Disposal Facility £1.82 billion – 15.6% of total provisions (2018–19 £2.03 billion – 17.8% of the value of the provision)**

**12.15** 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. A review of the MOD's current ongoing contribution to the NDA was undertaken last year and is now based on the total inventory to be held within the facility. The current planned date for the facility to receive waste is 2043/2044. 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 £60 million movement to the liability.
- The cost of constructing and operating a repository in the long term which, dependent on the location and construction requirements, range from a reduction of £0.911 billion in the provision value to an increase of £3.644 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 £101 million.

**Submarine 'Afloat' provisions £1.62 billion – 14.0% of the value of the provision (2018–19 £1.63 billion – 14.3% of the value of the provision)**

**12.16** The MOD incurs costs for the maintenance and safe storage of out of service nuclear submarines prior to disposal. This element of the provision (covering all nuclear submarines

up to and including the four Astute Class boats (three In Service and one undergoing sea trials)) is calculated from projections of these costs which include removal of fuels and an allocation of overhead costs incurred as part of the Maritime Support Delivery Framework (MSDF) contract. The majority of such costs form part of the fixed cost element of the current MSDF contract.

**12.17** As the provision is primarily driven by fixed costs, the overall length of the programme is a key assumption. The provision is therefore routinely updated to reflect the impact of any changes to the submarine programme (specifically in respect to vessel out of service dates and the knock-on impact these have on the timing of platforms entering the dismantling phase). The MSDF contract is scheduled to end during 2021 and cash flow estimates assume similar cost profiles beyond this date. For every 1% change in costs after this point (increase or decrease), it is estimated that the liability would change by £16 million.

**Atomic Weapons Establishment £1.31 billion – 11.2% of the value of the provision (2018–19 £1.34 billion – 11.8% of the value of the provision)**

**12.18** The Atomic Weapons Establishment (AWE) is responsible for the design, manufacture and support of warheads for the United Kingdom's strategic nuclear deterrent. The Department holds provisions for the decommissioning of facilities, decontamination and storage of materials relating to the warhead programme; the largest of which is for the decommissioning of AWE's sites at Aldermaston and Burghfield.

**12.19** 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 difference between the Most Likely estimate for AWE and the Minimum estimate is circa -£138 million (at current prices, undiscounted and excluding management fees) and between the Most Likely and Maximum estimate is circa +£352 million (at current prices, undiscounted and excluding management fees).

**12.20** The AWE provision currently assumes a GDF is the end point for any higher activity waste. It has been estimated that if the date when a GDF will be available is delayed by, for example, ten years the AWE provision would increase (at current prices, including discounting and management fees) by £5.76 million.

**Submarine Dismantling Project £0.98 billion – 8.4% of the value of the provision (2018–19 £0.93 billion – 8.2% of the value of the provision)**

**12.21** 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 boats 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, following the completion of those submarines which are forecast to undergo initial dismantling in two stages, initial dismantling will take 18 months for each submarine. A six month delay to phase 1 and phase 2 results in an estimated increase to

the provision of £722 million, with an increased schedule for works of 14 years.

**12.22** 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 for a +/- 1% change in the SDP costs, would change the estimated liability by £10 million.

**12.23** 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 £43.3 million.

## Other Decommissioning and Restoration

**12.24** 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 paragraphs 12.7 and 12.8.

## Early Retirement

**12.25** Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount

rate applicable to such provisions: -0.5% with effect from 31 March 2020 (0.29% from 31 March 2019). 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 2019–20 increases of £1.9 million were made to existing schemes and early retirement/redundancy costs paid during the period amounted to £12.2 million.

## Legal

**12.26** 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

**12.27** Other provisions include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

## 13. Retirement Benefit Schemes

**13.1** The transactions and balances of the Armed Forces Pension Scheme (AFPS) (including the Gurkha Pension Scheme, the Non-Regular Permanent Staff Pension Scheme, the Reserve Forces Pension Scheme and other minor pension schemes covering locally employed personnel) and the Armed Forces Compensation Scheme are not consolidated in the financial statements. Although the funding for the benefits provided by these schemes is voted separately by Parliament and accounted for in the AFPS Accounts, the staff and other costs of ensuring that pension and compensation payments due are made in a timely and accurate manner, as well as the employer contributions, falls to and is included in MOD's accounts. Separate accounts are prepared for the schemes and can be found at: <https://www.gov.uk/government/collections/armed-forces-compensation>

**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 on the following:

<https://www.civilservicepensionscheme.org.uk>  
<https://www.gov.uk/government/collections/teachers-pension-scheme>  
<https://www.nhsbsa.nhs.uk/nhs-pensions>

**13.3** Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians overseas. The liabilities for unfunded schemes are included as 'Retirement benefit scheme liabilities' as part of the non-current liabilities on the Department's SoFP. For the funded pension schemes within the accounting boundary i.e. the Commonwealth War Graves Commission Superannuation Scheme and the Reserve Forces and Cadets Associations Pension Scheme; estimates of the 'Retirement benefit scheme assets and liabilities' are included as part of the non-current assets and non-current liabilities on the Group SoFP. Further details of these smaller schemes are set out below.

**13.4** The Department's three unfunded, defined benefit pension schemes are:

- the British Forces Cyprus pension scheme – a pension scheme for locally engaged fire fighters, employed by the MOD in Cyprus;
- the Sovereign Bases Administration Areas (SBAA) pension scheme – a pension scheme for locally engaged police and civilian grades in Cyprus; and
- the United Kingdom Departments Gibraltar (UKDG) pension scheme – for locally employed staff in Gibraltar.

