Presented pursuant to Act 11 and 12 Geo. 5, s5

Ministry of Defence

Consolidated Departmental Resource Accounts 1999–2000

LONDON: The Stationery Office
HC 50

31 January 2001

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(For the year ended 31 March 2000)

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Foreword

History and Background

The present Ministry of Defence (MOD), the Department, was formed by the amalgamation in 1964 of the Ministry of Defence, the Admiralty, the War Office and the Air Ministry, and the inclusion in 1971 of the Ministry of Aviation Supply.

Principal Activity

The principal activity of the Department is to ensure the security and defence of the United Kingdom and the Overseas Territories, including against terrorism, and to support the Government's foreign policy objectives, particularly in promoting international peace and security.

Further definition of the Departmental Objectives in terms of output is given in Schedule 5, Resources by Departmental Aims and Objectives.

Departmental Boundary

At 31 March 2000 the Department consisted of the 11 (1998–99: 13) Top Level Budget (TLB) Holders, detailed in Note 26 to the financial statements, responsible for providing forces and support services required for a modern defence force. Within these TLBs there were 110 reporting entities known as management groupings, including 39 on-vote Defence agencies. Also included within the Departmental Boundary are Advisory Non-Departmental Public Bodies (NDPB) sponsored by the Department listed in Note 1. Defence Agencies with an accounts direction from the Treasury also publish their own financial statements.

The three Defence Executive Agencies financed by Trading Fund ("Trading Funds") owned by the Department, and the seven Executive NDPBs sponsored by the Department fall outside the Departmental Boundary. The accounts for these bodies are published separately. Details of the Trading Funds and the Executive NDPBs are shown in Notes 9 and 10 respectively.

The Navy, Army and Air Force Institutes (NAAFI) is outside the Departmental Boundary.

The transactions and balances of the Armed Forces Pension Scheme (AFPS) are not consolidated within these financial statements. The report and accounts of AFPS are prepared separately.

Future Developments

The Secretary of State announced on 24 July 2000 that the Department is to proceed with a Public Private Partnership for the Defence Evaluation and Research Agency (DERA). Two new organisations will be created. Around three-quarters of the current DERA will be turned into a company which will be floated as soon as its potential is suitably developed, which could be during 2001. It is likely that the Department will initially retain a financial stake in the new company in order to ensure that the taxpayer will receive a share of any immediate growth following the sale. It is not envisaged that Government would continue to hold a financial stake in the company in the longer term. The terms and conditions of staff will be protected by the Transfer of Undertakings (Protection of Employment) regulations (TUPE).

For strategic reasons the most sensitive parts of DERA, including the Chemical and Biological Defence Sector at Porton Down, will remain in the Department. They will carry out key functions for translating the results of defence science and technology research into the procurement programme, research at the defence systems level and management of international research collaboration.

Fixed Assets

Changes in fixed assets during the year are summarised in Notes 7, 8 and 9 to the financial statements.

Research and Development

Research and development expenditure is incurred mainly for the future benefit of the Department. Such expenditure is primarily incurred on the development of new fighting equipment and on the improvement of the efficiency and capability of existing fighting equipment.

Amounts spent on research are not capitalised, in accordance with SSAP13 "Accounting for Research and Development", and are included in Other Operating Costs detailed in Note 3.

Development Expenditure is included in Intangible Assets, where appropriate, and shown in Note 7.

Foreword—*continued*

Net Expenditure

The Operating Cost Statement shows net expenditure of £31,206,893,000, which has been charged to the General Fund. Cash voted by Parliament in Class VI, Vote 1 and part of Vote 2 (Note 28) amounting in total to £22,750,431,000 has been credited to the General Fund (Note 17).

Year 2000

The MOD Y2K programme completed rectification work for those systems assessed as critical to operations and its department of state functions in November 1999, and for those systems assessed as non-critical in December 1999. Subsequent to the date change, a few minor failures were encountered, but none of these affected the function of the Department and most were rectified within a few days. The programme was judged complete in April 2000. Cumulative costs on completion were recorded as £147,500,000.

Management

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

Secretary of State for Defence

The Right Honourable Lord Robertson of Port Ellen (until 11 October 1999)

The Right Honourable Geoffrey Hoon, MP (appointed 12 October 1999)

Minister of State for Defence Procurement

The Right Honourable Dr The Lord Gilbert of Dudley (until 28 July 1999)

The Baroness Symons of Vernham Dean (appointed 29 July 1999)

Minister of State for the Armed Forces

Mr Doug Henderson, MP (until 28 July 1999)

Mr John Spellar, MP (appointed 29 July 1999)

Parliamentary Under Secretary of State for Defence

Mr John Spellar, MP (until 28 July 1999)

Mr Peter Kilfoyle, MP (appointed 29 July 1999; until 31 January 2000)

Dr Lewis Moonie, MP (appointed 1 February 2000)

Composition of the Finance, Planning and Management Group (FPMG), now titled the Defence Management Board (DMB), during the year:

Permanent Under Secretary of State

Mr Kevin Tebbit CMG

Chief of the Defence Staff

General Sir Charles Guthrie GCB LVO OBE ADC Gen

Vice Chief of the Defence Staff

Admiral Sir Peter Abbott GBE KCB

Second Permanent Under Secretary of State

Mr Roger Jackling CB CBE

First Sea Lord and Chief of the Naval Staff

Admiral Sir Michael Boyce GCB OBE ADC

Chief of the General Staff

General Sir Roger Wheeler GCB CBE ADC Gen

Foreword—*continued*

Chief of the Air Staff

Air Chief Marshal Sir Richard Johns GCB CBE LVO ADC FRAeS RAF

Chief of Defence Procurement

Sir Robert Walmsley KCB FEng FIEE

Chief of Defence Logistics

General Sir Sam Cowan KCB CBE

Chief Scientific Adviser

Professor Sir David Davies CBE FEng FRS (until 30 April 1999)

Mr Graham Jordan (acting from 1 May 1999 until 31 December 1999)

Professor Sir Keith O'Nions FRS (appointed 4 January 2000)

Since the end of the financial year the following changes in appointment have arisen:

General Sir Michael Walker GCB CMG CBE ADC Gen, appointed as Chief of the General Staff on 17 April 2000 in succession to General Sir Roger Wheeler;

Air Chief Marshal Sir Peter Squire KCB DFC AFC ADC FRAeS RAF, appointed as Chief of the Air Staff on 20 April 2000 in succession to Air Chief Marshal Sir Richard Johns.

Remuneration of ministers and details of salary and pension entitlements of the members of the FPMG, now the DMB, are shown in Notes 2.3 and 2.4.

The Methodology of Senior Appointments

The Senior Civil Service was formed in April 1996 through an Order in Council. The recruitment principles, and their application, under which senior appointments, including those of the Permanent Under Secretary of State and Second Permanent Under Secretary of State, are made, are specified in the "Commissioners' Recruitment Code", responsibility for which lies with the Civil Service Commissioners. The Chief of Defence Procurement and the Chief Scientific Adviser are recruited on fixed term appointments.

The Chief of the Defence Staff, Vice Chief of the Defence Staff, Single-Service Chiefs of Staff and Chief of Defence Logistics are appointed on the recommendation of the Secretary of State to the Prime Minister. The final approval of the appointee lies with Her Majesty The Queen.

Pension Liabilities

Pension liabilities for civilian personnel and service personnel are provided by the Principal Civil Service Pension Scheme (PCSPS) and AFPS respectively. The Department makes regular payments of Accruing Superannuation Liability Charge (ASLC) into the relevant pension schemes at rates determined by the Government Actuary.

Elements of Remuneration

Senior Civil Service and Ministers' emoluments are reviewed annually by the Senior Salaries Review Body. For civil servants outside the Senior Civil Service, emoluments are set on the basis of annual negotiations between the Department and the Trade Unions. Emoluments for service personnel are paid in accordance with rank and conditions of service and are reviewed annually by the Armed Forces Pay Review Body (AFPRB) or the Senior Salaries Review Body.

Employees

The Department is committed to recruiting and retaining the best people for the job from all walks of life irrespective of race, gender or background.

Payments to suppliers

The Department's bills, with the exception of some payments to suppliers by units locally and outside Great Britain, are paid through the Defence Bills Agency (DBA). In 1999–2000, the DBA's aim was to pay 100% of all certified bills submitted for payment within eleven calendar days so as to ensure that the Department is in compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998. A performance of 98% was achieved against this demanding target.

Foreword—*continued*

Environmental and Conservation Policy

The Department is committed to compliance with the Environmental Protection Act and the Environment Act (which apply to all personnel, service and civilian) and with all other existing environmental legislation. Crown or Defence exemptions from legislation are only invoked where it is essential to maintain operational effectiveness.

Departmental Report

The MOD's Departmental Report, which is presented to Parliament each year, comprises the "Ministry of Defence Performance Report 1999–2000" and "The Government's Expenditure Plans 2000–2001: Ministry of Defence". The Departmental Report sets out the performance of the MOD against the objectives stated in Schedule 5 and also includes developments since the year-end, where appropriate.

Financial Instruments

The Department does not trade or enter into any speculative transactions in foreign currencies. Forward contract commitments entered into to cover future expenditure in foreign currencies are stated in Note 20.

Appropriation Accounts 1999–2000

In accordance with Section 22 of the Exchequer and Audit Department Act 1866 the Department prepares annual accounts of the appropriation of supply grants ("Appropriation Accounts") comprised in each year's Appropriation Act. These accounts are prepared on a cash basis for the year ending 31 March and laid before Parliament during October/November each year. The reconciliation between the Net Expenditure on a cash basis shown in the Appropriation Accounts and the Net Operating Costs shown in the Operating Cost Statement for the year 1999–2000 is shown in Note 28.

Auditor

The financial statements for the Department are audited by the Comptroller and Auditor General. The Certificate and Report of the Comptroller and Auditor General on the financial statements are set out on pages 10 to 19.

Kevin Tebbit
Accounting Officer

8 November 2000

Statement of Accounting Officer's Responsibilities

Under Section 5 of the Exchequer and Audit Departments Act 1921 the Department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts the Accounting Officer is required to comply with the Resource Accounting Manual (RAM) prepared by the Treasury, and in particular to:

- Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the RAM, have been followed, and disclose and explain any material departures in the accounts;
- Prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting".

Statement on the System of Internal Financial Control

This statement is given in respect of the Resource Accounts for the Ministry of Defence that incorporates the transactions and net assets of the core department, its agencies and other bodies falling within the Departmental Boundary for resource accounting purposes. As Accounting Officer for the Department, I acknowledge overall responsibility for ensuring that the Department, agencies and other bodies maintain and operate an effective system of internal financial control in connection with the resources concerned. The Chief Executive of each agency is responsible for the maintenance and operation of the system of internal financial control in that body, and has signed a statement relating to that system which is reproduced in the accounts of the body.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions are authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by executive managers within the Department. In particular, it includes:

- Comprehensive cash budgeting systems with an annual budget—resource budgets are being developed but are not yet operational. These will be reviewed and agreed by the Defence Management Board;
- Procedures to review and agree cash budgets;
- The preparation of regular cash financial reports which indicate actual expenditure against the forecasts; resource accounts monthly reviews are under development;
- Clearly defined capital investment control guidelines;
- Setting targets to measure financial and other performance;
- As appropriate, formal project management disciplines.

The Department has an internal audit unit, which operates to standards defined in the Government Internal Audit Manual. The work of the internal audit unit takes into account the risks to which the Department is exposed, which are reflected in annual audit plans. Internal audit plans are endorsed by the Audit Committee and endorsed by me (as Accounting Officer). The Audit Committee plays a more formal role in ensuring that business and financial risks facing the Department are identified and that these risks are effectively managed. At least annually, the Director of Internal Audit (DIA) provides me with a report on internal audit activity in the Department. The report includes the DIA's independent opinion on the adequacy and effectiveness of the Department's system of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports.

My review indicates that progress has been made in a number of areas but that further work is necessary to remedy weaknesses. Last year I reported on a wide range of programmes aimed at securing improvements in outputs, efficiency and standards of financial management and indicated that the implementation of Resource Accounting and Budgeting (RAB) was the development most likely to lead to significant improvements in the standard of the Department's financial management. I emphasised, however, that the scale and extent of this change constituted a potential weakness and risk area, particularly when added to the substantial reorganisations necessary following the Strategic Defence Review and unforeseen operational pressures. Although much has been achieved in consolidating new organisations and working practices, the position remains broadly the same this year. The formidable efforts required to complete the successful introduction of RAB continue to place a large burden on finance staffs and thus to represent a risk to the effective operation of the well established processes supporting the Appropriation Accounts. Operational pressures continue and the scope of our reorganisation programme is such that resulting changes will take time to implement fully. Appropriate action is being taken at all levels to prioritise work and cut back on less urgent activities in order to reduce pressures on staff where possible.

With regard to Resource Accounting there has been very useful progress made on developing the systems and processes and on resolving outstanding issues which arose in the 1998–99 accounts. There are, however, significant further improvements yet to be made to resource account data and processes before financial control can fully be exercised using resource account information. Most notably, despite the considerable improvements achieved during the year in this area, greater confidence in the values, quantities and integrity

Statement of Internal Financial Control—*continued*

of stock and fixed asset data produced through the Department's supply systems is required. Resource planning, budgeting and forecasting processes have been developed but further work to improve these processes continues to ensure that they are fully established and absorbed.

There is also a persistent problem in recruiting and retaining suitably qualified finance staff. Appropriate action is being taken. A large number of staff are undergoing professional accountancy training and there are robust systems in place to monitor training needs and whether these are being met.

Work continues to further improve performance on post project evaluation and on suspense account management, both of which require sustained attention. We have made improvements to our procedures for forecasting and control expenditure at year-end and had no Excess Votes this year. We will continue to monitor this area carefully.

Implementation of the Turnbull Report

As Accounting Officer, I am aware of the recommendations of the Turnbull Committee and I am taking reasonable steps to comply with the Treasury's requirement for a statement of internal control to be prepared for the year ending 31 March 2002, in accordance with the guidance to be issued by the Treasury. As indicated above, the Audit Committee now plays a more formal role in ensuring that business and financial risks facing the Department are identified and effectively managed. In addition, the Department's executive management board is developing its role to provide clear leadership and proactive strategic management of defence. An important aspect of that work is the development of a new performance management framework, based on a Balanced Scorecard, which will provide the Board with a sharper focus on results and on the key risks to delivery.

Kevin Tebbit
Accounting Officer

8 November 2000

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

I certify that I have audited the financial statements on pages 20 to 53 under the Exchequer and Audit Departments Act 1921. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stocks, and the accounting policies set out on pages 26 to 31.

Respective responsibilities of the Accounting Officer and auditor

As described on page 7, the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Department has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 8 and 9 reflects the Department's compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board, except that the scope of my work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. However, in some areas the evidence available was insufficient to enable me to form an opinion on whether the amounts disclosed in the financial statements are complete, and whether the values of the financial transactions, assets and liabilities are stated with material accuracy.

