



Ministry  
of Defence

Ministry of Defence

# Annual Report and Accounts

# 2015-2016





# **Ministry of Defence Annual Report and Accounts 2015-16**

For the year ended 31 March 2016

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# Contents

## Performance Report

### Overview

Foreword by Secretary of State for Defence	8
Introduction from the Chief of Defence Staff and Permanent Secretary	9
Our Vision	10
Strategic Objectives	10
Strategic Defence and Security Review	13
Defence Budget and Spending	14
Departmental Structure	15
Defence Operating Model	17
Changes In Year	18

### Performance Analysis

Strategic Objective – 1: Protect Our People	21
Strategic Objective – 2: Project Our Global Influence	33
Strategic Objective – 3: Promote Our Prosperity	41
Strategic Objective – 4: Maintain a strategic base & integrated global support network, and manage the Department of State	45

## Accountability Report

Corporate Governance Report	68
Remuneration and Staff Report	84
Parliamentary Accountability and Audit Report	101

## Annual Accounts

Financial Statements	121
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## Annexes

A: Core Tables	173
B: Statement of Approved Maximum Armed Forces Numbers	175
C: The MOD Art Collection and Freedom of Information	178



# Performance Report







# Overview





## Foreword by Secretary of State for Defence

Over the last year the threats to international security grew – from Daesh spreading terror across the world, to Russian belligerence, and mass migration – but the UK's response was unequivocal. We continued to deter and confront aggression wherever we found it.

There were three key moments. First, last year's summer budget: the Government not only chose to stick to NATO's 2 per cent target but ensured it would grow in real terms for the first time in six years and increase in every year of this parliament.

Second, the Strategic Defence and Security Review unveiled Joint Force 2025 bolstered by a ten-year £178bn equipment budget. On land we'll have 112,000 Regulars and Reserves equipped with digital armoured vehicles.

In the air there will be more F-35 more quickly as well as new P8 maritime patrol aircraft. At sea we'll have new frigates and two new carriers – the most powerful ships ever built in Britain. And beneath the waves we'll retain our continuous-at-sea deterrent – with four new nuclear submarines replacing the four existing Vanguard Class Boats.

Third, Parliament reversed the damaging 2013 Syria vote and overwhelmingly decided to extend air strikes to targets in Syria. Since then the RAF have been striking Daesh day and night, with the terrorists pulling back from 40 per cent of the territory they once held in Iraq.

Our Middle East operation is just one example of our Armed Forces' impact worldwide. Last year RAF personnel worked with around 60 nations on operations, exercises and defence engagement. Our 80,000 British soldiers deployed on more than 380 commitments in 69 different countries around the world. And more than 30,000 sailors took part in over 700 ship visits, from Africa to Asia, Europe to Latin America.

In the coming year, the dangers we face are likely to grow in complexity, concurrency and multiplicity. So we're going to keep working harder. Our budget might be growing but we must become ever more efficient – especially as every pound we save can be reinvested into the frontline. So we'll be doing more to sweat our assets and release surplus land from the Defence estate – freeing up space to build 55,000 new homes so more people have the opportunity to own a place of their own.

We will also be investing in our people – with more flexible working and a more efficient pay model. And we'll be investing in innovation. 1.2% of our budget will go towards the science and technology that keeps us ahead of the curve. We will be working ever harder with our allies as leading members of NATO, the UN Security Council, the Commonwealth, the Organisation for Security and Cooperation in Europe, the Northern Group of European nations, the Five Power Defence Arrangements in the Far East and the Five Eyes intelligence alliance.

Finally, since national security and economic security are two sides of the same coin, exports will become integral to our agenda. We'll be working closely with UK Trade and Investment to promote defence exports while spending even more with our Small and Medium Enterprises.

As we look ahead to the next twelve months on the world stage, UK defence is stronger. We have the fifth largest defence budget in the world and we stand ready to protect our people, to project our influence, and to promote our prosperity.

Michael Fallon





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

This has been another operationally challenging year with the Syria vote increasing the UK commitment to countering Daesh. Over the year the Armed Forces have provided assistance to the migrant crisis, we activated the very high readiness Joint Task Force to provide manpower and equipment in support of the flood crisis in the North, while continuing to support the stabilisation operation in Afghanistan through the delivery of training to the Afghan National Training Academy. We have significantly increased our levels

of Defence Engagement, have commenced the build up of additional UN commitments in Africa and are enhancing our contribution to NATO's reassurance and deterrence posture.

The early Summer Budget settlement has seen Defence expenditure grow for the first time in 15 years. This announcement was followed by the outcome of the Strategic Defence & Security Review, which set our priorities and put Defence on a strong footing going forward.

This settlement will enable an expeditionary force of 50,000 rather than the 30,000 we had envisioned five years ago. We will have an Armed Forces that are increasing with additional manpower for both the Navy and the RAF, and we will have an Army that is refocused on war-fighting at the divisional level with the creation of two new strike brigades. The UK has committed to providing a Very High Readiness Task Force which will be able to support both war fighting and stabilisation operations. Separately we have further developed the Joint Expeditionary Force, which now consists of six other contributing partners and we have validated the operating concept of the UK/French Combined Joint Expeditionary Force.

In promoting prosperity we will deliver against the Government's target to release land for 55,000 homes by 2020, and, as at 1 May 16, land to build 22,000 new homes has already been released.

We will continue to implement the reforms which form part of the Armed Forces' Covenant and work towards delivering against those outstanding recommendations from Lord Ashcroft's Veterans' List. Retaining suitably qualified and experienced personnel to operate and maintain our equipment continues to be a challenge and through the People Strategy we have implemented a number of measures to address this including the introduction of a new Armed Forces Pay Model and Future Engagement System to give greater employment flexibility.

The SDSR directed that we will reduce the number of civilians employed by the MOD by almost 30% to 41,000 by the end of Parliament. This reduction will be challenging and will consist of three broad parts: the first related to programmes well underway or complete, including the Army's return from Germany; the second comprises some planned change programmes such as the Footprint Strategy; and the third identifying potential reduction through a series of reviews of the civilian workforce on a MOD-wide basis.

In January 2016, Lord Levene published his 4th and final report on Defence Transformation. This report highlights the significant progress that has been made by the Department since 2011 and makes five further recommendations going forward. One of the recommendations is to streamline further the organisational structures at the top of the Department, work which is ongoing.

It has been a busy year operationally and in conducting the Strategic Defence and Security Review. We remain immensely proud of the men and women of the Armed Forces and Civil Service working together to protect the security and interests of the UK and its citizens at home and abroad.





## Our Vision

The first duty of government is to defend our country and to keep our people safe. Our national security and our economic security go hand-in-hand. Our strong economy provides the foundation to invest in our security and global influence, which provides more opportunities at home and overseas to increase our prosperity. In a more dangerous world, we have chosen to use our hard-earned economic strength to support our Armed Forces and give them what they need to help keep Britain safe. We will increase defence

spending every year and continue to meet NATO's target to spend 2% of GDP on defence for the rest of the decade. In the 2015 Strategic Defence and Security Review we set out plans for stronger defence with more ships, more planes, more troops at readiness, better equipment for special forces, and more for cyber.

We will protect our people, territories, value and interests, at home and overseas, through strong Armed Forces and in partnership with allies, to ensure our security and safeguard our prosperity.

## Strategic Objectives

<p><b>1. Protect our people</b></p> 	<p>2% of GDP spent on Defence commitment maintained</p> <p><b>£540m</b> worth of narcotics seized by the Royal Navy</p> <p><b>2500</b> air combat missions in Iraq and Syria</p> <p><b>7500</b> migrants rescued in the Mediterranean by the Navy</p> <p><b>9500</b> local soldiers trained by UK forces to fight Daesh</p>
<p><b>2. Project our global influence</b></p> 	<p><b>1000</b> UK personnel deployed in NATO's Very High Readiness Joint Task Force (VJTF)</p> <p>Over <b>4000</b> UK personnel deployed in reassurance activities in Ukraine and other areas</p> <p><b>First ever</b> A400M Transport Aircraft flown by RAF within Asia Pacific region</p> <p><b>Strengthened</b> bilateral relationships with EU nations</p>
<p><b>3. Promote our prosperity</b></p> 	<p><b>22,000</b> homes can be built following an estimated <b>£640m</b> land release agreement</p> <p>Almost <b>60,000</b> Army apprentices trained since 2004-5</p> <p><b>1.2%</b> of Defence budget spent on Science and Technology</p> <p><b>15%</b> of Science and Technology Programme expenditure on Disruptive Technology</p>
<p><b>4. Maintain a strategic base and integrated global support network, and manage the Department of State</b></p> 	<p><b>£1.3Bn</b> contract awarded to build 5th Astute class submarine</p> <p><b>£364m</b> deal agreed to extend in service RAF Hercules C130J fleet securing <b>1200</b> UK jobs</p> <p><b>589</b> AJAX vehicles contracted to be built</p> <p><b>6 months early</b> delivery of Rivet Joint Signals intelligence aircraft</p>

## 1. Protect our People

The UK Armed Forces continue to successfully deliver multiple operations around the world whilst maintaining defence of the UK and Sovereign Territories in the air and maritime environments. Support to the Coalition in the fight against Daesh remains the UK's largest military contribution, but our personnel are also delivering significant outputs in Afghanistan, the Mediterranean, Ukraine and a number of countries in Africa, providing expertise and assistance in response to emerging crises, from Ebola to migration, and from air strikes against Daesh to training and mentoring the Afghan National Army. Throughout this period we maintained our nuclear Continuous At Sea Deterrent to deter the most extreme threats to our national security and way of life, helping to guarantee our security, and that of our allies. We also continue to assist the Home Office, providing support in Northern Ireland and to the Border Force in the Mediterranean and UK waters, and by increasing resilience at home. The UK has responded to earthquakes in Nepal, and supported the Tunisian Security Forces following the terrorist atrocity in Sousse. Alliances and partnerships have remained central, with NATO as the cornerstone of our strategic defence policy; and the Armed Forces continue to make regular contributions to the Baltic Air Policing Mission and NATO exercises; in addition to supporting UN peacekeeping missions.

UK and coalition activity helped halt Daesh advances, and then enabled the start of ground operations by local forces to retake areas of Iraq and Syria from under Daesh control. In Iraq, 30% of the territory Daesh once controlled has been retaken with Tikrit, Sinjar and Ramadi falling back into Government Of Iraq (GOI) and Kurdistan Regional Government control. Coalition support has enabled Syrian Democratic forces to expel Daesh from major population centres such as Kobani and more recently around Shaddadi. In addition to reducing Daesh, UK and coalition supported forces have caused much attrition to Daesh manpower, financial revenues (which are reported to be down by as much as 10%) and freedom of movement across the areas which they still hold.

## 2. Project Our Global Influence

The Strategic Defence and Security Review 2015 (SDSR 15) states that the UK is making its Defence policy and planning 'international by design'; a more planned, deliberate approach to existing international defence collaboration; and seeking to develop collaboration and integration in new

areas of defence activity. Our ability to respond to global threats is underpinned by the strength of key international institutions and partnerships; as such, we have made Defence Engagement a funded, core MOD task for the first time, placing it on an equal footing with operations and force preparation. We are establishing more British Defence Staffs to better coordinate our overseas activity, improved our support to our network of personnel overseas, and increased the training we offer to international partners.

The SDSR reaffirmed NATO's position at the heart of UK Defence. It committed the UK to working with Allies to ensure that the Warsaw Summit in July 2016 delivers on the commitments from the Wales Summit in 2014, **see page 21**. At their meeting in February 2016 NATO Defence Ministers noted the progress on the implementation of those deliverables including the Readiness Action Plan (RAP), the Defence Investment Pledge, enhancing relationships with key partners, and Defence Capacity Building.

The UK has assumed overall responsibility for providing support to and co-ordinating EU Battlegroup (EUBG) related activities in preparation for taking on EUBG Framework Nation responsibilities in the second half of 2016, with the Multinational Headquarters at Northwood made available as the EUBG Headquarters. The UK supports the use of the EUBG as a reserve force to reinforce extant EU Missions and Operations in exceptional circumstances if a consensus from all EU Member States is agreed for its deployment. The EUBG Concept is complementary and mutually reinforcing with the NATO Response Force.

Following the Prime Minister's announcement at the UN General Assembly in September 2015, we have been working towards meeting our objective to double our contribution to UN peacekeeping operations. The UK has pledged to deploy up to 300 troops to the UN mission in South Sudan to provide vital engineering work and advisory support. A further 70 troops will (to provide logistic and engineering support, and potentially medical capacity building) be deployed to Somalia, as part of the UN support for the African Union force working to build stability in the country and counter the threat posed by the terrorist group al-Shabaab. The UK will deploy these personnel throughout 2016.

## 3. Promote Our Prosperity

As well as ensuring a safe and secure UK, and acting to strengthen the international rules based

order, SDSR15 made prosperity a national security objective in its own right, placing new obligations on MOD. The key components of the MOD prosperity agenda include industrial and procurement policy, international equipment cooperation, defence exports, estate management and MOD's broader contribution to the UK economy through skills and innovation.

The MOD has made a commitment to help combat youth unemployment and skills shortages by ensuring that at least 5% of its workforce are either apprentices or graduate trainees. The MOD, as a whole, is the largest apprenticeship user and provider in the UK, and 95% of Armed Forces basic training has apprenticeship accreditation. A very significant number of apprenticeships are in science, technology, engineering and mathematics (STEM) subjects. In the context of the Government's 3 Million Apprenticeships target, the MOD represents at least 1.5% of that total while its workforce falls far short of that. The Army is very close to its 60,000th apprenticeship achievement since the inception of the single Army contract in 2004-05.

Armed Forces achievement rates, both overall and timely, are well above the national average and, because the MOD does not claim funding for the technical training delivered in Phase 2, the Armed Forces programmes offer significant value for money to the Skills Funding Agency.

The defence estate comprises of 1.8% of the UK and covers 452,000 hectares. SDSR15 has tasked the Department with reducing the built Defence estate to better meet the future needs of the Armed Forces, and assist in Government housing targets. In January 2016, the Minister for Defence Personnel & Veterans announced an early commitment to release twelve MOD sites. Further, in March 2016 the Minister also announced a further ten sites for release. These sites alone will free up land for the building of 22,000 homes contributing to the department's target of 55,000 units, and in part, the government's wider target of 160,000 by 2020.

With a value of £8.5Bn in 2014<sup>1</sup>, defence exports make a significant contribution to the UK's national prosperity, and help reinforce our international defence relationships, through increased military-military dialogue and interoperability with our allies. The export agenda thus not only contributes to prosperity but is also an integral part of our broader Defence Engagement Strategy. In light of this, SDSR15 made support to exports to make them

an integral part of MOD's core business for the first time. This further enhances the value of the unique support provided by the Armed Forces to industry and international customers as the primary user of UK-derived exportable capability. Specifically, it recognised that a number of export programmes sit at the heart of the UK's key bilateral political/military relationships and these require MOD sponsorship at the campaign and delivery stage in order to maximise the chances of commercial success. As a result, MOD has assumed the cross-Government lead for all export campaigns relating to Typhoon, complex weapons and F-35 avionic support. More broadly, in order to ensure support from across Government, the Defence Secretary is chair of the Cabinet-level Defence and Security Exports Working Group, which is charged with coordinating cross-Whitehall efforts to this end.

#### **4. Maintain a strategic base & integrated global support network, and manage the Department of State**

The **Department of State** is the government department responsible for delivering defence and as such carries out six 'core functions' that:

- direct policy, military operations and our contribution to national security at the strategic level, as well as direct rules and standards applying to the whole organisation;
- operate our Armed Forces at home and overseas;
- generate and develop our Armed Forces so that they are ready for operations;
- acquire the equipment, systems and other items our Armed Forces need;
- enable Defence to work properly by providing supporting services; and
- account for and report on defence activity and spending to Parliament and the public.

<sup>1</sup> Source: UK Defence and Security Export Statistics for 2014, UK Trade and Investment Defence and Security Organisation, 14 July 2015

The **strategic base** covers those functions that underpin the generation preparation, projection, sustainment, maintenance, operation and redeployment of military capabilities. The **global support network** ensures appropriate access, basing, overflight and host nation support to deployed forces.

### Trained Military Personnel & Civilians

Military Full Time Trained Strength and Civilians	1 April 2016	2020 Target
Royal Navy / Royal Marines	29,700	30,450
Army	79,750	82,000
RAF	30,980	31,750
<b>Total Full Time Trained Strength</b>	<b>140,430</b>	<b>144,200</b>
Civilian	56,240	41,000
<b>Total Personnel</b>	<b>196,670</b>	<b>185,200</b>

Future Reserves 2020 - Volunteer Reserves Trained Strength	1 April 2016	2020 Target
Maritime Reserve	2,350	3,100
Army Reserve	23,030	30,100
RAF Reserves	1,890	1,860
<b>Total Reserves</b>	<b>27,270</b>	<b>35,060</b>

People lie at the heart of Defence capability and the delivery of Defence Outputs. Since April 2013, the Chief of Defence People (CDP), has overseen the whole Defence workforce, integrating the management of all personnel, whether Regular or Reserve, Civil Servants, or contractors. This allows decisions to be taken using a 'Whole Force Approach' (WFA), rather than in the silos that have existed in the past congruent of separate prevailing manpower targets. A range of major People Change Programmes are underway which will ensure we are well positioned for future strategic challenges, detail on these programmes are on pages 56-65. Work is also underway to identify how the Department will achieve the 30% civilian headcount reductions during the life of this Parliament required as part of the Spending Review settlement.

## Strategic Defence and Security Review (SDSR)

The National Security Strategy and SDSR, published on 23 November 2015, highlighted the changing and increasingly uncertain international security context in which Defence must operate.

Over the past five years, we have made major reforms to how the MOD and Armed Forces are organised and operate to ensure that we can maximise our investment in Defence capabilities. The Armed Forces have been actively involved during this period in deterring threats and reinforcing resilience at home, and responding to

crises and contributing to security and stability overseas through Defence Engagement activity. The 2015 National Security Risk Assessment concluded that the risks and threats faced by the UK have increased in scale, diversity and complexity since 2010. The increasing threat posed by terrorism, the resurgence of state-based threats, the impact of technology and the erosion of the rules-based international order are now particular challenges for the UK. Defence is continuing to adapt to meet these growing state and non-state based threats and we are investing heavily in the capabilities required to respond quickly and effectively.

It was announced at NATO Summit Wales 2014 the important commitment to meet the properly measured NATO guideline to spend 2% of Gross Domestic Product on Defence each year until the end of the decade. This was supported by the announcement in Spending Review 2015 to increase the Defence budget by 0.5% above inflation, and the Equipment Programme by 1% above inflation, each year for the rest of this Parliament. In addition, up to £1.5Bn a year was made available by 2020-21 in a new Joint Security Fund, to be shared between Defence and the security and intelligence agencies. The Spending Review announcement on 25 November 2015 confirmed that Defence would receive over half of the Joint Security Fund.

The National Security Strategy and SDSR, published on 23 November 2015, highlighted the changing and increasingly uncertain international security context in which Defence must operate. To meet the challenges laid out in the SDSR, Defence will invest an additional £11Bn, over the course of this Parliament, directed towards our highest capability needs. The funding for this investment is comprised of £7Bn of efficiency savings, £2Bn from the Joint Security Fund and £2Bn of funding re-prioritised from lower priority plans.

Our Defence policy and plans will become 'International by Design'. SDSR15 sets out the importance we attach to key Defence relationships with allies, partners and the international security institutions. Making Defence International by Design is about a more planned, deliberate approach to existing international defence collaboration; and seeking to develop collaboration and integration in new areas of defence activity. Throughout this approach, NATO will remain at the heart of UK Defence. The work includes the establishment of an initial operational capability for the UK-led, multilateral Joint Expeditionary Force, comprising Norway, the Netherlands, Denmark, Estonia, Latvia and Lithuania. Also, we will build on the UK/France Lancaster House Treaty of 2010 which set the framework for co-operation on operational capability development and nuclear policy.



## Defence Budget and Spending

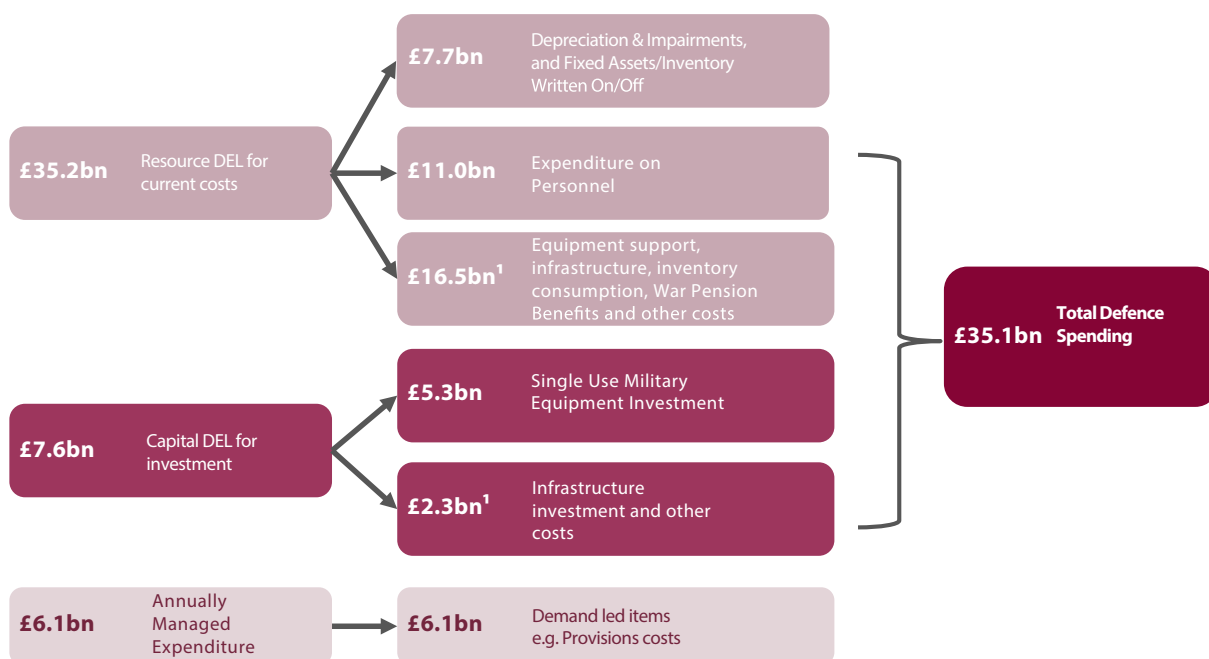
# £35.3bn Cash Resource and Capital DEL

(Figures quoted is the 2015-16 Supplementary Estimates)

### Total Departmental Expenditure Limit (DEL) in 2015-16

This includes £27.7bn Cash Resource DEL and £7.6bn Capital DEL

### Defence Expenditure Outturn for 2015-16



1. All DE&S Bespoke Trading Entity expenditure appears as 'other costs' in either the RDEL or CDEL category.



## Departmental Structure

'Defence' covers all those matters that are the responsibility of the Secretary of State for Defence. In practice this means the business of the Secretary of State and his fellow ministers, of the Ministry of Defence (MOD) as the department of state that supports them, and of the Armed Forces as constituted by the Defence (Transfer of Functions) act 1964.

At the most basic level, Defence is therefore made up of two main things:

- a **Department of State**: the government department responsible for delivering defence. It is funded by and answers to Parliament, and to the Prime Minister, through the Secretary of State for Defence.
- the **Armed Forces**: the personnel and equipment that deliver military capability.

The Secretary of State for Defence has the following responsibilities:

- the general executive role<sup>2</sup> as one of Her Majesty's Principal Secretaries of State and a member of the Cabinet;
- the role in respect of defence-related legislation (e.g. the Armed Forces Act 2011);
- the role of the Chairman of the Defence Council; and
- Chair of the Defence Board

The Defence Council is the senior departmental committee. It is chaired by the Secretary of State, and comprises the other ministers, the Permanent Under Secretary, the Chief of Defence Staff and senior service officers and senior officials who head the armed services and the department's major corporate functions. It provides the formal legal basis for the conduct of defence in the UK through a range of powers vested in it by statute and Letters Patent.

The National Security Council, as a sub-committee of the Cabinet, advises the Prime Minister on defence and security issues.

General Sir Nicholas Houghton, as Chief of the Defence Staff (CDS) is the professional head of the Armed Forces and principal military advisor to the Secretary of State and the government. His responsibilities include:

- leading defence (with the Permanent Secretary);
- setting strategy for defence, including the future development of the Armed Forces (together with the Permanent Secretary and subject to Ministers' direction);
- the conduct of current operations (as strategic commander); and
- leading relationships with other countries' Armed Forces.

Jon Thompson was **the Permanent Secretary** until April 2016. Stephen Lovegrove took up post as the Permanent Secretary on 25 April 2016. The Permanent Secretary is the government's principal civilian adviser on Defence, has primary responsibility for policy, finance and business planning, and is the Departmental Accounting Officer. His responsibilities include:

- leading Defence (with CDS)
- setting strategy for Defence, including corporate strategy (together with CDS, and subject to ministers' direction)
- heading the Department of State and the MOD Civil Service
- providing policy advice to ministers and leading the relationship with other government departments;
- the overall organisation, management and staffing of defence
- performing the full range of Accounting Officer responsibilities, including the delegation of financial and other authority and accountability to senior colleagues, with personal accountability to Parliament for the economic, efficient and effective use of defence resources

<sup>2</sup> The general executive refers to the role delivered by the government of the day; these responsibilities are collective and managed through the Cabinet, which is chaired by the Prime Minister.

Defence is organised into six 'Top Level Budgets' (TLBs):

- The four commands<sup>3</sup>
  - Navy Command, TLB Holder - Admiral Sir George Zambellas. (handed over command to Admiral Sir Philip Jones on 8 April 2016).
  - Army Command, TLB Holder - General Sir Nick Carter.
  - Air Command, TLB Holder - Air Chief Marshal Sir Andrew Pulford.
  - Joint Forces Command, TLB Holder - General Sir Richard Barrons.
- Head Office and Corporate Services (HOCS), which is made up of the Head Office and a range of corporate support functions (TLB Holders - Jonathan Slater April - September 2015, Mark Preston October 2015 - March 2016).
- The Defence Infrastructure Organisation (DIO) (TLB Holders – Jonathan Slater April – September 2015, Mark Preston October 2015 – March 2016).

The head of each TLB – the 'TLB holder' – is personally accountable for the performance of their organisation. They have to deliver agreed outcomes as effectively, efficiently, safely, sustainably and economically as possible. They also have to operate effective controls to protect regularity and propriety; and stay within set financial limits (known as 'control totals').

Most TLBs have a board chaired by the TLB holder<sup>4</sup>. They decide on who will be members of the board. However, the Director of Resources must be a full and equal member of the board and there should be two – ideally three – non-executive members of the board. One non-executive should be from outside the department and the public sector, and should chair a TLB Audit Committee. Permanent Secretary and the Lead Non-Executive Director (NED) for the MOD must approve the appointment of new NEDs to the board. The Defence Audit Committee chair must approve the appointment of new chairs to TLB Audit Committees.

<sup>3</sup> TLB Holders in post over the reporting period 1 April 2015 to 31 March 2016.

<sup>4</sup> HOCS is a Finance Board. The DIO created a Board 12 months ago, more detail is provided on page-18.

The principal organizations supporting the MOD:

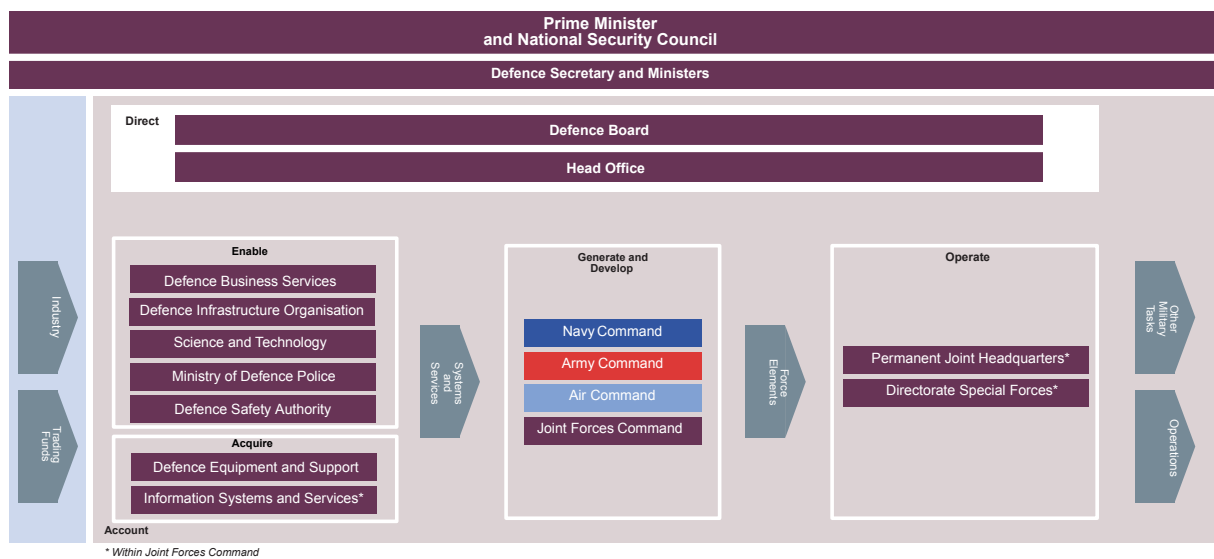
- the Defence Equipment and Support (DE&S) organisation which is classified as an Executive Agency of the MOD began operating as a Bespoke Trading Entity on 1 April 2014 and is responsible for delivering the Equipment Plan (equipment and support) and logistic support for the UK's Armed Forces. Following Sir Bernard Gray's departure in December 2015 as DE&S' Chief Executive Officer, Tony Douglas assumed the role of Chief Executive in December 2015.
- the Defence Science and Technology Laboratory (Dstl) a Trading Fund which makes best use of science and technology for the defence and security of the UK. It formulates, designs and delivers a clear and joined-up Defence science and technology programme of work using industry, academic organisations and government resources. Jonathan Lyle is Chief Executive of Dstl.
- the UK Hydrographic Office (UKHO) a Trading Fund which provides navigation charts and other hydrographic information and services, mainly to the Royal Navy and commercial shipping. John Humphrey is Chief Executive of the UKHO.
- the Defence Electronics and Components Agency (DECA) an on-vote Agency which provides maintenance, repair and overhaul services for electronics and components that will benefit Defence.
- The Oil and Pipelines Agency is a public corporation sponsored by the Department which manages six oil fuel depots, but falls outside the Departmental Accounting Boundary and its Annual Accounts are published separately. The Public Corporation has a Board of Directors on which the MOD is represented. The Accounting Officer is their Chief Executive, who produces a Governance Statement detailing the organisation's governance framework and internal control issues, which is included in their Annual Report and Accounts.

For a complete list of other bodies that support the MOD please see page-167 in the Accounts.

## Going concern

The Defence Board, the senior corporate decision-making body in Defence, have a reasonable expectation that the Department will continue to operate for the foreseeable future.

## Defence Operating Model



The Department continued to drive improvements to the Defence Operating Model during 2015-16, embedding and optimising the Levene reforms both in the Head Office and through a range of individual TLB change programmes.

During 2015, Lord Levene conducted a further review of the implementation of his 2011 Defence Reform recommendations and his findings were published in January 2016. Lord Levene recognised the impressive scale of change in Defence since his 2011 Defence Reform report. He also made a number of further observations and recommendations around key themes of process simplification, senior structures, planning and resource allocation, efficiency, and the management of Defence Infrastructure. These are being taken into account as we continue to deliver the broader agenda of business improvement described below.

In areas such as the management and oversight of the Defence Infrastructure Organisation, work was already underway to address the issues raised by Lord Levene, including the appointment of an independent chair of the DIO Board and the reduction in the size of the built estate announced in the SDSR. In 2015 we also began a review of Head Office, seeking to further strengthen the Head Office and consider whether it could be better organised to direct Defence and fulfil the strategic role envisaged by Lord Levene.

Transformation of the delivery of enabling services in our acquisition, infrastructure and corporate services functions has continued to make progress during the year:

A new Director of Commissioning Services was established with oversight of the Defence Infrastructure Governing Authority (DIGA), the Acquisition System Authority (ASA), the Corporate Services Transformation Team (CSST) and Business Strategy and Governance. The Commissioning Services team is looking within Defence at where and how commissioning can support and improve the provision of enabling services. It has also been working on approaches to building the capability of staff to enable them to apply commissioning to Defence business activities and services where appropriate.

Acquisition Reform continues and the Acquisition System Authority let the Acquisition Support Partner (ASP) contract in July 2015. The Commands can draw upon the ASP to help build their intelligent customer capability. To ensure that changes embed and sustain, we have improved our processes for checking that the Acquisition System is operating as it should, using a co-ordinated portfolio to address identified areas of risk. Building on the lessons learnt over the last year, we published an updated Acquisition System Operating Model (ASOM) on 1 April 2016.

The Department undertook a study during 2015 to consider the optimum future business model for the Defence Infrastructure Organisation (DIO). This examined whether an incorporated government-owned company structure, or an alternative approach, would represent better value for money for Defence than the current arrangements. This work concluded that, at the present time, MOD's business interests are best served by the DIO retaining its current status within the Department. We assess that this will allow DIO to achieve further transformation by delivering rationalisation and improvements to the way it delivers infrastructure to support capability, without the risks and costs associated with incorporation.

The Defence Business Services (DBS) Management Partner contract with Serco ended on 18 April 2016, by when the transition to an in-house management team had been successfully completed. Whilst final reconciliation is still to be agreed with Serco, it is estimated that the contract will have delivered more than £90M gross savings over its four-year duration. The assessment of options for delivering longer term arrangements under the Future DBS (FDBS) programme is on-going.

## Changes in-year

### Defence Equipment and Support (DE&S)

DE&S produced its first Annual Report and Accounts as a Bespoke Trading Entity, which were laid before Parliament on 17 December 2015. The NAO qualified its opinion on certain elements of the DE&S accounts, reflecting the need for some financial processes in the new operating model to mature further. Work is ongoing to address this.

DE&S will again produce its own Annual Report and Accounts for Financial Year 2015-16, providing an overview of DE&S' performance, financial position and the progress against its objectives and its comprehensive programme of transformation. Progress against the delivery of key programmes and projects can be found in the Performance Report. The Chair of DE&S is Paul Skinner, an experienced leader of major global corporations in the basic resources industries; he also has board experience as a non-executive director of financial services and industrial companies, and in various public sector roles.

### Defence Infrastructure Organisation (DIO) Board

In order to bring coherency and consistency to governance arrangements across Head Office Commissioning Services, and to learn from best practice and experience, the governance arrangements for the Strategic Business Partner led-DIO were aligned with those the Department has put in place for DE&S. These arrangements are based more closely on the approach to corporate governance in the private sector and therefore take full advantage of the benefits that non-executive Board members can bring to the effectiveness of the organisation. The DIO Board was, therefore, created in June 2015 and held its first meeting on 29 June 2015.

The purpose of the Board is to provide strategic governance and leadership of the DIO in delivering its objectives, to review DIO performance, including oversight and monitoring of the DIO forward transformation plan, monitoring relationships with stakeholders and to provide independent non-executive support and constructive challenge to the Chief Executive DIO and the DIO executive team.

The DIO Board membership comprises three MOD executives, three DIO executives and three non-executive directors. In addition, Jayne McGivern was appointed as the non-executive Chair to the Board in January 2016.



# Performance Analysis





# Strategic Objective 1: Protect Our People

## Objective:

The government has committed to spending 2% of GDP on defence. The Strategic Defence and Security Review (SDSR) set out plans for a new Joint Force 2025 able to deploy a force of around 50,000. We will defend and contribute to the security and resilience of the UK and Overseas Territories, protect our people abroad, maintain the Continuous At Sea Deterrent and conduct operations as required.

## Key Performance Indicators:

- Delivering on current operations
- Continuous At Sea Deterrent
- Numbers of Trained Military Personnel
- Equipment and Support (see Strategic Objective-4)

## Delivering on Current Operations

### NATO 2% Commitment

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 decade. The MOD budget will rise by 0.5% above inflation a year for the next five years, and the Armed Forces, along with the Security and Intelligence Agencies, will have access to up to £1.5Bn a year by 2020-21 in the Joint Security Fund.

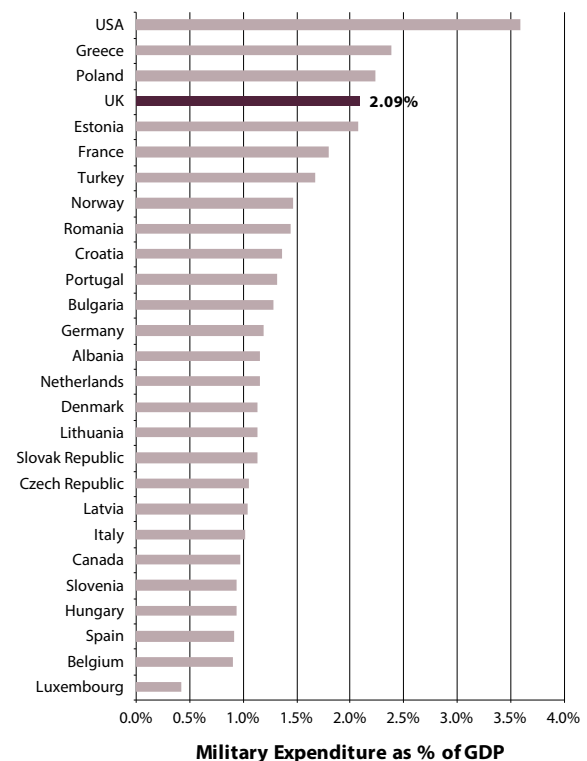
The 2% guideline was reaffirmed as part of the Defence Investment Pledge announced at the NATO Wales summit by the Prime Minister and Allies in 2014. It serves as an indicator of political willingness to contribute to common defence and security efforts. Meeting this commitment underpins Britain's place in the world. We have the 2nd largest defence budget in NATO, the largest in the EU, and the fifth largest in the world. We are also one of five NATO members that spends 2% of its Gross Domestic Product on Defence and one of eight NATO members that meets the NATO guideline to spend 20% of its defence spending on major equipment projects and research and development.

Our Defence spending returns are subjected to robust independent scrutiny. NATO members submit headline planning information, including on expenditures, to NATO annually as part of the NATO Defence Planning Process. NATO conducts senior bilateral meetings with all allies to examine their plans, and all allies discuss these plans in a multilateral setting. NATO published updated details of allies' defence spending on 28 January 2016 in the Secretary General's annual report. The data

published confirmed that the UK spent the following as a percentage of GDP on Defence:

2013	2014	2015
2.30%	2.20%	2.09%

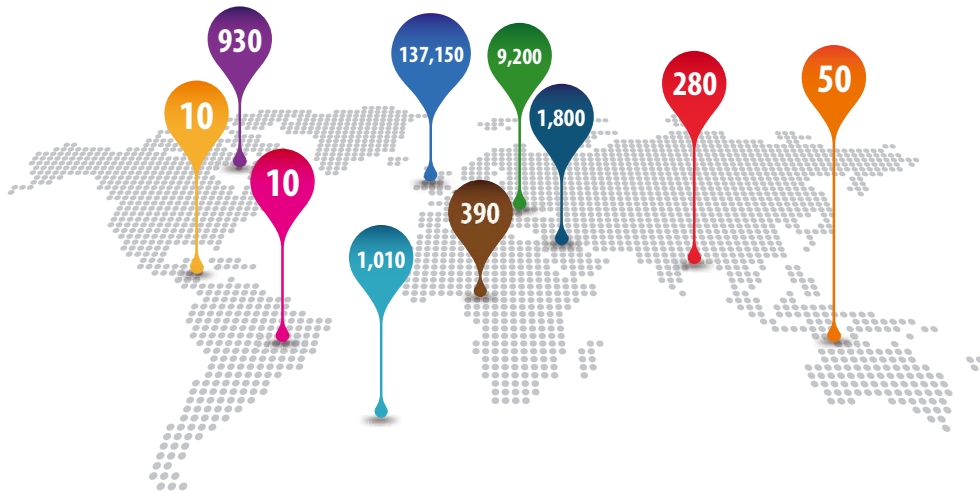
### NATO Defence Expenditure as % of GDP<sup>1</sup> – 2015 (based on 2010 prices)



1. Iceland is a member of the Alliance but has no armed forces.

Source: NATO Defence Expenditures of NATO Countries (2009-2016) 4 July 2016.

# World Wide UK Regular Forces\* Presence 1 April 2016



\* The UK Regular Forces which comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists.

<b>Total</b>	<b>151,000</b>	<b>North America</b>	<b>930</b>
<b>UK</b>	<b>137,150</b>	<b>Central America/Caribbean</b>	<b>10</b>
<b>Europe (Exc. UK)</b>	<b>9,200</b>	<b>South America</b>	<b>10</b>
<b>Asia (Exc. Middle East)</b>	<b>280</b>	<b>South Atlantic</b>	<b>1,010</b>
<b>North Africa/Middle East</b>	<b>1,800</b>	<b>Oceania</b>	<b>50</b>
<b>Sub Saharan Africa</b>	<b>390</b>	<b>Unallocated</b>	<b>170</b>

## Iraq/Syria

### Op SHADER

Op SHADER is the UK contribution to the global coalition to support the Iraqi Government and the moderate Syrian Opposition to defeat Daesh.

### Air Package

UK involvement in the Counter-Daesh campaign commenced in August 2014 with UK humanitarian aid drops onto the Sinjar Mountains in Iraq to provide relief to displaced Yazidis. In September 2014, following a request for military support from the Iraqi government, the UK began strike operations against Daesh in Iraq.

The initial air package committed to Op SHADER consisted of six Tornado GR4 aircraft operating out of Cyprus. We subsequently increased our efforts to match coalition requirements as they evolved and as our resources became available. This included the deployment of an additional two Tornado GR4s, bringing the total to eight, and additional assets such as Airseeker (Rivet Joint), E3-D Sentry, and REAPER remotely-piloted aircraft.

On 2 December 2015 House of Commons vote signalled its support for the UK to begin striking at Daesh targets in Syria. The UK had previously only conducted Intelligence Surveillance Reconnaissance flights over Syria. To support this increase in the Area of Operations the UK surged its air capability by a further two Tornado GR4s (bringing the total to 10 GR4s) and six Typhoon jets. Making us one of the few nations able to deploy such advanced strike and Intelligence, Surveillance, Target Acquisition, and Reconnaissance (ISTAR) capabilities.

The Voyager aircraft has continued to provide air to air refuelling support to coalition air assets. Additionally the UK has used its air lift capability for the transportation of gifted Coalition equipment to Iraq Security Forces (ISF) including Kurdish Peshmerga.

As at 30 May 2016, the UK had conducted 775 strikes in Iraq and 44 in Syria, and has flown in excess of 2500 combat missions.

### Training Support

Since November 2014 the UK has continued to provide training and advisory support to the Counter-Daesh campaign through the Iraqi Building Partner Capacity (BPC) programme. Much of this training is centred on



Countering Improvised Explosive Devices (C-IED) skills; the UK also provides additional specialised training in infantry skills, battlefield first aid and weapons maintenance across Iraq.

As a world leader in C-IED the UK lead the coordination and development of the coalition's C-IED training programme. The UK mans the C-IED training Task Force HQ in Baghdad and provides the development, assessment, assurance and governance of all coalition C-IED training delivered through BPC.

C-IED training is in high demand by the Government of Iraq (Gol) and the UK brings significant expertise and experience in this capability which is welcomed by both the Gol and the USA.

In June 2015 the Prime Minister David Cameron announced that the UK C-IED training programme would be bolstered by an additional 125 troops intended for expansion to training sites outside of the Iraqi Kurdistan Region. On 19 October 2015 the Secretary of State for Defence announced that the new courses associated with this surge of personnel had commenced.

As a result of this extension outside of the Iraqi Kurdistan region, the UK is now one of the few nations to have training teams in all four of the BPC sites training the Iraq Army. To date the UK has trained over 3,000 Peshmerga and contributed to the training of over 6,500 ISF in preparation for operations against Daesh.

The UK have been involved in the USA led Train and Equip (T&E) programme through the provision of trainers at Coalition training sites in the Middle East region. The aim of the T&E programme was to train members of the Vetted Syrian Opposition to fight Daesh and the Regime in Syria. In October 2015 the US announced that the train element of the T&E programme had been suspended pending US review.

## Deployed Personnel

Following the 2 December 2015 vote to expand airstrikes into Syria, the increase in number of aircraft was accompanied with a parallel build-up of supporting troops. From around 800 committed British military personnel, a surge to over 900 troops followed into Akrotiri in Cyprus. At the end of March 2016, around two thirds of all committed personnel were based within the region supporting the air campaign (including provision of staff roles at key coalition HQs); the remaining personnel were on the ground in Iraq providing training and military advice. As at May 2016 there were 1090 British military personnel deployed on Op SHADER, of which 335 were in Iraq.

# Afghanistan

## Overview

Although the UK's combat mission has ended, we have an enduring commitment to the future of Afghanistan including through financial aid and political support. The MOD has an important part to play in this cross Her Majesty's Government effort which is supporting the Afghan Government to build a more peaceful, secure and prosperous future for the country. The UK is part of the NATO Resolute Support Mission helping to support and advise the Afghan National Defence and Security Forces (ANDSF) who are now responsible for the security of the country. The National Unity Government (NUG) led by President Ghani is committed to improving the country's services and economy and to providing the security needed to allow the economy to develop. While the last year has been a difficult one for Afghanistan and the ANDSF, and they will continue to face significant challenges in the years to come, the United Kingdom can be proud of the role we have played and continue to play in Afghanistan. And in helping Afghanistan to achieve progress, the terrorist threat to the UK from this region has been reduced.

Afghan RAF Puma deployed on Operation TORAL in Afghanistan



## UK Contributions

In the last year, the UK's defence contribution to Afghanistan's future has been centred around our commitment of around 450 British troops to NATO's non-combat Resolute Support (RS) Mission roles focussed on support to the Afghan National Army Officer Academy (ANAOA), and advising Afghan Ministers and senior officials in the Security Ministries. We have also been supporting the broader NATO mission through leading the Kabul Security Force, providing a Puma helicopter detachment to support NATO movement around Kabul, and by providing the 3\* Deputy Commander RS post.

The UK is the coalition lead at the ANAOA, helping the Afghans to take control of developing the next generation of their military leaders. This will help sustain the progress made to date in building a capable and professional force. Our leadership support to the Afghans is delivered in two ways: by supporting the development of junior leaders at the ANAOA; and by supporting the senior leaders

through our mentoring of the Afghan Security Ministries, helping to foster capable and progressive leadership throughout the ANDSF. Our team of mentors is supported by further mentors from Australia, Denmark and New Zealand.

The ANAOA is producing the next generation of Afghan military leaders, building on our progress towards creating a professional and capable Afghan force which can provide security for Afghanistan. The training at the ANAOA equips Afghan leaders with the skills they need to lead the ANDSF with competence and confidence. The UK was asked to take responsibility for the ANAOA because of our historic record of leadership excellence, embodied by our military academies, such as the Royal Military Academy Sandhurst, internationally recognised as the gold standard in officer training. The ANAOA has now reached full operating capability, and has the potential to train up to 1050 male students and 90 female students every year. The Afghans are now delivering all their own training, with mentors providing close support to develop quality delivery. The Academy is producing much sought after junior officers who perform well in the field. The graduation of the first 19 female officers from the Academy took place on 16 June 2015, one of whom was awarded the prestigious Sword of Honour. This represents the progress being made for women, both in the security sector and in broader Afghan society.

The UK-led Kabul Security Force (KSF) is highly valued in providing assurance and coordination of force protection for UK and wider NATO military and civilian personnel moving within and around the city. Our contribution to the KSF is directly enabling our key strategic aim of supporting the development of the ANDSF, which we are delivering through our leading role at ANAOA and our development of the Afghan Security Ministries.

## Casualties

On 11 October 2015 a Royal Air Force Puma Mk 2 helicopter crashed while landing at the Headquarters of Resolute Support, the NATO train, advise and assist mission in Afghanistan. The crash resulted in the tragic deaths of Flight Lieutenants Geraint Roberts and Alan Scott, along with three other NATO personnel.

## ANDSF Progress

Currently fielding approximately 325,000<sup>5</sup> personnel across Army, Police, and emerging Air Force capability, ANDSF units have held the lead in providing security across the country since June 2013. The UK is continuing to support capacity building to address challenges such as poor literacy, the ethnic and gender

mix of ANDSF, corruption, budgeting, acquisition and human resource management.

Clearly, the security situation across the country is fragile, particularly in Helmand. Parts of the province are remote and sustained Taliban pressure has tested the ANDSF. But the ANDSF has shown the resolve to continue the fight and the UK and NATO will continue to support their development. While NATO is committed to advising and supporting them, they are rightly making their own decisions about how they manage their forces to achieve the best results.

## Wider Development in Afghanistan<sup>6</sup>

A great deal has been achieved but there is still a very long way to go. Our long-term commitment to Afghanistan's future continues to include development assistance: the UK is spending £178m in bilateral aid per annum until at least 2017. 7.2 million children are now in school, including 2.8 million girls (39%). In health, over 50% of pregnant women receive some antenatal care (3 times as many as 2003). Life expectancy is rising, more than half the population (60%) now live within 2 hours walk of public health facility, whereas in 2002 only 9% of the population were covered by any basic healthcare. In technology, 23 million Afghans now have a mobile phone subscription, and around 3 million have access to the internet.

## Pakistan

Afghanistan and Pakistan have made continued efforts to improve bilateral relations. President Ghani acknowledges Pakistan's critical role, both in terms of improving security and in facilitating peace talks with the Afghan Taliban. Pakistan's importance to Afghan stability is one reason why the UK maintains a close defence relationship, principally through regular Ministerial and senior military contacts to discuss security matters and the provision of niche military training both here in the UK and Pakistan. Pakistan faces a severe threat from IED attacks perpetrated by terrorist groups. In October 2015, we began delivering a new three-year counter-improvised explosive device (C-IED) capacity building programme designed to support Pakistan in establishing a multi-agency capability for tackling IEDs. It builds on our previous three year programme which ended in April 2015 having trained over 5,000 military and civilian law enforcement personnel. As part of this support, in September 2015 we gifted a package of spare parts to the value of £950,000. The spare parts will maintain previous gifts of C-IED equipment we have already provided to Pakistan and will ensure that the C-IED capability we have helped to develop can be maintained.

<sup>5</sup> Source: SIGAR 30 January 2016 (number dates from October 2015).

<sup>6</sup> These figures are from the core script and are provided by OGDs so may be subject to change as it is worked on.

## Operational Achievements:

Net Additional Cost of Operations (£m)

	Afghanistan		Wider Gulf		Counter Daesh		Enhanced ISR		DMAP		CSSE		TOTAL	
	Allocation 2015-16	Outturn 2014-15	Allocation 2015-16	Outturn 2015-16	Allocation 2015-16	Outturn 2014-15	Allocation 2015-16	Outturn 2015-16	Allocation 2015-16	Outturn 2015-16	Allocation 2015-16	Outturn 2014-15	Allocation 2015-16	Outturn 2015-16
Personnel	5.10	14.74	4.20	4.29	2.08	2.08	0.00	0.00	0.70	0.88	0.92	21.04	12.30	44.50
Infrastructure	30.00	82.13	12.00	11.45	4.32	4.32	0.00	0.00	3.50	5.77	3.84	1.89	49.50	34.48
Inventory/ Other Consumption														
Equipment	27.00	26.95	5.30	7.07	0.19	15.34	0.00	0.00	2.70	6.47	14.31	1.53	55.00	57.36
Support	12.20	14.18	43.80	25.57	10.32	17.08	19.00	4.27	14.80	6.42	0.85	1.22	174.80	156.84
Research and Development	0.00	0.00	0.00	0.01	0.00	0.00	0.00	1.06	0.00	0.18	0.00	0.00	0.20	1.25
Other Costs	9.70	9.25	0.00	3.30	1.69	1.99	0.00	0.00	3.30	3.98	3.56	27.83	15.50	46.36
Receipts and Other Income	-9.00	-4.02	0.00	-1.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.12	-9.00	-5.52
Cash Release of Provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cash Resource	75.00	72.15	65.30	50.31	14.84	130.38	16.81	5.33	25.00	23.71	23.48	53.40	358.40	335.28
Total Non Cash Resource	0.00	0.00	0.00	0.00	0.00	21.76	5.09	0.00	0.00	0.00	0.00	0.00	25.00	21.76
Total Resource	75.00	72.15	65.30	50.31	14.84	152.14	21.90	5.33	25.00	23.71	23.48	53.40	383.40	357.04
Total Capital Costs	0.00	0.00	0.00	0.00	0.00	64.79	0.00	0.00	0.00	0.00	0.00	0.00	65.00	64.79
Total Annual Managed Expenditure	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Costs</b>	<b>75.00</b>	<b>72.15</b>	<b>65.30</b>	<b>50.31</b>	<b>14.84</b>	<b>216.93</b>	<b>21.90</b>	<b>5.33</b>	<b>25.00</b>	<b>23.71</b>	<b>23.48</b>	<b>53.40</b>	<b>448.40</b>	<b>421.83</b>
														<b>1079.43</b>

Notes:

- Enhanced Intelligence Surveillance and Reconnaissance (ISR) are the extra equipment costs relating to the run on certain manned aviation platforms
- DMAP - Deployed Military Activity Pool. In 2015-16 a £25m allocation from the HM Treasury Special Reserve was made available in addition to the IMOD funding of the same amount. In 2015, the DMAP has funded the training of the Ukrainian Armed Forces, the provision of security for the Commonwealth Heads of Government Meeting in Malta, the UK contribution to the EU counter human smuggling mission in the Mediterranean, the NATO mission in the Aegean, military planning assistance to allies and international organisations and counter Daesh activity
- The Conflict Stability and Security Fund (CSSF) replaced the Conflict Pool as the Government's mechanism for funding conflict prevention, stabilisation, security and peacekeeping activities, under the strategic direction of the NSC
- In addition, to the net additional costs of the UK's contribution to the NATO Resolute Support Mission in Afghanistan and the Afghan National Army Officer Academy, £17.3m was returned to the HM Treasury Special Reserve for the setting of accounts and balances related to activity before December 2014.

## Africa

### Sierra Leone - Ebola

November 2015 saw the end of Operation GRITROCK which had provided the UK's resources and personnel to defeat Ebola in Sierra Leone. By maintaining a small presence of military personnel, which worked closely with partners from across HM Government, the Sierra Leonean government was supported in its successful identification and elimination of each last case of Ebola. This led to Sierra Leone being declared Ebola-free by the World Health Organisation on 7 November 2015.

