MINISTRY OF DEFENCE

Ministry of Defence

Consolidated Departmental Resource Accounts

2009-2010

Ministry of Defence Consolidated Departmental Resource Accounts 2009-10

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

Ordered by the House of Commons to be printed

26 July 2010

HC 258 London: The Stationery Office £35.50

ISBN: 9780102966251

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002367551 07/10

Printed on paper containing 75% recycled fibre content minimum.

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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. In 1973, the operations of the Atomic Weapons Establishment were transferred from the UK Atomic Energy Authority to the MOD.

Principal Activity

The principal activity of the Department is to deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism, and to act as a force for good by strengthening international peace and stability. The Defence Plan 2010-14 sets out the top level objectives for the Defence Board's strategic management of the Department as:

- Achieve success in the military tasks we undertake, at home and abroad.
- Be ready to respond to tasks that might arise.
- Build for the future.

Further definition of the Departmental Objectives in terms of outputs is given in the Statement of Net Operating Costs by Departmental Strategic Objectives and in its supporting Note to the Accounts – Note 25.

Departmental Boundary[1]

As at 31 March 2010, the Department consisted of 8 (2008-09: 8) Top Level Budget (TLB) Holders. The TLBs are responsible for providing forces and support services required for a modern defence force and are detailed in Note 3 to the accounts – Analysis of Net Resource Outturn. Within the TLBs, there were 32 (2008-09: 38) reporting entities, known as management groupings, producing detailed management accounting information as part of in-year financial management, planning and budgeting processes. Accounting transactions are recorded at management group level for in-year management purposes but reporting for the annual financial accounts is based on TLB level returns.

There are 6 (2008-09: 6) on-vote Defence Agencies (listed in Note 35 – Entities within the Departmental Boundary). Defence Agencies publish their own accounts. All on-vote Agencies are also management groupings. Further information on each agency can be found on their respective websites, details of which are in the table below:

Agency	Website
Defence Storage and Distribution Agency	http://www.mod.uk/DefenceInternet/MicroSite/DES/OurTeams/JointSupportChainTeams/DefenceStorageAndDistributionAgencydsda.htm
Defence Vetting Agency	http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/SecurityandIntelligence/DVA/
MOD Police and Guarding Agency	http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/SecurityandIntelligence/MDPGA/
People, Pay and Pensions Agency	http://www.mod.uk/DefenceInternet/MicroSite/PPPA/
Service Children's Education	http://www.sceschools.com/home-ie6.php
Service Personnel and Veterans Agency	http://www.veterans-uk.info/

[1] The Departmental Boundary in this context relates to the boundary of the Departmental Resource Accounts.

Also included within the Departmental Boundary are Advisory Non-Departmental Public Bodies (NDPBs) sponsored by the Department; these are listed at Note 35.

There are 4 (2008-09: 4) Executive Defence Agencies established as Trading Funds, and owned by the Secretary of State for Defence, at 31 March 2010. The Trading Funds produce their own accounts and fall outside the Departmental Boundary. Further details are provided in: Note 17 – Financial Instruments, Note 32 – Related Party Transactions and on the Trading Funds' websites:

Trading Fund	Website
Defence Science and Technology Laboratory (Dstl)	http://www.dstl.gov.uk/
UK Hydrographic Office (UKHO)	http://www.ukho.gov.uk/Pages/Home.aspx
Met Office	http://www.metoffice.gov.uk/
Defence Support Group (DSG)	http://www.dsg.mod.uk/default.asp

The Department also sponsors 3 (2008-09: 5) Executive Non-Departmental Public Bodies (NDPBs): The RAF Museum, The National Army Museum and The National Museum of the Royal Navy. The National Museum of the Royal Navy was previously reported as separate museums: The Royal Naval Museum, The Royal Navy Submarine Museum and The Royal Marines Museum. The 3 Executive NDPBs receive Grants-in-Aid from the MOD and fall outside the Departmental Boundary. Further details are at Note 32 – Related Party Transactions.

The Oil and Pipelines Agency, the NAAFI and the Fleet Air Arm Museum are Public Corporations; they also fall outside the Departmental Boundary.

Pension Liabilities

The transactions and balances of the Armed Forces Pension Scheme (AFPS) (including the Gurkha Pension Scheme, the Non-Regular Permanent Staff Pension Scheme and the Reserve Forces Pension Scheme) and the Armed Forces Compensation Scheme are not consolidated in these financial statements. The report and accounts of the AFPS are prepared separately; further information is available on the website:

http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/ArmedForcesPensions/

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

http://www.civilservice-pensions.gov.uk/facts_and_figures.aspx

http://www.dcsf.gov.uk/aboutus/reports/

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

Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians in Germany, Cyprus and Gibraltar and the Merchant Navy Ratings Pension Fund; estimates of the liabilities for these schemes are included in the figure for Provisions for Liabilities and Charges (see Note 24).

Employer's contributions payable to the Armed Forces, Civil Service, NHS, Teachers' and other pension schemes have been charged to the Operating Cost Statement. Further information on the various pension schemes can be found in the Remuneration Report and at Note 10 – Staff Numbers and Costs.

Future Developments

The *Defence Plan 2010 – 2014* provides a forward looking view of performance and development for the Department and can be found at: http://www.mod.uk/NR/rdonlyres/AB3A3278-2820-40EF-AA15-9BDA7D0A5318/0/Defence_Plan_2010_2014.pd

Further information on the Strategic Defence and Security Review (SDSR) can be found at:

http://www.mod.uk/DefenceInternet/AboutDefence/People/Speeches/SofS/20100614StrategicDefenceAndSecurityReview.htm

International Financial Reporting Standards

In accordance with HM Treasury's timetable for the introduction of International Financial Reporting Standards (IFRS), the Department has prepared and published, for the first time, accounts based on IFRS as adapted and interpreted by HM Treasury in the Government Financial Reporting Manual (FReM). Further details of the policies applied are provided at Note 1 to the accounts – Statement of Accounting Policies.

The Department enters into arrangements with contractors that do not take the legal form of a lease but, under the International Financial Reporting Interpretations Committee's interpretation number 4 (IFRIC 4), may convey to the Department the right to use assets in return for payment. Where these arrangements are deemed, under IFRIC 4, to contain a lease, the lease should be accounted for as either a finance or an operating lease in accordance with International Accounting Standard (IAS) 17 – Leases.

Although contracts for the manufacture and support of defence equipment have not been assessed under IFRIC 4 (further information on the non-application of this guidance and its impact on the financial statements is given at Notes 1.28 to 1.32 of the accounts) the indirect costs incurred by contractors, including depreciation of their assets, continue to be recovered from MOD via agreed overhead rates and are reflected in the value of assets and services when they are delivered.

Accounting for these contracts under IFRIC 4 is likely to result in assets and liabilities being added to the Statement of Financial Position (SoFP) as at the start of the contract with the costs being reflected from that point; rather than the current accounting treatment which reflects recovery of contractors overheads throughout the life of the contract with periodic additions to the SoFP when assets are delivered.

As a result of the non-application of IFRIC 4 MOD's accounts are understating the value of assets and liabilities accounted for under leases and the lack of compliance will result in a qualification of the Comptroller and Auditor General's opinion on the financial statements (details of which are in his Report on pages 40 to 48) for as long as non-compliance is considered to have a material impact on the accounts. In order to move towards achieving compliance with the accounting requirements in the future, the Department will apply IFRIC 4 and, where leases are identified, IAS 17 to new contracts agreed on or after 1 April 2010. However, given the length of some of the Department's existing contractual arrangements, it may be a number of years before this results in material compliance with the requirements.

Management

The Ministers who had responsibility for the Department and the composition of the Defence Board during the year ended 31 March 2010 are shown on pages 18 and 19.

Non Current Assets

Intangible assets and property, plant and equipment are accounted for by Non Current Asset Managers based on the category of asset managed:

- Land and Buildings – Defence Estates

- Single Use Military Equipment, Plant & Machinery, Transport and IT & Communications – Defence Equipment and Support

Changes in non current asset values during the year are summarised at Notes 15, 16 and 17 (Intangible Assets, Property, Plant and Equipment and Financial Instruments) to the accounts. Note 1 – Statement of Accounting Policies provides details of the accounting policies relating to non current assets.

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 single use military equipment and on the improvement of the effectiveness and capability of existing single use military equipment.

In accordance with IAS 38 – Intangible Assets (as adapted for the public sector by the FReM, chapter 8) amounts spent on research are not capitalised and certain development expenditure is expensed. The amounts are included at Note 11 – Other Administration Costs and Note 12 – Other Programme Costs.

Capitalised development expenditure is included in Note 15 – Intangible Assets.

Net Expenditure

The Net Resource Outturn for the financial year is £41,050,567,000. Net Resources voted by Parliament for the Provision of Defence Capability (RfR 1), Operations and Peace-Keeping (RfR 2) and War Pensions Benefits (RfR 3) for the same period was £42,176,246,000.

Dividends

Details of dividends and loan interest receivable on investments can be found at Notes 13, 14 and 17 (Income, Net Interest Payable and Financial Instruments) to the accounts.

Payments to Suppliers

The Department's invoices, with the exception of some payments to suppliers made by units locally, are paid through the Financial Management Shared Service Centre (FMSSC). In the period 1 April 2009 to 31 March 2010, the FMSSC paid 99.91% of all correctly submitted invoices within 11 calendar days. This contributed to the Department's overall performance of 99.35% over the 30 calendar day cycle ensuring a high level of compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998. Commercial debt interest paid during this period amounted to £20,300 (2008-09: £9,700) – excluding £2,185,400 of interest paid as part of the final settlement awarded at arbitration following a contract dispute. Additionally, in October 2008, all Government Departments were asked to pay 90% of invoices from suppliers within 10 working days. The Department, including its Trading Funds, has achieved a performance of 97.67% against this target. In March 2010 all Government Departments were asked to amend this target to pay 80% of UK invoices within 5 working days with effect from 1 May 2010.

Financial Instruments

The MOD holds financial instruments, mainly to finance its operations and to manage some of the currency risks arising from those operations; in addition various trade and other receivables and payables arise directly from operations. The Department uses derivative financial instruments, in the form of forward currency contracts, to manage exposure to market risks from changes in foreign exchange rates; it does not hold or issue derivative financial instruments for trading purposes. Transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

The Department's funding, liquidity and cash flow risks are managed, based on consideration of the cash flows from operations (including non-operating Appropriations-in-Aid), by a central treasury function whose primary role is the forecasting of cash requirement, management of the Supply funding and supply of funds to business areas across the Department. The central treasury function is subject to controls set out in Managing Public Money[2] and Departmental regulations (Joint Service Publications) as well as additional controls and monitoring by HM Treasury.

The Department has entered into forward currency contracts for the US Dollar and the Euro designed to mitigate 86% of the risk that Request for Resources 1 (RfR1) – Provision of Defence Capability cash flows will be affected by changes in exchange rates during 2010-11. As a result MOD's exposure to foreign currency risk arises mainly on: residual exposure in RfR1; RfR2 – Operations and Peace-Keeping expenditure and exposure in other currencies. The value of the forward currency contracts is detailed at Note 17 – Financial Instruments to the accounts; the contracts were not hedging relationships in accordance with IAS 39 – Financial Instruments; Recognition and Measurement.

The Department is subject to some credit risk or credit related losses. The maximum credit risk exposure is represented by the amounts reported under the relevant Statement of Financial Position headings; more detailed analysis is provided at Notes 21 (trade receivables and other assets) and 17.3 (credit risk).

Provision of Information and Consultation with Employees

The MOD has a strong Whitley committee structure through which employees' representatives, in the form of recognised industrial and non industrial trades unions (TUs), are consulted on and informed of all matters likely to affect our civilian personnel. This structure is supported by formal policy and procedures for consulting and informing TUs. We also advocate the development of informal relationships with the TUs to discuss ideas together. Our policy makes clear that consulting the TUs is not a substitute for dealing with personnel direct, and vice versa. Managers and project leaders, for example, are encouraged to use all media available, including cascade briefings, newsletters and intranet websites/email. In respect of Service personnel, the process operates through the chain of command, with no formal representation through the TUs.

2 Managing Public Money is published by HM Treasury and sets out the principles for dealing with resources used by public sector organisations.

Management Commentary

Performance

The MOD's internet site (www.mod.uk) provides access to detailed information set out, as best practice, in the Accounting Standards Board's (ASB's) Reporting Statement: Operating and Financial Review.

The *Defence Plan 2010 – 2014,* available at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications

- describes Defence strategies, objectives and activities, and how they are managed and delivered in the legislative, regulatory and external environments in which MOD operates;
- provides a forward looking view of performance and development; and
- sets out information on the availability and use of resources.

The plan describes some of the risks and uncertainties which might affect performance. The Statement on Internal Control also describes the Department's risk and control framework.

Environmental, Social, Community, Employee and Other Matters

The preface to the *Defence Plan 2010 – 2014* summarises senior managers' views of how the Department's work will realise the Defence Vision, highlighting relevant matters. Specific aspects mentioned in the ASB's Reporting Statement that are available elsewhere on MOD's website are:

- **Social and Community Issues** – including sections covering: current operations, cadet forces and support to veterans.
- **Environmental** – the MOD owns a large, varied and complex estate, with most of the UK's indigenous habitat types, exceptional biodiversity and some of the finest archaeological sites in the country. Further information on how the MOD is undertaking its responsibility for stewardship of the estate in the UK and overseas including links to *Sanctuary*, the annual MOD Conservation magazine, can be found at: http://www.mod.uk/defenceestates
- **Sustainability** – the MOD's work to build security overseas is a key contributor to Sustainable Development. Internationally, MOD works with other government departments to prevent or contain violence, protect people and institutions, build capacity and improve security in some of the most poorly developed regions and countries in the world. This work is essential for preventing further conflict, strengthening international peace and creating the conditions for sustainable development overseas. Further information can be found at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/HealthandSafetyPublications/SSDCD/SustainableDevelopmentPolicy/
- **Employees** – personnel related information can be found at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications ; and statistical information including staff numbers can be found at: http://bravo.dasa.r.mil.uk/. The MOD publishes details of its management of civilian sick absence on its website – details can be found at: http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/PersonnelPublications/Welfare/SicknessAbsenceAnnouncement.htm .
- **Performance Indicators** – performance against the Department's high level objectives is set out in the Statement of Net Operating Costs by Departmental Strategic Objectives and in its supporting Note to the Accounts – Note 25.

- **Contractual Arrangements** – the Department's contractual commitments under leases and service concession arrangements are detailed in Notes 27 and 28 to the accounts. In 2009-10 the Defence Science and Technology Laboratory, the UK Hydrographic Office, the Met Office, and Defence Support Group were Executive Defence Agencies financed by Trading Fund; they provided essential services to the Department. Details of the Defence Industrial Strategy are at: http://www.mod.uk/DefenceInternet/DefenceFor/Business/DefenceIndustrialStrategy/

- **Spending Review 2007** – implications of significant changes following the Department's Comprehensive Spending Review settlement are set out in *Defence Plan 2010-14*.