I have particular concerns about the reported values for certain land and buildings, fighting equipment, capital spares, plant and machinery and vehicles and the associated additions and disposals during the year. In addition, inadequate audit trails existed to enable me to gain sufficient assurance regarding the reported balances, particularly those for stock, but also for creditors and accruals.

The inadequacies in the evidence available to support the balances disclosed in Schedule 3 of the financial statements lead me also to have significant doubts as to the accuracy of the amounts disclosed in Schedules 1, 2, 4 and 5 and the supporting Notes to the financial statements, particularly those relating to the consumption of stocks, and charges for depreciation and interest on capital.

In addition, the Department has not complied with the requirements of Financial Reporting Standard 15 'Tangible Fixed Assets', which requires that, where a tangible fixed asset comprises two or more major components with substantially different economic lives, those components should be accounted for separately for depreciation purposes.

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion: disclaimer on view given by financial statements

Because of the factors outlined above I am unable to form an opinion as to whether:

- the financial statements give a true and fair view of the state of affairs of the Ministry of Defence at 31 March 2000 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended; but
- notwithstanding the above, in my opinion in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In all other respects, except for the Department's failure to comply with Financial Reporting Standard 15 'Tangible Fixed Assets', in my opinion the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by the Treasury.

In respect of the limitation on my work relating to the areas of the financial statements where the evidence available was insufficient and inadequate audit trails existed, I have not obtained all the information and explanations that I considered necessary for my audit, and I am unable to determine that proper accounting records have been maintained.

See also my Report on pages 12 to 19.

John Bourn
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP

15 January 2001

Report of the Comptroller and Auditor General to the House of Commons

Ministry of Defence: Votes A

1. Ministry of Defence, Votes A is presented annually to Parliament to seek authority for the maximum numbers of personnel to be maintained for service with the armed forces. Note 25 to the financial statements shows that the maximum numbers maintained during 1999–2000 for the Naval, Army and Air Force Services in all active and reserve categories were within the numbers voted by Parliament. Strength returns supporting this Note to the financial statements have been furnished to my officers.

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2. Government departments have traditionally accounted for their activities on a cash basis, and have reported their financial results each year in Appropriation Accounts presented to the House of Commons. In contrast to the accounting principles applied in the private sector, departments have not been required to record expenditure and income on an accruals basis, that is to say, in the accounting period to which they relate, nor to produce balance sheets recording their assets and liabilities.

3. The previous Government's White Paper "Better Accounting for the Taxpayer's Money" (Cmd 2929), published in July 1995, recommended that departments produce accruals based accounts—known as Resource Accounts—for 1998–99 and subsequent years. Resource Accounts produced by departments for 1998–99 were on the basis of a "dry-run", but in August 2000 the Treasury directed formally that the Ministry of Defence (the Department) should prepare Resource Accounts for the year ended 31 March 2000 and subsequent years. 1999–2000 therefore represents the first financial year for which the Department has reported its financial results to Parliament on an accruals basis. Under Section 5 of the Exchequer and Audit Departments Act 1921, I am required to examine the Accounts and to certify and report upon them to the House of Commons.

4. The introduction of resource accounting represents the most important reform of central government accounting for well over one hundred years. It marks a significant change in the way departments account for, and manage, their resources. Resource Accounts are expected to provide departments with better management information, both on the true cost of their activities and on their asset holdings, and are expected to replace Appropriation Accounts as the principal means by which departments report their financial results to Parliament with effect from the 2001–02 financial year.

The Department's 1999–2000 Resource Accounts do not support an audit opinion

5. I was not required to provide a formal audit opinion on the 1998–99 dry-run accounts, and they were not published. Nevertheless, my staff conducted a full audit of those accounts, and reported the results of their examination informally to departments. The activities of the Department are the most diverse and complex of all government departments. It was therefore to be expected that the Department's transition from cash accounting to accruals based accounts would be a major undertaking. In examining the Department's dry-run Resource Accounts for 1998–99, my staff found major areas of uncertainty and error, and concluded that they were unable to form an opinion as to whether those Accounts gave a true and fair view of the financial position for that year.

6. In examining the 1999–2000 Accounts, my staff noted that many of the balances brought forward at the start of the year from 31 March 1999 contained fundamental uncertainties and errors. There was, however, a clear need for the Department to move forward. So, rather than devote inordinate efforts to remedying deficiencies in the opening Balance Sheet for 1999–2000, with the full agreement of my staff the Department focused on improving the accuracy and reliability of current and future data. Adoption of this strategy meant that the Department improved progressively the quality of its accounting information during 1999–2000, and that the extent of uncertainty and error in the 31 March 2000 Balance Sheet, although still material, was greatly reduced in comparison with that of a year earlier. It also meant, however, that the errors and uncertainties in the 1 April 1999 Balance Sheet have remained largely uncorrected, and that there are serious doubts about the material accuracy of the charges recorded in the Department's Operating Cost Statement for 1999–2000.

7. In forming an audit opinion as to whether a set of financial statements gives a true and fair view, I am required to consider the statements as a whole, rather than whether the financial position of the Department at the year-end is fairly stated. In view of the circumstances outlined above, in my judgment the combined effects of the uncertainty and error in the Department's 1999–2000 Resource Accounts as a whole are sufficiently widespread for me to be unable to form an opinion on whether those Accounts give a true and fair view. Accordingly, I have disclaimed my audit opinion.

The Department has made very considerable efforts successfully to implement resource accounting

8. In these circumstances, it would be natural to ask whether the Department has failed to grip the principles underlying resource accounts. In my view, such a conclusion would be entirely unfounded. The conversion of the accounts from a cash to an accruals basis may sound as if were a simple technical adjustment. In fact, it has involved the development and installation of major new accounting systems to deal with the Department's annual net cash requirement of some £22 billion, accruals based resource operating costs of some £31 billion and the valuation and tracking of assets worth some £90 billion (before depreciation). The Department's assets are extremely varied, and include specialised buildings, aircraft, ships and military vehicles, the financial value of which had never been assessed before the advent of resource accounting.

9. I therefore recognise the very considerable efforts made by the Department successfully to implement resource accounting, and that those efforts have already resulted in significant improvements in the way it manages its resources. The fact that I have been unable to form an audit opinion on the 1999–2000 Accounts is not the result of any lack of management action or commitment by the staff but is, in large measure, a reflection of the huge challenges faced by the Department. It has had to tackle a wide range of technical accounting issues, and to produce auditable accruals based accounts from data held on computerised systems that, in many cases, were established many years ago under a cash accounting regime. This applies particularly to the Supply Systems, which were introduced to manage the Department's large and diverse inventory, and have had to be adapted to meet the needs of resource accounting.

10. The Department continues to devote considerable management resources to working towards the production of Resource Accounts that give a true and fair view. Production of the accounts has been labour intensive, and has led to the staff involved having to deal with a steep learning curve. Nevertheless, the Department has maintained an effective grip on the process and for 1998–99 and 1999–2000 has produced Resource Accounts in line with deadlines agreed with my staff and the Treasury.

The Department recognises the need to maintain impetus

11. I am content that the Department is currently taking the right steps to remedy the remaining deficiencies in its Resource Accounts, and is progressing the remaining issues as fast as it can, given the constraints and other important priorities facing staff. But it is particularly important, with the demise of Appropriation Accounts, that it maintains the impetus to improve the quality of its Resource Accounts. The Department is fully aware of what needs to be done, and is committed to the task. It recognises that the opening balances for the 2000–01 Resource Accounts contain inaccuracies, and intends wherever possible to restate and correct them during the current year, with the aim of establishing a sound basis for the preparation and audit of its 2000–01 Accounts. In these circumstances, it seems likely that I shall be in a position to form an audit opinion on the Accounts prepared for 2000–01.

12. The paragraphs that follow set out the main areas of concern with the Department's 1998–99 Resource Accounts and their impact on the 1999–2000 Accounts, together with new issues that arose from my staff's examination of the 1999–2000 Accounts.

Management Validation and Audit Trails

13. The Department's Resource Accounts are a consolidation of the accounts prepared by the thirteen Top Level Budget holders (TLBs) within the Department, most of whom are senior officers in the Armed Forces such as the Second Sea Lord, or the Chief of Joint Operations. The TLB accounts are in turn a consolidation of accounts produced by more than one hundred Management Groups and Defence Agencies. It is fundamental to the production of any account, but particularly one as complex as this, that the figures in the account should be fully supported by good and clear documentation. It is also important that the account production process should be subjected to robust quality control arrangements and that the account, and figures in the account, be subjected to thorough management review prior to being submitted to my staff for external audit scrutiny.

14. In undertaking their examination of the 1998–99 dry-run Accounts, my staff found that many of the figures reported by the TLBs lacked supporting information, and had not been subjected to any validation by management. And in some instances, particularly for the initial opening balances at 1 April 1998, unsupported estimates had been used even though precise figures should have been available.

Action taken by the Department

15. The Department recognised that for 1999–2000, managers across the Department needed to take greater ownership of their figures and supporting documentation. The Department therefore introduced improvement measures such as regular accountability meetings with senior finance staff. The Department also developed, with the assistance of my staff and consultants, training courses for finance and senior managers within TLBs

on the standard of evidence required to meet external audit requirements. Consequently, when auditing the 1999–2000 Resource Accounts, my staff found the position much improved. Nevertheless two areas of particular concern remained as regards the availability of audit evidence. Both areas related to the Department's holdings of land and buildings, as set out below.

Married quarters

16. The Department commissioned a firm of professional valuers to establish reliable and independent valuations for its land and buildings for the "dry run" Balance Sheet at 1 April 1998. Although many areas of the Department diligently checked the resulting valuations for completeness and reasonableness before using the information to populate their local fixed assets registers, this practice was not universal. The Defence Housing Executive (the Executive), which forms part of the Department, is responsible for the provision and management of family accommodation for Service personnel in England, Scotland and Wales. In 1999–2000, the Executive owned some 9,000 properties. The bulk of the housing stock for Service personnel—some 52,000 properties—is leased by the Department, having been sold to Annington Homes Limited in 1996.

17. The Executive maintains a database that includes information on all properties under its management, whether owned by the Department, or leased. This database was used when instructing the professional valuers prior to the compilation of the 1 April 1998 Balance Sheet. However, the Executive had never systematically reconciled its own management records with the professional valuations, or with its fixed asset register, to confirm that the register was complete. In December 2000, a major programme of work was in hand to correct this, and was due for completion in March 2001.

18. The limited exercises undertaken by the Executive to validate the fixed asset register when preparing the 1999–2000 accounts found errors and showed, for example, that some of the properties owned by Annington Homes were mistakenly recorded on the Executive's Balance Sheet at 1 April 1998. But the results of these exercises mainly served to question the completeness of the reported value of the Department's housing stock (£383 million at 31 March 2000). Extrapolation of the results of work done by the Executive suggested that the value might be understated by more than £20 million. As a consequence, the validity of the depreciation and the cost of capital charges within the Department's 1999–2000 Operating Cost Statement were also called into question.

Properties identified for disposal

19. In valuing the Department's estate at 1 April 1998 the professional valuers determined values for all sites, other than those of a specialised nature, on an existing use basis. Omitted from the professional valuation exercise were those properties earmarked for future disposal. To address this omission, valuations were undertaken internally by Defence Estates, an agency within the Department responsible for estate management services. Valuations undertaken by Defence Estates were on the basis of open market value: the valuers were asked to provide an estimate of the disposal values of such sites. Much of the Department's estate carries restrictions on its future usage, and therefore the open market value of a site is often lower than its existing use value.

20. For 1998–99 individual TLBs were responsible for accounting for the disposal of property, though Defence Estates handled the mechanics of each sale. Since April 1999, following a change in procedures, Defence Estates has been deemed the owner of all properties earmarked for disposal. TLBs are required to transfer to Defence Estates such properties at the value recorded in their local fixed asset registers. During 1999–2000, some of the properties transferred to Defence Estates had only recently been identified as surplus, and hence were transferred at an existing use value. However, some of the properties transferred had been earmarked for disposal for several years. They would therefore have been valued by Defence Estates at 1 April 1998 on the basis of open market value.

21. Defence Estates achieved sales of £293 million in 1999–2000. The surplus on the sale of these properties was recorded at £92 million. But my staff have noted that this figure could be misleading. For some sites the surplus represents the difference between the sale proceeds and a valuer's estimate of likely sale proceeds. For other sites, however, the surplus represents the difference between the sale proceeds and the sites' existing (defence) use value.

22. Defence Estates at 31 March 2000 held properties for disposal valued at £144 million, and these had all been valued by Defence Estates at an open market value. But Defence Estates has acknowledged to my staff that insufficient documentation existed to support both these values, and those of sites valued on a similar basis and disposed of during 1999–2000.

23. The Department has told me that it plans to ensure that all future valuations conducted by Defence Estates staff will be in full accordance with the best practice followed by firms of professional valuers, and that sound audit trails will be established. However, in the absence of audit trails for 1999–2000, there is uncertainty

regarding the validity of the figure of £144 million recorded by Defence Estates as the value of unsold surplus defence property at 31 March 2000.

There were fundamental problems with many of the 31 March 1999 balances

24. My staff, in auditing the Department's 1998–99 Resource Accounts, had fundamental concerns about many of the amounts included in the Balance Sheet as at 31 March 1999, including:

Tangible and intangible fixed assets

- the values of the Army's fighting equipment;
- the values of aircraft and associated development costs;

Tangible fixed assets and stock

- the reported values of items held by the Department's computerised Supply Systems; and

Working capital

- the reliability of reported figures for debtors and creditors.

Each of these issues had material and pervasive effects on the Balance Sheet as at 31 March 1999, and in turn upon the Operating Cost Statement for the year and Schedule 5, which records resource consumption by Departmental Aim and Objective. As the 31 March 1999 Balance Sheet formed the opening position for the 1999–2000 financial year, these issues also affected materially the 1999–2000 Resource Accounts.

25. In 1999–2000 progress was made in addressing these issues and further action is in hand.

Tangible and intangible fixed assets

Army Fighting Equipment

26. Much of the Army's equipment, whether held by the Army or one of the other Services, is managed by staff in the Defence Logistics Organisation. Such equipment includes wheeled and tracked vehicles, radio and communications equipment, electronic test equipment and a variety of weapons, ranging from the Rapier air defence missile systems to small arms. This equipment is accounted for through a single "Managed Equipment" fixed asset register. At 31 March 2000, the total value of the equipment recorded on this register, after depreciation charges, was some £8 billion.

27. This fixed asset register was populated during 1997–98 with data drawn from several sources. For wheeled and tracked vehicles, the Army already had a fundamentally sound and robust management system known as "Merlin". But the underlying records for other items were less reliable and over previous years had not always captured information on additions and disposals. Consequently, there was uncertainty at the start of the 1998–99 financial year as to whether the "Managed Equipment" fixed asset register was accurate and complete.

28. To address this problem, in 1998–99 the Department conducted census exercises of all budget managers expected to be holding "Managed Equipment". These exercises revealed errors in the information held on the fixed asset register, and in addition, where census forms were not returned, uncertainties were raised about the existence of certain assets and the completeness of asset records.