The MOD had maintained an Ebola Treatment Unit in Kerry Town until July 2015, by which time the numbers of new Ebola cases had dropped in such a scale as to negate the need for its function under MOD control. Therefore, the MOD handed over the operation of the treatment unit to a commercial provider, Apen Medical. UK military personnel continued to maintain a presence in Sierra Leone until November 2015, working in tandem with the Department for International Development, in the National Ebola Response Centre. The MOD retained the key command and control oversight essential to tracing the remaining cases of Ebola that continued to emerge on a weekly basis. By maintaining vigilance and sustaining momentum, the number of new Ebola cases eventually fell to zero and remained at this level. While very small numbers of Ebola have re-occurred in Sierra Leone since November 2015, this was not unexpected as Ebola has always maintained a small presence in West Africa.

**Team 4 from the Port Loko District Ebola Response Centre carry out a decontamination on the property of a family who fell victim to Ebola**



### Somalia

The MOD continued to contribute to the UK Government's Somalia strategy during 2015-16. We have worked to improve the capacity of the African Union's peace support mission in Somalia, including through the provision of training and mentoring

across East Africa to the troop contributing countries of the African Union Mission in Somalia (AMISOM). We also supported Somali efforts to develop national Armed Forces both through bilateral advice and assistance and by participating in multilateral engagement, such as the EU Training Mission. Additionally, we have provided military personnel to the United Nations Support Office in Somalia (UNSOS) in order to assist with bringing greater cohesion to the international response in-country, and provide policy advice to the Federal Government of Somalia and AMISOM on peace-building and state-building. Planning work has been conducted in early 2016 to prepare the way for an uplift of some 70 personnel to the UK military contribution to UN Peace Keeping Operations in Somalia.

### Nigeria

The abduction of over 200 schoolgirls from Chibok in north-east Nigeria in April 2014 was the catalyst for the MOD to provide military support to the Nigerian government, initially to help search for the schoolgirls and subsequently to contribute to the broader struggle against Boko Haram.

In the past year, MOD has provided military Intelligence expertise in the Intelligence Fusion Cell, based in Abuja, and the French-led Liaison and Coordination Cell (CCL) in N'Djamena, Chad. The latter organisation is a processing centre for all sources of Intelligence to ensure the contributing nations' sources, methods and security are not compromised. In addition, the CCL works closely with the African Union authorised, Lake Chad Basin Commission supported, Nigerian-led Multi-National Joint Task Force which coordinates all of the counter Boko Haram activity in the north east of Nigeria, Chad, Cameroon and Niger.

A further Liaison and Support Team (LST) has been deployed in December 2015 to Maiduguri to provide Counter Improvised Explosive Device (C-IED) training and medical training specifically orientated around injuries sustained from IED. The LST has gained a credible reputation in the Nigerian Military Command and Control Centre in Maiduguri which will underpin further future contributions by Her Majesty's Government in the wider counter Boko Haram activities.

### Mali

The UK was swift in its support to the French when Mali suffered extreme instability due to Terrorist Armed Groups (TAG) activity sweeping down from



the north following the collapse of lawful rule in Libya and asked France for help in January 2013.

Initially, the UK contribution was in the provision of strategic airlift but, after the main thrust of TAG activity had been countered, the United Nations Multidimensional Integrated Stabilization Mission in Mali (MINUSMA) was established by Security Council Resolution 2100 of 25 April 2013 to support political processes in that country and carry out a number of security-related tasks. The Mission was asked to support the transitional authorities of Mali in the stabilization of the country and implementation of the transitional roadmap. The UK made an immediate contribution both to the MINUSMA and the European Union Training Mission (EUTM) with Legal Advisors, HQ staffs and Infantry Training Teams.

By unanimously adopting Resolution 2164 of 25 June 2014, the Security Council further decided that the Mission should focus on duties, such as ensuring security, stabilization and protection of civilians; supporting national political dialogue and reconciliation; and assisting the reestablishment of State authority, the rebuilding of the security sector, and the promotion and protection of human rights in that country. The UK has been a well-respected contributor to both MINUSMA and the EUTM under Operation NEWCOMBE and is now engaged in delivering a "Train the Trainer" package to enable the Malian Armed Forces to become self-sufficient in providing the necessary skills to support the Malian government in its recovery process to regain nationwide stability.

## Libya

The MOD continued its support to the UN-led political dialogue process which ultimately led to the signing of the Libyan Political Agreement on 17 December 2015 and the establishment of a Libyan Government of National Accord. We deployed military personnel to the UN Support Mission in Libya and the EU Liaison and Planning Cell, providing essential support to the security track, negotiating with Libyan militias in order to allow the Government of National Accord to work from Tripoli. We also planned, together with international partner nations, how to best support a Government of National Accord once it is established, including through capacity building and security sector reform.

In addition, we worked, alongside our partners, on improving our understanding of Daesh's activity in Libya. We were in dialogue with Libyans in relation

to countering Daesh and worked closely with Libya's neighbours to enhance their ability to protect themselves against threats from terrorists in Libya and prevent weapon smuggling across the region.

## Tunisia

In response to the beach shootings at Sousse in June 2015, Defence provided aeromedical evacuation at very short notice, returning four critically injured Britons to UK for onward move to hospitals. Shortly afterwards, we provided air transport to repatriate the bodies of 30 Britons who had died in the attack. Following the attack, Defence contributed to an FCO-led process of reviewing security in Tunisia, and established a liaison officer post in order to continue this work to advise Tunisian authorities on developing their counter terrorist capabilities. This liaison has led to joint projects providing UK advice to Tunisian Security Forces on Border Security Management and Counter-IED skills.

## South Sudan

Defence contributed a small number of staff officers to the UN Mission in South Sudan (UNMISS); planning commenced during 2015 for a major uplift of some 300 personnel in South Sudan; this uplift should come into effect during 2016.

## The Gulf

We continue to maintain significant maritime and air capabilities in the Gulf to underpin our enduring contribution to Gulf security. The UK has strong defence links with the region, and maintaining these remains a key part of our renewed commitment to our allies. The recent signing of the historic nuclear deal with Iran in July 2015 and the reopening of our embassy in Tehran provide new opportunities for regional stability yet, despite these successes, tensions remain. In particular, the Gulf states face a real and growing threat from terrorism and we continue to work closely together to combat that threat. The breaking of ground on HMS JUF AIR in Bahrain in November 2015 serves as a major milestone towards a key SDSR commitment: to build a permanent and more substantial UK military presence in the region. We support the Saudi Arabian-led Coalition intervention in Yemen, which came at the request of Yemen's legitimate President Hadi, and the resulting UN facilitated peace talks in Kuwait. Support includes the provision of a small number of staff working in Saudi headquarters in a liaison capacity, the provision of training on targeting, particularly courses and advice to support the continued compliance of Saudi officers with International Humanitarian Law, and the provision of

munitions. We have also provided capacity building training to allow Saudi Arabia to better defend its southern border.

## Rest of World

Following the Nepal Earthquake on 25 April 2015, which resulted in almost 9000 fatalities, the UK deployed C-130 and C-17 military aircraft to transport over 148 tonnes of humanitarian aid to and around the region as part of Op LAYLAND. We also airlifted 33 civilians who needed evacuating to safety from Kathmandu airport. More than 250 military personnel provided assistance, including around 100 Gurkhas who used their language skills and local knowledge to get help to remote locations as well as providing engineering expertise; both in the immediate aftermath of the quake and to help with the immense reconstruction task in the weeks that followed. The UK was the largest contributor to the response effort with £26m of aid and assistance.

In September and October 2015 the UK responded to requests for assistance from Dominica and the Commonwealth of the Bahamas after they were struck by destructive tropical storm Erika and hurricane Joaquin respectively. RFA LYME BAY provided a vital emergency service from evacuating at-risk people to restoring basic supplies and delivering food and water; as an example over 5 days in Dominica more than 6250 hot meals prepared in LYME BAY's galley were delivered to local communities.

## Malta

In response to requests from the Government of Malta, Defence provided assistance to Maltese authorities for their security operations surrounding a summit of EU leaders and the Commonwealth Heads of Government Meeting, both in November 2015. The operation provided an enhanced picture of Malta's air and sea environment covering several hundred square miles, giving Maltese decision-makers improved situational awareness. Both events passed off without incident.

## UK Embedded Forces

On 17 December 2015 the Secretary of State issued a written ministerial statement<sup>7</sup> about "UK Embedded Forces". This provided details of UK service personnel embedded in other nations' Armed Forces who are

<sup>7</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2015-12-17/HCWS431/>.

deployed on operations together with those who work on operations in deployed coalition or single nation headquarters roles. He also committed to providing updates via the MOD Annual Report. The statement provided snapshot details as at 30 November 2015. The latest position, as at 31 March 2016, is set out in the table below.

UK service personnel embedded in other nations' armed forces and deployed on or in support of operations.

Host Nation/ Coalition	Embedded HQ Staff	Embedded Exchange Officers
France	0	1
Italy	0	1
United States of America	9	13
Coalition HQs	116	N/A
NATO	7	N/A
EU HQs	16	N/A
UN HQs	13	N/A
<b>Total</b>	<b>161</b>	<b>15</b>

Notes: The data comprises: "UK service personnel embedded in another nations' Armed Forces, who are deployed on operations together with those who work on operations in deployed coalition or single nation headquarters roles". Due to the short nature of some attachments, the figures change regularly. Data is correct as at 31 March 2016.

## United Kingdom & Overseas Territories

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

In 2015-16 we continued to defend UK airspace with an 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 with Typhoon aircraft taking an active role in Baltic Air Policing and providing additional security and reassurance to Baltic States in NATO. We provided Royal Navy assets to defend our territorial waters and overseas territories, and to maintain our Continuous At Sea Deterrent. The Police and maritime authorities have primacy for domestic security of the UK coastline against criminal elements, but Defence maintains forces to provide support to these authorities if required. We remained fully and demonstrably committed to the defence of UK Territories in the South Atlantic. The 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 and, provide Search and Rescue (SAR) cover with Sea King and AW189 helicopters and also intends to return RAF Chinooks to the Falklands Islands.

## 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. The MOD is not the lead for any civil contingency, but if required can provide support through the Military Aid to the Civil Authorities process. We provided military aid to the civil authorities on over 79 occasions in 2015-16. These ranged from the provision of logistics support to the Police and ambulance services; having personnel trained and on call to deliver fuel in the event of strike action by tanker drivers, providing support to the Environment Agency, the Police and local authorities during the floods and the provision of search support to Home Office Border Force. In addition at the direction of the Prime Minister, there is now a standing operational plan in place to provide military personnel in support of the police in response to a major terrorist incident or threat.

**RAF Chinook and soldiers from 2nd Battalion The Duke of Lancaster Regiment at a vulnerable river bank working with the Environmental Agency to prevent flooding**



## Fisheries Protection

The Fishery Protection Squadron support the Marine Management Organisation with fishery patrols. In 2015-16 the Squadron boarded 460 fishing vessels, four of which were detained at a UK port for further investigation, and detected many fishing infringements. We continue to work with other EU member states to develop joint operations and to improve the efficiency and effectiveness of their own patrols.

## Search and Rescue (SAR)

SAR helicopter cover for the UK and surrounding waters was, until 1 January 2016, provided by a combination of MoD (RAF / RN) assets and HM Coastguard assets. The last of the MoD SAR units (771NAS, RNAS Culdrose, and HMS GANNET SAR Flight, Prestwick Airport) drew down on 1 January 2016 as part of the ongoing transition of SAR handover from MoD to HM Coastguard.

The UK Aeronautical Rescue Coordination Centre (ARCC) at RAF Kinloss co-ordinates the response of all UK SAR aircraft and mountain rescue teams, and hosted the UK Mission Control Centre for the global satellite-based distress beacon detection system. The ARCC transitioned to the Maritime and Coastguard Agency in March 2016. From April 2015 to end of December 2015, MOD SAR services in the UK, Falklands and Cyprus (helicopters and Mountain Rescue Teams) were called out 944 times and came to the aid of 753 people.

## Explosives Ordnance Disposal (EOD)

The MOD provides 24 hours-a-day EOD support to the police in the UK. This includes the provision of operational scientific expertise to deal with complex devices. Routine co-ordination of EOD tasking was conducted by the Joint Service EOD Operations Centre at Didcot, which allocates Royal Navy, Army or RAF teams as necessary. EOD teams responded to 465 Improvised Explosive Device Disposal incidents in 2015-16 (468 in 2014-15) and 1898 Conventional Munitions Disposal Incidents (1923 in 2014-15).

## Counter-Narcotics

Defence has made a significant contribution to supporting UK Government and international efforts to tackle the threat from illicit drugs. The Royal Navy and Royal Fleet Auxiliary has operated with US and other international partners to stem the flow of drugs from Latin America through the Caribbean, and across the Atlantic to the UK and Europe. In the reporting period April 2015 to March 2016 the Navy has seized or disrupted over 5.5 tonnes of illicit cocaine and marijuana in, and from, the region, worth in excess of £540 million had those drugs reached the streets of UK. The Navy has also achieved good counter narcotics effect in the Indian Ocean, operating under the multi-national maritime coalition Combined Task Force 150, involved in seizing a tonne of heroin with an estimated value in excess of £26 million had the drugs reached UK. Over a tonne of cannabis resin was also seized

in the course of conducting maritime operations in the Mediterranean. The MOD works closely in support of the National Crime Agency, as UK's lead on countering narcotics and other illicit trafficking activity worldwide.

## Counter-Piracy

Defence supported the international counter-piracy efforts in the Indian Ocean, efforts that are widely seen by the maritime industry as offering a model that could be applicable to other parts of the world. As in previous years, throughout 2015 Defence provided the Headquarters and the Operational Commander for the European Union's Counter-piracy mission (Operation ATALANTA). A number of low-level incidents during the year indicated that the motivation, means and opportunity still exist for piracy to return off the coast of Somalia. As a result, the maritime industry remains acutely aware of the need for sharing of timely, accurate and actionable information; Defence has contributed to strategic thinking on how piracy can be tackled on a global scale.

Personnel from Type 23 frigate HMS Montrose intercept suspected pirates during a counter piracy operation in the Gulf of Aden



## Counter-Migration

In May 2015, the MOD reacted to the sudden increase in migration across the south central Mediterranean by retasking HMS BULWARK to conduct rescue operations. Up until its return to the UK in July 2015, she rescued over 4,500 migrants. On 22 June 2015, the EU established a Common Security and Defence Policy Operation, EU Naval Force Mediterranean<sup>8</sup>, to disrupt the migrant smugglers and human trafficking businesses originating from Libya. The UK supported the initial stages of this operation with HMS ENTERPRISE and a Merlin helicopter. As the operation progressed into its second, shaping, phase HMS RICHMOND joined the force for a five week surge in the autumn. Throughout the winter, the UK continued her support with HMS ENTERPRISE and has so

<sup>8</sup> On 7 October 2015, the operation was subsequently renamed Op SOPHIA after the baby girl born by one of the rescued migrants on board one of the EUNAVFOR Med vessels.

far rescued over 3,000 migrants as part of the EU operation (as at 19 February 2016).

## Cyber and Space

We have continued to develop our ability to protect our networks and systems from rapidly evolving cyber threats. Through the National Offensive Cyber Programme – a partnership between the MOD and GCHQ – we are also investing in the tools, techniques and tradecraft we need to use cyber to enhance the effectiveness of our Armed Forces. We continue to grow our cadre of cyber specialists, in both the Regular and Reserve forces, and we have established a Joint Cyber & Electromagnetic Activities Group to ensure new cyber effects are properly integrated with other military activities. The security, safety and sustainability of Earth's orbits are vital to our economic prosperity and military capability. Our Space Operations Co-ordination Centre and the radar at RAF Fylingdales remain key assets in multinational initiatives established to enhance the protection afforded to satellites on which we all depend by tracking harmful debris and other satellites.

## Continuous At Sea Deterrent

Our independent nuclear deterrent is the ultimate guarantee of our security. The Royal Navy's Vanguard class submarines have sustained Operation RELENTLESS, maintaining their mission of deterrent patrols which has been uninterrupted since April 1969. HMS VENGEANCE has completed her overhaul in Devonport and is making preparations to return to the operational cycle. HMS VANGUARD has now commenced her second overhaul in Devonport.

The Successor submarine programme is the UK programme to replace the four Vanguard-class ballistic missile submarines currently carrying the UK's independent nuclear deterrent. In 2014 the department was authorised to commit £3.3Bn on the programmes Assessment Phase. In March 2016, as set out in SDSR15, the further investment of £642 million in the design phase was announced, including buying essential long-lead items for the four submarines. This will take the total cost of the Assessment Phase approval to £3.9Bn.

In March 2016 MOD secured an improved contract with AWE Management Limited (AWEML) for the management and operation of the Atomic Weapons Establishment sites at Aldermaston, Burghfield and Blacknest. The new contract supports the weapons for our nuclear deterrent, while delivering better value for money. The core commitment of the contract with AWEML remains to provide and maintain the nuclear warhead stockpile for the UK's deterrent, efficiently and effectively, while ensuring full safety and security.



In May 2016, the Department fulfilled another commitment from the SDSR 2015 by appointing an Acting Director General Nuclear to head up the new Director General Nuclear organisation. The Director General is responsible for coordinating all the delivery activities across the nuclear enterprise, sponsorship of new and existing delivery bodies, and advising Ministers, the Permanent Secretary and senior military leaders on the delivery of the nuclear

programme. A permanent appointment will be made by the end of the year.

## Numbers of Trained Military Personnel

The table below outlines the number of Service personnel, Regular and Reserves who have deployed on operations between 2011 and 2016.

	UK Armed Forces Personnel Deployments by Financial Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
<b>All Services</b>	231,880	256,800	160,640	90,560	56,860
of which unique individuals:	60,770	65,870	48,960	36,070	23,120
<b>RN/RM</b>	42,680	28,150	19,720	16,600	17,070
of which unique individuals:	10,960	8,400	8,300	6,560	5,840
<b>Army</b>	146,420	189,060	106,380	45,910	21,120
of which unique individuals:	34,690	43,100	27,600	17,850	8,860
<b>RAF</b>	42,780	39,590	34,550	28,040	18,670
of which unique individuals:	15,130	14,370	13,060	11,650	8,420

1. 'UK Armed Forces Personnel' includes UK Regular Forces, Gurkhas, Full Time Reserve Service (FTRS) personnel and mobilised reservists.

2. Deployed personnel are Military personnel who are deployed on Operations. The database records all personnel who enter a deployment theatre for over 24hrs. Each individual has a new record for each change in deployed unit, location, operation or date.

3. Unique personnel refers to how many Service personnel can say they have been deployed in a Financial Year. Each individual is counted once per financial year even though they may have been deployed multiple times during that period.

4. Each financial year has been populated independently. As such if a deployment straddles two financial years, this has been counted in both of the financial years covering the duration of the deployment.

## Operational Pinch Points

As stated in the Annual Report and Accounts 2014-15, we remain committed to publishing data on Operational Pinch Points (OPPs), which are defined as a branch specialisation, sub-specialisation or area of expertise where the shortfall in trained strength (Officers or Other Ranks) is such that it has a measurable, detrimental impact on current, planned or contingent operations. OPPs may result from adherence to single Service harmony guidelines, under-manning and/or levels of commitment that exceed the resourced manpower ceiling for the trades or areas of expertise involved.

The management and mitigation of OPPs is a priority, with the focus being on incentivising personnel to join (and/or retrain) and remain within pinch point trades. OPPs are managed by the single Services who have implemented a range of reviews and programmes to address manning shortfalls. In addition to these longer term initiatives the Services apply a range of targeted manning levers, including extensions of service and financial incentives. Personnel in OPPs are always excluded from Redundancy. The position as at April 2016 is summarised below:

### Naval Service

The number of Naval Service OPPs is 18 which is a decrease of two since April 2015. The key pinch points relate to engineering roles plus some specialist roles such as warfare specialists.

### Army

The Army has four OPPs which is an increase of two since April 2015. The key pinch points relate to logistics roles including two roles where Exercise and readiness commitments have driven a higher level of shorter-term requirements.

### RAF

The number of RAF OPPs is 16 which is a decrease of three since April 2015. The key pinch points relate to engineering and intelligence roles, although there are also emerging shortfalls in the aircrew Branch.

## Sustainability Narrative to support 'Protect our People' Objective

The recruitment and retention of a capable, motivated, balanced and sustainable workforce, to deliver Defence outputs provides the People component of Defence capability. This supports all Departmental Objectives. The Defence People Strategy and Plan detail the key activity and work that underpins this intent. Chief of Defence People manages delivery against these through his chairmanship of the Defence People and Training Board.



## Strategic Objective 2: Project Our Global Influence

### Objective:

We will contribute to improved understanding of the world and increase our influence in the regions that matter to us, through strategic intelligence and the global defence network. We will reinforce international security and the capacity of our allies, partners and multilateral institutions.

### Key Performance Indicators:

- Support to NATO/EU/UN
- Defence Engagement / Bilateral relationships with particular focus on NATO, the Gulf and Asia

## Support to NATO/EU/UN

### NATO

The UK is taking a leading role in efforts to further strengthen NATO against current and future threats from the East or South, working closely with other international partners as necessary. We seek an Alliance 'adaptable by design' to the ever changing threats to Euro-Atlantic Security.

Progress is being made towards agreement at the NATO Summit in Warsaw on 8/9 July 2016 for an Alliance that:

- a. Is unified in meeting the challenges it faces;
- b. Has delivered on the NATO Summit Wales 2014 commitments.
- c. Is modernising its deterrence, including collective defence, enhanced resilience, and effective dialogue, for 21st century challenges.
- d. Continues to modernise, through institutional adaptation and deeper partnerships, particularly with the EU, not least to build capacity on its flanks.

NATO Assurance Measures form an important part of the RAP developed in response to Russian aggression in Ukraine. The UK is making a significant commitment, over 4,000 UK personnel were involved in assurance activity during 2015 including sending over 1,000 personnel to NATO's tri-annual high visibility exercise TRIDENT JUNCTURE 15 in November 2015. Similar levels of activity are planned for 2016.

The UK completed a Baltic Air Policing rotation between May and September 2015 comprising four RAF Typhoons based in Amari in Estonia, and we conducted a further rotation in Spring 2016.

The UK, together with Germany, the US, and 12 other NATO members, are actively engaged in the Transatlantic Capability Enhancement and Training (TACET) initiative that will provide reassurance and develop capability and resilience in the Baltic States and Poland.

A Typhoon jet from 6 Squadron Royal Air Force, following an evening Baltic Air Patrol (BAP) in Estonia



### EU

The UK increased its contribution to EU Common Security and Defence Policy activity during 2015 by supporting Operation SOPHIA in the Mediterranean with ships, helicopters, and key staff placements. In EUFOR Operation ALTHEA in Bosnia Herzegovina we have retained our commitment of a reserve force and our standing contribution of staff officers in the Headquarters. The UK committed to continue running EUNAVFOR Operation ATALANTA's Operation Headquarters in Northwood. The UK continues to contribute to EUTM Somalia and EUTM Mali.

## UN

Our contribution to UN Peacekeeping operations currently comprises 241 personnel in the UN Peacekeeping mission to Cyprus with an additional 16 personnel deployed to other UN operations including Mali, Somalia, Democratic Republic of Congo, and South Sudan. This number includes three new postings to support the UN command in Korea and the UN mission to Libya.

The MOD reaffirmed its commitment to the Women, Peace and Security (WPS) agenda at the High Level Review of UNSCR 1325 in October 2015. Her Majesty's Government made eight new commitments including a target for MOD to ensure that by November 2016, all UK troops deploying on overseas missions receive training on WPS and Preventing Sexual Violence Initiative (PSVI). We are conducting a review of all training offered in Defence on WPS and PSVI to help identify gaps in our current capabilities. A WPS/PSVI specific module has been developed for pre-deployment training for troops from other countries. The National Action Plan on WPS is being incorporated into our Regional Strategies and Country Plans.

## Defence Engagement / Bilateral Relationships

### International by Design

Strengthening the international dimension of British defence policy and planning was a key policy theme of the SDSR. The term 'international by design' encapsulates the scale and ambition of the proposed approach, which embeds the sense of a greater emphasis on, and consideration of, our international relationships in the Defence DNA. Our approach comprises five key strands: strengthening our strategic defence relationships; exploiting the combined formations we have been building; stepping-up our capabilities collaboration; working to develop the capacity of – and working more effectively through – the key international security institutions; and moving Defence Engagement to the next level.

Taking progress with these strands in turn:

**Combined Formations:** Work on the development of the **Joint Expeditionary Force** continues to progress strongly. We have also reached the stage of initial validation of the concept for the **Combined Joint Expeditionary Force**. During the course of the year, we will need to continue to develop our plans to lead the **Very High Readiness Joint Task Force** in

2017. And we will need to be clearer about the levels of interoperability we plan to develop and maintain with the US.

**Capabilities Collaboration:** We have started to strengthen the International Capability Steering Board, to help us identify and develop the most promising areas for future capabilities collaboration. In the meantime, we have been working through how to deliver the key cooperative/collaborative outcomes from the SDSR, particularly with the US (with work on Carrier-Strike collaboration and the acquisition of P-8 Maritime Patrol Aircraft continuing apace), France (including the progress agreed at the recent UK-France Summit on Future Combat Air System (FCAS) and Complex Weapons), and Germany (with the first Ministerial Equipment Capability Cooperation meeting in March this year).

**International Security Institutions:** work is focussed on developing goals for the Warsaw Summit, delivering on our undertakings to the UN, and reinstating our presence in the OSCE.

**Strategic Defence Relationships:** from work during the SDSR we have distilled an agreed list of which defence relationships matter most to us, and why. We are conducting a series of senior stocktakes to baseline the state of our current relationships and contributing activities as the prelude to the production of more focussed strategies and plans for each of these key relationships.

**Defence Engagement:** We plan to use the SDSR as a springboard to strengthen this programme across the board, and to communicate our future plans more clearly, including through a further iteration of the International Defence Engagement Strategy (IDES); more on this below.

### Defence Engagement

Defence Engagement is the means by which we use our Defence assets and activities, short of combat operations, to achieve influence. Following direction in SDSR we have made Defence Engagement a funded, core MOD task for the first time, meaning that it will be prioritised alongside operations and force preparation activity. Much of our Defence Engagement is enabled by an extensive overseas network of Defence Sections, Loan Service and other personnel, and we have established several initiatives to strengthen this network. We are creating additional posts in key Defence Sections and US Combatant Command headquarters. We have established a Defence Attaché and Loan Service Centre under the Defence Academy at

Shrivenham to standardise and oversee pre-employment training, and we are establishing a Defence Engagement career stream in the Armed Forces, making better use of reservists. We are also establishing British Defence Staffs in the Middle East, Africa and Asia-Pacific, to ensure that best use is made of scarce resources and all Defence activity in those regions is fully coordinated.

MOD also draws on funding from the Conflict, Stability and Security Fund (CSSF), established in April 2015, to deliver projects in support of National Security Council objectives in countries at risk of conflict and instability. During 2015-16, MOD received £61m of CSSF funding to deliver projects in areas such as conflict prevention, capacity building and security sector reform in countries including Nigeria, Jordan, Pakistan, Afghanistan and Ukraine.

Defence has a long tradition of training overseas military and civilian personnel, and the provision of Defence Training & Education continues to be a significant element of our Defence Engagement effort. During 2015-16, MOD has provided more than three thousand training and education places in UK domestic and overseas institutions to international participants from around one hundred countries. In particular, establishments such as the Defence Academy (including the Royal College of Defence Studies and the Joint Services Command and Staff College), Britannia Royal Naval College Dartmouth, the Royal Military Academy Sandhurst, and the RAF College Cranwell offer prestigious courses which are highly prized.

## USA

The US remains the UK's pre-eminent defence partner. They supported our SDSR decision-making as no other ally could, welcoming our commitment to spending 2% of GDP on defence as well as our subsequent SDSR policy and investment decisions. The UK is working with all the US Services to rebuild our readiness for full-spectrum operations, after over a decade of counter-insurgency. USA support allowed us to make the SDSR aircraft carrier, F-35, and P-8 Maritime Patrol Aircraft investment decisions; and the US Navy, Marine Corps and Air Force continue to help us re-build our carrier enabled power projection capability and to exploit all the capabilities the F-35 has to offer. The US continues to provide the majority of the intelligence, planning, training capacity and strike assets for the campaigns in Iraq and Syria, and they welcome the UK's leadership in the fight against Daesh, both militarily and across Government. The US has continued to support the UK's operationally independent nuclear deterrent,

and we have together driven progress on the Common Missile Compartment, which will form part of both our future deterrent submarines. We are working together to build stronger reassurance and deterrence measures in NATO's East, demonstrating Alliance solidarity; as well as collaborating around the world to build the capacity of others to contribute to global peace and security. We are continuing to collaborate to drive innovation into the heart of our business, learning from each other's experiences.

## France

The UK's relationship with France continues to strengthen. At the Amiens Summit on 3 March 2016, we reviewed progress since the Brize Norton Summit and established a Roadmap for planned areas of cooperation taking into account the outcomes of SDSR15. We have agreed to continue our inter-dependency by: transitioning to the next stage of the Future Combat Air Systems programme; developing closer working on Complex Weapons; and collaborating on a joint Maritime Mine Counter Measures programme.

Exercise GRIFFIN RISE in May 2015 demonstrated that the UK-France Combined Joint Expeditionary Force (CJEF) had achieved initial validation of concept and we look forward to the major exercise GRIFFIN STRIKE in 2016, which is designed to enable us to declare the concept fully validated. We are now moving CJEF forward with a continuing exercise programme, and we have work in hand to establish a future programme of capability and force development work to improve interoperability and to reduce operational risk.

We continue to support each other on Operational crises that affect us both, notably: engaging in Africa; as part of the coalition combatting Daesh in Iraq and Syria; as well as providing specialist support following the terrorist attacks in Paris in November 2015.

**HMS DEFENDER conducting joint military training in the Indian Ocean with the French ship FS PROVENCE**





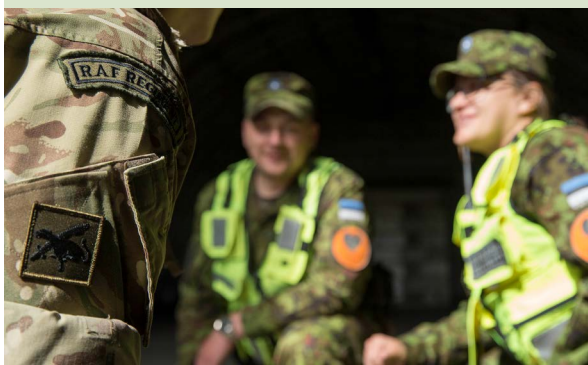
## Germany

The UK-Germany relationship strengthened over 2015 with the SDSR formally recognising the elevation of the UK-Germany bilateral Defence relationship alongside France and the US. We continued to deepen and broaden Defence cooperation on operations, missions and training; have worked closely with Germany within NATO ahead of the NATO Warsaw Summit to ensure the Alliance remains strong and united; and have sought to coordinate more closely on operational and capacity building missions as we both increase our military commitments to counter Daesh. In January 2016 a new UK-Germany Ministerial Dialogue on Capability Cooperation was announced to drive forward reductions in support costs on common aircraft, notably A400M and Typhoon, and explore future innovation and equipment collaboration.

## Nordic-Baltic Region

We continue to strengthen our Defence links with this strategically important region, including through the Northern Group<sup>9</sup>. In November 2015, Denmark, Estonia, Latvia, Lithuania, the Netherlands, Norway, and the UK signed a Foundation Memorandum of Understanding on the Joint Expeditionary Force; this also saw the declaration of its Initial Operating Capability. In 2015, over 2,500 UK personnel deployed on exercises the three Baltic States and Poland in support of NATO's Assurance Measures. The UK has also further enhanced its Defence co-operation with Poland, with a *Quadriga* meeting of UK and Polish Defence and Foreign Ministers held in Edinburgh in January 2016.

RAF Regiment personnel discuss patrol tactics with Estonian Defence Force



<sup>9</sup> Established in 2010, the Northern Group is an informal grouping of 12 nations (Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, the Netherlands, Norway, Poland, Sweden and the UK) promoting more coherent, efficient and effective Defence and security co-operation in Northern Europe.

## Russia

The resurgence of state-based threats (and intensifying wider state competition) and the erosion of the rules-based international order was identified in the SDSR as one of the challenges driving UK security priorities. This is particularly relevant in our approach to Russia.

The UK Government has developed a strategy towards Russia which reflects Russia's more aggressive, authoritarian and nationalistic behaviour, increasingly setting out principles that are in opposition to those of the West. The strategy is based on four objectives: to protect UK interests and those of our allies and partners; to engage with Russia on global security issues and in key areas of shared interest; to promote our values, including the rules based international system and human rights; and to build stronger links between the British and Russian people more widely. This strategy reflects the conclusion that Russian actions now force us to consider it more as a strategic competitor than a strategic partner.

Our commitment to collective defence and security through NATO remains central to our approach to the security challenges Russia presents and to date the EU is our primary tool for reducing vulnerability to Russian malign influence. Defence engagement with Russia, following the illegal annexation of Crimea, continues to be restricted to meeting our Treaty obligations, certain commemorative events, and matters which are in our national interest, notably on safety and the prevention of accidents/incidents. On the latter, we have established communications links to reduce the risk of accidents or miscalculation in the skies and seas surrounding the UK.

## Ukraine

The UK remains committed to providing support and assistance to the Ukrainian Armed Forces. This includes defensive, non-escalatory military training and a wider programme aimed at supporting Ukraine's defence reform programme. We have a UK Special Defence Advisor in Kyiv, embedded in the Ukrainian MOD, helping progress defence reform on various fronts, including tackling corruption, offering specialist advice on procurement and logistics reform, auditor training and building integrity. In terms of military training, so far, we have trained over 2,200 military personnel at ten locations in Ukraine and, cumulatively, we aim to have trained over 4,000 personnel by the end of financial year 2016-17. Since Autumn 2015, training activity has expanded from medical, infantry, and

logistics to include defensive urban operations, operational planning and ground sign awareness. The headcount of UK trainers providing in-country support at any one time increased from 75 to 100 at the start of this Financial Year and our training will be reaching an even greater number of Ukrainian personnel as we focus on the train-the-trainer model and mentoring opportunities as they arise. Co-ordination with other Allies delivering training (Canada, Lithuania, Poland, and the US) is a priority and the UK has deployed a Liaison Officer to the US-led Joint Multinational Training Group based at Yavoriv. In addition the UK has gifted non-lethal equipment, such as helmets, night-vision goggles, global positioning systems, cold weather protective clothing and field tents worth over £1 million.

## Turkey

We have a strong and active Defence bilateral relationship with Turkey, based on the 2011 Framework Agreement on Military Cooperation. There is regular contact between UK and Turkish top and senior military officials. The Defence Secretary visited Ankara in November 2015, and Vice Chief of Defence Staff took part in high-level staff talks in Ankara in February 2016. These annual talks set the agenda and give direction to the single services, who agree activities at their staff talks in accordance with the Framework Agreement.

## Italy

We continued to work closely with Italy, and deployed the survey vessel HMS ENTERPRISE and the frigate HMS RICHMOND in support of the EU's Italian-led Operation SOPHIA tackling migrant smugglers in the Mediterranean. High-level staff talks with Italy in October 2015 furthered our working relationship and operational co-operation.

## Spain

Spain leads the NATO Very High Readiness Joint Task Force (VJTF) in 2016, to which the UK is contributing a battlegroup. We have worked closely with the Spanish to understand best practice and lessons ahead of the UK becoming the Lead Nation in 2017. As part of becoming the Framework Nation for the NATO VJTF Land element the UK signed for a three year commitment from January 2016 to December 2018. We will lead a multinational force that includes up to 3,000 UK personnel, and contribute a brigade headquarters and a core package of enablers, including engineering and logistics capabilities. In addition, the UK has already committed a battle group of around 1000 personnel to the Spanish-led

VJTF in 2016. The UK and Spain also enjoy a warm defence industrial relationship. Projects involving our close co-operation include the Eurofighter Typhoon and A400M, where we work hand-in-hand as partner nations.

## Cyprus

We have worked closely with Cyprus to tackle the challenge posed by migration and the threat of terrorism from the Eastern Mediterranean region and Syria; the Sovereign Base Areas on the island have provided direct support for Counter-Daesh operations.

## The Gulf and North Africa

On 4 November 2015, the Foreign Secretary and Commander of Joint Forces Command joined the Bahraini Foreign Minister to complete a ground-breaking ceremony for the future UK Maritime Hub at Mina Salman in Bahrain where four RN mine hunters are permanently stationed.

The RAF has operated attack, air mobility and Intelligence, Surveillance, Target Acquisition and Reconnaissance aircraft in support of coalition Counter-Daesh operations.

Naval activity has remained high in the Middle East and North Africa, with HMS DUNCAN and HMS KENT deploying to the region to undertake a range of tasks including counter-piracy, counter-trafficking, freedom of navigation and joining the coalition naval effort to counter Daesh.

We have gifted equipment with a total value of £2,407,450, to the Jordanian Armed Forces to assist with the establishment of a Quick Reaction Force (QRF). The force will be able to deploy approximately 500 personnel at speed, capable of countering emergent Daesh and extremist threats on Jordan's borders with Syria and Iraq. This gift will greatly enhance the QRF's capacity and comprises a range of non-lethal command and control, manoeuvre and protective equipment.

The RN has deployed helicopters to provide surveillance and reporting support to the Omani Coast Guard's efforts to intercept vessels suspected of trafficking, as part of Operation CHOBDAHAR.

## Africa

UK personnel deployed in Nigeria are helping to train Nigerian troops who will deploy on operations against Boko Haram. Our package of support also encompasses working closely with Nigerian training schools and academies, helping to establish longer term capacity building as part of our enduring Defence relationship.

Between April 2015 and March 2016, over 300 UK military personnel deployed to Nigeria on training tasks ranging from one to eight weeks in length, providing training and advice in a number of areas such as countering improvised explosive devices, infantry patrolling skills, civil-military cooperation, and command and leadership. This number has also grown in permanent posts particularly in the north east.

UK personnel continued their role in support of counter-Ebola activity in Sierra Leone under Operation GRITROCK, which has now completed.

## Asia Pacific

The Defence Secretary travelled to Singapore to meet with regional counterparts and other Ministers at the IISS Shangri-La Dialogue in May 2015. He met with key allies including the German, New Zealand and Malaysian Defence Ministers, discussing a wide range of defence and security challenges.

A number of UK personnel deployed in support of exercises with partner nations across the region. Of particular note was the contribution to Exercise ULCHI FREEDOM GUARDIAN, with personnel deployed to UN Command in South Korea. This demonstrates the UK's enduring commitment to supporting peace and stability on the Korean Peninsula.

The RAF completed its first ever deployment of the A400M transport aircraft to the region as part of a global deployment providing work-up training to flying crews and support personnel. During the deployment the A400M attended the Seoul International Aerospace and Defence Exhibition alongside the RAF Falcons parachute display team. The A400M also visited Japan landing at Miho base, the first Royal Air Force aircraft to land at a Japanese Air Self Defence Force base.

## South Asia

Typhoons from RAF Coningsby hosted their Indian Air Force SU-30 Flanker counterparts for Exercise INDRADHANUSH, flying air-to-air training missions with the Indian Air Force, and promoting greater co-operation, tactical awareness and understanding between the RAF and PAF.

Troops from the Indian Army trained alongside British Army soldiers on Salisbury Plain during Exercise AJEYA WARRIOR. This biennial exercise aims to build and promote positive military relations between the Indian and British Army and to enhance their ability to undertake joint tactical level counter-insurgency and counter-terrorism operations.

The UK / Indian biennial naval Exercise KONKAN took place in UK waters in September 2015.

The Defence Secretary visited the British Military Garrison in Brunei in May 2015, following the signing of the Garrison Agreement between the Sultan and Prime Minister at Chequers in February 2015. This marked the first visit by a UK Defence Secretary to Brunei in 18 years, and included discussions with a Bruneian Defence Minister about future cooperation in the region.

## Latin America and Caribbean

RFA LYME BAY and her crew provided Humanitarian Assistance and Disaster Relief to both Dominica and The Bahamas following Tropical Storm Erica and Hurricane Joaquin respectively.

The UK has provided support to Mexico as they seek to begin supporting UN operations for the first time in 60 years, and develop their capabilities in Humanitarian Assistance and Disaster Relief operations.

UK personnel took part in the annual Exercise TRADE WINDS 2015, building Caribbean nations' capabilities to better respond to natural disasters and land and maritime threats, including illicit trafficking. HMS SEVERN, the first River-class Offshore Patrol Vessel to deploy to the Caribbean, was joined by members of the Belize Coastguard as she took part in the exercise.



## Arms Control and Counter Proliferation

"The National Security Risk Assessment 2015 has two Tier Two proliferation-related risks and highlights both as risks which may become even more likely and/or more impactful over the longer term:

*CBRN attacks: attack using chemical, biological, radiological or nuclear (CBRN) weapons.*

*Weapons Proliferation: increase in either advanced conventional armaments or CBRN technology."*

The following paragraphs summarise MOD's contribution in 2015-16 to meeting the Government's wider arms control and counter-proliferation objectives.

MOD continued to provide expertise to strengthen the Chemical Weapons Convention and the Biological and Toxin Weapons Convention. A priority has been to support the international community in addressing Chemical Weapons concerns in Syria. The last of the chemicals from Syria's declared stockpile were destroyed in the US in December 2015. MOD continued to work with FCO and international partners to ensure full declaration and destruction of Syria's entire chemical weapons programme, support investigation of incidents of use of chemical weapons in Syria, and provide training to support the missions of the Organisation for the Prohibition of Chemical Weapons in Syria.

MOD continued to work closely with international partners to strengthen international cooperation in the field of biological security, and continued to implement a variety of projects to strengthen biological security, primarily in Central Asia, the Caucasus, the Middle East, and North Africa. MOD also worked closely with Home Office and Other Government Departments in implementing the UK's BioSecurity Strategy, and contributed to setting up a review of the Strategy, following the commitment in the SDSR to publish a national bio-security strategy in 2016.

As stated in SDSR15, MOD is continuing work to reduce the total UK nuclear weapon stockpile from a maximum of 225 to no more than 180 by the mid-2020s. MOD has continued its ground breaking work in the field of nuclear warhead dismantlement verification with Norway, and will commence a new technical verification project with Sweden by end 2016.

MOD continued to fulfil its obligations as the National Authority responsible for the UK's commitment to the Comprehensive Test Ban Treaty, supporting the Comprehensive Test Ban Treaty Organisation (CTBTO) in Vienna.

MOD continued to work closely with FCO on considering the possible scope of a Fissile Material Cut-off Treaty. MOD provided technical support to expert discussions in Geneva, with the aim of informing future negotiation in the Conference on Disarmament, and ensuring that UK equities will be protected under any such Treaty.

MOD continued to implement key politically and legally binding Conventional Arms Control agreements on behalf of the UK. During the year, MOD hosted 7 missions, which checked the UK's compliance with Conventional Arms Control agreements; and led or participated in 21 verification missions in other countries.

MOD continued to provide expertise to strengthen the four export control regimes (Missile Technology Control Regime, Nuclear Suppliers Group, Australia Group, and Wassenaar Arrangement) to reduce the threat to UK national interests, including UK forces operating abroad, from the proliferation of weapons of mass destruction, their delivery systems, and advanced conventional weapons. MOD also continued to work with Government colleagues towards the goal of universalisation of the Arms Trade Treaty and to support States who may need assistance to implement it.

The Government's policy, restated in the SDSR, is to promote responsible Defence exports and to support Her Majesty's Government's prosperity agenda, provided this is consistent with our obligations under Treaties, Regimes, and with the Consolidated EU and National Arms Export Licensing Criteria. The MOD Form 680 procedure, for which the MOD is the authority, supports the Government's policy on responsible exports by assessing the proposed release of equipment or information with a classification of OFFICIAL-SENSITIVE or above by companies to foreign entities. Her Majesty's Government's target is to clear 60% of MOD Form 680 applications in 30 working days: the MOD continued to exceed the target, processing 71% of applications in 30 working days during 2015, compared with 67% in 2014 and 63% in 2013.



## Strategic Objective 3: Promote Our Prosperity

### Objective:

We will contribute to the UK's economic security, support our industry including through innovation and exports, continue to invest in science and technology and contribute to wider skills and citizenship development that supports British society, through Cadet Forces, University Units and investment in skills, including through apprenticeships.

### Key Performance Indicators:

- New target of 50,000 Apprentices to be trained during the SDSR period 2015 to 2020
- Increase the number of Cadet Units from 354 to 500 by 2020
- Promote defence exports with UK Trade and Investment
- Spend 1.2% of the defence budget on science and technology
- Increase the proportion of MOD spend with SMEs to 25% by 2020
- Launch a Defence Innovation Initiative to remain in step with our allies and ahead of our adversaries
- Contribute to the wider UK's skills agenda (see Apprenticeships)
- Release surplus MOD land to support new housing

### MOD Apprentices

There have been a number of additions to the list of Apprenticeship programme areas. Army Apprenticeships has introduced a new programme for Ammunition Technicians (607) and added some for the construction trades within the Royal Engineers. The Intelligence Corps and the RAF Intelligence Analyst trade have both just started recruiting onto a Level 4 Higher Apprenticeship in Intelligence Analysis. In addition, the Army will be piloting a Level 4 Apprenticeship in the field of Cyber-Security which will start enrolling during 2016. The Naval Service has also introduced Physical Trainers with an Advanced Apprenticeship in Personal Training.

The Armed Forces offer a viable alternative to Higher Education and Further Education (HE/FE) and provide apprenticeships at various levels (mainly Intermediate, but also Advanced and Higher). Apprenticeships and subsequent opportunities to gain further recognised civilian qualifications, through career training and elective learning, build the potential for a long and fulfilling Service career, and an exceptional second career once our people leave the Armed Forces. We are investing and equipping our people for a life beyond Service.

The MOD is also heavily involved in apprenticeship delivery to the Civil Service and is one of the major deliverers of such apprenticeships across Government Departments, with over 400 civilian apprentices currently on 17 different schemes including Engineering and Science apprenticeships and a fast-track Civil Service scheme providing opportunities for all those aged over 16 from a diverse range of backgrounds. New schemes are being developed, with the most recent additions being in Finance, Defence Commercial, and Digital Information.

The MOD is fully engaged with the implementation of the Government Reform of Apprenticeships (levy policy) to help develop workable policies and relevant new Apprenticeship Standards by leading or supporting a large number of Trailblazer groups to develop appropriate standards for all roles in the Armed Forces.

**Navy and BAE Systems Engineers swap jobs for Apprentice Week**



## Cadets

The Ministry of Defence sponsors and supports four different cadet forces (voluntary youth organisations): the Sea Cadets, the Army Cadet Force and the Air Training Corps based in the community, and the Combined Cadet Force in schools totalling 354 units. They offer challenging and enjoyable activities for young people, and prepare them to play an active part in the community while developing valuable life skills. The Government has committed £50 million of LIBOR funding to increase the number of cadet units in schools across the UK to 500 by 2020 through the Cadet Expansion Programme.

The Cadet Force 2020 Strategy was initiated in March 2015 to bring together current initiatives and recommendations from past reviews of MOD's youth engagement and cadet activity. It establishes a clear tri-Service vision and direction of travel for the MOD-sponsored cadet forces to 2020 whilst seeking to deliver coherence, innovation and value for money across the cadet organizations. The Strategy recognises that the critical success factor for cadet forces is the continuing commitment of sufficient, high-quality adult volunteers to deliver the cadet experience.

## Support to United Kingdom Trade and Investment, including Small Medium Enterprises

As the focal point for the provision of advice and information to companies wishing to do business with MOD, the Defence Suppliers' Service (DSS) works closely with the UKTI Small Business Unit.

Much of the on-going relationship between the DSS and UKTI Small Business Unit in support of UK SMEs is built on a long standing relationship and clear mutual benefit. The units have worked closely together for some years each supporting the others'

attempts to identify potential new SME customers, explain Her Majesty's Government support available for selling to home and overseas Armed Forces and offering more specific advice and assistance where required.

This partnership has significantly increased the number of opportunities to address SMEs at various organised seminars and events across the UK and to offer advice and information from shared exhibition stands and other platforms. This partnership has allowed each unit to benefit by raising their profiles and sharing the benefits of free/low cost stand space, transport costs (hire cars, taxis etc.).

Most importantly, though, this joined up approach enables Her Majesty's Government to deliver a complete package of home and overseas support to UK SMEs seeking to win defence sales. There remains a strong commitment between the present incumbents to continue to work closely together in this vein for the greater benefit of UK SMEs.

## Supporting Industry and Defence Export

The UKTI Defence & Security Organisation (DSO) has overall Government responsibility for defence export promotion and can call upon MOD to support industry-led campaigns, thereby taking advantage of the MOD's position as the primary user of UK-derived capabilities. In accordance with the 2014 MOD/DSO Service Level Agreement, MOD provides relevant and appropriate support, taking into account the availability of resources and the impact on wider Defence outputs. Support can include, but is not limited to, direct customer engagement by Ministers and senior officers/officials; supporting the development of bid proposals; provision of expert military advice and/or assets for demonstrations; support to equipment evaluation; and the provision of training and/or other key enablers. As part of their lead role, DSO are responsible for the biennial Defence and Security Equipment International (DSEI) exhibition, the latest iteration of which took place in September 2015 at the ExCel centre in east London. The exhibition is the UK's leading showcase of defence and security equipment and capabilities, and is respected internationally. The 2015 edition was the largest to date with 1,500 exhibitors, 40 international pavilions and over 30,000 attendees. Her Majesty's Government issued official invitations to 130 separate international delegations, including Ministers, Chiefs and key decision makers. The official delegates were joined by an additional 1000 VIPs.

Throughout the weeklong exhibition, MOD provided visible support to the defence sector by evidencing the contribution it makes to the capability of the UK's Armed Forces. DSEI also provided an opportunity for personnel to understand the wider context of their work and the important role MOD plays in the development of capabilities.

The MOD supported the exhibition through attendance by civilian and military personnel, provision of personnel to escort international delegations, supporting equipment demonstrations, and Ministerial attendance. The Defence Secretary delivered a key note speech as did all the Service Chiefs. MOD personnel participated in the wider programme of 300 seminars and speeches. There were 3 Royal Navy ships alongside ExCel throughout. For the first time, there was a medical innovation seminar and briefing programme that highlighted advances in battlefield medicine.

## Spend 1.2% of the Defence Budget on Science and Technology

### Research, Development and Innovation

A review of Defence Science concluded that it was of high quality, but recommended changes to the commissioning and governance. The review was led by Professor Sir Mark Walport, the Government's Chief Scientific Adviser, and conducted by independent academic experts, mostly drawn from the Defence Scientific Advisory Council<sup>10</sup>.

In response, the MOD's Chief Scientific Adviser has established a small implementation team to formulate and deliver improved organisation and process, to ensure that Defence Science and Technology is closely aligned to central Defence direction. This new structure achieved Initial Operating Capability in April 2016.

### Disruptive capabilities

Disruptive capabilities are areas of research that can deliver potentially significant and novel step-change to UK Defence capability. The Research and Development Board increased the allocation to disruptive technology spending, from within the centralised Science and Technology Programme,

to 15% in 2015-16, from 5% in 2014-15, and with a target of 20% by 2016-17.

Research so far undertaken includes boosting existing capabilities in Space with new and novel ones that are affordable and rapidly deployable; expanding the UK's understanding of feasible and affordable directed energy weapons - the lasers and other 'ray' weapons that could add to or replace current offensive or defensive weapons on a variety of vessels and vehicles; materials such as graphene; power plants such as scram jets; and quantum technologies.

The Research and Development Board drove innovation by increasing our work with UK universities, start-up companies and small and medium-sized enterprises (SMEs), to improve our technology scouting for new threats and opportunities, drawing in ideas and solutions pioneered in fields beyond defence and security.

The Catalysing Defence Innovation through Science and Technology Initiative (CDIST) supported development of a series of options through the summer as part of the SDSR, which confirmed the establishment of a new cross-government Emerging Technology and Analysis Cell, a defence and security accelerator, and a STEM and entrepreneurial skills development initiative. In September 2015, working with partners across Defence, the wider UK innovation network and US allies, we held a hackathon<sup>11</sup> - #MODHACK2015 - to demonstrate how MOD could work with a broad technology community to help in a quick response to a humanitarian need.

As part of MOD's use of the Small Business Research Initiative (SBRI), during summer 2015, the Centre for Defence Enterprise built on its existing work with Innovate UK to launch a £10 million challenge for the Defence Growth Partnership<sup>12</sup>. In addition to this, the DE&S Technology Office have placed 24 SBRI Phase 1 contracts with a range of micro, SME and large companies as well as a number of Universities, developing innovative solutions across three key Departmental challenges: Individual Protective Equipment, Non-Destructive Evaluation; and Fuels and Lubrication.

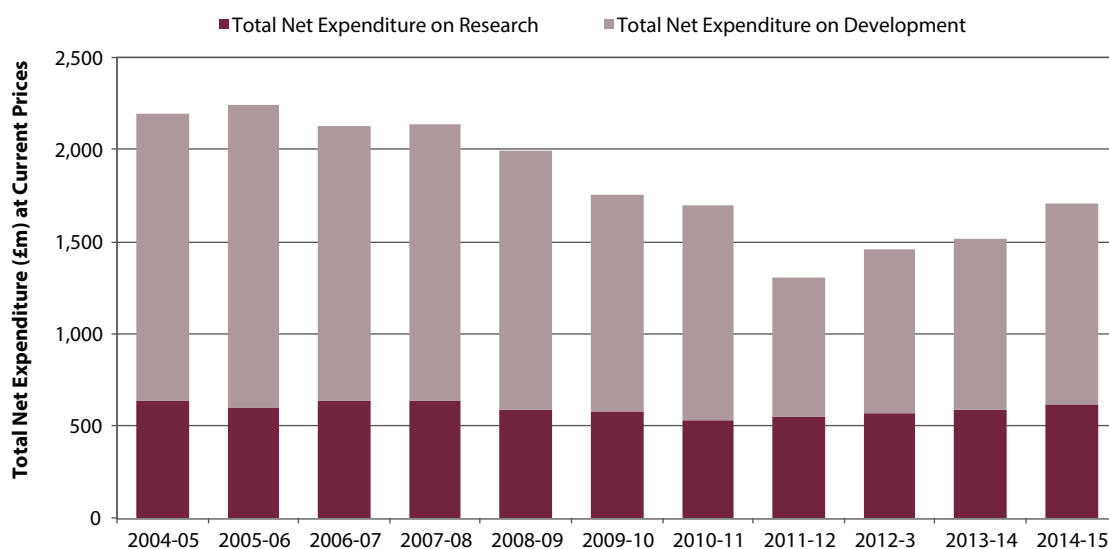
<sup>10</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/458623/20150414-MOD\\_Science\\_Capability\\_Review\\_Executive\\_Summary.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/458623/20150414-MOD_Science_Capability_Review_Executive_Summary.pdf)

<sup>11</sup> <https://defencescience.blog.gov.uk/2015/11/20/out-with-the-hackers/>

<sup>12</sup> <https://www.gov.uk/government/news/centre-for-defence-enterprise-runs-10-million-defence-growth-partnership-innovation-challenge>



## MOD Research and Development Expenditure 2014-15<sup>1</sup>



1. 2015-16 figures are not available until completion of a survey run by Defence Economics 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.