- **Contingent Liabilities** – Details of Contingent Liabilities disclosed under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, and additional liabilities included for Parliamentary Reporting and Accountability are at Note 30 to these accounts.

Personal Data Related Incidents

The following tables set out details of the Department's personal data related incidents during 2009-10. An incident is defined as a loss, unauthorised disclosure or insecure disposal. Protected personal data is information that links an identifiable living person with information about them which, if released, would put the individual at risk of harm or distress; the definition includes sources of information that, because of the nature of the individuals or the nature, source or extent of the information, is treated as protected personal data by the Department.

Table 1: Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioner's Office in 2009-10

The Department's Chief Information Officer has responsibility for setting strategy, policy and standards relating to information and for ensuring appropriate governance and monitoring. A risk-based information assurance process is in place, taking account of an independent review by Sir Edmund Burton and Cabinet Office guidance.

Month of Incident	Nature of Incident	Nature of Data Involved	Number of People Potentially Affected	Notification Steps
April 2009	Theft of laptop from private motor vehicle.	Personal information including names, address, date of birth, next of kin and limited sensitive personal information.	350	Individuals notified by telephone call or letter. Police notified.
May 2009	Theft of laptop from private motor vehicle.	Number, Rank, Name and Unit of military personnel.	1,000	None.
February 2010	Loss of laptop from secured Government premises.	Name, telephone number, unit details, limited home addresses.	1,700	None.
Further action on information risk.		The Information Assurance Programme has delivered the majority of the recommendations from both the Burton Report and Data Handling Review. Work remains ongoing to address the issues that remain outstanding and to support the continuing work to further improve performance.		

Table 2: Summary of Other Protected Personal Data Related Incidents in 2009-10

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

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	4
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	14
III	Insecure disposal of inadequately protected paper documents.	-
IV	Unauthorised disclosure.	-
V	Other.	-

Financial Position

The Statement of Parliamentary Supply – Summary of Resource Outturn compares Estimates and Outturn (Net Total Resources) and is analysed by Request for Resource.

Request for Resources (RfR) 1, Provision of Defence Capability, provides for expenditure primarily to meet the MOD's operational support and logistics services costs and the costs of providing the equipment capability required by Defence policy. Within RfR1, Appropriations-in-Aid are shown as the lower of actual Outturn or the Estimate. Appropriations-in-Aid in excess of the Estimate are shown at Note 6, and these will be surrendered to the Consolidated Fund. RfR1 is made up of three different controls:

- Resource Departmental Expenditure Limit (DEL), which consists of items such as pay, equipment support costs, fuel and administrative expenses, as well as non-cash items such as depreciation, cost of capital and movements in the level of provisions;
- Annually Managed Expenditure (AME), which covers programmes that are demand-led, or exceptionally volatile in a way that could not be controlled by the Department, and where the programmes are so large that the Department could not be expected to absorb the effects of volatility in its programme, for example movements in nuclear provisions and derivatives; and
- Non-Budget costs, items of expenditure which are subject to Parliamentary but not Treasury control, and therefore outside DEL and AME. The majority of these costs relate to changes in the discount rates for pensions and to PFI contracts added to the Statement of Financial Position under IFRIC 12 .

The net outturn for Total Resources is £41,050,567,000 against an Estimate of £42,176,246,000, an under spend of £1,125,679,000.

The net outturn for RfR1, Provision of Defence Capability is £37,389,091,000 against an Estimate of £38,265,188,000, an under spend of £876,097,000.

RfR2, Operations and Peace-Keeping, shows a net outturn of £2,681,835,000 against an Estimate of £2,887,352,000, an under spend of £205,517,000.

RfR3, War Pensions Benefits shows a net outturn of £979,641,000 against an Estimate of £1,023,706,000, an under spend of £44,065,000. This RfR provides for the payment of war disablement and war widows' pensions in accordance with relevant legislation; this is all AME. The costs of administering war pensions are borne by RfR1.

The non-operating Appropriations-in-Aid were £119,071,000, £186,079,000 lower than the Estimate of £305,150,000.

The Net Administration Costs were £2,140,841,000, £97,107,000 lower than the Estimate of £2,237,948,000.

The Net Cash Requirement shows an outturn of £37,424,698,000 against an Estimate of £38,719,717,000.

Detailed analysis of the Department's financial position and performance including: a reconciliation of resource expenditure between Estimates, Accounts and Budgets; an explanation of variances against Departmental Expenditure Limits and information on MOD budgets and plans is available at Annex A.

Other Areas

The Department's Accounts include a note (Note 31) on Losses and Special Payments. The nature of the losses and special payments, as defined in Managing Public Money, varies from year to year depending on the circumstances arising and decisions made by the Department during the year. Cases brought forward from prior years are shown separately in order to identify the cases arising during the year.

The Department undertakes a professional revaluation of its land and building non-current assets every five years. The process is managed as a five year rolling programme; further details of the revaluation programme are at Note 16.1 – Quinquennial Revaluation to the accounts.

Directorships and Significant Interests

Details of directorships and other significant interests held by Ministers are set out in The Register of Lords' Interests and The Register of Members' Interests which are available on the UK Parliament website at: http://www.publications.parliament.uk/pa/ld/ldreg.htm for Ministers in the Lords and at: http://www.publications.parliament.uk/pa/cm/cmregmem/memi02.htm for Ministers in the Commons.

Details of Related Party Transactions, including those arising as a result of the interests of Ministers or Defence Board members, are listed at Note 32 – Related Party Transactions. During 2009-10, Ministers and Defence Board members had no Related Party Transactions requiring disclosure. The MOD works closely with many organisations, especially in the charitable sector, and this can include representation on governing bodies, for example: The Secretary of State for Defence is trustee of Greenwich Hospital and 2nd PUS is a trustee of the Imperial War Museum. The Department provides information, which reflects the Charity Commission's guidance on conflicts of interest for charity trustees, to individuals who hold appointments in outside organisations where a conflict of interest might arise, or be perceived to arise.

Auditor

The financial statements for the Department are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000. The Certificate and Report of the Comptroller and Auditor General on the financial statements are set out on pages 36 to 48. The audit fee is disclosed in Note 11 – Other Administration Costs.

Statement as to Disclosure of Information to Auditors

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

Sir Bill Jeffrey
Accounting Officer **12 July 2010**

Remuneration Report

Remuneration Policy

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

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

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

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

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

There is an established departmental procedure for the appointment of all Non-Executive Directors (NEDs). This requires a visibly fair and open recruitment and selection process, with appointment on merit, thus mirroring the Civil Service Commissioners' Recruitment Principles for permanent employees to the Civil Service. NEDs appointed to the Defence Board receive a Letter of Appointment setting out, amongst other things, details of the agreed remuneration.

Performance and Reward

Salary and reward for Permanent Secretaries is considered annually by the Permanent Secretaries' Remuneration Committee and, in common with that for other members of the Senior Civil Service (SCS), is subject to the rules and regulations imposed by the SSRB and the Cabinet Office. For the SCS below Permanent Secretary level, MOD implements its own pay and non-consolidated award arrangements within the Cabinet Office framework through an agreed pay strategy. Any non-consolidated award is based on a judgement of how well an individual has performed against their peers and awarded to individuals judged to have made the highest in-year contribution to MOD's business objectives. There is no restriction on the nature of the contribution; the only requirement is that it benefits the Department or Defence more widely. Recommendations for awards – which are considered by moderation committees – must be linked to demonstrable evidence of delivery.

All SCS are eligible for consideration for an award but payment for performance year 2009-10 was restricted to a maximum of 65% of staff, using 8.6% of the pay bill, a level which has remained frozen since 2008-09.

SCS pay increases are normally calculated using the relationship between their percentage progression across the pay scale and their performance group assessment at the end of the moderation committee process. Minima and maxima of SCS pay bands are set by the Cabinet Office. There were no base pay increases for any members of the SCS on 1 April 2010 and no increase to pay band minimums.

Looking forward, we expect non-consolidated awards for performance year 2010-11 to be restricted to just 25% of the SCS and revised pay band minimums and maximums as a result of a new government-wide SCS Workforce and Reward Strategy currently being developed.

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

All senior (2-star and above) military officers (except for the Chief of the Defence Staff (CDS), Legal Branch 2-star officers, medical and dental officers and those in the Chaplaincy branches) are paid under the Performance Management and Pay System (PMPS). Depending on their performance and position on the pay scale, individuals can be awarded a double increment, a single increment or no increment, and progress accordingly up the incremental pay range for their rank. The average value of one incremental rise under the PMPS is 2.6% of salary (2008-09: 2.6%). The award of increments is recommended by the Senior Officers' Remuneration Committee, chaired by the Department's Permanent Under-Secretary.

Whilst Non-Executive remuneration is not directly linked to performance, in part to avoid any suggestion that an employee/employer relationship exists, NED performance is reviewed annually. The aim of the reviews is to consider the impact of the NED on the performance of the board, recognise the contribution of the NED and identify ways this could be improved, and provide feedback.

Senior Managers' Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Principles, which require appointments to be on merit on the basis of fair and open competition, but also include the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.org.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended, and to which a notice period of 3 months would usually apply. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

For the NEDs appointed to the Defence Board, the Department has employed recruitment consultants to search for suitable candidates based upon a specification drawn up by senior officials. Short-listed candidates are then interviewed by a selection panel (Permanent Under-Secretary and Chief of the Defence Staff) with the successful candidate chosen on merit and appointed to the Board for a period of 3 years.

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

The Chief Scientific Adviser was recruited on a three year fixed term appointment. Conditions covering termination of employment are set out in the contract document.

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

Senior military members of the Defence Board hold appointments which are subject to competition. Once selected for the appointment, they will usually hold the post for between 3 and 4 years.

Management

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

Secretary of State for Defence
The Right Honourable Bob Ainsworth MP
(appointed 6 June 2009, replacing The Right Honourable John Hutton MP).

Minister of State for the Armed Forces
Mr Bill Rammell MP
(appointed 8 June 2009 replacing The Right Honourable Bob Ainsworth MP).

Minister of State for Strategic Defence Acquisition Reform
The Right Honourable The Lord Drayson
(appointed 6 June 2009).

Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment and Support)
Mr Quentin Davies MP
(appointed 5 October 2008).

Parliamentary Under-Secretary of State for Defence (Minister for International Defence and Security)
The Right Honourable The Baroness Ann Taylor of Bolton PC
(appointed as Minister for International Defence and Security on 4 October 2008; previously Minister for Defence Equipment and Support, appointed 8 November 2007).

Parliamentary Under-Secretary of State for Defence (Minister for Veterans)
Mr Kevan Jones MP
(appointed 5 October 2008).

Recent Ministerial Changes

In May 2010 the following appointments were made: Secretary of State for Defence – Rt Hon Dr Liam Fox MP; Minister of State for the Armed Forces – Mr Nick Harvey MP; Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy) – Mr Gerald Howath MP; Parliamentary Under-Secretary of State for Defence (Minister for Defence Personnel, Welfare and Veterans) – Mr Andrew Robathan MP; Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology) – Mr Peter Luff MP; Parliamentary Under-Secretary of State for Defence – Lord Astor of Hever DL.

During the year the following served as members of the Defence Board:

Permanent Under-Secretary of State
Sir Bill Jeffrey KCB
(appointed 21 November 2005).

Chief of the Defence Staff
Air Chief Marshal Sir Jock Stirrup GCB AFC ADC DSc FRAeS FCMI RAF
(appointed 28 April 2006).

First Sea Lord and Chief of the Naval Staff
Admiral Sir Mark Stanhope GCB OBE ADC
(appointed 21 July 2009 replacing Admiral Sir Jonathon Band GCB ADC).

Chief of the General Staff
General Sir David Richards KCB CBE DSO ADC Gen
(appointed 28 August 2009 replacing General Sir Richard Dannatt GCB CBE MC ADC Gen).

Chief of the Air Staff
Air Chief Marshal Sir Stephen Dalton KCB ADC BSc FRAeS CCMI RAF
(appointed 31 July 2009 replacing Air Chief Marshal Sir Glenn Torpy GCB CBE DSO ADC BSc(Eng) FRAeS RAF)

Vice Chief of the Defence Staff
General Sir Nicholas Houghton KCB CBE ADC Gen
(appointed 5 May 2009 replacing General Sir Timothy Granville-Chapman GBE KCB ADC Gen).

Second Permanent Under-Secretary of State
Mrs Ursula Brennan
(appointed 22 October 2008).

Chief of Defence Materiel
General Sir Kevin O'Donoghue KCB CBE
(appointed as Chief of Defence Materiel on 2 April 2007; previously Chief of Defence Logistics – appointed 1 January 2005).

Chief Scientific Adviser
Professor Mark Welland FRS FREng
(appointed 7 April 2008).

Director General Finance
Mr Jonathan Thompson IPFA
(appointed 5 January 2009).

Non-Executive Directors

Dr David Allen
(appointed 11 January 2010 replacing Mr Paul Skinner).

Mr Ian Rushby, Chair of the Defence Audit Committee.
(appointed 29 January 2007).

Mrs Priscilla Vacassin, Group Human Resources Director, Prudential plc
(appointed 1 September 2007).

Ministerial Salaries, Allowances and Taxable Benefits

(This section has been subject to audit)

	2009-10 Salary* (£)	2009-10 Benefits-in-Kind (to the nearest £100)*	2008-09 Salary* (£)	2008-09 Benefits-in-Kind (to the nearest £100)*
Secretary of State for Defence The Rt Hon Bob Ainsworth MP (from 6 June 2009) *Full year equivalent salary*	64,208 78,356	Nil	Nil	Nil
The Rt Hon John Hutton MP (to 5 June 2009) *Full year equivalent salary*	14,148 78,356	Nil	38,546 78,356	Nil
Minister of State for the Armed Forces Mr Bill Rammell MP (from 8 June 2009) *Full year equivalent salary*	32,934 40,646	Nil	Nil	Nil
The Rt Hon Bob Ainsworth MP (to 5 June 2009) *Full year equivalent salary*	7,339 40,646	Nil	40,646	Nil
Minister of State for Strategic Defence Acquisition Reform The Rt Hon The Lord Drayson † (from 6 June 2009)	Nil	Nil	Nil	Nil
Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment and Support) Mr Quentin Davies MP ††	Nil	Nil	Nil	Nil
Parliamentary Under-Secretary of State for Defence (Minister for International Defence and Security) The Rt Hon The Baroness Ann Taylor of Bolton PC	110,606	Nil	109,983	Nil
Parliamentary Under-Secretary of State for Defence (Minister for Veterans) Mr Kevan Jones MP (paid from 9 June 2009)** *Full year equivalent salary*	25,024 30,851	Nil	Nil	Nil

*Disclosures cover the period during which individuals served as Ministers in the MOD.
**Mr Kevan Jones MP was appointed Under-Secretary of State on 5 October 2008 and served, unpaid, until 9 June 2009.
† The Rt Hon The Lord Drayson does not draw the £84,524 Ministerial salary to which he is entitled.
†† Mr Quentin Davies MP does not draw the £31,401 Ministerial salary to which he is entitled.