29. These errors and uncertainties, amounting in value to over £500 million, were carried into the balances brought forward at the start of the 1999–2000 financial year, and cast doubt on the accuracy of the depreciation and cost of capital charges falling on the Operating Cost Statement for the year.

Action taken by the Department

30. Towards the end of 1999–2000 the Defence Logistics Organisation conducted a second census exercise. This was better planned and managed than that undertaken in 1998–99, and the results were processed in a more structured way. Local management also gave the exercise greater priority than had been the case in 1998–99. As a consequence, the response rate to the census forms increased significantly, and there was a reduction in the discrepancy rate as between the actual holdings of assets on the ground and the records maintained on the fixed asset register. My staff have estimated that the recorded balances at 31 March 2000 contained errors and uncertainties amounting to some £90 million, a marked improvement on the 1998–99 exercise.

31. The Department plans to enhance further its census arrangements during 2000–2001. It believes that this process, along with the regular inventory checks that take place within Army units, will result in further improvement in the accuracy of the accounting records for these items.

The values of aircraft and associated development costs

32. In auditing the Department's 1998–99 dry-run Resource Accounts, my staff were unable to gain audit assurance on the recorded values for aircraft, or the capitalised development costs of those aircraft. This was largely because much of the aircraft fleet had been in service for many years, and original contract details supporting the prices paid were no longer available.

Action taken by the Department

33. During 1999–2000, the Department addressed these concerns by commissioning consultants to carry out the necessary valuations of aircraft and associated engines, and by recalculating the associated development costs. The Department also issued revised guidance to all three Services to ensure consistency in accounting treatment. Finally, all areas of the Department owning aircraft were instructed to make their correcting adjustments retrospectively, to 1 April 1998, to ensure that the opening balances for the 1999–2000 financial year would be fairly stated.

34. My staff examined the adjustments made to the figures in the 1998-99 Accounts, the values recorded in the Balance Sheets at 1 April 1999 and at 31 March 2000, and the associated charges to the 1999–2000 Operating Cost Statement. As a result of this examination, I am content that the values included in the 1999–2000 Resource Account for aircraft, and their capitalised development costs, are fairly stated.

Tangible fixed assets and stock

Valuation of items held by the Department's Supply Systems

35. The Department maintains a large number of logistics management systems, collectively known as the Supply Systems. These systems hold details of over three million different types of items, including items of fighting equipment, capital spares (such as aircraft engines); certain items of plant and machinery, and consumable stocks. The responsibility for managing these item types is divided between many areas of the Department. But in total, the reported value of the inventory, which is reflected in the fixed and current asset headings of the Balance Sheet, totalled some £29 billion (before depreciation) at 31 March 2000.

System reconciliations

36. Many of the individual supply systems which hold details of this inventory are many years old. Although they are, in general, adequate for the purpose for which they were designed (ie to track the location, number and movement of items), they are not well equipped to provide accurate financial information. The Department has therefore developed several stock collation systems to process data on stock movements, and on changes in the price of items held on the systems, in order to generate financial accounting data.

37. Individual supply systems are not generally compatible with each other, and the Department has faced major problems in trying to reconcile the output from these systems with the transactions and balances processed by the stock collation systems. One particular area of difficulty is the inability of the Defence Logistics Organisation to reconcile balances on the RAF stock collation system with figures held on a workshop supplies system, and with information drawn from the pricing database. Discrepancies at the year-end between various parts of the RAF Supply Systems pointed to a potential error ranging between an overstatement of the reported balances at 31 March 2000 of £297 million, to an understatement of £361 million.

38. In the course of 1999–2000, the Royal Navy stock collation system (CANVASS 3) rejected some 1.2 million items presented to it for processing. Some of these rejections would have had no financial impact, and the Defence Logistics Organisation is confident that items were rejected largely because inaccurate or out of date account codes were used, rather than because of doubts over the physical existence of stock items. However, in other instances the financial records were not updated to reflect the physical issue or consumption of the items of stock concerned, and these rejected transactions and balances have meant that not all stocks held and consumed during the year were accounted for. It is not possible to quantify the financial impact on the Department's Resource Account of these rejections, but the Defence Logistics Organisation believes the amount involved to be of the order of £200 million. The Organisation also believes that the latest version of CANVASS, due to be rolled-out fully in 2000–2001, will eliminate these difficulties.

Action taken by the Department

39. The Defence Logistics Organisation intends to continue to devote significant resources to this area in 2000–2001 with the aim of narrowing the differences, and effecting further reconciliations between different areas of the various supply systems. It should be possible to effect a full reconciliation of information held on

the Supply Systems with reported account values, but it is very difficult to do so with the multiplicity of systems currently in place. In the longer term, the Defence Logistics Organisation believes that the process of reconciliation will be made more straightforward by the systems' replacement, and the introduction of a new Department-wide stock management system. The roll-out of such a system is planned from 2002.

Pricing

40. As early as 1995, my staff pointed out to the Department that accurate prices were not available for many of the items on the Supply Systems, and that where prices were held, they had frequently been recorded on the system many years before and had not been subsequently revised. In addition, in many instances there was no documentation available to support the prices held, some prices were known to be estimated, and notional prices (ie items priced at £0.01, or £1) were common.

41. The Department began to initiate action to cleanse their pricing information in 1996. Initially however, progress was very slow. Plans and programmes for overcoming the numerous complex deficiencies were given further impetus following the creation of the Defence Logistics Organisation in April 1999. Several working groups were then established to tackle particular issues, and responsibility for taking forward this work was brought under a single command. The remedial work took time to bear fruit, however, with the result that little real benefit, in the form of accurate financial information, became available before late 1999.

42. My staff estimated that at the end of 1998–99 there was no documentary evidence to support some 75 per cent of the prices held by the RAF Supply Systems. The position for the other two Services' systems was broadly similar. Significant progress was made by the Defence Logistics Organisation during late 1999–2000 in cleansing price information held on the RAF Supply Systems. By the end of the year all items held on the systems had attributed prices, and documentary support existed for the prices of the top 80 per cent, by value, of items in the inventory. The Defence Logistics Organisation was also able to correct the closing balances at 31 March 2000 to reflect the revised prices. For most of the year, though, consumption of such items was recorded at the inaccurate prices.

43. Many of those items in the RAF systems in the bottom 20 per cent of the inventory still lack documentary evidence to support the prices. And the prices for other items in this group have not been reviewed for some time. The Defence Logistics Organisation is currently determining the degree of inaccuracy in the price records for this group of items by examining a statistically random selection of item prices. Such items were valued in the Department's 1999–2000 Resource Accounts at some £890 million. Until the Department's statistical exercise is complete there will remain uncertainty over the validity of this figure.

44. Although many of the prices in the Army supply systems had been corrected before the end of 1999–2000, my staff estimated that the value of certain inventory items was overstated by a total of some £145 million at 31 March 2000. Other items were understated by £22 million, and items with a reported value of £620 million had yet to be verified. As with the RAF Supply Systems, in-year consumption charges that were recorded on the Army systems during the year were distorted by the use of inaccurate prices.

45. Work on cleansing and validating prices held on the Royal Navy's systems started later than that for the other two Services, and less progress had been made by the end of 1999–2000. The Defence Logistics Organisation has stratified the Naval inventory into higher and lower value items, and since April 2000 it has validated and cleansed about half of the higher valued items. Its work has revealed the need for significant price adjustments to the inventory, both upwards and downwards. It has estimated, based on the results available by October 2000, that the higher value items were possibly understated in the 31 March 2000 Balance Sheet by more than £300 million. But the incidence and magnitude of price changes now being made casts considerable uncertainty over the accuracy of prices in the bottom stratum, which have still to be examined. These items were valued in the 1999–2000 Accounts at over £1.2 billion. Similar uncertainties to those mentioned in respect of the RAF and the Army systems surrounded the consumption charge for Naval items recorded in the 1999–2000 Operating Cost Statement.

Other Supply System issues

46. My staff have a number of concerns with other figures and balances emanating from the Supply Systems. The following matters represent examples of the issues that remained to be resolved at the conclusion of the 1999–2000 audit.

- The Department over many years has placed items of stock and capital spares with contractors for incorporation into defence equipment undergoing repair, overhaul or modification. At any one time there are also capital spares undergoing repair at contractors' works. The Department's Balance Sheet at 31 March 2000 includes some £1.4 billion in respect of such items, but the values allocated to them are known to be unreliable. There was also some uncertainty at the conclusion of my audit as to whether all items owned by the Department but held by contractors had been included in the Accounts.

- The CANVASS stock collation system is intended to calculate annual depreciation charges and record accumulated depreciation on certain Naval fighting equipment and capital spares having a value of almost £5 billion (before depreciation). However, CANVASS often calculated incorrect amounts for these charges during 1999–2000. It is not possible to estimate reliably the extent of the possible misstatements in the Operating Cost Statement and in the 1 April 1999 and 31 March 2000 Balance Sheets caused by this problem.

Action taken by the Department

47. The Department has invested very considerable effort to resolve the various accounting problems posed by the Supply Systems. The Defence Logistics Organisation, in particular, has implemented a comprehensive programme of activity, with a formal management structure and the prioritisation of key issues. Although the impact of this work on the financial statements was limited in 1999–2000, it is already clear that much more accurate stock consumption figures should be available for 2000–01. This should result in less distortion to the Operating Cost Statement for the year, and to more accurate balances at 31 March 2001. The Department has told me that, wherever possible, any adjustments made to prices on the Supply Systems made after April 2000 will be "rolled back" to the beginning of the year. By this means, they intend to secure significantly greater accuracy in the pricing of items consumed during the 2000–01 financial year. Where it proves not to be possible to "roll back" adjustments, the Department will assess the potential impact on the accuracy of the financial statements.

Working Capital

The reliability of figures for creditors

48. The introduction of accruals based Resource Accounts has presented finance staff within the Department with many unfamiliar challenges, particularly in correctly identifying and quantifying their creditors and accruals figures. The Department's reported figures at 31 March 1999, which also formed the figures in the opening Balance Sheet for 1999–2000, contained many areas of uncertainty and could not be considered to be fairly stated.

49. The Department expended significant efforts during 1999–2000 in training its finance staff. Partly because of this training, and partly because the finance staff have gained in experience, the accuracy of the closing balances for 1999–2000 was markedly improved.

50. Nevertheless, inadequacies in the Department's systems caused significant difficulties. For example, in most areas of the Department there was in 1999–2000 no computerised system to enable creditors and accruals to be automatically identified. This deficiency particularly affected one part of the Department, Equipment Support (Air), which purchases consumable stocks and capital spares for the RAF. Equipment Support (Air) maintains two systems on which goods received are recorded. One system records receipts at RAF Stafford, its main storage site, and the other system records receipts at more than fifty other sites. Payments for goods received are made by the Defence Bills Agency through its own computerised system. None of these three systems holds transaction data with a common matching reference. It is therefore not possible to match transactions directly, in order to identify items that have been received, but not paid for, at any given date.

51. For the 1998–99 dry run Accounts, Equipment Support (Air) sought to identify the amounts outstanding at the year-end by various means. This included partial matching of transactions, and calculations based on various assumptions, for example, that old transactions of a certain type would have been completed within three months of receipt of the goods or service. As a result of their audit of the 1998–99 Accounts, my staff expressed concern over the basis on which Equipment Support (Air) had derived its creditor and accruals figures. In addition to uncertainties about the accuracy of receipting information extracted from the RAF Supply Systems, their concerns extended to the assumptions made by Equipment Support (Air) in its calculations. In particular, a number of the assumptions were demonstrated to be doubtful because of conflicts with alternative information.

52. Following the 1998–99 audit, Equipment Support (Air) informed my staff that considerable efforts had been made to identify appropriate values for these figures, and that it would continue to seek further refinements to its methods until a unified system to track purchases through to payments was implemented across the Defence Logistics Organisation. In the event, resource shortages required Equipment Support (Air) to prioritise its work and, in the absence of any more reliable figures, it chose to use in its 1999–2000 Accounts many of the same figures for creditors and accruals that it used in the 1998–99 Accounts. In addition, my staff noted that a further 25 per cent of its creditors and accruals balance had been calculated using an assumption that had already been demonstrated to be flawed. Consequently my staff could not verify some 80 per cent (some £118 million), of the creditors and accruals figure for Equipment Support (Air) as at 31 March 2000.

Action taken by the Department

53. For 2000–01 the Department has further developed its training material for finance staff involved in the preparation of accounts figures. But the automatic generation of accurate figures for creditors and accruals by Equipment Support (Air), and other parts of the Department, ultimately depends upon the introduction of a reliable computerised system to track purchases through to payments. Currently the expected date for the delivery of such a system is during the 2002–03 financial year. In the shorter term, Equipment Support (Air) has undertaken to re-examine the processes it has put in place to see whether materially accurate values for creditors and accruals can be produced from existing systems for 2000–01.

Further problems emerged in 1999–2000, which are to be addressed in 2000–01

Non-compliance with the Treasury's Resource Accounting Manual

54. The Department's Resource Accounts comply in all material respects with the accounting policy requirements laid down in the Treasury's Resource Accounting Manual, except for those issues referred to in Note 1 of the Accounts. Of the various non-compliance issues, two are of particular significance; the failure of Schedule 5 of the Accounts to comply with the Treasury's requirements, and the failure of the Accounts to comply with the requirements of Financial Reporting Standard 15, issued by the Accounting Standards Board.

Schedule 5

55. Schedule 5 of each department's Resource Account should be a statement of how much of the resources allocated by Parliament have been spent on each departmental aim and objective. The Department, in its Public Service Agreement for 1999–2000, identified two main objectives and eight supporting objectives, but no aims. Although the two main objectives are reported in Schedule 5 of the Accounts, the Department, in the absence of an integrated output costing system, has been unable to attribute resource figures to these objectives. Instead, it has allocated its expenditure across three broad output headings of the Department of State; Military Capability; and the Equipment Programme. The Department sought, and obtained from the Treasury, dispensation from the requirements of the Resource Accounting Manual in respect of their Schedule 5 for 1999–2000. The Treasury has made clear, however, that it expects the Department to press ahead in developing a system which will enable it in future to disclose its resource consumption by objective.

Financial Reporting Standard (FRS) 15

56. The Accounting Standards Board introduced Financial Reporting Standard (FRS) 15 in February 1999. It became applicable to accounting periods ending on or after 23 March 2000, and therefore fell to be implemented in the Department's 1999–2000 Resource Accounts. FRS 15 sets out the principles of accounting for the initial measurement, valuation and depreciation of tangible fixed assets. Included within the standard is the requirement that where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes. As a result, the depreciation rates applied to those components will differ from those applying to the main asset.

57. The introduction of FRS 15 has major implications for the Department, and it recognises that to comply with the Standard much needs to be done to identify those major components, particularly of its fighting equipment assets, which should have different depreciation rates from the main body of the asset of which they form part. For an aircraft, for example, such components might include the airframe, engine and avionics systems.