## Annual Accounts

**13.5** The Government Actuary's Department (GAD) completes a full valuation of each scheme every four years and for the intervening years produces actuarial reports using the full valuations as a basis. Full valuations were completed: for

the UKDG as at 31 March 2019 and for BFC and SBAA as at 31 March 2018. Details of the liabilities and other information used by GAD in their calculations are shown in the tables below:

	2019–20				2018–19			
	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	56.7	139.1	360.5	556.3	73.5	156.0	365.0	594.5
Current Service Cost	2.1	6.0	7.3	15.4	2.4	5.2	7.8	15.4
Interest Charges	1.7	4.1	10.4	16.2	1.9	4.0	9.3	15.2
Changes in assumptions	8.9	22.4	35.0	66.3	(2.9)	5.8	(10.3)	(7.4)
Benefits Paid	(1.4)	(3.2)	(11.6)	(16.2)	(0.7)	(2.2)	(11.3)	(14.2)
Exchange Rate (gain)/loss	1.6	4.0	-	5.6	(1.4)	(3.4)	-	(4.8)
Experience (gain)/loss <sup>1</sup>	-	-	(30.2)	(30.2)	(16.1)	(26.3)	-	(42.4)
Closing Balances	69.6	172.4	371.4	613.4	56.7	139.1	360.5	556.3

1. The changes due to experience gains and losses arise due to scheme experience that has not coincided with the actuarial assumptions made for the latest valuation. The main reasons for this difference are: a period of pay restraint for active members of these schemes during the inter-valuation period; and a higher than expected rate of pensioner mortality during the inter-valuation period.

**13.6** GAD has completed sensitivity analysis on the key assumptions underlying their valuations of the schemes' liabilities. The analysis showed that there has been no material movement in the total liability for any of the schemes as a result of the assumptions made. The principal actuarial assumptions as at 31 March are to the right:

	2019–20	2018–19
Discount Rate	1.80%	2.90%
Future Salary Increases	4.10%	4.10%
Future Pension Increases	2.35%	2.60%

**13.7** The numbers of members used in the calculations for each scheme were:

	Number of Members as at the Current Valuation Date <sup>1</sup>			Number of Members as at the Previous Valuation Date <sup>1</sup>		
	Active	Pensioners	Deferred Pensioners	Active	Pensioners	Deferred Pensioners
British Forces Cyprus (BFC)	109	46	1	117	47	1
Sovereign Bases Administration Areas (SBAA)	293	132	2	340	106	1
United Kingdom Departments Gibraltar (UKDG)	488	1,134	270	570	1,161	305

1. In accordance with the FReM, actuarial valuations of the schemes are carried out every 4 years. The membership data above reflects the updated information used at the time of these valuations. The current valuations for BFC and SBAA are as at 31 March 2018, the previous valuations are as at 31 March 2014. The current valuation for UKDG is as at 31 March 2019, the previous valuation is as at 31 March 2015.



**13.8** The Group Accounts also include two funded, defined benefit schemes:

- the Commonwealth War Graves Commission Superannuation Scheme (this scheme was closed to future benefit accrual from 31 March 2016); and
- the Reserve Forces and Cadets Associations Pension Scheme.

**13.9** Details of the assets, liabilities and number of members (set out in the following tables) are also reviewed by GAD and include sensitivity analysis on the key assumptions underlying the valuations. The analysis showed that there has been no material movement in the total liability for either of the schemes as a result of the assumptions made.

Scheme Assets	2019–20			2018–19		
	Reserve Forces and Cadets Association Pension Scheme £M	Commonwealth War Graves Commission Superannuation Scheme £M	Total £M	Reserve Forces and Cadets Association Pension Scheme £M	Commonwealth War Graves Commission Superannuation Scheme £M	Total £M
Opening Asset Balances	113.6	87.0	200.6	113.6	86.6	200.2
Net increase/(decrease) <sup>1</sup>	14.7	0.9	15.6	-	0.4	0.4
Closing Asset Balances	128.3	87.9	216.2	113.6	87.0	200.6
Scheme Liabilities						
Opening Liability Balances	(97.7)	(116.1)	(213.8)	(97.7)	(109.6)	(207.3)
Net (increase)/decrease <sup>1</sup>	(21.7)	(8.4)	(30.1)	-	(6.5)	(6.5)
Closing Liability Balances	(119.4)	(124.5)	(243.9)	(97.7)	(116.1)	(213.8)
<b>Net Scheme Asset/(Liabilities)</b>	<b>8.9</b>	<b>(36.6)</b>	<b>(27.7)</b>	15.9	(29.1)	(13.2)

1. The increase or decrease in the valuations is the net total of individual movements (current service cost, interest charges, contributions by members, enhancements, past service costs, transfers, changes in assumptions, benefits paid, exchange rate gains or losses, and experience gains or losses) which, separately, are not considered material and are not disclosed.

**13.10** The numbers of members used in the calculations for each scheme were:

	Current Number of Members <sup>1</sup>			Previous Number of Members <sup>1</sup>		
	Active	Pensioners	Deferred Pensioners	Active	Pensioners	Deferred Pensioners
Reserve Forces and Cadets Association Pension Scheme	901	1,164	340	855	1,126	305
Commonwealth War Graves Commission Superannuation Scheme	202	405	169	190	408	169

1. The Reserve Forces and Cadets Association Pension Scheme's figures for the current number of members is as at 1 August 2018, the previous number of members is as at 1 August 2015. The Commonwealth War Graves Commission Superannuation Scheme's figures for the current number of members is as at 31 March 2016, the previous number of members is as at 30 November 2013.

## 14. Departmental Group – Capital Commitments

**14.1** In addition to the liabilities listed in the Statement of Financial Position the Department, as part of its ongoing work enters into undertakings for substantial future capital expenditure which, when the liability is incurred, will be recorded in future financial statements. The following future capital commitments are not yet accounted for in the financial statements:

	31 March 2020 £M	31 March 2019 £M
Intangible assets	<b>2,324.3</b>	2,506.8
Property, plant and equipment	<b>21,444.8</b>	21,933.9
<b>Total</b>	<b>23,769.1</b>	24,440.7

## 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.

	31 March 2020 £M	Restated <sup>1</sup> 31 March 2019 £M
Not later than 1 year	<b>3,856.7</b>	2,900.0
Later than 1 year but not later than 5 years	<b>6,798.0</b>	5,763.4
Later than 5 years	<b>2,485.7</b>	2,171.2
<b>Total</b>	<b>13,140.4</b>	10,834.6

1. Following a review of contracts the MOD identified £5.8 billion of other financial commitments not previously disclosed. The commitments at 31 March 2019 have been restated to include these contracts.