Ministers who, on leaving office, have not attained the age of 65 and are not appointed to a relevant Ministerial or other paid office within three weeks, are eligible for a tax free severance payment of one quarter of the annual salary being paid. One payment was made in 2009-10, (2008-09 – two).

Ministerial Salary

'Salary' includes: gross salary; performance pay or bonuses; overtime; London weighting or London allowances; recruitment and retention allowances; private office allowances; ex-gratia payments and any other allowance to the extent that it is subject to UK taxation.

The figures above are based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, the Department bears only the cost of the additional Ministerial remuneration; the salary for their services as an MP – £64,766 pa with effect from 1 April 2009 (£63,291 pa with effect from 1 April 2008) and various allowances to which they are entitled, are borne centrally. The arrangements for Ministers in the House of Lords are different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and shown in full above.

Benefits-in-Kind for Ministers

The monetary value of benefits-in-kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. Ministers' private use of official cars is exempt under the rules governing the definition of taxable benefits-in-kind.

Ministerial Pensions

(This section has been subject to audit)

Figures for **2009-10 in bold**. The real increase in the value of the accrued pension compared to the 2008-09 value, is shown *in italics* (in bands of £2,500).

	Total Accrued Pension at Retirement as at 31 Mar 10 £000	CETV* at 31 Mar 09 or date of Appointment if Later £000	CETV* at 31 Mar 10 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
Secretary of State for Defence The Rt Hon Bob Ainsworth MP (from 6 June 2009)	**10 – 15** ***0 – 2.5***	**158**	**208**	**32**
The Rt Hon John Hutton MP (to 5 June 2009)	**10 – 15** ***0 – 2.5***	**168**	**191**	**14**
Minister of State for the Armed Forces Mr Bill Rammell MP (from 8 June 2009)	**5 – 10** ***0 – 2.5***	**77**	**93**	**8**
Minister of State for Strategic Defence Acquisition Reform The Rt Hon The Lord Drayson (from 6 June 2009)	**Nil**	**Nil**	**Nil**	**Nil**
Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment and Support) Mr Quentin Davies MP	**Nil**	**Nil**	**Nil**	**Nil**
Parliamentary Under-Secretary of State for Defence (Minister for International Defence and Security) The Rt Hon The Baroness Ann Taylor of Bolton PC	**0 – 5** ***0 – 2.5***	**36**	**62**	**15**
Parliamentary Under-Secretary of State for Defence (Minister for Veterans) Mr Kevan Jones MP (paid from 9 June 2009)	**0 – 5** ***0 – 2.5***	**Nil**	**7**	**4**

*CETV – Cash Equivalent Transfer Value.

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended). Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF; this pension is not included in the table above. The accrued pension quoted is the pension the Minister is entitled to receive when they reach the age of 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change). Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of employee contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office from age 65. Pensions are re-valued annually in line with changes in the Retail Prices Index. From 1 April 2009 members pay contributions of 5.9% of their Ministerial salary if they have opted for the 1/60th accrual rate, 7.9% of salary if they have opted for the 1/50th accrual rate or 11.9% of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary. This is currently 28.7% of the Ministerial salary.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially-assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The Real Increase in the Value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

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

(This section has been subject to audit)

	2009-10 Salary* £000	**2009-10 Benefits-in-Kind (to the nearest £100)****	2008-09 Salary* £000	2008-09 Benefits-in-Kind (to the nearest £100)**
Permanent Under-Secretary of State Sir Bill Jeffrey KCB	175 – 180	21,900	185 – 190	29,100
Chief of the Defence Staff Air Chief Marshal Sir Jock Stirrup GCB AFC ADC DSc FRAeS FCMI RAF	245 – 250	41,200	230 – 235	38,600
First Sea Lord and Chief of the Naval Staff Admiral Sir Mark Stanhope GCB OBE ADC (from 21 July 2009)	120 – 125	20,800	Nil	Nil
Full year equivalent salary	175 – 180			
Admiral Sir Jonathon Band GCB ADC (to 20 July 2009)	50 – 55	9,100	170 – 175	28,500
Full year equivalent salary	175 – 180			
Chief of the General Staff General Sir David Richards KCB CBE DSO ADC Gen (from 28 August 2009)	100 – 105	16,700	Nil	Nil
Full year equivalent salary	165 – 170			
General Sir Richard Dannatt GCB CBE MC ADC Gen (to 27 August 2009)	70 – 75	12,100	165 – 170	27,900
Full year equivalent salary	175 – 180			
Chief of the Air Staff Air Chief Marshal Sir Stephen Dalton KCB ADC BSc FRAeS CCMI RAF (from 31 July 2009)	135 – 140	22,800	Nil	Nil
Full year equivalent salary	195 – 200			
Air Chief Marshal Sir Glenn Torpy GCB CBE DSO ADC BSc(Eng) FRAeS RAF (to 30 July 2009)	55 – 60	9,900	165 – 170	27,900
Full year equivalent salary	175 – 180			
Vice Chief of the Defence Staff General Sir Nicholas Houghton KCB CBE ADC Gen (from 5 May 2009)	150 – 155	25,500	Nil	Nil
Full year equivalent salary	165 – 170			

	2009-10 Salary* £000	2009-10 Benefits-in-Kind (to the nearest £100)**	2008-09 Salary* £000	2008-09 Benefits-in-Kind (to the nearest £100)**
General Sir Timothy Granville-Chapman GBE KCB ADC Gen (to 4 May 2009)	15 – 20	2,800	170 – 175	28,500
Full year equivalent salary	175 – 180			
Second Permanent Under-Secretary of State				
Mrs Ursula Brennan (from 22 October 2008)	155 – 160	11,000	65 – 70	4,100
Full year equivalent salary			*155 – 160*	
Chief of Defence Materiel				
General Sir Kevin O'Donoghue KCB CBE	175 – 180	Nil	165 – 170	Nil
Chief Scientific Adviser				
Professor Mark Welland FRS FREng (from 7 April 2008)	140 – 145	26,200	135 – 140	23,500
Full year equivalent salary			*140 – 145*	
Director General Finance				
Mr Jonathan Thompson IPFA (from 5 January 2009)	190 – 195	Nil	40 – 45	Nil
Full year equivalent salary			*170 – 175*	
Non-Executive Directors	Fees		Fees	
Dr David Allen (from 11 January 2010)	5 – 10	Nil	Nil	Nil
Full year equivalent salary	*25 – 30*			
Mr Paul Skinner (to 31 July 2009)	5 – 10	Nil	20 – 25	Nil
Full year equivalent salary	*20 – 25*			
Mr Ian Rushby	25 – 30	Nil	25 – 30	Nil
Mrs Priscilla Vacassin	20 – 25	Nil	20 – 25	Nil

*Salary includes gross salary, performance pay (paid in 2009-10 but based on performance in an assessment period ended prior to the start of the financial year) and taxable allowances paid. The payment of business expenses e.g. travel costs incurred on duty, is not part of salary and is not disclosed above.

**For civilian members of the Board the figures for benefits-in-kind represent the taxable benefit attributed to individuals where an official car is available for private use (the benefit accrues even if the individual chooses not to make use of the car); for military Board members the value of this benefit will not be available until the 2010-11 accounts and will be agreed with HMRC. The figures disclosed as benefits-in-kind for the military Board members relate to the occupation of Official Service Residences. For all benefits-in-kind agreed with HMRC the Department has arrangements under which MOD pays the tax liability that would normally be paid by the individual; this liability is included in the figures quoted.

Defence Board – Pension Benefits

(This section has been subject to audit)

2009-10 figures are in **bold.** The real increase in the pension, from 2008-09, and where applicable the real increase in the lump sum payment, are shown in *italics*.

	Total Accrued Pension at Retirement as at 31 Mar 10 £000	CETV* at 31 Mar 09 or date of Appointment if Later £000	CETV* at 31 Mar 10 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
Permanent Under-Secretary of State Sir Bill Jeffrey KCB	Pension **85 – 90** *2.5 – 5* Lump Sum **255 – 260** *10 – 12.5*	**1,877****	**1,966**	**87**
Chief of the Defence Staff Air Chief Marshal Sir Jock Stirrup GCB AFC ADC DSc FRAeS FCMI RAF	Pension **135 – 140** *5 – 7.5* Lump Sum **410 – 415** *20 – 22.5*	**2,552**	**2,740**	**105**
First Sea Lord and Chief of the Naval Staff Admiral Sir Mark Stanhope GCB OBE ADC	Pension **95 – 100** *0 – 2.5* Lump Sum **290 – 295** *0 – 2.5*	**2,045**	**2,086**	**5**
Admiral Sir Jonathon Band GCB ADC	Pension **95 – 100** *2.5 – 5* Lump Sum **295 – 300** *10 – 12.5*	**1,915**	**2,064**	**76**
Chief of the General Staff General Sir David Richards KCB CBE DSO ADC Gen	Pension **90 – 95** *2.5 – 5* Lump Sum **275 – 280** *12.5 – 15*	**1,840**	**1,980**	**96**
General Sir Richard Dannatt GCB CBE MC ADC Gen	Pension **85 – 90** *0 – 2.5* Lump Sum **260 – 265** *5 – 7.5*	**1,696**	**1,803**	**50**
Chief of the Air Staff Air Chief Marshal Sir Stephen Dalton KCB ADC BSc FRAeS CCMI RAF	Pension **80 – 85** *10 – 12.5* Lump Sum **250 – 255** *35 – 37.5*	**1,528**	**1,756**	**269**
Air Chief Marshal Sir Glenn Torpy GCB CBE DSO ADC BSc(Eng) FRAeS RAF	Pension **85 – 90** *7.5 – 10* Lump Sum **260 – 265** *25 – 27.5*	**1,820**	**1,928**	**75**

	Total Accrued Pension at Retirement as at 31 Mar 10 £000	CETV* at 31 Mar 09 or date of Appointment if Later £000	CETV* at 31 Mar 10 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
Vice Chief of the Defence Staff General Sir Nicholas Houghton KCB CBE ADC Gen	Pension **85 – 90** *15 – 17.5* Lump Sum **255 – 260** *45 – 47.5*	**835**	**1,799**	**818**
General Sir Timothy Granville-Chapman GBE KCB ADC Gen	Pension **95 – 100** *0 – 2.5* Lump Sum **285 – 290** *5 – 7.5*	**1,735**	**1,793**	**35**
Second Permanent Under-Secretary of State Mrs Ursula Brennan	Pension **70 – 75** *5 – 7.5* Lump Sum **215 – 220** *20 – 22.5*	**1,386****	**1,616**	**152**
Chief of Defence Materiel General Sir Kevin O'Donoghue KCB CBE	Pension **95 – 100** *5 – 7.5* Lump Sum **295 – 300** *17.5 – 20*	**1,720**	**1,902**	**104**
Chief Scientific Adviser Professor Mark Welland FRS FREng	Pension **5 – 10** *2.5 – 5* Lump Sum *Nil*	**41****	**87**	**38**
Director General Finance Mr Jonathan Thompson IPFA	Pension **30 – 35** *2.5 – 5* Lump Sum *Nil*	**315****	**398**	**58**
Non-Executive Directors				
Dr David Allen	N/A	N/A	N/A	N/A
Mr Paul Skinner	N/A	N/A	N/A	N/A
Mr Ian Rushby	N/A	N/A	N/A	N/A
Mrs Priscilla Vacassin	N/A	N/A	N/A	N/A

* Cash Equivalent Transfer Value
** The factors used to calculate CETV values were updated following reviews by the Government Actuary. For members of the Civil Service Pension Scheme the figures for 31 March 2009 have been recalculated using the new factors, leading to changes to the figures published last year.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, or classic plus) or a 'whole career' scheme (nuvos). Classic, premium and classic plus are now closed to new members. These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under nuvos, classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account). The accrued pensions quoted above are the pensions the members are entitled to receive when they reach 60 (nuvos 65), or immediately on ceasing to be an active member of the scheme if they are already 60 (nuvos 65).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Employer contributions are calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service; in addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service; unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is increased in line with RPI. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but, where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

Armed Forces Pension Scheme (AFPS)

From 6 April 2005, a new Armed Forces Pension Scheme (known as AFPS 05) was introduced for all new members of the Armed Forces; those in service before this date have been given the opportunity to transfer, from AFPS 75, to the new scheme. Both schemes are defined benefit, salary-related, contracted out, occupational pension schemes. The AFPS is non-contributory for members; the cost of accruing benefits are met by the employer at rates approximately equivalent to 38.3% (Officers) and 23.8% (Other Ranks) of pensionable pay for regular personnel. Members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the Armed Forces at or beyond either the Early Departure Point or the Immediate Pension Point. If a scheme member leaves before these points, they will be entitled to a preserved pension and related lump sum.

Further details about Armed Forces Pensions can be found at the website www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/SPVA/Pensions.htm

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially-assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the AFPS or Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Sir Bill Jeffrey
Accounting Officer **12 July 2010**

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Ministry of Defence to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

HM Treasury has appointed the Permanent Head of Department as Accounting Officer of the Department. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of Defence policies, aims and objectives, while safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

During the 2009-10 financial year the Department's outputs were delivered through four Trading Fund Agencies, three Executive Non-Departmental Public Bodies (NDPBs), one Public Corporation and eight Top Level Budgets (TLBs).

- The four MOD Trading Funds (The Defence Support Group (DSG), the Defence Science and Technology Laboratory (Dstl), the UK Hydrographic Office, and the Met Office) fall outside the Departmental Accounting Boundary and their Chief Executives are Accounting Officers in their own right. Given their close integration into the MOD's business, potential impact on MOD outputs and their extensive use of Departmental personnel and assets, their Chief Executives provide to me their Statement on Internal Control prepared for their Annual Accounts. In addition, a departmental representative sits on their Management Boards, while Ministers, supported by an Owners Board, are responsible for setting the Trading Funds' top level objectives, approving major business decisions including their Corporate Plans and setting annual key targets.

- The three Executive NDPBs (National Museum of the Royal Navy, National Army Museum, and Royal Air Force Museum) and one Public Corporation, although sponsored by the Department, also fall outside the Departmental Boundary and their accounts are published separately. The NDPBs operate within a financial memorandum agreed between their respective Boards of Trustees and the MOD. The Public Corporation (Oil and Pipelines Agency) has a Board of Directors on which the MOD is represented.

- The Armed Forces Pension Scheme (AFPS) and the Armed Forces Compensation Scheme (AFCS) are administered by the Service Personnel and Veterans Agency (SPVA). Payments to eligible individuals under AFPS and AFCS fall outside the Departmental Accounting Boundary and have separate, published accounts for which I am also the Accounting Officer. The administration costs of both schemes and employer's contributions are within the scope of the Departmental boundary and fall within the Central Top Level Budget.