58. The Department has recently prepared detailed guidance aimed at charting a way forward on this issue. This guidance will apply for the 2000–01 financial year and should result in the Department's full compliance with FRS 15 in that year's Accounts.

John Bourn
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP

15 January 2001

SCHEDULE 1

Summary of Resource Outturn

for the year ended 31 March 2000

	Estimate (Illustrative figures) (See Note below)			Outturn			Net Total Outturn compared to Estimated Savings/ (Excess)
	Gross Expenditure 1	A-in-A 2	Net Total 3	Gross Expenditure 4	A-in-A 5	Net Total 6	7
	£000	£000	£000	£000	£000	£000	£000
Total Resources				**32,295,413**	**1,037,852**	**31,257,561**	
Non operating cost A-in-A						**−250,699**	
Net cash requirement						**22,480,397**	

Reconciliation of resources to cash requirement

	Note	£000
Total Resources:	Sch 2	31,257,561
Capital:		
Purchase of tangible fixed assets	Sch 4	6,107,040
Non operating cost A-in-A:		
Disposal of fixed assets	Sch 4	−234,862
Repayment of loans made to the Trading Funds	Sch 4	−15,837
Repayment of Loans from the National Loans Fund	Sch 4	1,197
Accruals adjustments:		
Non-cash transactions—		
Included in operating costs	Sch 4	−8,500,454
Included in net interest payable	Sch 4	−180,601
Cost of capital charge	Sch 2	−5,123,140
		−13,804,195
Changes in working capital other than cash	Sch 4	−1,130,252
Charged against provisions for liabilities and charges	Sch 4	299,745
Net cash requirement	Sch 4	**22,480,397**

Explanation of the variation between estimate and outturn

See Note below.

Explanation of the variation between estimated net cash requirement and outturn net cash requirement

See Note below.

The notes on pages 26 to 53 form part of these financial statements.

SCHEDULE 1—*continued*

Analysis of income payable to the Consolidated Fund

In addition to Appropriations-in-Aid the following income relates to the Department and is payable to the Consolidated Fund. (Cash receipts are shown in italics).

	1999–2000 Estimate (See Note below)		1999–2000 Outturn	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Income not classified as A-in-A			50,668	*50,668*
Income from the sale of assets not classified as A-in-A			—	—
			50,668	***50,668***

Note:
The MOD's RAB implementation programme schedules the introduction of resource based planning and in-year management from 2000–01. A full analysis of the variation between an illustrative Estimate for 2000–01 and the resource account will be provided next year. The first resource based Supply Estimates to be voted by Parliament will be published in spring 2001.

The notes on pages 26 to 53 form part of these financial statements.

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2000

	Note	£000
Staff costs	2	8,848,759
Other operating costs	3	18,137,954
Gross operating costs		26,986,713
Operating income	4	–1,071,446
Net operating cost before interest		**25,915,267**
Net interest payable	5	168,486
Cost of capital charge		5,123,140
Net operating cost	17	**31,206,893**
Net resource outturn	6	**31,257,561**

Statement of Recognised Gains and Losses
for the year ended 31 March 2000

	Note	£000
Net gain on revaluation of fixed assets and stocks	18	–3,764,070
Net loss on donated assets	18	172,785
Recognised gains during the year		**–3,591,285**

The results shown above are in respect of continuing activities.

The notes on pages 26 to 53 form part of these financial statements.

SCHEDULE 3

Balance Sheet
as at 31 March 2000

		31 March 2000		31 March 1999	
	Note	£000	£000	£000	£000
Fixed Assets					
Intangible assets	7	19,538,643		18,618,263	
Tangible fixed assets	8	66,772,373		66,778,163	
Investments	9	410,237		446,074	
			86,721,253		85,842,500
Current Assets					
Stocks and work-in-progress	11	7,195,044		7,167,795	
Debtors	12	932,763		1,079,463	
Cash at bank and in hand	13	392,041		170,605	
		8,519,848		8,417,863	
Creditors: amounts falling due within one year	14	3,827,843		3,126,118	
Net current assets			4,692,005		5,291,745
Total assets less current liabilities			91,413,258		91,134,245
Creditors: amounts falling due after more than one year	15	375,061		265,753	
Provisions for liabilities and charges	16	4,404,773		4,221,514	
			4,779,834		4,487,267
Net assets			**86,633,424**		86,646,978
Taxpayers' equity					
General fund	17		78,720,740		81,767,639
Revaluation reserve	18		6,659,132		3,400,751
Donated assets reserve	18		1,253,552		1,478,588
			86,633,424		86,646,978

Kevin Tebbit
Accounting Officer

8 November 2000

The notes on pages 26 to 53 form part of these financial statements.

SCHEDULE 4

Cash Flow Statement
for the year ended 31 March 2000

	Note	£000
Net cash outflow from operating activities before interest	A	**16,611,100**
Returns on investments and servicing of finance	B	**−38,909**
Net capital expenditure and financial investment	C	**5,856,341**
Payments to the Consolidated Fund		**99,266**
Financing from the Consolidated Fund (supply)	13	**−22,750,431**
Repayment of loans from the National Loans Fund		**1,197**
(−Increase)/decrease in cash at bank and in hand	13	**−221,436**
A. Net cash outflow from operating activities before interest		
Net operating cost before interest	Sch 2	25,915,267
Non-cash transactions:		
—Depreciation and amortisation charges	3	−5,726,565
—Permanent diminution in value of fixed assets	3	−170,732
—Provisions to reduce value of stock to its net realisable value		−470,056
—Auditors' remuneration	3	−4,900
—Deficit on disposal of fixed assets	3	−1,806,557
—Provisions made against fixed asset investments	3	−20,000
—Increase in provisions for liabilities and charges	16	−301,644
		−8,500,454
Dividends received from Trading Funds	9	26,794
Adjustments for movements in working capital other than cash		
—Increase/(−decrease) in stocks/WIP		−302,464
—Increase/(−decrease) in debtors		−146,700
—(−Increase)/decrease in creditors		−681,088
		−1,130,252
Charged against provisions for liabilities and charges	16	299,745
		16,611,100
B. Returns on investments and servicing of finance		
Dividends received from Trading Funds	9	−26,794
Interest receivable	5	−17,454
Interest payable	5	185,940
Deduct: Unwinding of discount on provisions for liabilities and charges	5	−180,601
		5,339
		−38,909
C. Analysis of capital expenditure and financial investment		
Acquisition of fixed assets	7/8	6,107,040
Proceeds on disposal of fixed assets		−234,862
		5,872,178
Repayment of loans made to the Trading Funds	9	−15,837
		5,856,341
Analysis of Financing		
Parliamentary Funding from the Consolidated Fund (Supply)	13	22,750,431
(-Increase)/decrease in cash at bank and in hand during the year	13	−221,436
Consolidated Fund Extra Receipts received and not paid over		30,456
Consolidated Fund Extra Receipts received in prior year paid over		−22,524
Grant drawn in the previous year and not spent, repaid to the Consolidated Fund during the year		−56,530
Net cash requirement	Sch 1	**22,480,397**

The notes on pages 26 to 53 form part of these financial statements.

SCHEDULE 5

Resources by Departmental Aims and Objectives
for the year ended 31 March 2000

The objectives of the Department are to provide the defence capability needed:

- to ensure the security and defence of the United Kingdom and the overseas territories, including against terrorism; and
- to support the Government's foreign policy objectives, particularly in promoting international peace and security.

The objectives are grouped by the following Departmental Final Outputs (DFOs):

	Gross	Income	Net
	£000	£000	£000
Department of State	846,567	−207,085	639,482
Military Capability	29,500,842	−839,600	28,661,242
The Equipment Programme	1,930,930	−24,761	1,906,169
Net operating cost (Schedule 2)	**32,278,339**	**−1,071,446**	**31,206,893**

See notes and additional details in Note 24.

The notes on pages 26 to 53 form part of these financial statements.

Notes to the Accounts

1. Statement of Accounting Policies

Introduction

1.1 These financial statements have been prepared in accordance with the Accounts Direction issued by the Treasury dated 24 August 2000 and comply with the requirements of the Treasury's RAM. In order to reflect the particular circumstances of the Department, a number of exceptions to the RAM have been made—those material to these statements include:

- The Operating Cost Statement is not segmented into programme and non-programme expenditure, as agreed with the Treasury.
- Separate statements are not prepared for non-agency parts of the Department, as agreed with the Treasury.
- The financial statements do not fully reflect the requirements of Financial Reporting Standard (FRS) 15.
- The Department has not analysed the Resources by objectives in Schedule 5. Instead the Department's Resources are analysed by Departmental final outputs, as agreed with the Treasury.
- Illustrative Estimate and explanation of variances between estimates and outturn (Schedule 1) have not been provided.

Accounting Convention

1.2 These financial statements are prepared on an accruals basis under the historical cost convention, modified to include the revaluation of certain fixed assets and stocks.

Basis of preparation of Departmental Resource Accounts

1.3 These financial statements comprise the consolidation of the Department, its Defence Agencies and those Advisory NDPBs sponsored by the Department which are not self-accounting (listed below):

Advisory Committee on Conscientious Objectors
Animal Welfare Advisory Committee
Armed Forces Pay Review Body
Dartmoor Steering Group
Defence Nuclear Safety Committee
Defence Scientific Advisory Council
Independent Board of Visitors for Military Corrective Training Centres
National Employers' Liaison Committee
Review Board for Government Contracts
Royal Military College of Science Advisory Council

1.4 Three of the Department's agencies are financed by means of Trading Funds. They therefore fall outside Voted Supply and are subject to a different control framework. Consequently, the Department's interests in the Trading Funds are included in the financial statements as fixed asset investments. Executive NDPBs operate on a self-accounting basis and are not included in the consolidated accounts. They receive grant-in-aid funding from the Department which is treated as an expense in the Operating Cost Statement.

1.5 The AFPS is not consolidated within these financial statements. Separate accounts are prepared by the AFPS.

Net Operating Costs

1.6 Costs are charged to the Operating Cost Statement in the period in which they are incurred and matched to any related income. Costs of VAT recoverable Contracted-Out Services are included net of related VAT. Other costs are VAT inclusive, although a proportion of this VAT is recovered via a formula agreed with HM Customs and Excise. Surpluses and deficits on disposal of fixed assets and stock are included within Other Operating Costs (Note 3).

1.7 Income from services provided to third parties is included in operating income, net of related VAT. Dividends are included in the operating income in the year in which the cash is received.

Notes to the Accounts—*continued*

Fixed Assets

1.8 Through the application of the Modified Historical Cost Accounting Convention (MHCA), the Department's fixed assets, apart from intellectual property rights (IPR), are expressed at their value to the Department on an inflation adjusted basis, i.e. at actual or estimated current values. The Department achieves this through the application of prospective indices that are applied in April of each financial year and look ahead to the subsequent balance sheet date. A suite of indices is determined by the Department's Senior Economic Advisor, in conjunction with the Valuations Office Agency. Different indices are used for the following asset categories and are "self correcting" in the subsequent financial year i.e. they are adjusted to account for the actual change in prices as compared to the earlier prediction:

- Land (by region and type)
- Buildings (UK and specific overseas indices)
- Fighting Equipment (one index for each of the three Sea, Air, and Land systems)
- Plant, Machinery and Vehicles
- IT and Communications Equipment—Office Machinery and Computers
- IT and Communications Equipment—Communications Equipment

Additionally all fixed assets are subject to a quinquennial revaluation by professional valuers.

Intangible Assets

1.9 The Department has two types of intangible assets: development costs and IPR. Pure and applied research costs are charged to the Operating Cost Statement in the period in which they are incurred.

1.10 Development costs are capitalised where they contribute towards defining the specification of an asset that will enter production. The development costs are amortised over the planned operational life of that asset type, e.g. class of ship or aircraft, on a straight-line basis. Amortisation commences when the asset type first enters operational service within the Department. If it is decided to withdraw a whole asset type early then any remaining unamortised development costs are written off to the Operating Cost Statement along with the underlying asset.

1.11 The majority of IPR are held by the Department's commercial contractors and normally the Department secures "freedom of use" for the time the asset is in service. In such instances any IPR are included within the overall project cost and as such are indistinguishable from the direct cost of the asset.

1.12 IPR purchased from a business are capitalised at cost. IPR developed in-house are capitalised only where they have (or subsequently acquire) a readily ascertainable market value and are amortised over their assessed useful economic lives.

Tangible Fixed Assets

1.13 The useful economic lives of tangible fixed assets are reviewed annually and adjusted where necessary. The minimum level of capitalisation is £10,000.

1.14 In these financial statements, guided weapons, missiles and bombs (GWMB), and capital spares are categorised as fixed assets. The principal asset categories and their useful economic lives, depreciated on a straight line basis, are:

Notes to the Accounts—*continued*

	Category	Years
Land and Buildings	Land	Indefinite, not depreciated
	Buildings, permanent	50
	Buildings, temporary	5–20
	Leasehold	Shorter of expected life and lease period
Fighting Equipment (including GWMB)		Useful economic life (on a pooled basis for GWMB)
Plant, Machinery and Vehicles	Plant and Machinery	5–15
	Specialised Vehicles (includes non-fighting vessels and aircraft)	Useful economic life
	Other standard vehicles	3–5
IT and Communications Equipment	Computers	3–7
	Satellites	Useful economic life
	Communications Equipment	Useful economic life
Operational Heritage Assets *		As other tangible fixed assets
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.	Useful economic life (on a pooled basis, consistent within the life of the prime equipment supported)

* Operational Heritage Assets are included within the principal asset category to which they relate.

Donated Assets

1.15 Donated assets (i.e. those assets that have been donated to the Department) are capitalised at their current valuation on receipt and are revalued/depreciated on the same basis as purchased assets.

1.16 A donated assets reserve represents the value of the original donation, additions, any subsequent revaluation and indexation (MHCA). An amount equal to the donated asset depreciation charge is released from this reserve to the Operating Cost Statement.

Disposal of Tangible Fixed Assets

1.17 Disposal of assets is handled by two specialist agencies: Defence Estates for property assets and Disposal Sales Agency for non-property assets.

1.18 Property assets identified for disposal are included at the net recoverable amount (NRA) with any resulting changes in the net book value charged to the Operating Cost Statement or credited to the revaluation reserve as appropriate. NRA represents the higher of the net realisable value (NRV) and the existing use value. On subsequent sale the surplus or deficit is included in the Operating Cost Statement under surplus/deficit on disposal of fixed assets.

1.19 Non-property assets are subject to regular impairment reviews, including when a decision is made to dispose of an asset. Any write down in value to the NRA is charged to the Operating Cost Statement. The surplus or deficit at the point of disposal is included in the Operating Cost Statement under surplus/deficit on disposal of fixed assets. Non-property assets, where the receipts on sale are anticipated not to be separately identifiable, are transferred to stock at their NRA and shown under assets declared for disposal. Any write down on transfer is included in the Operating Cost Statement.

Leased Assets

1.20 Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the shorter of the lease term or their estimated useful economic lives. Rentals paid are apportioned between reductions in the capital obligations included in creditors, and finance charges charged to the Operating Cost Statement. Expenditure under operating leases is charged to the Operating Cost Statement in the period in which it is incurred. In circumstances where the Department is the lessor of a finance lease, amounts due under a finance lease are treated as amounts receivable and reported in Debtors.