## 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 2020 £M	31 March 2019 £M
Obligations under operating leases comprise:		
<b>Land</b>		
Not later than one year	<b>7.4</b>	8.5
Later than one year and not later than five years	<b>9.8</b>	15.9
Later than five years	<b>20.4</b>	44.6
	<b>37.6</b>	69.0
<b>Buildings</b>		
Not later than one year	<b>51.9</b>	53.4
Later than one year and not later than five years	<b>93.8</b>	105.7
Later than five years	<b>78.8</b>	57.3
	<b>224.5</b>	216.4
<b>Other</b>		
Not later than one year	<b>116.0</b>	103.4
Later than one year and not later than five years	<b>209.8</b>	216.4
Later than five years	<b>20.0</b>	3.5
	<b>345.8</b>	323.3

**16.3** The most significant operating leases for buildings, as at 31 March 2020, are for: Service Families Accommodation £26 million (2018–19: £27 million), Aldershot Health Centre £25 million (2018–19: £29 million), Dstl sites £18 million (2018–19: £18 million) and Cromwell House £18 million (2018–19: £1 million).

**16.4** Other operating lease commitments include leased vehicles (including operational support vehicles) of £211 million (2018–19: £228 million) and Defence Fuels Global Resupply Capability £43 million (2018–19: £18 million), Light Aircraft Handling Training £42 million (2018–19: £8 million) and Defence Mechanical Handling Equipment £10 million (2018–19: £14 million). Each of the remaining lease commitments is less than £10 million.

#### 16.5 Finance leases:

	31 March 2020 £M	31 March 2019 £M
Obligations under finance leases comprise:		
<b>Land</b>		
Not later than one year	44.0	48.0
Later than one year and not later than five years	176.2	192.2
Later than five years	7,555.4	8,455.4
	7,775.6	8,695.6
Less interest element	(6,997.5)	(7,846.9)
	778.1	848.7
<b>Buildings</b>		
Not later than one year	43.8	47.8
Later than one year and not later than five years	175.5	191.4
Later than five years	7,525.0	8,421.3
	7,744.3	8,660.5
Less interest element	(6,969.3)	(7,815.2)
	775.0	845.3
<b>Other</b>		
Not later than one year	13.3	13.3
Later than one year and not later than five years	50.0	51.2
Later than five years	-	13.4
	63.3	77.9
Less interest element	(9.6)	(15.0)
	53.7	62.9

**16.6** The Land and Buildings finance leases relate to the arrangement with Annington Homes Ltd for the provision of homes for service personnel and their families £1,553 million (2018–19: £1,694 million). The Other finance lease is an arrangement for strategic sealift £54 million (2018–19: £63 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 2019–20; details of the assets financed under these arrangements are included at Note 6 – Property, Plant and Equipment:

Project Description	Contract Start <sup>1</sup>	Contract End
Defence Fixed Telecommunications System: Integration of 50 fixed telecommunications networks used by the Armed Forces and MOD, including the delivery of voice, data, LAN interconnect and other WAN services.	Jul-97	Jul-23
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson.	Oct-97	Oct-37
Veolia PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage at Tidworth.	Feb-98	Aug-23
Joint Services Command and Staff College (JSCSC): Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters.	Jun-98	Aug-28
RAF Lossiemouth Family Quarters: Redevelopment and re-provision of 279 Service family quarters.	Jun-98	Aug-19
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton.	Jul-98	Jul-28
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, to meet regulatory standards at RAF Lyneham.	Aug-98	Aug-23
RAF Fylingdales: Provision of guaranteed power supply.	Dec-98	Mar-24
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury.	Mar-99	Jun-25
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy.	Apr-99	Jan-21
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service families in Central Scotland.	Aug-99	Jun-21
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers.	Feb-00	Dec-29
Main Building Refurbishment: Redevelopment and management services for MOD Main Building.	May-00	May-30
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington.	Jul-00	Mar-23
Family quarters at Wattisham: Provision of married quarters accommodation for 250 Service families.	May-01	May-28
Training: Provision of a training environment for crewmen and maintainers to support submarines for 30 years.	Sep-01	Sep-37
Family quarters at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families.	Nov-01	Sep-28
Heavy Equipment Transporters: provision of vehicles to replace existing fleet and meet future requirements	Dec-01	Jul-24
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field.	Jun-02	Jun-22

Project Description	Contract Start <sup>1</sup>	Contract End
Aquatrine Project A: Provision of water and waste water services.	Apr-03	Nov-28
Naval Communications: Submarine fleet communications service.	Jun-03	Dec-30
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service.	Jun-03	Aug-33
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-03	Aug-22
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops).	Feb-04	Feb-39
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base.	Jul-04	Mar-29
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 148 Family quarters in Portsmouth.	Oct-05	May-30
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-06	Apr-41
Northwood: Rebuild, refurbishment, management and operation of facilities for the Permanent Joint Headquarters.	Jul-06	Oct-31
Combined Aerial Targets (CATS): Provision of aerial targets and associated ground equipment and support services.	Dec-06	Mar-28
Provision of Marine Services: Provision of marine services at UK Dockyard Ports at Portsmouth, Devonport and Clyde and support to military exercises, training and deep water trials, worldwide.	Dec-07	Dec-22
Future Strategic Tanker Aircraft (FSTA): FSTA is an innovative PFI programme that will provide modern air-to-air refuelling and passenger air transport capabilities.	Mar-08	Mar-35
UK Military Flying Training System: Advanced Jet Trainer, Ground Based Training Equipment Element: Management and provision of Fast Jet Phase IV training 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 2019–20 were £1.3 billion (2018–19: £1.3 billion) and interest charges for 2019–20 were £0.3 billion (2018–19: £0.4 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 tables to the right:

**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 £1,967 million (2018–19: £2,043 million).
- Colchester Garrison – redevelopment, rebuilding and refurbishment to provide accommodation and associated services £464 million (2018–19: £761 million).
- Skynet 5 – satellite services £356 million (2018–19: £491 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 £387 million (2018–19: £398 million).
- Main Building refurbishment £263 million (2018–19: £498 million).
- UK Military Flying Training System – armed forces aircrew training £216 million (2018–19: £180 million).
- Northwood – rebuild, refurbishment, management and operation of facilities £112 million (2018–19: £180 million).