Top Level Budget Holders operate within a framework of responsibilities delegated by me. To assist me in assessing the adequacy of control arrangements across the Department, they submit to me an annual statement of assurance, endorsed by their Audit Committee and Management Board. Included within the Top Level Budgets are six on-vote Defence Agencies, whose Chief Executives are responsible for producing annual accounts which are laid before Parliament but which also form part of the Departmental Resource Accounts. The Top Level Budget Holders are responsible for setting the operating framework of the Agencies in their area through a Framework Document, for agreeing performance targets and for monitoring progress.

- Defence Equipment and Support TLB
  – Defence Storage and Distribution Agency

- Central TLB
  – Defence Vetting Agency
  – MOD Police and Guarding Agency
  – People, Pay and Pensions Agency
  – Service Personnel and Veterans Agency

- Land Command TLB
  – Service Children's Education

Command and administration of the Armed Forces is vested by Letters Patent in the Defence Council, chaired by the Secretary of State for Defence, and beneath that in the three Service Boards, each chaired by a Minister. Membership of the Defence Council comprises all Defence Ministers and the executive members of the Defence Board. The Chief of the Defence Staff is the Government's and the Secretary of State's principal advisor on military operations and is responsible for the maintenance of military operational capability and for the preparation and conduct of military operations, including managing the risks to successful outcomes. The Chiefs of Staff Committee is chaired by the Chief of the Defence Staff and is the main forum in which the collective military advice of the Chiefs is obtained on operational issues. The individual Service Chiefs also advise the Chief of the Defence Staff, the Secretary of State and, when required, the Prime Minister on the operational employment of their Service.

A Defence Ministerial Committee was established in April 2008, which brings together Ministers with the Department's most senior officials, to ensure that Ministers collectively are engaged more regularly on decisions affecting Defence.

The Defence Board, which I chair, ensures that the Strategy for Defence and the Defence Plan are carried out by using a corporate governance system that has two inter-related processes: performance management and assurance. The Board comprises senior executive members of the Department and three external independent members. Beneath the Defence Board sits a number of sub-committees and boards, including:

- the Defence Operating Board (which has seen its first full year of operation this year), with responsibility for executing and ensuring delivery of the decisions and direction issued from the Defence Board;

- the Defence Audit Committee, which has a remit to review and challenge constructively the adequacy of internal controls and risk management assurance processes within the Department;

- the Investment Approvals Board, which takes the lead in examining investment proposals and providing advice on them to Ministers; and

- the Defence Board Sub-Committee on Equipment, established in this financial year, with responsibility for determining an affordable equipment plan and equipment support plan.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level. Internal control is based on processes designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact this would have, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the MOD for the year ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

3. Capacity to handle risk

Active management of risk is fundamental to the effective achievement of Defence objectives, and is central to the way business is conducted within the Department. It informs operational decision making, contingency planning, investment decisions and the financial planning process. Guidance on the Department's approach to risk is detailed in a Joint Service Publication (JSP). This guidance is cascaded down through Top Level Budget Holders and is available to all staff on the MOD's intranet. Individual training is available to all staff via the Department's in-house training provider.

4. The risk and control framework

As I reported last year, the Defence Board directed that the processes for identifying and reporting strategic risk using the Defence Balanced Scorecard be reviewed. This review was completed and details of the new Defence Performance Framework can be found in the review of effectiveness (section 5 below). The new system came into effect on 1 April 2010. Throughout 2009-10 the Department's previous Performance Management System remained in place, which provided an overall framework for the consideration of risks using a Defence Balanced Scorecard. The Defence Plan and Top Level Budget Holder plans cascaded key Departmental objectives, performance indicators and targets defined by the Defence Board. Performance management processes ensured that managers and commanders at all levels of Defence delivered the business requirements placed on them. These requirements took two forms: meeting objectives and targets which cascade from those set out in the Defence Plan; and complying with legal and regulatory requirements, and other binding policies, standards and rules as set by Process Owners on behalf of the Defence Board.

The Defence Board identified and categorised the top strategic risks facing the Department into seven realms and reviewed them during quarterly performance reviews. This provided a tool for top down ownership and direct leadership by the Defence Board. Lower level management boards also regularly reviewed key risks.

The Department's risk appetite varies according to the area of Defence business. Military operations are inherently risky and the risk appetite is determined through the advice given to Ministers on operations. Every effort is made to provide personnel and assets with proper protection through planning, equipment and training, although we ultimately rely on the judgment of Force Commanders to manage the risks individually. On the non-operational side the Defence Board now receives regular Security, Business Continuity and Health & Safety reports and there is now a downward trend in non-operational injuries and fatalities. The Department's planning process assesses any gaps against Planning Assumptions, and limits and controls are placed on individual investment projects as part of the Department's Investment Approval process and the total number of projects.

The Defence Audit Committee, chaired by an external independent member of the Defence Board, reviews the Department's risk-based approach to internal control and provides independent advice to the Defence Board and me as Accounting Officer. The Committee adopts a strategic approach challenging the overall risk identification and assessment processes, pulling together all the strands of independent assurance. It co-ordinates the activities of internal audit, and draws on annual reports from pan-Departmental Process Owners and specialist assurance sources.

Each Top Level Budget Holder is supported by an Audit Committee, chaired by a non-executive member, at which representatives from the internal and external auditors are present. Like the Defence Audit Committee, these committees focus their activities to provide advice on wider-business risk and assurance processes.

A cascaded system is in place for ensuring that Business Continuity plans are present and tested on a regular basis from verifiable self-assessments, including by independent audits. Following the introduction in 2008-09 of an assessment questionnaire addressing all elements essential to an effective Business Continuity Management system, this year has enabled comparisons of the information provided in these self-assessments to independent audits completed by Defence Internal Audit (DIA). These audits found that self-assessments generally tend to give a more positive view of preparedness than indicated by audit findings. However, all Business Continuity follow-up assignments completed in the year have reported satisfactory progress, which indicates that positive remedial action has been taken to implement DIA recommendations.

An effective governance structure and performance management system is in place to address the risks arising from the introduction of the general right of access to information from January 2005 under the Freedom of Information Act.

An annual risk-based programme of internal audit is provided by DIA, who are the primary source of independent assurance, which is complemented by the activity of the Directorate of Operational Capability who provide independent military operational audit and assurance to the Secretary of State, the Chief of the Defence Staff and the Defence Audit Committee.

Annual Reports that provide measurable performance indicators and assessments of the Health of Financial Systems are provided by all Top Level Budget Holders and key functional specialists. This underpins the assurance I am required to give on the effectiveness of the Department's financial systems.

The Department's external audit function is provided on behalf of Parliament by the Comptroller and Auditor General, supported by staff from the National Audit Office (NAO). NAO see all Defence Audit Committee and TLB Audit Committee papers and attend their meetings. There was no relevant audit information which the NAO were not already aware of. Additionally, I held periodic private discussions with Internal Audit and with non-executive members of the Defence Audit Committee.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by a report from Defence Internal Auditors, by assurance reviews by Top Level Budget Holders and by Process Owners who have responsibility for the development and maintenance of the internal control framework. I have also taken account of comments made by the external auditors in their management letter and other reports and have been advised by the Defence Board and the Defence Audit Committee.

A number of steps have been taken during 2009-10 to maintain and improve the effectiveness of the system of internal control. These include:

- Following direction from the Defence Board to review the process for identifying and reporting strategic risk, the Department has developed the Defence Performance Framework (DPF). The DPF is the Department's new top-level performance management system and it is designed to support the Defence Board in the continuous evaluation, development, communication and implementation of strategy, through monitoring and analysis of strategic performance information. Replacing the Defence Balanced Scorecard from 2010-11, the DPF consists of three main elements: an annual Strategic Performance Risk Report based on seven Key Performance Questions and the analysis of Defence Board Strategic Risks; a Quarterly Performance Risk Report showing progress against Defence Board Strategic Objectives; and an annual Holding to Account for Sub-Strategy owners and TLB Holders for the delivery of their Sub-Strategies or the performance of their TLB. This new approach has been approved by the Defence Board and the Defence Audit Committee.

- An updated approach to risk management which is being introduced in 2010-11. Risk and performance information are inextricably linked, and the Defence Performance Framework also covers the provision of Risk Management information to the Defence Board. Through performance and risk reports generated from the DPF, the Defence Board will consider a top-down view of Strategic Risks and a bottom-up view of risks from management areas through the Defence Risk Register. Additionally, a new Joint Service Publication is due in 2010 concerning Risk Management.

- Following work undertaken last year to simplify, improve and where possible streamline the Department's assurance process, the revised arrangements governing Process Owners are now in place. As the new processes have started to embed into the Department, improvements have been seen in the reports submitted for consideration by the Defence Audit Committee.

- DG Finance has been fully engaged with the Comptroller and Auditor General on the NAO review of the Statement on Internal Control, which has resulted in a number of recommendations that the Department will implement.

- The Department has moved rapidly to implement recommendations of the Review of the Nimrod accident undertaken by Mr Charles Haddon-Cave QC. The most notable measure taken to date is the establishment of the Military Aviation Authority on 1 April 2010, to provide the regulatory framework, certification and approvals for the acquisition, operation and continued airworthiness of air systems within the Defence aviation environment. Work is ongoing, as outlined in the Government Response to the review published on 16 December 2009.

- In October 2009 the Department published the Review of Acquisition by Bernard Gray. This report was critical of the Department's management of the Equipment Programme and aspects of acquisition practice and highlighted challenges the Department faces arising from the scale and complexity of its acquisition and the unaffordability of the current programme. In response, the Department published on 3 February 2010 the Strategy for Acquisition Reform, and is now pursuing a programme of work to deliver this. In addition to the adoption of further steps to build acquisition skills and capability the Strategy addresses two key issues outlined in the Gray report: the need to bring equipment plans into balance with available resources and the need to improve overall management of the equipment programme, and includes the establishment of a Defence Board Sub-Committee on Equipment, which I chair.

- In March this year, the Department underwent a one year assurance stock take by the Cabinet Office Capability Review team, which examined the practical steps the Department has undertaken against the commitments made in the response to the 2009 Capability Review. The Review team's findings recognised that the Department has made good progress over the last 12 months against the overarching themes for improvement identified in the 2009 Review, with particular improvements in developing the senior leadership team, improving relationships across Whitehall, and developing and communicating strategy, through the Strategy for Defence and Green Paper. The stock take also stressed that conducting the Strategic Defence and Security Review would be a challenge for the Department, and that further work is needed to change the internal culture of the Department.

The DIA overall opinion is one of Substantial Assurance, based upon the audit and consultancy tasks undertaken throughout 2009-10. This is an improvement on 2008-09. The majority of Process Owners in their 2009-10 reports to the Defence Audit committees assessed the level of assurance as being significantly lower than the balance of DIA reports would suggest. Next year DIA have a more Process Owner focussed programme scheduled for 2010-11 and the overall audit opinion will reflect the outcome of this new audit strategy and approach. The DAC will review this strategy in due course.

6. Significant Internal Control Issues

a. Safety Risk

As set out in my review of effectiveness, the Department has set in place work to respond to the Nimrod Review conducted by Mr Charles Haddon-Cave QC. While we are working to ensure that the safety concerns highlighted in the report are being addressed – not least through the measures set out in Government response - there will still be some residual safety risk within the Department. For example, the Department carries a risk due to shortages of Suitably Qualified and Experienced Personnel (SQEP) within certain specific safety environments. This is both shortages of those who are qualified to give safety advice, and those with sufficient experience to be able to fully discharge all safety responsibilities. The Department is working to ensure that forward plans build capacity for the future in this area.

b. Joint Personnel Administration

Significant progress has been made to address the issues raised by the NAO in the Audit Report for Annual Report and Accounts 2008-09 using the Assurance and Compliance Working Group (ACWG), which was set up in August 2009. The ACWG comprises a team of senior finance and compliance staff drawn from each of the TLBs. The principal work-strands being co-ordinated by this group are post-audit rectification work; establishing a common end-to-end assurance framework; fraud monitoring; a review of JPA training; the SPVA control framework project; and planning for future audits. While this work has gone a long way towards creating a better assurance regime, some of the measures will take further time to develop and have not yet effected all the necessary changes within financial year 2009-10 to ensure that fully effective controls are in place. In particular, there are still concerns over the quality of elements of the underlying data set. This has meant that we still have a number of unresolved issues to do with payments and visibility of data on the numbers of Army reservists. As part of plans to address these, the Army will be undertaking a major data cleansing exercise.

c. Stock, Assets and Inventory Management

Last year I reported that the Department was concerned about stock management process and systems because of the number of different lines of stock and locations at which they were held, as well as issues to do with the legacy information systems in this area.

There are still residual weaknesses in the way we account for assets and stock. An extensive programme of reform, led by the Chief of Defence Materiel, has been initiated to map these weaknesses. The Department has set a longer term vision for tackling them and has made a number of improvements in the short term. Immediate improvements have included:

- the issue of new instructions to suppliers highlighting the need for good labelling of deliveries to ensure accuracy in stock levels;

- over 50% of identified discrepancies on the MERLIN and MAESTRO inventory systems had been corrected by December 2009; and

- establishment of a baseline of BOWMAN radio assets to ensure visibility can be accurately retained.

The Department is determined to tackle this issue, which it recognises may yet take some time to resolve. Further work is being done in the following areas:

- Project Hercules has been established and is underway at DSDA Dulmen to identify and dispose of surplus stock;

- plans are in place to develop and roll out several new logistics information systems, with full operating capability expected in 2012; and

- tracking of BOWMAN radios will be moved to either MJDI or JAMES (Land) systems to improve visibility of assets.

d. Affordability of the Defence programme

In financial year 2009-10, the Department had to take significant in-year management action to ensure it remained within the amounts voted to Defence by Parliament. Much of this budgetary pressure was due to the wider fiscal environment, including lower than expected receipts from estate disposals, adverse changes in exchange rates, and significant fluctuations in the price of fuel. Structurally, however, the Department also carries a significant level of in-year financial risk. I remain concerned about this, and have put in hand work to improve the understanding of financial risk during the budget setting process.

There is also the wider issue of the future affordability and balance of the Defence programme. For a variety of reasons, including the deterioration in the general economic context, the programme is evidently unaffordable against the likely available financial provision. This imbalance is being addressed in the Strategic Defence and Security Review.

e. Information risks

In response to the issues raised in both the Data Handling Review and Sir Edmund Burton's report into the loss of MOD personal data, the Department has undertaken considerable further work to prohibit the use of unencrypted media, and to improve personal data handling generally. Measures introduced include the introduction of removable media encryption to enable secure transfer of personal and business critical data, and refreshing awareness in order to minimise the number of data loss incidents. As a result, more than 92% of MOD staff have now completed the appropriate level of awareness training and the number of laptop losses fell from 326 in 2008-09 to 121 in 2009-10. The percentage of those laptops that were fully encrypted – thus minimising the risk of any compromise of the information they contained – rose from 27.6% to 70.2%. We will continue our efforts, to ensure that this welcome progress is sustained and improved on.

Recent Judicial Reviews have exposed limitations in the Department's capacity to identify and retrieve information for legal disclosure. Work is in train to improve the information management infrastructure but current systems expose the Department to the risk of being unable to guarantee access to the information needed to respond to time critical judicial or other requests.