Notes to the Accounts—*continued*

Private Finance Initiative (PFI) Transactions

1.21 Where the substance of the transaction is that the risks and rewards of ownership remain with the Department, the assets and liabilities remain on the Department's Balance Sheet. Where the risks and rewards are transferred to the private sector the transaction is accounted for in the Operating Cost Statement through service charges in accordance with FRS5 and Treasury Guidance.

Investments

1.22 Investments represent holdings that the Department intends to retain for the foreseeable future. Fixed asset investments are stated at market value where available, otherwise they are stated at cost. They include Public Dividend Capital of agencies owned by the Department and financed by Trading Funds. Investments may either be equity investments, held in the name of the Secretary of State, or medium or long-term loans made with the intention of providing working capital or commercial support.

1.23 Joint Ventures are accounted for using the Gross Equity method of accounting. Under this method the Department's share of the aggregate gross assets and liabilities underlying the net equity investments are shown on the face of the Balance Sheet. The Operating Cost Statement includes the Department's share of the investee's turnover.

Stocks and Work-in-Progress

1.24 Stock is valued at current replacement cost, or historical cost if not materially different. Provision is made to reduce cost to NRV where there is no expectation of consumption or sale in the ordinary course of the business.

1.25 Internal Work-in-Progress represents ongoing work on the manufacture, modification, enhancement or conversion of stock items. This is valued on the same basis as stocks. External Work-in-Progress represents ongoing work on production or repair contracts for external customers. This is valued at the lower of current replacement cost and NRV.

1.26 Assets declared for disposal include stock held for disposal and those non-property fixed assets identified for disposal where receipts are not anticipated to be separately identifiable.

Provisions for Liabilities and Charges

1.27 Provisions for liabilities and charges have been established under the criteria of FRS12 and are based on realistic and prudent estimates of the expenditure required to settle future legal or constructive obligations that exist at the Balance Sheet date.

1.28 Provisions are charged to the Operating Cost Statement unless they have been capitalised as part of the cost of the underlying facility where the expenditure provides access to current and future economic benefits. In such cases the capitalised provision will be depreciated as a charge to the Operating Cost Statement over the remaining estimated useful economic life of the underlying asset. All long-term provisions are discounted to current prices by use of the Treasury's Test Discount Rate (TDR) which is currently 6%. The discount is unwound over the remaining life of the provision and shown as an interest charge in the Operating Cost Statement.

Notes to the Accounts—*continued*

Reserves

1.29 The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on fixed assets and stocks (excluding donated assets and those financed by Government grants). The Donated Asset Reserve reflects the net book value of assets that have been donated to the Department.

1.30 The General Fund represents the balance of the taxpayers' equity.

Pensions

1.31 Present and past employees are mainly covered by the PCSPS for civilian personnel and the AFPS for service personnel. There are separate scheme statements for the AFPS and the PCSPS as a whole.

1.32 Both pension schemes are contracted out, unfunded, defined benefit pay as you go occupational pension schemes. The employer's charge is met by payment of an ASLC, which is calculated based on a percentage of pensionable pay. The ASLC represents an estimate of the cost of providing future superannuation protection for all personnel currently in pensionable employment. In addition, civilian personnel contribute 1.5% of salary to fund a widow/widower's pension.

1.33 The pension schemes undergo a reassessment of the ASLC contribution rates by the Government Actuary at three-yearly intervals. Provisions are made for costs of early retirement programmes and redundancies up to the normal retirement age and charged to the Operating Cost Statement.

Early Departure Costs

1.34 The Department provides in full for the cost of meeting pensions up to normal retirement age in respect of civilian personnel early retirement programmes and redundancies announced in the current and previous years. Pensions payable after normal retirement age are met by the PCSPS for civilian personnel. There is no early retirement or redundancy scheme for service personnel but an immediate entitlement to draw pension under the AFPS accrues after 22 years' service, or earlier in circumstances where exceptional approval is given.

Cost of Capital Charge

1.35 A charge, reflecting the cost of capital utilised by the Department, is included in the Operating Cost Statement and credited to the General Fund. The charge is calculated using the Treasury standard rate of 6% in real terms on all assets less liabilities except for:

- Donated assets and cash balances with the Office of HM Paymaster General (OPG) where the charge is nil.
- Liabilities for the amounts to be surrendered to the Consolidated Fund and for amounts due from the Consolidated Fund where the charge is nil.

The cost of capital charge on the Trading Funds is calculated at a standard rate of 6% on the average book value of the Trading Fund's public dividend capital and loans. In accordance with the Treasury's RAM the cost of capital charge should be calculated at a specific rate applicable to the Trading Fund and based on its underlying net assets. The latter treatment would result in an additional cost of capital charge of £24,900,000. The impact on the net assets of the Department is £nil.

Foreign Exchange

1.36 Transactions that are denominated in a foreign currency are translated into Sterling using the General Accounting Rate (GAR) ruling at the date of each transaction. US$ and Euros are purchased forward from the Bank of England. Monetary assets and liabilities are translated at the spot rate applicable at the Balance Sheet date and the exchange differences are reported in the Operating Cost Statement.

Notes to the Accounts—*continued*

1.37 Overseas non-monetary assets and liabilities are subject to annual revaluation and are translated at the spot rate applicable at the Balance Sheet date and the exchange differences are taken to the revaluation reserve for owned assets, or the donated asset reserve for donated assets.

2. Staff Numbers and Costs

2.1 The average number of whole-time equivalent persons employed during the year was: Service 211,709 and Civilian 104,879. [Source: Defence Analytical Services Agency]

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

	£000
Salaries and Wages	6,992,441
Social Security costs	508,487
Pension costs (see Note 2.5)	1,201,172
Redundancy and severance payments	146,659
	8,848,759
Made up of:	
Service	6,432,921
Civilian	2,415,838
	8,848,759

2.3 For the year ended 31 March 2000 the remuneration of ministers (excluding pension costs) in respect of their services to the Department was:

	Age	£000	Until/*From*
Secretary of State for Defence:			
The Right Honourable Lord Robertson of Port Ellen	53	45–50	11 October 1999
The Right Honourable Geoffrey Hoon, MP	46	20–25	*12 October 1999*
Minister of State for Defence Procurement:			
The Right Honourable Dr The Lord Gilbert of Dudley	72	20–25	28 July 1999
The Baroness Symons of Vernham Dean	48	50–55	*29 July 1999*
Minister of State for the Armed Forces:			
Mr Doug Henderson, MP	50	15–20	28 July 1999
Mr John Spellar, MP	52	20–25	*29 July 1999*
Parliamentary Under Secretary of State for Defence:			
Mr John Spellar, MP	52	5–10	28 July 1999
Mr Peter Kilfoyle, MP	53	20–25	*29 July 1999*–31 January 2000
Dr Lewis Moonie, MP	53	0–5	*1 February 2000*

Ministers who have not attained the age of 65, and who are not re-appointed to a relevant Ministerial or other paid office within three weeks, are eligible for a severance payment. The Right Honourable Lord Robertson of Port Ellen and Mr Doug Henderson, MP received £17,652 and £8,340 respectively, which are included in the amounts disclosed above. As cabinet ministers, the Secretaries of State for Defence drew less than their full entitlement of Ministerial salary.

Notes to the Accounts—*continued*

2.4 For the year ended 31 March 2000 the salary and pension entitlements for the Department's senior management board, the FPMG, now the DMB, were as follows:

	Age	Salary (including performance pay) £000	Real increase in pension at retirement £000	Total accrued pension at retirement as at 31 March 2000 £000
Mr Kevin Tebbit *Permanent Under Secretary of State*	53	120–125	5.5–6	45–50
General Sir Charles Guthrie *Chief of the Defence Staff*	61	140–145	1.5–2	70–75
Admiral Sir Peter Abbott *Vice Chief of the Defence Staff*	58	110–115	0.5–1	55–60
Mr Roger Jackling *Second Permanent Under Secretary of State*	56	105–110	3–3.5	35–40
Admiral Sir Michael Boyce *First Sea Lord and Chief of the Naval Staff*	56	110–115	1.5–2	55–60
General Sir Roger Wheeler *Chief of the General Staff*	58	115–120	0.5–1	55–60
Air Chief Marshal Sir Richard Johns *Chief of the Air Staff*	60	115–120	0.5–1	55–60
Sir Robert Walmsley *Chief of Defence Procurement*	59	100–105	1–1.5	0–5
General Sir Sam Cowan *Chief of Defence Logistics*	58	120–125	8–8.5	55–60
Professor Sir Keith O'Nions (appointed 4 January 2000) *Chief Scientific Adviser*	55	25–30	—	—

Professor Sir David Davies held the appointment of Chief Scientific Adviser until 30 April 1999. Salary (including performance pay) for the period 1 April–30 April was in the range £5,000–£6,000. Mr Graham Jordan held the appointment of Chief Scientific Adviser on a temporary basis during the period 1 May 1999–31 December 1999. Salary (including performance pay) for the period was in the range £55,000–£60,000.

Pensions

2.5 The ASLC for civilian employees is grouped according to salary band and for 1999–2000 contributions of £208,699,988 were paid to the OPG at rates determined by the Government Actuary in the range of 12–18.5% of pensionable pay. For service personnel, total income to the Scheme was £992,471,678, transferred into the Armed Forces Pension Vote for 1999–2000 based on a rate determined by the Government Actuary of 33.5% for Officers and 17.9% for other ranks plus £2,566,415 of additional voluntary contributions and transfers in from other schemes.

2.6 Certain other employees are covered by other schemes such as the NHS Superannuation Scheme and the Teachers' Superannuation Scheme. Contributions to these schemes in 1999–2000 are included within the amount of £208,699,988 shown in Note 2.5 above.

Notes to the Accounts—*continued*

3. Other Operating Costs

	£000
Operating expenditure:	
– Fuel	126,924
– Stock consumption, valuation provisions and surplus/deficit on disposals	1,776,591
– Movements: includes personnel travelling, subsistence/relocation costs and movement of stores and equipment	611,039
– Utilities	231,305
– Property management	1,128,602
– Hospitality and entertainment	6,413
– Accommodation charges	404,642
– Equipment support costs	2,378,391
– Increase in nuclear and other decommissioning provisions	77,249
– IT Services	177,063
– Professional fees	360,859
– Other expenditure	1,779,342
– Research expenditure	1,283,575
Depreciation and amortisation:	
– Intangible assets (Note 7)	815,784
– Tangible owned fixed assets (Note 8)	4,954,745
– Donated assets depreciation—release of reserve	–46,009
– Tangible fixed assets held under finance leases (Note 8)	2,045
Permanent diminution in value of fixed assets (Notes 7 & 8)	170,732
Deficit arising on disposal of fixed assets*	1,806,557
Provision against fixed asset investments	20,000
Rentals paid under operating leases	34,228
Auditors' remuneration	4,900
Grants-in-Aid	42,724
Exchange differences on foreign currencies: surplus	–9,747
	18,137,954

* The deficit arising on disposal of fixed assets includes adjustments as part of the continuing work being undertaken to improve the figures on the supply systems. These are considered to relate largely but not wholly to prior years; this effect however is not quantifiable.

4. Operating Income

	£000
External customers	
Rental Income—property	35,829
Other	679,246
Other Government Departments and Trading Funds	
Rental income—property	3,023
Dividends received from Trading Funds (Note 9)	26,794
Other	326,554
	1,071,446
Of which:	
Appropriations in Aid (Schedule 1)	1,037,852
Not in Appropriations in Aid	33,594
	1,071,446

Notes to the Accounts—*continued*

5. Net Interest Payable

	£000
Interest receivable:	
—Bank interest	−10,411
—Loans to Trading Funds	−6,286
—Finance leases	−757
	−17,454
Interest payable:	
—Bank interest	383
—Loan interest	3,849
—Unwinding of discount on provision for liabilities and charges (Note 16)	180,601
—Finance leases	1,107
	185,940
Net interest payable	**168,486**

6. Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn

	£000
Net operating cost (Schedule 2)	31,206,893
—Remove non-supply expenditure and income	—
—Add income scored as Consolidated Fund Extra Receipts and included in operating income and interest	50,668
Net resource outturn	**31,257,561**

Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement. Net resource outturn is the total of these elements of expenditure and income that are subject to parliamentary approval and included in the Department's Supply Estimate. Schedule 1 will not be fully relevant until after the introduction, subject to Parliamentary approval, of resource-based Supply.

7. Intangible Assets

	£000
Cost or Valuation	
At 1 April 1999	20,327,078
Additions	1,313,761
Disposals	−214,785
Permanent diminution	−14,758
Revaluations	595,938
Other movements	11,014
At 31 March 2000	22,018,248
Amortisation	
At 1 April 1999	−1,708,815
Charged in year	−815,784
Permanent diminution	2,925
Disposals	65,790
Revaluations	−33,580
Other movements	9,859
At 31 March 2000	−2,479,605
Net Book Value:	
At 31 March 2000	**19,538,643**
At 1 April 1999	18,618,263

Note:

(i) Intangible asset valuations are based on the actual costs incurred over time, where available, or derived by applying a ratio to the tangible fixed asset valuations based on the historical relationship between development and production costs. The intangible asset valuations were indexed using the appropriate Gross Domestic Product (GDP) deflator to determine the opening balance sheet valuation.

(ii) The book value of IPR included in the above figure amounts to gross £250,000 (1998–99: £250,000) and net £62,000 (1998–99: £112,000).

Notes to the Accounts—*continued*

8. Tangible Fixed Assets

	Land and Buildings £000	Fighting Equipment £000	Plant, Machinery and Vehicles £000	IT and Comms Equipment £000	Capital Spares £000	Assets in the Course of Construction £000	Total £000
Cost or Valuation							
At 1 April 1999	14,699,155	39,704,930	5,635,380	1,492,014	20,347,986	9,306,330	91,185,795
Additions	63,019	14,389	141,547	82,617	526,613	3,965,094	4,793,279
Capitalised provisions	259	—	—	—	500	—	759
Donations	15,107	—	—	—	—	—	15,107
Permanent diminution	−15,766	−39,883	−59,650	−60,469	−310	−20,407	−196,485
Disposals	−252,151	−1,664,319	−236,969	−30,421	−2,546,556	−23,136	−4,753,552
Revaluations	739,258	973,339	232,142	10,592	1,023,279	17,292	2,995,902
Other movements*	260,918	1,122,872	393,890	125,787	–400,274	−2,910,302	−1,407,109
At 31 March 2000	15,509,799	40,111,328	6,106,340	1,620,120	18,951,238	10,334,871	92,633,696
Depreciation							
At 1 April 1999	−972,939	−11,142,080	−887,904	−276,303	−11,128,406	—	−24,407,632
Charged in year	−568,310	−2,355,971	−425,823	−261,292	−1,345,394	—	−4,956,790
Permanent diminution	−592	20,793	6,961	10,325	99	—	37,586
Disposals	28,950	1,260,468	104,440	13,463	1,453,807	—	2,861,128
Revaluations	−18,959	−245,804	−72,946	11,778	−538,224	—	−864,155
Other movements*	−14,764	377,263	−55,116	233	1,160,924	—	1,468,540
At 31 March 2000	−1,546,614	−12,085,331	−1,330,388	−501,796	−10,397,194	—	−25,861,323
Net Book Value:							
At 31 March 2000	**13,963,185**	**28,025,997**	**4,775,952**	**1,118,324**	**8,554,044**	**10,334,871**	**66,772,373**
At 1 April 1999	13,726,216	28,562,850	4,747,476	1,215,711	9,219,580	9,306,330	66,778,163

* Other movements comprise reclassifications between tangible fixed asset categories, intangible assets, and stock. Also included are adjustments to values that have arisen as a result of continuing work being undertaken to improve one of the supply systems. These are considered to relate largely but not wholly to prior years; this effect however is not quantifiable.