	31 March 2020 £M	31 March 2019 £M
<b>Details of the imputed finance lease charges</b>		
Not later than one year	650.0	656.5
Later than one year and not later than five years	1,993.9	2,249.8
Later than five years	3,766.4	4,161.3
<b>Total</b>	<b>6,410.3</b>	<b>7,067.6</b>
Less interest element	(2,101.6)	(2,389.7)
<b>Present value of obligations</b>	<b>4,308.7</b>	<b>4,677.9</b>
<b>Details of the minimum service charge</b>		
Not later than one year	1,145.8	1,109.3
Later than one year and not later than five years	3,734.9	3,629.1
Later than five years	7,126.3	6,592.4
<b>Total</b>	<b>12,007.0</b>	<b>11,330.8</b>

## 18. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed under IAS37: 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 IAS37

Description and Key Uncertainties	31 March 2019 £M	Increase/ (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2020 £M
<b>Indemnity to contractors for third party claims</b> There are uncertainties around the likelihood of a case being brought against the MOD and determining the value of any potential case. The scope of potential cases is wide ranging, and the timing cannot be predetermined.	282.0	-	-	-	<b>282.0</b>
<b>Contractor claims as result of contract termination<sup>1</sup></b> There are several costs that are associated with production line coming to an end, this includes reimbursement for site and workforce rationalisation costs. The full cost is dependent on future export opportunities.	203.0	4.8	-	-	<b>207.8</b>
<b>Liability for redundancy<sup>1</sup></b> There are several uncertainties relating to redundancies in this category. Some are due to timing of individuals death, whether any dependants remain and the value of the entitlement.	22.4	(0.9)	(2.3)	(0.2)	<b>19.0</b>
<b>Legal claims (personal)</b> This liability is created by the percentage of legal claims that are repudiated by the Company who manage the Departments legal claims. The percentage remains variable.	44.2	(4.7)	-	-	<b>39.5</b>
<b>Environmental clean-up costs</b> There are several uncertainties, whether mitigation action has been suitably effective. As a programme of work progresses this could uncover further clean up work is required at any time.	46.9	(0.9)	(1.5)	-	<b>44.5</b>
<b>Potential liability arising from the Colchester Garrison PFI</b> Private Finance Initiative liability due to a qualifying change in law. There is uncertainty around whether this will occur and also the timing of such a change occurring.	20.0	-	-	-	<b>20.0</b>
<b>Indemnity for utilities and services following the sale of Service housing</b> There is uncertainty as to whether MOD will hand a site back before the determination date and if the utilities agreement is extended. There is further uncertainty of value of outflow and the timing in which this might occur.	17.0	4.4	-	-	<b>21.4</b>
<b>Sensitive</b> Not disclosed due to reasons of commercial confidentiality and/or national security.	22.1	2.5	(5.6)	(2.6)	<b>16.4</b>
<b>New Fair Deal arrangements for staff pensions: staff transferred from Central Government</b> There is uncertainty as to whether eligible personnel will choose to transfer accrued pension benefits into Principal Civil Service Pension Scheme and the difference in value between private and public pension entitlements over time.	1.5	0.7	-	-	<b>2.2</b>
<b>Indemnity related to potential damage to cables by third parties</b> There is uncertainty around whether any damage to the cables will occur and the potential rectification costs.	1.1	-	-	-	<b>1.1</b>
<b>Total quantifiable contingent liabilities</b>	<b>660.2</b>	<b>5.9</b>	<b>(9.4)</b>	<b>(2.8)</b>	<b>653.9</b>

1. Following a review, some redundancy liabilities have been reclassified as 'Contractor claims as result of contract termination'.

**18.3** The Department has the following unquantifiable liabilities in accordance with IAS37. This could be due to a variety of reasons such as: the possibility of multiple scenarios and permutations (often involving complex and changing technology); and the variety and the uncertainty surrounding the events that may lead to crystallisation of any obligation. Objective evidence to support valuations of these liabilities is not available and hence they cannot be measured with sufficient reliability. The liabilities will remain for the foreseeable future because they relate to possible obligations in respect of enduring companies, products, projects, equipment, technologies and property. The liabilities are:

- The Department has a number of sites where it may be necessary to carry out decontamination work. It is not practicable or cost effective to identify all contamination at these sites. Any possible liability is therefore not quantified and possible site remediation exposure is recognised as an unquantifiable contingent liability. Uncertainty whether this will occur is dependent on the site and this is only known as the decontamination work progresses; therefore, timing and costs are uncertain.
- Service Life Insurance is a life insurance scheme for Service personnel which aims to guarantee access to life insurance cover throughout their service. The insurer undertakes to cover the risk for all deaths regardless of cause within a contracted mortality rate of 75 deaths per 100,000 members. Above this mortality rate MOD would be liable. There is uncertainty relating to whether such an event will occur to trigger the liability and the scale that might be involved.
- Indemnity to third parties for damage caused by live firing of missiles at overseas ranges. There is uncertainty as to whether such an event will occur and the level of rectification costs that may be incurred as a result.
- Potential claims under UK employment legislation following a Court of Appeal decision that dependent locally employed civilians are covered by the legislation. There is uncertainty around how many eligible personnel will claim and the values of any such claims.
- Under the Defence Marine Services contract losses or claims which relate to towing are handled according to the terms of the International Ocean Towing Agreement (TOWCON). Under TOWCON the contractor is indemnified by the MOD for injury to persons on towed vessels, loss or damage caused to towed vessels, and loss or damage caused to 3rd parties by towed vessels. The uncertainty relates to the multiple potential scenarios that would trigger this liability which are numerous in their nature, scale and potential financial impact.
- Potential liability for staff transferred from the Department to request access to pension schemes available under New Fair Deal Arrangements. The uncertainty relating to New Fair Deal comes through not knowing how many entitled personnel will transfer onto the public sector pension scheme and what their accrued benefits would be at the point of transfer compared to their private pension scheme.
- Article 157 of the EU Withdrawal Agreement provides for the MOD to pay its share of pension liabilities for European Defence Agency, EU Institute for Security Studies and EU Satellite Centre and the liabilities arising from liquidation of Western EU payment becoming due by 30 June 2021.