### Land Release

The Ministry of Defence (MOD) is currently developing an ambitious programme of estate rationalisation which will provide a plan for a significantly smaller, better Defence estate to meet the needs of the Armed Forces as set out in SDSR15.

In January and March 2016, the Minister for Defence Personnel & Veterans announced an early commitment to release twelve<sup>13</sup> and ten<sup>14</sup> MOD sites, respectively, for disposal. Release of these sites will provide an estimated contribution of £640M towards the £1bn target for land release sales. It frees up land for up to 22,000 homes – the vast majority in time to help the Department’s target of 55,000 units, and in part, the government’s wider target of 160,000 by 2020.

### Sustainability narrative to support the Prosperity objective

MOD contributes towards creating and sustaining the UK’s prosperity, including through activity through our programme to reduce the Defence estate where it is surplus to requirements to support wider Government objectives for land release and housing targets, the Government Construction Strategy, Space for Growth, and Apprenticeships that support a dynamic economy within the UK.

<sup>13</sup> <https://www.gov.uk/government/news/defence-minister-mark-lancaster-announces-release-of-mod-sites-for-development>

<sup>14</sup> <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-03-24/HCWS659/>

## Strategic Objective 4: Maintain a strategic base & integrated global support network, and manage the Department of State

### Objective:

We will maintain an agile strategic base and global support network that enables the command, generation, preparation, projection, sustainment, maintenance, operation and redeployment of military capability in support of the Defence objectives. This reflects the nature of the Department as a Strategic Military Headquarters as well as being a Department of State. We will command UK military operations worldwide, while providing the necessary enablers such as infrastructure, equipment, logistics and medical.

### Key Performance Indicators:

- Spending £178bn over 10 years on equipment and support (MPA Reports)
- Implementation of the 44 SDSR Decisions
- Workforce Dynamics and Diversity e.g. BAME and Gender
- Reduce Civilian Numbers from 56,240<sup>15</sup> to 41,000 by 2020 (see Efficiencies page-50)

### Major Projects

In July 2016, the MOD (along with all Government Departments) published data on its most important projects in support of the 2016 Infrastructure and Projects Authority (IPA) fourth Annual Report. In the third Annual Report in June 2015 there were two Red and seven Amber/Red Defence projects, as a consequence of the efforts being made throughout Defence this has reduced to one Red and five Amber/Red projects. The Annual Report and GMPP data is published at <https://www.gov.uk/government/publications/major-projects-authority-annual-report-2016>

Notable achievements that have been announced since the publication of the MPA's Annual Report include:

- The Complex Weapons procurement approach estimated financial benefits of £1.2 billion over 10 years from 2010. A review by the Cost Assurance and Analysis Service in September 2015 judged that the target remained achievable.
- In September 2015 as part of the Airseeker Programme, a second Rivet Joint signals intelligence aircraft was delivered to the RAF, seven months earlier than originally planned.

<http://www.raf.mod.uk/news/archive/airseeker-aircraft-04092015>

- General Dynamics UK has been awarded a £390 million contract by the UK Ministry of Defence (MoD) to provide in-service support for the Ajax (previously Scout) Specialist Vehicle (SV) fleet until 2024. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/451985/20150806-August\\_Desider\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/451985/20150806-August_Desider_2015.pdf)
- In November 2015, a £1.3 billion contract to build the latest Astute Class attack submarine for the Royal Navy has been awarded by the department. <https://www.gov.uk/government/news/13bn-contract-awarded-for-latest-attack-submarine>
- In September 2015, the department declared that the key contractual milestone known as In-Service Delivery (ISD) had been met following the delivery of the seventh Airbus A400M mobility aircraft.
- In June 2015, the diesel generators on board HMS QUEEN ELIZABETH were up and running, marking a major milestone towards becoming an operational warship.

15 As at 1 April 2016.

- Merlin Mk2 Full Operating Capability was achieved in September 2015 with 24 out of 30 having been delivered on time and under budget. A further three Merlin Mk2s have been delivered since September 2015. <https://www.gov.uk/government/news/royal-navys-next-generation-helicopters-ready-for-action>
- A £369 million deal for the continued in-service support of the RAF Hercules C-130J fleet has been agreed, securing around 1,200 UK jobs until 2022. Savings of £64 million for the taxpayer have been achieved during negotiations with Marshall Aerospace and Defence Group for the six year support contract. <https://www.gov.uk/government/news/369-million-mod-hercules-support-deal-sustains-1200-uk-jobs>
- In January 2016 twelve Royal Navy personnel became the first crew to join the UK's second aircraft carrier, Prince of Wales, being built in Rosyth. The team will work alongside their Industry partners over the coming years to learn about the ship, the equipment and the vast technological advances as she progresses through her build programme, ahead of sea trials, expected in 2019. <https://www.gov.uk/government/news/first-sailors-join-new-aircraft-carrier-in-scotland>
- A £44 million contract to fit state-of-the-art radars to more than 60 ships, submarines and shore facilities was awarded to Lockheed Martin Integrated Systems UK. The new radars will modernise safety critical ship and submarine navigation systems and will be fitted to the Royal Navy's Type 23 frigates, Hunt and Sandown class Mine Counter Measure Vessels, Royal Fleet Auxiliary vessels, fast patrol boats, as well as the Astute, Trafalgar and Vanguard class submarines. <https://www.gov.uk/government/news/new-navigation-radar-system-for-royal-navy>

RAF Ground crew member waits to fit chocks to taxing A400M (ATLAS)



# Financial Summary

## Management Commentary

The Government's Spending Review 2013 announced the spending plans and budgets for 2015-16, and the MOD Main Estimate in June 2015 set out the plans for 2015-16. The Supplementary Estimate (SE) in February 2016 updated these plans along with various transfers.

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

The balances, and movements in those balances, reporting in the Statement of Financial Position reflect the changes in assets and liabilities associated with the 'normal' business of the MOD; with the exception of the increase in the value of Provisions there are no significant movements.

				£M
<b>Total Departmental Variance</b>	<b>3,383 underspend</b>			
<i>This figure includes all Departmental Budgets and can be broken down into relevant areas as follows:</i>				
Core Departmental Spending Variance		3,170		
Near Cash Variances of which (see 1 below):			141	
Cash Resource DEL				105
Capital DEL				36
Ring Fenced (non Cash) Resource DEL (see 2 below)			901	
Annually Managed Expenditure (AME) of which (see 3 below):			2,128	
Resource AME				2,057
Capital AME				71
Non Budget		166		
Operations and Peacekeeping Spend Variance (see 4 below)		47		

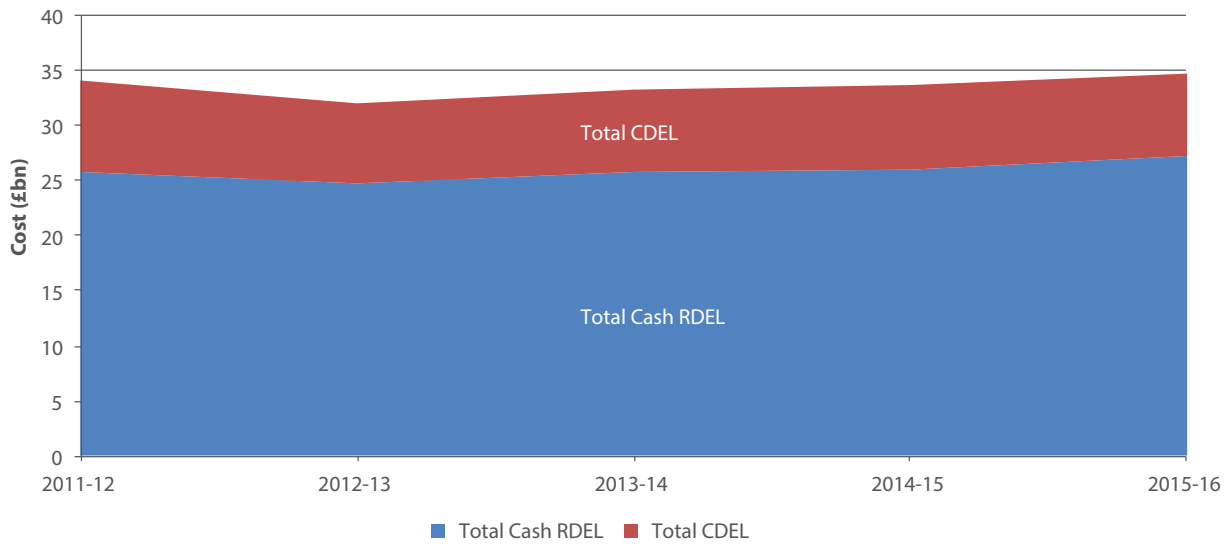
1) This represent a final variance to outturn of -0.4% against the near cash SE, which amounted to £34.9bn and can be found at Note 1 to the accounts. This has been a successful outcome against a challenging set of circumstances and reflects the strong financial discipline across the Department. The near cash variance reflects the 'normal' business of the MOD. It was as a result of minor movements in the programme, such as inventory consumption, and a lower than expected resource requirement from the Arm's Length Bodies. The near cash variances by Commodity Block can also be found at Note 1 to the accounts.

2) This underspend was largely due to the Department not making as many impairments as was originally provided for. This variance does not impact on Defence spending power as it is a non-cash accounting adjustment.

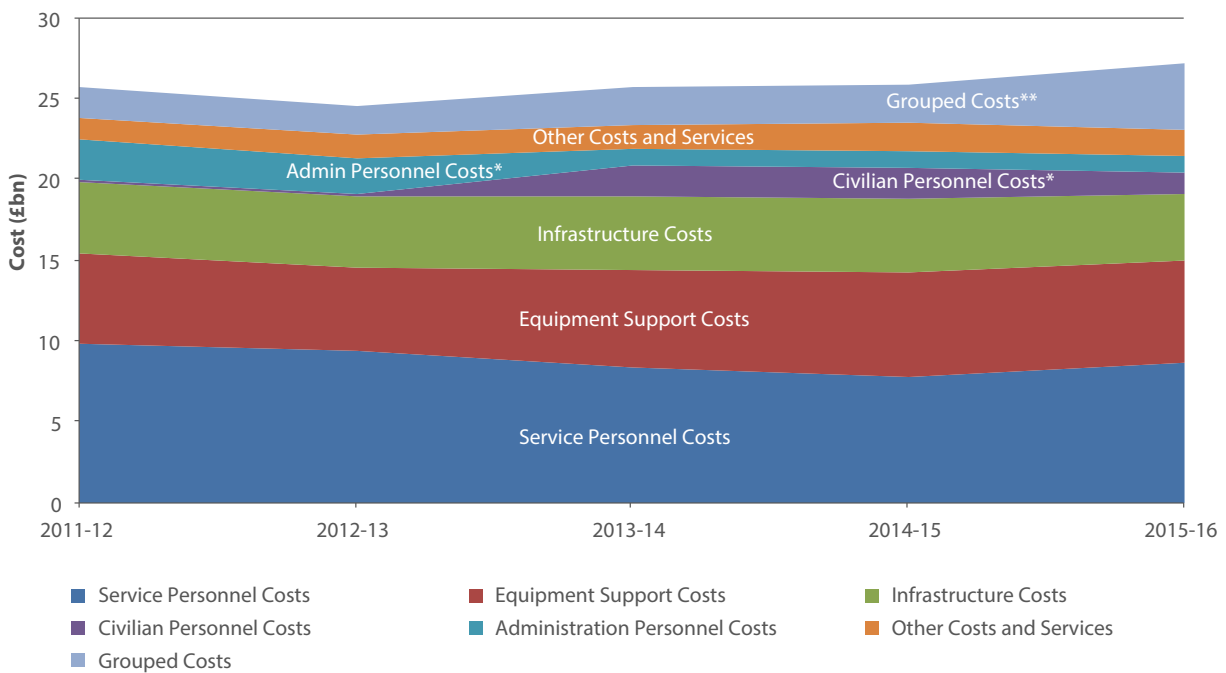
3) Provisions have increased by £5.8Bn, this is almost entirely due to the fact that the Long Term Treasury Discount Rate changes from +2.2% to -0.8%, causing an increase of £5.6Bn in the estimated cost of the nuclear decommissioning provisions. At the time of preparing the SE, an extra £6.2bn was required for Provisions to comply with the unusual change in HM Treasury's long term Discount Rates. However, the outturn was lower than the initial assessment resulting in an underspend against Estimate. The Capital AME underspend relates to a favourable movement on provisions that had previously been provided for by the Department. Both variances above do not impact on Defence spending power as they are non-cash accounting adjustments.

4) The Department is voted resources to cover the net additional costs of Operations and Peacekeeping Programme Expenditure. This expenditure does not include costs that the Department would have incurred. The Department therefore makes provision to ensure that there are sufficient funds to cover the potential costs of all operations and therefore underspends are not uncommon. This underspend is largely a reflection of an unexpected receipt as a result of lesser-than-expected final costs on contracts related to operations in Afghanistan prior to December 2014 which had been funded from the HM Treasury Special Reserve.

## DEL Expenditure (excluding Non Cash RDEL) 2011-12 to 2015-16



## Analysis of Cash Resource DEL by type of expenditure 2011-12 to 2015-16

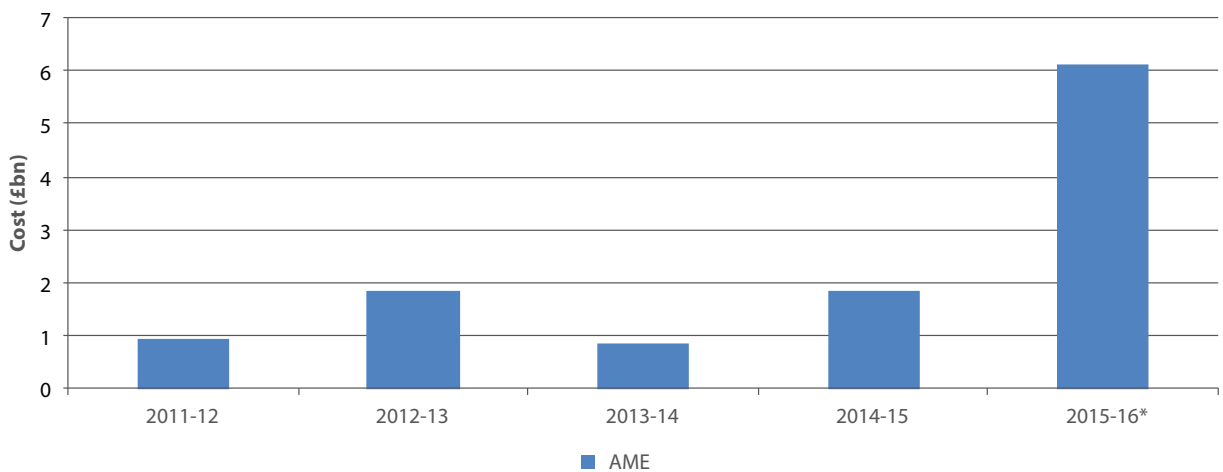


\* A new Administrative Cost Regime for 2014-15 onwards was agreed with HM Treasury. 2013-14 figures have been restated. Admin Personnel Costs are for Civilian and Service Personnel.

\*\*Grouped Costs include Income, Admin Other Costs, R&D, Inventory Consumption.

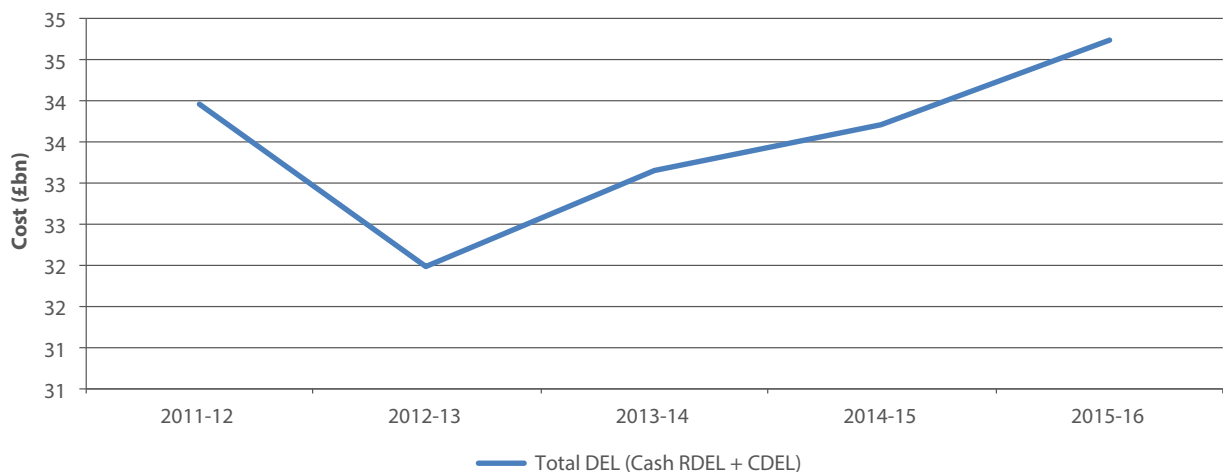


## Total Annually Managed Expenditure Limit (AME) 2011-12 to 2015-16



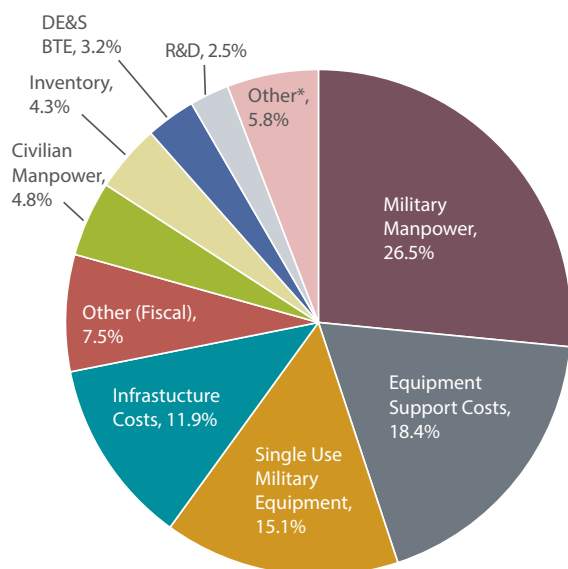
\* Extra Provisions were required to comply with 2015-16 change in HM Treasury's Long-term Discount Rates for Post-Employment Benefits, General Provisions and Financial Instruments. This includes Nuclear Decommissioning Provisions.

## Total Departmental Expenditure Limit (DEL) 2011-12 to 2015-16



The dip in expenditure in 2012-13 shown on the line chart reflects an underspend in that year. Due to the Department's strong fiscal position, the Treasury has allowed the Department to roll-forward underspends into future years to supplement Defence spending.

## Defence Expenditure by Commodity Block in 2015-16



\*Other includes travel & subsistence, professional services & fees, training, receipts from various sources, costs recoveries, dividends, interest, release of provisions, Conflict Stability and Security Fund, War Pension Benefits and spend on Arm's Length Bodies.

## Implementation of SDRS Decisions

The main themes of the SDRS is detailed in page-13.

### Efficiencies

The Spending Review has given Defence the freedom to reinvest efficiencies into new capabilities. By reinvesting efficiencies, drawing on the Joint Security Fund and reprioritising our spending, we will be investing in a package of £7Bn directed towards our highest priority defence capability needs over the course of this Parliament. These efficiencies include some already announced, such as public sector pay restraint at 1% for the next four years, as well as:

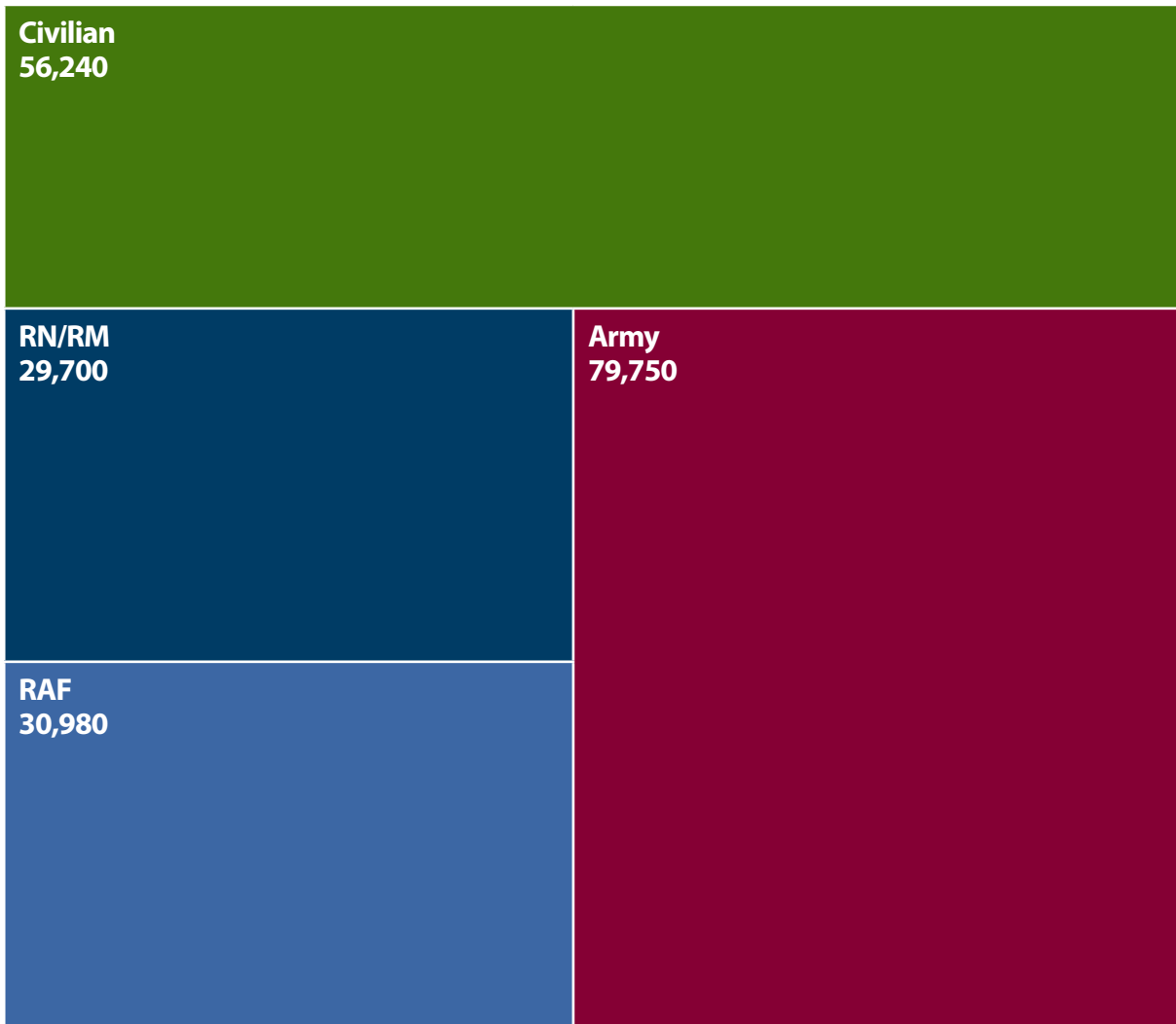
1. **Military manpower:** We have conducted a further review to ensure the continuing efficacy of the military allowances package. Amendments have been made to a small number of contributory allowances as a result of this review, changes to which came into effect on 1 April 2016. We have also looked at Commitment Bonuses which were introduced to reward completed early years of service for all Regular Other Ranks (ORs), acting as an incentive for them to remain in the Armed Forces to a point where the benefits of the pension scheme generally begin to act as a retention tool. There was insufficient evidence that Commitment Bonuses significantly influenced decisions to stay in the Armed Forces therefore Commitment Bonuses

will be phased out gradually over the next 5 years providing affected personnel time to adjust their financial plans to take account of any payments for which they are no longer eligible.

2. **Civilian pay and manpower:** The MOD has had to make difficult decisions regarding civilian manpower, in order to generate savings for reinvestment into front-line capability outputs. We need to cut our overall civilian pay bill and reduce civilian numbers to 41,000 in this Parliament. This will require significant changes to the way we work and a review has been established in order to identify how best this can be achieved. The review will look at the total shape, size, and structure of our civilian workforce, the functions, and processes that they are engaged in, and how those can be made more efficient. The review will also consider change programmes underway that could make a contribution to meeting the reduction target as well as new opportunities.
3. **Equipment:** we will continue to build on our strong track record of making efficiencies within our Equipment Programme by: driving a better service via the DE&S Transformation Programme which is being supported by Managed Service Providers in DE&S; capturing and delivering savings following implementation of the Single Source Contract Regulations Regime; a continuation of the current Equipment Support Costs review; and the transformation of Defence Logistics.
4. **Estate and Infrastructure:** Defence is committed to delivering a significantly smaller, more efficient, and better quality estate for military users to live, work and train. This will be delivered through a significant programme to dispose of elements of the Defence estate over the coming years. We are also looking at proposals for how living accommodation for Armed Forces personnel can best be provided in the future, known as the Future Accommodation Model. This will aim to provide military personnel with greater flexibility in their living arrangements whilst also delivering efficiencies for Defence, primarily through release of land and housing and by reducing the cost to Defence of owning Service accommodation.
5. **Other areas of spending:** we will look to bear down, where appropriate, on other areas of non front-line expenditure; in particular on business travel costs, professional fees, non-operational training costs as well as our PFI projects.
6. Delivering savings in our commercial relationships including through spend on common goods and services, delivered in partnership with Crown Commercial Services.

## Workforce size, shape and dynamics

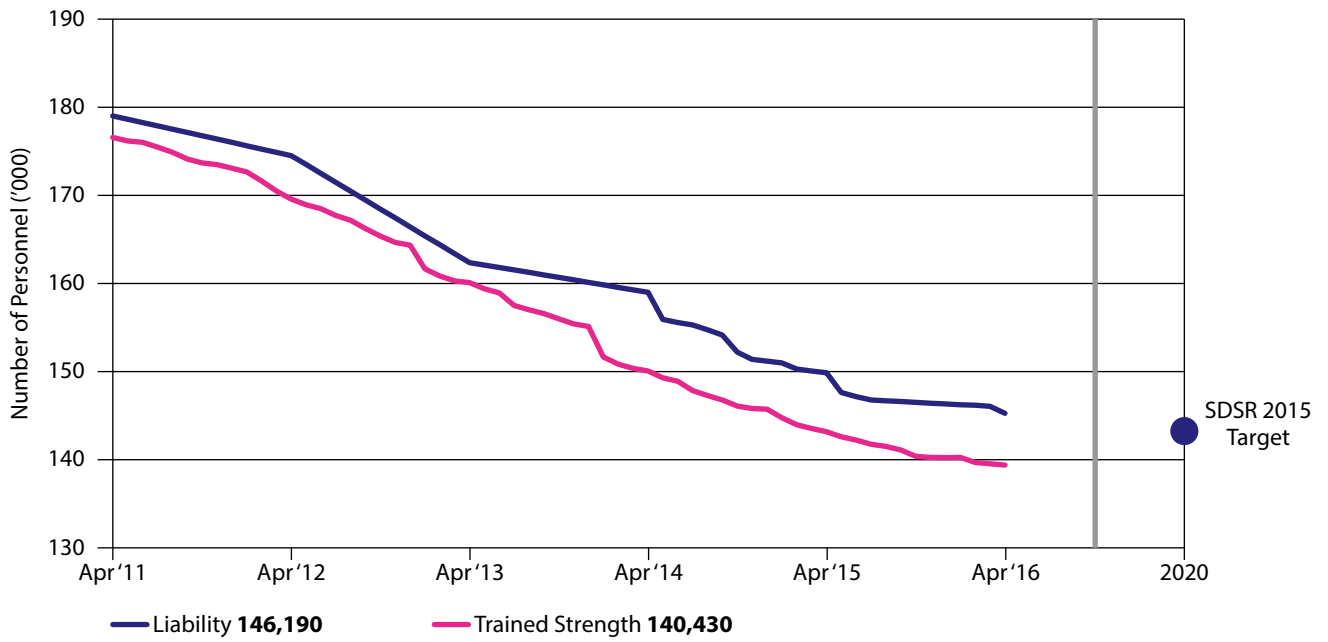
### Military Full Time Trained Strength<sup>1</sup> and Civilians as at 1 April 2016



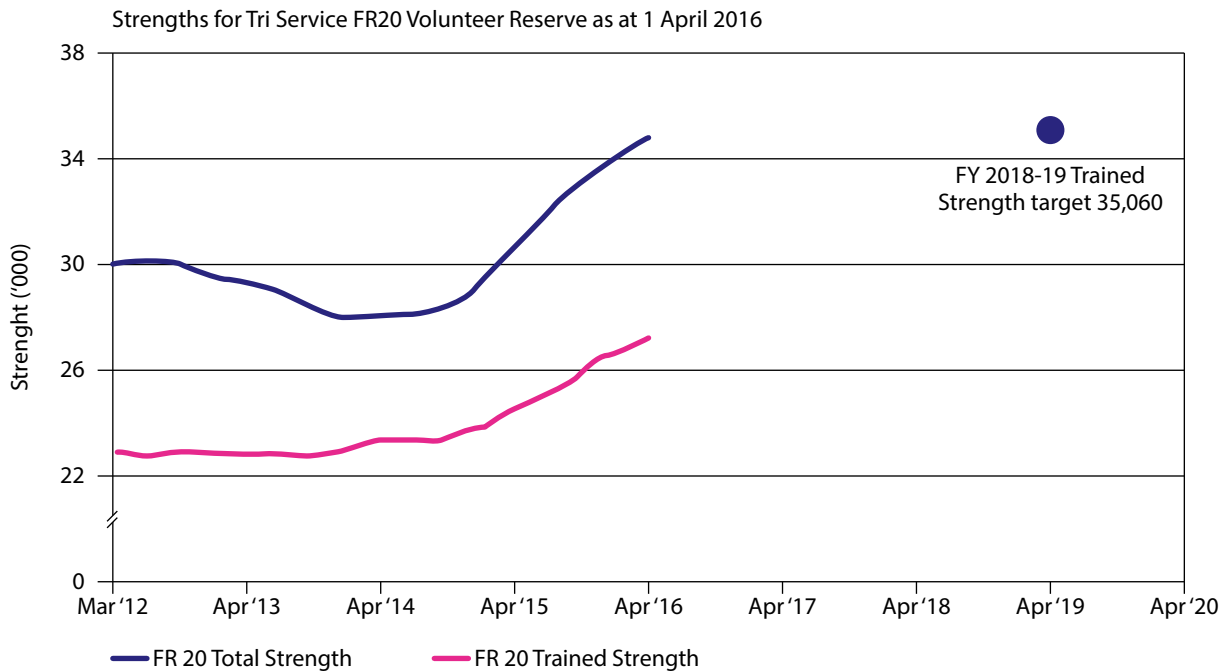
Notes

1. Full-Time Trained Strength is the element of the UK Armed Forces comprising trained UK Regular Forces, trained Gurkhas and a number of Reserve Forces personnel filling Regular posts whilst serving on FTRS. It does not include mobilised reservists.
2. Approximately 140 Full Time Reserve Service personnel are counted in both the Full Time Trained Strength and Future Reserves 2020 populations.
3. Civilian includes all permanent and casual civilian personnel, Royal Fleet Auxiliaries, Trading Funds, locally engaged civilians and DE&S Trading Entity.

## Military Full-Time Trained Strength against Liability



## Tri-Service Reserves Strengths



## Manning Levels for each service by rank

The following tables provide a breakdown of manning levels for Regulars by rank between 2011 and 2016.

UK Regular Forces (Trained and Untrained)										
	1-Oct-11	1-Apr-12	1-Oct-12	1-Apr-13	1-Oct-13	1-Apr-14	1-Oct-14	1-Apr-15	1-Oct-15	1-Apr-16
<b>All Services</b>	<b>183,980</b>	<b>179,800</b>	<b>175,940</b>	<b>170,710</b>	<b>166,460</b>	<b>159,630</b>	<b>156,630</b>	<b>153,720</b>	<b>152,150</b>	<b>151,000</b>
<b>Officers</b>	<b>31,680</b>	<b>30,700</b>	<b>30,010</b>	<b>29,060</b>	<b>28,540</b>	<b>27,850</b>	<b>27,680</b>	<b>27,230</b>	<b>27,140</b>	<b>26,820</b>
OF-9	9	10	9	9	9	8	8	7	7	7
OF-8	22	25	25	28	28	27	27	31	30	31
OF-7	103	101	103	97	96	95	103	97	97	95
OF-6	344	330	326	303	311	308	311	312	305	299
OF-5	1,200	1,140	1,140	1,110	1,120	1,080	1,080	1,080	1,060	1,060
OF-4	4,120	3,920	3,950	3,750	3,820	3,720	3,770	3,680	3,710	3,640
OF-3	9,340	9,050	8,930	8,650	8,550	8,360	8,370	8,190	8,200	8,170
OF-2	12,080	12,030	11,660	11,440	11,000	10,720	10,350	9,950	9,680	9,410
OF-1/OF(D)	4,460	4,090	3,860	3,680	3,610	3,530	3,660	3,890	4,040	4,100
<b>Other Ranks</b>	<b>152,300</b>	<b>149,100</b>	<b>145,930</b>	<b>141,650</b>	<b>137,920</b>	<b>131,770</b>	<b>128,950</b>	<b>126,490</b>	<b>125,020</b>	<b>124,180</b>
OR-9	3,350	3,230	3,130	3,010	3,020	2,970	3,090	3,100	3,090	3,150
OR-8	5,340	5,090	5,020	4,720	4,670	4,400	4,330	4,110	4,200	4,050
OR-7	12,660	12,230	12,040	11,720	11,390	10,910	10,660	10,460	10,540	10,490
OR-6	19,810	19,710	18,790	18,650	17,440	17,100	16,200	16,300	15,680	16,320
OR-4	29,380	28,890	28,090	27,540	27,240	26,170	25,720	24,980	24,730	24,580
OR-3	16,730	16,870	16,610	16,000	15,580	14,880	14,490	14,760	14,330	14,630
OR-1/OR-2	65,030	63,080	62,260	60,010	58,590	55,340	54,470	52,780	52,460	50,960
<b>RN/RM</b>	<b>36,760</b>	<b>35,540</b>	<b>34,680</b>	<b>33,960</b>	<b>33,520</b>	<b>33,330</b>	<b>32,900</b>	<b>32,740</b>	<b>32,480</b>	<b>32,500</b>
<b>Officers</b>	<b>7,420</b>	<b>7,190</b>	<b>7,100</b>	<b>6,940</b>	<b>6,880</b>	<b>6,800</b>	<b>6,820</b>	<b>6,780</b>	<b>6,820</b>	<b>6,770</b>
OF-9	2	2	2	2	1	1	1	1	1	1
OF-8	6	8	7	9	9	8	10	11	9	10
OF-7	32	31	33	30	28	29	29	29	29	27
OF-6	86	80	82	75	80	75	77	85	85	82
OF-5	290	300	280	280	270	260	270	270	280	280
OF-4	1,130	1,060	1,100	1,020	1,050	1,030	1,040	1,000	1,030	1,000
OF-3	2,130	2,100	2,010	2,040	1,970	2,000	1,930	1,970	1,900	2,020
OF-2	2,950	2,870	2,910	2,770	2,830	2,670	2,690	2,530	2,490	2,300
OF-1/OF(D)	790	740	680	710	650	720	780	870	1,000	1,060
<b>Other Ranks</b>	<b>29,340</b>	<b>28,350</b>	<b>27,580</b>	<b>27,020</b>	<b>26,640</b>	<b>26,530</b>	<b>26,080</b>	<b>25,960</b>	<b>25,670</b>	<b>25,730</b>
OR-9	710	690	660	640	660	660	790	840	860	920
OR-8	770	770	730	730	710	670	510	460	450	410
OR-7	3,660	3,530	3,430	3,300	3,180	3,090	2,970	2,880	2,840	2,820
OR-6	4,420	4,200	4,050	3,880	3,730	3,650	3,640	3,610	3,610	3,610
OR-4	6,200	6,020	5,850	5,750	5,770	5,650	5,690	5,560	5,510	5,440
OR-3	560	610	650	590	640	660	630	670	700	670
OR-1/OR-2	13,030	12,560	12,210	12,120	11,960	12,140	11,860	11,940	11,710	11,840
<b>Army</b>	<b>105,640</b>	<b>104,250</b>	<b>102,760</b>	<b>99,730</b>	<b>97,030</b>	<b>91,070</b>	<b>89,200</b>	<b>87,060</b>	<b>86,080</b>	<b>85,040</b>
<b>Officers</b>	<b>14,870</b>	<b>14,480</b>	<b>14,340</b>	<b>13,890</b>	<b>13,680</b>	<b>13,200</b>	<b>13,120</b>	<b>12,830</b>	<b>12,840</b>	<b>12,590</b>
OF-9	5	5	5	5	5	5	5	4	4	4
OF-8	8	9	11	10	11	11	9	10	11	12
OF-7	45	42	42	44	44	39	45	41	46	45
OF-6	171	168	163	153	156	158	156	153	147	143
OF-5	570	530	530	530	540	520	510	510	490	490
OF-4	1,830	1,760	1,760	1,690	1,720	1,670	1,680	1,650	1,670	1,660
OF-3	4,760	4,520	4,600	4,340	4,380	4,150	4,300	4,100	4,230	4,050
OF-2	4,930	5,030	4,710	4,770	4,450	4,490	4,220	4,110	4,010	4,030
OF-1/OF(D)	2,560	2,410	2,520	2,340	2,370	2,160	2,200	2,250	2,230	2,160



UK Regular Forces (Trained and Untrained)										
	1-Oct-11	1-Apr-12	1-Oct-12	1-Apr-13	1-Oct-13	1-Apr-14	1-Oct-14	1-Apr-15	1-Oct-15	1-Apr-16
<b>Other Ranks</b>	<b>90,770</b>	<b>89,780</b>	<b>88,420</b>	<b>85,840</b>	<b>83,340</b>	<b>77,860</b>	<b>76,090</b>	<b>74,230</b>	<b>73,240</b>	<b>72,450</b>
OR-9	1,550	1,490	1,450	1,390	1,390	1,340	1,340	1,310	1,290	1,280
OR-8	4,580	4,320	4,290	3,990	3,960	3,730	3,820	3,640	3,750	3,640
OR-7	5,970	5,790	5,780	5,700	5,540	5,280	5,210	5,210	5,290	5,290
OR-6	9,430	9,760	9,160	9,270	8,450	8,230	7,550	7,760	7,280	7,880
OR-4	15,100	14,990	14,510	14,420	14,240	13,520	13,190	12,750	12,520	12,480
OR-3	16,000	16,050	15,750	15,190	14,740	14,030	13,680	13,880	13,450	13,780
OR-1/OR-2	38,150	37,380	37,480	35,880	35,040	31,730	31,300	29,670	29,660	28,110
<b>RAF</b>	<b>41,580</b>	<b>40,000</b>	<b>38,500</b>	<b>37,030</b>	<b>35,920</b>	<b>35,230</b>	<b>34,520</b>	<b>33,930</b>	<b>33,580</b>	<b>33,460</b>
<b>Officers</b>	<b>9,390</b>	<b>9,030</b>	<b>8,560</b>	<b>8,230</b>	<b>7,980</b>	<b>7,850</b>	<b>7,740</b>	<b>7,630</b>	<b>7,480</b>	<b>7,460</b>
OF-9	2	3	2	2	3	2	2	2	2	2
OF-8	8	8	7	9	8	8	8	10	10	9
OF-7	26	28	28	23	24	27	29	27	22	23
OF-6	87	82	81	75	75	75	78	74	73	74
OF-5	340	310	330	300	310	300	300	290	290	300
OF-4	1,160	1,100	1,100	1,040	1,060	1,020	1,050	1,020	1,020	980
OF-3	2,460	2,430	2,320	2,260	2,200	2,200	2,140	2,120	2,080	2,100
OF-2	4,200	4,130	4,040	3,890	3,720	3,560	3,450	3,310	3,180	3,070
OF-1/OF(D)	1,110	940	660	630	590	650	690	770	810	880
<b>Other Ranks</b>	<b>32,190</b>	<b>30,970</b>	<b>29,930</b>	<b>28,790</b>	<b>27,930</b>	<b>27,380</b>	<b>26,780</b>	<b>26,300</b>	<b>26,110</b>	<b>26,000</b>
OR-9	1,100	1,060	1,020	980	970	970	950	950	940	940
OR-8	*	*	*	*	*	*	*	*	*	*
OR-7	3,030	2,910	2,820	2,720	2,680	2,540	2,480	2,370	2,420	2,380
OR-6	5,960	5,760	5,580	5,500	5,260	5,210	5,010	4,930	4,780	4,830
OR-4	8,080	7,880	7,730	7,370	7,230	7,000	6,840	6,670	6,700	6,660
OR-3	170	210	210	220	200	200	180	200	180	180
OR-1/OR-2	13,860	13,150	12,580	12,010	11,600	11,470	11,310	11,170	11,090	11,000

1. Figures are for paid rank. A Table of NATO Rank Codes and UK Service Ranks can be seen in the Glossary of terms:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/491495/Tri-Service\\_Glossary\\_-\\_Dec16.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/491495/Tri-Service_Glossary_-_Dec16.pdf)

2. Strengths for Senior Officers (OF-6 to OF-9) have been left unrounded because statistics for these personnel are considered non-sensitive and are already in the public domain.

3. The OR hierarchy is used differently by each Service. The Royal Marines and the Army use all OR ranks; the Royal Navy excludes OR-3; and the Royal Air Force excludes OR-8 and largely excludes OR-3.

4. \*\*#\* denotes not applicable.

The table below provides details on the number of Future Reserves 2020 personnel against target as at 1 April 2016 between 2013 and 2016.

FR20 Programme Monitoring - trained Strength of the future Reserves 2020 Volunteer Reserve against annual Trained Strength Targets										
	Actual	Actual	Actual	Target	Actual	Actual	Target	Actual	Actual	Target
	1 Apr 2013	1 Oct 2013	1 Apr 2014	Apr 2014	1 Oct 2014	1 Apr 2015	Apr 2015	1 Oct 2015	1 Apr 2016	Apr 2016
All Services	22,880	22,880	23,360	21,780	23,420	24,630	23,090	25,970	27,270	23,700
of which:										
Maritime Reserve	1,760	1,800	1,870	1,780	1,920	1,980	1,790	2,190	2,350	1,900
Army Reserve (Gp A) plus VR FTRS	19,930	19,940	20,060	18,800	20,040	21,030	19,900	22,040	23,030	20,200
RAF Reserves	1,190	1,140	1,430	1,200	1,460	1,620	1,400	1,740	1,890	1,600

1. The Future Reserve 2020 (FR20) Volunteer Reserve population includes mobilised volunteer reserves, High Readiness Reserves (HRR) and those volunteer reserves serving on Full Time Reserve Service (FTRS) and Additional Duties Commitments (ADC). Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI), Sponsored Reserves and University Officer Cadets are excluded.

## Civilian Personnel Strengths

Civilian personnel by grade equivalence (Full Time Equivalent)											
	2011 1 Apr	2011 1 Oct	2012 1 Apr	2012 1 Oct	2013 1 Apr	2013 1 Oct	2014 1 Apr	2014 1 Oct	2015 1 Apr	2015 1 Oct	2016 1 Apr
<b>Civilian Level 0 Total</b>	<b>83,060</b>	<b>77,940</b>	<b>71,010</b>	<b>67,710</b>	<b>65,400</b>	<b>63,670</b>	<b>62,500</b>	<b>62,130</b>	<b>58,160</b>	<b>56,860</b>	<b>56,240</b>
<b>Non Industrial Total</b>	<b>50,200</b>	<b>49,170</b>	<b>43,910</b>	<b>41,730</b>	<b>40,410</b>	<b>39,910</b>	<b>39,040</b>	<b>39,420</b>	<b>39,540</b>	<b>30,360</b>	<b>30,320</b>
SCS & Equivalent <sup>2</sup>	270	250	240	230	240	240	230	240	250	180	200
Band B1 & Equivalent	690	680	620	590	620	650	660	670	700	410	410
Band B2 & Equivalent	1,740	1,700	1,590	1,620	1,580	1,600	1,670	1,850	1,970	1,230	1,270
Band C1 & Equivalent	6,310	6,290	5,660	5,440	5,480	5,610	5,660	5,700	5,750	3,290	3,320
Band C2 & Equivalent	10,370	10,360	9,500	9,250	9,080	9,010	8,930	9,090	9,130	6,350	6,340
Band D & Equivalent	9,930	9,760	8,890	8,500	8,270	8,160	8,110	8,160	8,110	6,300	6,270
Band E1 & Equivalent	14,500	13,960	12,020	11,140	10,540	10,300	9,970	9,870	9,900	9,210	9,170
Band E2 & Equivalent	6,370	6,140	5,350	4,930	4,570	4,310	3,730	3,750	3,660	3,330	3,280
Other <sup>3</sup>	10	20	40	40	40	50	70	90	60	60	70
<b>Industrial<sup>4</sup> Total</b>	<b>10,580</b>	<b>9,530</b>	<b>8,600</b>	<b>8,100</b>	<b>7,660</b>	<b>7,580</b>	<b>7,540</b>	<b>7,370</b>	<b>7,220</b>	<b>5,590</b>	<b>5,380</b>
Firefighter	900	890	860	830	800	770	840	820	810	780	760
Skill Zone 4	390	380	360	360	360	350	350	350	420	400	380
Skill Zone 3	2,870	2,740	2,490	2,380	2,280	2,260	2,240	2,200	2,150	1,610	1,530
Skill Zone 2	3,660	3,420	3,130	2,930	2,770	2,800	2,760	2,700	2,530	1,740	1,700
Skill Zone 1	2,520	1,870	1,560	1,430	1,320	1,250	1,210	1,190	1,110	1,060	1,020
Apprentice	230	240	210	170	140	150	140	110	190	~	~
<b>Royal Fleet Auxiliary Total</b>	<b>2,360</b>	<b>2,280</b>	<b>2,000</b>	<b>1,960</b>	<b>1,900</b>	<b>1,880</b>	<b>1,820</b>	<b>1,850</b>	<b>1,890</b>	<b>1,920</b>	<b>1,950</b>
<b>DE&amp;S Trading Entity Total</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>9,530</b>	<b>9,840</b>
<b>Trading Funds Total</b>	<b>9,350</b>	<b>7,580</b>	<b>7,110</b>	<b>7,170</b>	<b>7,170</b>	<b>7,130</b>	<b>7,110</b>	<b>7,050</b>	<b>4,490</b>	<b>4,510</b>	<b>4,400</b>
<b>Locally engaged civilians Total</b>	<b>10,580</b>	<b>9,370</b>	<b>9,390</b>	<b>8,740</b>	<b>8,250</b>	<b>7,170</b>	<b>6,990</b>	<b>6,430</b>	<b>5,020</b>	<b>4,950</b>	<b>4,350</b>

Notes:

1. Grade equivalence is shown in terms of the broader banding structure and is based on paid grade.

2. Includes personnel outside the Senior Civil Service but of equivalent grade, primarily Senior Medical Specialists.

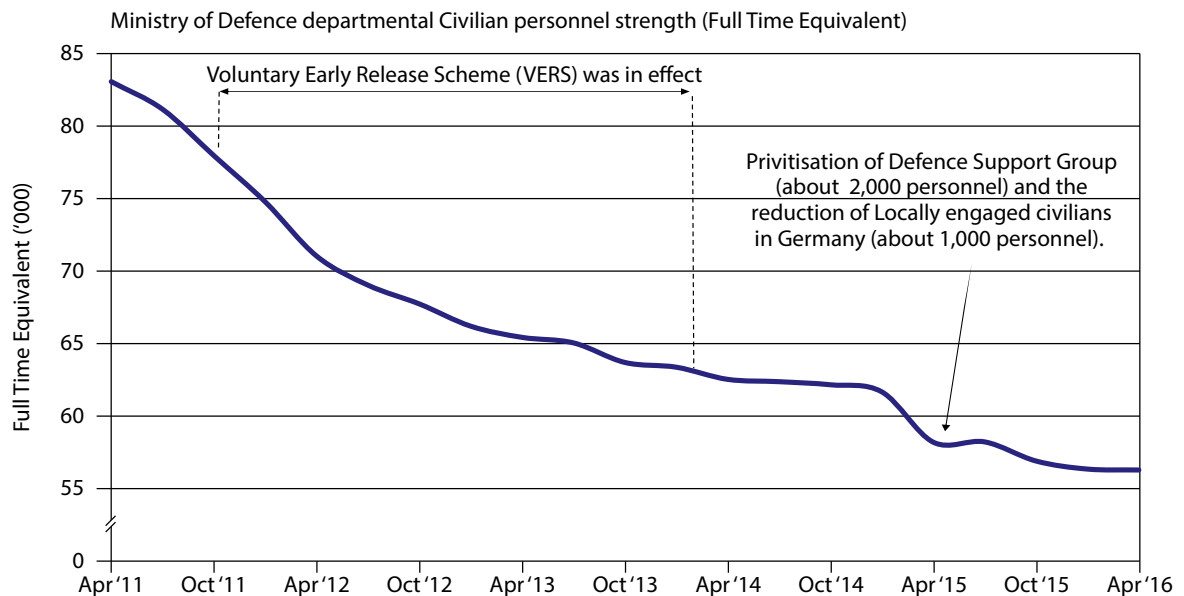
3. 'Other' represents core civilian personnel for whom no grade information is available.

4. Industrial personnel are civilian personnel employed primarily in a trade, craft or other manual labour occupation. This covers a wide range of work such as industrial technicians, air freight handlers, storekeepers, vergers and drivers.

5. Data by grade are not available for Royal Fleet Auxiliary, Trading Funds and Locally engaged civilians.

6. Defence Equipment and Support was reported as a bespoke trading entity from 1 July 2015. Prior to this it was reported as an extant TLB. These data are not directly comparable before and after 1 July 2015.

7. Since April 2012 actual FTE figures for Locally engaged civilians have been available and used subsequently from this date.



## People Strategy

A range of major People Change Programmes are underway which will ensure we are well positioned for future strategic challenges. Work is also underway to identify how the Department will achieve the 30% civilian headcount reductions announced as part of the Strategic Defence and Security Review (SDSR). Updates against some of these programmes are included below.

### New Employment Model (NEM)

The NEM, which provides updated Terms and Conditions of Service for Service Personnel, is now in its implementation phase. NEM aims to increase the agility of the Whole Force and maximise recruitment and retention effect, within available resources. It is designed to produce a modernised offer that allows Military personnel and their families more choice, whilst still meeting the Services' needs. Whilst NEM has been delivering change since 2014, 2015-16 has seen a significant number of new initiatives delivered. This included on 1 April 2016 a simpler and more efficient pay model (Pay 16); a new accommodations charging system (Combined Accommodation Assessment System (CAAS)) for Service Families Accommodation (SFA), which utilises modern standards for assessing charges; and a reform of Enhanced Learning Credits (ELC) and Further & Higher Education Commitment (FHEC).

### Future Reserves 2020 (FR20)

The aim of FR20 is to restructure and revitalise the Reserve Forces. The trained strength of the FR20 Tri-Service Volunteer Reserve at 1 April 2016 was 27,270, an increase of 2,640 or 10.7% since 1 April 2015. In the 12 months between 1 April 2015 and 31 March 2016, 8,200 people joined the Tri-Service FR20 Volunteer Reserve; a 20.4% increase on the same 12 month period in the previous year. This reflects the attractiveness of the offer that we are making to Reservists, in terms of challenge, opportunity and reward.

Reserves Units taking part in Range Matches hosted by the Queens Own Gurkha Logistic Regiment



## Defence Diversity and Inclusivity Programme (DDIP)

The Department has accepted a military recruitment target that 10% of recruits will come from Black, Asian or Minority Ethnic (BAME) backgrounds, as announced by the Prime Minister prior to the 2015 election. Additionally, the Minister for the Armed Forces has agreed a 15% female recruitment target. The date for both targets to be realised is 2020 (with a view to working to 20% BAME recruitment thereafter). It has been recognised that this is challenging. However, progress in this area has previously been slow and this impetus to increase diversity in the Armed Forces is therefore welcome. The Defence workforce is not representative of the demographic within society. In order to address this the DDIP was established in 2013 to increase the diversity of the workforce, both civilian and military, and to create a more inclusive working environment in which people are able to reach their full potential. The need to act is based on the business benefits this will bring, rather than just the moral or legal case, although these are also compelling and valid.

MOD Military and Civilian staff at a meeting in MOD Main Building



### Armed Forces Continuous Attitude Survey (AFCAS)

The Armed Forces Continuous Attitude Survey 2016, indicates that around half (46%) of Service personnel are satisfied with Service life in general.

The **Armed Forces Covenant (AFC)** is a promise from the nation ensuring that those who serve or who have served in the Armed Forces, and their families, are treated fairly. It is enshrined in law and puts our people at the front and centre of policy making and delivery. We have introduced a range of initiatives to improve Service life including improved welfare support and a permanent

commitment to the AFC through a £10 million per annum fund which started this year. There are also a series of measures under the New Employment Model including the £200 million Forces Help to Buy scheme, and access to employment readiness training for spouses /civil partners.

Delivery of the Covenant is a collective responsibility, which includes central Government, Devolved Administrations, business world, Service charities and wider society. Every Local Authority in Great Britain and two in Northern Ireland have signed the Covenant. Over 1000 commercial organisations have also signed, pledging specific support for the Armed Forces Community. This year, the Local Government Association and the Forces in Mind Trust are conducting a review of the delivery of the Covenant at community level which aims to identify good practice and share this across Local Authorities. We also continue to work with commercial organisations to ensure that their pledges of support are the best they can be for our people.

Priority setting and in-year monitoring of delivery is undertaken by the Covenant Reference Group (CRG) on behalf of the Government. The CRG's membership comprises policy leads from each Government Department, representatives from the Scottish and Welsh Governments, the Northern Ireland Office, Service Families Federations and Service charities. The CRG also assists the Defence Secretary in compiling an annual report to Parliament outlining the progress that has been made.