8.1 The net book value of tangible fixed assets by each major class of asset includes an amount of £39,002,000 (1998–99: £15,961,000) in respect of assets held under finance leases. Detail by asset category is as follows:

	Land and Buildings £000	Fighting Equipment £000	Plant, Machinery and Vehicles £000	IT and Comms Equipment £000	Capital Spares £000	Assets in the Course of Construction £000	Total £000
Gross Cost:							
At 31 March 2000	**29,405**	**15,389**	—	**210**	—	—	**45,004**
At 1 April 1999	4,583	15,389	—	—	—	—	19,972
Accumulated Depreciation:							
At 31 March 2000	**−239**	**−5,658**	—	**−105**	—	—	**−6,002**
At 1 April 1999	−239	−3,772	—	—	—	—	−4,011

8.2 The tangible fixed assets includes gross cost and accumulated depreciation in respect of assets owned and held for use on operating leases of £584,000 (1998–99: £634,000) and −£541,000 (1998–99: −£235,000) respectively.

Notes to the Accounts—*continued*

8.3 Analysis of Land and Buildings:

	Freehold £000	Long lease £000	Short lease £000	Beneficial Use* £000	Total £000
Net Book Value:					
At 31 March 2000	**12,718,024**	**227,332**	**129,006**	**1,530,687**	**14,605,049**
At 1 April 1999	12,310,293	202,158	127,329	1,644,270	14,284,050

The net book values at 31 March 2000 and 1 April 1999 include assets in the course of construction of £641,864,000 and £557,834,000 respectively.

* Relates to properties that are being used by the Department where no legal title is held. Such properties have been valued on the same basis as all other properties used by the Department.

8.4 Professional valuation of Land and Buildings were carried out by external valuers, as follows:

Year last valued	Valuation £000
Before 1 April 1996	249,043
1996–97	871,497
1997–98	9,107,270
1998–99	1,433,420
1999–2000	321,012

8.5 Property valuations were carried out by Weatherall Green and Smith, members of the Royal Institution of Chartered Surveyors (RICS) and the Incorporated Society of Valuers and Auctioneers (ISVA), in accordance with the RICS Appraisal and Valuation Manual.

8.6 Property valuations were based on existing use value to the Department, and do not take account of value from an alternative use. Consequently, the majority of the Departmental estate has been valued based on depreciated replacement cost (DRC).

9. Investments

	Trading Funds		Other	Total
	Public Dividend Capital £000	Loans £000	Investments £000	£000
At 1 April 1999	347,534	78,539	20,001	446,074
Repayments		−15,837		−15,837
Provisions			−20,000	−20,000
At 31 March 2000	**347,534**	**62,702**	**1**	**410,237**
Cost less provision:				
At 31 March 2000	**347,534**	**62,702**	**1**	**410,237**
At 1 April 1999	347,534	78,539	20,001	446,074

9.1 Other Investments

Investments, including "Golden" Shares, were held in the following at 31 March 2000 and 31 March 1999:

	7.5% Non-cumulative irredeemable preference shares at £1 each
Chamber of Shipping Limited	688 Shares
British Shipping Federation Limited	55,040 Shares
	Preferential "Golden" Shares at £1 each
Devonport Royal Dockyard Limited	1 Share
Rosyth Royal Dockyard Limited	1 Share
Atomic Weapons Establishment plc	1 Share

Notes to the Accounts—*continued*

	Preferential "Golden" Shares at £1 each
Atomic Weapons Establishment Pension Trustees Limited	1 Share
	Non Preferential Shares of £1 each
International Military Services Limited	19,999,999 Shares

As part of an arrangement with Atomic Weapons Establishment (AWE) plc, 50,000 shares of £1 each were purchased from Hunting Brae on 31 March 2000 and sold to AWE Management Ltd on 1 April 2000 for the same price.

9.2 Trading funds

Public dividend capital of £347,534,000 (1998–99: £347,534,000) and Loans of £62,702,000 (1998–99: £78,539,000) were held in the following Defence Executive Agencies funded by Trading Fund:

	Public Dividend Capital £000	Loans £000
Defence Evaluation and Research Agency	275,400	39,010
The UK Hydrographic Office	13,267	12,756
The Meteorological Office	58,867	10,936
	347,534	62,702

During the year, a dividend of £25,000,000 was received from the Defence Evaluation and Research Agency, and a dividend of £1,794,379 was received from The UK Hydrographic Office in respect of the financial year ended 31 March 1999. These are included within operating income. No dividend was received from The Meteorological Office.

9.3 The Department has a 100% interest in the non-preferential shares of International Military Services Limited, a company registered in England. International Military Services Limited ceased trading on 31 July 1991. Following termination of outstanding contracts, the company will be liquidated. The Department has written down the value of the investment to nil.

9.4 All the shares held are unlisted and are valued at historical cost. The 7.5% Non-cumulative irredeemable preference shares in Chamber of Shipping Limited and British Shipping Federation Limited are valued at 1p each reflecting the value at which shares 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.

9.5 "Golden" shares confer on the Secretary of State for Defence special 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' individual annual report and accounts which can be obtained from:

Company	Registration Number
Devonport Royal Dockyard Limited, Devonport Royal Dockyard, Devonport, Plymouth PL1 4SG	02077752
Rosyth Royal Dockyard Limited, Rosyth Royal Dockyard, Rosyth, Fife KY11 2YD	SC101959
Atomic Weapons Establishment plc, AWE Aldermaston, Reading, Berkshire RG7 4PR	02763902
Atomic Weapons Establishment Pension Trustees Limited, AWE Aldermaston, Reading, Berkshire RG7 4PR	02784144

Notes to the Accounts—*continued*

10. Related Party Transactions

10.1 The Defence Evaluation and Research Agency, The UK Hydrographic Office and The Meteorological Office operate as Executive Defence Agencies financed by Trading Fund. These fall within the ambit of the Department and are regarded as related parties outside the Departmental Boundary with which the Department has had material transactions. All transactions are carried out on terms, which are contracted on an arms length basis, and are subject to internal and external audit. The NAAFI is outside the Departmental Boundary and is also regarded as a related party.

The following bodies are Executive NDPBs of the MOD, they are self-accounting on an accruals basis, and are regarded as Related Parties. During the year, each NDPB has had a material transaction with the Department, as listed below:

Fleet Air Arm Museum

Grant-in-Aid: £498,000.

Flag Officer Maritime Aviation (Chairman), Commodore Naval Aviation (Deputy Chairman), Commanding Officer HMS Heron (RNAS Yeovilton), Commanding Officer HMS Seahawk (RNAS Culdrose), Director Support Operations (Rotary Wing), and Assistant Director Policy Co-ordination & Aviation (Director Naval Operations) are members of the Board of Trustees.

National Army Museum

Grant-in-Aid: £4,012,000.

Parliamentary Under Secretary of State for Defence (Chairman), Adjutant General and Command Secretary (Adjutant General) are members of the Council.

Royal Air Force Museum

Grant-in-Aid: £3,816,000.

No Departmental representation.

Royal Marines Museum

Grant-in-Aid: £575,000.

Chief of Staff Headquarters Royal Marines, Corps Secretary Headquarters Royal Marines and Corps Regimental Sergeant Major, Royal Marines Stonehouse, Plymouth are members of the Board of Trustees.

Royal Naval Museum

Grant-in-Aid: £828,000.

Naval Base Commander Portsmouth is a member of the Board of Trustees.

Royal Naval Submarine Museum

Grant-in-Aid: £527,000.

Flag Officer Submarines is a member of the Board of Trustees.

Oil and Pipelines Agency (profits to be surrendered to the Consolidated Fund after the year-end)

Agency Fees: £1,588,096, VAT recovery £32,506.

Director Defence Fuels Group is a member of the Board of Directors.

The Department also pays a number of grants to other bodies outside the Departmental Boundary, these include Grants-in-Aid to the Royal Hospital Chelsea and the Commonwealth War Graves Commission.

Note: The museums are designated NDPBs under the National Heritage Act 1983. Each NDPB is required to produce annual accounts in accordance with the Charities (Accounts and Reports) Regulations 1995 (Statutory Instrument 1995 No. 2724). The Oil and Pipelines Agency is a corporate body established under the Oil and Pipelines Act 1985.

Notes to the Accounts—*continued*

10.2 Joint Ventures

European Transonic Windtunnel GmbH (ETW):

The Department has a 31% interest in ETW, a non-profit making company, which is jointly owned by the governments of France, Germany, Holland and the United Kingdom. The ETW provides facilities for developments or research relating to air vehicles. Under a Memorandum of Understanding extended in January 2000, the Department is committed to making further payments of £2,080,000 up to 31 March 2004. The contributions made to ETW are charged to operating costs when incurred.

European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT):

The Department makes contributions to EUMETSAT (of which the United Kingdom is a member state) towards the development, production and future operation of a series of meteorological satellites forming the European Polar-orbiting Satellite System (METOP). These contributions are capitalised and included within Assets in course of construction in fixed assets. The contributions are based on agreements made with member states.

The Department is also involved in collaborative projects with various foreign countries for the development and production of fighting equipment. Costs capitalised represent the Department's proportion of the total cost of a project.

11. Stocks and Work in Progress

	31 March 2000 £000	31 March 1999 £000
Internal Work in progress	11,747	1,106
Raw materials and consumables	7,105,584	7,099,643
Assets declared for disposal	77,713	67,046
	7,195,044	7,167,795

12. Debtors

	31 March 2000 £000	31 March 1999 £000
Amounts falling due within one year		
Trade debtors	49,681	71,208
Deposits and advances	36,734	87,694
Value Added Tax	190,637	195,617
Amounts owed by other Government Departments	15,391	14,426
Amounts owed by entities in which the Department has a participating interest	12,077	274
Armed Forces Pension Scheme	956	—
Other debtors	234,977	303,306
Prepayments and accrued income	306,827	269,143
Net investment in finance leases (where the Department is the lessor)	1,554	—
	848,834	941,668
Amounts falling due after one year		
Trade debtors	818	8,049
Amounts owed by other Government Departments	98	13
Amounts owed by entities in which the Department has a participating interest	15,596	16,947
Other debtors	53,211	61,112
Prepayments and accrued income	2,249	48,911
Net investment in finance leases (where the Department is the lessor)	11,957	2,763
	83,929	137,795
	932,763	1,079,463

12.1 Other debtors include loans for house purchase and other loans made to staff amounting to £99,289,000 (1998–99: £86,273,000). The number of staff granted house purchase loans was 15,435 (1998–99: 14,489).

Notes to the Accounts—*continued*

13. Cash at Bank and in Hand

	1999–2000 £000	1998–99 £000
At 1 April	170,605	870,870
Net Cash Inflow (−Outflow):		
Received from Consolidated Fund	22,750,431	22,552,436
Utilised	−22,528,995	−23,252,701
Increase/(−decrease) during year	221,436	−700,265
At 31 March	**392,041**	170,605
Represented by:		
Balances at the OPG	293,718	98,134
Commercial Banks and Cash in Hand	98,323	72,471
	392,041	170,605

The cash at bank balance includes £93,000,000 (1998–99: £62,000,000) 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. Corresponding liability for these advances is shown under creditors due within one year.

14. Creditors: amounts falling due within one year

	31 March 2000 £000	31 March 1999 £000
Trade creditors	234,585	217,762
Payments received on account	120,540	48,593
Other taxation and social security	98,485	146,356
Other creditors	917,522	498,740
Accruals and deferred income	2,014,617	2,078,195
Obligations under finance leases	3,224	1,797
Payable to the Consolidated Fund	210,196	79,054
Amounts owed to other Government Departments	1,768	1,762
Amounts owed to undertakings in which the Department has a participating interest	225,638	52,662
Loans	1,268	1,197
	3,827,843	3,126,118

Amounts payable to the Consolidated Fund amounting to £210,196,000 (1998–99: £79,054,000) comprise amounts in respect of CFERs of £30,456,000 (1998–99: £22,524,000) and Grant drawn but not spent in year of £179,740,000 (1998–99: £56,530,000).

Loans are from the National Loans Fund in respect of the Armed Forces Housing Loans. These are fully repayable between years 2012 and 2028, with the last instalment due on 20 February 2028. Interest on the loans is payable at rates ranging from 4.25% to 7% per annum.

Notes to the Accounts—*continued*

15. Creditors: amounts falling due after more than one year

	31 March 2000 £000	31 March 1999 £000
Other creditors	283,218	196,649
Accruals and deferred income	3,274	1,831
Obligations under finance leases:		
– Amounts payable between one and two years	3,495	1,968
– Amounts payable between two and five years	4,749	2,410
– Amounts payable over five years	22,422	3,925
Amounts owed to other Government Departments	200	—
Loans: (Note 14)		
– Amounts payable between one and two years	1,344	1,268
– Amounts payable between two and five years	4,532	4,276
– Amounts payable over five years	51,827	53,426
	375,061	265,753

16. Provisions for Liabilities and Charges

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Pensions £000	Other Provisions £000	Total £000
At 1 April 1999	3,742,354	205,547	103,942	169,671	4,221,514
Increase	228,756	10,966	170,062	151,839	561,623
Unwinding of discount	219,383	−38,969	30	157	180,601
Release	−142,239	−33,371	−50,146	−34,223	−259,979
Reclassifications	−5,000	−4,243	1	9,242	—
Amounts capitalised	759	—	—	—	759
Charged against provisions	−194,431	−32,949	−42,654	−29,711	−299,745
At 31 March 2000	**3,849,582**	**106,981**	**181,235**	**266,975**	**4,404,773**

Analysis of amount charged/(− credited) to Operating Cost Statement

	1999–2000 £000
Charged/(− credited) to:	
Staff costs	117,957
Movements	—
Research expenditure	−1,300
Nuclear and Other Decommissioning provisions	77,249
Other costs	107,738
Net interest (− receivable)/payable	180,601
	482,245
Made up of:	
Increase	561,623
Release	−259,979
Net increase in provisions	301,644
Unwinding of discount	180,601
	482,245

Notes to the Accounts—*continued*

Nuclear Decommissioning

16.1 Nuclear decommissioning provisions relate principally to the cost of decommissioning, treating and storing nuclear waste arising at British Nuclear Fuels plc (BNFL), United Kingdom Atomic Energy Authority (UKAEA), and MOD sites and for the Departmental share of planning and constructing a national repository for the eventual disposal of that waste.