## 19. Related Party Transactions

**19.1** The Department is the parent of the agencies (DE&S BTE, DECA, Dstl and SDA) and other bodies, and sponsor of the non-departmental public bodies shown in Note 20 – Entities Within the Departmental Boundary. These bodies are regarded as related parties with which the Department has had various transactions during the year.

**19.2** In addition, the Department has had a number of transactions with other government departments and other central government bodies.

**19.3** Details of individuals who served as Ministers and Board Members during the year are listed in the Remuneration Report. No Minister or Board Member or their related parties has undertaken any material transactions with the Department during the year.

## 20. Entities within the Departmental Boundary

The entities within the boundary during 2019–20 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 <sup>1</sup>
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 <sup>2</sup>
Royal Hospital Chelsea
Service Complaints Ombudsman <sup>2</sup>
Service Prosecuting Authority <sup>2</sup>
Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996 c14

1. Armed Forces Covenant Fund Trustee Limited was designated as a Non-Departmental Public Body from 2019–20. In 2018–19 it was classified as an Other Body within the Department's accounting boundary.
2. International Military Services Limited; Service Complaints Ombudsman; and Service Prosecuting Authority were designated as entities within the departmental boundary from 2019–20. This designation does not have a material impact on the accounts and as a result no restatement of comparative figures has been made.

## 21. Events After the Reporting Date

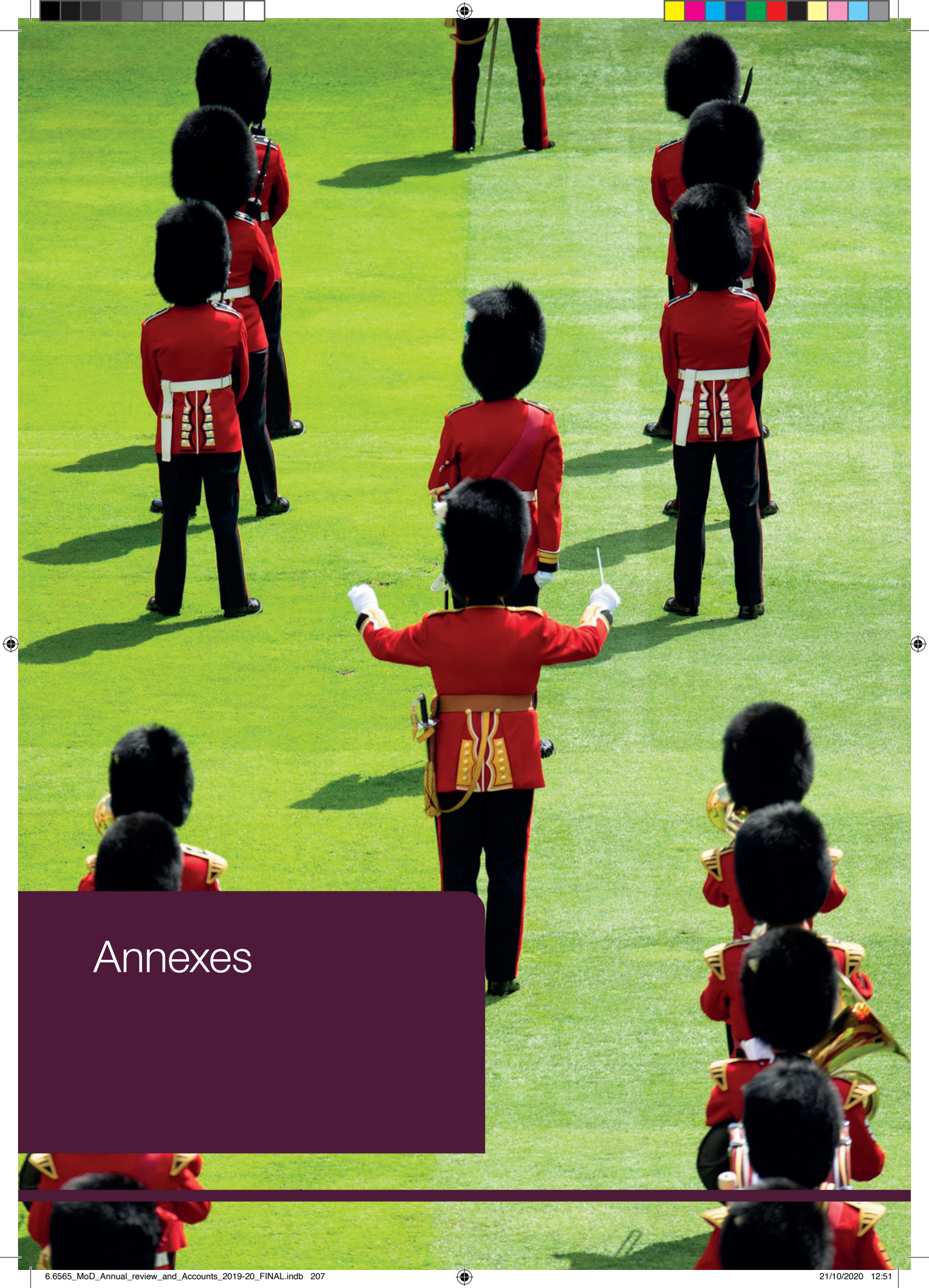
**21.1** On 1 April 2020 the United Kingdom Security Vetting (UKSV) function transferred from the MOD to the Cabinet Office. The transfer of UKSV does not have a material impact on the Department's financial statements and they will therefore not be restated in 2020–21.

**21.2** The Department has assessed the impact of COVID-19 on its assets and liabilities as well as key assumptions. It has also reviewed the impact on suppliers and the support the Department gives them.

**21.3** While there has been reduced activity and delays indicated by suppliers none of these impacts are material. The most significant uncertainty presented by COVID-19 for the MOD accounts was in property valuation. As at the financial 2019–20 year-end, the independent valuers had stated that there is little to no empirical evidence available to accurately assess the impact of COVID-19 on property activity or values. The position has changed since the end of March 2020 with the independent valuers of the UK estate (VOA) and the in-house team responsible for the overseas estate confirming there is little or no empirical evidence available that COVID-19 has had a significant impact on property market activity relating to MOD property assets. This means more confidence can now be placed on the valuations than was the case at the statement of financial position date.