Improving communications on the Covenant is a priority. Steps we have taken include: holding Covenant conferences; circulating the annual report and accompanying key facts booklet more widely; recording and circulating a personal message by the Prime Minister stressing his support; launching a new Covenant brand; and creating a new cadre of Covenant champions within the Armed Forces. We also held a celebratory event at No 10 in January 2016, including stakeholders from the commercial and financial sectors, along with the presentation of 16 gold awards to companies supporting our people through the Employer Recognition Scheme. A series of Covenant roadshows and conferences are scheduled for later this year. MOD now chairs the cross-Government Covenant Communications Group, with progress monitored by the CRG. On 22 April, we launched a dedicated Covenant website providing users with easier access to information about the Covenant.

We recognise that more remains to be done and will continue to strive to ensure that our Armed Forces

feel valued and that their contribution and sacrifice is recognised.

Service personnel parading within The Royal Albert Hall, London during the Festival of Remembrance on Saturday 7th November 2015



## Armed Forces People Programme

- **Future Accommodation Model (FAM)** The SDSR announced that we would make a new, more flexible accommodation offer to help more Service personnel live in private accommodation and meet their aspirations for home ownership; we are looking at how best to do this. Other steps taken on accommodation is CAAS (mentioned above) and the Forces Help to Buy Scheme (FHTB). FHTB was introduced on 1 April 2014 in response to Service personnel's wish for greater accommodation choice and for the domestic stability which home ownership brings. In its first two years, FHTB has provided £110 Million funding to 6,600 Service personnel to support them to join or stay on the property ladder.
- **Flexible Engagements System (FES)** Introducing a FES is an SDSR commitment. Therefore, MOD is developing a FES in order to: improve recruitment, retention, and diversity; enable the Services to deliver the most cost effective mix of personnel to meet Defence outputs under a Whole Force Approach (WFA); and better utilise the knowledge, skills, and experience of Regulars and Reservists.



- **New Offer for New Joiners (NONJ)** Work is currently underway to consider options for the NONJ. This will seek to improve recruitment and retention, particularly of key skills (and improve agility to respond to future skill shortages), by developing the most efficient method of targeting reward at Service personnel. It will also seem to reduce costs in the overall reward package for Service Personnel through the more efficient delivery of reward.
- **Enterprise Approach (EA)** The Department has taken steps to address critical skills shortages in the medium to long-term, by resourcing a formal programme to scope the pan-Enterprise management of capability (including skills) through an EA. This activity has been aligned with the Whole Force Approach to embed collaborative working with Industry and set the conditions for a Defence Enterprise from 2020. The EA Programme is part of SDSR15 and supports the wider People work-strand. Current EA Concept Phase efforts focus on the specific shortage categories of maritime engineers, particularly Nuclear, and employ a MOD/Industry Joint Project Team involving the maritime Key Industrial Primes.

## Welfare 2015

### Service Personnel

Support to our wounded personnel and bereaved families remains a key priority. Key areas of work include: the extension of the Defence Discount Service contract for a final year; a review of the Defence Casualty and Compassionate processes which will report in late summer; and a pilot scheme for assuring welfare support to our Reserve Forces personnel to be trialled in autumn 2016.

We continue to support a number of charities who contribute to Service personnel welfare, particularly at Christmas time. For example, our MoneyForce programme, in conjunction with the Royal British Legion, continues to provide benefit in improving knowledge about personal finance.

## Health and Wellbeing

The first annual Armed Forces Health report since the publication of the Defence People Health and Wellbeing Strategy was published in May 2016. Informing and advising on the key issues affecting the health and wellbeing of the Whole Force, it sets out achievements since the Strategy was published in July 2015 and identifies areas where there is more work to be carried out. Key achievements over the last year have been: introduction of a screening tool to identify alcohol use in the Armed Forces, coupled with the development of systematic alcohol identification, intervention and treatment policy; development and training of Physical Training Instructors in an Occupational Fitness Programme which has been piloted by both the Royal Navy and Army; and work on a tobacco control policy which aims to modify smoking behaviours, establishes smoking cessation pathway and identifies methods of discouraging recruits from starting smoking.

Following a number of projects to better understand the mental health of Reserve personnel, we are now developing their recommendations.

## Families

In January 2016 we published the first UK Armed Forces Families' Strategy which will be supported by an Action Plan. This articulates the relationship between the Service person's family, operational capability and recruitment and retention; the aim is to ensure that Service personnel are confident that their family can access the right support when required. Some of this support will be provided by the MOD but also by partners, such as Local Authorities or charitable sector.

A Partner Employment Project trial commenced in October 2015 as part of the Career Transition Partnership with the aim of supporting spouses and partners in finding employment that better matches their skills. We are also in the process of reviewing our Next of Kin policy to ensure it reflects the needs of modern families.

## Veterans

The Veterans' Gateway was identified as a top Covenant priority for the forthcoming Financial Year and was awarded £2 million funding. We aim to provide a single point of contact via one telephone number and a fully transactional website, together with providing an information 'clearing house' to take account of the needs of all veterans.



There is a range of other initiatives which provide funding in support of veterans' issues. These include:

- The 5 year, £25 million Aged Veterans Fund, which supports non-core health, wellbeing and social care needs for older Veterans.
- The £40 million Veterans Accommodation fund, £35 million (general) Libor fund and £30 million former community Covenant Fund.
- The £10 million MOD annual Covenant Grant Fund launched in 2015. Its main strategic priority is to support former Service personnel in the Criminal Justice System.
- A Ministerial announcement on 29 February 2016 allows all veterans suffering from mesothelioma caused by their Service, who are eligible for a War Disablement Pension, to choose instead a lump sum payment of £140,000.
- On 30 March 2016, the facility to access three credit unions via payroll deductions was extended to all veterans in receipt of an Armed Forces pension.

We continue to support the Department of Health, NHS (England) and the Service Charities on Veterans' health issues. The publication of the official statistic on the veteran population in Great Britain took place in May 2016 and will provide greater confidence in the number, age and location of veterans.

We are also planning to host with key allies (USA, Canada, New Zealand and Australia) a Ministerial Summit on Veterans in 2017. This will consider future policy for veterans, seek ways to innovate and exploit cross-government solutions and share good practice and novel ideas that could be adapted for use in the five countries, taking into account of our different approaches to policy.

## Civilian HR

Britain's competitive advantage in Defence is based on the commitment, professionalism and skills of our people. We place heavy demands on all of them, including our civilians. Therefore, recruiting, retaining and developing the right people is a top priority for the MOD. In achieving the right balance of investment in Defence, we have had to make hard choices to create a sustainable and affordable workforce for the long-term.

We need to achieve a 30% reduction in civilians by 2020, whilst making transformative changes to the structure, skills and employment of our civilian workforce needed to achieve implementation of Strategic Defence and Security Review (SDSR) 2015. We are developing a MOD Civilian Workforce Strategy for 2020 and beyond. In addition the Business Improvement Review was set up in January 2016 to explore opportunities for improving the efficiency and effectiveness of Defence support activities.

Some of the other key actions we have taken to support the strategic management of our civilian workforce include:

- Improving our line management capability. We are doing this through providing greater support for line managers, such as making online advice more user friendly (via the People Portal), increasing casework support on Human Resources issues, improving training, and fostering a more inclusive and development-focussed culture.
- Exploring the option to evolve the current separate civilian and military Human Resources IT systems with a single Whole Force system which would support wider Defence capability.
- The Human Resources Business Partners are currently engaged with Top Level Budgets (TLBs) to produce TLB Work Force Plans (WFP) for civilian staff to help identify current and future resourcing issues, specifically critical skills gaps. This will subsequently inform work on the Civilian Pay Strategy and Skills Strategy. Once the plans have been agreed Civilian HR will analyse the data and look to develop a plan to manage skills and capability gaps with TLBs and Heads of Profession. We will develop our talent pipelines through targeted learning initiatives and resourcing pathways such as apprenticeship schemes.

## Workforce shape, dynamics and diversity (BME/Gender)

The following graphs and tables provide a breakdown of workforce for UK Regular Forces, MOD Civilians and Reserves to show the proportion who are female and Black Asian and Minority Ethnicity.

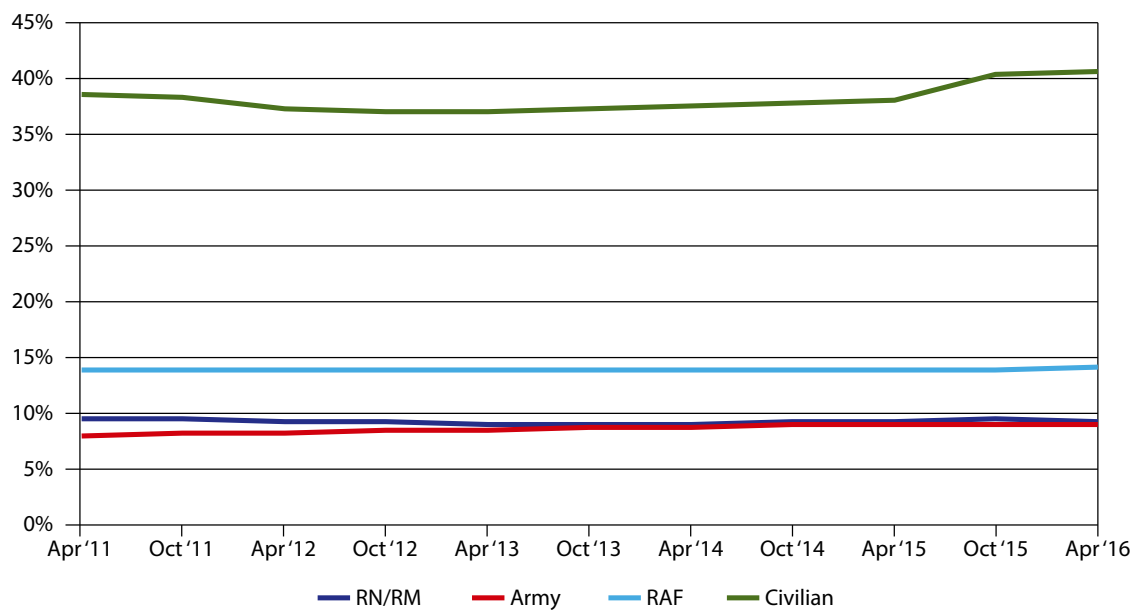
### Percentage of UK Regular Forces Personnel / MOD Civilians who are Female

	2011 1 Apr	2011 1 Oct	2012 1 Apr	2012 1 Oct	2013 1 Apr	2013 1 Oct	2014 1 Apr	2014 1 Oct	2015 1 Apr	2015 1 Oct	2016 1 Apr
<b>RN/RM</b>	9.4	9.3	9.2	9.1	9.1	9.0	9.1	9.2	9.3	9.3	9.3
<b>Army</b>	8.0	8.1	8.2	8.3	8.4	8.6	8.7	8.9	9.0	8.9	9.0
<b>RAF</b>	13.8	13.8	13.8	13.9	13.9	13.8	13.8	13.9	13.9	13.9	14.0
<b>Civilian</b>	38.7	38.3	37.4	37.2	37.1	37.3	37.7	37.9	38.1	40.3	40.6

1) The figures for the three Services in these tables are for the UK Regular Forces which comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists.

2) Civilian figures include all core MOD and Industrial personnel, but exclude all Trading Funds personnel, Royal Fleet Auxiliary and Locally engaged civilians. Figures up to Apr 15 include DE&S. From July 2015 onwards DE&S is classified separately as a Bespoke Trading Entity and is not included in the figures. The inclusion of DE&S in figures up to Apr 15 and its exclusion from the figures after this point explains the increased percentage of Civilian Female representation between Apr 15 and Oct 15.

3) Percentages are calculated from unrounded data.

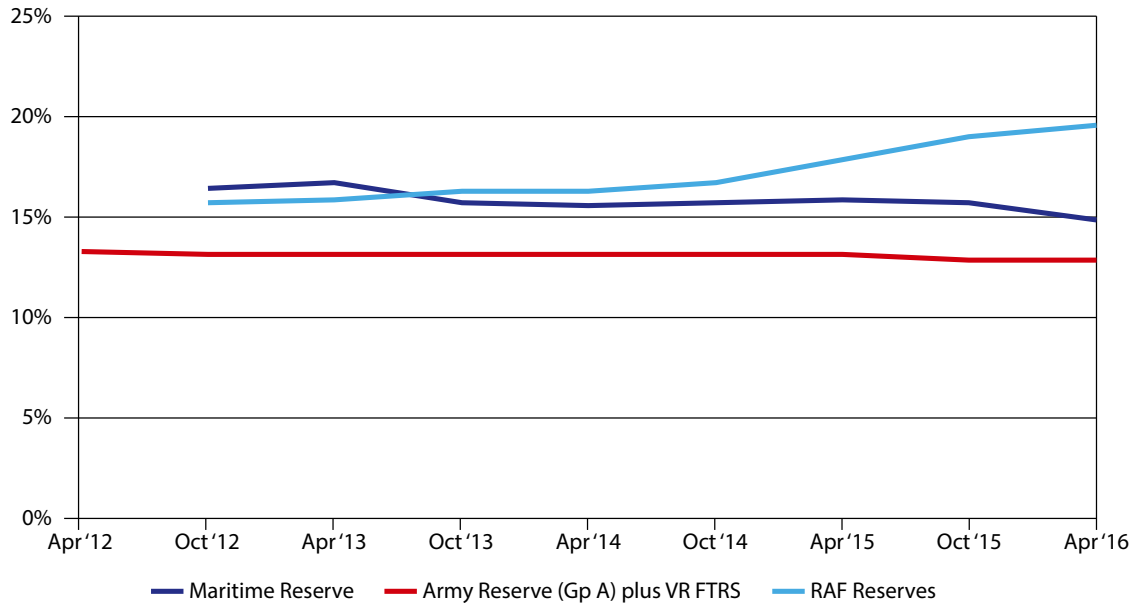


## Percentage of FR20 Personnel who are Female

	2011 1 Apr	2011 1 Oct	2012 1 Apr	2012 1 Oct	2013 1 Apr	2013 1 Oct	2014 1 Apr	2014 1 Oct	2015 1 Apr	2015 1 Oct	2016 1 Apr
<b>Maritime Reserve</b>	*	*	*	16.5	16.8	15.7	15.5	15.7	15.9	15.7	14.9
<b>Army Reserve (Gp A) plus VR FTRS</b>	*	*	13.3	13.1	13.2	13.2	13.1	13.1	13.1	12.9	12.9
<b>RAF Reserves</b>	*	*	*	15.8	15.8	16.3	16.3	16.7	17.9	19.1	19.6

1) The Future Reserve 2020 (FR20) Volunteer Reserve population includes mobilised volunteer reserves, High Readiness Reserves (HRR) and those volunteer reserves serving on Full Time Reserve Service (FTRS) and Additional Duties Commitments (ADC). Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI), Sponsored Reserves and University Officer Cadets are excluded.

\* Centrally held data by Defence Statistics dates back to October 2012 for the Maritime Reserve and Royal Air Force Reserves and April 2012 for the Army Reserve.



## Percentage of UK Regular Forces Personnel / MOD Civillians who are BAME

	2011 1 Apr	2011 1 Oct	2012 1 Apr	2012 1 Oct	2013 1 Apr	2013 1 Oct	2014 1 Apr	2014 1 Oct	2015 1 Apr	2015 1 Oct	2016 1 Apr
<b>RN/RM</b>	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
<b>Army</b>	9.6	9.7	9.9	10.1	10.2	10.3	10.3	10.2	10.2	10.2	10.2
<b>RAF</b>	2.1	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.2
<b>Civilian</b>	3.3	3.5	3.7	3.7	3.8	3.8	3.9	4.0	4.1	4.1	4.2

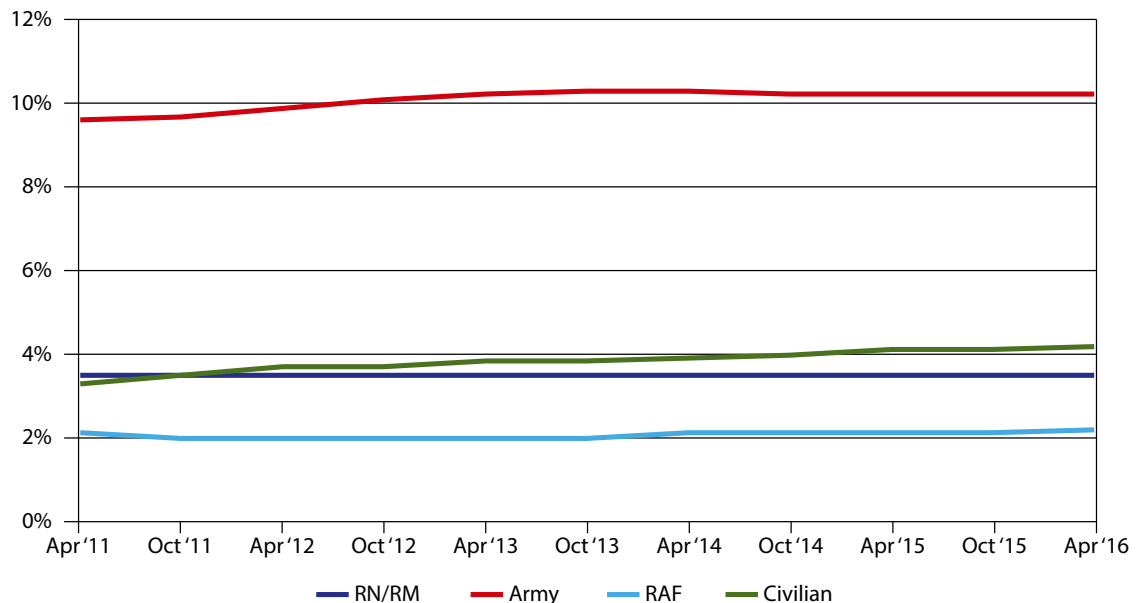
1) The figures for the three Services in these tables are for the UK Regular Forces which comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists.

2) Civilian figures include all core MOD and Industrial personnel, but exclude all Trading Funds personnel, Royal Fleet Auxiliary and Locally engaged civilians

3) Service Person ethnicity is self-declared on the Joint Personnel Administration (JPA) system.

4) BAME - Black, Asian and Minority Ethnic.

5) Percentages are calculated from unrounded data and are based on those with a recorded ethnicity only.



## Percentage of FR20 Personnel who are BAME

	2011 1 Apr	2011 1 Oct	2012 1 Apr	2012 1 Oct	2013 1 Apr	2013 1 Oct	2014 1 Apr	2014 1 Oct	2015 1 Apr	2015 1 Oct	2016 1 Apr
<b>Maritime Reserve</b>	*	*	*	2.9	2.7	2.7	3.1	2.8	2.8	2.9	3.0
<b>Army Reserve (Gp A) plus VR FTRS</b>	*	*	4.9	5.0	5.1	5.1	5.2	5.3	5.3	5.4	5.6
<b>RAF Reserves</b>	*	*	*	3.3	3.3	3.7	3.8	4.1	3.9	3.9	3.9

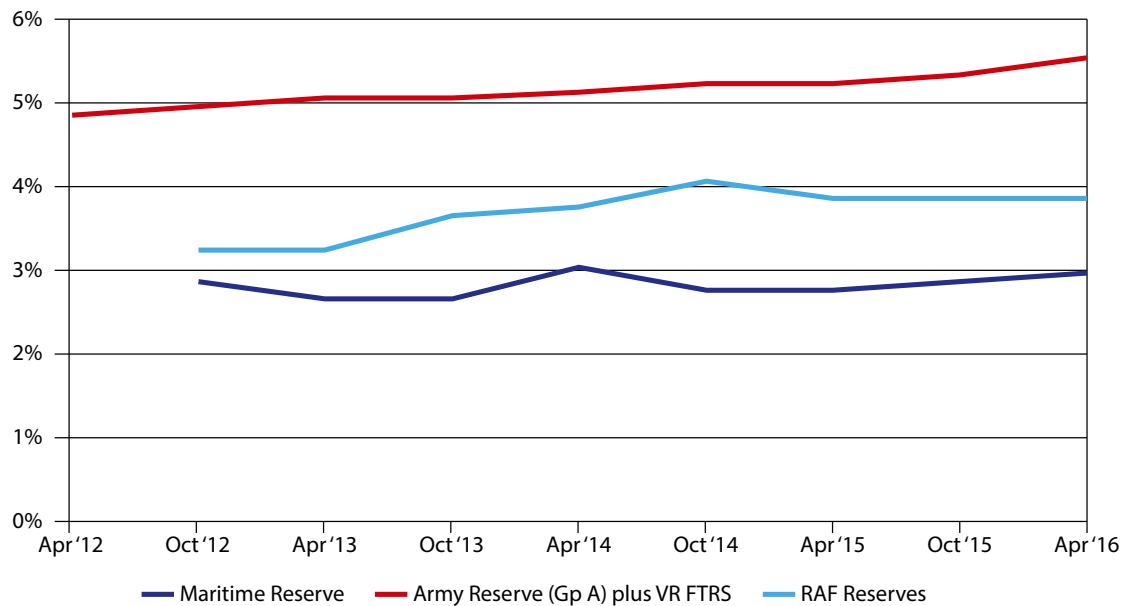
1) The Future Reserve 2020 (FR20) Volunteer Reserve population includes mobilised volunteer reserves, High Readiness Reserves (HRR) and those volunteer reserves serving on Full Time Reserve Service (FTRS) and Additional Duties Commitments (ADC). Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI), Sponsored Reserves and University Officer Cadets are excluded.

2) Ethnicity is self-declared on the Joint Personnel Administration (JPA) system

3) BAME - Black, Asian and Minority Ethnic.

4) Percentages are calculated from unrounded data and are based on those with a recorded ethnicity only.

\* Centrally held data by Defence Statistics dates back to October 2012 for the Maritime Reserve and Royal Air Force Reserves and April 2012 for the Army Reserve.



## Voluntary Outflow Statistics

The tables below show the voluntary outflow for Regular Forces by Officers and Other Ranks between 2012 and 2016.

12 Months Ending:	2012 31 Mar	2012 30 Sep	2013 31 Mar	2013 30 Sep	2014 31 Mar	2014 30 Sep	2015 31 Mar	2015 30 Sep	2016 31 Mar
<b>All Services</b>									
VO number	7,750	8,260	8,800	8,650	8,050	7,650	7,610	7,730	7,840
VO rate	4.6	5	5.4	5.5	5.3	5.2	5.3	5.5	5.6
<b>Officers</b>									
VO number	1,000	1,070	1,080	1,120	1,180	1,100	1,100	1,230	1,200
VO rate	3.5	3.8	3.9	4.2	4.5	4.3	4.4	5.0	4.9
<b>Other Ranks</b>									
VO number	6,750	7,190	7,720	7,540	6,880	6,550	6,510	6,500	6,640
VO rate	4.8	5.2	5.7	5.8	5.4	5.3	5.5	5.6	5.8
<b>Royal Navy/Royal Marines</b>									
VO number	1,450	1,600	1,850	1,760	1,690	1,720	1,740	1,660	1,480
VO rate	4.2	4.8	5.7	5.6	5.5	5.7	5.8	5.6	5.0
<b>Officers</b>									
VO number	200	240	240	240	260	250	250	270	240
VO rate	3.1	3.7	3.7	3.9	4.3	4.1	4.2	4.6	4.1
<b>Other Ranks</b>									
VO number	1,250	1,370	1,610	1,520	1,420	1,470	1,490	1,390	1,240
VO rate	4.4	5.1	6.2	6.1	5.8	6.1	6.2	5.8	5.2
<b>Army</b>									
VO number	4,980	5,280	5,530	5,300	4,710	4,320	4,200	4,380	4,770
VO rate	5.2	5.6	5.9	5.8	5.4	5.1	5.1	5.5	6.1
<b>Officers</b>									
VO number	560	620	640	630	650	610	590	670	690
VO rate	4.1	4.6	4.8	4.9	5.1	4.9	4.8	5.5	5.8
<b>Other Ranks</b>									
VO number	4,420	4,660	4,890	4,660	4,060	3,710	3,610	3,720	4,070
VO rate	5.4	5.7	6.1	6.0	5.4	5.1	5.2	5.5	6.2
<b>Royal Air Force</b>									
VO number	1,320	1,370	1,430	1,600	1,650	1,620	1,670	1,700	1,600
VO rate	3.4	3.6	3.9	4.5	4.8	4.9	5.2	5.3	5.1
<b>Officers</b>									
VO number	230	220	210	240	260	250	260	300	270
VO rate	2.8	2.7	2.6	3.2	3.6	3.4	3.7	4.3	4.0
<b>Other Ranks</b>									
VO number	1,090	1,160	1,220	1,350	1,390	1,370	1,410	1,400	1,330
VO rate	3.5	3.9	4.2	4.9	5.2	5.2	5.5	5.6	5.4

1. Figures show Voluntary Outflow (VO) from the trained UK Regular Forces.

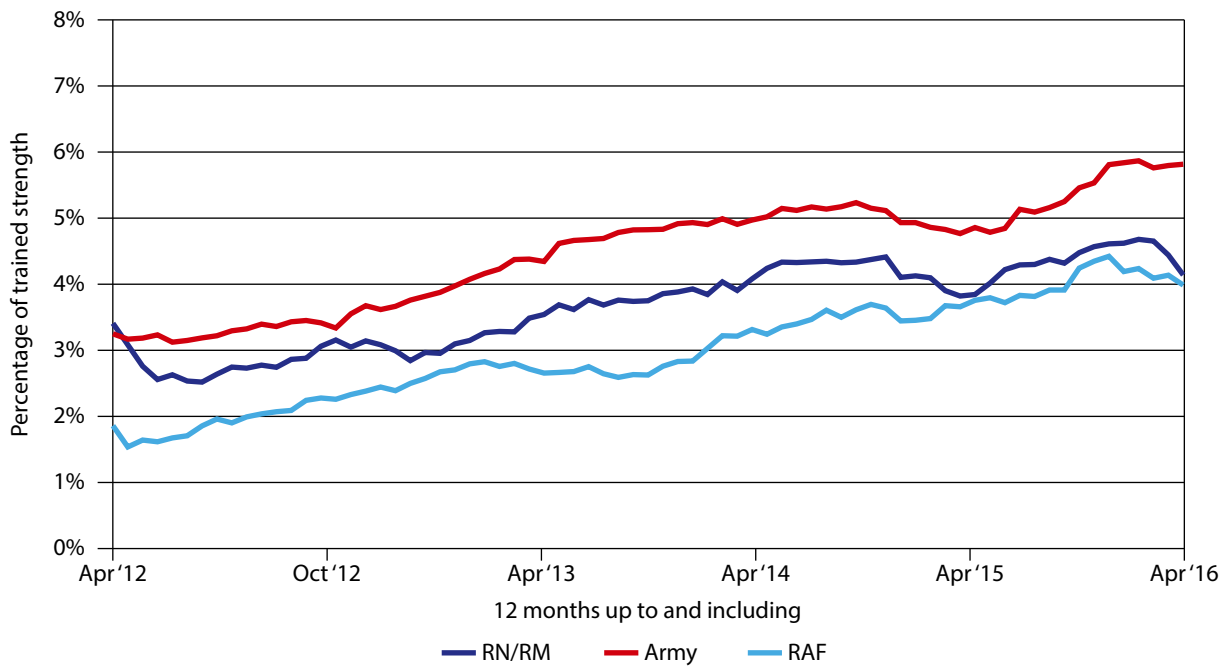
2. Voluntary Outflow (VO) encompasses all personnel who voluntarily exit before the end of their agreed engagement or contracted period (Time Expiry).

3. Rates are the number of people who leave per 100 of the mean average trained strength, trained Officer strength OR trained Other Ranks strength as relevant.

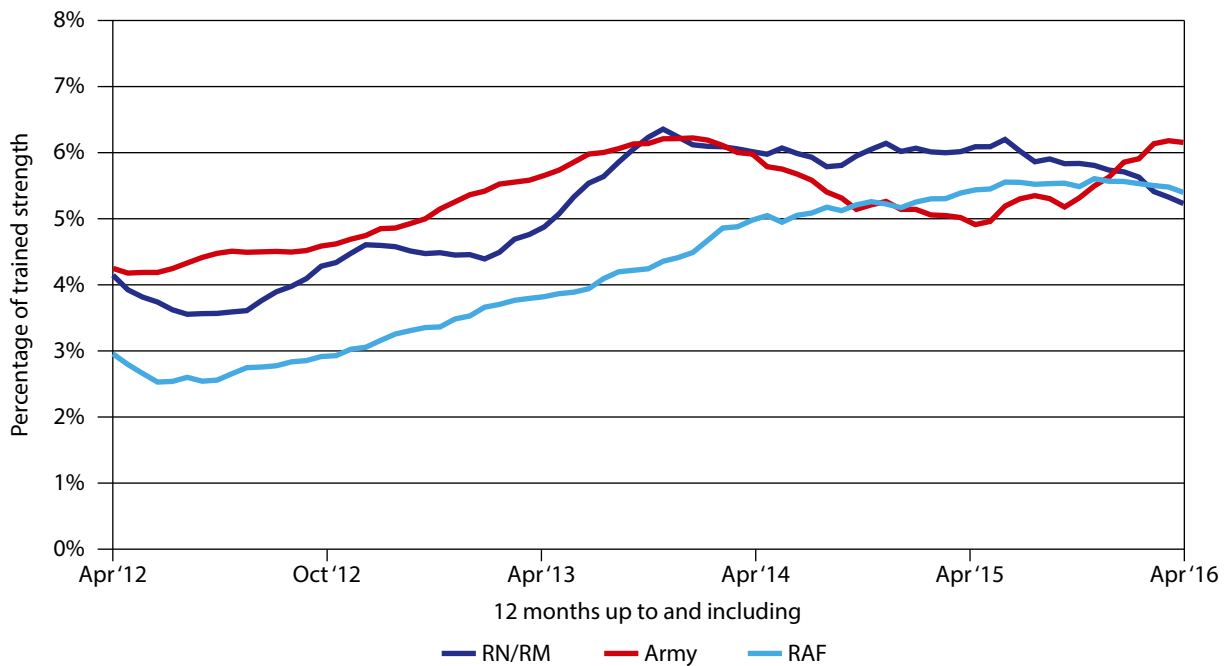
4. Statistics on Voluntary Outflow for the Army and All Services are marked as provisional. This is due to improvements to the quality assurance process. These statistics will be finalised in due course. The historic statistics will also be affected and therefore revised.



## UK Regular Officer Voluntary Outflow Rates up to 1 April 2016



## UK Regular Other Ranks Voluntary Outflow Rates up to 1 April 2016



## The MOD “Your Say” Survey

MOD Staff Survey Results Department only; People Survey Metrics		2015	2014	Percentage Change
Engagement Index (%)		58	57	+1
Theme Scores (%)	Leadership and Managing Change	30	30	+1
	My Work	74	73	+1
	Pay and Benefits	31	30	+1
	My Line Manager	63	62	+1
	Learning and Development	51	51	0
	Resource and Workload	69	69	0
	Organisational Objectives and Purpose	78	78	0
	My team	77	76	+1
	Inclusion and fair treatment	74	73	+1

In 2015 there were further increases in the people survey results, continuing our positive trajectory since 2012, where we began to focus our attention on employee engagement. We remain top of the big five Government Departments.

The results are encouraging but we recognise that some scores are still low so will continue to focus our attention on improving these. We will build on and embed the number of initiatives and programmes we have already developed to address these. The Employee Engagement Corporate Action Plan will be updated in early 2016. This plan is structured around the four key enablers of engagement: **Strategic Narrative and Leadership; Engaging Leaders and Managers; Integrity; and Employee Voice**. The programmes we developed to address these include:

- Embedding the Leadership Statement
- Better Managers, Better Defence programme
- Rolling out The Defence Story
- Senior Civil Service (SCS) and Band B (Grade 6 and 7) Conferences
- A reinvigorated Mentoring Programme
- SCS Ambassador Scheme.

Leadership and Managing Change remains a key priority for 2016. We also want to better understand the issues behind our discrimination and bullying and harassment scores in order to address and reduce such cases. We will continue to embed

these programmes but also work more closely with Defence Statistics to better understand our scores which will enable us to understand the nuances of our workforce’s different experiences at work.

We recognise though that the biggest impact for staff happens at the local level and this is why great emphasis is placed on all managers to work with their teams to make the changes to their working environments that matter most to them.

## Legal challenges against military personnel

To ensure our Armed Forces overseas are not subject to persistent human rights claims that undermine their ability to do their job. The MOD is working with the Ministry of Justice on a wide ranging set of proposals intended to deliver on this commitment by mitigating litigation risk to the Armed Forces and reducing costs to the taxpayer.

## Sustainability narrative to support the objective: Maintain a strategic base & integrated global support network, and manage the Department of State

MOD is continuing to embed sustainability throughout its business. Our People remain of critical importance to the MOD, including the Armed Forces, their families, civilian members of the Department and the communities within which we live, work and train. In 2015 we updated the Sustainable MOD Strategy 2015-2025 setting out our sustainability priorities for the next few years.

We have also worked closely with Defra and DECC on the development of the new Greening Government Commitments and targets, and to embed them within departmental business.

The Annual Sustainable MOD report published in parallel to this Annual Report and Accounts sets out our activity and achievements in more detail, and Sanctuary Magazine<sup>17</sup> provides further information about the sustainability and stewardship of the Defence estate.

**Stephen Lovegrove**  
Accounting Officer  
07 July 2016



# Accountability Report



# Corporate Governance Report

## The Directors' Report

### Management.

Details of individuals who served as Ministers or members of the Defence Board, including

Mr Jonathan Thompson – The Permanent Secretary and head of the Department – are set out in the Remuneration and Staff Report. Stephen Lovegrove was appointed as The Permanent Secretary and head of the Department in April 2016. During the whole of reporting year 2015-16, and up to 5 April 2016, Jonathan Thompson was the Accounting Officer of the Department. Louise Tulett discharged the role of Accounting Officer from 5 April 2016. HM Treasury appointed Stephen Lovegrove as Accounting Officer of the Ministry of Defence on 25 April 2016 and he is responsible for signing the accounts.

### 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: <http://www.publications.parliament.uk/pa/ld/ldreg.htm> for Ministers in the Lords and at: <http://www.publications.parliament.uk/pa/cm/cmregmem/contents.htm> for Ministers in the Commons.

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

Details of Related Party Transactions, including those arising as a result of the interests of Ministers or Defence Board members, are listed at Note 20 – Related Party Transactions. The MOD works closely with many organisations in the charitable sector, and this can include representation on governing bodies; for example, The Secretary of State for Defence is trustee of Greenwich Hospital. The Department provides information to individuals who hold appointments in outside organisations where a conflict of interest might arise, or might be perceived.

### Personal Data Related Incidents.

The following tables set out details of the Department's personal data related incidents during 2015-16. An incident is defined as a loss, unauthorised disclosure or insecure disposal of personal data. Protected personal data is information that links an identifiable living person with information about them which, if released, would put the individual at risk of harm or distress. The definition includes sources of information that, because of the nature of the individuals or the nature, source or extent of the information, is treated as protected personal data by the Department.

## Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioners Office (ICO) in 2015-16

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

Month of Incident	Nature of Incident	Nature of Data Involved	Number of People Potentially Affected	Notification Steps
August 2015	Unauthorised access and changes to the Joint Personnel Administration system	Personal bank details	55 Service personnel	Military Special Investigations Branch and MOD Police notified
Further action on information risk:		The Department will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.		

## Summary of Other Protected Personal Data Related Incidents 2015-16

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

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	5
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	4
III	Insecure disposal of inadequately protected paper documents.	1
IV	Unauthorised disclosure.	54
V	Other.	12



# The Statement of Accounting Officer's responsibilities

## Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Ministry of Defence to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of and the use of resources, during the year by the Department (inclusive of its executive agencies) and its sponsored Non-Departmental and other Arm's Length Bodies designated by order made under the GRAA by Statutory Instrument 2015 No. 632 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 21 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 of the Departmental Group for the financial year.

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

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

During the whole of reporting year 2015-16, and up to 5 April 2016, Jonathan Thompson was the Accounting Officer of the Department. Louise Tulett discharged the role of Accounting Officer from 5 April 2016. HM Treasury appointed Stephen Lovegrove as Accounting Officer of the Ministry of Defence on 25 April 2016 and he is responsible for signing the accounts. The Accounting Officer of the Department has appointed some Chief Executives of its sponsored Non-Departmental and other Arm's Length Bodies as Accounting Officers of those bodies. The Accounting Officer of the Department is responsible for ensuring that appropriate systems and controls are in place in order that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department or Non-Departmental and other Arm's Length Bodies for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

## Statements as to Disclosure of Information and objectivity of the Annual Report and Accounts

The financial statements of the Department (including Defence Equipment & Support (Bespoke Trading Entity) and the Defence Electronics and Components Agency), five of its ALBs (the National Army Museum, the National Museum of the Royal Navy, the RAF Museum, the Single Source Regulations Office and the Royal Hospital Chelsea) and the Armed Forces Pensions Scheme are audited by the Comptroller and Auditor General. The audit fees for this work are included in the accounts. The Department did not contract with its external auditor for any non-audit services.

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

I take personal responsibility for the annual report and accounts and the judgements required for determining that as a whole it is fair, balanced and understandable; which I can confirm.

# The Governance Statement

## 1. Introduction

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.

I, and my predecessors, as the Accounting Officer for the Ministry of Defence, delegate responsibilities to control the Department's business and meet the standards required by the relevant regulatory authorities within the scheme of delegation. This gives me insight into the business of the Department and its use of resources, and allows the Defence Board to make informed decisions about progress against Departmental objectives, and if necessary to steer performance back on track. Jon Thompson was the Permanent Secretary and Accounting Officer from 1 April 2015 to 4 April 2016. Louise Tulett discharged the role of Accounting Officer from 5 April 2016 until my arrival on 25 April 2016. I have sought assurances from both to inform my approval of this statement.

As previously reported the Department has undergone significant internal change and improved the risk and control mechanisms which have been further enhanced by the introduction of a new Risk framework over the last year. The extensive programme of work to upgrade and rationalise the Department's management information systems and processes continues and in July 2015, in recognition of these improvements, the delegations to Top Level Budget holders for commitments to spend on equipment and support was increased.

## The Armed Forces

Command and administration of the Armed Forces is vested in the Defence Council chaired by the Secretary of State for Defence through the Letters Patent; and beneath that in the three Service Boards, each chaired by a Minister. Membership of the Defence Council comprises all Defence Ministers, the Permanent Secretary, the Chief of the Defence Staff, the Vice-Chief of Defence Staff, the Chief of the Naval Staff, the Chief of the General Staff, the Chief of the Air Staff, the Commander Joint Forces Command; and the Director General Finance.

The Chief of Defence Staff is the professional head of the Armed Forces and principal military advisor to the Secretary of State and the government. His responsibilities include:

- joint leadership of the department;
- setting departmental strategy, including the future development of the Armed Forces (jointly with the Permanent Secretary);
- the conduct of current operations as the military strategic commander; and
- leading relationships with other countries' Armed Forces.

The Chief of Defence Staff gathers the collective military advice of the Service Chiefs principally via the Chiefs of Staff meetings. The Armed Forces Committee allows the Chief of Defence Staff and the Permanent Secretary to gather the views of the Chiefs and other TLB Holders in preparing advice to Ministers and the Defence Board on non-operational matters.

The individual Service Chiefs also advise the Chief of Defence Staff, the Secretary of State, and, when required, the Prime Minister on the operational employment of the forces for which they are responsible.

## 2. Governance Framework

### Organisational structure

The core financial structure of the department during 2015-16 comprised the six Top-Level Budget organisations:

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

and the Defence Equipment and Support organisation, which is classified as an Executive Agency of the MOD and began operating as a Bespoke Trading Entity on 1 April 2014.

Between them, these seven organisations deliver the Department's principal outputs.

Each Top-Level Budget organisation is headed by a Top-Level Budget Holder, who operates within a framework of responsibilities delegated by me. To assist in assessing the adequacy of control arrangements across the Department, they each submit an Annual Assurance Report, endorsed by their Management Board and in most cases by their Audit Committee<sup>16</sup>. The Defence Equipment and Support organisation is headed by a Chief Executive with Accounting Officer responsibilities.

In addition, the Defence Departmental Group, under Managing Public Money, includes a number of other arms-length bodies and Trading Funds (see detail further below).

### Changes during the year

**Defence Electronics and Components Agency:** The Defence Electronics and Components Agency was established on 1 April 2015 as an Executive Agency of the Ministry of Defence and retained following the sale of the rest of the Defence Support Group Trading Fund to Babcock for £140M. It provides support to a diverse range of platforms such as Tornado, Chinook, Foxhound, and ships including Type 45 and Queen Elizabeth Class. It had a turnover of circa £24.3M in FY 2015-16 and employs around 430 staff.

**Sale of the Government Pipelines and Storage System:** The Government Pipelines and Storage System, consisting of some 2,500 kilometres of underground cross-country pipelines, storage depots and associated pumping stations, was sold to Compañía Logística de Hidrocarburos of Spain on 30 April 2015, for £82M. As part of the sale, a contract was agreed between MOD and Compañía Logística de Hidrocarburos to protect the Government Pipelines and Storage System supply of aviation fuel to the military, while also protecting our national civil resilience. After the sale of the Government Pipelines and Storage System business, the Oil and Pipelines Agency<sup>17</sup> continues to manage the six Oil Fuel Depots, which receive, store and issue middle distillate fuels to support the Navy, and where spare capacity is available, to commercial customers.

**Formation of Defence Safety Authority:** On 1 April 2015, the Defence Safety Authority was formed under a Director General – Air Marshall Richard Garwood. The Defence Safety Authority is responsible for the regulation of Health, Safety and Environmental Protection and brings together the Defence Safety and Environment Authority, the Military Aviation Authority and the Defence Fire Safety Regulator, the latter also formed on the same date.

<sup>16</sup> Head Office and Corporate Services do not have an Audit Committee.

<sup>17</sup> MOD sponsored Public Corporation.

Logistics Commodities Transformation: On 16 April 2015, a contract for the provision of Logistics Commodities Services was signed with Leidos Europe Limited. Leidos will run and improve efficiencies in warehousing procurement and stock control of food, clothing, general and medical supplies as well as storage and distribution. The Defence Authority for Logistics is now the Assistant Chief of Defence Staff (Logistic Operations).

## Arms-length bodies

The Defence Equipment and Support organisation is overseen by an Owner's Council, which is chaired by the Minister of State for Defence Procurement. The Defence Equipment and Support Board is chaired by a lead Non-Executive Director, alongside four Non-Executive colleagues, the Permanent Secretary, the Chief Executive of Defence Equipment and Support<sup>18</sup>, the Director General Resources Defence Equipment and Support and Deputy Chief Defence Staff (Military Capability). The Chief Executive of Defence Equipment and Support receives from me, a Letter of Delegation; and as Accounting Officer, a Letter of Authority. Under its new status, the Defence Equipment and Support organisation produces its own Annual Report and Accounts, and also falls within the Departmental Accounting Boundary. As Accounting Officer, the Chief Executive produces a Governance Statement for inclusion within the Defence Equipment and Support Annual Report and Accounts, which forms the basis of his assurance to me.

The Defence Electronics and Components Agency was established on 1 April 2015 as an Executive Agency of the Ministry of Defence. It falls within the Departmental Accounting boundary and is overseen by a Ministerial Steering Group, which is chaired by the Minister of State for Defence Procurement. The Defence Electronics and Components Agency Board is chaired by a lead Non-Executive Director, alongside two Non-Executive colleagues and a Departmental Representative. The Board has established two sub-committees including an Audit & Risk Assurance Committee. The Defence Electronics and Components Agency is led by a Chief Executive who receives from me a letter of delegation. It produces its own Annual Report and Accounts, and as Accounting Officer; the Chief Executive, produces a Governance Statement, which forms the basis of his assurance to me.

Four Executive Non-Departmental Public Bodies<sup>19</sup> – the National Museum of the Royal Navy, the National Army Museum, the Royal Air Force Museum, and the Single Source Regulations Office – are sponsored by the Department and fall within the Departmental Accounting Boundary. They each operate within a financial memorandum agreed between their respective Boards and the MOD. Each of the Bodies employs independent auditors, external to the Department.

Two MOD Trading Funds – The Defence Science and Technology Laboratory and the UK Hydrographic Office – fall outside the Departmental Accounting Boundary and their Chief Executives are Accounting Officers in their own right. Their Chief Executives prepare Governance Statements for their Annual Accounts. Representatives from Head Office are members of their Audit Committees. In addition, a Departmental representative sits on the Trading Funds' Management Boards. Ministers, supported by an Owners' Council, are responsible for setting the key annual targets. The respective Audit Committee of each Trading Fund provides the Board and Accounting Officer with an Annual Report, which covers activity through-out the year and highlights any control risks and weaknesses found. On 13 January 2016, MOD announced that following a review of its status<sup>20</sup>, the Defence Science and Technology Laboratory will continue to remain an Executive Agency of the MOD, but its Trading Fund status will be revoked from April 2017.

A Public Corporation – the Oil and Pipelines Agency<sup>21</sup>, manages six oil fuel depots and is sponsored by the Department, but falls outside the Departmental Accounting Boundary and its Annual Accounts are published separately. The Public Corporation has a Board of Directors on which the MOD is represented. The Accounting Officer is their Chief Executive, who produces a Governance Statement detailing the organisation's governance framework and internal control issues, which is included in their Annual Report and Accounts.

<sup>18</sup> The Chief of Defence Materiel functional responsibilities were amalgamated with those of the Chief Executive Officer in December 2015.

<sup>19</sup> A full list of agencies and public bodies, can be found here: <https://www.gov.uk/government/organisations#ministry-of-defence>

<sup>20</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Lords/2016-01-13/HLWS456/>

<sup>21</sup> As mentioned earlier the Department has now sold its interest in the Government Pipelines and Storage System, which was managed by the Oil and Pipelines Agency.

## Defence Authorities

I have appointed 18 senior individuals as Defence Authorities, who are authorised to issue general direction concerning a specific aspect of the Defence Operating Model – for example, human resources, procurement, IT, finance, health services, logistics, and security. Their remit is articulated in a Letter of Authority that I issue to every Defence Authority. Each Defence Authority internally publishes a Directive that outlines the associated policies, processes, and internal controls for their area of responsibility. Within the Letter of Authority I clearly state that each Defence Authority is responsible for ensuring that these policies, processes, and internal controls are designed on a coherent basis and to a consistent standard across Defence, in order to manage corporate-wide risks and support effective delivery of Defence outputs. They are also responsible for monitoring operating and escalating significant risks within their area, to the corporate-level as necessary. As part of this, each Defence Authority is required to provide me with an Annual Assurance Report. In parallel, Defence Authorities are responsible for the ongoing development and improvement of related functions and services, including the efficiency, effectiveness, and coherence of the underpinning processes. The Defence Authority structure as at 31 March 2016 is listed in the table below.

Function	Defence Authority
Acquisition System	Director General Head Office & Commissioning Services
Business Resilience	Director Business Resilience
Capability Coherence	Deputy Chief of Defence Staff (Military Capability)
Commercial	Director Commercial
Communications	Director Defence Communications
Corporate Design	Director General Head Office & Commissioning Services
Cyber and C4ISR	Chief of Defence Intelligence
Financial Management and Approvals	Director General Finance
Health, Safety and Environmental Protection	Director General Defence Safety Authority
Healthcare & Medical	Surgeon General
Information	Chief Digital Information Officer
Logistics	Assistant Chief of Defence Staff (Logistic Operations)
Operations	Deputy Chief of Defence Staff (Military Strategy and Operations)
People	Chief of Defence People
Public and Parliamentary Accountability	Secretary of State's Chief of Staff
Security	Director Business Resilience
Statistics	Chief Statistician
Technical & Quality Assurance	Director Technical

## The Defence Operating Model

This is set out in more detail in the How Defence Works publication<sup>22</sup>.

## Quality Assurance of Analytical Models

As required by the MacPherson Review<sup>23</sup>, our Governance Statement must confirm that we have an appropriate quality assurance framework for analytical models.

As part of our annual assurance process we require Top-Level Budget Holders to confirm their quality assurance arrangements. 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. The Department has been effective in extending this good practise to other parts of the business and it will continue to focus on this in the coming year. In April 2015, Defence Internal Audit reported on the effectiveness of the quality assurance framework and concluded that MOD had 'substantial assurance'. The Operating Model includes:

<sup>22</sup> <http://defenceintranet.diif.r.mil.uk/Policy/HowDefenceWorks/Pages/HowDefenceWorks.aspx>

<sup>23</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/206946/review\\_of\\_qa\\_of\\_govt\\_analytical\\_models\\_final\\_report\\_040313.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206946/review_of_qa_of_govt_analytical_models_final_report_040313.pdf)



- Publication of our business critical models every 6 months;
- Issuing further guidance on identifying business critical models; and
- Developing a competency framework for modelling professionals.

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

### 3. The Defence Board

Chaired by the Secretary of State, the Defence Board is the senior corporate decision-making body in Defence for non-operational matters. It provides top-level leadership and direction in managing the Department, focussing on strategy and plans for generating military forces, performance against those plans, and risk. The Board met eleven times during 2015-16 (it did not meet in August 2015 and February 2016, but met twice in March 2016) and all members were in attendance, except for those held in June 2015 (without the Permanent Secretary); July 2015 (without the Minister of State for Defence Procurement and Paul Skinner); September 2015 (without Danuta Gray); and February 2016 (without the Vice Chief of Defence Staff).

*Members of the Defence Board during 2015-16:*

The Rt Hon Michael Fallon MP	Secretary of State
Philip Dunne MP	Minister of State for Defence Procurement
General Sir Nicolas Houghton	Chief of the Defence Staff
Air Chief Marshal Sir Stuart Peach	Vice Chief of the Defence Staff
Jonathan Thompson	Permanent Secretary
Sir Bernard Gray	Chief of Defence Materiel <sup>24</sup>
Louise Tulett	Director General Finance
Sir Gerry Grimstone	Lead Non-Executive Board Member
Graham Williams	Non-Executive Board Member
Paul Skinner	Non-Executive Board Member
Danuta Gray	Non-Executive Board Member

The Defence Board is supported by three sub-committees (see below).

### 4. The Board's performance

#### Report on Board performance by the Lead Non-Executive Board Member

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

*The Defence Board has had another busy year, meeting 11 times during the reporting period. Ably chaired by the Secretary of State, the objective has been to operate within our financial envelope whilst delivering the military capability required by the Armed Forces to meet the demands placed on us by the National Security Council in safeguarding the UK and all its dependent territories.*

*Defence Transformation has continued apace following the blueprint set out in the Levene Review. Defence is unrecognisable from what it was five years ago and we continue to evolve and strengthen the delegated model on which this depends. A sign of the changes we have wrought is that the maturity of our leadership and behaviours is such that we are able to accommodate the stresses and strains that naturally appear from time to time without jeopardising the principles to which we are working.*

*The Strategic Defence and Security Review (SDSR) was a major focus for the Board this year, and we discussed it on six separate occasions. The Board felt that it was important to ensure that the Department's approach to the Review would help to secure the right outcomes for Defence and for the United Kingdom. The Board's direction and*

<sup>24</sup> The post of Chief of Defence Materiel ceased to be a Defence Board member as of 30 November 2015.

decision was sought at critical junctures in the process and our preparatory work played a crucial role in getting the review off to a good start through helping to identify where capability needed to be strengthened and where gains in efficiency could be made. The outcome of the SDSR is good for Defence and places us on a sound footing for the next five years. Close oversight is now being given to ensure that the implementation of the SDSR stays on track.

The Board continued to undertake regular visits to the Front Line Commands and other TLBs to hear first-hand their preoccupations, how they are delivering against their Plans and to maintain close contact with people throughout Defence. The level of staff engagement and interest in the town hall events which precede such meetings, has been impressive, with the Board being pressed for their views and proposed actions on the areas and activities that matter most to Defence personnel.

The standard of management information provided regularly to the Board is now properly comprehensive and incorporates key topics of current concern together, for example, with details of military outputs, manpower data, project delivery, financial performance, and a whole host of other measures to allow the efficient running of what is one of the most complex organisations in this country. The quality of papers to the Board showed steady improvements, with attention being focussed on the key issues that require decision and direction.

The Board's coverage of risk has been extensive this year and our Enterprise Risk Framework is both effective and, importantly, now helps determine our priorities. Topics we have focussed on include the Nuclear Enterprise in its entirety, the New Employment Model, cyber security, our information technology architecture and processes, contract management and our strategic partnerships, estate rationalisation and the health and safety of our people. The regeneration of contingent capability, the critical skills shortage, and the risk of failure to attract and retain sufficient people will continue to be important priorities for us. The Board routinely reviews the performance of Defence in its entirety as well as regularly giving direction on the in-year financial management position to ensure that we demonstrate sound financial management by delivering on budget whilst maintaining capability.

The successful implementation of our major equipment and infrastructure programmes is vital to Defence and includes some of the largest industrial projects being undertaken by the UK. We have met directly with some of our major suppliers and taken a close look for example at the Queen Elizabeth Class aircraft carriers, the Type 26, and the Astute Programmes. We apply the same disciplines to our activities as would be found in the best companies in the private sector.

The Board is supported by three sub-committees: Investment Appraisal, Audit, and People, more on which you will read elsewhere in the report. The People Committee has been reinvigorated, under the new chair Danuta Gray, and is gripping the strategic 'people' issues which are so vital to us.

I have led the Department's Year 5 Board Effectiveness Review which was conducted in the last quarter of this financial year, using MOD Survey to garner views from Board and non-Board members. We are in the process of reviewing the responses, but there is general consensus that there have been major improvements in the governance of the Department, but more work is required on the Holding to Account process if it is to be made truly genuine. Overall Board performance has been rated 'good/excellent' by the majority of Board and non-Board members, and performance and risk reporting have been said to have improved in the past year.

I want to ensure that the Defence Board remains the most effective Departmental Board in Whitehall and continues to stand comparison with the Boards of leading UK companies. To that end, an action plan will be developed of suggested areas for improvement and I will oversee its implementation. Our purpose is to ensure that Defence, in all its manifestations, is operating in the most efficient and effective way possible.

Sir Gerry Grimstone

## 5. Highlights of Board Committee Activities

### The Defence Audit Committee

The Defence Audit Committee is chaired by Graham Williams, Non-Executive Defence Board Member. Membership consists of Mary Hardy, Non-Executive Member and Paul Smith Non-Executive Member. Stephen Barratt was a Non-Executive Member until October 2015. The Committee reviews and challenges the adequacy of the Department's internal controls and processes and how risk is managed across Defence to provide the Accounting Officer with the assurance that the systems and processes are working as they should. The Defence Audit Committee met six times during this reporting period with all members in attendance, with the exception of Stephen Barratt who attended one meeting in October 2015. The Defence Audit Committee is currently recruiting a fourth member. National Audit Office, Defence Internal Audit and Defence Board Executives' representatives attend each meeting.