Liabilities have arisen since the late 1940s and will continue well into the future as a result of ongoing production and operations associated with the manufacture and reprocessing of Special Nuclear Materials (SNM). The majority of the liability is historic and relates to facilities used for the production of SNM by BNFL and its predecessor the UKAEA. The Atomic Weapons Establishment is the other main source of MOD's liabilities.

The liabilities include the costs associated with decommissioning and care and maintenance of redundant facilities (the conditioning, retrieval and storage of contaminated materials), research and development and the procurement of capital facilities to handle the various waste streams.

Calculation of the liabilities is based on technical assessments of the processes and methods likely to be used in the future to carry out the work. Estimates are based on the latest technical knowledge and commercial information available, taking into account current legislation, regulations and Government policy. The amount and timing of each obligation are therefore sensitive to these factors. These sensitivities and their likely effect on the calculation and amount of the liabilities are reviewed on an annual basis.

The latest estimate of the undiscounted cost of dealing with the MOD's nuclear liabilities is £32,009,668,000 (1998–99: £34,583,637,000).

The estimate of £3,800,000,000 at 31 March 2000 represents £32,009,668,000 discounted at 6% and expressed in 1999–2000 money values.

The estimated timescale over which the costs will need to be incurred is as follows:

	2000 £bn	1999 £bn
Up to 3 years	0.7	0.5
From 4 to 10 years	1.0	1.0
Beyond 10 years	2.1	2.2
Total	**3.8**	3.7

The bulk of the earlier anticipated costs relate to pre and post 1971 liabilities allocated to the Department. The significance of pre and post 1971 refers to the formation date of BNFL. Specific liabilities refer to the BNFL Sellafield, Springfields, Capenhurst, Calder Hall and Chapelcross sites.

Later provisions have been made to cover the costs associated with the research, development and construction of the NIREX Deep Waste Repository (DWR). The provisions have been based on advice provided by NIREX.

However, the policy for the disposal of intermediate and high level waste has yet to be clarified following the previous government's rejection, in May 1997, of planning consent for the proposed DWR. Pending the current government's consideration of a House of Lords Sub-Committee report on means of disposing radioactive waste, the UK holders of such waste are working on the assumption that a repository will not be available earlier than 2040. This will necessitate the continued provision of interim storage.

The nuclear provision shown above does not include an additional amount of provision for nuclear decommissioning which has been identified and notified to the Department by BNFL since the year end. The Department's share of the provision, before discounting, is estimated to be £1,455,000,000. This estimate will be properly reviewed, discounted and a required amount incorporated in the accounts for the year ending 31 March 2001.

Other Decommissioning and Restoration

16.2 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 and for the decommissioning of certain fighting equipment and GWMB.

Notes to the Accounts—*continued*

Early Retirement Pensions

16.3 Where the Department implements an early retirement scheme, provision is made for future liability payable to civilian early retirees. This includes provisions arising from the "80:20 Scheme", under which 20% of the cost was borne by the Department and 80% was borne by the Civil Superannuation Vote. This scheme was terminated in 1997 and the full cost of the obligations under the scheme are now borne by the Department.

Other

16.4 Other provisions include costs arising from the disposal of fixed assets; redundancy and relocation costs associated with reorganisation and restructuring; and amounts payable under guarantees, litigation and contractual arrangements.

17. Movements in General Fund

	£000
Net operating cost for the year (Sch 2)	−31,206,893
Paid and payable to the Consolidated Fund	−230,408
Parliamentary funding from the Consolidated Fund (Sch 4)	22,750,431
Transfer to General Fund of realised element of:	
– revaluation reserve (Note 18)	505,689
– donated asset reserve (Note 18)	52,251
– donated asset reserve depreciation adjustment	−46,009
Non-cash charges:	
– cost of capital charge (Sch 2)	5,123,140
– auditors' remuneration (Note 3)	4,900
Net increase (−decrease) in General Fund	−3,046,899
General Fund at 1 April 1999	81,767,639
General Fund at 31 March 2000	**78,720,740**

18. Reserves

	Revaluation Reserve £000	Donated Asset Reserve £000
At 1 April 1999	3,400,751	1,478,588
Arising on revaluation during the year (net)	3,819,052	−133,661
Donated Asset additions during the year		15,107
Transfers and reclassifications	−54,982	−54,231
Transferred (−to)/from General Fund (Note 17)	−505,689	−52,251
At 31 March 2000	**6,659,132**	**1,253,552**

19. Capital Commitments

Capital Commitments at 31 March 2000, for which no provision has been made in these financial statements, were as follows:

	£000
Contracted but not provided for	**14,888,219**

Notes to the Accounts—*continued*

20. Financial Commitments

20.1 Commitments under operating leases at 31 March 2000:

	Land and Buildings £000	Other £000
The Department was committed to making the following payments during the next year in respect of operating leases expiring:		
Within one year	9,252	29,898
Between two and five years	14,329	40,273
After five years	125,588	97,519
	149,169	**167,690**

20.2 The Department enters into forward purchase contracts annually with the Bank of England to cover the majority of its foreign exchange requirements for the following year. As at 31 March 2000, the details of the outstanding foreign currency contracts were as follows:

Currency	Amount in foreign currency US$/Euro 000	Weighted average exchange rate (=£1)	Amount in sterling £000
US Dollar	1,086,000	1.6086	675,121
Euro	636,000	1.4884	427,304

21. Private Finance Initiative (PFI) Commitments

21.1 The total service payments made in respect of on and off balance sheet PFI transactions were £308,754,000.

The payments which the Department are committed to make during the year 2000–01, are analysed below by time-bands specifying the period in which the individual commitment expires:

	£000
Within one year	—
In the 2nd to 5th years	31,840
In the 6th to 10th years	192,563
In the 11th to 15th years	24,703
In the 16th to 20th years	23,347
In the 21st to 25th years	4,815
In the 26th to 30th years	32,763
In the 31st to 35th years	—
In the 36th to 40th years	—
In the 41st to 45th years	6,250

21.2 The following information is provided for those schemes assessed as off balance sheet:

Project Description	Capital Value £000	Contract Start/End Dates	
Army White Vehicle Fleet in Germany: Pathfinder project providing, managing and maintaining the Army's fleet of 3,000 support vehicles in Germany	52,000	Feb 1996	Apr 2002
RAF White Vehicle Fleet: Pathfinder project providing, managing and maintaining the RAF's fleet of support vehicles in the UK	35,000	Apr 1996	Mar 2002
Training, Administration and Financial Management Information System (TAFMIS): Provision of training administration and financial management information systems to the Army Training and Recruiting Agency	41,000	Aug 1996	Aug 2007
Materiel Handling Equipment (MHE): Pathfinder project providing 1,400 items of equipment on a Tri-Service basis	8,000	Dec 1996	Nov 2001

Notes to the Accounts—*continued*

Project Description	Capital Value £000	Contract Start/End Dates	
Hazardous Stores Information System (HSIS): Provision of an information management service for hazardous stores safety datasheets with 2,000 users	1,000	Feb 1997	Dec 2007
Defence Helicopter Flying School: Provision of helicopter flying training services*	73,500	Apr 1997	Mar 2012
Defence Fixed Telecommunications System (DFTS): 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	70,000	Jul 1997	Jul 2007
Electronic Messaging Service: Interoperability of messaging services for the Army	16,900	Jul 1997	Apr 2007
Medium Support Helicopter Aircrew Training Facility (MSHATF): Provision of six flight simulator training facilities, covering three different types of helicopter, at RAF Benson	114,000	Oct 1997	Oct 2037
Hawk Synthetic Training Facility: Provision of replacement simulator training facilities at RAF Valley	19,000	Dec 1997	Dec 2015
Armed Forces Personnel Administration Agency (AFPAA): Provision of pay, pension and personnel administration services to the Armed Forces	264,000	Jan 1998	Dec 2008
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	92,769	Jun 1998	Aug 2028
Attack Helicopter Training Service: Provision of full mission simulator, three field deployable simulators, groundcrew, maintenance and armament training	165,000	Jul 1998	Sep 2027
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton	8,200	Jul 1998	Jul 2028
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, serving a population of 7,000, to meet regulatory standards at RAF Lyneham	5,510	Aug 1998	Jul 2023
Tidworth Water and Sewerage: Pathfinder project providing water, sewerage and surface water drainage, serving a population of 12,000 military and dependants at Tidworth	6,000	Sep 1998	Aug 2018
RAF Mail: Provision of informal messaging services for the RAF	12,000	Nov 1998	Nov 2008
Fire Fighting Training Units NRTA: Provision of fire fighting training for the Naval Recruiting and Training Agency	22,500	Apr 1999	Apr 2019
Light Aircraft Flying Training: Provision of flying training and support services for Air Experience Flying (AEF) and University Air Squadron (UAS) Flying Training	20,000	Apr 1999	Mar 2009
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth	61,700	Jun 1999	Jun 2031
Intelligence Service IT Computer Services: Provision of Information Technology Services to the Defence Intelligence Service	5,200	Oct 1999	Sep 2007
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers*	73,408	Feb 2000	Dec 2029
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury	15,083	Jun 2000	Jun 2025
Central Scotland Family Quarters: Provision of married quarters accommodation for Service Families in Central Scotland	24,713	Jan 2001	Jan 2021

* These projects are pending final decisions regarding on/off balance sheet status, following retrospective review of the individual contractual arrangements.

Contracts for seven further PFI projects have been signed since the end of the financial year. The projects and their estimated capital values are as follows: Defence Animal Centre (£9m); Main Building Refurbishment (£175m); Tri-Service Materials Handling Service (£39m); Naval Communications (£55m); Defence Electronic Commerce Services (£9m); E3D Sentry Aircrew Training Service (£10m); and Lynx Mk 7/9 Simulator (£12m).

No specific contingent liabilities have been identified in respect of the PFI contracts listed above.

Notes to the Accounts—*continued*

22. Contingent Liabilities

Contingent liabilities estimated at some £300 million were identified relating mainly to ongoing contractual negotiations with third parties.

23. Post Balance Sheet Events

23.1 The Secretary of State announced on 24 July 2000 that the Department is to proceed with a Public Private Partnership for DERA. Two new organisations will be created. Around three-quarters of the current DERA will be turned into a company which will be floated as soon as its potential is suitably developed, which could be during 2001. It is likely that the Department will initially retain a financial stake in the new company in order to ensure that the taxpayer will receive a share of any immediate growth following the sale. It is not envisaged that Government would continue to hold a financial stake in the company in the longer term. The terms and conditions of staff will be protected by TUPE regulations.

For strategic reasons the most sensitive parts of DERA, including the Chemical and Biological Defence Sector at Porton Down, will remain in the Department. They will carry out key functions for translating the results of defence science and technology research into the procurement programme, research at the defence systems level and management of international research collaboration.

23.2 The Ship Submersible Nuclear (SSN) Flotilla is currently undergoing a series of precautionary engineering inspections resulting from a defect identified in HMS Tireless. Analysis is expected to complete during November 2000, following which any resource implications can be quantified.

24. Notes to Schedule 5

24.1 The DFOs included in Schedule 5 comprise the following elements:

"Department of State" includes the costs of producing defence strategy, policy and programmes, resource allocation, defence diplomacy and support of defence exports.

"Military Capability" involves bringing together the elements of coherent joint forces and delivering appropriately trained and equipped forces at the required level of readiness.

"The Equipment Programme" refers to the administration and other operating costs, primarily of the Defence Procurement Agency, associated with the procurement of fighting equipment and other assets. The values of fixed asset additions are shown in Notes 7 and 8. This output also includes expenditure of £443,400,000 within the Research Building Block, part of the Central TLB.

24.2 Net operating costs are identified with DFOs by analysing output costs at management grouping level. Costs are attributed either directly to DFOs (mainly front line units) or by reference to costs "communicated" to the front line by support units.

24.3 The deployment of the Department's capital in support of its outputs does not follow the pattern of operating costs. The majority (about 98%) of the Department's assets, including fighting equipment in the course of construction, support the Military Capability output. The assets employed on the Department of State and the Equipment Programme outputs comprise primarily a share of information technology and other support activity assets.

Notes to the Accounts—*continued*

25. Votes A Statement—Statement of Approved Maximum Armed Forces Numbers

25.1 Votes A Statement is presented annually to Parliament to seek authority for the maximum numbers of personnel to be maintained for service with the Armed Forces for the year and is audited by the National Audit Office.

25.2 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
Officers, Men & Women for NAVAL SERVICE	48,340	43,701	1 April 1999
Officers, Men & Women for ARMY SERVICE	135,420	118,463	1 February 2000
Officers, Men & Women for AIR FORCE SERVICE	58,070	55,323	1 April 1999

25.3 Maximum numbers of personnel to be maintained for service with the Reserve Forces:

	Numbers voted by the House of Commons	Maximum numbers maintained	Peak Dates
Reserve Naval and Marine Forces	18,330	15,350	1 June 1999
Special Members of the Reserve Naval Forces	200	—	—
Reserve Land Forces	87,320	83,187	1 April 1999
Special Members of the Reserve Land Forces	6,000	—	—
Reserve Air Forces	26,000	20,600	1 April 1999
Special Members of the Reserve Air Forces	430	—	—

Notes to the Accounts—*continued*

26. Segmental Analysis of Net Operating Costs by Top Level Budget (TLB) Holders

TLB Holder	Other Current Expenditure £000	Grants £000	Appropriation in Aid £000	**Net Resource Outturn £000**	**Capital and Other £000**	**Non-Operating Appropriation in Aid £000**	**Accruals: Cash Adjustments** £000
Commander-in-Chief Fleet	3,774,981	—	−16,211	3,758,770	35,788	−705	
Commander-in-Chief Land Command	4,475,979	518	−174,558	4,301,939	78,801	−59,833	
Air Officer Commanding-in-Chief RAF Strike Command	4,160,312	—	−94,546	4,065,766	32,483	−601	
General Officer Commanding (Northern Ireland)	654,875	—	−996	653,879	15,202	−514	
Chief of Joint Operations (note 1)	542,837	—	−24,810	518,027	38,001	−609	
Defence Logistics Organisation (note 2)	9,277,963	38,161	−235,306	9,080,818	958,263	−12,916	
2nd Sea Lord/ Commander-in-Chief Naval Home Command	691,363	—	−45,492	645,871	13,238	−108	
Adjutant General	1,528,806	—	−28,141	1,500,665	53,825	—	
Air Officer Commanding-in-Chief RAF Personnel & Training Command	848,551	—	−84,062	764,489	28,716	−55	
Central TLB (note 3)	3,302,451	119,826	−314,595	3,107,682	94,356	−159,350	
Chief of Defence Procurement	2,878,790	—	−19,135	2,859,655	4,758,367	−171	
Total capital expenditure					6,107,040		
Repayment of loans to the Trading Funds:							
The Meteorological Office						−8,032	
Defence Evaluation & Research Agency						−7,586	
The Hydrographic Office						−219	
						−15,837	
Repayments of loans from the National Loans Fund					1,197		
Total	32,136,908	158,505	−1,037,852	**31,257,561**	**6,108,237**	**−250,699**	**−14,634,702**
			(Note 4)	(Sch 2)			
Net cash requirement						(Sch 1)	**22,480,397**

Note:

(1) The Chief of Joint Operations became a separate TLB holder from 1 April 1999. It was previously part of the Vice Chief of Defence Staff.