**21.4** As part of the wider Government response to the COVID-19 pandemic and in line with Cabinet Office and HM Treasury authority, the Department has made interim payments to suppliers to protect the supply of critical goods and services during 2020–21.

**21.5** These accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.



# Annexes

## Annex A: Statement of Approved Maximum Armed Forces Numbers

### *Maximum Numbers of Personnel to be Maintained for Services with the Armed Forces*

		Numbers Voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Naval Service</b>				
Royal Navy	Officers	7,000	6,120	February 2020
	Men and Women	22,000	20,000	March 2020
	Aggregate	29,000	26,080	March 2020
Royal Marines	Officers	1,000	820	October 2019
	Men and Women	7,200	6,020	April 2019
	Aggregate	8,200	6,830	April 2019
<b>Army Service</b>				
Army (Other than Services below)	Officers	14,370	13,100	October 2019
	Men and Women	88,090	68,580	November 2019
	Aggregate	102,460	81,670	October 2019
Commonwealth, Colonial, &c., troops abroad and Gurkhas	Officers	210	160	August 2019
	Men and Women	4,210	3,780	March 2020
	Aggregate	4,420	3,930	April 2019
<b>Air Force Services</b>				
Royal Air Force	Officers	8,090	7,820	November 2019
	Men and Women	27,000	25,080	July 2019
	Aggregate	35,090	32,860	April 2019

### *Maximum numbers of personnel to be maintained for service with the Reserve Armed Forces*

		Numbers Voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Reserve Naval and Marine Services</b>				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,960	2,250	April 2019
	Men and Women	9,000	2,100	February 2020
	Aggregate	13,960	4,340	April 2019
Royal Fleet Reserve (Marine Officers and Marines)	Officers	470	220	July 2019
	Men and Women	2,610	910	March 2020
	Aggregate	3,080	1,120	October 2019
Royal Naval Reserve	Officers	1,400	1,160	August 2019
	Men and Women	2,300	1,790	July 2019
	Aggregate	3,700	2,940	August 2019
Royal Marine Reserve	Officers	120	90	February 2020 and March 2020
	Men and Women	1,250	930	October 2019
	Aggregate	1,370	1,010	October 2019
Royal Naval Reserve (List 7)	Officers	1,100	960	November 2019

		Numbers Voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Reserve Land Forces</b>				
Army Regular Reserve	Officers	9,670	7,730	April 2019
	Men and Women	24,070	20,070	May 2019
	Aggregate	33,740	27,780	April 2019
Army Reserve	Officers	9,530	6,030	March 2020
	Men and Women	34,580	27,940	November 2019
	Aggregate	44,110	33,890	December 2019
<b>Reserve Air Forces</b>				
Royal Air Force Reserve	Officers	4,500	3,730	June 2019
	Men and Women	9,000	7,580	April 2019
	Aggregate	13,500	11,280	April 2019
Royal Auxiliary Air Force	Officers	950	740	March 2020
	Men and Women	3,850	2,520	March 2020
	Aggregate	4,800	3,250	March 2020

*Maximum numbers of personnel to be maintained for service as special members of the Reserve Forces*

		Numbers Voted by the House of Commons	Maximum Numbers Maintained <sup>1</sup>	Peak Dates
<b>Special Members of The Reserve Naval Forces</b>				
Royal Naval Reserve	Officers	850	690	April 2019
	Men and Women	1,620	1,070	November 2019
	Aggregate	2,470	1,740	November 2019
<b>Special Members of The Reserve Land Forces</b>				
Army Regular Reserve	Officers	20	-	Tablenote 3
	Men and Women	30	-	Tablenote 3
	Aggregate	50	-	Tablenote 3
Army Reserve	Officers	20	-	Tablenote 3
	Men and Women	430	130	December 2019 and January 2020
	Aggregate	450	130	December 2019 and January 2020
<b>Special Members of The Reserve Air Forces</b>				
Royal Air Force Reserve	Officers	100	50	June 2019 and March 2020
	Men and Women	180	160	August 2019
	Aggregate	280	200	February 2020

1. The figures for Maximum Numbers Maintained have been rounded to the nearest 10, with numbers ending in 5 being rounded to the nearest multiple of 20 to prevent systematic bias.
2. Totals and sub-totals have been rounded separately and so may not equal the sum of their rounded parts.
3. Strength has been zero for the whole time period.

## Annex B: Sponsorship Agreements over £5,000

Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
<b>Exercise Force Atlantic (Talisker Whiskey Challenge)</b>		
	Made to Measure Mentoring	15,000
	Actus Management	10,000
	Capita	10,000
	FAI Automotive	6,000
	Morson's	5,000
<b>Armed Forces in Wales Awards</b>		
	General Dynamics	5,000
<b>British Army Staff Strategic Engagement Week</b>		
	General Dynamics	13,619
<b>Continuous At Sea Deterrent 50</b>		
	BAE Systems	40,000
	Devonport Royal Dockyard Ltd	40,000
	Rolls-Royce Submarines Ltd	15,000
<b>Royal Navy Helicopter Display Team</b>		
	Leonardo MW Ltd	10,000
<b>'HMS Oardacious' (RN Submariners' Atlantic Challenge)</b>		
	Wood Nuclear Ltd	12,000
	Jacobs U.K. Ltd	8,000
<b>Sponsorship of HMS Prince of Wales First Entry</b>		
	BAE Systems Surface Ships Ltd	10,000
<b>Sponsorship of Royal Navy Engineering Challenge</b>		
	Eaton Ltd	10,000
<b>RAF Typhoon Display Team</b>		
	Leonardo MW Ltd	20,000
	Toomey Leasing Group Ltd	14,983
	Breitling	7,000
	BAE Systems	5,000
<b>Battle of Britain Memorial Flight</b>		
	BAE Systems	30,000
	Lincolnshire's Lancaster Association	20,000
<b>RAF Red Arrows</b>		
	BAE Systems	80,000
	Jaguar Land Rover Ltd	70,000
	Breitling	54,000
	Ping Europe Ltd	51,000
	Oxford Vaughan	42,000
	Alexandre (BMB Clothing Ltd)	12,000
	Typemaker Ltd (Color Confidence)	10,000
	Leeds Commercial	7,000
	XS Creativity	6,500
	Grant International	5,000
<b>RAF Falcons Parachute Team</b>		
	Griffin Military & Diplomat	91,000
	Cotswold Outdoors	22,560
	Sonic Communications (Int) Ltd	15,000
	RAF Benevolent Fund	7,500
	Mute Records	6,000
<b>Queen's Colour Squadron</b>		
	RAF Benevolent Fund	10,000