A summary report of each of the Defence Audit Committee meetings is provided to the Defence Board. The Defence Audit Committee's programme of business has primarily focussed on the Department's internal control and assurance framework and has fully supported the new Departmental assurance process of the Top-Level Budget Holders and Defence Authorities by providing further scrutiny. The Defence Audit Committee reviewed the Annual Assurance Reports of the majority of Defence Authorities and Top-Level Budget Holders and agreed improvement targets where required.

The Defence Audit Committee also reviews the Departmental Annual Report and Accounts and Governance Statement and progress of key audit issues. It was satisfied that the Governance Statement reflected the aggregated assessment of assurance from the Top-Level Budget Holders and Defence Authorities. During the year the Defence Audit Committee monitors the progress of issues raised in National Audit Office Management letters and other key audit outputs.

The Defence Audit Committee reviewed the risk management process on a number of occasions. It noted that Top-Level Budget Holders and Defence Authorities were now all working to a single common risk template, better identifying risks and any requiring attention of the Defence Board. The Defence Audit Committee reviewed the Defence Internal Audit outputs and conclusions and also considered the Defence Internal Audit 2016-17 audit programme, noting the high demand on Defence Internal Audit services. The Defence Audit Committee was keen that the Department developed an Assurance Map to assist in establishing Defence Internal Audit's priorities and will continue to review this and other processes to ensure that the Department makes consistent progress.

### People Committee

The People Committee's role was reviewed at the start of the year and it was agreed that it should take a wider, more strategic role in view of the significant people challenges that the Department would face over the coming years. The People Committee is chaired by Danuta Gray, a Non-Executive Defence Board member and membership consists of the Permanent Secretary, the Minister of State for the Armed Forces, the Vice Chief of Defence Staff, the Chief of Defence People the Deputy Chief of Defence Staff (Military Capability), the Director General Head Office and Commissioning Services, the Director General Finance and Laura Whyte, Non-Executive Director. The Committee provides strategic direction and guidance on longer term Defence People matters and oversees the delivery of the People Change Portfolio and holds the Chief of Defence People to account for its delivery and for his role as the Defence Authority for People. It also assures the Defence Board that people issues are being appropriately managed.

The People Committee has met six times this year. All members were in attendance, except for those held in November 2015 (without Laura Whyte); January 2016 (without the Permanent Secretary and Director General Finance); February 2016 (without the Vice Chief of Defence Staff); and March 2016 (without the Minister of State for Armed Forces). A summary report is provided to the Defence Board after each meeting. The Committee has reviewed the revised People Change Portfolio, following the Strategic Defence and Security Review, and has discussed the projects within the portfolio in more detail including the Future Accommodation Model, Future Engagement Structures and the New Offer for New Joiners. It has also reviewed the Defence Diversity and Inclusion Programme and the Whole Force Approach.

In addition to this, the People Committee has discussed recruitment and retention and critical skills shortages at a number of meetings. The People Committee has reviewed the recruitment and outflow data and discussed the external factors that affect recruitment and retention. It has also discussed the supply and demand for critical skills across the Department and the initiatives that are in place to try and address the shortages. However, it also acknowledged that there are national shortages of key skills that the Department requires and that the solutions are therefore likely to take time to come to fruition.

## Investment Approvals Committee (IAC)

The Investment Approvals Committee, supports the Chair Director General Finance, in her execution of delegated responsibilities passed to her by the Permanent Secretary to approve departmental investment decisions and her duty to provide advice to Ministers as necessary on business cases above the MOD's delegated authority, as well as on novel and contentious investments. A scheme of delegation sits beneath this, further cascading responsibility for Approving Authority at appropriate thresholds to Director of Resources in relevant Top-Level Budget organisations, alongside operation of various commercial delegation thresholds delegated by the Cabinet Office.

Investment Approvals Committee members are: the Vice Chief of the Defence Staff; the Chief Scientific Advisor; the Deputy Chief of the Defence Staff (Military Capability); Director Commercial; and Director Central Legal Services. Chief of Defence Materiel was a member of the Investment Approvals Committee until 30 November 2015. The Investment Approval Committee met ten times in 2015-16 (it did not meet in May and August 2015, but met twice in July 2015) and all members were in attendance, except for 28 July 2015 (without the Chief Scientific Advisor); February 2016 (without the Vice Chief of Defence Staff and the Chief Scientific Advisor); and March 2016 (without the Chief Scientific Advisor). In addition, an extraordinary Investment Approval Committee was held in July 2015 to discuss Grapevine (Defence Information Technology) and there was a special session to support the Atomic Weapons Establishment decision.

Top-Level Budget Approving Authority delegated approvals vary and are up to £400M for Category B; Category C is £20M to £100M, and Category D is below £20M. An exception is infrastructure approvals where there is no Category B, with delegated approvals limited to £100M<sup>25</sup>, and where Category C covers approvals from £10M to £100M. Category A covers investments over £400M (£100M for infrastructure) and investment proposals are submitted to the Investment Approvals Committee for endorsement before onward submission to the MOD Minister and HM Treasury for approval. Sub-delegations are in place to Defence Equipment and Support and Information Systems Services Equipment Plan for approvals below £10M. TLB approval activity for 2015-16 is as follows:

TLB	Approval Category		
	B	C	D*
Navy Command <sup>1</sup>	2	15	20*
Army HQ	5	15	7*
Air Command	5	40	14*
JFC	4	24	20*
DIO	0	39	19*
HO&CS	0	0	1~

<sup>1</sup> The approvals delegation to Navy Command was reduced from £400M to £250M from 3 November 2015, with Category B cases between £250-£400M subsequently approved within MOD Head Office in order to allow closer control over commitment levels.

\* Category D expenditure > £10M and < £20M. Infrastructure cases >£10M and <£20M in DIO fall within Category C, but are included as Category D in this table for comparison purposes.

~Approval was exactly £10M

During 2015-16, the Investment Approvals Committee concluded its consideration of 91 investment approval cases for Category A projects, including 20 Main Gate or Initial Gate Business Cases and 71 Review Notes and Information Notes.

<sup>25</sup> The Department's Infrastructure delegation was reduced to £75M in June 2016.

## 6. Compliance with Corporate Governance Code

I have reviewed the Department's compliance with the Code of Good Practice<sup>26</sup> and confirm that the Department complies with all of the requirements, with one exception. Section 5.9 of the Code requires that at least one Non-Executive Board Member should sit on the Audit Committee, in addition to the Chair. The Defence Audit Committee is chaired by one of the Defence Board Non-Executive Board Members and the other two members are Non-Executive chairs of Top-Level Budget organisation Audit Committees. I believe that this membership provides a broad perspective of the Department's business, whilst maintaining a necessary independence of Audit Committee members.

## 7. Accounts Qualifications

### *IFRIC 4*

In preparing these accounts, MOD has been unable to comply with the Government Financial Reporting Manual (FRM), specifically the Department has been unable to comply with the requirement under IFRIC4 to assess its supplier arrangements to determine whether they have the characteristics of a lease and if so to recognise the associated assets and liabilities in the financial statements. The Department has decided, with the support of HM Treasury, not to implement IFRIC4 for existing contractual arrangements given the complexity, time and considerable costs involved in doing so. The Department has, however, agreed to undertake an exercise during FY 2016-17 to determine the feasibility of implementing IFRIC4 for new contracts which involve single use Contractor sites and assets.

### *Defence Equipment and Support*

In December 2015, the Defence Equipment and Support organisation published its first Annual Report and Accounts under its new status as a Bespoke Trading Entity, which captured their performance against their operating costs for financial year 2014-15. The Comptroller and Auditor General (C&AG) qualified these accounts on the basis that limited evidence had been provided to underpin the private sector support costs and other programme costs in the Statement of Comprehensive Net Expenditure and the related trade and other payables balance in the Statement of Financial Position. Over the last 6 months the Defence Equipment and Support organisation has worked to improve financial management systems, processes and controls. A decision was taken in January 2016 by both DE&S and NAO that the FY 2015-16 audit of the DE&S BTE accounts would be uncoupled from the departmental audit to ensure appropriate attention was given to the close out of the MOD accounts. The BTE audit will formally commence in mid-July 2016 with publication scheduled for November 2016.

## 8. The risk and control framework

Active management of risk is fundamental to the effective achievement of Defence objectives and central to the way business is conducted within the Department. It informs operational decision making, contingency planning, investment decisions, and the financial planning process. The Department's overall approach to risk management is summarised in *How Defence Works*<sup>27</sup>. The detailed guidance underpinning it is captured in an internal Joint Service Publication. The Defence Board has identified its strategic risks and receives a detailed quarterly risk report, focused on reporting strategic risks facing Defence and the shorter-term delivery risks to the current Defence Plan, as well as visibility of the key risks being managed by the Top-Level Budget Holders and Defence Authorities. The Defence Board also has a rolling programme of risk reviews where one strategic risk is subject to a more detailed discussion at the monthly board meeting. The complete 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;
- attraction and retention of sufficient, capable and motivated people;
- the delivery of operational capability;

<sup>26</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-Departments>

<sup>27</sup> <http://defenceintranet.diif.r.mil.uk/Policy/HowDefenceWorks/Pages/HowDefenceWorks.aspx>



- adequacy of management information;
- delivery of efficiency saving;
- protection of our information, including from cyber attack; and
- a disruptive event such as a flu epidemic or terrorist attack.

A revised risk management framework has been implemented across Defence during the year. The revised risk management framework is cascaded down through Top-Level Budget Holders and is available to all staff on the MOD's intranet. Individual training is available to all staff via the Civil Service Learning organisation, the Department's in-house training provider, the Defence Academy, and the Director of Audit, Risk and Assurance.

The Department's tolerance of risk varies between the different functions and areas of Defence. Military operations inherently involve taking risks. The level of risk that Ministers agree to accept is based on advice from senior military officers and civil servants. Every effort is made to provide personnel and assets with proper protection through planning, equipment, and training, but we ultimately rely on the judgement of Force Commanders to manage the risks on a day-to-day basis. I chair quarterly meetings of the Risk Committee which includes a non-executive member and reviews the combined risk report before it is discussed by the Defence Board. The Defence Board also receives regular reports on Finance, Personnel, Equipment Plan (including Investment Approvals), Information and Communications Technology, Information Rights and Parliamentary Business, Security, Business Continuity, and Health & Safety matters, alongside more general performance reporting every month.

Director Audit Risk and Assurance continues to lead the development of Internal Control and Control Frameworks for key processes to improve the overall control environment. During the year we have completed the development of the control and assurance framework for financial management. This framework sets out, for each finance process, the key risks and key controls along with plans to obtain assurance over their operation and effectiveness.

Whilst the Internal Control and Assurance Framework is being developed, the annual assurance uses a standard reporting template supported by a questionnaire which covers key governance, risk management and internal control matters for completion by the Top-Level Budget Holders and Defence Authorities. The Defence Authorities Annual Assurance Reports are reviewed by the Head Office Management Group, which I chair, or other relevant Boards. The Top-Level Budget Holders' Annual Assurance Reports are reviewed by their Audit Committees and also scrutinised as part of the Holding-to-Account process<sup>28</sup>. The Director of Audit, Risk and Assurance reviews all the Annual Assurance Reports and provides a briefing note to me to aid the scrutiny process. In addition, Director Audit, Risk and Assurance has produced an overall Departmental Annual Assurance Report for me and the Defence Audit Committee highlighting key internal control issues. Director Audit Risk and Assurance has provided an overall opinion of 'limited assurance' for 2015-16. The key internal control issues and management action being undertaken to address these are set out in more detail under the section "Significant Control Issues identified in the reporting year".

The Defence Audit Committee, 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.

Top-Level Budget Holders are supported by an Audit Committee<sup>29</sup> or equivalent, which is chaired by a Non-Executive member and at which representatives from the internal and external auditors are present. Like the Defence Audit Committee, these committees focus their activities on providing advice on wider business risk and assurance processes. The Defence Audit Committee also meets the Chairs of the Top-Level Budget Audit Committees at least once a year to seek their opinion on potential issues to be raised in this Governance Statement.

<sup>28</sup> The Holding-to-Account process is described in the How Defence Works publication.

<sup>29</sup> The Head Office and Corporate Services Top-Level Budget do not have an Audit Committee.

An annual risk-based programme of internal audit is provided by Defence Internal Audit, which is a primary source of independent<sup>30</sup> assurance within MOD. The audit programme is comprehensive and covers the Department's strategic and operational risks and key operational processes.

Overall, the opinion provided by the Group Head of Internal Audit is 'limited assurance', the same as in the previous three years. In his annual report he highlighted the following:

- Much had been achieved by the Department during 2015-16 to tackle deep rooted risk and control framework issues, and to move governance and accountability more into the foreground at a senior level. The Department had taken major steps forward in improving its ability to identify, assess and manage risks, with the Defence Board fully engaged, and risk beginning to drive Board agendas across the Department. The new Annual Assurance Reporting process has created an improved understanding of the scale and causes of control weaknesses, and the internal controls and assurance framework exercise will ensure management focus on key controls and better understand the impact of decisions.
- Audit work indicated that whilst areas of good control could be found at a business / operational level across the Department, there was still a gap between this and policy and intent at Defence Authority level. Audits did, however, indicate signs of improvement and a positive intent by those charged with governance.
- Generally, improvements were needed in feedback, oversight and assurance mechanisms, and the absence in many areas of an effective second line of defence meant there could be no proactive reporting back to senior management on the adequacy of control in operation.
- In particular, audits highlighted challenges for the Department in the areas of commercial management, resilience and capacity and capability within the workforce. Steps were being taken in these areas to improve the understanding of risk, the overall control framework, and the skills base.

Whilst acknowledging the improvements made during the year in improving the control environment, the Group Head of Internal Audit observed that the challenge for the Department was to achieve an appropriate balance between taking risk and exercising control that matched the financial, resourcing and capability restrictions it faced and this included the amount of assurance it requires. If this was not achieved, audits would continue to identify non-compliance and find risks that were not being assessed or managed.

The Group Head of Internal Audit's observations above regarding commercial management, resilience and capability within the workforce reflect the concerns raised through the management assurance process and these, along with management action being undertaken to address them, are set out in more detail under the later section "Significant Control Risks identified in the reporting year".

The work being undertaken to develop Internal Control and Assurance Frameworks is intended to bridge the gap between the policy intent and control at the operational level. The control framework for financial management has been completed and work commenced to develop the framework for commercial including contract management.

We have also commenced the development of assurance maps along the four lines of defence<sup>31</sup>. Work has been completed for the Navy and we plan to develop assurance maps for the remaining TLBs during the coming year. This will address the issue noted by the Group Head of Internal Audit regarding the absence of effective second line of defence.

<sup>30</sup> Other sources of independent assurance include the Defence Safety Authority, the Health and Safety Executive and the National Audit Office.

<sup>31</sup> First – the way the organisation controls and manages risk day-to-day. Second – the way the Department oversees the control framework so that it operates effectively. Third – mainly through internal audit, providing reasonable (not absolute) assurance to the Permanent Secretary and Defence Board of the overall effectiveness of the control framework. Fourth – external audit.

## Significant Control Risks

### Update on Significant Control Risks reported last year

#### *Commercial awareness, skills and contract management*

Last year, my predecessor reported that the MOD Commercial Capability Review conducted by the Cabinet Office and HM Treasury in 2014 highlighted the need to improve the commercial awareness of non-commercial colleagues (in particular military staff in key acquisition roles). The commercial function across the Department also suffers from a shortage of appropriately skilled professional people, which is the most significant risk to delivery. There is a specific requirement to strengthen senior commercial skills, alongside a requirement to review the size, profile and experience of the entire commercial function.

A significant level of activity has been undertaken during this year. The Commercial Capability programme was launched comprising five work streams that together will ensure that MOD both has the quality and quantity of commercial professionals required.

Key achievements within the Commercial Professionalism Programme have included running two induction courses accredited by the Chartered Institute of Purchasing and Supply (CIPS), as well as launching a new Contract Management course to address shortcomings in the capability of Commercial staff in managing contracts. We have delivered in excess of 7800 days of training. Commercial Awareness Courses for non-commercial specialists have been successfully delivered to 80% of non-commercial SCS.

Throughout the year we have run external recruitment campaigns to bring in staff from other Government Departments and private sector. We have also worked with the Cabinet Office and wider Government to deliver senior civil service (or equivalent) recruitment campaigns. Six senior commercial staff have been recruited through these campaigns.

A Contract Management Handbook was issued in April 2016, and this will be supplemented by the development and implementation of a Commercial/Contract Management internal control and assurance framework to improve the controls and accountability for their operation. A Commercial Assurance Team has also been established and the implementation of the control framework will provide a robust mechanism for obtaining assurance. The implementation of the Contract, Purchasing and Finance system, in 2016-17 along with the data cleanse exercise undertaken will improve controls and provide better management information.

#### *Fuel Depots*

Last year, my predecessor reported that progress on the renewal and renovation of our Oil Fuels Depot asset portfolio had been slow to meet the Control of Major Accident Hazards (COMAH)<sup>32</sup> standards. The Defence Board agreed in January 2015, to prioritise a further £83M in the Capital Infrastructure programme and that the Navy Command would become the lead Top-Level Budget with responsibility for Oil Fuel Depots, from 1 April 2015.

Following the transfer of lead responsibility to Navy Command, a due diligence review of the material state of the Oil Fuel Depots has been undertaken and a recovery plan prepared, which has been endorsed by the Control of Major Accident Hazards (COMAH) Authority. The recovery plan has been funded as a priority in the Capital Infrastructure Programme. As reported last year, that action is needed over several years and the recovery programme for the Oil Fuel Depots is expected to be complete by 2021-22.

32 <http://www.hse.gov.uk/comah/authorityindex.htm>

## Significant Control Risks identified for the reporting year

### *Estates Management*

#### **Contract Management**

A Defence Internal Audit review found that the Wales to West Midland contract had over committed against its approval limit. The Defence Infrastructure Organisation (DIO) subsequently investigated all 340 live contracts above £10M and identified 31 contracts with inadequate audit trails of approval authority. The lack of an audit trail meant that it was not possible to check the status of approval actually given; some contracts having been originated a number of years ago. Therefore to legitimise all arrangements HM Treasury approval was sought for nine contracts outside the Department's delegation with a total value of £1.259Bn and 22 contracts valued at £850M which fell within the Department's delegated authority. Following the review of 340 live contracts, DIO is continuing a wider data cleansing exercise and has identified 13 expired contracts which have £159M of expenditure in 2015-16. DIO is checking the evidence on the approval limit and contract expiry date to see if the appropriate approvals exist and HM Treasury have been updated on this position.

In granting retrospective approval the Chief Secretary of the Treasury has imposed a financial sanction of £31.6M payable in 2018-19 and reduced the Department's delegated limits for infrastructure from £100M to £75M. The DIO internal delegation has been reduced from £10m to £1m until appropriate measures are in place. MOD and DIO officials will also attend a Treasury Approval Panel to discuss how these breaches occurred and our plan to improve DIO financial management performance. The Department is planning a review into this issue and the Government Chief Internal Auditor will be included on the review team and we will agree the terms of reference and share the final report with HM Treasury and Cabinet Office. HM Treasury has also asked the Department to produce a commercial blueprint to outline how the MOD intends to enhance its commercial capability.

As a result of lessons learned, the DIO has strengthened their internal control framework, including the establishment of a Central Approvals Project Management Office who will manage and record all DIO approvals on a central database. In addition, the process of educating staff continues and commercial delegations have been reissued and finance staff instructed not to commit funding until appropriate approval has been evidenced.

#### **Strategic Management Changes**

The Strategic Business Partner (SBP) for DIO provides an Executive Management Team to lead and manage the organisation. This includes key roles, such as the Chief Executive. The turnover within the senior management team has been higher than expected. As this impacts on stakeholder confidence we are working with the SBP to ensure that succession planning is in place.

#### **Footprint Strategy**

The Footprint Strategy is showing good progress after a slow start. It is expected to be endorsed by the Defence Board in September, which is later than originally planned. Additional time has been required for DIO to conduct the customer engagement that is vital to ensure operational perspective informs the Footprint Strategy.

#### **Service Families Accommodation**

There have been significant shortcomings in the delivery of maintenance services under the National Housing Prime, which have impacted on Service Personnel and their families. As outlined at the recent PAC hearing an improvement plan has been put in place, and we have started to see improvements. We will continue to closely monitor performance to ensure that these are maintained.

## **Cabinet Office Review**

The Cabinet Office and HMT have recently conducted a review of SBP contract performance, and wider issues such as DIO's capability and governance. This review has made recommendations of areas for improvement which have shaped Departmental thinking on the way forward.

### *Management Information*

Notwithstanding improvements to the Defence Board Management Information Pack, the lack of quality Management Information continues to be an issue across the Department with variable data quality and a large number of fragile legacy systems and no single 'version of the truth'.

Management Information has been brought formally under the remit of the Defence Authority for Information. To support the Defence Authority a Corporate & Management Information team has been established and a Management Information governance framework and strategy has been agreed. A Data Framework including an updated data strategy will be developed during 2016-17. It will be supported by a strategy for behavioural change for Management Information and a corresponding programme for implementation by March 2017. Various initiatives and applications are being implemented to improve automation of controls over the next year, including Contracting, Purchasing and Finance (CP&F) a single on-line end to end procurement system. More widely a new post of Director Performance and Analysis has been appointed to utilise management information and provide better insight to Defence, and specifically the Defence Board.

### *Business resilience*

Although business continuity is generally well established, business resilience is less mature. The Defence Critical Infrastructure Assets project, identifying Defence critical assets (including buildings, networks, people, systems, and processes) has been established with the objective of producing a Defence Sector Security and Resilience Plan. The plan will be completed by end March 2017, and will provide a view of current resilience, identifying a programme of improvement measures. The Defence Critical National Infrastructure Steering group will oversee this work.

### *Manpower and skills*

Recruitment and retention of staff and shortages in specific skills across the Department has been recognised as a common issue and is being actively managed by the Defence Board. A range of measures have already been implemented to address these issues and additional measures are planned which will be monitored by the Defence Board. It is recognised that some of these measures are of a long-term nature and will take time to affect and will benefit from oversight from the People Committee.

## **Conclusion**

The Department's corporate governance arrangements have continued to evolve during the course of the year. The overall trend is one of improvement as the Operating Model continues to mature. The important changes during the year through the implementation of the new risk reporting framework provides me with assurance on the Department's overall arrangements over the effectiveness of governance, risk management and internal controls and identifies areas needing closer attention. Given the complexity and size of the Department it is not unexpected that these mechanisms will identify more areas for improvement but I am satisfied that the mechanisms in place to identify and manage risks are adequate.

### **Stephen Lovegrove**

Accounting Officer

07 July 2016



# The Remuneration and Staff Report

(The Remuneration and Staff Report has been subject to audit)

## Remuneration Report

### Remuneration Policy

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

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

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

There is an established departmental procedure for the appointment of all Non-Executive Board Members (NEBMs). This requires a transparent recruitment and selection process, with appointment on merit, thus mirroring the Civil Service Commissioners' Recruitment Principles for permanent employees to the Civil Service. NEBMs appointed to the Defence Board receive a Letter of Appointment setting out, amongst other things, details of the agreed remuneration which is in line with the Bank of England's non-executive Directors of Court and in accordance with the *Corporate governance in central government departments: Code of good practice 2011 – Guidance Note*. 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 and, in common with that for other members of the Senior Civil Service (SCS), is subject to the rules and regulations imposed by the SSRB and the Cabinet Office. For the SCS below Permanent Secretary level, MOD implements its own pay and non-consolidated award arrangements within the Cabinet Office framework through an agreed pay strategy. Any non-consolidated award is based on a judgement of how well an individual has performed against their peers and awards are made to individuals judged to have made the highest in-year contribution to MOD's business objectives. There is no restriction on the nature of the contribution; the only requirement is that it benefits the Department or Defence more widely. Recommendations for awards – which are considered by moderation committees – must be linked to demonstrable evidence of delivery.

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.

All senior (2-star and above) military officers' (except for: the Chief of the Defence Staff (CDS), Legal Branch 2-star officers, medical and dental officers and those in the Chaplaincy branches) pay is dependant 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 2015-16 (2014-15: 2.6%).

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 the NEBM and identify ways this could be improved, and provide feedback.

### **Senior Managers' Contracts**

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

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

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 to September 2017.

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.

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

### **Management**

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

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

	2015-16				2014-15			
	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to the nearest £1,000)	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to the nearest £1,000)
<b>Secretary of State for Defence</b> The Rt Hon Michael Fallon MP (from 15 July 2014) <i>Full year equivalent salary</i>	67,505	Nil	27,000	94,000	48,088 67,505	Nil	15,000	63,000
<b>Minister of State for the Armed Forces</b> Penny Mordaunt MP (from 12 May 2015) <i>Full year equivalent salary</i>	28,103 31,680	Nil	8,000	36,000	Nil	Nil	Nil	Nil
The Rt Hon Mark Francois MP** (to 11 May 2015) <i>Full year equivalent salary</i>	3,577 31,680	Nil	18,000	22,000	31,680	Nil	11,000	43,000
<b>Minister of State for Defence Procurement</b> Philip Dunne MP*** (from 12 May 2015) <i>Full year equivalent salary</i>	30,629 31,680	Nil	Nil	31,000	22,375	Nil	Nil	22,000
<b>Minister of State and Spokesperson on Defence in the House of Lords</b> The Rt Hon The Earl Howe (from 12 May 2015)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Parliamentary Under-Secretary of State and Minister for Reserves</b> Julian Brazier MP (from 15 July 2014) <i>Full year equivalent salary</i>	22,375	Nil	6,000	29,000	15,939 22,375	Nil	4,000†	20,000†
<b>Parliamentary Under-Secretary of State and Minister for Defence Personnel and Veterans</b> Mark Lancaster TD MP (from 12 May 2015) <i>Full year equivalent salary</i>	19,849 22,375	Nil	7,000	27,000	Nil	Nil	Nil	Nil
<b>Minister of State for Defence Personnel, Welfare and Veterans</b> The Rt Hon Anna Soubry MP** (to 11 May 2015) <i>Full year equivalent salary</i>	3,577 31,680	Nil	15,000	18,000	29,004 31,680	Nil	10,000	39,000
<b>Parliamentary Under-Secretary of State and The Lords Spokesperson on Defence</b> The Rt Hon The Lord Astor of Hever DL (to 11 May 2015)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

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

\*\*The disclosures cover only the periods individuals were Ministers in the MOD. The actual total salary paid by the Department (including the balance of pay for the month in which they transferred Departments) was: for The Rt Hon Mark Francois MP £5,280 and for The Rt Hon Anna Soubry MP £5,280.

\*\*\*Philip Dunne MP was appointed as Parliamentary Under-Secretary of State for Defence Equipment, Support and Technology (including Defence Exports) on 5 September 2012 and as Minister of State for Defence Procurement on 12 May 2015.

†Restated to include pension information that was not available for disclosure in the 2014-15 Remuneration Report.

Ministers who, on leaving office, have not attained the age of 65 and are not appointed to a relevant Ministerial or other paid office within three weeks, are eligible for a tax free severance payment of one quarter of the annual salary being paid; no payments were made in 2015-16 (2014-15 – None).

## 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 – £74,000 pa with effect from 8 May 2015 (£67,060 pa with effect from 1 April 2014) and various allowances to which they are entitled, are borne centrally. The arrangements for Ministers in the House of Lords are different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and, if applicable would be shown in full above.

## 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 2014-15 value, is shown *in italics* (in bands of £2,500).

	Total Accrued Pension at Retirement as at 31 Mar 2016 £000	CETV* at 31 Mar 2015 or date of Appointment if Later £000	CETV* at 31 Mar 2016 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
<b>Secretary of State for Defence</b> The Rt Hon Michael Fallon MP	5 - 10 <i>0 - 2.5</i>	96	129	25
<b>Minister of State for the Armed Forces</b> Penny Mordaunt MP	0 - 5 <i>0 - 2.5</i>	5	11	2
The Rt Hon Mark Francois MP	0 - 5 <i>0 - 2.5</i>	47	58	11
<b>Minister of State for Defence Procurement</b> Philip Dunne MP***	Nil	Nil	Nil	Nil
<b>Minister of State and Spokesperson on Defence in the House of Lords</b> The Rt Hon The Earl Howe	Nil	Nil	Nil	Nil
<b>Parliamentary Under-Secretary of State and Minister for Reserves</b> Julian Brazier MP	0 - 5 <i>0 - 2.5</i>	5	13	5
<b>Parliamentary Under-Secretary of State and Minister for Defence Personnel and Veterans</b> Mark Lancaster TD MP	0 - 5 <i>0 - 2.5</i>	15	21	3
<b>Minister of State for Defence Personnel, Welfare and Veterans</b> The Rt Hon Anna Soubry MP	0 - 5 <i>0 - 2.5</i>	28	40	11
<b>Parliamentary Under-Secretary of State and The Lords Spokesperson on Defence</b> The Rt Hon The Lord Astor of Hever DL	Nil	Nil	Nil	Nil

\*CETV – Cash Equivalent Transfer Value.

\*\*The factors used to calculate the CETV at the start of the year were updated resulting in revised figures to those published last year.

\*\*\*Philip Dunne MP has chosen not to be covered by the Parliamentary Contributory Pension Fund during the reporting year.

The table below contains the pension disclosure for Mr Julian Brazier for 2014-15 – this information was not available at the time of publication of last year’s Remuneration Report:

	Total Accrued Pension at Retirement as at 31 Mar 15 £000	CETV at 31 Mar 14 or date of Appointment if Later £000	CETV at 31 Mar 15 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Parliamentary Under-Secretary of State and Minister for Reserves</b>				
Julian Brazier MP	0 - 5 0 - 2.5	Nil	5	4

### Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially-assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

### Real Increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee and uses common market valuation factors for the start and end of the period.

### 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/tools/library>



## Defence Board – Salaries, Allowances and Taxable Benefits-in-Kind

Chaired by the Secretary of State and including the Minister for the Armed Forces, the Defence Board is the main corporate board of the MOD. During the year the following served as members of the Defence Board.

	2015-16				2014-15					
	Salary £000 Ministers £	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000	Salary £000 Ministers £	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000
<b>Secretary of State for Defence</b> The Rt Hon Michael Fallon MP (from 15 July 2014) <i>Full year equivalent salary</i>	67,505	Nil	Nil	27,000	94,000	48,088 67,505	Nil	Nil	15,000	63,000
<b>Minister of State for Defence Procurement</b> Philip Dunne MP (from 12 May 2015) <i>Full year equivalent salary</i>	28,103 31,680	Nil	Nil	Nil	28,000	Nil	Nil	Nil	Nil	Nil
<b>Minister of State for the Armed Forces</b> The Rt Hon Mark Francois MP (to 11 May 2015) <i>Full year equivalent salary</i>	3,577 31,680	Nil	Nil	18,000	22,000	31,680	Nil	Nil	11,000	43,000
<b>Permanent Under-Secretary of State</b> Jonathan Thompson (from 3 September 2012)	185 - 190	Nil	Nil	59,000	240 - 245	180 - 185	15 - 20	Nil	52,000***	250 - 255***
<b>Chief of the Defence Staff</b> General Sir Nicholas Houghton GCB CBE ADC Gen (from 18 July 2013)	255 - 260	Nil	67,900	59,000	380 - 385	245 - 250	Nil	65,000	58,000	365 - 370
<b>Vice Chief of the Defence Staff</b> Air Chief Marshal Sir Stuart Peach GBE KCB ADC ADC DL (from 10 May 2013)	190 - 195	Nil	55,100	39,000	280 - 285	185 - 190	Nil	53400†	38,000	275 - 280
<b>Chief of Defence Materiel</b> Sir Bernard Gray†† (to 27 November 2015) <i>Full year equivalent salary</i>	145 - 150 220 - 225	95 - 100	16,700	56,000	315 - 320	220 - 225	45 - 50	23,800	83,000	375 - 380
<b>Director General Finance</b> Louise Tulett CBE (from 16 March 2015) <i>Full year equivalent salary</i>	105 - 110	10 - 15	Nil	68,000	185 - 190	0 - 5 105 - 110	Nil	Nil	3,000	5 - 10

	2015-16					2014-15				
	Salary £000 Ministers £	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000	Salary £000 Ministers £	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000
<b>Non-Executive Board Members</b>										
Sir Gerry Grimstone††† (from 15 September 2011)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Graham Williams (from 21 December 2011)	15 - 20	Nil	Nil	Nil	15 - 20	Nil	Nil	Nil	Nil	15 - 20
Paul Skimmer CBE††† (from 1 September 2014)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Danuta Gray††† (from 1 February 2015)	15 - 20	Nil	Nil	Nil	15 - 20	Nil	Nil	Nil	Nil	Nil

\*Where the current year's benefits-in-kind includes an element for the private use of official cars the figures are estimated. The agreement process with HMRC for military Board members concludes after publication of the accounts and any necessary restatement is published in the following year's accounts with changes indicated by a †.

\*\*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.

\*\*\*Restated due to a recalculation of the pension benefits.

†† Disclosures relate to the period up to the last meeting as a Defence Board member (last day as CDM was 30 November 2015). Sir Bernard Gray received two performance awards, both in the range £45,000-£50,000 which is within approvals delegated to the Department. Performance awards are usually paid in the year following the assessment period, but in this particular case all aspects of remuneration were finalised and paid at the end of the employment contract.

††† Sir Gerry Grimstone and Paul Skimmer have elected to waive the £15,000 fee to which they are entitled. Danuta Gray elected to waive fees due for 2014-15.

## 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 2015-16 but based on performance in an assessment period ended prior to the start of the financial year. The payment of business expenses e.g. travel costs incurred on duty, is not part of salary and is not disclosed above.

## Compensation for loss of office

Sir Bernard Gray left at the end of his fixed term contract on 31 December 2015. He received a compensation payment of £62,322.

## Defence Board Benefits-in-Kind

For civilian members of the Board the figures for benefits-in-kind represent the taxable benefit attributed to individuals where an official car is available for private use (the benefit accrues even if the individual chooses not to make use of the car). Individuals pay the tax liability to HMRC and are reimbursed by MOD; this liability is included in the figures above.

For military Board members the figures disclosed as benefits-in-kind combine the taxable value in respect of their occupation of official residences and the value attributed to individuals for their private use of official cars. For the disclosed benefits-in-kind the Department has arrangements under which MOD pays the tax liability that would normally be paid by the individual; this liability is included in the figures quoted.

## Pay Multiples

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

	2015-16	2014-15
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning military Board member in the table above.	£322,500	£312,500
Median total remuneration of Armed Forces personnel.	£35,842	£33,130
Ratio	9.1	9.4
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian Board member in the table above.	£347,500	£297,500
Median total remuneration of civilian staff.	£29,001	£28,285
Ratio	12.0	10.5

The military pay ratio has decreased due to the increase in the median pay of the rest of the Armed Forces. The increase is slightly off-set by the increase in the remuneration of the highest paid military Board member.

The remuneration of the highest paid civilian Board member, who left during the year, included performance awards for 2014-15 and 2015-16; this has resulted in the increase in the pay ratio.

In 2015-16 the remuneration of civilian employees ranged from £15,681 to £287,000 and no (2014-15: nil) civilian employees received remuneration in excess of the highest paid director.

## Defence Board – Pension Benefits

Pension benefits for individuals who served on the Defence Board are set out below. NEBMs are not employees and are therefore not enrolled in an employee related pension scheme. The real increase in the pension, from 2014-15, and where applicable the real increase in the lump sum payment, are shown in *italics*.

	Total Accrued Pension at Retirement as at 31 Mar 2016 £000	CETV at 31 Mar 2015 or date of Appointment if Later £000	CETV at 31 Mar 2016 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Secretary of State for Defence</b> The Rt Hon Michael Fallon MP	Pension <b>5 - 10</b> <i>0 - 2.5</i>	<b>96</b>	<b>129</b>	<b>25</b>
<b>Minister of State for Defence Procurement</b> Philip Dunne MP**	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Minister of State for the Armed Forces</b> The Rt Hon Mark Francois MP	Pension <b>0 - 5</b> <i>0 - 2.5</i>	<b>47</b>	<b>58</b>	<b>11</b>
<b>Permanent Under-Secretary of State</b> Jonathan Thompson	Pension <b>40 - 45*</b> <i>2.5 - 5</i> Lump Sum <b>Nil</b>	<b>609</b>	<b>718</b>	<b>45</b>
<b>Chief of the Defence Staff</b> General Sir Nicholas Houghton GCB CBE ADC Gen	Pension <b>145 - 150</b> <i>2.5 - 5</i> Lump Sum <b>435 - 440</b> <i>7.5 - 10</i>	<b>3,717</b>	<b>3,920</b>	<b>158</b>
<b>Vice Chief of the Defence Staff</b> Air Chief Marshal Sir Stuart Peach GBE KCB ADC ADC DL	Pension <b>95 - 100</b> <i>0 - 2.5</i> Lump Sum <b>285 - 290</b> <i>5 - 7.5</i>	<b>2,369</b>	<b>2,498</b>	<b>100</b>
<b>Chief of Defence Materiel</b> Sir Bernard Gray	Pension <b>25 - 30</b> <i>2.5 - 5</i> Lump Sum <b>Nil</b>	<b>294</b>	<b>354</b>	<b>25</b>
<b>Director General Finance</b> Louise Tulett CBE	Pension <b>20 - 25</b> <i>2.5 - 5</i> Lump Sum <b>60 - 65</b> <i>7.5 - 10</i>	<b>345</b>	<b>438</b>	<b>62</b>

\*This is less than the 2014-15 disclosure due to a correction of last years data by the pension provider.

\*\*Philip Dunne MP has chosen not to be covered by the Parliamentary Contributory Pension Fund during the reporting year.

## Pension Liabilities

The transactions and balances of the Armed Forces Pension Scheme (AFPS) (including the Gurkha Pension Scheme, the Non-Regular Permanent Staff Pension Scheme, the Reserve Forces Pension Scheme and other minor pension schemes covering locally employed personnel) and the Armed Forces Compensation Scheme are not consolidated in the financial statements. The funding for these schemes is voted separately by Parliament although the cost of administering the schemes falls to the MOD and is included in the accounts. Separate accounts are prepared for the schemes and can be found at: <https://www.gov.uk/government/publications/armed-forces-pension-scheme-annual-accounts-2012-13>

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

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

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

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

Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians in Germany, Cyprus and Gibraltar and the Merchant Navy Ratings Pension Fund; the liabilities for these unfunded schemes are included 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 assets (£179.6M) and liabilities (£182.7M) are included in the Group SoFP and the supporting notes – Note 12 (as amounts falling due after one year) and Note 14 (as amounts falling due after one year).

## Staff Report

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

Figures are for average full time equivalent staff for the Core Department and Agencies. Trading Fund, Royal Fleet Auxiliary (RFA) and Locally Engaged Civilian (LEC) staff are excluded.

	2015-16	2014-15
<b>SCS Pay Band</b>		
Band 1	210	190
Band 2	50	40
Band 3 and above	10	10

## Staff numbers

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

	2015-16		2014-15	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff				
Permanent staff	52,410	55,269	54,690	57,390
Temporary staff	120	183	160	227
Ministers and special advisers	8	8	8	8
Armed Forces	159,230	159,230	162,800	162,800
Totals	<b>211,768</b>	<b>214,690</b>	217,658	220,425

In order to align with the total pay costs incurred during the year, shown below, the calculation of the number of staff uses monthly statistics to identify an average number employed for the year. The figures reflect the number of personnel in organisations within the Departmental Boundary for the Annual Accounts and therefore exclude those in the Trading Funds. Locally Employed Civilians are included as permanent staff because the additional detail required to analyse the figures between permanent and temporary is not available. More information on the Department's staff numbers, and the statistical calculations used, is available on the website: <http://www.dasa.mod.uk>



## Staff costs

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

	2015-16		2014-15	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Staff costs comprise:				
Salaries and wages	7,841,613	7,916,213	8,063,815	8,134,952
Social security costs	576,365	586,470	601,647	611,675
Pension costs	3,209,935	3,217,931	2,142,524	2,148,713
Redundancy and severance payments	44,133	44,133	141,679	141,679
	<b>11,672,046</b>	<b>11,764,747</b>	10,949,665	11,037,019
Paid to:				
Armed Forces	9,471,757	9,471,757	8,639,041	8,639,041
Civilian	2,200,289	2,292,990	2,310,624	2,397,978
	<b>11,672,046</b>	<b>11,764,747</b>	10,949,665	11,037,019

For the year to 31 March 2016, of the total pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) for the Departmental Group in the table above, £301M (2014-15: £289M (restated from the £283M published in the 2014-15 accounts)) were payable in respect of the various schemes in which civilian staff were members. Contributions to the PCSPS in the same period were £289M (2014-15: £262M (restated from the £260M, published in the 2014-15 accounts)). The contribution rates are set by the Scheme actuary to meet the cost of the benefits accruing, to be paid when the member retires, not the benefits paid to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £2.1M (2014-15 £1.7M) were paid to appointed stakeholder pension providers. Employer contributions are age-related and ranged from 3% to 12.5% up to 30 September 2015 and from 8% to 14.75% from 1 October 2015 (2014-15 from 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £0.4M (2014-15 £0.3M restated from the £0.8M published in the 2014-15 accounts) representing 0.8% of pensionable pay up to 30 September 2015 and 0.5% from 1 October 2015 were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

The Armed Forces Pension Scheme is an unfunded, non-contributory, defined benefit, salary-related, contracted out, occupational pension scheme. For the year to 31 March 2016 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £2,917M (2014-15: £1,860M) based on employer's contribution rates determined by the Government Actuary.

## 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). Where the Department has agreed early retirements the costs are met by the MOD and not by the Civil Service Pension Scheme. The table includes 203 individuals who retired early on ill-health grounds during 2015-16 (2014-15 157); their total accrued pension liabilities for the year were £0.3M (2014-15 £0.2M).

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.

All Armed Forces redundancies are compulsory; the law does not provide for voluntary redundancy. While personnel are invited to apply for consideration, the Services may retain applicants, and make non-applicants redundant in their stead, in order to retain the right balance of skills and experience across the rank structures. Successful applicants are included in the table as 'other departures agreed'; non-applicants are listed as compulsory.

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band	
	2015-16	2014-15*	2015-16	2014-15*	2015-16	2014-15*
<£10,000	-	22	18	33	18	55
£10,000 - £25,000	9	270	205	617	214	887
£25,000 - £50,000	11	257	253	608	264	865
£50,000 - £100,000	3	113	129	209	132	322
£100,000 - £150,000	1	-	11	13	12	13
£150,000 - £200,000	1	-	4	2	5	2
£200,000 - £250,000	-	-	1	-	1	-
<b>Total Number of Exit Packages</b>	<b>25</b>	<b>662</b>	<b>621</b>	<b>1,482</b>	<b>646</b>	<b>2,144</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>Total Resource Cost</b>	<b>1.0</b>	<b>21.5</b>	<b>23.9</b>	<b>48.0</b>	<b>24.9</b>	<b>69.5</b>

\*The 2014-15 figures have been restated to include civilian exits from the Core Department – these details were not available at the time the 2014-15 Annual Report and Accounts were published.

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 Ministry of Defence Civil Servants has reduced slightly over the year. The Average Working Days Lost per person for the 12 months ending 31 March 2016 was 7.24. Mental and behavioral disorders continues to be the highest cause of sickness absence at 23% of all absences. The Department continue to review policy and initiatives to reduce sickness absence and improve health and wellbeing in the workplace.

## Staff Policies (disability) applied during the financial year

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

We are committed to developing an inclusive working environment, and to building Armed Forces that are diverse and fully representative of the UK workforce. This commitment is not just morally and legally right, it is fundamental to the successful delivery of Defence outputs now and in the future. Becoming a more diverse and inclusive organisation will enable us to widen the pool of talent from which we draw; improve decision making and operational effectiveness as a result of differing perspectives and wider cultural understanding; improve workforce engagement and morale; and enable us to build relations and support from the wide range of communities within British society. A Defence Diversity and Inclusion Programme (DDIP) has been established to deliver the step change required to place Diversity and Inclusion at the heart of all levels of the organisation and to achieve our challenging targets of recruiting 10% of new recruits into the Armed Forces from Black, Asian and Minority Ethnic communities and 15% women by 2020. Our approach to recruitment is an important part of the DDIP, but the programme is also focussed on driving real change in the core areas of leadership and culture change; retention and progression; and outreach.

The MOD's specific policy aim with regard to disability is that disabled staff should feel valued and supported; that line managers of disabled staff should have access to consistent advice and expertise; and reasonable adjustments will be made in a timely manner. A Reasonable Adjustments Service Team (RAST) was established in July 2014 to assist in the delivery of reasonable adjustments. Following a pilot of the provision of physical adjustments, the service was extended across Defence in January 2015 and was further expanded in July 2015 to include mental health adjustments. Since its launch the RAST has helped over 1000 people suffering from conditions such as back injuries, mobility issues, dyslexia, arthritis / rheumatism, vision impairment, and mental health by making adjustments (such as the provision of bespoke chairs and other furniture, IT hardware, car parking and return to work plans) providing advice or just listening to people wanting to talk about their experiences. In setting up the RAST, the Ministry of Defence has achieved improvements for disabled staff at functional and strategic levels. The lived experience for those individuals helped by the team has improved, helping the Department to achieve its stated aim to value and support disabled staff.

## Expenditure on consultancy and Temporary Staff

(This section has not been subject to audit)

The MOD and its on-Vote Agencies, Executive Non-Departmental Bodies and other Arms Length Bodies spent the following on consultancy and temporary staff (also known as Contingent Labour) in 2015-16:

Body (Note 1)	Consultancy (Note 2)	Contingent Labour (Note 3)
Main Department	£22,350,223	£84,068,975
<b>On-Vote Agencies</b>		
Defence Equipment & Support Bespoke Trading Entity	£26,031,000	£26,875,000
Defence Electronics & Components Agency	Nil	£135,335
<b>Executive Non-Departmental Public Bodies</b>	£53,654	£26,213
National Museum of the Royal Navy		
National Army Museum	£19,000	£62,600
Royal Air Force Museum	£47,045	£23,111
Single Source Regulations Office	Nil	£938,000
<b>Other Bodies</b>	Note 4	Note 4
Commonwealth War Graves Commission		
Royal Hospital Chelsea	£132,000	£280,000
Reserve Forces and Cadet Associations (RFCA)	£117,000	£319,000
<b>Total Expenditure 2015-16</b>	<b>£48,749,922</b>	<b>£112,728,234</b>

Note 1: Expenditure on consultancy and contingent labour incurred by the MOD's two Trading Funds (the Defence Science and Technology Laboratory and the UK Hydrographic Office) is accounted for outside the MOD's Departmental Accounting Boundary and therefore reported separately in the annual report and accounts of the individual Trading Funds.

Note 2: Consultancy is the provision of objective advice on strategy, structure, management or operations. It is provided when in-house skills are not available and is time limited. It covers the specialist areas of: finance, information technology, strategy, legal, property and construction, human resources and training, technical, marketing and communications, organisation and change management, procurement and programme and project management.

Note 3: Contingent Labour is the provision of individual temporary workers to cover business-as-usual or service-delivery activities, mainly under short-term arrangements. It covers the following classes of worker: temporary (or agency) workers (admin and clerical), interim managers (including senior qualified professionals) and specialist contractors (normally middle-to-senior grades providing expertise that is not available in house).

Note 4: MOD funding for the Commonwealth War Graves Commission is provided through a Grant in Aid. The Commission is not required to report the financial contribution the MOD makes towards any requirement the Commission may have for Consultancy and Contingent Labour, which may also be funded through other sources.

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. This has particularly been the case over the past few years as the Department has been going through a period of fundamental change in the way defence business is conducted. We have therefore needed to contract short term both for independent advice and for specialist skills which cannot currently be found among the permanent workforce, much of the activity being associated with the transformational programmes across defence arising from the implementation of Lord Levene's 2011 report on Defence Reform.

Historical expenditure on consultancy and contingent labour has been as follows:

Financial Year	Consultancy (£ million)	Contingent Labour (£ million)
2014-15	91.2	118.7
2013-14	90.3	99.3
2012-13	44.5	50.3
2011-12	18.3	49.2

## High-Paid Off-Payroll Appointments

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

The tables below provide information on the MOD's most highly paid off-payroll appointments. Government policy is that individual departments must themselves exercise governance over such appointments where the appointees are not engaged directly on departmental payrolls.

Table 1: For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months

	Main department	On-Vote Defence Agencies: Defence Equipment & Support Bespoke Trading Entity	Defence Electronics & Components Agency	Arms Length Bodies (Note 2)
<b>No. of existing engagements as of 31 March 2016 [Note 1]</b>	<b>461</b>	<b>192</b>	<b>Nil</b>	<b>Nil</b>
Of which...				
No. that have existed for less than one year at time of reporting.	<b>286</b>	<b>137</b>	<b>Nil</b>	<b>Nil</b>
No. that have existed for between one and two years at time of reporting.	<b>81</b>	<b>31</b>	<b>Nil</b>	<b>Nil</b>
No. that have existed for between two and three years at time of reporting.	<b>49</b>	<b>17</b>	<b>Nil</b>	<b>Nil</b>
No. that have existed for between three and four years at time of reporting.	<b>12</b>	<b>3</b>	<b>Nil</b>	<b>Nil</b>
No. that have existed for four or more years at time of reporting.	<b>33</b>	<b>4</b>	<b>Nil</b>	<b>Nil</b>

Note 1: We have reviewed the scope of governance in consultation with HM Treasury in the light of the tightening of government policy on off-payroll appointments. The Department is undertaking an exercise to reduce these numbers further. From 2015-16 we consider within scope of off-payroll governance all those high-paid appointees who we deem in substance to be MOD employees for tax purposes, including senior medical and dental staff from whom we have not previously sought assurance under HM Treasury's governance arrangements. The figures for 2015-16 are therefore not directly comparable with those for earlier years.

Note 2: The MOD's Arms Length Bodies are: the Defence Electronics & Components Agency, the National Museum of the Royal Navy, the National Army Museum, the Royal Air Force Museum and the Single Source Regulations Office. The MOD's Trading Funds (the Defence Science and Technology Laboratory and the UK Hydrographic Office) are outside the MOD's Departmental Accounting Boundary and report their High-Paid Off-Payroll Appointments in their own Annual Reports and Accounts.



Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months

	<b>Main department</b>	<b>On-Vote Defence Agencies: Defence Equipment &amp; Support Bespoke Trading Entity</b>	<b>Defence Electronics &amp; Components Agency</b>	<b>Arms Length Bodies [Note 3]</b>
<b>No. of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016 [Note 1]</b>	<b>473</b>	<b>220</b>	<b>Nil</b>	<b>Nil</b>
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	<b>107 [Note 3]</b>	<b>220</b>	<b>Nil</b>	<b>Nil</b>
No. for whom assurance has been requested	<b>473</b>	<b>196</b>	<b>Nil</b>	<b>Nil</b>
Of which...				
No. for whom assurance has been received	<b>40</b>	<b>144</b>	<b>Nil</b>	<b>Nil</b>
No. for whom assurance has not been received	<b>433</b>	<b>52</b>	<b>Nil</b>	<b>Nil</b>
No. that have been terminated as a result of assurance not being received.	<b>0</b>	<b>0</b>	<b>Nil</b>	<b>Nil</b>

Note 1: The MOD's Arms Length Bodies are: the National Museum of the Royal Navy, the National Army Museum, the Royal Air Force Museum and the Single Source Regulations Office. The MOD's Trading Funds (the Defence Science and Technology Laboratory and the UK Hydrographic Office) are outside the MOD's Departmental Accounting Boundary and are reporting their High-Paid Off-Payroll Appointments in their own Annual Reports and Accounts.

Note 2: We have reviewed the scope of governance in consultation with HM Treasury in the light of the tightening of Government policy on off-payroll appointments. From 2015-16 we consider within scope of off-payroll governance all those high-paid appointees who we deem in substance to be MOD employees for tax purposes, including senior medical and dental staff from whom we have not previously sought assurance under HM Treasury's governance arrangements. The figures for 2015-16 are therefore not directly comparable with those for earlier years.

Note 3: This figure reflects that numbers of off-payroll appointments have been made under legacy contracts that are no longer extant and that new categories of staff have been brought into scope in 2015-16 for the first time. We are ensuring that the appropriate contract provision allowing the MOD to seek assurance is made in new contracts for off-payroll appointees, but it is our policy is to seek assurance from off-payroll appointees whether or not there is specific enabling contract provision to do so.

Note 4: The MOD sought assurance from all its High-Paid Off-Payroll appointees that they paid the right amount of income tax and National Insurance Contributions on work undertaken for the Department during the 2015-16 financial year, except where they were also in scope of governance in 2014-15 and either (a) provided satisfactory assurance and left post early in the 2015-16 financial year (by 31 July 2015) or (b) were referred to HM Revenue & Customs for failing to provide satisfactory and have left the Department. In the interests of good governance, we have also sought assurance from appointees engaged under legacy contracts which have not been amended to include specific provision to seek evidence of compliance with the tax legislation, all new appointees being asked to sign a declaration on taking up an MOD engagement that they are compliant with the tax legislation and that they agree to provide the appropriate evidence of compliance when asked.

Note 5: The detailed assurance process starts after the end of the financial year to which it relates and assurance for 2015-16 is therefore still under way. Where satisfactory assurance is not forthcoming, the MOD will terminate contracts and refer the appointees involved to HM Revenue & Customs. If such action is necessary, this will be completed over the summer.

Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016

	Main department	On-Vote Defence Agencies: Defence Equipment & Support Bespoke Trading Entity	Defence Electronics & Components Agency	Arms Length Bodies (Note 3): National Museum of the Royal Navy	National Army Museum	Royal Air Force Museum	Single Source Regulatory Office
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	0	0	0	0	0	0	0
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility"	21 [Note 2]	9 [Note 3]	10	3	6	6	11

Note 1: The MOD's Trading Funds (the Defence Science and Technology Laboratory and the UK Hydrographic Office) are outside the MOD's Departmental Accounting Boundary and report their High-Paid Off-Payroll Appointments separately in their own Annual Reports and Accounts.

Note 2: This figure represents the ten members of the Defence Board and 11 officials with significant financial responsibility. The Defence Board comprises two Ministers, four executive members (including the MOD's Permanent Secretary), and the four Non-Executive Board Members in appointment in 2015-16. The 11 officials with significant financial responsibility are: the Top Level Budget Holders and Directors of Resources for Navy Command, Army Command, Air Command, Joint Forces Command and Head Office, and the Director of Commissioning Services who had the delegated financial responsibility for infrastructure projects for the Defence Infrastructure Organisation.

Note 3: This figure represents the nine members of the Defence & Equipment Support Board: the MOD's Permanent Secretary, three other executive members and five Non-Executive Board Members. The MOD's Permanent Secretary is also an executive member of the Defence Board (see Note 3).