In addition to the risks posed by data losses and information infrastructure, the risk presented to the Department by threats to cyber-security is of increasing concern. The Department is working to improve awareness of the risks of cyber attack, and capability to respond to it flexibly and affectively.

Sir Bill Jeffrey
Accounting Officer **12 July 2010**

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

I certify that I have audited the financial statements of the Ministry of Defence for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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.

Qualified Opinion Arising from Disagreement on Accounting Policies for Lease-Type Arrangements and Limitations in Audit Scope

The Ministry of Defence has not complied with the Financial Reporting Framework as it has not accounted for the expenditure, assets and liabilities arising from certain contracts in accordance with IAS 17 Leases as interpreted by IFRIC 4 Determining whether an Arrangement Contains a Lease. Consequently, the Ministry of Defence has omitted a material value of assets and liabilities from its Statement of Financial Position as at 1 April 2008, 31 March 2009 and 31 March 2010. This has also led to a consequential material misstatement of the Operating Cost Statement for 2008-09 and 2009-10 and Statement of Parliamentary Supply for 2009-10. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not maintained the records or obtained the information required to comply with Financial Reporting Standards in this respect.

In addition, the evidence available to me was limited due to a failure to maintain adequate accounting records and supporting evidence for deductions from pay to military personnel and to operate adequate stocktaking and asset verification procedures, meaning I was unable to obtain sufficient, appropriate audit evidence to support:

- income arising from accommodation and food charges deducted from pay to military personnel, which has been recorded in the accounts at £87 million; and

- the existence and valuation of certain inventory and non-current assets which are recorded in the accounts at £6.3 billion and the accuracy and completeness of the associated transactions in the Operating Cost Statement.

I was also unable to obtain sufficient, appropriate audit evidence to support the corresponding 2008-09 figures.

Except for the financial effects arising as a result of the failure to properly apply IAS 17 Leases as interpreted by IFRIC 4 and adjustments which might have been determined to be necessary had I been able to obtain sufficient appropriate audit evidence over income arising from deductible accommodation and food charges, certain fixed non-current assets and inventory, in my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2010, and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, changes in taxpayers' equity and cash flows for the year then ended; and

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect of the lack of accounting records held by the Ministry of Defence to support the proper application of IAS 17, and the limitations on my work relating to income arising from deductible accommodation and food charges, and to the existence and valuation of certain inventory and non-current assets:

- I have not obtained all the information and explanations that I considered necessary for the purposes of my audit; and
- Proper accounting records have not been maintained.

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

- the financial statements are not in agreement with the accounting records or returns; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Qualified Opinion on Votes A

The Ministry of Defence's Votes A is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained for service within the armed forces. Note 36 to the accounts states the maximum numbers maintained during 2009-10 for the Naval, Army and Air Force Services in all active and reserve categories were within the numbers voted by Parliament, with the exception of the Army Service Reserve Forces and the Royal Naval Reserve List 7 where the maximum numbers maintained have not been disclosed because the Ministry of Defence has not been able to obtain the relevant information. My role is to inform Parliament whether or not the approved Estimates (Votes A) have been exceeded.

However, with respect to the Army Service Reserve Forces and Naval Service Reserve Forces List 7, the evidence available to me to confirm whether the approved Estimates (Votes A) have been exceeded is limited because the Ministry of Defence has not compiled the relevant information throughout the period. Owing to the nature of the Ministry of Defence's records, I was unable to obtain sufficient appropriate audit evidence regarding numbers maintained in the Army Service Reserve Forces and Naval Service Reserve Forces List 7 by using other audit procedures.

In respect of the limitation on my work relating to the numbers of Army Service Reserve Forces and Naval Service Reserve Forces, proper accounting records have not been maintained.

In my opinion, except for the Naval Service Reserve Forces List 7 and Army Service Reserve Forces, the numbers provided for in the Estimate have not been exceeded.

Report

My report on pages 40 to 48 provides further detail of my qualified audit opinions on the financial statements and on Votes A.

Amyas CE Morse

Comptroller and Auditor General **16 July 2010**

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

Report of the Comptroller and Auditor General on the 2009-10 Resource Accounts of the Ministry of Defence

Introduction

1. The Ministry of Defence (the Department) Resource Accounts for 2009-10 report net expenditure of some £41.2 billion. This includes payroll costs for the Armed Forces of £9.5 billion, which are reported under Requests for Resources 1 and 2[3]. The financial statements also report assets of some £131.1 billion mainly consisting of land, buildings, fighting equipment and stores together with gross liabilities of some £19.5 billion consisting of, for example, payables and provisions.

The purpose of my report

2. This Report explains the basis for the qualification of my audit opinion on the 2009-10 Resource Accounts and provides an update on the actions taken by the Department to address the issues identified in my Report on the 2008-09 Resource Accounts[4].

My obligations as Auditor

3. Under the Government, Resources and Accounts Act 2000 (the Act) I am required to examine and certify all Departmental Resource Accounts. International Standards on Auditing (UK and Ireland) require me to obtain evidence to give reasonable assurance that the Department's financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed. I am also required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities that govern them.

4. Votes A for the Ministry of Defence is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained by the Armed Forces. Note 36 to the accounts discloses the number voted by Parliament and the maximum numbers maintained during 2009-10 for the Royal Navy, Army and Royal Air Force in all active and reserve categories. My role is to inform Parliament whether or not the approved Estimates (Votes A) have been exceeded.

Qualified opinion due to material error arising from adopting accounting policies which do not fully comply with International Financial Reporting Standards and a limitation of scope due to the inadequacy of evidence to support certain income, expenditure and balances in the financial statements.

5. I have qualified my opinion on the Department's 2009-10 financial statements because the Department's accounting policies are not fully compliant with the requirements of International Financial Reporting Standards (IFRS) (paragraphs 8 to 15 below) and, in my opinion, this non-compliance has a material effect on the financial statements.

3 A further Request for Resources, RfR 3: war pensions payments, is not the subject of this report.
4 HC 467 2008-09 Ministry of Defence Annual Report and Accounts 2008-09

6. I have limited the scope of my opinion on the Department's 2009-10 financial statements, as I did in 2008-09, because the Department was unable to provide me with evidence to support the:

i. existence and value of certain assets and inventory balances reported within the financial statements (paragraphs 16 to 38 below); and

ii. completeness of income recognised for recovering the costs of certain accommodation and food charges from the pay of service personnel (paragraphs 39 to 51 below).

7. I was also unable to obtain sufficient evidence to support the accuracy of service personnel numbers in relation to some categories of reserves for the Royal Navy and the Army and therefore I am unable to report to Parliament whether or not the approved Estimates (Votes A) have been exceeded (paragraphs 52 to 53 below).

Accounting for lease-type arrangements

Qualified audit opinion

8. I have qualified my opinion because the Department has not complied with the accounting requirements for determining whether a contract contains a lease and has therefore omitted a material value of assets and liabilities from its Statement of Financial Position. I cannot quantify the impact of this on the accounts with certainty because, as a result of its accounting policies, the Department has not maintained the records, or obtained the information required to do so.

Accounting requirements

9. In preparing its accounts, the Department must comply with the requirements of the Government Financial Reporting Manual which for the first time from 2009-10, is based on International Financial Reporting Standards (IFRS). Previously the Manual was based on the requirements of UK Generally Accepted Accounting Practice (UKGAAP). IFRS[5] require preparers of accounts to establish initially whether a lease-type contract is in substance a lease and then if it has the characteristics of either a finance or operating lease. The main impact of this requirement is that if the contract is classified as a finance lease then, rather than simply recording expenditure as it is incurred in year, the assets used to deliver the service should be recognised as assets in the Statement of Financial Position alongside a liability for the minimum lease payments due under the contract.

Action by the Department

10. The Department assessed its relevant PFI and PPP contracts against the revised accounting requirements but did not carry out this assessment for other contractual arrangements. Based on the results of its preliminary work, the Department believes that there may be a number of its contracts which would now require disclosure as leases, including as finance leases. Given the number and size of the contracts involved, the Department accepts that there is likely to be material understatement of the assets and liabilities recognised in its financial statements. This is disclosed in Note 1.30 to the financial statements.

11. In order to comply with financial reporting standards, the Department would need to review all of its relevant contracts in order to assess whether they contain a lease. Any leases identified would need to be classified as finance leases or operating leases and the relevant accounting requirements applied.

5 The key relevant accounting standards and interpretations are: International Financial Reporting Issues Committee Interpretation 4: Determining whether an arrangement contains a lease (IFRIC 4) and International Accounting Standard 17 Leases (IAS 17)

12. Although the Department has assessed that the impact on its financial statements is likely to be material, it has decided not to carry out the further work described at paragraph 11. It believes that the cost of the work exceeds the benefits of compliance. In particular, it believes that the number and complexity of its contracts, together with likely difficulties in obtaining information required from third parties, would make compliance costly and time-consuming.

13. The Department has however indicated that it intends to account for new contracts, entered into from 2010-11, in accordance with the new requirements, with a view to achieving full compliance with accounting requirements over time.

Recommendations for further action

14. While it may be logistically unavoidable for the Department not to comply with accounting standards in the short term, a serious and concerted effort needs to be made to become compliant. I note the Department's commitment to applying the accounting requirements to new contracts from 2010-11 onwards. However, the long term nature of many of the Department's existing contracts means that it believes it is likely to be a number of years before this approach results in financial statements that are materially compliant with the accounting standards.

15. I recommend that the Department carries out further work to identify contracts where the risk of inappropriate accounting treatment is highest and targets further efforts on higher value, higher risk contracts. I understand the Department has already begun to engage with its contractors to discuss its information requirements. This is a welcome start which the Department should use to develop a programme of work with a clear timetable to achieve compliance with accounting standards.

Assets and inventory

Limitation on the scope of my opinion

16. I have limited the scope of my opinion in relation to around £6.3 billion (2008-09: £6.6 billion) of assets, reported within non-current assets and inventory on the Statement of Financial Position (previously called Balance Sheet) of the Department valued at £45.2 billion. The limitation arises due to insufficient evidence available to me to support my opinion on:

- capital spares and inventory[6] recorded at £5.5 billion;

- around £752 million of military equipment including around £568 million of grouped assets such as firearms and around £184 million of BOWMAN radios.

The scope of my opinion on the 2008-09 accounts was also limited in relation to weaknesses in the controls over inventory and the evidence to support the existence and valuation of assets included in the accounts.

The Department's management and accounting processes for capital spares and inventory

17. I reported last year that certain key controls over inventory, operated by the Defence Storage and Distribution Agency (DSDA), were not effective and that the accuracy of the inventory systems was deteriorating. Following my report last year, the Department established the Materiel and Financial Accounting Project Board to review processes for all areas of asset management and accounting. This Board brings together stakeholders in logistics capability, finance and storage and distribution and has overseen a number of important initiatives.

6 Capital spares are major spares for military equipment which are capitalised in the accounts. They are managed however through the same processes and systems as inventory.

18. The end-to-end process for the management of inventory is complex and stretches across the Department, including 28 countries overseas and deployed forces. Within the end-to-end process, DSDA is responsible for storage and for distributing items in accordance with instructions received from across the Department. Others, principally Project Teams, are responsible for the through-life stewardship of such assets from their initial procurement through to eventual disposal.

19. Despite the action by the Department, the significant issues I have identified are systemic and deep-rooted and have again led me to limit the scope of my opinion on the 2009-10 Resource Accounts. The main areas of weakness identified relate to:

- discrepancies between inventory counts and warehouse management records which mean that the warehouse management systems at DSDA depots do not form a reliable basis for inventory records;

- inadequate assessment for impairment of inventory resulting in my being unable to confirm the appropriateness of the values at which assets are reported in the accounts; and

- an inability to fully reconcile warehouse system records with accounting systems that leaves me unable to conclude whether the data from the warehouse systems has been accurately reflected in the financial statements.

These issues are more extensive than those included in my Report on the 2008-09 financial statements, because the Department's actions to address my prior year findings and the audit work of my staff have brought a wider range of issues to light.

Discrepancies between inventory counts and warehouse management records

20. The Department has improved its procedures in a number of ways during 2009-10. The routine inventory checks which are carried out by DSDA now comply with the requirements mandated by the Department, which was not the case in 2008-09. However, these checks indicated that inventory recorded on the system did not match the stock-count at 29% of locations, still well above Departmental targets.

21. The testing carried out by my staff to verify warehouse records against stock on the shelf identified significant levels both of stock that was recorded on the system but could not be located and also of stock on the shelf that was not recorded on the warehouse system. Due to the nature of these errors, it is not possible to estimate with sufficient accuracy the change in value which would result if all such discrepancies had been identified and corrected.

Inadequate assessment of impairment of inventory

22. My audit also considered how the Department assesses its inventory holdings to ensure that the appropriate value is reflected in its accounts. Assets can become impaired, most usually due to deterioration of their physical condition or because of obsolescence. Being able to identify and record the condition of inventory is critical in enabling the repair, replenishment and disposal of inventory, as well as ensuring that only functional inventory is distributed for use. Identifying obsolete inventory is important to enable prompt disposal leading to reduced storage costs and, potentially, revenue generation. However, limitations in management information and a lack of clarity in Departmental guidance have led to significant weaknesses in the processes for assessing for impairment.

23. The information held in the warehouse data systems suggests that there are significant levels of inventory held at DSDA depots that are unlikely to be used. For example, the warehouse management systems showed that, at the year end, some 47% of non-explosive inventory at depots, was recorded in a condition which prevented the immediate issue of the item. This can occur, for example, for items which have been returned by units and are awaiting assessment of its condition. Concern over levels of inventory and its condition has already led to the setting up of one project (Project Hercules) which is reviewing the potential to rationalise holdings of Tornado spares. The Department is also looking to improve monitoring of inventory condition through the development of Inventory Plans for Project Teams.

Inability to fully reconcile warehouse system records with accounting systems

24. The Department's stock systems are highly complex because of the number of different lines of stock and locations at which they are held. There are a number of different systems and applications ranging from complex applications to spreadsheet tools. Over recent years, the Department has reduced the number of applications and separate systems and it sees more rationalisation as important to achieve greater coherence.

25. There are a number of processes for reconciling inventory recorded on warehouse systems through "accounting systems" to the financial statements and the Department has made some improvements to the procedures in 2009-10. However, significant weaknesses remain. For instance, some reconciliations were not completed in 2009-10 and others were replaced by "comparison exercises" that result in only limited detection and correction of error. For two key systems this comparison work showed there were significant discrepancies between systems.

Recommendations for further action

26. I welcome the way in which the Department has responded to my previous recommendations, but the new processes will take some time to result in the changes necessary to support accurate data for inclusion within the financial statements. Since I am required to audit the accounts as presented for my audit in 2009-10 the Department cannot at this time provide me with sufficient information to prevent a limitation in the scope of my audit.