# Annex C: Core Tables

## Organisation (All) Total departmental spending, 2015–16 to 2020–21

£000	2015–16 OUTTURN	2016–17 OUTTURN	2017–18 OUTTURN	2018–19 OUTTURN	2019–20 OUTTURN	2020–21 PLANS
<b>Resource DEL</b>						
Provision of Defence Capability Service Personnel Costs	8,688,284	8,936,726	8,970,633	9,093,174	9,949,068	10,422,170
Provision of Defence Capability Civilian Personnel Costs	1,282,598	1,317,796	1,363,922	1,382,590	1,535,636	2,038,815
Provision of Defence Capability Infrastructure costs	4,127,877	4,109,609	4,057,523	4,258,514	4,643,384	5,142,297
Provision of Defence Capability Inventory Consumption	1,458,575	1,213,611	1,187,498	1,173,172	1,225,847	1,219,672
Provision of Defence Capability Equipment Support Costs	6,308,897	6,440,168	6,548,798	6,792,882	6,927,405	7,166,159
Provision of Defence Capability Other Costs and Services	1,777,086	1,224,403	1,344,094	1,345,918	1,347,553	1,125,167
Provision of Defence Capability Receipts and other Income	-990,842	-1,001,626	-1,069,897	-1,088,379	-1,264,898	-1,068,832
Provision of Defence Capability Depreciation and Impairments Costs	7,690,147	8,773,560	7,236,889	6,805,446	7,185,671	8,496,727
Provision of Defence Capability Cash Release of Provisions Costs	238,288	253,552	292,907	389,329	522,739	340,000
Provision of Defence Capability Research and Development Costs <sup>1</sup>	-	164,191	223,050	228,963	265,316	183,216
Provision of Defence Capability Administration Civilian Personnel Costs	1,199,116	430,740	363,297	483,679	550,640	550,000
Provision of Defence Capability Administration Other Costs and Services	465,947	395,656	423,226	530,519	642,365	692,479
Operations Service Personnel Staff Cost	12,864	27,617	42,608	30,728	39,494	28,075
Operations and Peacekeeping Civilian Personnel Staff Costs	3,962	4,840	5,621	3,014	1,623	2,086
Operations Infrastructure Costs	48,926	42,939	56,714	63,814	55,749	59,244
Operations Inventory Consumption	56,224	66,085	95,821	80,522	110,914	79,381
Operations Equipment Support Costs	143,437	233,445	282,316	271,531	122,189	115,668
Operations Other Costs and Services	19,856	41,510	35,451	66,477	41,408	32,584
Operations Receipts and other Income	-9,969	-16,698	-11,941	-2,901	-4,932	-5,038
Operations Depreciation and Impairment Costs	21,029	45,272	49,723	24,585	1,613	-
Operations Cash Release of Provisions Costs	-	-	-	-	-	-
Conflict Pools Resource Costs	-	-	-	-	-	-
Non Departmental Public Bodies Costs	164,842	153,063	164,637	204,025	228,215	198,270
Defence Capability Admin Service Pers Costs	617,879	658,904	670,653	661,235	702,906	730,000
Defence Capability DE&S DEL Costs	1,028,443	1,044,059	1,041,063	981,367	1,099,653	905,000
War Pension Benefits Programme Costs	-	764,818	723,228	697,262	681,025	700,106
Conflict, Stability and Security Fund	53,397	86,832	90,994	88,579	84,521	85,578
Cash Release of Provisions Admin Costs	18,157	11,703	9,908	5,446	11,934	10,000
<b>Total Resource DEL</b>	<b>34,424,020</b>	<b>35,422,775</b>	<b>34,198,736</b>	<b>34,571,491</b>	<b>36,707,038</b>	<b>39,248,824</b>

£000	2015-16 OUTTURN	2016-17 OUTTURN	2017-18 OUTTURN	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 PLANS
<b>Resource AME</b>						
Provision of Defence Capability Depreciation and Impairment Costs	562,876	142,253	861,134	70,897	-46,372	952,550
Provision of Defence Capability Provisions Costs	6,096,468	501,333	8,548,134	-7,377,334	521,986	616,735
Provision of Defence Cash Release of Provisions Costs	-256,445	-265,255	-302,815	-394,775	-534,673	-350,000
Movement On Fair Value of Financial Instruments	-299,576	-589,025	583,912	-181,496	118,890	300,000
<b>Total Resource AME</b>	<b>6,103,323</b>	<b>-210,694</b>	<b>9,690,365</b>	<b>-7,882,708</b>	<b>59,831</b>	<b>1,519,285</b>
<b>Total Resource Budget</b>	<b>40,527,343</b>	<b>35,212,081</b>	<b>43,889,101</b>	<b>26,688,783</b>	<b>36,766,869</b>	<b>40,768,109</b>
<b>Capital DEL</b>						
Provision of Defence Capability Capital Single Use Military Equipment	4,255,772	5,192,513	5,530,091	5,817,644	6,848,790	6,730,530
Provision of Defence Capability Other Capital (Fiscal)	2,509,470	2,279,278	2,929,616	3,253,912	2,441,692	2,715,812
Provision of Defence Capability Fiscal Assets/Estate Disposal	-423,365	-36,560	-33,224	-42,725	-39,933	-110,000
Provision of Defence Capability New Loans and Loan Repayment	-3,220	-63,292	-	8,609	-	-
Provision of Defence Capability Research and Development Costs <sup>1</sup>	1,921,983	1,104,141	1,007,683	1,110,050	967,940	1,150,100
Operations Capital Single Use Military Equipment	51,862	111,350	178,258	75,113	1,938	-
Operations Other Capital (Fiscal)	1,020	3,616	20,716	18,583	22,684	18,000
Non Departmental Public Bodies Costs	2,322	2,145	1,754	2,500	2,796	2,538
Defence Capability DE&S DEL Costs	86,624	94,941	64,315	50,751	67,950	28,000
Conflict, Stability and Security Fund	-	421	4,377	-	-	-
<b>Total Capital DEL</b>	<b>8,402,468</b>	<b>8,688,553</b>	<b>9,703,586</b>	<b>10,294,437</b>	<b>10,313,857</b>	<b>10,534,980</b>
<b>Capital AME</b>						
Provision of Defence Capability Provisions Costs	29,130	-	44,486	-	-	-
<b>Total Capital AME</b>	<b>29,130</b>	<b>-</b>	<b>44,486</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Capital Budget</b>	<b>8,431,598</b>	<b>8,688,553</b>	<b>9,748,072</b>	<b>10,294,437</b>	<b>10,313,857</b>	<b>10,534,980</b>
<b>Total departmental spending<sup>2</sup></b>	<b>40,967,707</b>	<b>35,516,368</b>	<b>44,857,257</b>	<b>30,254,026</b>	<b>39,820,924</b>	<b>41,550,539</b>