# The Parliamentary Accountability and Audit Report

## Statement of Parliamentary Supply (SoPS)

(This section has been subject to audit)

### Summary of Resource and Capital Outturn 2015-16

	Note	Voted £000	Non Voted £000	Estimate		Outturn		2015-16 Total Voted Outturn Compared to Estimate Saving/ (Excess) £000	2014-15 Outturn £000
				Total £000	Voted £000	Non Voted £000	Total £000		
<b>Departmental Expenditure Limit</b>									
Resource	SoPS 1.1	36,293,062	-	36,293,062	35,252,526	-	35,252,526	1,040,536	35,105,038
Capital	SoPS 1.2	7,621,789	-	7,621,789	7,573,962	-	7,573,962	47,827	7,785,722
<b>Annually Managed Expenditure</b>									
Resource	SoPS 1.1	8,160,170	-	8,160,170	6,103,323	-	6,103,323	2,056,847	1,864,306
Capital	SoPS 1.2	100,000	-	100,000	29,130	-	29,130	70,870	50,559
<b>Total Budget</b>		<b>52,175,021</b>	<b>-</b>	<b>52,175,021</b>	<b>48,958,941</b>	<b>-</b>	<b>48,958,941</b>	<b>3,216,080</b>	<b>44,805,625</b>
<b>Non-budget</b>									
Resource		953,000	-	953,000	787,212	-	787,212	165,788	-
<b>Total</b>		<b>53,128,021</b>	<b>-</b>	<b>53,128,021</b>	<b>49,746,153</b>	<b>-</b>	<b>49,746,153</b>	<b>3,381,868</b>	<b>44,805,625</b>
Total Resource	SoPS 2	45,406,232	-	45,406,232	42,143,061	-	42,143,061	3,263,171	36,969,344
Total Capital		7,721,789	-	7,721,789	7,603,092	-	7,603,092	118,697	7,836,281
<b>Total</b>		<b>53,128,021</b>	<b>-</b>	<b>53,128,021</b>	<b>49,746,153</b>	<b>-</b>	<b>49,746,153</b>	<b>3,381,868</b>	<b>44,805,625</b>

The Department has Prior Period Adjustments (PPAs), details of which can be found in Note 22 of the accounts. It is proper for the department to seek Parliamentary authority for the provision that should have been sought previously; this has been included within voted Supply in the Estimate.

Further details of the Department's Estimate and Outturn are included in the Management Commentary.

### Net Cash Requirement 2015-16

	Note	Estimate £000	Outturn £000	2015-16 Outturn compared to Estimate: Savings/ (Excess) £000	2014-15 Outturn £000
<b>Net Cash Requirement</b>	SoPS 3	<b>36,446,183</b>	<b>35,057,154</b>	<b>1,389,029</b>	<b>35,850,310</b>

## Administration Costs 2015-16

	Estimate £000	2015-16 Outturn £000	Outturn compared with Estimate £000	2014-15 Outturn £000
Administration Costs	1,520,820	1,505,325	15,495	1,473,704

### SoPS Note 1 Net Outturn

#### SoPS Note 1.1 – Analysis of Net Resource Outturn

Spending in Departmental Expenditure Limits (DEL) Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared to Estimate £000	2015-16 Total Net Outturn Compared to Estimate Adjusted for Virements £000	2014-15 Total Net Resource Outturn* £000
A. Provision of Defence Capability - Service Personnel Costs*	-	8,688,284	-	8,688,284	8,653,628	(34,656)	-	7,878,834
B. Provision of Defence Capability - Civilian Personnel Costs*	-	1,282,598	-	1,282,598	1,293,398	10,800	10,800	1,937,614
C. Provision of Defence Capability - Infrastructure Costs	-	4,127,877	-	4,127,877	4,112,049	(15,828)	-	4,576,992
D. Provision of Defence Capability - Inventory Consumption	-	1,458,575	-	1,458,575	1,483,904	25,329	3,873	1,661,847
E. Provision of Defence Capability - Equipment Support Costs	-	6,308,897	-	6,308,897	6,349,365	40,468	-	6,343,245
F. Provision of Defence Capability - Other Costs and Services*	-	1,712,903	-	1,712,903	1,616,842	(96,061)	30	1,804,274
G. Provision of Defence Capability - Receipts and Other Income	-	-	(990,842)	(990,842)	(968,617)	22,225	22,225	(1,091,806)
H. Provision of Defence Capability - Depreciation and Impairment Costs	-	7,690,147	-	7,690,147	8,590,988	900,841	900,841	8,187,241
I. Provision of Defence Capability - Cash Release of Provisions	-	238,288	-	238,288	234,220	(4,068)	-	201,855
N. Provision of Defence Capability - Research and Development Costs	-	892,689	-	892,689	981,408	88,719	-	1,000,606
Q. Operations - Service Personnel Staff Costs	-	12,864	-	12,864	8,100	(4,764)	-	85,480
R. Operations and Peacekeeping - Civilian Personnel Staff Costs	-	3,962	-	3,962	4,200	238	238	6,036
S. Operations - Infrastructure Costs	-	48,926	-	48,926	49,500	574	494	86,516
T. Operations - Inventory Consumption	-	56,224	-	56,224	55,000	(1,224)	-	160,055
U. Operations - Equipment Support Costs	-	143,437	-	143,437	176,300	32,863	23,767	184,400
V. Operations - Other Costs and Services	-	18,607	-	18,607	15,499	(3,108)	-	126,827
W. Operations - Receipts and Other Income	-	-	(9,969)	(9,969)	(9,000)	969	-	(40,914)
X. Operations - Depreciation and Impairment Costs	-	21,029	-	21,029	25,000	3,971	3,971	322,349
Operations - Cash Release of Provisions	-	-	-	-	-	-	-	2,869

Spending in Departmental Expenditure Limits (DEL) Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared to Estimate £000	2015-16	2014-15
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Resource Outturn* £000
AA. Operations - Research and Development Costs	-	1,249	-	1,249	200	(1,049)	-	11,475
AB. Arm's Length Bodies Costs	-	164,842	-	164,842	202,115	37,273	37,273	130,021
AD. Defence Capability DE&S BTE*	-	1,028,443	-	1,028,443	1,036,622	8,179	8,179	-
AE. War Pensions Benefits*	-	794,774	-	794,774	801,411	6,637	6,637	-
AF. Conflict, Stability and Security Fund	-	53,519	(122)	53,397	60,110	6,713	6,713	55,518
<b>Administration Costs**</b>								
O. Administration Costs - Civilian Personnel Costs	403,342	-	-	403,342	400,575	(2,767)	-	371,688
P. Administration Costs - Other Costs and Services	465,947	-	-	465,947	495,365	29,418	13,372	463,849
AC. Administration Costs - Service Personnel Costs	617,879	-	-	617,879	604,600	(13,279)	-	623,716
AG. Administration Costs - Cash Release of Provisions	18,157	-	-	18,157	20,280	2,123	2,123	14,451
<b>Total Spending in DEL</b>	<b>1,505,325</b>	<b>34,748,134</b>	<b>(1,000,933)</b>	<b>35,252,526</b>	<b>36,293,062</b>	<b>1,040,536</b>	<b>1,040,536</b>	<b>35,105,038</b>

\* AD. Defence Capability DE&S BTE is a new sub-head (recording the outturn for DE&S BTE) for 2015-16. Sub head AE. War Pensions Benefits has moved from Resource AME in previous years to Resource DEL from 2015-16 onwards.  
\*\* The Department does not receive any Administrative income.

Spending in Annually Managed Expenditure (AME) Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	Total Net Outturn Compared with Estimate £000	2015-16	2014-15
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Resource Outturn* £000
AH. Provision of Defence Capability - Depreciation and Impairment Costs	-	562,876	-	562,876	909,412	346,536	346,536	450,416
AI. Provision of Defence Capability - Provisions Costs	-	6,096,468	-	6,096,468	7,205,258	1,108,790	1,108,790	679,896
AJ. Provision of Defence - Cash Release of Provisions Costs	-	(256,445)	-	(256,445)	(254,500)	1,945	1,945	(216,306)
AK. Movement on the Fair Value of Financial Instruments	-	(299,576)	-	(299,576)	300,000	599,576	599,576	42,768
<i>Operations - Depreciation and Impairment Costs</i>	-	-	-	-	-	-	-	10,757
<i>Operations - Provisions</i>	-	-	-	-	-	-	-	61,995
<i>Operations - Cash Release of Provisions Costs</i>	-	-	-	-	-	-	-	(2,869)
<i>War Pensions Benefits Programme costs</i>	-	-	-	-	-	-	-	837,649
<b>Total Spending in AME</b>	<b>-</b>	<b>6,103,323</b>	<b>-</b>	<b>6,103,323</b>	<b>8,160,170</b>	<b>2,056,847</b>	<b>2,056,847</b>	<b>1,864,306</b>
<b>Total Resource Outturn</b>	<b>1,505,325</b>	<b>40,851,457</b>	<b>(1,000,933)</b>	<b>41,355,849</b>	<b>44,453,232</b>	<b>3,097,383</b>	<b>3,097,383</b>	<b>36,969,344</b>

## SoPS Note 1.2 – Analysis of Net Capital Outturn

Capital Spending in Departmental Expenditure Limits (DEL) Capital - Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Total Net Outturn Compared with Estimate £000	2015-16	2014-15
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Capital Outturn £000
J. Provision of Defence Capability - Capital - Single Use Military Equipment (SUME)	-	5,238,285	-	5,238,285	4,860,517	(377,768)	-	4,870,897
K. Provision of Defence Capability - Other Capital (Fiscal)	-	2,620,434	-	2,620,434	2,835,693	215,259	-	3,210,988
L. Provision of Defence Capability - Fiscal Assets / Estate Disposal	-	-	(423,365)	(423,365)	(229,932)	193,433	30,924	(250,881)
M. Provision of Defence Capability - New Loans and Loan Repayments	-	-	(3,220)	(3,220)	(3,218)	2	2	(56,626)
Y. Operations Capital Single Use Military Equipment (SUME)	-	51,862	-	51,862	62,000	10,138	10,138	17,908
Z. Operations Other Capital (Fiscal)	-	1,020	-	1,020	3,000	1,980	1,980	(8,978)
AB. Arm's Length Bodies	-	2,322	-	2,322	2,559	237	237	2,414
AD. Defence Capability DE&S BTE	-	86,624	-	86,624	91,170	4,546	4,546	-
<b>Total Capital Spending in DEL</b>	<b>-</b>	<b>8,000,547</b>	<b>(426,585)</b>	<b>7,573,962</b>	<b>7,621,789</b>	<b>47,827</b>	<b>47,827</b>	<b>7,785,722</b>

Capital Spending in Annually Managed Expenditure (AME) Capital - Voted Expenditure	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	Total Net Outturn Compared with Estimate £000	2015-16	2014-15
							Total Net Outturn Compared to Estimate Adjusted for Virements £000	Total Net Capital Outturn £000
Al. Provision of Defence Capability - Provisions Costs	-	29,130	-	29,130	100,000	70,870	70,870	50,559
<b>Total Capital Spending in AME</b>	<b>-</b>	<b>29,130</b>	<b>-</b>	<b>29,130</b>	<b>100,000</b>	<b>70,870</b>	<b>70,870</b>	<b>50,559</b>
<b>Total Capital Outturn</b>	<b>-</b>	<b>8,029,677</b>	<b>(426,585)</b>	<b>7,603,092</b>	<b>7,721,789</b>	<b>118,697</b>	<b>118,697</b>	<b>7,836,281</b>



## SoPS Note 2 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	2015-16 Outturn £000	2014-15 Outturn £000
<b>Net Resource Outturn (Statement of Parliamentary Supply)</b>	SoPS	<b>41,355,849</b>	36,969,344
<b>Non Budget</b>	SoPS	<b>787,212</b>	-
Adjustment for changes in discount rates not passing through net operating costs		2,728	(43,798)
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		75,297	66,527
Income in respect of donated assets treated as capital income		(203)	(6,957)
Loss / (gain) on foreign exchange contracts in respect of Capital purchases		22,200	67,090
Add capital grants included in operating costs but excluded from resource outturn		2,322	2,414
Equity Withdrawal from investments in Trading Funds, and other receipts - recorded as income in Operating Costs and Capital in the SoPS		(262,111)	(213,842)
Prior Period Adjustments not passing through operating costs: capital expenditure and increase in prior period nuclear decommissioning provisions treated as non-budget in 2015-16 resource outturn		(787,212)	-
<b>Net Operating Cost</b>		<b>41,196,082</b>	36,840,778

## SoPS Note 3 Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net Total Outturn Compared with Estimate: Savings/(Excess) £000
Net Resource Outturn	SoPS 1.1	45,406,232	42,143,061	3,263,171
Net Capital Outturn	SoPS 1.2	7,721,789	7,603,092	118,697
Adjustments for Arm's Length Bodies (ALBs):				
Remove voted outturn (Resource and Capital)		(204,674)	(167,164)	(37,510)
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		195,195	182,255	12,940
Adjustments to remove non-cash items:				
Depreciation		(9,825,400)	(8,293,778)	(1,531,622)
New provisions and adjustments to previous provisions		(7,205,402)	(6,091,857)	(1,113,545)
Prior period adjustments		(953,000)	(787,212)	(165,788)
Other non-cash items		5,943	103,066	(97,123)
Adjustment to reflect movement in working capital				
Increase / (Decrease) in Inventory		150,000	(106,317)	256,317
Increase / (Decrease) in Receivables		200,000	(213,885)	413,885
(Increase) / Decrease in Payables		701,000	456,347	244,653
Use of provisions		254,500	229,546	24,954
<b>Net Cash requirement</b>		<b>36,446,183</b>	<b>35,057,154</b>	<b>1,389,029</b>

## Fees and Charges

*(This section has been subject to audit)*

Where the Department has spare capacity, it provides a range of services to external organisations. The majority of these services are in the form of military support to foreign governments and other government departments. Where appropriate, costs are recovered in accordance with Managing Public Money. Where a chargeable activity produces a tangible benefit to Defence, the Department has authority to abate charges below full costs.

## Remote Contingent Liabilities and Financial Guarantees

(This section has been subject to audit)

The MOD has entered into the following contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of International Accounting Standard 37 (IAS 37) as the likelihood of a transfer of economic benefit in settlement is too remote. Details of restricted indemnities are not given due to reasons of commercial confidentiality and / or national security.

### Quantifiable

	1 April 2015 £000	Increase / (Decrease) in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2016 £000	Amount reported to Parliament by Departmental Minute £000
Unrestricted - Indemnities						
Risk to contractors at MOD establishments	-	108,000	-	-	108,000	-
Remediation costs associated with the discovery of unknown environmental contamination at the Fleetlands site	17,000	-	-	-	17,000	-
Government Pipeline and Storage System (GPSS) - compensation for loss of rights	5,456	-	-	-	5,456	-
Liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force	2,598	(249)	-	-	2,349	-
Potential redundancy costs for employees at the Defence College of Technical Training	1,900	-	-	-	1,900	-
Government Pipeline and Storage System (GPSS) - compensation to landowners	150	-	-	-	150	-
Fair Deal for Staff Pensions: staff transfers from Central Government	187	-	-	(177)	10	-
Indemnity to Help for Heroes and Royal British Legion should recovery centres have a change in use within ten years	4,889	-	-	(4,889)	-	-
Residual liability for the remediation of unidentified contamination in parts of the former Rosyth Naval Base which has been sold to Rosyth 2000 plc	1,000	-	-	(1,000)	-	-
<b>Total</b>	<b>33,180</b>	<b>107,751</b>	<b>-</b>	<b>(6,066)</b>	<b>134,865</b>	<b>-</b>

### Unquantifiable

- Indemnity given in relation to the disposal of Gruinard Island in the event of claims arising from the outbreak of specific strains of anthrax on the Island.
- Indemnities to the Babcock Group in respect of nuclear risks under the Nuclear Installations Act 1965.
- Indemnities to the Babcock Group in respect of non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party.
- Indemnity to Rolls-Royce Power for the non-insurance of the Rolls-Royce Core Factory and the Neptune Test Reactor facility for death and personal injury to a third party.
- Indemnity for residual employee disease liability arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.
- Indemnity for residual public liability arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.

- Indemnity for environmental losses incurred by QinetiQ arising from certain defined materials at specific properties before the formation of QinetiQ on 1 July 2001.
- Indemnity for contractors under standard contract terms for Joint Operational Fuel Systems and F3EA (Find, Fix, Finish, Exploit, Analyse) contracts.
- Indemnities under standard terms to contractors for contractors' personnel on Government premises for Sensors Support Optimisation Project and the Puma Mark 2 Helicopter Interim Support Arrangement.
- Indemnity under standard terms to contractors for the CERBERUS project.
- The Department has offered an indemnity under standard terms to the operator of the Apache helicopter integrated operational support contract.
- Indemnity in respect of nuclear risk in support of framework contracts under Next Generation Estate Contracts.

The Department has entered into two financial guarantee contracts, neither of which is a contingent liability within the meaning of IAS 37 since the likelihood of transfer of economic benefit in settlement is too remote. The probability of payments under these guarantees is very low and the likely liability (fair value) as at year end is assessed as nil. Details of the guarantees are:

- Under the terms of the contract with TNT Ltd for the Government Records Management and Archive Service, MOD guarantees to pay the operator should any other government department fail to settle its outstanding invoices. The total value of invoices outstanding against all government departments as at 31 March 2016 was nil.
- 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.

## Regularity of Expenditure

*(This section has been subject to audit)*

## Losses, Special Payments and Gifts

Further information on losses and special payments is provided in HM Treasury's Managing Public Money and can be found on [www.gov.uk](http://www.gov.uk)

### Losses

	2015-16		2014-15	
	Number of Cases	£000	Number of Cases	£000
Bookkeeping Adjustments	18	32,435	23	178,507
Cash and Overpayment Losses	846	330	251	641
Stores Losses	7,219	13,163	7,749	41,973
Fruitless Payments	3,179	44,382	2,165	34,273
Constructive Losses	11	452,407	37	1,184,638
Claims Waived or abandoned	1,681	1,522	5,659	3,379
<b>Total Losses</b>	<b>12,954</b>	<b>544,239</b>	<b>15,884</b>	<b>1,443,411</b>

<b>Details of closed cases over £300,000:</b>	<b>£000</b>
<b>Bookkeeping Adjustments</b>	
Write-off of unsupported balances. The loss consists of balances that could not be verified with the information available. This loss consists of three cases.	31,469
<b>Stores Losses</b>	
Damage, on landing, to a Remotely Piloted Aircraft.	6,116
Stores discrepancies identified during stock take.	410
<b>Fruitless Payments</b>	
In granting MOD retrospective contract approvals HM Treasury has imposed a fine on the Department.	31,600
Interest payment due to HM Revenue & Customs on a Value Added Tax liability. This consists of six cases.	7,086
The MOD's Budget for 2016-17 has been reduced as a result of the Department's cash forecasting performance during 2015-16.	2,288
Repairs to leased equipment.	857
<b>Constructive Losses</b>	
Early withdrawal from service of four Type 22 Frigates.	413,409
Withdrawal from the Typhoon engine In Service Support System as a review determined that the majority of the system is no longer required.	22,308
The buy out of a lease arrangement which was terminated early as part of a departmental Value for Money decision.	14,400
Costs incurred on early termination of a contract.	1,324
Contract cancelled due to specification requirement not being met.	950
<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.	532
<b>Total Closed Cases Over £300,000</b>	<b>532,749</b>

<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.</b>	<b>£000</b>
<b>Cash and Overpayment Losses</b>	
JPA Discharged Debtors - Legacy debts which are too old to recover.	916
<b>Stores Losses</b>	
Accident involving a Puma Helicopter in Afghanistan.	12,473
Damage, on landing, to a Remotely Piloted Aircraft.	5,200
Vehicle destroyed by fire during a training exercise.	657
<b>Fruitless Payments</b>	
Interest payment due to HM Revenue & Customs on a Value Added Tax liability. This consists of two cases.	998
<b>Total Advance Notifications Over £300,000</b>	<b>20,244</b>

## Special Payments

	2015-16		2014-15	
	Number of Cases	£000	Number of Cases	£000
<b>Total Special Payments - closed cases</b>	<b>195</b>	<b>3,524</b>	<b>419</b>	<b>8,593</b>

<b>Details of closed cases over £300,000:</b>	<b>£000</b>
Extra contractual payments to two contractors to settle a legal challenge.	2,200

## Special Severance Payments

<b>During the year 11 Special Severance Payments totalling £192,000 were made. Further details (to the nearest £1,000) are:</b>	
Maximum Payment	£55,000
Median Payment	£15,000
Minimum Payment	£2,200

## Gifts

<b>Gifts with a total value of £7,735,000 (to the nearest £1,000) were made during the year, including the following individual gifts over £300,000:</b>	<b>£000</b>
Non-lethal command, control and protective equipment to the Government of Jordan.	2,415
Military equipment to the Government of Iraq.	2,075
Surplus Counter Improvised Explosive Device equipment to the Government of the Islamic Republic of Pakistan.	988
Various winterized items to the Government of Ukraine.	971
Surplus Counter Improvised Explosive Device equipment to the Government of Iraq.	504
Thermal imagery equipment and quad bikes to The Government of the Republic of Kazakhstan.	402
	<b>7,355</b>

<b>The following gifts over £300,000 were identified during the year and have yet to be handed over to the recipient.</b>	<b>£000</b>
Surplus service family accommodation to the Northern Ireland Executive.	3,500
Land Rovers to the Government of Bulgaria.	443
Medical supplies to the Kurdish Regional Government.	300
	<b>4,243</b>

## Long Term Expenditure Trend table by category

(This section has not been subject to audit)

Financial Performance	Resource (£'000)						Capital (£'000)									
	Estimate 2017-18	Estimate 2016-17	Estimate 2015-16	Outturn 2015-16	Outturn 2014-15	Outturn 2013-14	Outturn 2012-13	Outturn 2011-12	Estimate 2017-18	Estimate 2016-17	Estimate 2015-16	Outturn 2015-16	Outturn 2014-15	Outturn 2013-14	Outturn 2012-13	Outturn 2011-12
<b>Total DEL - Core</b>	<b>35,943,018</b>	<b>35,022,201</b>	<b>35,908,153</b>	<b>34,902,800</b>	<b>34,104,427</b>	<b>34,610,735</b>	<b>33,603,707</b>	<b>35,005,815</b>	<b>8,492,692</b>	<b>8,127,000</b>	<b>7,556,789</b>	<b>7,521,080</b>	<b>7,776,792</b>	<b>7,446,265</b>	<b>7,337,733</b>	<b>8,237,077</b>
Administration Service Personnel Costs	590,000	590,000	604,600	617,879	623,716											
Service Personnel Costs	9,604,914	8,896,910	8,653,628	8,688,284	7,878,834	9,046,632	9,400,516	9,822,628								
Administration Civilian Personnel Costs	395,000	400,000	400,575	403,342	371,688	2,112,064	2,134,313	2,673,630								
Civilian Personnel Costs	2,283,661	1,788,930	1,293,398	1,282,598	1,937,614	192,110	200,829	214,603								
Administration Other Costs & Service	513,000	473,000	495,365	465,947	463,849	17,139	44,548	18,316								
Other Costs & Service	1,940,501	1,519,785	1,616,842	1,712,903	1,804,274	1,790,894	1,500,622	1,339,536								
Infrastructure Costs	4,287,520	3,877,017	4,112,049	4,127,877	4,576,992	4,545,389	4,428,812	4,365,665								
Inventory Consumption	1,669,135	1,586,958	1,483,904	1,458,575	1,661,847	1,765,487	1,749,176	1,740,806								
Equipment Support Costs	6,442,605	6,094,910	6,349,365	6,308,897	6,343,245	6,065,557	5,161,399	5,625,988								
Research and Development	64,682	61,144	981,408	892,689	1,000,606	971,008	944,069	833,485								
Receipts and Other Income	-1,081,000	-977,270	-968,617	-990,842	-1,091,806	-1,169,263	-1,248,867	-1,283,873								
Administration Cash Release of Provisions			20,280	18,157	14,451											
Cash Release of Provisions		265,000	234,220	238,288	201,855	175,030	203,010	176,464								
Depreciation & Impairments Costs	8,500,000	8,490,070	8,590,988	7,690,147	8,187,241	8,911,222	8,958,447	9,291,756								
Depreciation & Impairments Costs Non Departmental Bodies			9,930	9,012	16,758	NA	NA	NA								
DE&S BTE		1,000,209	1,036,622	1,028,443	NA	NA	NA	NA								
Non Departmental Public Bodies		184,608	193,103	148,084	130,021	187,466	126,833	186,791								
Capital Single Use Military Equipment									4,051,144	4,026,647	4,860,517	5,238,285	4,870,897	4,455,379	4,395,170	4,828,748
Capital - Fiscal									2,755,725	2,399,337	2,835,693	2,620,434	3,210,988	3,037,505	3,008,738	3,536,232
Fiscal Assets/Estate Disposal									-251,000	-193,000	-229,932	-423,365	-250,881	-43,573	-63,685	-149,657
New Loans and Loan Repayment									15,823	-4,100	-3,218	-3,220	-56,626	-5,573	-5,519	-5,469
Research and Development									1,921,000	1,800,281						
Capital - Other Costs and Services																25,000
Capital - Fiscal Non Departmental Public Bodies									2,493	2,559	2,527	2,322	2,414	2,527	3,029	2,223
DE&S BTE									95,342	91,170	86,624	NA	NA	NA	NA	NA
War Pensions Benefits		733,000	761,000	801,411	794,774											
<b>Total DEL - Core</b>	<b>35,943,018</b>	<b>35,022,201</b>	<b>35,908,153</b>	<b>34,902,800</b>	<b>34,104,427</b>	<b>34,610,735</b>	<b>33,603,707</b>	<b>35,005,815</b>	<b>8,492,692</b>	<b>8,127,000</b>	<b>7,556,789</b>	<b>7,521,080</b>	<b>7,776,792</b>	<b>7,446,265</b>	<b>7,337,733</b>	<b>8,237,077</b>



## Long Term Expenditure Trend Annually Managed Expenditure

Financial Performance		Resource and Capital AME (£'000)					
Spending in Annually Managed Expenditure (AME) (excluding Operations)	Estimate 2016-17	Estimate 2015-16	Outturn 2015-16	Outturn 2014-15	Outturn 2013-14	Outturn 2012-13	Outturn 2011-12
<b>Total AME - Core</b>	<b>1,255,000</b>	<b>8,260,170</b>	<b>6,132,453</b>	<b>1,844,982</b>	<b>831,335</b>	<b>1,822,537</b>	<b>953,250</b>
Depreciation & Impairments Costs	920,000	909,412	562,876	450,416	-208,143	1,062,365	509,557
Provision Costs	300,000	7,205,258	6,096,468	679,896	141,371	307,375	-467,009
Cash Release of Provisions	-265,000	-254,500	-256,445	-216,306	-200,392	-237,141	-342,499
Movement On Fair Value Of Financial Instruments	300,000	300,000	-299,576	42,768	368,147	-182,527	347,133
War Pensions Benefits				837,649	858,964	907,817	915,683
Capital AME - Provisions Costs		100,000	29,130	50,559	-128,612	-35,352	-9,615
<b>Total AME - Core</b>	<b>1,255,000</b>	<b>8,260,170</b>	<b>6,132,453</b>	<b>1,844,982</b>	<b>831,335</b>	<b>1,822,537</b>	<b>953,250</b>

There is no agreed AME budget for 2017-18, it is agreed with HM Treasury only one year in advance

## Long-Term Expenditure Trend table MOD Equipment Plan 2012-13 to 2024-25

		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
<b>Departmental Headroom</b>	Total EP					0	0	0	0	0	0	150	902	1,100	2,152
<b>Headroom</b>	Navy Command					0	0	73	186	196	193	151	0	0	799
	Army Command					0	0	438	935	944	1,103	508	0	0	3,928
	Air Command					0	31	147	247	250	265	160	0	0	1,100
	Joint Forces Command					0	114	210	318	322	308	224	0	0	1,496
	Total EP					0	145	868	1,686	1,712	1,869	1,043	0	0	7,323
<b>Contingency</b>	Total EP					0	95	215	350	600	600	800	800	800	4,260
<b>JFC</b>	Equipment Procurement Programme					626	620	609	721	567	454	407	426	380	4,810
	Equipment Support Programme					1,784	1,610	1,474	1,583	1,638	1,701	1,711	1,760	1,784	15,045
	Total EP					2,410	2,230	2,083	2,304	2,205	2,155	2,118	2,186	2,164	19,855
<b>Air Command</b>	Equipment Procurement Programme					1,610	1,507	1,107	742	734	685	723	608	552	8,268
	Equipment Support Programme					1,942	2,358	2,225	1,922	1,822	1,862	1,853	1,766	1,844	17,594
	Total EP					3,552	3,865	3,332	2,664	2,556	2,547	2,576	2,374	2,396	25,862
<b>Army Command</b>	Equipment Procurement Programme					495	976	1,063	1,284	1,474	1,519	1,365	1,195	788	10,159
	Equipment Support Programme					1,253	1,161	1,361	1,195	1,209	1,267	1,301	1,316	1,360	11,423
	Total EP					1,748	2,137	2,424	2,479	2,683	2,786	2,666	2,511	2,148	21,582
<b>Navy Command</b>	Equipment Procurement Programme					1,344	1,132	968	934	938	1,018	942	977	847	9,100
	Equipment Support Programme					1,600	1,903	1,944	2,051	2,138	2,134	2,222	2,229	2,278	18,499
	Total EP					2,944	3,035	2,912	2,985	3,076	3,152	3,164	3,206	3,125	27,599
<b>DE&amp;S</b>	Equipment Procurement Programme					0	0	0	0	0	0	0	0	0	0
	Equipment Support Programme					-98	-83	-88	-101	-155	-89	-157	-93	-95	-959
	Total EP					-98	-83	-88	-101	-155	-89	-157	-93	-95	-959
<b>Strat Progs</b>	Equipment Procurement Programme					2,256	2,440	2,591	2,796	2,876	3,117	3,328	3,688	3,801	26,893
	Equipment Support Programme					1,790	1,849	1,941	1,895	1,844	1,859	1,894	1,957	1,875	16,904
	Total EP					4,046	4,289	4,532	4,691	4,720	4,976	5,222	5,645	5,676	43,797
<b>Grand Total</b>		<b>13,003</b>	<b>13,873</b>	<b>14,470</b>	<b>14,667</b>	<b>14,602</b>	<b>15,713</b>	<b>16,278</b>	<b>17,058</b>	<b>17,397</b>	<b>17,996</b>	<b>17,432</b>	<b>16,629</b>	<b>16,214</b>	<b>205,332</b>

Note 1: Prior to 2014-15, the Equipment Plan was managed by MOD Head Office.

Note 2: In 2014-15, the Equipment Plan Budget is delegated to Front Line Commands and Strategic Programmes.

Note 3: There has been a small increase in the overall size of the equipment budget, driven in the main by the effect of the roll forward. The roll-forward is the movement of the ten year window by one year to the right; the new year in the plan (2024-25 in ABC 15) is generally significantly higher than the year that drops out (2014-15) because of the impact of inflation assumptions across the planning period.

Note 4: 2012-13 to 2015-16 are outturn figures.

Note 5: 2016-17 to 2024-25 are figures from the 2015 Equipment Plan.

## Accountability to Parliament

Ministers have accounted to Parliament during the financial year 2015-16 on all aspects of the Ministry of Defence's business. Defence Ministers participated in 17 debates on Defence issues in the House of Commons and 12 in the House of Lords and responded to 13 Adjournment Debates in Westminster Hall. Ministers made one oral statement to the House of Commons and one to the House of Lords – details are published in Hansard. A total of 2,620 oral and written Parliamentary Questions were answered. Ministers also made 53 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 2015 to 31 March 2016, Defence Ministers received 3,210 items of correspondence from Members of Parliament, Peers and some members of the public to which a Ministerial response was deemed appropriate. Of these 3,104 (97%) were answered within the target of 20 working days.

## Evidence to the Defence Select Committee

Since 1 April 2015, 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/>

Reports published during this reporting period are listed below.

Table B.1 – Parliamentary Session 2015-16: MOD responses to reports published in the previous Parliamentary session

Report	Title	Publication Date
HC 365	Ministry of Defence Annual Report and Accounts 2013-14: Government response to the Committee's Eighth Report of Session 2014-15	22 July 2015
HC 366	Re-thinking defence to meet new threats: Government response to the Committee's Tenth Report of Session 2014-15	22 July 2015
HC 367	Decision-making in Defence Policy: Government Response to Committee's Eleventh Report of Session 2014-15	14 September 2015

Table B.2 – Financial Year 2015-16: Defence Select Committee Reports (Government Responses, if published, are listed in brackets after the report to which they relate)

Report	Title	Publication Date
HC 493 (HC794)	Flexible response? An SDSR checklist of potential threats and vulnerabilities	21 November 2015
HC 494	Shifting the goalposts? Defence expenditure and the 2% pledge	21 April 2015
HC 598	Beyond endurance? Military exercises and the duty of care	24 April 2015

The Defence Committee also visited the Armed Forces in the UK and overseas as part of its inquiries, as shown in Table B.3.

Table B.3 – Visits by the Defence Committee to UK Armed Forces

Date of Visit	Establishment	Related Inquiry
21 October 2015	Land Combat Power Demonstration, Salisbury Plain	General visit
2-3 February 2016	Commando Training Centre Royal Marines, Lympstone	Defence Sub-Committee: Beyond Endurance? Military exercises and the duty of care
21-22 February 2016	RAF Akrotiri, Cyprus	UK Military Operations in Syria and Iraq
6-7 March 2016	Her Majesty's Naval Base Clyde	General visit

## Evidence to Other Select Committees of the House of Commons and House of Lords

Since 1 April 2015, the Ministry of Defence has also given written and oral evidence on various issues to the following Select Committees of the House of Commons and House of Lords: All Committee publications, including published evidence given to the Committees, are available at:

<http://www.parliament.uk/business/committees/committees-a-z/#E>

Table B.4 – Parliamentary Session 2015-16: Reports/evidence\*

Select Committee	Subject	Publication Date
House of Commons International Development Committee HC 338	Ebola: Responses to a public health emergency	19 January 2016
House of Commons Science and Technology Committee HC 469	Science in Emergencies: UK lessons from Ebola	25 January 2016
Armed Forces Bill Committee	Armed Forces Bill	No report published

\* Reports/evidence for the period 01 Apr 2015 to 31 Mar 2016

Other Select Committees also visited the Armed Forces in the UK as part of their inquiries, as shown in Table B.5.

Table B.5 – Other Select Committee Visits to the Armed Forces

Date of Visit	Select Committee	Establishment	Related Inquiry
3 December 2015	Joint Committee on Human Rights	RAF Waddington	The Government's Policy on the use of Drones for Targeted Killing

**Stephen Lovegrove**  
Accounting Officer

07 July 2016

## The Certificate of the Comptroller And Auditor General To The House Of Commons

I certify that I have audited the financial statements of the Department and of its Departmental Group for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The Department consists of 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 2015. 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. 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 Remuneration and Staff Report and the Parliamentary Accountability disclosures within the Accountability Report that is described in those reports and disclosures as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

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

### Scope of the audit of the financial statements

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

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

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis for Qualified Opinion on Financial Statements

I have qualified my opinion on the financial statements in one respect:

- The Department does not hold records 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 2014, 31 March 2015 and 31 March 2016. This has also led to a material misstatement of the Statement of Comprehensive Net Expenditure for 2014-15 and 2015-16 and Statement of Parliamentary Supply for 2014-15 and 2015-16. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not maintained the records or obtained the information required to comply with International Financial Reporting Standards in this respect.

## Qualified Opinion on financial statements

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 2016 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.

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

## Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report and associated annexes 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:

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

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

- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures 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 B of the Annual Report, the maximum numbers maintained during 2015-16 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 B 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 2016 and that those totals have not been exceeded.

**Sir Amyas C E Morse**

12 July 2016

### **Comptroller and Auditor General**

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



# Report of the Comptroller and Auditor General on the 2015-16 Accounts of the Ministry of Defence

## Introduction

1. The Ministry of Defence's (the Department) principal activity is to provide security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism, and to act as a force for good by strengthening international peace and stability. In 2015-16 the Departmental Group incurred £41.2 billion of net operating costs and held assets of £136.7 billion and gross liabilities of £29.3 billion.

2. 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

3. This report explains the basis for the qualification of my audit opinion on the Department's 2015-16 financial statements.

## Accounting for lease type arrangements

### *Basis of my qualification*

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

### *Accounting requirements*

5. The 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.

6. If the contract is classified as a finance lease then the value of assets used to deliver the service would be recognised in the Statement of Financial Position 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.

7. I regard the accounting requirements for lease type arrangements as particularly relevant to the Department. The Department must enter into strategic arrangements with certain contractors to procure specialist defence platforms on a non-competitive basis. These arrangements may provide for the exclusive, or near exclusive, use of industrial assets and capability that have only limited use for other customers. Consequently, the contractual terms, which are covered by the government profit formula and its associated arrangements (GPFAA)<sup>33</sup> 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.

<sup>33</sup> The GPFAA, also commonly referred to as the Yellow Book, is agreed by government and industry, as represented by the CBI, and is reviewed periodically by an independent review board.

*Action by the Department*

8. The Department assessed a number of contracts when IAS 17, Leases, was first adopted by the FReM in 2009-10. Based on the results, the Department believed that there may be a number of contracts that it would need to account for and disclose as leases. This review has continued and, to date, the Department has identified 25 contracts that demonstrate characteristics of a lease under IAS 17, Leases. Eight of these contracts were then assessed as being finance leases. If recognised, these would lead to assets with an estimated initial net book value (for seven of the eight contracts) of some £860 million being recognised in the Department's Statement of Financial Position. The exercise also identified a number of sites where multiple MoD platforms or contracts were being supplied. The Department's analysis confirms the material impact of not recognising leases although the quality of evidence is still insufficient for the purposes of my opinion.

9. In 2013-14, the Department concluded that it needed further management information and supplier engagement to complete its review and conclude on whether its current contracts meet the criteria of a lease under IAS 17, Leases. As disclosed in its Annual Report and Accounts, the Department has, in agreement with HM Treasury, decided not to obtain more detailed information on the grounds that doing so would not represent value for money. In 2014-15, the Department confirmed that it is possible to account for existing contracts in compliance with IAS 17, but this would create significant challenges for the Department. It would need to change its business systems and processes as well as wider interaction with its supplier base to obtain the necessary asset and liability information.

10. In 2015-16 the Department has formally decided to improve compliance with IFRIC 4/IAS 17 for new single contacts impacting a single site – with effect from 2016-17. The Department intends this to act as a pilot to allow it further understanding of the challenges and resources required to improve compliance. The Department intends to review progress and results of this exercise during 2016-17 including consideration of whether it can be expanded further.

11. The International Accounting Standards Board (the Board) is responsible for setting IFRS, of which IAS 17, Leases, is a part. In January 2016, the Board issued a new accounting Standard – IFRS 16- Leases which sees the accounting treatment of finance and operating leases aligned, so that all leases are recognised in the Statement of Financial Position and not just finance leases. IFRS 16 is currently deemed effective from 1 January 2019, although at this stage the timetable for its adoption in the public sector, along with the extent of any adaptations, has not yet been determined by HM Treasury. If this standard is adopted and/or adapted, then in the future the Department will have to adhere to these new requirements. The Department should therefore consider these developments as part of its pilot project.

**Sir Amyas C E Morse**

12 July 2016

**Comptroller and Auditor General**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
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# Annual Accounts



# Financial Statements

# Consolidated Statements of Comprehensive Net Expenditure (SoCNE)

for the year ended 31 March 2016

	Note	2015-16		2014-15	
		Core Department & Agencies £000	Departmental Group £000	Restated Core Department & Agencies* £000	Restated Departmental Group* £000
Income from provision of supplies and services (e.g. support to: MOD Trading Funds, Other Government Departments, NATO, UN, US Forces and other foreign Governments)	4	(542,074)	(542,074)	(694,341)	(694,341)
Other income	4	(503,921)	(617,312)	(658,961)	(771,702)
<b>Total Income</b>		<b>(1,045,995)</b>	<b>(1,159,386)</b>	<b>(1,353,302)</b>	<b>(1,466,043)</b>
<b>Expenditure - non-cash</b>					
Depreciation and amortisation	3	7,517,602	7,534,360	8,276,121	8,289,435
Movement on provisions, derivatives and discount on payables and receivables	3	6,081,134	6,081,134	937,397	937,397
Asset - impairments, inventory and project write on/off and surplus/deficit on disposal	3	736,416	736,416	946,058	946,058
Other non-cash expenditure	3	2,464	2,464	2,186	2,186
<b>Sub total - non cash expenditure</b>	3	<b>14,337,616</b>	<b>14,354,374</b>	<b>10,161,762</b>	<b>10,175,076</b>
<b>Expenditure - cash</b>					
Staff Costs	3	11,672,046	11,764,747	10,949,665	11,037,019
Equipment and equipment support	3	5,876,045	5,876,045	5,930,120	5,930,120
Property management and utilities	3	2,532,140	2,532,140	2,957,651	2,957,651
Inventory and fuel consumption	3	1,299,850	1,299,850	1,591,412	1,591,412
IT and telecommunications	3	1,599,423	1,599,423	1,627,289	1,627,289
Research and Development	3	919,512	919,512	1,012,081	1,012,081
Movements. Including: personnel travelling, subsistence / relocation costs and movement of stores and equipment	3	625,855	625,855	696,274	696,274
War pensions / benefits	3	794,774	794,774	837,649	837,649
Professional fees	3	794,262	794,262	717,624	717,624
Other expenditure (including interest payable on PFI projects and finance leases)	3	1,115,905	1,104,746	1,161,397	1,131,338
Training, Safety and Welfare	3	689,740	689,740	593,288	593,288
<b>Total Expenditure</b>	3	<b>42,257,168</b>	<b>42,355,468</b>	<b>38,236,212</b>	<b>38,306,821</b>
<b>Net Expenditure For The Year</b>		<b>41,211,173</b>	<b>41,196,082</b>	<b>36,882,910</b>	<b>36,840,778</b>

\* HM Treasury's Simplifying and Streamlining of Accounts initiative resulted in a change to the format of the SoCNE. In accordance with the revised guidance this statement is based on the Department's material sources of income and expenditure. The comparative operating costs for 2014-15 have been disclosed in the new format.

Notes 1 to 23 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.



## Other Comprehensive Expenditure

	Note	2015-16		2014-15	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Net (gain) / loss on revaluation of property, plant and equipment	SoCITE	(2,720,941)	(2,722,000)	(3,581,898)	(3,599,351)
Net (gain) / loss on revaluation of intangible assets	SoCITE	(163,122)	(163,122)	(274,665)	(274,665)
Net (gain) / loss on revaluation of assets held for sale	SoCITE	1,428	1,428	92,831	90,206
Net (gain) / loss on revaluation of inventories	SoCITE	21,875	21,875	61,509	61,509
Net (gain) / loss on pensions	SoCITE	(5,275)	(9,284)	42,840	48,536
Transfer between reserves and asset (write-on) / write-off	SoCITE	(5,456)	(45,114)	58,436	74,801
<b>Total Other Comprehensive Expenditure</b>		<b>(2,871,491)</b>	<b>(2,916,217)</b>	<b>(3,600,947)</b>	<b>(3,598,964)</b>

Notes 1 to 23 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

# Consolidated Statements of Financial Position (SoFP)

as at 31 March 2016

	Note	31 March 2016		31 March 2015 Restated**		1 April 2014 Restated**	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Non-current assets</b>							
Intangible assets	5	26,330,424	26,330,424	25,566,539	25,566,539	24,918,012	24,918,012
Property plant and equipment	6	99,666,934	100,545,493	97,384,485	98,192,094	94,288,947	95,049,288
Financial assets		73,339	73,339	76,559	76,559	103,102	103,102
Receivables due after more than one year	12	620,231	799,842	606,652	790,352	714,679	914,801
<b>Total non-current assets</b>		<b>126,690,928</b>	<b>127,749,098</b>	<b>123,634,235</b>	<b>124,625,544</b>	<b>120,024,740</b>	<b>120,985,203</b>
<b>Current assets</b>							
Financial assets held for sale		1	69,207	1	61,436	1	60,823
Non-current assets held for sale	10	32,870	32,870	179,300	179,300	51,575	51,575
Inventories	11	4,617,281	4,625,978	4,848,825	4,857,220	5,333,426	5,342,022
Receivables due within one year	12	2,107,016	2,122,621	2,371,225	2,398,353	2,201,126	2,210,261
Financial assets		332,389	332,389	292,114	292,114	58,448	58,448
Cash at bank and in hand	13	1,641,001	1,728,460	1,142,075	1,236,896	930,897	1,013,971
<b>Total current assets</b>		<b>8,730,558</b>	<b>8,911,525</b>	<b>8,833,540</b>	<b>9,025,319</b>	<b>8,575,473</b>	<b>8,737,100</b>
<b>Total assets</b>		<b>135,421,486</b>	<b>136,660,623</b>	<b>132,467,775</b>	<b>133,650,863</b>	<b>128,600,213</b>	<b>129,722,303</b>
<b>Current liabilities</b>							
Payables due within one year	14	(10,331,865)	(10,399,531)	(9,787,646)	(9,862,101)	(9,253,283)	(9,314,776)
Financial liabilities		(400,061)	(400,061)	(640,440)	(640,440)	(305,189)	(305,189)
<b>Total current liabilities</b>		<b>(10,731,926)</b>	<b>(10,799,592)</b>	<b>(10,428,086)</b>	<b>(10,502,541)</b>	<b>(9,558,472)</b>	<b>(9,619,965)</b>
<b>Non-current assets plus net current assets</b>		<b>124,689,560</b>	<b>125,861,031</b>	<b>122,039,689</b>	<b>123,148,322</b>	<b>119,041,741</b>	<b>120,102,338</b>
<b>Non-current liabilities</b>							
Provisions	15	(11,639,479)	(11,639,869)	(5,777,168)	(5,781,600)	(5,214,145)	(5,221,396)
Payables due after more than one year	14	(6,707,348)	(6,896,043)	(6,639,724)	(6,821,356)	(6,370,087)	(6,541,013)
<b>Total non-current liabilities</b>		<b>(18,346,827)</b>	<b>(18,535,912)</b>	<b>(12,416,892)</b>	<b>(12,602,956)</b>	<b>(11,584,232)</b>	<b>(11,762,409)</b>
<b>Assets less liabilities*</b>		<b>106,342,733</b>	<b>107,325,119</b>	<b>109,622,797</b>	<b>110,545,366</b>	<b>107,457,509</b>	<b>108,339,929</b>
<b>Taxpayers' equity and other reserves</b>							
General fund	SoCITE	81,923,416	81,923,416	86,255,881	86,255,881	85,818,782	85,818,782
Revaluation reserve	SoCITE	24,419,317	24,419,317	23,366,916	23,366,916	21,638,727	21,638,727
<b>Taxpayers' Equity</b>		<b>106,342,733</b>	<b>106,342,733</b>	<b>109,622,797</b>	<b>109,622,797</b>	<b>107,457,509</b>	<b>107,457,509</b>
Arm's Length Bodies' restricted reserves	SoCITE	-	93,739	-	154,523	-	172,285
Arm's Length Bodies' unrestricted reserves	SoCITE	-	888,647	-	768,046	-	710,135
<b>Total Arm's Length Bodies' reserves</b>		<b>-</b>	<b>982,386</b>	<b>-</b>	<b>922,569</b>	<b>-</b>	<b>882,420</b>
<b>Total taxpayers' equity and other reserves</b>		<b>106,342,733</b>	<b>107,325,119</b>	<b>109,622,797</b>	<b>110,545,366</b>	<b>107,457,509</b>	<b>108,339,929</b>

\*The value of assets and liabilities accounted for under leases is understated because contracts, particularly strategic procurement arrangements with key contractors, have not been assessed under IFRIC 4.

\*\*Prior period balances have been restated to correct the value of provisions for nuclear decommissioning reported at the end of 2014-15 and to reflect a reclassification of items from current assets (inventory) to non-current assets (PPE). Further details are at Note 22 - Prior Period Adjustments.

**Stephen Lovegrove**  
Accounting Officer

07 July 2016

Notes 1 to 23 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 2016

	Note	2015-16		2014-15	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Cash flows from operating activities</b>					
Net operating cost	SoCNE	41,211,173	41,196,082	36,882,910	36,840,778
Adjustments for non-cash transactions		(14,166,197)	(14,197,483)	(10,169,744)	(10,187,302)
Increase / (Decrease) in trade and other receivables	SoFP	(250,630)	(266,242)	62,072	63,643
Adjustment for movements on receivables relating to items not passing through operating costs		36,745	47,587	162,097	158,097
Movement in net inventories and financial assets held for sale		(106,317)	(98,244)	192,720	195,127
(Increase) / Decrease in trade payables	SoFP	(611,843)	(612,117)	(804,000)	(827,668)
Adjustment for movements in payables relating to items not passing through operating costs		647,207	655,322	848,123	858,897
Dividends and Equity Repayments		62,197	62,197	97,119	102,619
Realised loss / (gain) on derivatives		277,436	277,436	234,030	234,030
Use of provisions		229,546	229,546	206,760	206,760
<b>Net cash outflow from operating activities</b>		<b>27,329,317</b>	<b>27,294,084</b>	<b>27,712,087</b>	<b>27,644,981</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	6	7,607,935	7,630,663	7,867,091	7,927,950
Purchase of intangible assets	5	2,100,920	2,100,920	2,089,309	2,089,309
Adjustment for non cash movements relating to PPE and intangibles		(1,677,054)	(1,657,187)	(1,688,696)	(1,688,696)
Proceeds on disposal of property, plant and equipment		(511,975)	(511,975)	(149,251)	(149,251)
Dividends and Equity Repayments	8.6	(62,197)	(62,197)	(97,119)	(102,619)
Repayments from other bodies	8.1	(3,220)	(3,220)	(56,624)	(56,624)
<b>Net cash outflow from investing activities</b>		<b>7,454,409</b>	<b>7,497,004</b>	<b>7,964,710</b>	<b>8,020,069</b>
<b>Cash flows from financing</b>					
Consolidated Fund (Supply) - current year	SoCITE	(35,532,000)	(35,532,000)	(35,866,048)	(35,866,048)
From the Consolidated Fund (Supply) - prior year		-	-	(145,349)	(145,349)
Repayment of loans from the National Loans Fund		2,554	2,554	2,444	2,444
Capital element of payments in respect of finance leases and Service Concession Arrangements		270,873	270,873	231,033	231,033
Movement on collaborative projects		(24,079)	(24,079)	(110,055)	(110,055)
<b>Net financing</b>		<b>(35,282,652)</b>	<b>(35,282,652)</b>	<b>(35,887,975)</b>	<b>(35,887,975)</b>
<b>Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>498,926</b>	<b>491,564</b>	<b>211,178</b>	<b>222,925</b>
Cash and cash equivalents at the beginning of the period	13	1,142,075	1,236,896	930,897	1,013,971
Cash and cash equivalents at the end of the period	13	1,641,001	1,728,460	1,142,075	1,236,896

Notes 1 to 23 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

## Consolidated Statements of Changes in Taxpayers Equity (SoCiTE)

	Note	Core Department and Agencies			Arm's Length Bodies (ALBs)			Departmental Group
		General Fund £000	Revaluation Reserve £000	Taxpayers Equity £000	Restricted Reserves £000	Unrestricted Reserves £000	Total of ALBs' Reserves £000	Total Reserves £000
<b>Balance at 1 April 2014*</b>		<b>85,818,782</b>	<b>21,638,727</b>	<b>107,457,509</b>	<b>172,285</b>	<b>710,135</b>	<b>882,420</b>	<b>108,339,929</b>
Parliamentary Funding - drawn down in-year	SoCF	35,866,048	-	35,866,048	-	-	-	35,866,048
Parliamentary Funding - Supply payable	14	(420,983)	-	(420,983)	-	-	-	(420,983)
Non-cash charge - auditors remuneration		2,186	-	2,186	-	-	-	2,186
Net Expenditure For The Year	SoCNE	(36,882,910)	-	(36,882,910)	6,667	35,465	42,132	(36,840,778)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	3,581,898	3,581,898	6,186	11,267	17,453	3,599,351
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	274,665	274,665	-	-	-	274,665
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(92,831)	(92,831)	-	2,625	2,625	(90,206)
Net (loss) / gain on revaluation of inventories	SoCNE	-	(61,509)	(61,509)	-	-	-	(61,509)
Net (loss) / gain on pensions	SoCNE	(42,840)	-	(42,840)	-	(5,696)	(5,696)	(48,536)
Transfer between reserves and asset write-on / (write off)	SoCNE	1,915,598	(1,974,034)	(58,436)	(30,615)	14,250	(16,365)	(74,801)
<b>Restated Balances at 31 March 2015</b>		<b>86,255,881</b>	<b>23,366,916</b>	<b>109,622,797</b>	<b>154,523</b>	<b>768,046</b>	<b>922,569</b>	<b>110,545,366</b>
Parliamentary Funding - drawn down in-year	SoCF	35,532,000	-	35,532,000	-	-	-	35,532,000
Parliamentary Funding - deemed funding		420,983	-	420,983	-	-	-	420,983
Parliamentary Funding - Supply Payable	14	(895,829)	-	(895,829)	-	-	-	(895,829)
Non-cash charge - auditors remuneration	3	2,464	-	2,464	-	-	-	2,464
Net Expenditure For The Year	SoCNE	(41,211,173)	-	(41,211,173)	913	14,178	15,091	(41,196,082)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	2,720,941	2,720,941	-	1,059	1,059	2,722,000
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	163,122	163,122	-	-	-	163,122
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(1,428)	(1,428)	-	-	-	(1,428)
Net (loss) / gain on revaluation of inventories	SoCNE	-	(21,875)	(21,875)	-	-	-	(21,875)
Net (loss) / gain on pensions	SoCNE	5,275	-	5,275	-	4,009	4,009	9,284
Transfer between reserves and asset write-on / (write off)	SoCNE	1,813,815	(1,808,359)	5,456	(61,697)	101,355	39,658	45,114
<b>Balance at 31 March 2016</b>		<b>81,923,416</b>	<b>24,419,317</b>	<b>106,342,733</b>	<b>93,739</b>	<b>888,647</b>	<b>982,386</b>	<b>107,325,119</b>

\*Prior period balances have been restated to correct the value of provisions for nuclear decommissioning reported at the end of 2014-15. Further details are at Note 22 - Prior Period Adjustments.