27. Further improvements are therefore required and I make the following recommendations:

- increased standardisation of processes and systems across DSDA sites and between individual warehouses to spread best practice;
- DSDA should review its checking and monitoring procedures (including checks for completeness) with a view to making them more robust;
- better management information and clearer instructions should be provided to ensure inventory is assessed for impairment; and
- improving the reconciliation process between the various systems to support properly the financial statements.

Military equipment

28. Last year, I also reported on the challenges facing the Department in maintaining adequate records for military equipment such as vehicles, grouped assets and Bowman radios. Since my prior year Report, the Department has made a number of improvements to its processes. In particular vehicle numbers reported by the MERLIN census are better supported so that I have removed my limitation of scope in this area. However, the level of control exercised by the Department is not yet sufficient to enable me to provide an opinion on assets reported via the MAESTRO census or a significant number of Bowman radios.

Vehicles and grouped assets

29. Information on managed equipment assets is input to the fixed asset registers using data fed from a number of subsidiary systems, including the MERLIN system for wheeled and tracked vehicles and MAESTRO for grouped assets such as firearms.

30. The Department performs a census each year for each major category of assets to provide assurance that the assets recorded on MERLIN and MAESTRO can be physically verified and that assets held at Units are captured on the systems. The Department conducts the census by issuing returns to asset "custodians" who check the location and condition of the assets.

31. Last year I reported that the census exercises had delivered lower return rates than previous years. Additionally, the returns that had been received had revealed high levels of discrepancies. Since last year's report, the Department has sought to improve the census results by, for instance, raising the profile of the census exercises and completing them earlier.

32. On the MERLIN census, my staff found that the census return levels have improved and there are fewer unresolved discrepancies. I am able to conclude that assets recorded on the Merlin system are adequately reflected within the financial statements.

33. On the MAESTRO census my audit found that the census return levels have declined further with only 81 per cent of the census forms being returned. Of the census forms returned almost 38% of line items showed an error. Therefore, the MAESTRO census does not provide adequate assurance over the existence or completeness of the £568 million balance recorded in the fixed asset register and the financial statements.

Bowman communications equipment

34. Bowman is a tactical communications system. I reported last year that the accounting records of Bowman communication equipment were not fully supported, that the 35,800 radio sets then recorded could not be adequately verified and that the number of Bowman assets in service was uncertain. The net book value of Bowman radio assets recorded in this year's Resource Accounts is £1.4 billion.

35. Locating Bowman communication equipment is always going to be difficult for example due to operational demands, but the weaknesses in the system are not confined to deployed assets. Since last year's report, the Department has continued to address the weaknesses in its systems. It has developed a Bowman Asset Management Improvement Plan (BAMIP) which supports key stakeholders to tackle issues in a co-ordinated manner.

36. By the end of March 2010 the Department had completed the first full Bowman reconciliation. This showed some 44,940 Bowman radios in existence. The Department now has serial number records for the majority of radios, a significant increase on the previous year. A further number of radios are considered 'visible' by the Department based on management estimates though serial number information is not available. The quality of the information supporting the estimates is variable and I consider it to be insufficient for 2,561 radios. There are a further 3,400 radios for which no visibility data is available.

37. As a result of the above, the Department is unable to demonstrate satisfactorily the existence and location of 5,961 (13 per cent) of Bowman radios. At this level some £184 million of assets reported in the Departmental Financial Statements could not be accounted for.

Recommendations for further action

38. Building on the improvements noted above, I make the following recommendations:

- unless the quality of the MAESTRO census exercise can be improved, the Department should seek to establish an alternative source of assurance. I understand that the Department is currently reviewing how this can best be achieved;

- in addition to Bowman radios, the Department has other pooled assets and should consider how best to manage and account for these; and

- the Department should consider whether its current plans will achieve its minimum management information requirements for Bowman assets.

Allowances and expenses paid to service personnel

Limitation on the scope of my opinion

39. I have limited the scope of my opinion in relation to the income from charges for accommodation and food costs. Last year, I also limited the scope of my opinion in this area.

40. In 2007-08, I limited the scope of my opinion due to the inadequacies of the evidence available to support allowances paid to military staff. I qualified my opinion on the 2008-09 accounts due to material error in the calculation of basic pay, allowances and expenses made via the JPA system. The level of error detected in the payment of allowances and expenses in 2009-10, while still significant, is not material and I have therefore not qualified my audit opinion in this regard this year.

The Joint Personnel Administration System

41. The framework of service personnel HR policies, regulation and administration is collectively known as Joint Personnel Administration (JPA). JPA depends on a software package that provides a wide range of processes including the payroll function, centralised records of service and the management of assignments and training. During 2009-10, the JPA payroll system was used to administer around £9.5 billion of staff costs for Service personnel.

42. In my Report on the Department's Resource Accounts for 2008-09, I detailed a number of significant weaknesses in the JPA system, which were undermining its effectiveness in delivering the capability which had been originally intended.

43. In response to my Report, the Department has taken a number of important steps including the establishment of an Assurance and Controls Working Group (ACWG). This Group brings together each of the main parties involved in the military pay process to monitor the Department's progress on recommendations from previous reviews of JPA including my 2008-09 Report.

44. A number of important initiatives have also been introduced during the year, including the correction of data in service personnel records, extended checking of expense claims and improvements in management information.

Basic salaries, specialist pay, allowances and expenses

45. A fundamental aspect of the JPA system is that input is carried out mainly by self-service users and HR clerks both in Units and Manning Branches and is subject to only very limited further checks before payment is made. In addition, Service personnel are able to submit their own expenses claims and payment is normally made without further checks. The Department has a range of detective controls in place but these will not prevent error occurring or detect all errors that have been made.

46. In the absence of adequate input controls over the processing of payments made via the JPA process, my staff carried out testing of a sample of basic salaries, other pay, allowances and expenses. I found no significant error in relation to basic and specialist pay for service personnel. On allowances and expenses, however, I continued to find a significant number of errors relating primarily to incorrect input of data and failure to provide supporting documentation to validate the payment of expense claims as required by Departmental regulations.

47. For allowances and expenses, 11 percent of the transactions tested contained an error in the payment. These errors amounted to some 5.2 per cent by value of the sample. I have therefore concluded that this does not represent material error in the population as a whole. The reduction in the level of likely error from some £145m last year represents a welcome improvement.

Income from charges for accommodation and food costs

48. I have limited the scope of my opinion due to the inadequacy of evidence to support the completeness of income recorded in the accounts at £87 million relating to charges made to personnel.

49. Particular areas were deductions from pay for occupying single service accommodation and for food. Deductions are made from pay based on input into JPA by Units who are also responsible for ensuring credit is given for periods when personnel are not due to make payment, for example if they are away on exercise or deployment. The Department has no means by which it can assess whether the income due is complete and, although work has started to address this weakness going forward, no additional controls have been put in place during 2009-10.

Recommendations for further action

50. The Department is addressing the issues identified in this and my previous Report and has made some good progress. Most significantly, the actions already taken by the Department have reduced the level of error in pay, allowances and expenses due to lack of sufficient evidence sufficiently for me to remove the qualification of my audit opinion in this regard. However the level of error due to misunderstanding or deliberate action remains about the same with 7.5 percent of allowances and 1 in 5 expenses claims being wrong.

51. There remains significant further work to be done to ensure that a robust control environment is established and that processes are sound. In particular:

- the Department should continue to work to increase the quality of the data being input into the JPA system;
- management information should continue to be improved; and
- the Department should consider how JPA will be used and updated going forward.

Votes A –approved maximum numbers of personnel

52. Votes A for the Ministry of Defence is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained by the Armed Forces. Note 36 to these accounts discloses the numbers authorised by a vote by Parliament and the maximum numbers maintained during 2009-10 for the Army, Royal Navy and Royal Air Force in all active and reserve categories.

Qualified audit opinion

53. As was also the case in 2008-09, I was unable to obtain sufficient evidence to support the accuracy of certain categories of Service personnel numbers reported to Parliament to enable me to report to Parliament whether or not the approved Estimates (Votes A) have been exceeded. The Army has been unable to provide the maximum number of Service Reserves. Whilst the Royal Navy has been able to provide maximum numbers for the Royal Fleet Reserve (Navy and Marines), the Royal Naval Reserve and the Royal Marines Reserve, it has been unable to provide evidence to support the maximum number of the Royal Naval Reserve "List 7".

Amyas CE Morse
Comptroller and Auditor General **16 July 2010**

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2009-10

		Estimate**			Outturn			2009-10 Net Total Outturn Compared to Estimate Saving / (Excess)	2008-09 (UK GAAP) Total Net Outturn***
Request for Resources	Note	Gross Expenditure £000	A in A* £000	Net Total £000	Gross Expenditure £000	A in A* £000	Net Total £000	£000	£000
1	3	39,491,690	1,226,502	38,265,188	38,615,593	1,226,502	37,389,091	876,097	33,097,064
2	3	2,960,520	73,168	2,887,352	2,752,682	70,847	2,681,835	205,517	2,865,462
3	3	1,023,706	-	1,023,706	979,641	-	979,641	44,065	999,771
Total Resources	4.1	43,475,916	1,299,670	42,176,246	42,347,916	1,297,349	41,050,567	1,125,679	36,962,297
Non-Operating Cost A in A*	8			305,150			119,071	186,079	439,521

* Appropriations in Aid (A-in-A).
** Includes funding, approved in Supplementary Estimates for the first time adoption of International Financial Reporting Standards (IFRS).
*** A reconciliation of the 2008-09 UK GAAP Outturn to the re-stated 2008-09 IFRS figures used as comparators throughout these accounts is at Note 4.1. The 2008-09 figures at Note 3 – Analysis of Net Resource Outturn have not been restated for the effect of IFRS.

Net Cash Requirement 2009-10

	Note	Estimate £000	Outturn £000	2009-10 Net Total Outturn compared to Estimate Savings/ (Excess) £000	2008-09 Outturn £000
Net Cash Requirement	5	38,719,717	37,424,698	1,295,019	36,430,918

Summary 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 being shown in *italics*)).

		Forecast 2009-10		Outturn 2009-10	
	Note	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Total	6	-	-	246,781	*246,781*

The notes on pages 56 to 112 form part of these accounts

Statement of Parliamentary Supply

The Estimates figures are the revised figures agreed as a result of the Spring Supplementary Estimate. The Net Resource Outturn is £41,051M against an Estimate of £42,176M.

The reconciliation between the Net Resource Outturn and Net Operating Cost is at Note 4.1; the variance is £157M. This variance comprises a reduction of £432M in respect of a Prior Period Adjustment in respect of inventory written on to account less £275M, consisting of income from Annington Homes and minor amounts of interest both of which are treated as Consolidated Fund Extra Receipts £4M, £28M of impairments included in resource outturn but not included in operating costs and £243M of excess A-in-A in Request for Resource (RfR) 1 – Provision of Defence Capability which is due to be paid to the Consolidated Fund – additional detail is provided at Note 6 to the accounts.

The Net Cash Requirement outturn is £37,425M against the Estimate of £38,720M.

The analysis of the Net Resource Outturn by Request for Resource is at Note 3:

- RfR1 – Provision of Defence Capability. The total RfR1 Outturn is £37,389M against an estimate of £38,265M.
  - The write on of inventory (£432M) is accounted for as a Prior Period Adjustment in Land Forces TLB.
  - The movement on derivatives (+£1,447M) resulting from the foreign exchange rate contracts is reflected in Central TLB.
- The movement on derivatives (+£1,447M) resulting from the foreign exchange rate contracts is reflected in Central TLB.
- RfR2 – Operations and Peace-Keeping. The total RfR2 Outturn is £2,682M against an Estimate of £2,887M.
- RfR3 – War Pensions Benefits. The total RfR3 net resource outturn is £980M against the Estimate of £1,024M.

Non Operating Appropriations-in-Aid (A-in-A) £119M; consists of: loan repayments by Trading Funds £8M and proceeds on the sale of non current assets £111M, (see Note 8 to the accounts).

Additional information on the Defence Budget and spending is provided at Annex A.

Operating Cost Statement

for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Administration Costs			
Staff costs	10.2	1,653,573	1,720,683
Other administration costs	11	485,085	560,724
Gross administration costs		**2,138,658**	**2,281,407**
Operating income		-	-
Net administration costs before interest		**2,138,658**	**2,281,407**
Net interest payable	14	2,183	2,981
Net administration costs		**2,140,841**	**2,284,388**
Programme Costs			
Staff costs	10.2	10,577,316	10,032,302
Other programme costs	12	25,682,135	22,342,563
Gross programme costs		**36,259,451**	**32,374,865**
Operating income	13	(1,408,555)	(1,479,061)
Net programme cost before interest		**34,850,896**	**30,895,804**
Net interest payable	14	388,496	341,794
Cost of capital charge	SoCiTE	3,827,560	3,790,549
Net programme cost		**39,066,952**	**35,028,147**
Net operating cost	4.1	**41,207,793**	**37,312,535**
Net resource outturn	4.1	**41,050,567**	**36,962,297**

The notes on pages 56 to 112 form part of these accounts

Statement of Financial Position (SoFP)

as at 31 March 2010

		31 March 2010		31 March 2009*		1 April 2008*	
	Note	**£000**	**£000**	£000	£000	£000	£000
Non-current assets							
Intangible assets	15	29,133,566		27,959,218		26,718,233	
Property plant and equipment	16	89,733,946		87,295,813		82,433,942	
Financial assets	17.17	224,057		217,200		256,265	
Receivables due after more than one year	21	882,592		1,088,330		1,967,907	
Total non-current assets			**119,974,161**		**116,560,561**		**111,376,347**
Current assets							
Financial assets held for sale	17.6	1		1		241,029	
Non-current assets held for sale	19	83,062		124,820		155,807	
Inventories	20	7,183,855		6,215,386		5,283,220	
Trade and other receivables	21.1	2,707,343		2,230,178		1,935,752	
Financial assets	17.6	513,611		1,110,800		451,542	
Cash at bank and in hand	22	677,357		913,570		513,852	
Total current assets			**11,165,229**		**10,594,755**		**8,581,202**
Total assets			**131,139,390**		**127,155,316**		**119,957,549**
Current liabilities							
Trade and other payables due within one year	23.1	(9,246,606)		(9,078,493)		(8,648,765)	
Financial liabilities	17.6	(30,984)		-		(191,538)	
Total current liabilities			**(9,277,590)**		**(9,078,493)**		**(8,840,303)**
Non-current assets plus net current assets			**121,861,800**		**118,076,823**		**111,117,246**
Non-current liabilities							
Provisions	24	(5,706,669)		(5,734,204)		(5,753,771)	
Other payables	23.1	(4,547,705)		(4,461,864)		(4,497,858)	
Total non-current liabilities			**(10,254,374)**		**(10,196,068)**		**(10,251,629)**
Assets less liabilities**			**111,607,426**		**107,880,755**		**100,865,617**
Taxpayers' equity							
General fund			86,071,230		82,999,462		77,736,079
Revaluation reserve			23,023,741		22,401,843		20,393,442
Donated assets reserve			2,512,455		2,479,450		2,496,316
Investment Reserve			-		-		239,780
			111,607,426		**107,880,755**		**100,865,617**

*The Statement of Financial Position, and the relevant supporting notes, as at 1 April 2008 and 31 March 2009 have been restated to include disclosures required following adoption of International Financial Reporting Standards (IFRS) for the first time. Additional detail is provided at Note 2 to the accounts.
**The value of assets and liabilities accounted for under leases is understated because contracts, particularly strategic procurement arrangements with key contractors, have not been assessed under IFRIC 4; further details are at Notes 1.28 to 1.32 to the accounts.