1. The R&D costs have been restated to comply with European System of Accounts (ESA 10) as per HMT directive.

2. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. 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, 2015-16 to 2021-22

£000	2015-16 OUTTURN	2016-17 OUTTURN	2017-18 OUTTURN	2018-19 OUTTURN	2019-20 OUTTURN	2020-21 PLANS
<b>Resource DEL</b>						
Provision of Defence Capability Administration Civilian Personnel Costs	403,342	430,741	363,297	483,679	550,640	550,000
Provision of Defence Capability Administration Other Costs and Services	465,947	395,656	423,226	530,519	642,365	692,479
Defence Capability Admin Service Pers Costs	617,879	658,904	670,653	661,235	702,906	730,000
Cash Release of Provisions Admin Costs	18,157	11,703	9,908	5,446	11,934	10,000
<b>Total administration budget</b>	<b>1,505,325</b>	<b>1,497,004</b>	<b>1,467,084</b>	<b>1,680,879</b>	<b>1,907,845</b>	<b>1,982,479</b>



## Annex D: Energy and Carbon Emissions Data

Greenhouse Gas Emissions		2009–10	2017–18	2018–19 <sup>1</sup>	2019–20
Non-Financial Indicators tCO <sub>2</sub> e 000s	Total emissions for scopes 1, 2 (Estate) plus Business Travel	1,440	942	828	783
	Totals emissions for scopes 1, 2 (Capability)	3,264	1,167	1,822	1,826
	Total emissions for scopes 1, 2 plus Business Travel	4,704	2,109	2,555	2,609
Related Energy Consumption KWh 000s	Electricity: Non-renewable	1,460,770	1,189,820	1,147,963	1,082,913
	Electricity: Renewable	20,440	-	-	18,607
	Gas	2,482,020	1,911,438	1,832,006	1,913,680
	LPG	80,070	36,532	37,857	39,897
	Other	290,598	160,183	170,599	168,975
Related Equipment Energy Consumption Litres 000s	Aviation fuel	827,800	458,794	444,787	461,902
	Ground Fuel	74,300	49,512	45,353	57,074
	Maritime Fuel	340,500	155,609	178,581	200,065
	Petrol	7,000	-	-	-
Financial Indicators £000s	Expenditure on energy	195,715	306,897	331,383	347,132
	CRC license expenditure (2012 onwards)		16,229	12	Closed
	Expenditure on GCOF offsets	220	Not Known	-	-
	Expenditure on official business travel	198,747	134,853	131,324	156,985
	Expenditure on equipment energy (fuel)	481,934	324,262	330,531	323,339
Normalisation	Total scopes 1 & 2 plus Business Travel	4,704	2,109	2,555	2,609
	Defence total Spend £000s	37,994,285	35,804,000	38,060,000	39,834,000
	Normalisation – scope 1 & scope 2 emissions 000s/budget £000s	0.00004	0.00003	0.00002	0.00007

1. Some expenditure values have been restated to reflect the latest available information.

## Annex E: Water and Waste Data

### Water Data

FINITE RESOURCE CONSUMPTION – Water		2009–10	2017–18	2018–19 <sup>1</sup>	2019–20
Non-Financial Indicators 000s m3	Water consumption (office estate)	206	243	241	208
	Per Full Time Equivalent	12	14	14	13
	Water consumption (office & non-office estate)	24,974	22,835	22,598	22,134
Financial Indicators £000s	Water supply costs (whole estate)	100,236	123.3 <sup>2</sup>	137.1 <sup>2</sup>	142.8
Normalisation	Department total spend £000s	37,994,285	35,804,000	38,060,000	39,834,000
	Normalisation – consumption m3 000s/budget £000s	0.0007	0.0006	0.0006	0.0006

1. Some expenditure values have been restated to reflect the latest available information.
2. 2017–18 and 2018–19 figures restated.

### Waste data

WASTE		2009–10	2017–18	2018–19 <sup>1</sup>	2019–20	
Non-Financial Indicators tonnes 000s	Total waste	185	111	112	115	
	Hazardous waste	14	-	-	-	
	Non-hazardous waste	Landfill	55	16	9	8
		Reused/Recycled	91	62	61	64
		Composted	8	7	13	14
		Incinerated with energy recovery	10	31	42	42
		Incinerated without energy recovery	8	1	6	7
Financial Indicators £000s	Total disposal cost	Not known	Not Known	Not Known	Not known	
	Department total spend £000s	37,994,285	35,804,000	38,060,000	39,834,000	
Normalisation	Normalisation – waste generated tonnes 000s/total spend £000s	0.000005	0.000003	0.000003	0.000002	

1. Some expenditure values have been restated to reflect the latest available information.



## Annexes

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