Notes 1 to 23 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

# Notes to the Accounts

# Notes to the Accounts

## 1. Statement of Accounting Policies

### Introduction

1.1 These financial statements have been prepared in accordance with the 2015-16 FReM issued by HM Treasury except that IFRIC 4 – Determining whether an Arrangement Contains a Lease, has not been applied; IFRIC 4 was also not applied in 2014-15 thus impacting the comparator figures in this years accounts. Further information on the reasons for this non-application and its impact on the financial statements are given in Notes 1.40 to 1.43 below. The accounting policies contained in the FReM apply IFRS as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Department are described below. They have been applied consistently in dealing with items that are considered material to the accounts and comply with the requirements of the FReM except where HM Treasury has approved the departure to enable the Department to reflect its own particular circumstances or the departure does not have a material impact on the financial statements. The departures are:

- The Department has not fully complied with the FReM regarding the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and similar schemes' accounting requirements on the grounds of materiality. Rather than registering an asset and a liability to reflect its holding of allowances and its obligation to pay for emissions, the Department has reflected the purchase and sale of allowances as expenditure and income within the SoCNE. All other costs associated with the scheme, such as compliance checking, are also charged to the SoCNE.
- On the grounds of materiality, the Department, in applying IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities – uses the cost model rather than the revaluation model to measure changes in its capitalised asset provisions.
- The Department currently departs from the FReM by accounting for its inventory under current cost. It has been agreed with HM Treasury this is an appropriate basis for valuation until the 2018-19 Financial Year when the valuation will change to the lower of cost and Net Realisable Value. Further details can be found in Note 1.52.

### Segmental Reporting

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

### Accounting Convention

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

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

1.4 These financial statements comprise the consolidation of the Department, its Advisory NDPBs and ALBs sponsored by the Department. The Advisory NDPBs and ALBs which are included in the accounting boundary of the Departmental Group are listed in Note 21. The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies and requires the individual bodies to be designated for consolidation by order of HM Treasury under statutory instrument. Subsidiaries which are public corporations, or fall outside the central government classification for some other reason, have been excluded from the accounting boundary (unless they satisfy the criteria for consolidation as an associate or joint venture) except for some minor entities where inclusion does not have a material impact on the consolidated position and the work required to exclude them is therefore not justified.

1.5 The ALBs use categories for their costs, including the distinction between capital and revenue expenditure, which do not always align with MOD categories. As they are not material, the operating costs



of the Department's ALBs are split into three categories for the purpose of consolidation – 'staff costs', 'depreciation' and 'other.' ALBs operate a lower capitalisation threshold for Property Plant and Equipment than the Department. On the grounds of materiality, all ALB Non Current Property, Plant and Equipment are consolidated into the accounts. The Department has two Trading Funds which produce their own accounts and, as they fall outside Voted Supply, the Department's interests are included in the financial statements as non-current financial assets.

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

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

#### *Non-Current Assets*

**1.7** Intangible non-current assets and plant and equipment assets are expressed at their fair value through the application of indices produced by Defence Statistics; indices are also applied to property assets during periods between the quinquennial revaluations undertaken by internal and external valuers. Surplus assets where there are no restrictions on sale and do not meet the IFRS 5 (Non-Current Assets Held For Sale and Discontinued Operations) or IAS 40 (Investment Property) criteria are held at fair value based on highest and best use – see Note 1.19.

**1.8** The useful economic life of an equipment asset is assessed by reference to its estimated out of service date and for other assets on the basis of their estimated period of utility to the Department.

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

#### *Inventories*

**1.10** Where inventories have become surplus, unserviceable, defective or obsolescent, an estimated financial provision is applied to their carrying value to reduce it to net realisable value. Details of inventories balances are given in Note 11.

#### *Accruals*

**1.11** Where expenditure has been incurred but not invoiced an estimate is made of the amount to be accrued, including in complicated contractual arrangements where it is necessary to present fairly the substance of the arrangement at year end. Accruals are listed in Note 14.

#### *Nuclear Decommissioning*

**1.12** 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.

**1.13** In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. Key assumptions in this estimate are the time period over which the provisions are estimated, the costs for the future storage and decommissioning of waste, the VAT rate and the discount rate used. While the discount rate applied to the future cash flows is subject to assumptions, the Department has used the discount rate mandated by HM Treasury. Details of how nuclear decommissioning provisions have been calculated are included in Note 15.

## Changes During FY 2015-16 Which Have Affected the Preparation of These Annual Accounts

1.14 The main changes in accounting policies in 2015-16 were:

- IFRS 13 Fair Value. The main impact is the valuation of surplus assets for which there are no restrictions on sale where the valuation method will change from current value in existing use to a fair value based on highest value and best use.
- Simplifying and Streamlining Central Government Annual Report and Accounts. The main changes are the introduction of three parts to the Annual Report and Accounts – the Performance Report; the Accountability Report and the Financial Statements.

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

1.15 There are no changes in the 2016-17 FReM. There are three accounting standards which have been issued but have not yet been incorporated into the FReM as they will not become applicable until future accounting periods. The three accounting standards are IFRS 9 – Financial Instruments, IFRS 15 – Revenue from Contracts with Customers and IFRS – Leases. It is yet to be determined how the accounting standards will be applied to the public sector and their impact on the Department.

## Net Operating Costs

1.16 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 assets classified as held for sale and inventories declared for disposal are included at Note 3 – Expenditure.

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

## Non-Current Assets

1.18 The Department's capitalisation threshold is £25,000. Intangible and Property, Plant and Equipment assets are expressed at their fair value through the application of the Modified Historical Cost Accounting Convention (MHCA). Prospective indices, which are produced by Defence Statistics, are applied at the start of each financial year to the non-current assets which fall within the categories listed below. These indices look ahead to the Reporting Period date and include calculations to reflect the difference between the actual change in prices during the prior year and the prospective indices used for that year. In addition, where there is a material difference between the indices for year end and those used throughout the year, the MHCA calculations are performed again, using the up to date indices at the year end. The value of the overseas estate assets is similarly adjusted to take account of the year-end exchange rates. Categories of indices used are:

- Land (by region and type);
- Buildings – Non Dwellings (UK and specific overseas indices);
- Buildings – Dwellings (UK and specific overseas indices);
- Single Use Military Equipment – Air Systems;
- Single Use Military Equipment – Sea Systems;
- Single Use Military Equipment – Land Systems;
- IT and Communications Equipment – Communications Equipment;
- IT and Communications Equipment – Office Machinery and Computers;

- Plant and Machinery – specific UK index covering all assets;
- Transport – Fighting Equipment;
- Transport – Other.

**1.19** Property assets are also subject to a quinquennial revaluation by internal and external valuers in accordance with IAS 16 – Property, Plant and Equipment, as interpreted by the FReM. Assets which are held for their service potential and are in use are measured at current value in existing use. For non-specialised assets current value in existing use is interpreted as market value in existing use. For specialised assets current value in existing use 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.

**1.20** Assets which were most recently held for their service potential but are surplus are valued at current value in existing use, as above, if there are restrictions which prevent access to the market at the reporting date. Where there are no restrictions and the assets are surplus, the assets are valued at fair value using IFRS 13. The Department interprets surplus to mean that the assets are no longer required.

**1.21** Assets which are not held for their service potential are valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they are valued at fair value applying IFRS 13. Specialist property for which there is no external market is valued at depreciated replacement cost. The majority of Service Families Accommodation is valued at depreciated replacement cost due to the positioning of housing in certain areas or as a result of the lack of an alternative market for certain holdings due to their remote geographic locations. Where market value for existing use is more appropriate, for example for small numbers of houses in a single location, this basis of valuation has been applied. Surplus assets where there are no restrictions on sale and do not meet the IFRS 5 or IAS 40 criteria are held at fair value, using IFRS 13, based on highest and best use.

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

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

**1.23** Research costs are charged to the SoCNE in the period in which they are incurred.

**1.24** Development costs are capitalised where the project is expected to result in an asset which will enter service. Those not capitalised are charged to the SoCNE.

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

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

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

## Property, Plant and Equipment Non-Current Assets

1.28 Property, Plant and Equipment assets are expressed at their fair value through the application of the MHCA. Property, Plant and Equipment assets are indexed other than during the period where contract payments capitalised are deemed to already reflect fair value. There are assets with similar capabilities which have different values, reflecting the nature of the construction process. Some First of Class Non-Current Assets include one-off production set up costs and more extensive trials costs than those incurred for later platforms in the same class. Future platforms can also benefit from learning curve efficiencies. Surplus assets where there are no restrictions on sale and do not meet the IFRS 5 or IAS 40 criteria are held at fair value based on highest and best use.

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

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

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

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

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

## **Componentisation and Subsequent Expenditure**

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

- Newly built property assets, with the exception of specialist assets, are not subject to componentisation at the point of initial capitalisation as the cost of any potential component is not significant to the total cost of the asset. Specialist assets such as runways are considered for componentisation.
- Where a property asset is refurbished or part of it replaced, the expenditure is recognised within the carrying amount of the overall asset. For assets above £500,000, the carrying amount of the part which is replaced is de-recognised. The Quinquennial Revaluation is used to adjust any short term valuation differences.
- Material expenditure on major refits and overhauls in the Sea Environment and to complex weapons that display similar characteristics to those assets in the Sea Environment are accounted for separately when their value is consumed by the Department over a different period from the life of the corresponding core asset.

## **Impairment**

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

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

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

## **Disposal of Tangible Non-Current Assets**

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

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

1.39 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**

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

1.41 The Department may also enter into arrangements that do not take the legal form of a lease but which give the Department the right to use an asset in return for payment. IFRIC 4 – Determining whether

an Arrangement Contains a Lease provides guidance on determining whether such arrangements contain leases. Where leases are identified, they should be classified as operating or finance leases in accordance with IAS 17 – Leases, and accounted for in accordance with the accounting policies set out in Note 1.40.

**1.42** The Department has conducted a review, with support from an external accountancy consultant, of its most significant contract arrangements where IFRIC 4 is likely to apply. This has confirmed that the Department has a number of significant lease type arrangements which are not currently recognised and cannot be accurately quantified. As a result of the complex, resource intensive and costly practical issues identified by the review, the Department, with HM Treasury support, has decided not to apply IFRIC 4 to existing contracts on the grounds that it does not represent value for money. The Department is undertaking new work in the application of IFRIC 4 to new contracts meeting specific criteria. As a result of the decision not to implement IFRIC 4 for legacy contracts MOD's accounts will continue to receive a qualified audit opinion for the foreseeable future.

**1.43** The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the SoFP. Commitments under operating leases and finance leases have also been omitted from Note 17.

### **Public Private Partnerships (PPP) including Private Finance Initiative (PFI) Arrangements**

**1.44** Where PPP, including PFI arrangements fall within the definition of a Service Concession Arrangement (SCA) in IFRIC12 – Service Concession Arrangements, the infrastructure assets and liabilities are reported on the Department's SoFP. Unitary charges are apportioned between reduction in the capital obligation and charges to the SoCNE for service performance and finance costs.

**1.45** Where PPP including PFI arrangements are outside the scope of IFRIC 12, the arrangement is assessed to establish whether it contains a lease under IFRIC 4. If it does contain a lease, the lease is accounted for as either a finance or an operating lease in accordance with IAS 17. Where the arrangement does not contain a lease, the expenditure will be recognised as it falls due.

### **Financial Instruments**

**1.46** The Department has foreign currency forward purchase contracts, denominated in US Dollars and Euros, and fuel fixed price swap contracts denominated in US Dollars which are accounted for as derivatives and classified as Held For Trading financial instruments.

**1.47** The foreign currency forward purchase contracts are measured at fair value with movements in fair value being charged or credited to the SoCNE. The fair value is measured as the difference between the currency's closing mid-market rate at the date of valuation (representing the spot rate) and the rate stipulated in the contract multiplied by the number of contracted units of currency. The Department obtains the closing mid-market rate from the Bank of England. The forward contracts will only have a fair value up to their date of settlement. Once each contract has been settled, the derivative is removed from the Department's SoFP. The forward contracts were purchased from the Bank of England. Details of existing contracts are at Notes 7.8 to 7.10 to the accounts.

**1.48** The Department uses fixed price swap contracts to manage its risk of fuel price movements in respect of aviation turbine fuel, marine gas oil, unleaded ground fuel and diesel ground fuel. The contracts are measured at fair value with movements in fair value being charged or credited to the SoCNE. The fair value is measured as the difference between the market rate for the four commodities at the date of valuation and the PLATTS rate stipulated in the contracts, multiplied by the contracted volumes, in the contracted currency. The market rate is determined by the latest average PLATTS index for the month. These values are converted to sterling using the closing mid-market rate obtained from the Bank of England. The swap contracts will only have a fair value up to their date of settlement. Once each contract is settled, it is removed from the SoFP. Swap contracts are purchased by competitive tender using a panel of financial institutions (the latter chosen following a comprehensive assessment). Details of existing contracts are at Notes 7.11 and 7.12 to the accounts.



1.49 Public Dividend Capital is not treated as a financial instrument in the Department's financial statements and is reported at historic cost less any impairment. The Department's investments in special or 'golden' shares are not recognised on the SoFP. The entities in which the Department holds special shares are listed at Note 8.3 and 8.4.

1.50 Receivables, including trade receivables, staff loans and advances are classified as Loans and Receivables and are initially measured at fair value and subsequently at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate. Provisions are only made for specific bad debts.

1.51 Liabilities covering trade payables and accruals are classified as Payables and Accruals and are initially measured at fair value and subsequently at discounted cost. This applies to those liabilities carrying a nil or a subsidised rate of interest.

### **Inventories**

1.52 On transition from UK GAAP to IFRS, HMT confirmed that the introduction of IAS 2 (which requires Inventories to be held at the lower of cost or net realisable value) would not require any immediate changes in the MOD's accounting treatment of inventories. The Department and HM Treasury have discussed the continued appropriateness of valuing inventories at current cost and HM Treasury, as the Relevant Authority has confirmed an adaptation to the FReM – that the Department can continue with current replacement cost accounting for Inventories. It has also been agreed that the valuation basis for inventories will change to the lower of cost and net realisable value by Financial Year 2018-19. This is to allow time for changes to the financial systems to support an historic cost valuation in accordance with the FReM.

1.53 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.

1.54 Inventory which is expected to be used is valued at the cost of replacing the materiel – i.e. at current cost based on purchase price or estimated through indexation. However, where there is no expectation of consumption or sale in the ordinary course of business, the value is impaired to reduce it to Net Realisable Value.

1.55 Some items of inventory, for example munitions, have a limited shelf life and depreciation (on a straight line basis) is applied throughout the life of these items. When an item is consumed, written off or disposed of the remaining carrying value is charged to the SoCNE.

### **Cash and Cash Equivalents**

1.56 The Department determines cash as cash in hand and demand deposits (repayable on demand) with any commercial bank or other financial institution. This includes gold coins and deposits denominated in foreign currencies after allowing for un-presented payments and uncleared deposits. Cash in the Department's SoFP comprises balances held by the Government Banking Service, commercial banks and cash in hand.

### **Provisions for Liabilities and Charges**

1.57 Provisions for liabilities and charges have been established under the criteria of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at the Reporting Period date.

1.58 On initial recognition, provisions are charged to the SoCNE unless the expenditure will provide access to current and future economic benefits, in which case a capitalised asset provision is created. The carrying amount of any capitalised asset provision is depreciated and charged to the SoCNE over the remaining estimated useful economic life of the underlying asset. Provisions are discounted at rates advised by HM Treasury and three different rates are used for provisions depending on the time boundary they fall into. The pensions discount rate advised by HM Treasury is used for provisions relating to employee benefits. The discount is unwound over the remaining life of the provision and shown as an interest charge in the SoCNE.

## **Reserves**

1.59 The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on non-current assets and inventories.

1.60 The General Fund represents the balance of the Taxpayers' Equity in the Core Department. Reserves relating to the ALBs are split into 'Restricted' and 'Unrestricted' reserves, where restricted reserve have limitations, e.g. covenants and other legal restrictions, on their use.

## **Foreign Currency**

1.61 All transactions that are denominated in a foreign currency are translated into Sterling using the General Accounting Rate (GAR) prevailing at the date of each transaction. For each currency, the GAR is updated monthly based on spot rates. In respect of US Dollars and Euros the GAR is based on the average of the published spot rates in the week immediately preceding the new month. Exchange differences will arise when a currency transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. In addition, monetary assets and liabilities are translated at the mid-market closing rate applicable at the Reporting Period date and the exchange differences are reported in the SoCNE.

## **Heritage Assets**

1.62 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 in the SoFP as they are not considered material. Further information is available at: <https://www.gov.uk/government/publications/MOD-heritage-report>

## 2. Segmental Analysis

2.1 The Department's organisational structure is set out in the *Governance Statement* and additional information is provided in *The New Operating Model: How Defence Works* available at: <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>. The structure 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: Joint Forces Command – responsible for the planning and execution of joint operations outside the UK; Defence Equipment and Support (Bespoke Trading Entity) – responsible for procurement and support of equipment; the Defence Infrastructure Organisation – responsible for managing the Defence Estate and Head Office and Corporate Services – responsible for policy, strategy and corporate services such as payroll.

2.3 Forecasts of near cash expenditure against budgets (Resource and Capital) are regularly reviewed by the Defence Board when considering performance and resource allocation. The tables below set out the detail of this near cash net expenditure, by segment (where the Board consider the net expenditure at that level of detail), and analyse the net expenditure reviewed between Resource and Capital.

2.4 The Board also receives separate information on the total additional spend on Military Operations (Resource and Capital) – this information, in more detail than presented to the Board, is set out at SoPS Note 1 (each expenditure type is prefixed by 'Operations'). The Board also separately consider expenditure on War Pensions Benefits against the budget approved by Parliament (these details are set out at SoPS Note 1) and expenditure on the Equipment Plan. The Board review the Department's Net Cash Requirement – details of which are set out in the Statement of Parliamentary Supply and are not duplicated here.

2.5 The routine financial information considered by the Board does not include details of assets and liabilities and therefore does not form part of these disclosures. The Board do not receive information on the separate Administration Control Total and the figures presented to the Board do not include the full net expenditure of ALBs (they do include Grants in Aid and certain payments made on behalf of these bodies). Information on expenditure by geographical area or major customers is not routinely considered and is therefore not disclosed below.

2.6 Transactions between segments take two main forms:

- Costs such as payroll, equipment support, centralised contract costs, estate management, inventory consumption etc. are allocated to segments by the main accounting systems e.g. accounts payable, accounts receivable, civilian payroll, military payroll, inventory and Non-Current Asset registers.
- Costs incurred by one segment on behalf of another are subject to agreement and then transferred by a central accounts section to ensure the net effect on the Department's consolidated accounts remains correct.

2.7 The tables below set out the segmental information as considered by the Defence Board.

Net Resource DEL Outturn	2015-16 £000	Restated 2014-15* £000
<b>Outturn by Top Level Budget</b> (reviewed as forecast against budget by the Board during the year)		
Royal Navy	2,494,839	2,347,969
Army	6,540,999	6,365,814
Royal Air Force	2,502,275	2,411,278
Joint Forces Command	1,940,256	1,876,347
Defence Equipment & Support (Bespoke Trading Entity)	1,028,443	1,017,277
Defence Infrastructure Organisation	2,452,684	2,749,397
Head Office & Corporate Services	1,477,497	1,476,437
	<b>18,436,993</b>	18,244,519

<b>Net Resource DEL Outturn</b>	<b>2015-16</b>	<b>Restated 2014-15*</b>
	<b>£000</b>	<b>£000</b>
<b>Reconciliation to Operating Costs</b>		
Net Resource Outturn for Cost of Operations (excluding depreciation, impairments and provisions) - reviewed by the Board as total forecast resource outturn against Estimate during the year	328,697	675,393
War Pensions Benefits - reviewed by the Board as total forecast outturn against Estimate during the year	794,774	837,649
Sub total of Net Resource Outturn reviewed by the Board during the financial year	<b>19,560,464</b>	19,757,561
Balance of Net Resource Outturn not reviewed by the Board (depreciation, impairment, provisions, Annually Managed Expenditure, Centrally Managed Expenditure and ALB income and expenditure)	14,199,471	9,876,224
Balance of the Net Resource Outturn. This expenditure is not separately reviewed by the Board; it forms part of the Equipment Plan expenditure which the Board reviews by Service Command and Strategic Programme (see table below)	7,595,914	7,335,559
Total Resource Outturn (See SoPS Note 1)	<b>41,355,849</b>	36,969,344
Adjustment for items included in Net Resource Outturn but not included in Net Operating Costs (see SoPS Note 2) and ALB income and expenditure.	<b>(144,676)</b>	(86,434)
<b>Total Departmental Operating Costs (see Statement of Comprehensive Net Expenditure)</b>	<b>41,211,173</b>	36,882,910

\*During the last 2 years a new organisation, Information Systems and Services, has been formed (by combining internal MOD branches) to deliver information capabilities to the Department. The new organisation is part of JFC and comparator year figures have been restated to reflect the reorganisation which mainly impacted DE&S and JFC.

<b>Net Capital DEL Outturn</b>	<b>2015-16</b>	<b>Restated 2014-15*</b>
	<b>£000</b>	<b>£000</b>
<b>Outturn by Top Level Budget (reviewed by the Board)</b>		
Royal Navy	12,137	13,818
Army	12,189	36,500
Royal Air Force	7,014	4,893
Joint Forces Command	(43,094)	7,028
Defence Equipment & Support (Bespoke Trading Entity)	86,624	-
Defence Infrastructure Organisation	372,652	731,573
Head Office & Corporate Services	(81,369)	(221,265)
	<b>366,153</b>	572,547
<b>Reconciliation to Capital Outturn</b>		
Net Capital Outturn for Cost of Operations (excluding Annually Managed Expenditure) - reviewed by the Board as a total forecast figure against Estimate during the year	53,069	8,930
Sub total of Capital outturn reviewed by the Board	<b>419,222</b>	581,477
Balance of Capital outturn not reviewed by the Board (Capital AME, foreign exchange movements and ALB capital outturn)	122,931	120,063
Balance of the Net Capital Outturn. This expenditure is not separately reviewed by the Board; it forms part of the Equipment Plan expenditure which the Board reviews by Service Command and Strategic Programme (see table below)	7,070,939	7,134,741
<b>Total Capital Outturn (See SoPS Note 1)</b>	<b>7,603,092</b>	7,836,281

\*During the last 2 years a new organisation, Information Systems and Services, has been formed (by combining internal MOD branches) to deliver information capabilities to the Department. The new organisation is part of JFC and comparator year figures have been restated to reflect the reorganisation which mainly impacted DE&S and JFC.

### The Equipment Plan

**2.8** In addition to reviewing the information above, the Defence Board also receive information on expenditure on the Equipment Plan. This covers expenditure on equipment support and the procurement of Single Use Military Equipment and other equipment for Defence. The details are set out below and allow the Defence Board to make decisions about resource allocation to segments and to assess performance.

<b>Equipment Plan</b>	<b>2015-16</b>	<b>2014-15</b>
	<b>£000</b>	<b>£000</b>
<b>Outturn by Budget Area (reviewed by the Board)</b>		
Royal Navy	3,283,911	3,373,300
Army	1,491,074	1,608,700
Royal Air Force	3,562,651	3,373,900
Joint Forces Command	2,199,767	2,207,400
Strategic Programme	3,949,349	3,864,800
DE&S Corporate	180,101	42,200
<b>Total</b>	<b>14,666,853</b>	14,470,300

### 3. Expenditure

	2015-16		2014-15	
	Core Department & Agencies £000	Departmental Group £000	Restated Core Department & Agencies £000	Restated Departmental Group £000
<b>Expenditure - non-cash</b>				
Depreciation and amortisation:				
- Property, plant and equipment (PPE) owned assets*	5,522,101	5,538,859	6,154,625	6,167,939
- Intangible assets	1,434,415	1,434,415	1,653,325	1,653,325
- PPE held under service concession arrangements	444,414	444,414	361,296	361,296
- PPE held under finance leases	116,672	116,672	106,875	106,875
Movement on provisions, derivatives and discount on payables and receivables:				
- Increase/(Decrease) in nuclear provisions	5,696,837	5,696,837	371,471	371,471
- Movement on Derivatives	(19,876)	(19,876)	282,055	282,055
- Increase/(Decrease) in other provisions	259,208	259,208	192,588	192,588
- Unwinding of discount on payables and receivables - net	144,965	144,965	91,283	91,283
Asset - impairments, inventory and project write on/off and surplus/deficit on disposal:				
- Asset impairment - Arising on Quinquennial valuation	581,100	581,100	332,000	332,000
- Asset impairment - arising on other items	195,076	195,076	107,968	107,968
- Provisions to reduce inventory to net realisable value	57,475	57,475	259,822	259,822
- Inventory write off / (on) - net	116,116	116,116	321,963	321,963
-(Surplus) / deficit on disposal of property, plant and equipment and intangible assets - net	(347,899)	(347,899)	(61,880)	(61,880)
-(Surplus) / deficit arising on disposal of inventory - net	(5,169)	(5,169)	(3,168)	(3,168)
- Intangible and property, plant and equipment assets write off / (write on) - net	23,304	23,304	(1,022)	(1,022)
- Capital project expenditure write off / (write on) - net	108,246	108,246	(13,689)	(13,689)
- Bad debts written off	1,757	1,757	2,208	2,208
- Increase/(Decrease) in bad debt provisions - net	6,410	6,410	1,856	1,856
Other non-cash expenditure:				
Auditors' remuneration - audit work only†	2,464	2,464	2,186	2,186
<b>Sub total - expenditure - non-cash</b>	<b>14,337,616</b>	<b>14,354,374</b>	<b>10,161,762</b>	<b>10,175,076</b>
<b>Expenditure - cash</b>				
Staff Costs (see Remuneration and Staff Costs Report for further details)				
Salaries and wages	7,841,613	7,916,213	8,063,815	8,134,952
Social security costs	576,365	586,470	601,647	611,675
Pension costs	3,209,935	3,217,931	2,142,524	2,148,713
Redundancy and severance payments	44,133	44,133	141,679	141,679
<b>Sub total - staff costs</b>	<b>11,672,046</b>	<b>11,764,747</b>	<b>10,949,665</b>	<b>11,037,019</b>

	2015-16		2014-15	
	Core Department & Agencies £000	Departmental Group £000	Restated Core Department & Agencies £000	Restated Departmental Group £000
Equipment and Equipment Support:				
- equipment support - owned equipment	3,882,688	3,882,688	3,987,533	3,987,533
- contractor logistic and operational support contracts for equipment support	1,448,613	1,448,613	1,379,678	1,379,678
- equipment support - under Service Concession Arrangements	407,271	407,271	405,983	405,983
- equipment support - equipment under finance lease	56,904	56,904	59,851	59,851
- payments under operating leases - plant & equipment	19,511	19,511	42,333	42,333
- plant and equipment under Service Concession Arrangements	61,058	61,058	54,742	54,742
Property management and utilities:				
- property management	1,080,915	1,080,915	1,325,449	1,325,449
- property management under Service Concession Arrangements	506,970	506,970	592,591	592,591
- utilities	279,707	279,707	376,649	376,649
- accommodation charges	377,777	377,777	370,700	370,700
- payments under operating leases - other	213,158	213,158	226,568	226,568
- defence housing costs under Service Concession Arrangements	73,613	73,613	65,694	65,694
Inventory and fuel consumption:				
- inventory consumption	967,348	967,348	1,040,660	1,040,660
- fuel consumption	332,502	332,502	550,752	550,752
IT and telecommunications:				
- IT and telecommunications	1,208,734	1,208,734	1,271,108	1,271,108
- IT and telecommunications under Service Concession Arrangements	390,689	390,689	356,181	356,181
Research expenditure and expensed development expenditure	919,512	919,512	1,012,081	1,012,081
Movements:				
- travelling, subsistence and relocation costs and movement of stores and equipment	575,182	575,182	644,682	644,682
- transport under Service Concession Arrangements	50,673	50,673	51,592	51,592
War Pensions Benefits	794,774	794,774	837,649	837,649
Professional fees††	794,262	794,262	717,624	717,624
Training, safety and welfare**	689,740	689,740	593,288	593,288
Other Expenditure:				
Other expenditure*†	490,763	659,537	560,473	702,564
Cost of: PFI, finance lease and other interest payable	419,257	419,257	408,530	408,533
Grants-in-Aid	182,418	25,952	169,276	20,241
Other Grants to bodies within the accounting boundary	23,467	-	23,118	-
<b>Sub total - expenditure - cash</b>	<b>27,919,552</b>	<b>28,001,094</b>	<b>28,074,450</b>	<b>28,131,745</b>
<b>Total Expenditure</b>	<b>42,257,168</b>	<b>42,355,468</b>	<b>38,236,212</b>	<b>38,306,821</b>

\* Expenditure by Arm's Length Bodies is classified as depreciation of PPE or other expenditure.

\*\* The cost of training, safety and welfare has been separately disclosed for the first time. The costs were previously included as Other Expenditure; the prior year comparator figures have been adjusted to reflect this revised disclosure.

† In addition to the notional audit fee for the Department's audit (including the cost of the audit of the Armed Forces Pension Scheme accounts (2015-16: £160,000 ; 2014-15 £158,400); Defence Equipment and Support (BTE) accounts (2015-16: £219,000; 2014-15 £176,000) and DECA 2015-16: 28,500, other programme costs for the Departmental Group includes, as Other Expenditure, the cash cost of the NAO's audit of: the National Museum of the Royal Navy, the National Army Museum, the RAF Museum, the Royal Hospital Chelsea, and the Single Source Regulations Office: £144,000 in 2015-16 (2014-15 : £133,000).

†† Prior period figures have been restated to include costs disclosed as Other Programme Expenditure (at Note 4) in the 2014-15 published accounts.



## 4. Income

	2015-16		2014-15	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Receipts – supplies and services	209,059	209,059	303,366	303,366
Receipts – NATO/UN/US Forces/Foreign Governments	234,095	234,095	245,883	245,883
Receipts from sale of fuel	41,442	41,442	81,964	81,964
Rental income – property	25,701	25,701	26,875	26,875
Reverse tasking *	31,777	31,777	36,253	36,253
Sub total - Income from provision of supplies and services	542,074	542,074	694,341	694,341
Income Other - receipts personnel	283,664	283,664	313,380	313,380
Income Other - dividends and other income from investments** †	62,197	62,197	97,119	102,619
Income Other - donated assets	203	203	6,598	6,598
Income Other - other income** ††	157,857	271,248	241,864	349,105
<b>Total Income</b>	<b>1,045,995</b>	<b>1,159,386</b>	<b>1,353,302</b>	<b>1,466,043</b>

\* Receipts for invoiced goods and/or services supplied to the Trading Funds and QinetiQ Group plc by MOD.

\*\* The income of Arm's Length Bodies is classified as dividends or other income.

† The figures for UKHO include equity withdrawals of £50M for 2014-15 and £42M for 2015-16. The Defence Support Group was sold in 2014-15.

†† Includes, for 2014-15 £163.8M (cash extraction £23.8M and sale proceeds £140M) from the sale of DSG.

## 5. Consolidated Departmental Group – Intangible Assets

Intangible assets include development expenditure in respect of non current assets in use and assets under construction.

	Note	Single Use Military Equipment £000	Software £000	AUC £000	Others* £000	Total £000
<b>Cost or Valuation†</b>						
At 1 April 2014		23,065,893	10,569	7,241,724	8,095,851	38,414,037
Additions	i	35,340	6,247	2,033,453	14,269	2,089,309
Disposals		(614,112)	-	-	(303,193)	(917,305)
Impairments	ii	(5,880)	-	236	(14,276)	(19,920)
Revaluations	iii	408,928	82	286	82,143	491,439
Reclassifications	iv	130,177	(919)	(1,568,177)	1,506,389	67,470
<b>At 31 March 2015</b>		<b>23,020,346</b>	<b>15,979</b>	<b>7,707,522</b>	<b>9,381,183</b>	<b>40,125,030</b>
Additions	i	7,701	13,028	2,079,798	393	2,100,920
Disposals		(428,775)	-	-	(210,371)	(639,146)
Impairments	ii	(11,307)	-	-	(19,643)	(30,950)
Revaluations	iii	269,142	88	(628)	32,041	300,643
Reclassifications	iv	80,829	(12,480)	(192,114)	297,041	173,276
<b>At 31 March 2016</b>		<b>22,937,936</b>	<b>16,615</b>	<b>9,594,578</b>	<b>9,480,644</b>	<b>42,029,773</b>
<b>Amortisation</b>						
At 1 April 2014		(9,797,759)	(6,725)	-	(3,691,541)	(13,496,025)
Charged in Year		(1,123,648)	(2,119)	-	(527,558)	(1,653,325)
Disposals		498,820	-	-	296,658	795,478
Impairments	ii	2,221	-	-	10,336	12,557
Revaluations	iii	(174,954)	(77)	-	(41,743)	(216,774)
Reclassifications	iv	(62)	-	-	(340)	(402)
<b>At 31 March 2015</b>		<b>(10,595,382)</b>	<b>(8,921)</b>	<b>-</b>	<b>(3,954,188)</b>	<b>(14,558,491)</b>
Charged in Year		(990,655)	2,452	-	(446,212)	(1,434,415)
Disposals		303,786	-	-	167,536	471,322
Impairments	ii	(39,823)	-	-	(421)	(40,244)
Revaluations	iii	(120,674)	(180)	-	(16,667)	(137,521)
Reclassifications	iv	2,674	3,880	-	(6,554)	-
<b>At 31 March 2016</b>		<b>(11,440,074)</b>	<b>(2,769)</b>	<b>-</b>	<b>(4,256,506)</b>	<b>(15,699,349)</b>
<b>Net Book Value</b>						
At 1 April 2014		13,268,134	3,844	7,241,724	4,404,310	<b>24,918,012</b>
At 31 March 2015		12,424,964	7,058	7,707,522	5,426,995	<b>25,566,539</b>
<b>At 31 March 2016</b>		<b>11,497,862</b>	<b>13,846</b>	<b>9,594,578</b>	<b>5,224,138</b>	<b>26,330,424</b>
Of the total net book value as at 31 March 2016						
Core Department		11,497,862	13,846	9,594,578	5,224,138	26,330,424
ALBs		-	-	-	-	-
<b>Total</b>		<b>11,497,862</b>	<b>13,846</b>	<b>9,594,578</b>	<b>5,224,138</b>	<b>26,330,424</b>

Notes

i. Additions include accruals of £631M (2014-15: £602M). Information on Frascati compliant R&D expenditure can be found on the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>.

ii. Capitalised development costs directly linked to a class of asset are only impaired if the whole class of the associated non current asset is impaired e.g. when a whole class of asset is withdrawn from service.

iii. Revaluations include changes due to MHCA through indexation. Departmental reviews have concluded that where the price inflation embedded within contracts for construction of buildings and equipment provides for a reasonable estimate of fair value during development and construction, the additional annual application of indexation is not required.

iv. Reclassifications include assets classified to or from property, plant and equipment.

† Intangible asset valuations are based on the actual costs incurred, or derived by applying a ratio to the property, plant and equipment asset valuations based on the historical relationship between development and production costs.

\* The category 'Others' includes £3.68bn of transport intangible assets; of this £1.8bn relates to Merlin helicopters.

## 5.1 Movement in the revaluation reserve relating to intangible assets

	2015-16 £000	2014-15 £000
Balance - 1 April	2,679,522	3,145,757
Revaluation	163,122	274,665
Transfers / reclassifications	-	(479,699)
Realised reserve transferred to the General Fund	(281,175)	(261,201)
<b>Balance - 31 March</b>	<b>2,561,469</b>	<b>2,679,522</b>

## 5.2 Details of intangible assets with a net book value greater than £0.5Bn.

Description	Net Book Value 31 March 2016 £Bn	Remaining Useful Economic Life
Typhoon development costs	5.4	14 years
Type 45 destroyer development costs	1.4	22 years 11 months
Merlin helicopter development costs	1.3	13 years 10 months
Airbus A400M Atlas	0.7	32 years 4 months
Astute class submarine development costs	0.7	33 years
Lynx helicopter development costs	0.7	28 years 9 months

## 6. Consolidated Departmental Group – Property, Plant and Equipment

Note	Land Dwellings £000	Land Other Buildings £000	Dwellings £000	Other Buildings £000	Restated Single Use Military Equipment (SUME)* £000	Plant and Machinery £000	Transport £000	IT and Communication Equipment £000	Restated Assets under Construction (SUME)* £000	Assets under Construction (Other) £000	Total £000
<b>Cost or Valuation</b>											
At 1 April 2014*	2,247,165	6,012,977	10,273,795	20,256,620	74,431,087	4,591,276	16,774,370	4,850,912	12,336,475	6,629,285	158,403,962
Additions	3,626	41,196	121,686	142,097	1,092,994	24,358	676,992	238,689	2,971,904	2,664,408	7,977,950
Capitalised Provisions	-	-	-	43,363	7,112	-	-	-	-	-	50,475
Donations	-	-	-	-	6,913	125	-	-	-	(440)	6,598
Disposals	(4,214)	-	(28,781)	(459,266)	(3,873,848)	(390,115)	(1,035,038)	(264,920)	-	(156,137)	(6,212,319)
Impairments	163,889	(16,216)	(65,935)	(302,850)	(665,759)	(95,340)	(24,487)	(23,966)	(17,446)	(19,495)	(1,067,605)
Reclassifications	(6,728)	(135,144)	(63,950)	410,401	1,372,072	(573,439)	723,218	36,892	(1,640,123)	(1,830,056)	(1,706,857)
Revaluations	64,376	1,133,433	862,824	2,481,736	946,848	56,561	189,405	2,603	2,921	2,200	5,742,907
<b>At 31 March 2015</b>	<b>2,468,114</b>	<b>7,036,246</b>	<b>11,099,639</b>	<b>22,572,101</b>	<b>73,317,419</b>	<b>3,613,426</b>	<b>17,304,460</b>	<b>4,840,210</b>	<b>13,603,731</b>	<b>7,289,765</b>	<b>163,145,111</b>
Additions	16,716	40,812	44,625	402,746	934,843	14,075	497,854	201,569	3,358,285	2,119,138	7,630,663
Capitalised Provisions	-	-	-	(31,520)	80,947	-	-	-	-	-	49,427
Donations	-	-	-	-	39	-	-	-	-	-	39
Disposals	(19,839)	(23,236)	(67,089)	(685,867)	(2,637,341)	(129,100)	(756,629)	(264,453)	(33,748)	(84,123)	(4,701,425)
Impairments	(36,312)	(43,762)	(19,933)	(625,048)	150,361	(24,261)	(129,769)	(28,356)	(51,047)	-	(808,127)
Reclassifications	218,496	(30,503)	184,940	1,112,552	2,482,580	181,866	1,437,874	10,688	(2,580,902)	(3,758,018)	(740,427)
Revaluations	(25,548)	171,632	1,295,459	3,839,807	778,042	20,289	4,885	(17,162)	3,943	(243)	6,071,104
<b>At 31 March 2016</b>	<b>2,621,627</b>	<b>7,151,189</b>	<b>12,537,641</b>	<b>26,584,771</b>	<b>75,106,890</b>	<b>3,676,295</b>	<b>18,358,675</b>	<b>4,742,496</b>	<b>14,300,262</b>	<b>5,566,519</b>	<b>170,646,365</b>
<b>Depreciation</b>											
At 1 April 2014	(66,421)	(17,670)	(2,233,025)	(9,099,225)	(39,164,268)	(2,673,207)	(7,880,155)	(2,220,703)	-	-	(63,354,674)
Charged in Year	(12,405)	(17,287)	(255,626)	(691,358)	(4,019,714)	(215,774)	(987,424)	(436,522)	-	-	(6,636,110)
Disposals	148	-	(3,788)	455,378	3,172,188	381,407	981,928	242,315	-	-	5,229,576
Impairments	(4,231)	-	(7,557)	(33,562)	673,773	3,599	7,388	18,504	-	-	657,914
Reclassifications	853	1,645	31,319	110,813	174,455	755,133	218,396	1,219	-	-	1,293,833
Revaluations	(1,221)	-	(289,168)	(1,342,314)	(388,943)	(23,988)	(98,162)	240	-	-	(2,143,556)
<b>At 31 March 2015</b>	<b>(83,277)</b>	<b>(33,312)</b>	<b>(2,757,845)</b>	<b>(10,600,268)</b>	<b>(39,552,509)</b>	<b>(1,772,830)</b>	<b>(7,758,029)</b>	<b>(2,394,947)</b>	<b>-</b>	<b>-</b>	<b>(64,953,017)</b>

Note	Land Dwellings £000	Land Other Buildings £000	Dwellings £000	Other Buildings £000	Restated Single Use Military Equipment (SUME)* £000	Plant and Machinery £000	Transport £000	IT and Communication Equipment £000	Restated Assets under Construction (SUME)* £000	Assets under Construction (Other) £000	Total £000
Charged in Year	(11,861)	(14,029)	(284,608)	(881,425)	(3,404,332)	(170,232)	(953,573)	(379,885)	-	-	(6,099,945)
Disposals	406	-	26,575	553,891	2,116,672	112,719	734,315	256,488	-	-	3,801,066
Impairments	1,671	17,618	27,906	135,384	(122,725)	7,493	35,033	4,501	-	-	106,881
Reclassifications	-	-	1,335	116,062	8,741	14,215	253,342	(448)	-	-	393,247
Revaluations	748	-	(489,116)	(2,492,952)	(361,674)	(7,968)	7,816	(5,958)	-	-	(3,349,104)
<b>At 31 March 2016</b>	<b>(92,313)</b>	<b>(29,723)</b>	<b>(3,475,753)</b>	<b>(13,169,308)</b>	<b>(41,315,827)</b>	<b>(1,816,603)</b>	<b>(7,681,096)</b>	<b>(2,520,249)</b>	-	-	<b>(70,100,872)</b>
<b>Net Book Value</b>											
At 1 April 2014*	2,180,744	5,995,307	8,040,770	11,157,395	35,266,819	1,918,069	8,894,215	2,630,209	12,336,475	6,629,285	95,049,288
At 31 March 2015	2,384,837	7,002,934	8,341,794	11,971,833	33,764,910	1,840,596	9,546,431	2,445,263	13,603,731	7,289,765	98,192,094
<b>At 31 March 2016</b>	<b>2,529,314</b>	<b>7,121,466</b>	<b>9,061,888</b>	<b>13,415,463</b>	<b>33,791,063</b>	<b>1,859,692</b>	<b>10,677,579</b>	<b>2,222,247</b>	<b>14,300,262</b>	<b>5,566,519</b>	<b>100,545,493</b>
Owned	494,371	6,689,688	3,774,982	12,022,718	33,783,658	1,481,645	8,830,931	1,213,266	14,300,262	5,539,726	88,131,247
Donated	93,114	297,721	50,108	88,941	7,405	16,720	-	(39)	-	-	553,970
Long Lease	6,221	21,527	16,991	39,715	-	-	-	-	-	-	84,454
Short Lease	54	14,200	222	23,306	-	-	-	-	-	-	37,782
Operating Lease (Lessor)	-	-	-	10,019	-	-	-	-	-	-	10,019
Finance Lease	1,848,875	-	4,352,445	-	-	-	62	-	-	-	6,201,382
Service Concession Arrangements	86,679	98,330	867,140	1,230,764	-	361,327	1,846,586	1,009,020	-	26,793	5,526,639
<b>At 31 March 2016</b>	<b>2,529,314</b>	<b>7,121,466</b>	<b>9,061,888</b>	<b>13,415,463</b>	<b>33,791,063</b>	<b>1,859,692</b>	<b>10,677,579</b>	<b>2,222,247</b>	<b>14,300,262</b>	<b>5,566,519</b>	<b>100,545,493</b>
<b>Of the total net book value as at 31 March 2016</b>											
Core Department	2,310,184	7,103,296	8,935,205	13,104,409	33,791,063	1,673,952	10,673,644	2,219,297	14,300,262	5,555,622	99,666,934
Arm's Length Bodies	219,130	18,170	126,683	311,054	-	185,740	3,935	2,950	-	10,897	878,559
<b>Total</b>	<b>2,529,314</b>	<b>7,121,466</b>	<b>9,061,888</b>	<b>13,415,463</b>	<b>33,791,063</b>	<b>1,859,692</b>	<b>10,677,579</b>	<b>2,222,247</b>	<b>14,300,262</b>	<b>5,566,519</b>	<b>100,545,493</b>

Notes

\* Restated following reclassification of inventory as non-current assets (see Note 22).

i. Additions include accruals of £2.3bn (2014-15: £2.3bn).

ii. Property, plant and equipment as at 31 March 2016 include capitalised provisions (gross cost) of £42.4M (2014-15: £395M).

iii. Donated Assets in use have been valued on the same basis as all other assets used by the Department.

iv. Assets are impaired for a variety of reasons e.g. loss, damage, obsolescence, abandonment of Assets Under Construction (AUC) and as part of the disposal process.

v. Includes assets reclassified to intangible assets of £17.3M and assets reclassified to Held for Sale of £3.3M.

vi. Revaluations include changes due to indexation, impairment and impairment reversals. Departmental reviews concluded that where the price inflation embedded within contracts for construction of buildings and equipment provides for a reasonable estimate of fair value during development and construction, the additional annual application of indexation is not required. To ensure accurate fair values for AUC, MOD conducts fair value reviews annually on its AUC and on their reclassification to assets in use.

6.1 Land and Buildings, with the exception of AUC, are subject to quinquennial revaluation (QQR), a rolling programme with approximately 25% of the estate re-valued in each of the first 4 years allowing any residual work to take place in year 5. 2015-16 represents the third year of the current QQR4 programme. Valuations for the UK estate were performed by the Valuation Office Agency and for the overseas estate in-house by Defence Infrastructure Organisation personnel and reviewed by GVA plc. All valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual. Non-specialist properties are valued at fair value, interpreted as market value for existing use; Specialist properties, for which there is no external market, are valued at depreciated replacement cost.

6.2 Data from the 2015-16 QQR and data received late in 2014-15 and applied in 2015-16 resulted in a £71.4M decrease in the value of Land and a £502.1M increase in the value of Buildings at Net Book Value. Valuations received during the year were dated 1 Nov 15 and were effective from 1 Apr 15; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 Apr 15.

6.3 The net charge to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings assets is £581.1M impairment write off. This is made up of: Land, £61.8M net impairment write off; Buildings, £519.3M net impairment write off. The figures include all Land and Building assets professionally valued during Financial Year 2015-16, including Donated, IFRIC 12 and IAS 17 leased assets.



## 7. Financial Instruments

7.1 IFRS 7 Financial Instruments – Disclosures, requires the Department to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the risks to which the Department is exposed and how these risks are managed. For each type of risk arising from financial instruments, the Department is also required to provide summary quantitative data about its exposure to the risk at the reporting date.

7.2 The cash requirements of the Department are met mainly through the Supply funding process, financial instruments therefore play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little liquidity or cash flow risk.

7.3 The Department is subject to some credit risk. The carrying amount of receivables, which is net of impairment losses, represents the Department's maximum exposure to credit risk from these instruments. Trade and other receivables consist of a large number of diverse customers spread over a wide geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability: that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. The Department has cash balances with commercial banks in the Eurozone and is therefore exposed to credit risk in respect of these holdings. The cash balances are relatively small and are being managed in order to minimise the risk; in addition, wider corporate services development will see much of the activity on these accounts transferred to the Government Banking Service.

7.4 The Department is subject to exchange rate risk and enters into forward purchase contracts for Euros and US Dollars to mitigate against the risk that cash inflows and outflows will be affected by changes in exchange rates; foreign currency forward contracts were not in hedging relationships in accordance with IAS 39.

### Categories of Financial Instruments

7.5 Details of the Financial Instruments, by category, are:

	Note	31 March 2016		31 March 2015	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Financial Assets</b>					
Fair value through Net Operating Cost - Held for Trading	SoFP	332,389	332,389	292,114	292,114
Loans and receivables (including cash and cash equivalents)		2,794,871	2,893,442	2,205,429	2,318,213
Held for Sale		1	69,207	1	61,436
		<b>3,127,261</b>	<b>3,295,038</b>	<b>2,497,544</b>	<b>2,671,763</b>
<b>Financial Liabilities</b>					
Payables and accruals		(8,660,649)	(8,729,744)	(8,616,852)	(8,640,687)
Fair value through Net Operating Cost - Held for Trading	SoFP	(400,061)	(400,061)	(640,440)	(640,440)
		<b>(9,060,710)</b>	<b>(9,129,805)</b>	<b>(9,257,292)</b>	<b>(9,281,127)</b>

7.6 The net gains and losses, for the Departmental Group, taken through Net Operating Cost or Other Comprehensive Expenditure in respect of financial instruments are listed below:

	31 March 2016		31 March 2015	
	Net Operating Cost £000	Other Comprehensive Expenditure £000	Net Operating Cost £000	Other Comprehensive Expenditure £000
<b>Financial Assets</b>				
Fair value through Net Operating Cost - Held for Trading	(19,876)	-	282,055	-
Loans and receivables	39,699	-	(4,209)	-
Available for Sale	-	-	-	2,625
<b>Financial Liabilities</b>				
Payables and accruals	4,605	-	(3,841)	-
	<b>24,428</b>	<b>-</b>	<b>274,005</b>	<b>2,625</b>

### Interest Rate Risk Management

7.7 A significant proportion of the Department's financial assets and liabilities carry nil or fixed rates of interest. The exposure to interest risk is therefore not significant. Departmental cash requirements are met through the Supply funding process.

### Foreign Currency Risk

7.8 The Department undertakes certain transactions denominated in foreign currencies; as a result exposure to exchange rate fluctuations arises. Exchange rate exposure for the US Dollar and Euro are managed using forward purchase contracts with the Bank of England and covered 89% and 99% respectively of the in-year expenditure in US dollars and Euros.

7.9 The table below details the forward purchase currency contracts outstanding as at 31 March 2016:

	Average Contract Exchange Rates	Foreign Currency 31 March 2016		Financial Asset / (Liability) Fair Value 31 March 2016		Financial Asset / (Liability) Fair Value 31 March 2015	
		US \$ '000	Euro € '000	Contract Value 31 March 2016 £000	£000	£000	£000
Delivery 2015-16							
US Dollars (\$)	1.59	-	-	-	-	128,219	
Euro (€)	1.19	-	-	-	-	(216,997)	
Delivery 2016-17							
US Dollars (\$)	1.57	3,018,000	1,921,898	177,142	108,435		
Euro (€)	1.20	1,199,000	1,002,752	(52,372)	(132,547)		
Delivery 2017-18							
US Dollars (\$)	1.56	1,782,000	1,140,609	98,785	52,234		
Euro (€)	1.27	525,000	412,078	4,060	(24,702)		
Delivery 2018-19							
US Dollars (\$)	1.51	758,000	501,002	26,192	-		
Euro (€)	1.31	180,000	137,521	5,155	-		
<b>Total</b>				<b>5,115,860</b>	<b>258,962</b>		<b>(85,358)</b>

7.10 The fair value of the financial asset / liability arising from the forward purchase contracts is determined using the mid-market rate for 31 March published by the Bank of England.

## Fuel Price Risk

7.11 The Department undertakes substantial purchases of aviation and marine fuels. Exposure to fluctuations in the market prices of these commodities is managed using Swap contracts for forward deliveries. The Swap contracts are placed with a small range of major financial institutions.

7.12 The table below details the Swap contracts outstanding as at 31 March 2016:

	Average Price US\$ / Tonne	Volume Tonnes	Contract Value		Financial Asset / (Liability) Fair Value	Financial Asset / (Liability) Fair Value
			31 March 2016 US\$000	31 March 2016** £000	31 March 2016** £000	31 March 2015* £000
Delivery 2015-16						
Aviation Turbine Fuel	906	-	-	-	-	(92,703)
Marine Gas Oil	753	-	-	-	-	(38,650)
Unleaded Ground Fuel	840	-	-	-	-	(365)
Diesel Ground Fuel	808	-	-	-	-	(7,142)
Delivery 2016-17						
Aviation Turbine Fuel	691	511,599	353,340	245,750	(111,160)	(53,623)
Marine Gas Oil	606	345,624	209,403	145,641	(64,216)	(27,236)
Unleaded Ground Fuel	796	1,670	1,330	925	(442)	(218)
Diesel Ground Fuel	703	43,523	30,586	21,273	(10,423)	(4,636)
Delivery 2017-18						
Aviation Turbine Fuel	737	254,171	187,312	130,277	(63,411)	(26,463)
Marine Gas Oil	572	261,702	149,705	104,121	(42,467)	(13,128)
Unleaded Ground Fuel	772	811	626	435	(201)	(92)
Diesel Ground Fuel	668	26,254	17,531	12,193	(5,648)	(1,932)
Delivery 2018-19						
Aviation Turbine Fuel	617	103,020	63,536	44,190	(17,088)	-
Marine Gas Oil	520	105,461	54,851	38,149	(13,304)	-
Unleaded Ground Fuel	603	63	38	26	(8)	-
Diesel Ground Fuel	593	9,096	5,397	3,754	(1,486)	-
<b>Total</b>			<b>1,073,655</b>	<b>746,734</b>	<b>(329,854)</b>	<b>(266,188)</b>

\*US \$ values have been converted to sterling using the mid market exchange rate as at 31 March.

7.13 Details of the financial instruments by valuation method are:

	31 March 2016		31 March 2015	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Financial Assets</b>				
Fair value	332,390	401,596	292,115	353,550
Historic cost	2,468,976	2,567,547	2,009,413	2,122,197
Discounted cost	325,895	325,895	196,016	196,016
	<b>3,127,261</b>	<b>3,295,038</b>	<b>2,497,544</b>	<b>2,671,763</b>
<b>Financial Liabilities</b>				
Fair value	(400,061)	(400,061)	(640,440)	(640,440)
Historic cost	(8,590,168)	(8,659,263)	(8,468,309)	(8,492,144)
Discounted cost	(70,481)	(70,481)	(148,543)	(148,543)
	<b>(9,060,710)</b>	<b>(9,129,805)</b>	<b>(9,257,292)</b>	<b>(9,281,127)</b>

## 8. Investments

### 8.1 Departmental Group – Investments in Public and Non-Public Sector Bodies

	Non-Current Assets – Financial Assets		
	Public Dividend Capital (PDC)	Loans	Total
	£000	£000	£000
Balance at 31 March 2015	63,679	16,100	79,779
Repayments:			
Defence Science and Technology Laboratory	-	(3,220)	(3,220)
<b>Balance at 31 March 2016</b>	<b>63,679</b>	<b>12,880</b>	<b>76,559</b>

### 8.2 Public Dividend Capital (PDC) and Loan Balances by Trading Fund

	Public Dividend Capital (PDC) 31 Mar 2016	Loan Balance Due Within One Year	Loan Balance Due After One Year	Total Balance of Loan due at 31 Mar 2016
	£000	£000	£000	£000
Defence Science and Technology Laboratory	50,412	3,220	9,660	12,880
UK Hydrographic Office	13,267	-	-	-
<b>Totals</b>	<b>63,679</b>	<b>3,220</b>	<b>9,660</b>	<b>12,880</b>

### Other Financial Assets

8.3 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 2016 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

8.4 As at 31 March 2016 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.

8.5 The Department has a 100% interest in the non-preferential shares of International Military Services Limited (registration number 02536529), a company registered in England. International Military Services Limited ceased trading on 31 July 1991. Following settlement of outstanding contracts, the company will be liquidated and any remaining value distributed in accordance with the company's constitution. The Department has written down the value of the investment to nil.