Sir Bill Jeffrey
Accounting Officer **12 July 2010**

The notes on pages 56 to 112 form part of these accounts

Statement of Cash Flows

for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Cash flows from operating activities			
Net operating cost	OCS	41,207,793	37,312,535
Adjustments for non-cash transactions		(13,662,360)	(10,886,921)
Increase / (Decrease) in trade and other receivables		281,789	(598,364)
Increase / (Decrease) in inventories		497,525	757,348
Increase / (Decrease) in assets held for sale		9,696	117,139
(Increase) / Decrease in trade payables		(253,954)	(393,734)
Less movements in payables relating to items not passing through the OCS		(303,375)	(634,452)
Movement in derivatives not passing through OCS		(357,567)	(325,934)
Use of provisions		749,544	863,689
Net cash outflow from operating activities		28,169,091	**26,211,306**
Cash flows from investing activities			
Purchase of property, plant and equipment	16	7,746,377	8,560,521
Purchase of intangible assets	15	1,270,879	1,311,143
Less movements in PPE and intangible accruals and payables		(2,208)	(112,875)
Proceeds of disposal of property, plant and equipment		(79,042)	(401,790)
Loans to other bodies	17.17	15,079	25,879
(Repayments) from other bodies	17.17	(8,222)	(64,944)
Net cash outflow from investing activities		8,942,863	**9,317,934**
Cash flows from financing			
From the consolidated fund (Supply) - current year		(37,061,096)	(36,205,052)
From the consolidated fund (Supply) - prior year		(120,807)	(346,673)
Consolidated Fund Extra Receipts paid over		(242,795)	
Under-supply from the Consolidated Fund		239,885	
Repayment of loans from the National Loans Fund	23.1	2,141	2,019
Capital element of payments in respect of finance leases and on-SoFP PFI contracts		178,974	214,914
Net financing		(37,003,698)	**(36,334,792)**
Net increase / (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(108,256)**	**805,552**
From the consolidated fund (Supply) - prior year		(120,807)	(346,673)
Consolidated Fund Extra Receipts paid over		(242,795)	-
Under-supply from the Consolidated Fund		239,885	-
Payments of amounts due to the Consolidated Fund		(4,240)	(59,161)
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(236,213)**	**399,718**
Cash and cash equivalents at the beginning of the period	22	913,570	513,852
Cash and cash equivalents at the end of the period	22	677,357	913,570

The notes on pages 56 to 112 form part of these accounts

Statement of Changes in Taxpayers Equity

for the period ended 31 March 2010

	Note	General Fund £000	Revaluation Reserve £000	Donated Asset Reserve £000	Investment Reserve £000	Total Reserves £000
Balance at 31 March 2008		76,897,678	20,452,461	2,496,316	239,780	100,086,235
Changes in accounting policy – adoption of IFRS		838,401	(59,019)	-	-	779,382
Restated balance at 1 April 2008		**77,736,079**	**20,393,442**	**2,496,316**	**239,780**	**100,865,617**
Changes in taxpayers' equity for 2008-09						
Net gain on revaluation of property, plant and equipment		-	3,336,641	280,195	-	3,616,836
Net gain on revaluation of intangible assets		-	895,958	-	-	895,958
Net loss on revaluation of assets held for sale		-	(87,463)	-	-	(87,463)
Net gain on revaluation of investments		-	-	-	16,236	16,236
Net gain on revaluation of inventories		-	36,541	-	-	36,541
Net gain on pensions		33,426	-	-	-	33,426
Receipt of donated assets		-	-	(59,260)	-	(59,260)
Release of reserves to the operating cost statement		-	180,236	(218,728)	-	(38,492)
Impairments		-	(9,220)	-	-	(9,220)
Non-cash changes – cost of capital		3,790,549	-	-	-	3,790,549
Non-cash changes – auditors remuneration		3,600	-	-	-	3,600
Transfer between reserves		2,619,381	(2,344,292)	(19,073)	(256,016)	-
Net operating cost for the year		(37,312,535)	-	-	-	(37,312,535)
Total recognised income and expense for 2008-09		**(30,865,579)**	**2,008,401**	**(16,866)**	**(239,780)**	**(29,113,824)**
Net Parliamentary Funding – drawn down		36,205,052	-	-	-	36,205,052
Net Parliamentary Funding – deemed		346,673	-	-	-	346,673
CFER* payable to the Consolidated Fund		(422,763)	-	-	-	(422,763)
Balance at 31 March 2009		**82,999,462**	**22,401,843**	**2,479,450**	**-**	**107,880,755**
Prior Period Adjustment – Inventory Adjustment	4.1	432,000				432,000
Changes in taxpayers' equity for 2009-10						
Net gain on revaluation of property, plant and equipment		-	1,668,094	95,218	-	1,763,312
Net gain on revaluation of intangible assets		-	1,279,016	-	-	1,279,016
Net loss on revaluation of assets held for sale		-	(17,758)	-	-	(17,758)
Net gain on revaluation of inventories		-	547,151	-	-	547,151
Net loss on pensions		(90,206)	-	-	-	(90,206)
IFRIC 12 PFI in year adjustments		-	-	7,447	-	7,447
Receipt of donated assets	16	-	-	32,032	-	32,032
Release of reserves to the operating cost statement		-	-	(101,913)	-	(101,913)
Impairments	4.1	-	(27,993)	-	-	(27,993)
Non-cash changes – cost of capital	OCS	3,827,560	-	-	-	3,827,560
Non-cash changes – auditors remuneration	11	3,600	-	-	-	3,600
Transfer between reserves and additional depreciation		2,928,690	(2,826,612)	221	-	102,299
Net operating cost for the year	OCS	(41,207,793)	-	-	-	(41,207,793)
Total recognised income and expense for 2009-10		**(34,106,149)**	**621,898**	**33,005**	**-**	**(33,451,246)**
Parliamentary Funding – drawn down in-year		37,064,006	-	-	-	37,064,006
Parliamentary Funding (prior year) – deemed funding	23.1	120,807	-	-	-	120,807
Parliamentary Funding – Supply receivable	21	239,885	-	-	-	239,885
Income not classified as A-in-A – paid to the Consolidated Fund	6	(4,240)	-	-	-	(4,240)
CFER – Excess A-in-A in RfR1 payable to the Consolidated Fund	6	(242,541)	-	-	-	(242,541)
Balance at 31 March 2010		**86,071,230**	**23,023,741**	**2,512,455**	**-**	**111,607,426**

* Consolidated Fund Extra Receipt

The notes on pages 56 to 112 form part of these accounts

Statement of Operating Costs by Departmental Strategic Objectives

for the period ended 31 March 2010

Aim

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

In pursuance of this aim, the Department has the following objectives:

			2009-10			2008-09
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objective 1. Achieve success in the military tasks we undertake, at home and abroad.	**5,693,373**	**(349,443)**	**5,343,930**	5,503,655	(361,052)	5,142,603
Objective 2. Be ready to respond to the tasks that might arise.	**30,825,318**	**(1,004,098)**	**29,821,220**	27,822,700	(1,077,182)	26,745,518
Objective 3. Build for the future	**5,118,016**	**(55,014)**	**5,063,002**	4,465,470	(40,827)	4,424,643
	41,636,707	**(1,408,555)**	**40,228,152**	37,791,825	(1,479,061)	36,312,764
Paying war pensions benefits	**979,641**	**-**	**979,641**	999,771	-	999,771
Total	**42,616,348**	**(1,408,555)**	**41,207,793**	38,791,596	(1,479,061)	37,312,535

See additional details at Note 25.

By delivering these objectives, the Ministry of Defence contributes to the following Government Public Sector Agreements (PSA):

PSA 26 – To reduce the risk to the UK and its interests overseas from international terrorism (for which the Home Office is the lead department); and

PSA 30 – A global and regional reduction in conflict and its impact and more effective international institutions (for which the Foreign and Commonwealth Office is the lead department).

The notes on pages 56 to 112 form part of these accounts

Notes to the Accounts

1. **Statement of Accounting Policies**

Introduction

1.1 These financial statements have been prepared in accordance with the 2009-10 International Financial Reporting Standards (IFRS) Government Financial Reporting Manual (FReM) issued by HM Treasury except that IFRIC 4 – Determining whether an Arrangement Contains a Lease has not been applied. Further information on the reasons for this non-application and its impact on the financial statements are given in Notes 1.28 to 1.32 below. The accounting policies contained in the FReM apply IFRS as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Department are described below. They have been applied consistently in dealing with items that are considered material to the accounts and comply with the requirements of the FReM except where HM Treasury has approved the following departures to enable the Department to reflect its own particular circumstances:

- The FReM's requirement for Departments to prepare accounts that present the transactions and flows for the financial year and the balances at the year end between "core" Department and the consolidated group in respect of the Operating Cost Statement (and supporting notes) and Statement of Financial Position (and supporting notes) has not been applied. Since agencies falling within the Departmental Boundary are on-vote and embedded within the Departmental chain of command, HM Treasury permits them to be treated as an integral part of the "core" Department. Throughout these accounts, the consolidated figures for the Ministry of Defence (including its on-vote agencies) are deemed to represent those of the "core" Department.

- The Department has not fully complied with the FReM emissions cap and trade scheme accounting requirements on the grounds of materiality. Rather than registering an asset and a liability to reflect its holding of allowances and its obligation to pay for emissions, the Department has reflected the purchase and sale of allowances as expenditure and income within the Operating Cost Statement. All other costs associated with the scheme, such as compliance checking, are also charged to the Operating Cost Statement.

- On the grounds of materiality, HM Treasury has also agreed that the information normally required by the FReM on Fees and Charges disclosures (paragraph 7.4.32) is not required and the disclosure provided at Note 13.1 is sufficient.

1.2 The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the Department. Programme costs reflect non-administration costs, including payments of grants and certain staff costs where they relate directly to service delivery. The classification of expenditure as administration or as programme follows the definition of administration costs set by HM Treasury except in the following instances which have been approved by HM Treasury:

- All Defence Equipment & Support and Defence Estates staff costs are classified as administration costs.

- All depreciation and cost of capital costs are classified as programme costs.

Accounting Convention

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

Basis of Preparation of Departmental Resource Accounts

1.4 These financial statements comprise the consolidation of the Department, its Supply financed Agencies and those Advisory Non-Departmental Public Bodies (NDPBs) sponsored by the Department, which are not self-accounting. The Defence Agencies and the Advisory NDPBs sponsored by the Department are listed in Note 35.

1.5 Four of the Department's agencies are established as Trading Funds and produce their own accounts. As they fall outside Voted Supply, the Department's interests are included in the financial statements as non-current, financial assets. Executive NDPBs operate on a self-accounting basis and are not included within the consolidated accounts. They receive grant-in-aid funding from the Department, which is treated as an expense in the Operating Cost Statement.

1.6 The Armed Forces Pension Scheme (AFPS) is not consolidated within these financial statements. Separate accounts are prepared for the AFPS. Further details are available at: www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/ArmedForcesPensions/

1.7 In preparing these financial statements, significant judgements and estimates have been used. The main areas where this has arisen are in the valuation of intangible and tangible non-current assets and their depreciation (Notes 15 & 16), accruals (Note 23) and provisions (Note 24). Details are given in the respective note to the accounts.

Recent Changes to Regulations Affecting the Preparation of Future Resource Accounts

1.8 The FReM has introduced a number of changes for financial year 2010-11. The main ones applicable to the Department are:

- The removal of the notional cost of capital charge. As an indication of the likely financial impact, the amount charged to the Operating Cost Statement in these financial statements is £3,828M.

- Implementation of FRS 30, Heritage Assets. This is likely to increase the heritage asset disclosures.

- An adaptation of IAS 36, Impairment of Assets. This will mandate the charging of all impairments caused by a clear consumption of economic benefits to the Operating Cost Statement. Current policy is to charge such impairments to the Revaluation Reserve, to the extent available. The financial impact of this change is not yet known.

Net Operating Costs

1.9 Costs are charged to the Operating Cost Statement in the period in which they are incurred and matched to any related income. Costs of contracted-out services are included net of recoverable VAT. Other costs are VAT inclusive, although a proportion of this VAT is recovered via a formula agreed with HM Revenue and Customs. Surpluses and deficits on disposal of assets classified as held for sale and inventories declared for disposal are included within Notes 11 – Other Administration Costs and 12 – Other Programme Costs.

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

Non-Current Assets

1.11 The Department's intangible and property, plant and equipment assets are expressed at their fair value through the application of the Modified Historical Cost Accounting Convention (MHCA). Prospective indices, which are produced by Defence Analytical Services and Advice (DASA), are applied at the start of each financial year to the non-current assets which fall within the categories listed below. These indices look ahead to the Reporting Period date and include calculations to reflect the difference between the actual change in prices during the prior year and the prospective indices used for that year. In addition, where there is a material difference between the indices for the new year and those used throughout the prior year, the prior year MHCA calculations are performed again, using the up to date indices, and the fair value of the non-current assets are restated. The value of the overseas estate assets is similarly adjusted to take account of the year-end exchange rates. Details of the indices used are:

– Land (by region and type);

– Buildings – Non Dwellings (UK and specific overseas indices);

– Buildings – Dwellings (UK and specific overseas indices);

– Single Use Military Equipment – Air Systems;

– Single Use Military Equipment – Sea Systems;

– Single Use Military Equipment – Land Systems;

– IT and Communications Equipment – Communications Equipment;

– IT and Communications Equipment – Office Machinery and Computers;

– Plant and Machinery – specific UK index covering all assets;

– Transport – Fighting Equipment;

– Transport – Other; and

– Assets Under Construction – index applicable to the underlying tangible asset category.

1.12 Property assets are also subject to a quinquennial revaluation by external professional valuers in accordance with IAS 16, as interpreted by the FReM. Property assets are valued in one of two ways depending on their use. Non-specialist properties are valued at fair (i.e. market) value. For in-use non specialist properties, fair value is interpreted as market value for existing use. Specialist property for which there is no external market is valued at depreciated replacement cost. The majority of Service Families Accommodation is valued at depreciated replacement cost due to the high concentration of housing in certain areas or as a result of the lack of an alternative market for certain holdings due to their remote geographic locations. Where market value for existing use is more appropriate, for example for small numbers of houses in a single location, this basis of valuation has been applied.

1.13 Assets under construction are valued at cost and are subject to indexation. On completion, they are released from the project account into the appropriate asset category.