(2) On 1 April 1999, the operations of Chief of Fleet Support, Quartermaster General and Air Office Commanding-in-Chief RAF Logistics Command were merged to form the Defence Logistics Organisation (DLO).

(3) The Vice Chief of Defence Staff and 2nd Permanent Under Secretary of State merged on 1 April 1999 to form the Central TLB, which includes the Research Building Block.

Notes to the Accounts—*continued*

27. Losses and Special Payments

A Losses Statement, details of Special Payments, Gifts, Loans and other notes as described in "Government Accounting" are required to be included within the Department's financial statements.

The purpose of the Losses Statement is to report all defined losses that have been brought to account during the year where the total exceeds £100,000. In addition, any individual loss, which exceeds £100,000, is noted separately.

The Tables below give details of the payments made, and losses incurred, by the Department as disclosed in the 1999–2000 Appropriation Accounts.

	1999–2000 £000
Losses Statement	
Total (18,540 cases)	**40,856**
Details (cases over £100,000)	
Cash Losses	
Unreconcilable balance within a works related suspense account arising from bookkeeping errors in previous financial years, now written off following a detailed investigation. Fraud or theft is not suspected. Strengthened management and accounting procedures have been put in place to prevent similar record keeping errors in future.	13,920
A decision was taken to terminate an information technology project due to major failings and continued slippage by the contractor, which could not be overcome. Damages of £9,338,370 were sought. Following legal advice an out of court settlement valued at £7,083,113 was agreed. This left the balance of the claim, amounting to £2,255,257, to be written off as a claim abandoned. The settlement comprised products already supplied by the contractor and development work undertaken by the Department being transferred, at residual value, to other work, and the provision of goods, services and cash by the contractor. (See Appropriation Account 1998–99, Class I, Vote 1 page 20.)	2,255
Unreconcilable balance within a suspense account arising from bookkeeping errors in previous financial years, now written off following a detailed investigation.	1,972
Ministerial approval was given to abandon a claim for £1,808,967.01 against a foreign government for the provision of Loan Service Personnel for the period September 1996 to February 1997.	1,809
A claim against a contractor has been abandoned. This was for additional work needed to be undertaken following the refurbishment of equipment and the provision of spares which had failed quality tests undertaken by the Department. Following legal advice, the Department agreed to an out of court settlement. This resulted in a payment from the contractor of £822,500. The balance of the claim, amounting to £1,230,610, has therefore been written off as a claim abandoned.	1,231
A Company went into receivership in June 1998 owing the Department a refund of an overpayment of £1,687,584, which has been reduced by the recovery of £513,638 and an offset by funds held of £6,504. There will be a further £200,078 reduction by crown set-off in 2000–01, leaving the sum of £967,364 to be written off. A Ministry of Defence Police investigation concluded that there was no evidence of fraud. Procedures have been tightened to minimise the possibility of a recurrence.	967
A claim was abandoned against a company to the value of £520,794.81 after it became time expired in 1994, under the 1980 Limitations Act. The amount was in respect of a disputed claim for proofing and quality assurance work carried out by the Department between 1986 and 1988. No written contract for the work existed and legal advice was that it was no longer possible to pursue the claim successfully or to set-off the amount against payments due to the company under existing procurement contracts. Treasury approval was sought and obtained in April 2000. It is regretted that the case was not given the priority that it should have received, and that following settlement, Treasury approval was not immediately sought. This was due to protracted exchanges of correspondence causing internal delays, reductions in staff and increased workloads. Changes to the MOD's monitoring and reporting procedures should prevent a recurrence of this type of loss.	521
A fraud of £477,434 occurred at an army pay office during the period February 1998 to February 1999. A MOD civilian employee was sentenced in February 2000 to 4 years' imprisonment. A procedural review, undertaken following the fraud, resulted in the introduction of tighter systems controls. A total of £47,950 has been recovered to date, which leaves £429,484 to be written off. Legal proceedings are continuing to recover some of this balance. (See Comptroller and Auditor General's Report, Appropriation Account 1998–99, Class I, paragraphs 15–19).	429
Ministerial approval was given to abandon a claim for £396,710.41 against a foreign government for the provision of Language Training for the period May 1996 to June 1997.	397

Notes to the Accounts—*continued*

A claim for £363,216.40 in default for the estimated costs of rectifying faulty workmanship, covered under Warranty, that had not been undertaken before a company went into receivership, in December 1997, was abandoned. Risk management procedures are in place to prevent a recurrence.	363
A fraud estimated at £500,000 occurred at an overseas naval base during the period 1988–94. Legal proceedings have now been completed. A locally engaged civilian employee was found guilty and sentenced, in January 1998, to 18 months in prison. A second MOD employee was acquitted but resigned before disciplinary proceedings could be taken. A total of £147,000 has been recovered, which leaves £353,000 to be written off.	353
In 1991 a company, which was carrying out work to enable the Department to achieve BS9000 series for Radio Frequency, Direct Current and Low Frequency connector and cable assemblies, went into liquidation without completing the contract. Payments, totalling £156,138, were properly made under the terms of the contract. A dividend of £10,146 was received from the liquidator in February 1997 leaving £145,992 to be written off.	146
Under payment of Earnings Related National Insurance Contributions (ERNIC) for Ministry of Defence Fee Earners between 1992–93 and 1997–98, as a result of misinterpreting Section I of the Social Security Contributions and Benefit Act 1992. Recovery proved impracticable. Systems have been changed to prevent a recurrence.	138
Stores Losses	
In January 1997 a fire destroyed a former factory in Bosnia which had been requisitioned for use by British Forces. This resulted in the destruction of a considerable quantity of stores, equipment and vehicles. The fire started when vapour ignited during the refuelling of a gravity-fed petrol heater. A Board of Inquiry made a number of recommendations to prevent a recurrence and these have been implemented.	4,442
In June 1998 an aircraft was involved in an engine runaway incident which caused considerable damage to the Engine Control Unit. A Unit Inquiry found the cause was human error, and made a number of recommendations to prevent recurrence, which are being implemented. Three RAF personnel have been disciplined.	476
Following the closure of a Support Depot, finalisation of the Unit's stores accounts revealed that accounting procedures had not been fully complied with. Although no evidence of physical loss was found, the lack of an audit trail required the value of the stores to be written off as a loss. The need for improved internal monitoring has been highlighted and new procedures have been put in place.	386
Following the closure of an Ordnance Support Unit, finalisation of the Unit's stores accounts revealed that accounting procedures had not been fully complied with. Although no evidence of physical loss was found, the lack of an audit trail required the value of the stores to be written off as a loss. The need for improved internal monitoring has been highlighted and new procedures have been put into place.	232
In December 1997, two fires in the kitchen at a military camp resulted in considerable damage to stores, equipment, rations and building infrastructure. The initial fire on 13 December was believed to have been caused by faulty electrical equipment. A subsequent fire, on 14 December, was probably due to an ember or hot spot that was undetected after the initial fire was extinguished. Based on the evidence available, it was not possible to determine direct responsibility for the loss. A post fire investigation was unable to determine whether negligence contributed to the second fire. A number of recommendations were made to prevent a recurrence and these are being implemented.	169
In June 1998 two soldiers, serving overseas, were forced to abandon a quantity of military equipment. This was as a result of a military uprising in the country in which they were carrying out a survey. A Board of Inquiry recommended that the items, which could not be recovered, should be written off.	110
Notes	
Special Payments	
Total (28 cases)	**59,631**
Details (cases over £100,000)	
Ex-Gratia payments on account to BNFL and the UKAEA towards the cost of treating and disposing of nuclear wastes and decommissioning plant at BNFL sites. The total paid to date is £736,000,000.	59,534
Gifts	
Total (22 cases)	**608**
Details (cases over £100,000)	
66 surplus military vehicles were gifted to two de-mining charities, 55 to the HALO Trust and 11 to the Mines Advisory Group, to assist in the clearance of landmines around the world. Details of the transfer were notified to the House of Commons in a Departmental Minute dated 11 January 2000.	460
Transfer of Land and Buildings	
Total (104 cases)	**583**
Discount on sale of a surplus married quarter to civilian personnel (1 case)	50
Discount on sale of surplus married quarters to a Housing Association (102 cases)	520
Discount on sale of a surplus married quarter by auction (1 case)	13

Notes to the Accounts—*continued*

Other Notes

A loss arising from expenditure on the Project Definition Phase of the project to fit Joint Tactical Information Distribution System (JTIDS) equipment to the RAF Tanker aircraft fleet. A decision was taken early in 1999 not to proceed with this requirement because of changed defence priorities and the project was cancelled in April 1999, by which time costs of £2,592,648 had been incurred. However, work carried out under the project has had a beneficial effect on other projects and the value of this has been assessed as £421,000. The balance of £2,171,648 is therefore written off as a constructive loss.

A constructive loss of £1,606,460 arose from expenditure incurred on the development and production of a software application for an Automatic Routing and Distribution system which proved not to be required as a result of a change to the Department's Information Technology System (see Appropriation Account 1998–99, Class I, Vote 1, page 20).

There were 59 instances of supplies and services being provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British naval ports totalling £223,789.

Land and buildings to a total value in excess of £100,000 were gifted to the Government of Gibraltar.

28. Reconciliation of the Department's Appropriation Accounts with the Resource Accounts

The 1999–2000 Appropriation Accounts produced by the Department include a Statement of Assets and Liabilities. The movements on the Assets and Liabilities Statement during the year is summarised as follows:

	Bank and Cash £000	Debtors/ Creditors £000	Total £000	Charge to Vote £000	Net Cash Requirement* £000
At 1 April 1999	170,605	−170,605	—		
Drawdown from the Consolidated Fund	22,750,431		22,750,431		
Movement during the year		−98,225	−98,225	−98,225	
Spent in Year	−22,528,995	56,529	−22,472,466	−22,472,466	−22,472,466
Grant drawn but not spent included in year end creditors		−179,740	−179,740		
At 31 March 2000	**392,041**	**−392,041**	—	**−22,570,691**	**−22,472,466**

*Including cash movement relating to CFERs of £7,932,000.

The Charge to Vote equates to the sum of the net expenditure on the Votes. The net expenditure by vote as shown in the 1999–2000 Appropriation Accounts is as follows:

	£000
Class VI Vote 1	22,549,260
Class VI Vote 2*	21,431
	22,570,691

*All Vote 2 funding is included in the accounts of the AFPS except for £21,431,000. This amount is in respect of Resettlement Grant Expenditure which has been expensed through the Department's Operating Cost Statement.

Notes to the Accounts—*continued*

The reconciliation between the Net Operating Cost after interest of £31,206,893,000 (Schedule 2) and the amount charged to Vote in the 1999–2000 Appropriation Accounts is as follows:

	£000	£000
Total net cash expenditure in the Appropriation Accounts		22,570,691
Add Non-cash movements:		
Depreciation and amortisation	5,726,565	
Permanent diminution of fixed assets	170,732	
Stock provisions	470,056	
Auditors' remuneration	4,900	
Deficit on disposal of fixed assets	1,826,557	
Changes in provisions for liabilities and charges	301,644	
Cost of capital charge	5,123,140	
Unwinding of discount relating to provision for liabilities and charges	180,601	
		13,804,195
Less Items of capital nature:		
Fixed asset additions	−6,107,040	
Fixed asset disposals	234,862	
		−5,872,178
Repayments of loans to Trading funds		15,837
Repayment of loans from the National Loans Fund		−1,197
Consolidated Fund Extra Receipts paid over (not included in the Appropriation Accounts as Appropriation-in-Aid, but shown as income in the Resource Accounts).		−42,737
Changes to Working Capital:		
Stock	302,464	
Debtors	146,700	
Creditors	681,088	
	1,130,252	
Amount already included within total charged to Vote	−98,225	
		1,032,027
Charged against provisions for liabilities and charges		−299,745
Net operating cost		**31,206,893**

29. Non-Operational Heritage Assets

29.1 The Department owns a range of non-operational heritage assets from historically significant defence equipment, through archive information, to museum and art collections. In accordance with the Treasury policy non-operational heritage assets are normally valued except where:

(a) the cost of the valuation outweighs the benefits that the knowledge of the valuation would deliver; or

(b) it is not possible to establish a sufficiently reliable valuation.

On the above basis, no non-operational heritage assets, except land, were valued at the year-end.

Notes to the Accounts—*continued*

29.2 The scope and diversity of the holdings of non-operational heritage assets which are not valued is illustrated by the examples detailed in the table below:

Item	Location	Description
HMS Victory	Portsmouth	HMS Victory is a 100 gun, first rate ship of the line, most famous for her role as Lord Nelson's Flagship at the Battle of Trafalgar. Victory was commissioned into the fleet in 1778 and serves today as flagship to 2nd Sea Lord/Commander-in-Chief Naval Home Command. Open to the public since 1928, Victory now attracts around 40,000 visitors a year.
RN Historic Flight	RNAS Yeovilton	Formed in 1972 the Historic Flight operates seven historic Fleet Air Arm aircraft. The aircraft participate in around 50 displays annually.
Historic Gun Collection	DSDC Donnington	The museum currently holds a collection of 749 small arms of British and foreign origin together with a small number of larger weapons.
Battle of Britain Memorial Flight	RAF Coningsby	Formed in 1973 the Memorial Flight operates 10 World War 2 aircraft that appear at in excess of 250 airshows, public events and state occasions. Memorial Flight aircraft can also be viewed by the public at their hangar at RAF Coningsby.
MOD Art Collection	Various locations	The MOD Art Collection comprises approximately 800 works of art and 250 antiques such as clocks and furniture. The core of the collection is the works commissioned by the Admiralty, particularly from artists accompanying Captain Cook on his first and second voyages of exploration and from the War Artists' Commission. The most valuable items are on permanent public display in the National Maritime Museum and plans are developing for a public exhibition of selected items during the summer of 2001.
Records and artworks	Portsmouth, London	The Admiralty and Institute of Naval Medicine Libraries and the Air Historical Branch (London) comprise text and records of historical and research items. Although not open to the public, access is available on application.
Artefacts, records and artworks	Various locations	Some 69 Regimental and Corps Museums exist across the country. Ownership of the buildings and contents of the museums varies between the MOD, local authorities and regimental associations. The museums, which are open to the public, trace the history of the regiments and comprise displays of uniforms, weapons, medals and records.

Printed in the UK by the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office Limited
Dd5069594 01/2001 585680 019585 Ord TJ003478

Published by The Stationery Office Limited
and available from:

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ISBN 0-10-279501-0

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