### Departmental Group – Dividends from Investments

8.6 The following dividends are shown as income in Note 4.

	2015-16 £000	2014-15 £000
Defence Science Technology Laboratory	13,200	12,700
UK Hydrographic Office*	48,997	69,419
Defence Support Group**	-	15,000
Other	-	5,500
<b>Total</b>	<b>62,197</b>	<b>102,619</b>

\*\* The figures for UKHO include equity withdrawals of £50M for 2014-15 and £42M for 2015-16.

\*\*The Defence Support Group was sold in 2014-15.

## 9. Departmental Group – Impairments 2015-16

Details of impairments and impairment reversals through Net Operating Costs for the year are:

	Net Operating Cost Impairment £000	Net Operating Cost Impairment Reversal £000
Intangibles	81,014	(9,820)
Land	200,991	(140,206)
Property	722,430	(240,739)
Single Use Military Equipment (SUME)	427,830	(455,465)
Plant & machinery	16,768	-
Transport	95,064	(328)
IT	32,538	(8,683)
Assets under construction	92,707	(41,660)
Assets held for sale	3,735	-
	<b>1,673,077</b>	<b>(896,901)</b>

## 10. Departmental Group – PPE Assets Held For Sale

The Department has the following non-current assets held for sale:

	Property £000	Plant and Equipment £000	Total £000
Balance as at 1 April 2014	44,429	7,146	51,575
Additions (transfers in)	224,547	82,599	307,146
Disposals	(85,506)	37	(85,469)
Transfers out*	(93,932)	(20)	(93,952)
<b>Balance as at 31 March 2015</b>	<b>89,538</b>	<b>89,762</b>	<b>179,300</b>
Additions (transfers in)	69,082	6,111	75,193
Disposals	(81,100)	(84,942)	(166,042)
Transfers out*	(52,532)	(3,049)	(55,581)
<b>Balance as at 31 March 2016</b>	<b>24,988</b>	<b>7,882</b>	<b>32,870</b>

\* Transfers out includes an element of revaluation where the anticipated sale did not take place in the current year.

10.1 When assets are classified as held for sale, they are reclassified 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. Disposal of plant and equipment is managed through the Disposal Services Authority. Disposal of property is managed by Defence Infrastructure Organisation. Assets are held at the lower of market value or net book value with any movement in valuation taken to the revaluation reserve up to historic cost and then to Net Operating Cost as an impairment. Asset disposals include property assets overseas handed back to host nations for which receipts are expected in future periods. Costs of impairing the assets to the net realisable value were charged to the SoCNE.

## 11. Departmental Group – Inventories

To conduct its activities across the world, on operations and standing commitments, the armed forces require a wide range of supplies and spares for immediate and potential use. A large part of these supplies and spares are recorded on the inventory accounting systems and comprise over 660,000 different types and over 800 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 – PPE (as part of the Single Use Military Equipment figures); as well as Raw Materials and Consumables (RMC) which are reported in the table below. The total, approximate, value of all these different 'categories' is £27.8Bn (gross) (£29.2Bn as at 31 Mar 15), a net book value of £10.5Bn (£11.1Bn as at 31 Mar 15) after deducting depreciation and other costs (to reflect net realisable value for example for when items become surplus, unserviceable, defective or obsolescent). After deducting the value of: the GWMB, significant equipment spares and other items treated as PPE – a total of £21.5Bn (£22.7Bn as at 31 Mar 15) gross value and a net book value of £5.9Bn (£6.3Bn as at 31 Mar 15); the balance – relating to Raw Materials and Consumable items is: £6.3Bn (£6.5Bn as at 31 Mar 15) gross, £4.6Bn (£4.8Bn as at 31 Mar 15) net. Further analysis of the net £4.6Bn figure for inventory is below:

	31 March 2016 £000	Restated 31 March 2015* £000	Restated 1 April 2014* £000
Munitions	1,256,556	1,417,931	1,761,729
Clothing & textiles	291,448	384,936	396,293
Engineering & technical	2,697,374	2,540,221	2,656,965
General	161,067	280,653	196,702
Medical, dental & veterinary	47,092	49,758	48,767
Oil, fuel & lubricants	163,744	175,326	272,970
Inventory held by ALBs	8,697	8,395	8,596
<b>Total</b>	<b>4,625,978</b>	<b>4,857,220</b>	<b>5,342,022</b>

\*Restated following reclassification of inventory as non-current assets (see Note 22).

**11.1** Where MOD has a Memorandum of Understanding with another country, inventory (including major components such as gas turbines and other supporting inventory) belonging to and held on behalf of that country is included in MOD's inventory systems. The assets may physically be at the contractor, in stores or both. The value of these items is not included in the figures above.



## 12. Receivables

	31 March 2016		31 March 2015	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Amounts falling due within one year:</b>				
Trade receivables	208,211	211,805	298,711	309,733
Deposits and advances	58,896	58,896	83,128	83,128
Value Added Tax	465,242	467,513	573,317	576,848
Other receivables	297,394	302,085	379,903	387,114
Staff loans and advances	66,244	66,244	66,415	66,655
Prepayments and accrued income	984,324	989,373	942,515	947,639
Current part of Service Concession Arrangement prepayment	26,705	26,705	27,236	27,236
	<b>2,107,016</b>	<b>2,122,621</b>	2,371,225	2,398,353
<b>Amounts falling due after one year:</b>				
Trade receivables	28,069	28,069	71,338	71,338
Other receivables	196,007	196,007	103,591	103,591
Staff loans and advances*	110,420	110,420	93,249	93,249
Prepayments and accrued income	285,735	285,735	338,474	338,474
ALB Pension Assets	-	179,611	-	183,700
	<b>620,231</b>	<b>799,842</b>	606,652	790,352
<b>Total Receivables</b>	<b>2,727,247</b>	<b>2,922,463</b>	2,977,877	3,188,705

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.

## 13. Cash and Cash Equivalents

	Core Department & Agencies £000	Departmental Group £000
Balance at 31 March 2015	1,142,075	1,236,896
Net change in cash and cash equivalents	498,926	491,564
<b>Balance at 31 March 2016</b>	<b>1,641,001</b>	<b>1,728,460</b>

	31 March 2016 £000	31 March 2015 £000
The following balances were held at:		
Government Banking Service	760,130	575,715
Commercial Banks and Cash in Hand	968,330	661,181
<b>Totals</b>	<b>1,728,460</b>	<b>1,236,896</b>

The commercial banks and cash in hand figure as at 31 March 2016 includes £745M (31 March 2015: £721M) 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.

## 14. Payables

	31 March 2016		31 March 2015	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Amounts falling due within one year:</b>				
VAT	77,829	77,829	93,171	93,171
Other taxation and social security	193,203	193,464	191,406	193,068
Trade payables	542,415	554,892	468,122	475,157
Other payables*	2,112,944	2,115,642	1,813,519	1,816,691
Payments received on account	3,347	3,427	2,769	14,829
Accruals and deferred income	6,217,618	6,269,768	6,522,841	6,573,367
Current part of finance leases	8,973	8,973	8,351	8,351
Current part of imputed finance lease element of Service Concession Arrangement contracts	277,066	277,066	263,930	263,930
Current part of NLF loans**	2,641	2,641	2,554	2,554
Supply Payable***	895,829	895,829	420,983	420,983
	<b>10,331,865</b>	<b>10,399,531</b>	9,787,646	9,862,101
<b>Amounts falling due after one year:</b>				
Other payables	48,534	54,528	63,578	63,710
Accruals and deferred income	29,433	29,433	84,965	84,965
Finance leases	1,774,091	1,774,091	1,780,500	1,780,500
Imputed finance lease element of Service Concession Arrangement contracts	4,830,051	4,830,051	4,682,800	4,682,800
NLF loans**	25,239	25,239	27,881	27,881
ALB pension schemes' liabilities	-	182,701	-	181,500
	<b>6,707,348</b>	<b>6,896,043</b>	6,639,724	6,821,356
<b>Total Payables</b>	<b>17,039,213</b>	<b>17,295,574</b>	16,427,370	16,683,457

\* Other payables includes: amounts advanced by foreign governments in respect of various collaborative projects where the United Kingdom is the host nation of £745M; a further £452M due to the International Court of Justice and £368M in respect of payroll and pensions liabilities.

\*\* 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.

\*\*\* Amounts received from the Consolidated Fund for Supply but not spent as at 31 March 2016.

## 15. Provisions for Liabilities and Charges

### 15.1 Departmental Group – Provisions for Liabilities and Charges

	Nuclear Decommissioning* £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other Provisions		Restated Total* £000
				Legal £000	Other £000	
At 1 April 2014*	4,278,654	37,558	115,520	399,548	390,116	5,221,396
Increase in provisions in-year	439,280	31,010	21,472	144,105	72,112	707,979
Provisions written back and reclassifications	(77,460)	(1,527)	(5,394)	(17,894)	(27,998)	(130,273)
Provisions utilised in year	(95,183)	-	(17,039)	(92,909)	(14,044)	(219,175)
Unwinding of discount	93,035	(50)	3,064	(2,586)	57,735	151,198
Provisions capitalised	50,475	-	-	-	-	50,475
<b>At 31 March 2015</b>	<b>4,688,801</b>	<b>66,991</b>	<b>117,623</b>	<b>430,264</b>	<b>477,921</b>	<b>5,781,600</b>
Increase in provisions in-year	327,731	55	20,155	177,817	161,067	686,825
Provisions written back and reclassifications	(122,926)	(19,067)	(14,069)	(27,931)	(27,474)	(211,467)
Provisions utilised in year	(107,535)	(2,813)	(19,537)	(102,128)	(24,432)	(256,445)
Unwinding of discount**	5,581,483	(52)	354	(2,005)	10,149	5,589,929
Provisions capitalised	49,427	-	-	-	-	49,427
<b>At 31 March 2016</b>	<b>10,416,981</b>	<b>45,114</b>	<b>104,526</b>	<b>476,017</b>	<b>597,231</b>	<b>11,639,869</b>

\*Following a review and a prior period adjustment the 1 April 2014 balance on the Nuclear Decommissioning provision has been restated (see note 22).

\*\*Provisions are discounted using HM Treasury's annually issued rates. These rates included a significant change to the long term (over 10 year) rate which has resulted in a large increase in the value of the Nuclear Decommissioning provision.

### 15.2 Analysis of expected timing of discounted cash flows

	Nuclear Decommissioning* £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other Provisions £000	Total £000
Due within 1 year	483,345	25,587	22,430	257,934	789,296
Due over 1 year and less than 5 years	825,011	19,391	28,233	325,239	1,197,874
Due over 5 years	9,108,625	136	53,863	490,075	9,652,699
<b>At 31 March 2016</b>	<b>10,416,981</b>	<b>45,114</b>	<b>104,526</b>	<b>1,073,248</b>	<b>11,639,869</b>

\*Following a review and a prior period adjustment the 1 April 2014 balance on the Nuclear Decommissioning provision has been restated (see note 22).

### Nuclear Decommissioning

15.3 Changes in the cost estimates of discharging the nuclear provisions (representing an increase or decrease in future decommissioning costs, less under or overspend of decommissioning delivered in year) are charged to the Statement of Comprehensive Net Expenditure. This charge includes the impact of restating liabilities from March 2015 values to current price levels. Actual costs incurred in discharging provisions in the year to 31st March 2016 have been charged against the provision.

15.4 In applying accounting policies it is necessary to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Where costs have been derived using a confidence model, the 50% value has been used as this represents most likely cost. Costs have been derived so as to represent the most likely cost of the decommissioning activity.

**15.5** The nuclear provisions are based on the most recently available estimates discounted in line with HM Treasury guidance. The current discount rates are: a short term rate applicable to years 0-5 (-1.55%); a medium term rate for the period after 5 years and up to 10 years (-1.00%); and a long term rate for the period over 10 years (-0.80%). The long term rate has changed from +2.2% in 14-15 to -0.80% this financial year which has had a significant impact on the values of the provisions. These liabilities are necessarily based on assumptions around the processes and methods most likely to be used to discharge the obligations reflecting a combination of the latest technical knowledge available, the most up to date assumptions for the volume of waste to be decommissioned, the type of waste to be decommissioned (Low, Intermediate or High Level Waste), the timescales involved and the requirements of the existing regulatory regime, Government policy and commercial arrangements.

**15.6** For decommissioning operations with an end date, costs have been calculated to that date; for operations of an on-going nature (e.g. storage of materials) costs have been calculated to a period where costs can be estimated reliably.

**15.7** Nuclear decommissioning provisions relate principally to: the cost of decommissioning facilities and equipment, the treatment and storage of nuclear materials and waste, and the long term management of irradiated submarine fuel. These nuclear liabilities have arisen from operations at MOD sites and the operation of Royal Navy submarines. The liabilities include the costs associated with decommissioning including care and maintenance of redundant facilities (the conditioning, retrieval and storage of contaminated materials), and the procurement of facilities to handle the various waste streams. In September 2011 the Department published the initial version of its Nuclear Liabilities Management Strategy which sets the overall context for the establishment of decommissioning provisions. MOD is working closely with bodies such as the Nuclear Decommissioning Authority (NDA) to refine the assumptions underpinning its provisions. The following provides further details in respect of strategic weapons, submarines and nuclear propulsion provisions, which account for a significant element of the provision balances. The remaining nuclear decommissioning provisions are individually immaterial:

- MOD holds provisions for the decommissioning of facilities and materials relating to the nuclear warhead programme. The largest of which relates to AWE. A quinquennial review was carried out in 2012 to support the valuation of this provision and following the most recent annual review the carrying value was increased by £96M.
- Provisions are held for the decommissioning of all nuclear submarines. These provisions cover the safe storage and maintenance of the boats before they are processed through the Submarine Dismantling Project (SDP). An interim shortlist of sites for the SDP facility was announced in February 2014.
- The Department also holds provisions for the safe storage and management of irradiated fuel arising from the out of service submarines and for the decommissioning of sites used for this purpose. This includes the decommissioning of the Vulcan site which houses prototypes of nuclear propulsion plants operated by the Royal Navy.

**15.8** The Department's nuclear decommissioning provisions are inter-linked and closely aligned. One of the key assumptions underpinning these provisions is the availability of the Geological Disposal Facility (GDF) as the end storage point for MOD's nuclear materials. The construction of the Facility is managed by the NDA and MOD is working with the Department of Energy and Climate Change (DECC) and the NDA to refine the assumptions and valuation of its liability for the GDF. There are significant uncertainties surrounding the GDF, particularly following the rejection of the planned development by Cumbria County Council in January 2013. MOD's provision aims to reflect NDA's current working assumptions, which continues to assume that the GDF will be available from around 2040. If the Facility is not available until after this period, additional storage costs would be incurred by MOD for a longer period. As the NDA assumptions have yet to be revalidated it is not possible to quantify the financial effect on MOD's provisions.

## Other Decommissioning and Restoration

15.9 Other decommissioning and restoration provisions relate primarily to contaminated sites where the Department has a constructive or a legal obligation to restore the sites for normal use. The estimated payments are discounted by the Treasury discount rates listed at paragraph 15.5.

## Sensitivity Analysis

15.10 The Department calculates its provisions based on management's best estimate of the future costs of the decommissioning programme. The Department also considers credible risks and opportunities which may increase or decrease the cost estimate, but which are deemed less probable than the best estimate. The value of the provisions is sensitive to changes in key assumptions and other factors including the Treasury Discount Rate (TDR). This year has seen a change in the TDR applied to long term provisions which has resulted in a significant change in the value of those provisions. As a result we have considered that a future change of +/-0.5% to the TDR would result in a reduction of £1.7Bn or an increase of £2.4Bn to the current long term provisions.

## Early Retirement

15.11 Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions: 1.37% with effect from 31 March 2016 (1.3% from 31 March 2015). Employees who retire early do so on a 'clean break' basis so no provision is required as there are no costs in future years. During 2015-16 increases of £20M were made to existing schemes and early retirement / redundancy costs charged during the period amounted to £11M.

## Other

15.12 Other provisions consist mainly of provisions for: legal (£476M) and pension (£441M) liabilities. Pension liabilities are in respect of three schemes for Locally Employed Civilians (the United Kingdom Departments Gibraltar Pension Scheme; the Sovereign Base Administration Areas Pension Scheme Cyprus; and the British Forces Cyprus Fire Service Pension Scheme). Legal liabilities include amounts payable under guarantees, litigation and contractual arrangements; some legal liabilities (where the probability of settlement against the Department is low) have been apportioned to contingent liabilities. Other provisions also include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

## 16. Departmental Group – Capital Commitments

The following capital commitments are not accounted for in the financial statements:

	31 March 2016 £000	31 March 2015 £000
Intangible assets	3,152,823	3,245,488
Property, plant and equipment	15,916,774	16,610,592
	<b>19,069,597</b>	19,856,080

## 17. Departmental Group – Commitments Under Leases

The totals of future minimum lease payments under operating and finance leases for the periods: not later than one year; later than one year but less than five years and later than five years are set out below:

### 17.1 Operating leases:

Significant commitments for leased land, as at 31 March 2016 are: The Royal Armoured Corps Gunnery School (£18M), Portsmouth Harbour (£16M) and Okehampton Training Camp (£11M).

The most significant operating leases for buildings, as at 31 March 2016, are for: Service Families Accommodation (£49M), Aldershot Health Centre (£38M) and Walker House, Liverpool (£14M).

Other operating lease commitments includes leased vehicles (including operational support vehicles) for £241M. Remaining lease commitments are less than £10M.

	31 March 2016 £000	31 March 2015 £000
<b>Obligations under operating leases comprise:</b>		
Land		
Not later than one year	5,184	19,026
Later than one year and not later than five years	16,298	31,318
Later than five years	76,005	154,211
	<b>97,487</b>	204,555
Buildings		
Not later than one year	43,275	54,952
Later than one year and not later than five years	115,445	125,828
Later than five years	93,027	100,811
	<b>251,747</b>	281,591
Other		
Not later than one year	104,212	124,444
Later than one year and not later than five years	187,916	243,310
Later than five years	40,385	43,516
	<b>332,513</b>	411,270



## 17.2 Finance leases:

	31 March 2016	31 March 2015
Obligations under finance leases comprise:	£000	£000
Land		
Not later than one year	48,042	48,042
Later than one year and not later than five years	192,168	192,168
Later than five years	8,599,520	8,644,998
	<b>8,839,730</b>	8,885,208
Less interest element	(7,991,023)	(8,039,063)
	<b>848,707</b>	846,145
Buildings		
Not later than one year	47,848	47,848
Later than one year and not later than five years	191,392	191,392
Later than five years	8,564,801	8,612,649
	<b>8,804,041</b>	8,851,889
Less interest element	(7,958,763)	(8,006,609)
	<b>845,278</b>	845,280
Other		
Not later than one year	22,435	15,018
Later than one year and not later than five years	73,613	55,820
Later than five years	50,840	63,382
	<b>146,888</b>	134,220
Less interest element	(30,123)	(36,793)
	<b>116,765</b>	97,427

The most significant finance lease is the land and buildings lease with Annington Homes Ltd for homes for service personnel and their families.

## 18. Departmental Group – Commitments Under Service Concession Arrangements

18.1 All PPP / PFI arrangements have been assessed in accordance with IFRIC 12 – Service Concession Arrangements as adopted by HM Treasury. The following arrangements fulfilled the criteria for IFRIC 12 and the assets have been accounted for as assets of the Department:

Project Description	Contract Start*	Contract End
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	Dec-49
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson.	Oct-97	Oct-37
Hawk Synthetic Training Facility: Provision of replacement simulator training facilities at RAF Valley.**	Dec-97	Dec-15
Veolia PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage at Tidworth.	Feb-98	Aug-18
Joint Services Command and Staff College (JSCSC): Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters.	Jun-98	Aug-28
RAF Lossiemouth Family Quarters: Redevelopment and re-provision of 279 Service family quarters.	Jun-98	Aug-20
Attack Helicopter Training Service: Provision of full mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training.	Jul-98	Sep-17
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton.	Jul-98	Jul-28
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, to meet regulatory standards at RAF Lyneham.	Aug-98	Aug-23
RAF Fylingdales: Provision of guaranteed power supply.	Dec-98	Mar-24
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury.	Mar-99	Jun-25
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy.	Apr-99	Jan-21
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth.	Jun-99	Jun-31
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service families in Central Scotland.	Aug-99	Jan-21
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers.	Feb-00	Dec-29
Main Building Refurbishment: Redevelopment and management services for MOD Main Building.	May-00	May-30
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington.	Jul-00	Dec-30
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew.	Jul-00	Jul-25
Family quarters at Wattisham: Provision of married quarters accommodation for 250 Service families.	May-01	Mar-28
Astute Class Training: Provision of a training environment for crewmen and maintainers to support Astute Class submarines for 30 years.	Sep-01	Sep-37
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
Flight Simulation and Synthetic Trainers: Provision of a Flight Simulation and Synthetic Trainers Integrated Aircrew Synthetic Training Service.	Oct-02	Mar-17
Aquatrine Project A: Provision of water and waste water services.	Apr-03	Nov-28
Naval Communications: Submarine fleet communications service.	Jun-03	Dec-30
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service.	Jun-03	Aug-33
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-03	Aug-22
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops).	Feb-04	Feb-39
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base.	Jul-04	Mar-29

Project Description	Contract Start*	Contract End
Aquatrine Project B: Provision of water and waste water services.	Sep-04	Mar-30
Aquatrine Project C: Provision of water and waste water services.	Oct-04	Mar-30
C Vehicles: Provision of Earthmoving and Specialist Plant, Engineer Construction Plant and Material Handling Equipment and support services.	Jun-05	May-21
Portsmouth 2 Housing: Provision of 148 Family quarters in Portsmouth.	Oct-05	Oct-30
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-06	Apr-41
Northwood: Rebuild, refurbishment, management and operation of facilities for the Permanent Joint Headquarters.	Jul-06	Oct-31
Combined Aerial Targets (CATS): Provision of aerial targets and associated ground equipment and support services.	Dec-06	Mar-28
Provision of Marine Services: Provision of marine services at UK Dockyard Ports at Portsmouth, Devonport and Clyde and support to military exercises, training and deep water trials, worldwide.	Dec-07	Nov-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

\* Date when contract signed.  
\*\* Contract ended in December 2015

18.2 The substance of an arrangement accounted for under IFRIC 12 is that the Department has a finance lease with the provider with payments comprising an imputed finance lease charge, a repayment of capital and a service charge. Payments are accounted for within the SoCNE – Service Concession Arrangements (SCA) and charges for 2015-16 were £1.42Bn (2014-15: £1.46Bn). 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 below:

	31 March 2016 £000	31 March 2015 £000
<b>Details of the imputed finance lease charges</b>		
Not later than one year	591,775	559,622
Later than one year and not later than five years	2,250,110	2,039,065
Later than five years	5,464,574	4,986,261
	<b>8,306,459</b>	7,584,948
Less interest element	(3,199,343)	(2,638,218)
<b>Present value of obligations</b>	<b>5,107,116</b>	4,946,730

	31 March 2016 £000	31 March 2015 £000
<b>Details of the minimum service charge</b>		
Not later than one year	397,151	1,265,121
Later than one year and not later than five years	2,033,954	3,887,245
Later than five years	8,976,668	9,149,174
	<b>11,407,773</b>	14,301,540

The most significant Service Concession Arrangements are:

- Future Strategic Tanker Aircraft (FSTA) – an innovative PFI programme that will provide air to air refuelling and passenger air transport capabilities.
- DFTS – the integration of fixed telecommunications networks.
- 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.
- Skynet 5 – satellite services.

## 19. Departmental Group

### Contingent Liabilities and Contingent Assets Disclosed Under IAS 37

#### Contingent Liabilities

19.1 The following quantifiable contingent liabilities have been identified:

Description	1 April 2015 £000	Increase / (Decrease) in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2016 £000	Amount reported to Parliament by Departmental Minute £000
Restricted - not disclosed due to reasons of commercial confidentiality and / or national security	723,456	59,341	-	(131,000)	651,797	-
Indemnity to contractors for loss or damage to Offshore Patrol Vessels during construction and trials	282,000	-	-	-	282,000	-
Indemnity for possible damage to aircraft or hangars caused by contractors	172,000	-	-	-	172,000	-
Indemnity to contractors in respect of nuclear risks and decontamination	140,000	-	-	-	140,000	-
Indemnity to contractors for third party risks	140,000	-	-	-	140,000	-
Statutory liability for International Military Sales	100,000	-	-	-	100,000	-
Legal claims (personal)	43,346	5,626	-	(210)	48,762	-
Environmental clean up costs	39,802	-	-	(1,000)	38,802	-
Liability for redundancy following contractorisation	24,064	13,556	-	-	37,620	-
Indemnity for US Government owned equipment and guided weapons trials	-	20,000	-	-	20,000	-
Indemnity for utilities and services following the sale of Service housing	17,031	-	-	-	17,031	-
Early termination of leases relating to property in Germany	30,000	-	-	(20,000)	10,000	-
Capital works on the Government of Gibraltar electricity network	3,858	-	-	-	3,858	-
Indemnity related to work to relocate cables, in support of the dredging necessary for the QE Class Carriers.	-	1,080	-	-	1,080	-
Contractor claims relating to project deferment or termination	500	-	-	-	500	-
<b>Total quantifiable contingent liabilities</b>	<b>1,716,057</b>	<b>99,603</b>	<b>-</b>	<b>(152,210)</b>	<b>1,663,450</b>	<b>-</b>

19.2 The Department has the following unquantifiable liabilities in accordance with IAS 37.

- Indemnities to AWE Management Ltd for nuclear and non-nuclear risks.
- Indemnities to Rolls-Royce for risks associated with the handling of fissile materials and other non-nuclear risks.
- Standard shipbuilding indemnity in respect of Vanguard and Astute class submarines.
- Indemnity related to potential damages awarded following sale of electromagnetic spectrum.
- Potential further and higher education costs for service personnel under the Enhanced Learning Credit Scheme.
- Indemnity for early termination of the Forces Broadcasting Service contract.
- Indemnity for live firing of missiles at overseas ranges.
- Service Life Insurance – providing access to life insurance for service personnel. Details of the scheme and key features can be found at [www.sli365.com](http://www.sli365.com)
- Guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements.

- The Department has a number of sites where it may be necessary to carry out decontamination work. As it is not practicable or cost effective to identify all contamination at those sites, any possible liability is not quantifiable, so possible site remediation exposure is recognised as an unquantifiable contingent liability.
- Indemnity to contractors for potential third party risks arising from construction of the Queen Elizabeth carriers.
- Liability for damage to HMS Vanguard during the Deep Maintenance Project.
- Strategic Weapons System Activities Future Delivery Project – outsourced contract includes an indemnity for non-nuclear events.
- Indemnity for non-nuclear events at HMNB Clyde.

## 20. Related Party Transactions

20.1 The Department is the parent of the agencies (DECA and DE&S BTE) and other bodies, and sponsor of the non-departmental public bodies shown in in Note 21 – Entities Within the Departmental Boundary. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

20.2 The Department owned two Trading Funds during the year (The Defence Science and Technology Laboratory and the UK Hydrographic Office). The Oil and Pipelines Agency and the Navy Army Air Force Institutes (NAAFI) are Public Corporations. The Trading Funds and the NAAFI are regarded as related parties outside the Departmental Boundary with which the Department has had material transactions. Transactions are carried out on terms which are contracted for on an arms-length basis, and are subject to internal and external audit. The value of transactions with these and other related parties are set out below and balances with the Trading Funds (excluding loans and dividends, which are shown at Note 8) at year end, are in the following table:

Organisation	Receivables Balances £000	Payables Balances £000
Defence Science and Technology Laboratory	546	154,533
UK Hydrographic Office	602	-

### Oil and Pipelines Agency (Public Corporation)

20.3 During the year MOD paid the agency fees of: £6.6M (2014-15: £9.6M) The Department is represented on the OPA Board – further details are at: <https://www.gov.uk/government/organisations/oil-and-pipelines-agency>

20.4 In May 2012 the Government announced its plan to create a set of transferrable rights in respect of the Government Pipeline and Storage System (GPSS). The sale of these rights was completed in 2015-16 and the net income after working capital adjustments was £79M.

## **Navy Army Air Force Institutes (NAAFI)**

20.5 The NAAFI Council acts as the most senior NAAFI body responsible for approving the policy and direction of NAAFI's business. The rules governing the NAAFI Council and its proceedings are laid out in NAAFI's Memorandum and Articles of Association. Further details of the activities of the NAAFI including membership of The Council can be found at <http://www.naafi.co.uk>. During 2015-16 there were no receipts from NAAFI (2014-15: £Nil); payments to NAAFI were £21M (2014-15: £24M). The Department has provided NAAFI with a guarantee that it will reimburse 90% of additional costs arising from any changes in MOD's service requirements.

## **Executive Non-Departmental Public Bodies (NDPBs)**

20.6 The following are Executive NDPBs of the MOD. They are designated NDPBs under the National Heritage Act 1983 and produce their own annual accounts. The value of the NDPBs' income, expenditure, assets and liabilities are consolidated in the accounts as part of the Departmental Group. Further details of these organisations can be found at:

- The National Museum of the Royal Navy <http://www.nmrn.org.uk>
- National Army Museum [www.national-army-museum.ac.uk](http://www.national-army-museum.ac.uk)
- Royal Air Force Museum [www.rafmuseum.org.uk](http://www.rafmuseum.org.uk)

During the year Grants-in-Aid (GiA) were made to: The National Museum of the Royal Navy £3.4M; the National Army Museum £7.3M and the Royal Air Force Museum £8.6M.

20.7 The Single Source Regulations Office (SSRO) is an Executive NDPB of the Department established under the Defence Reform Act 2014 with the aim of ensuring value for money is obtained for the UK taxpayer in MOD expenditure on qualifying defence contracts, and that single source suppliers are paid a fair and reasonable price under those contracts. During the year the SSRO was paid GiA of £4.8M. Further information on the organisation is at: <https://www.gov.uk/government/organisations/single-source-regulations-office>

## **Other**

20.8 The Department also pays a number of grants and grants-in-aid to other bodies included in the Departmental Group e.g. the Reserve Forces and Cadets Associations (£101M), the Commonwealth War Graves Commission (£46M) and the Royal Hospital Chelsea (£12M), as well as grants-in-aid to bodies outside the accounting boundary e.g. the Marine Society & Sea Cadets (£11M) and the Gurkha Welfare Scheme (£2M).

20.9 The MOD has also had a number of transactions with other government departments and central government bodies. These are undertaken under normal trading circumstances, at arms length, and are included in MOD's net resource outturn.

20.10 No Minister or Board Member or other related party has undertaken any material transactions with the Department during the year.

## 21. Entities Within the Departmental Boundary

The entities within the boundary during 2015-16 were as follows:

### **On-Vote Defence Agency**

Defence Equipment and Support - Bespoke Trading Entity

Defence Electronics and Components Agency

### **Advisory Non-Departmental Public Bodies**

Advisory Committee on Conscientious Objectors

Advisory Group on Military Medicine

Armed Forces Pay Review Body

Central Advisory Committee on Pensions and Compensation

Defence Nuclear Safety Committee

Defence Scientific Advisory Council

National Employer Advisory Board

Nuclear Research Advisory Council

Review Board for Government Contracts

Science Advisory Committee on the Medical Implications of Less Lethal Weapons

Veterans Advisory and Pensions Committees

### **Non-Departmental Public Bodies**

National Museum of the Royal Navy

National Army Museum

Royal Air Force Museum

Single Source Regulations Office

### **Other Bodies**

Commonwealth War Graves Commission

Independent Monitoring Board for the Military Corrective Training Centre, Colchester

Royal Hospital, Chelsea

Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996



## 22. Prior Period Adjustments

During the year the Department reviewed the accounting treatment of materials held for use in national defence and reclassified certain items as non-current assets. The reclassification has been adjusted for by retrospective restatement of the accounts in accordance with IAS 8. In addition to the reclassification, a further prior period error has been corrected by increasing the value of nuclear provisions which had been understated in previous years. The impacts of these prior period errors on the Financial Statements are set out below:

### 22.1 Reconciliation of revised Statements of Financial Position

	31 March 2014*		Reclassification of Current Assets to Non-current Assets		Increase in Provisions		1 April 2014	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Non-current assets</b>								
Intangible assets	24,918,012	24,918,012	-	-	-	-	24,918,012	24,918,012
Property plant and equipment	92,330,873	93,091,214	1,958,074	1,958,074	-	-	94,288,947	95,049,288
Financial assets	103,102	103,102	-	-	-	-	103,102	103,102
Receivables due after more than one year	714,679	914,801	-	-	-	-	714,679	914,801
<b>Total non-current assets</b>	<b>118,066,666</b>	<b>119,027,129</b>	<b>1,958,074</b>	<b>1,958,074</b>	-	-	<b>120,024,740</b>	<b>120,985,203</b>
<b>Current assets</b>								
Financial assets held for sale	1	60,823	-	-	-	-	1	60,823
Non-current assets held for sale	51,575	51,575	-	-	-	-	51,575	51,575
Inventories	7,291,500	7,300,096	(1,958,074)	(1,958,074)	-	-	5,333,426	5,342,022
Trade and other receivables	2,201,126	2,210,261	-	-	-	-	2,201,126	2,210,261
Financial assets	58,448	58,448	-	-	-	-	58,448	58,448
Cash at bank and in hand	930,897	1,013,971	-	-	-	-	930,897	1,013,971
<b>Total current assets</b>	<b>10,533,547</b>	<b>10,695,174</b>	<b>(1,958,074)</b>	<b>(1,958,074)</b>	-	-	<b>8,575,473</b>	<b>8,737,100</b>
<b>Total assets</b>	<b>128,600,213</b>	<b>129,722,303</b>	-	-	-	-	<b>128,600,213</b>	<b>129,722,303</b>
<b>Current liabilities</b>								
Trade and other payables due within one year	(9,253,283)	(9,314,776)	-	-	-	-	(9,253,283)	(9,314,776)
Financial liabilities	(305,189)	(305,189)	-	-	-	-	(305,189)	(305,189)
<b>Total current liabilities</b>	<b>(9,558,472)</b>	<b>(9,619,965)</b>	-	-	-	-	<b>(9,558,472)</b>	<b>(9,619,965)</b>
<b>Non-current assets plus net current assets</b>	<b>119,041,741</b>	<b>120,102,338</b>	-	-	-	-	<b>119,041,741</b>	<b>120,102,338</b>
<b>Non-current liabilities</b>								
Provisions	(4,523,551)	(4,530,802)	-	-	(690,594)	(690,594)	(5,214,145)	(5,221,396)
Other payables	(6,370,087)	(6,541,013)	-	-	-	-	(6,370,087)	(6,541,013)
<b>Total non-current liabilities</b>	<b>(10,893,638)</b>	<b>(11,071,815)</b>	-	-	<b>(690,594)</b>	<b>(690,594)</b>	<b>(11,584,232)</b>	<b>(11,762,409)</b>

	31 March 2014*		Reclassification of Current Assets to Non-current Assets		Increase in Provisions		1 April 2014	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Assets less liabilities</b>	<b>108,148,103</b>	<b>109,030,523</b>	-	-	(690,594)	(690,594)	<b>107,457,509</b>	<b>108,339,929</b>
<b>Taxpayers' equity and other reserves</b>								
General fund	86,509,376	86,509,376	-	-	(690,594)	(690,594)	85,818,782	85,818,782
Revaluation reserve	21,638,727	21,638,727	-	-	-	-	21,638,727	21,638,727
<b>Taxpayers Equity</b>	<b>108,148,103</b>	<b>108,148,103</b>	-	-	(690,594)	(690,594)	<b>107,457,509</b>	<b>107,457,509</b>
Arm's Length Bodies' restricted reserves	-	172,285	-	-	-	-	-	172,285
Arm's Length Bodies' unrestricted reserves	-	710,135	-	-	-	-	-	710,135
<b>Total Arm's Length Bodies' reserves</b>	-	<b>882,420</b>	-	-	-	-	-	<b>882,420</b>
<b>Total taxpayers' equity and other reserves</b>	<b>108,148,103</b>	<b>109,030,523</b>	-	-	(690,594)	(690,594)	<b>107,457,509</b>	<b>108,339,929</b>

\*As published in the MOD Annual Report and Accounts 2014-15.

## 22.2 Reconciliation of revised Statements of Changes in Taxpayers' Equity

	Core Department and Agencies			Arm's Length Bodies (ALBs)			Departmental Group
	General Fund £000	Revaluation Reserve £000	Taxpayers Equity £000	Restricted Reserves £000	Unrestricted Reserves £000	Total of ALBs' Reserves £000	Total Reserves £000
<b>Balance at 31 March 2014*</b>	<b>86,509,376</b>	<b>21,638,727</b>	<b>108,148,103</b>	<b>172,285</b>	<b>710,135</b>	<b>882,420</b>	<b>109,030,523</b>
Prior Period Adjustment - Increase to nuclear provisions	(690,594)	-	(690,594)	-	-	-	(690,594)
<b>Restated Balances at 1 April 2014</b>	<b>85,818,782</b>	<b>21,638,727</b>	<b>107,457,509</b>	<b>172,285</b>	<b>710,135</b>	<b>882,420</b>	<b>108,339,929</b>

\*As published in the 2014-15 accounts.

## 23. Events After the Reporting Date

23.1 These accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

23.2 On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

# Annexes



# Annex A

## Core Tables

### Total departmental spending, 2011-12 to 2019-20

	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Plans	2017-18 Plans	2018-19 Plans	2019-20 Plans
<b>Resource DEL</b>									
Provision of Defence Capability Service Personnel Costs	9,822,628	9,400,516	9,046,632	7,878,834	8,688,284	8,896,910	9,604,914	10,036,074	10,509,682
Provision of Defence Capability Civilian Personnel Costs	214,603	200,829	192,110	1,937,614	1,282,598	1,788,930	2,283,661	2,358,380	2,420,450
Provision of Defence Capability Infrastructure costs	4,365,665	4,428,812	4,545,389	4,576,992	4,127,877	3,877,017	4,287,520	4,506,203	4,608,809
Provision of Defence Capability Inventory Consumption	1,740,806	1,749,176	1,765,487	1,661,847	1,458,575	1,586,958	1,669,135	1,789,875	1,765,266
Provision of Defence Capability Equipment Support Costs	5,625,988	5,161,399	6,065,557	6,343,245	6,308,897	6,094,910	6,442,605	6,670,299	6,973,608
Provision of Defence Capability Other Costs and Services	1,339,556	1,500,622	1,790,894	1,804,274	1,712,903	1,519,785	1,940,501	1,701,455	1,626,689
Provision of Defence Capability Receipts and other Income	-1,283,873	-1,248,867	-1,169,263	-1,091,806	-990,842	-977,270	-1,081,000	-1,174,000	-1,185,000
Provision of Defence Capability Depreciation and Impairments Costs	9,291,756	8,958,447	8,911,222	8,187,241	7,690,147	8,490,070	8,500,000	8,500,000	8,500,000
Provision of Defence Capability Cash Release of Provisions Costs	176,464	203,010	175,030	201,855	238,288	265,000	-	-	-
Provision of Defence Capability Research and Development Costs	833,485	944,069	971,008	1,000,606	892,689	61,144	64,682	168,014	157,390
Provision of Defence Capability Administration Civilian Personnel Costs	2,673,630	2,134,313	2,112,064	371,688	403,342	400,000	395,000	395,000	390,000
Provision of Defence Capability Administration Other Costs and Services	18,316	44,548	17,139	463,849	465,947	473,000	513,000	445,000	502,000
Operations Service Personnel Staff Cost	278,285	197,449	108,909	85,480	12,864	10,500	-	-	-
Operations and Peacekeeping Civilian Personnel Staff Costs	25,570	22,421	13,777	6,036	3,962	800	-	-	-
Operations Infrastructure Costs	214,071	164,921	162,069	86,516	48,926	32,000	-	-	-
Operations Inventory Consumption	794,614	562,911	395,649	160,055	56,224	30,500	-	-	-
Operations Equipment Support Costs	630,108	427,032	345,016	184,400	143,437	110,000	-	-	-
Operations Other Costs and Services	492,251	378,161	218,930	126,827	18,607	50,500	-	-	-
Operations Receipts and other Income	-42,806	-27,686	-26,764	-40,914	-9,969	-4,300	-	-	-
Operations Depreciation and Impairment Costs	532,998	499,275	550,366	322,349	21,029	-	-	-	-
Operations Cash Release of Provisions Costs	2,827	1,976	2,980	2,869	-	-	-	-	-
Operations Research and Development Costs	-	-	17,137	11,475	1,249	-	-	-	-
Conflict Pools Resource Costs	46,212	44,009	49,648	55,518	-	-	-	-	-
Non Departmental Public Bodies Costs	186,791	126,833	187,466	130,021	164,842	194,538	-	-	-
Defence Capability Admin Service Pers Costs	-	-	-	623,716	617,879	590,000	590,000	590,000	590,000
Defence Capability DE&S DEL Costs	-	-	-	-	1,028,443	1,000,209	-	-	-
War Pension Benefits Programme Costs	-	-	-	-	794,774	761,000	733,000	710,000	688,000
Conflict, Stability and Security Fund	-	-	-	-	53,397	67,880	-	-	-
Cash Release of Provisions Admin Costs	-	-	-	14,451	18,157	-	-	-	-
<b>Total Resource DEL</b>	<b>37,979,945</b>	<b>35,874,176</b>	<b>36,448,452</b>	<b>35,105,038</b>	<b>35,252,526</b>	<b>35,320,081</b>	<b>35,943,018</b>	<b>36,696,300</b>	<b>37,546,894</b>
<b>Resource AME</b>									
Provision of Defence Capability Depreciation and Impairment Costs	509,557	1,062,365	-208,143	450,416	562,876	920,000	-	-	-
Provision of Defence Capability Provisions Costs	-467,009	307,375	141,371	679,896	6,096,468	300,000	-	-	-
Provision of Defence Cash Release of Provisions Costs	-342,499	-237,141	-200,392	-216,306	-256,445	-265,000	-	-	-
Movement On Fair Value of Financial Instruments	347,133	-182,527	368,147	42,768	-299,576	300,000	-	-	-
Operations Depreciation and Impairment Costs	-	-	-	10,757	-	-	-	-	-
Operations Provisions	6,799	10,884	6,152	61,995	-	-	-	-	-
Operations Cash Release of Provisions Costs	-2,827	-1,976	-2,980	-2,869	-	-	-	-	-
War Pensions Benefits Programme costs	915,683	907,817	858,964	837,649	-	-	-	-	-
<b>Total Resource AME</b>	<b>966,837</b>	<b>1,866,797</b>	<b>963,119</b>	<b>1,864,306</b>	<b>6,103,323</b>	<b>1,255,000</b>	-	-	-
<b>Total Resource Budget</b>	<b>38,946,782</b>	<b>37,740,973</b>	<b>37,411,571</b>	<b>36,969,344</b>	<b>41,355,849</b>	<b>36,575,081</b>	<b>35,943,018</b>	<b>36,696,300</b>	<b>37,546,894</b>

	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Plans	2017-18 Plans	2018-19 Plans	2019-20 Plans
<b>Capital DEL</b>									
Provision of Defence Capability Other Costs and Services	25,000	-	-	-	-	-	-	-	-
Provision of Defence Capability Capital Single Use Military Equipment	4,828,748	4,395,170	4,455,379	4,870,897	5,238,285	4,026,647	4,051,144	4,333,133	4,829,667
Provision of Defence Capability Other Capital (Fiscal)	3,536,232	3,008,738	3,037,505	3,210,988	2,620,434	2,399,337	2,755,725	2,836,625	2,583,610
Provision of Defence Capability Fiscal Assets / Estate Disposal	-149,657	-63,685	-43,573	-250,881	-423,365	-193,000	-251,000	-213,000	-187,000
Provision of Defence Capability New Loans and Loan Repayment	-5,469	-5,519	-5,573	-56,626	-3,220	-4,100	15,823	15,742	-3,277
Provision of Defence Capability Research and Development Costs	-	-	-	-	-	1,800,281	1,921,000	1,772,000	1,761,000
Operations Capital Single Use Military Equipment	454,911	372,970	72,533	17,908	51,862	-	-	-	-
Operations Other Capital (Fiscal)	322,068	132,636	53,070	-8,978	1,020	-	-	-	-
Non Departmental Public Bodies Costs	2,223	3,029	2,527	2,414	2,322	2,493	-	-	-
Defence Capability DE&S DEL Costs	-	-	-	-	86,624	95,342	-	-	-
<b>Total Capital DEL</b>	<b>9,014,056</b>	<b>7,843,339</b>	<b>7,571,868</b>	<b>7,785,722</b>	<b>7,573,962</b>	<b>8,127,000</b>	<b>8,492,692</b>	<b>8,744,500</b>	<b>8,984,000</b>
Provision of Defence Capability Provisions Costs	-9,615	-35,352	-128,612	50,559	29,130	-	-	-	-
<b>Total Capital AME</b>	<b>-9,615</b>	<b>-35,352</b>	<b>-128,612</b>	<b>50,559</b>	<b>29,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Capital Budget</b>	<b>9,004,441</b>	<b>7,807,987</b>	<b>7,443,256</b>	<b>7,836,281</b>	<b>7,603,092</b>	<b>8,127,000</b>	<b>8,492,692</b>	<b>8,744,500</b>	<b>8,984,000</b>
<b>Total departmental spending (a)</b>	<b>37,176,648</b>	<b>35,210,412</b>	<b>35,214,346</b>	<b>35,778,780</b>	<b>40,967,707</b>	<b>34,982,081</b>	<b>35,935,710</b>	<b>36,940,800</b>	<b>38,030,894</b>

(a) 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 , 2011-12 to 2019-20

	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Plans	2017-18 Plans	2018-19 Plans	2019-20 Plans
<b>Resource DEL</b>									
Provision of Defence Capability Administration Civilian Personnel Costs	2,673,630	2,134,313	2,112,064	371,688	403,342	400,000	395,000	395,000	390,000
Provision of Defence Capability Administration Other Costs and Services	18,316	44,548	17,139	463,849	465,947	473,000	513,000	445,000	502,000
Defence Capability Admin Service Pers Costs	-	-	-	623,716	617,879	590,000	590,000	590,000	590,000
Cash Release of Provisions Admin Costs	-	-	-	14,451	18,157	-	-	-	-
<b>Total administration budget</b>	<b>2,691,946</b>	<b>2,178,861</b>	<b>2,129,203</b>	<b>1,473,704</b>	<b>1,505,325</b>	<b>1,463,000</b>	<b>1,498,000</b>	<b>1,430,000</b>	<b>1,482,000</b>



# Annex B

## Statement of Approved Maximum Armed Forces Numbers

**B.1** Votes A provide the formal mechanism by which Parliament sets limits for and monitors the maximum numbers of personnel retained for service in the Armed Forces. They are presented to the House shortly before the start of each financial year (mid-February), and form part of the Parliamentary Supply process.

**B.2** Votes A numbers represent uppermost limits for Service manpower; they neither predict actual strengths nor act as a control over numbers in the Services. Votes A includes a contingency margin to cover unforeseen circumstances. Manpower levels are monitored routinely, and if it is anticipated that the numbers could be breached, then a Supplementary Estimate may be required to increase the limit.

**B.3** The tables included below compare, for each service, the numbers voted by the House of Commons with the maximum numbers maintained and the date at which this peak occurred. The aggregate maximum numbers maintained may not equal the sum of Officers plus Men and Women as these categories peak at different times of the year. The “Men and Women” categories represent the Services’ Ratings and Other Ranks.

Maximum numbers of personnel to be maintained for service with the Armed Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Naval Service</b>				
<b>Royal Navy</b>	Officers	6,570	5,990	October 2015
	Men and Women	20,940	19,120	April 2015
	Aggregate	27,510	25,080	April 2015
<b>Royal Marines</b>	Officers	900	840	September 2015
	Men and Women	7,440	6,840	April 2015
	Aggregate	8,340	7,660	April 2015
<b>Army Service</b>				
<b>Army (Other than Services below)</b>	Officers	13,860	12,910	June 2015
	Men and Women	91,090	77,160	April 2015
	Aggregate	104,950	90,000	April 2015
<b>Commonwealth, Colonial, &amp;c., troops abroad and Gurkhas</b>	Officers	150	130	July 2015
	Men and Women	3,330	2,970	April 2015
	Aggregate	3,480	3,090	April 2015
<b>Air Force Service</b>				
<b>Royal Air Force</b>	Officers	8,000	7,650	May 2015
	Men and Women	27,870	26,300	April 2015
	Aggregate	35,870	33,930	April 2015

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 Forces</b>				
<b>Royal Fleet Reserve (Naval Officers and Ratings)</b>	Officers	4,960	3,400	June 2015
	Men and Women	10,580	3,010	October 2015
	Aggregate	15,540	6,350	June 2015
<b>Royal Fleet Reserve (Marine Officers and Marines)</b>	Officers	470	270	May 2015
	Men and Women	2,610	1,140	May 2015
	Aggregate	3,080	1,410	May 2015
<b>Royal Naval Reserve</b>	Officers	1,250	960	March 2016
	Men and Women	2,200	1,630	October 2015
	Aggregate	3,450	2,570	March 2016
<b>Royal Marines Reserve</b>	Officers	100	70	March 2016
	Men and Women	1,070	870	March 2016
	Aggregate	1,150	940	March 2016
<b>Royal Naval Reserve (List 7)</b>	Officers	1,100	940	November 2015
<b>Reserve Land Forces</b>				
<b>Army Regular Reserve</b>	Officers	11,300	9,190	May and June 2015
	Men and Women	26,770	21,110	January 2016
	Aggregate	38,070	30,230	December 2015
<b>Army Reserve</b>	Officers	9,110	4,930	March 2016
	Men and Women	46,150	28,810	December 2015
	Aggregate	55,260	33,680	December 2015
<b>Reserve Air Forces</b>				
<b>Royal Air Force Reserve</b>	Officers	5,200	3,860	May 2015
	Men and Women	10,500	7,680	March 2016
	Aggregate	15,700	11,500	March 2016
<b>Royal Auxiliary Air Force</b>	Officers	550	380	March 2016
	Men and Women	3,000	2,130	March 2016
	Aggregate	3,550	2,510	March 2016

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	Peak Dates
<b>Special Members of The Reserve Naval Forces</b>				
<b>Royal Naval Reserve</b>	Officers	780	700	March 2016
	Men and Women	1,620	1,180	April 2015
	Aggregate	2,400	1,840	April 2015
<b>Special Members of The Reserve Land Forces</b>				
<b>Army Regular Reserve</b>	Officers	20	0	*
	Men and Women	30	0	*
	Aggregate	50	0	*
<b>Army Reserve</b>	Officers	30	0	*
	Men and Women	480	50	May 2015
	Aggregate	510	50	May 2015
<b>Special Members of The Reserve Air Forces</b>				
<b>Royal Air Force Reserve</b>	Officers	100	60	April, May, June & August 2015
	Men and Women	210	110	May 2015
	Aggregate	310	160	May 2015

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.

Totals and sub-totals have been rounded separately and so may not equal the sum of their rounded parts.

\* strength has been zero for the whole time period.

# Annex C

## The Ministry of Defence Art Collection

**C.1** Ownership of the most significant works within the Ministry of Defence Art Collection (MODAC) is to be transferred to other public institutions in order to ensure their continued protection and public display. The MODAC currently comprises more than 2,000 individual items. It includes some fine art and a notable collection of chronometers but also includes numerous lower value items. Key items of public interest are located in public galleries and museums, with the remainder in MOD premises and other Government or public buildings.

**C.2** Ownership of works with intrinsic artistic or heritage value is to be transferred to other public bodies, including the National Maritime Museum, the National Museum of the Royal Navy, the Army Museum, the Imperial War Museum and the Government Art Collection. Residual items will remain within MOD custody. MODAC items are accounted for as publicly owned non-operational heritage assets and the collection has therefore not been valued formally, in line with Government policy. Transfer on an unvalued basis has been approved by the Chief Secretary to the Treasury.

### MOD Freedom of Information performance in 2015-16

Category	MOD performance
Number of requests received	4,028
Of these:	
% of requests responded to within 20 working days	87%
% of requests answered 'in time' <sup>1</sup>	91%
Total of 'resolvable requests' <sup>2</sup>	2,994
Of these:	
% of resolvable requests answered in full	54%
% of resolvable request refused in full	28%
% of resolvable requests refused in part	12%
% resolvable requests yet to receive a response at the time these statistics were collected	6%

<sup>1</sup> Requests answered within the 20 working day limit or using a permitted extension. 'Permitted extensions' are those where the 20 working day deadline for response under FOIA is extended to allow for consideration of the balance of the public interest.

<sup>2</sup> 'Resolvable requests' are all those where it is possible to make a substantive decision on whether to release the requested information. They exclude requests where the information requested was not held and where it is necessary to provide advice and assistance in order to clarify a request.

**C.3** In 2015-16, the MOD received 4,028 requests for information under the Freedom of Information Act 2000, a 15% increase over the previous year. 87% of requests received a substantive response within the 20 working day statutory time limit set out in the legislation and 91% of requests were handled in time, in accordance with the timescales recommended in the Information Commissioner's guidance. These figures demonstrate that despite the pressures of other defence business, the department continues to achieve a good level of performance in this area of its business. 54% of 'resolvable' requests were answered in full. MOD refused 28% of requests in full and 12% in part, on the grounds that information was exempt from disclosure under the provisions of the FOI Act 2000.

**C.4** FOI is an important element of MOD business. Formal training, seminars and workshops establish and maintain the necessary levels of expertise in business units. In-house guidance is regularly updated to reflect the evolving views of the Information Commissioner, the Information Tribunal, and policy developments issued by the Cabinet Office.

### Corporate Memory – The National Archives

**C.5** 2015-16 saw the routine review and transfer of records to The National Archives (TNA) resulting in around 15,000 files being identified and selected for permanent preservation, which were made publicly available at TNA from Q1 2016. MOD continues to comply with its obligations under the Public Records Act and, due to a change in the Act that replaces the 30 Year Rule with a 20 Year Rule, has increased the resources available for reviewing and transferring files to TNA. In addition, MOD has continued to support TNA in dealing with Freedom of Information requests for files that are held by TNA, but not available to the public.









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