Intangible Non-Current Assets

1.14 Research costs are charged to the Operating Cost Statement in the period in which they are incurred.

1.15 Development costs are capitalised where they contribute towards defining the specification of an asset that will enter production. Those not capitalised are charged to the Operating Cost Statement. Capitalised development costs are amortised, on a straight line basis, over the planned operational life of the resultant asset, e.g. class of ship or aircraft. Amortisation commences when the asset type first enters operational service within the Department. If it is decided to withdraw the whole class of an asset type early, then any residual unamortised development costs relating to that class are written off to the Operating Cost Statement, along with the value of the underlying property, plant and equipment non-current assets.

1.16 Externally purchased software including licences (other than for the operating system which is treated as part of the computer hardware and where appropriate capitalised as a tangible non-current asset) are capitalised where they contribute to the provision of services or other Departmental outputs for a period in excess of one year. Capitalised software is amortised, on a straight line basis, over the shorter of either the economic life or the licence period.

Property, Plant and Equipment Non-Current Assets

1.17 The useful economic lives of property, plant and equipment non-current assets are reviewed annually and adjusted where necessary. The Departmental capitalisation threshold is £10,000 and it is this which determines whether or not an asset is recorded on the Department's Non-Current Asset Register (NCAR). An exception to this is equipment held on the Managed Equipment (ME) NCAR where a capitalisation threshold of £5,400 is applied to assets managed by DE&S Project Teams on behalf of the three services. Agencies may also apply a lower capitalisation threshold to those assets which form part of their own Statement of Financial Position.

1.18 The Departmental threshold of £10,000 is not applied to individual capital spares and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, for accounting purposes, these items are treated as pooled assets and included within the Single Use Military Equipment category of non-current assets. GWMB and capital spares are depreciated and the depreciation charge in the Operating Cost Statement also includes the cost of GWMB fired to destruction.

1.19 The principal asset categories, together with their useful economic lives, are set out in the table below. All the assets are depreciated on a straight line basis.

	Category	Years
Land and Buildings	Land	Not depreciated unless it is held under a finance lease.
	Buildings (dwellings and non-dwellings):	
	– permanent	40 – 50
	– temporary	5 – 20
	Leasehold	Shorter of expected life and lease period
Single Use Military Equipment (including GWMB)	Air Systems - Fixed Wing	13 – 35
	Air Systems - Rotary Wing	25 – 30
	Sea Systems - Surface Ships	24 – 30
	Sea Systems - Submarines	28 – 32
	Land Systems - Armoured Vehicles	25 – 30
	Land Systems - Small Arms	10 – 15
Plant and Machinery	Equipment	10 – 25
	Plant and Machinery	5 – 25
Transport	Air Systems – Fixed Wing	25 – 35
	Air Systems – Rotary Wing	15 – 32
	Sea Systems – Surface Ships	20 – 30
	Land Systems – Specialised Vehicles	15 – 30
	Land Systems – Other Standard Vehicles	3 – 5
IT and Communications Equipment	Office Machinery	3 – 10
	Communications Equipment	3 – 30
Capital Spares	Items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion.	As life of prime equipment supported
Operational Heritage Assets	Operational Heritage Assets are included within the principal asset category to which they relate.	As other non-current assets

Donated Assets

1.20 Donated assets (i.e. those assets that have been donated to the Department or assets for which the Department has continuing and exclusive use, but does not own legal title, and for which it has not given consideration in return) are capitalised at their current valuation on receipt and are revalued/depreciated on the same basis as purchased assets.

1.21 The Donated Asset Reserve represents the value of the original donation, additions and any subsequent professional revaluation and indexation (MHCA). Amounts equal to the donated asset depreciation charge, impairment costs and any in-year surplus/deficit on disposal are released from this reserve to the Operating Cost Statement.

Componentisation and Subsequent Expenditure

1.22 The Department's policy on componentisation (the recognition of the cost of replacing part of an asset) is as follows:

- Newly built property assets, with the exception of specialist assets, are not subject to componentisation at the point of initial capitalisation as the cost of any potential component is not significant to the total cost of the asset. Specialist assets such as runways are considered for componentisation.

- Where subsequent expenditure on a property asset is for the refurbishment of the majority of an existing asset, the costs are capitalised and the carrying amount of the replaced asset is de-recognised. Where only part of an asset is refurbished, the replaced element is de-recognised on assets above £500,000. The QQR is used to adjust any short term difference in valuations.

- Expenditure on major refits and overhauls in the sea environment, where material, are accounted for separately when their value is consumed by the Department over a different period from the life of the corresponding core asset. Refurbishment costs are expensed within the air and land environments as these costs are considered to be equivalent to an annual depreciation charge.

Impairment

1.23 Impairment charges to the Operating Cost Statement occur in circumstances which reduce the carrying value of property, plant and equipment assets to their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale. All impairment losses are written off against the Revaluation Reserve (or Donated Asset Reserve, as appropriate) until the carrying value of the asset reaches its depreciated historic cost. Impairment losses below this amount are charged to the Operating Cost Statement. Any reversal of an impairment charge is recognised in the Operating Cost Statement to the extent that the original charge was previously recognised there. The remaining amount is recognised in the Revaluation Reserve.

Disposal of Tangible Non-Current Assets

1.24 Disposal of assets is handled principally by two specialist internal organisations: Defence Estates for property assets and the Disposal Services Authority for non-property assets.

1.25 Non-current assets are reclassified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale, subject only to terms that are usual and customary for the sale of such assets. The sale must also be highly probable, being expected to complete within one year.

1.26 When assets are classified as held for sale, they are re-classified as current assets and valued at the lower of their carrying amount and their fair value less costs to sell. No further depreciation is applied.

Leased Assets

1.27 Assets held under finance leases are capitalised as non-current assets and a corresponding liability recognised. The assets are depreciated over the shorter of the lease term or their estimated useful economic life. Rentals paid are apportioned between reductions in the capital obligations included in payables, and finance costs charged to the Operating Cost Statement. Expenditure under operating leases is charged to the Operating Cost Statement in the period in which it is paid.

1.28 The Department may also enter into arrangements that do not take the legal form of a lease but which give to the Department the right to use an asset in return for payment. IFRIC 4 – Determining whether an Arrangement Contains a Lease provides guidance for determining whether such arrangements contain leases. Where leases are identified, they should be classified as operating or finance leases in accordance with IAS 17 – Leases and accounted for in accordance with the accounting policies set out in Note 1.27.

1.29 The MOD has not applied IFRIC 4 to its contracts, except for those listed in Note 27 which are outside the scope of IFRIC 12 – Service Concession Arrangements, because it has assessed that the costs of applying the IFRIC outweigh the benefits of compliance. This is due to: the volume and complexity of the contractual arrangements; the difficulties in obtaining the information required to the standard required by IFRIC 4, the Department and its auditors; and the cost of obtaining such information and then keeping it up to date. However, IFRIC 4 and, where leases are identified, IAS 17 will be applied to contracts agreed on or after 1 April 2010 except for contracts with MOD's Trading Funds which HM Treasury has agreed are outside the scope of IFRIC 4.

1.30 It is believed that a limited number of significant, largely single source contracts, particularly strategic procurement arrangements with key contractors, would meet the IFRIC 4 definition of containing a lease if they were reviewed against IFRIC 4; and that some of these leases would meet the IAS 17 definition of a finance lease. Therefore, the impact on the financial statements of not applying IFRIC 4 is that finance leased assets and the associated liabilities have been excluded from the Statement of Financial Position. Commitments under operating leases and finance leases have also been omitted from Notes 27.1 and 27.2.

1.31 The impact on the financial statements of disclosing the assets will be off set by the associated liabilities. However this net effect has not been quantified because the information required to do so is not available without carrying out the IFRIC 4 and IAS 17 assessments and the costs of this work is believed to exceed the benefits gained.

1.32 In order to move towards achieving compliance with the accounting requirements in the future, the Department will apply IFRIC 4 and, where leases are identified, IAS 17 to new contracts agreed on or after 1 April 2010. However, given the length of some of the Department's existing contractual arrangements, it may be a number of years before this results in material compliance with the requirements.

Public Private Partnerships (PPP) including Private Finance Initiative (PFI) Transactions

1.33 Where PPP including PFI arrangements fall within the scope of the IFRIC 12 definition of Service Concession Arrangements, the infrastructure assets and liabilities are reported on the Department's Statement of Financial Position. Unitary charges are apportioned between reduction in the capital obligation and charges to the Operating Cost Statement for service performance and finance costs.

1.34 Where PPP including PFI arrangements are outside the scope of IFRIC 12, the arrangement is assessed to establish whether it contains a lease under IFRIC 4. If it does contain a lease, the lease is accounted for as either a finance or an operating lease in accordance with IAS 17. Where the arrangement does not contain a lease, the expenditure will be recognised as it falls due.

Financial Instruments

1.35 The Department's foreign currency forward contracts, denominated in US Dollars and Euros, are derivatives and are classified as Held For Trading financial instruments.

1.36 The foreign currency forward purchase contracts are measured at fair value with movements in fair value being charged or credited to the Operating Cost Statement. The fair value is measured as the difference between the currency's closing mid-market rate at the date of valuation (representing the spot rate) and the rate stipulated in the contract multiplied by the number of contracted units of currency. The Department obtains the closing mid-market rate from the Financial Times. The forward contracts will only have a fair value up to their date of settlement. Once each contract has been settled, it is removed from the Department's Statement of Financial Position. The forward contracts were purchased from the Bank of England. Details of existing contracts are at Note 17.10 to the accounts.

1.37 The Department's loans to Trading Funds are classified within Loans and Receivables. They are carried at historic cost, less any impairment. Public Dividend Capital is not treated as a financial instrument in the Department's accounts because of the statutory, rather than contractual, basis of the investment. The Department's investments in special or 'golden' shares are not recognised on the Statement of Financial Position. The entities in which the Department holds special shares are listed at Note 17.22.

1.38 Receivables, including trade receivables, staff loans and advances are classified as Loans and Receivables and are initially measured at fair value and subsequently at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate. However, the Department's receivables that are due within 1 year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts.

1.39 Liabilities covering trade payables and accruals are classified as Payables and Accruals and are initially measured at fair value and subsequently at discounted cost. This applies to those liabilities carrying a nil or a subsidised rate of interest. On the grounds of materiality, the Department's liabilities falling due within 1 year are not discounted.

1.40 The Department has not made a provision for arrangements that fall within the scope of a financial guarantee contract on the grounds that there is a very low probability of a claim maturing.

Inventories

1.41 Inventories, which are also referred to as Raw Materials and Consumables (RMC), are recognised on the Department's Statement of Financial Position from the point of acquisition to the point of issue for consumption, sale, write-off or disposal. The point of consumption for Land inventories is the point at which inventory is issued from depots. For Air and Navy inventories, the point of consumption is when inventories are issued from final depots such as an air base or a ship's hold.

1.42 RMC are held at their value to the Department. Where there is an intention to use the RMC this is held at a value equivalent to the value of replacing the materiel. This is the Gross Book Value (GBV) current cost or historic cost if not materially different. Where there is no expectation of consumption or sale in the ordinary course of business, then this cost is abated by the creation of a financial provision to reduce the value to Net Realisable Value. The creation of the financial provision is a charge to the Operating Cost Statement. On actual disposal both the GBV and the previously created provision are written off (released) to the Operating Cost Statement.

1.43 Some items of RMC, for example munitions, have a limited shelf life and a financial provision is created throughout the life of the item. This provision is created on a straight line basis. When the item is consumed, written off or disposed of then the current cost is charged to the OCS along with the credit of any accumulated provision.

Cash and Cash Equivalents

1.44 The Department determines cash as cash in hand and demand deposits (repayable on demand) with any commercial bank or other financial institution. This includes gold coins and deposits denominated in foreign currencies after allowing for unpresented payments and uncleared deposits.

1.45 Cash equivalents are determined as short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents in the Department's Statement of Financial Position comprise balances held at the Office of HM Paymaster General, commercial banks and cash in hand.

Provisions for Liabilities and Charges

1.46 Provisions for liabilities and charges have been established under the criteria of IAS 37 and are based on realistic estimates of the expenditure required to settle future legal or constructive obligations that exist at the Reporting Period date.

1.47 Provisions are charged to the Operating Cost Statement unless the expenditure provides access to current and future economic benefits, in which case the provision is capitalised as part of the cost of the underlying asset. In such cases, the capitalised provision will be depreciated and charged to the Operating Cost Statement over the remaining estimated useful economic life of the underlying asset. The rate advised by HM Treasury is used to discount provisions to current prices. The rate for financial year 2009-10 is 2.2% (2.2% for 2008-09). The discount is unwound over the remaining life of the provision and shown as an interest charge in the Operating Cost Statement.

Reserves

1.48 The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on non-current assets and inventories (excluding donated assets). The Donated Asset Reserve reflects the carrying amount of assets that have been donated to the Department.

1.49 The General Fund represents the balance of the Taxpayers' Equity.

Pensions

1.50 Present and past employees are mainly covered by the Civil Service pension arrangements for civilian personnel and the Armed Forces Pension Scheme (AFPS) for Service personnel. There are separate scheme statements for the AFPS and Civil Service pensions as a whole. Further details can be found at:
www.civilservice-pensions.gov.uk and
www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/ArmedForcesPensions/

1.51 Both the AFPS and the main Civil Service pension schemes are unfunded defined benefit pension schemes, although, in accordance with the HM Treasury FReM, the Department accounts for the schemes in its accounts as if they were defined contribution schemes. The employer's charge is met by payment of an estimated Superannuation Contribution Adjusted for Past Experience (SCAPE), which represents the cost of providing future superannuation protection for all personnel currently in pensionable employment. For the Principal Civil Service Pension Scheme employer contributions (SCAPE) are calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands; for the AFPS the rates are approximately equivalent to 38.3% (Officers) and 23.8% (Other Ranks) of pensionable pay. In addition, civilian personnel contribute 1.5% of salary to fund a widow/widower's pension if they are members of classic, and 3.5% if they are members of premium, classic plus or nuvos. The Department's Statement of Financial Position will only include a payable in respect of pensions to the extent that the contributions paid to the pension funds in the year fall short of the SCAPE and widow/widower's pension charges due. Money purchase pensions delivered through employer-sponsored stakeholder pensions have been available as an alternative to all new Civil Service entrants since October 2002.

1.52 The pension schemes undergo a reassessment of the SCAPE contribution rates by the Government Actuary at regular intervals. Provisions are made for costs of early retirement programmes and redundancies up to the minimum retirement age and are charged to the Operating Cost Statement.

1.53 The Department operates a number of small pension schemes for civilians engaged at overseas locations. The pension scheme liability is included within the total provisions reported at Note 24 – Provisions for Liabilities and Charges. The gain or loss on the change in the discount rate is shown as a movement in the reserves (General Fund).

1.54 The disclosures for the main pension schemes are included in: the Remuneration Report, Note 10 – Staff Numbers and Costs, (see paragraphs 10.3 and 10.4) and on the websites of the Civil Service Pension Scheme and the Armed Forces Pension Scheme.

Early Departure Costs

1.55 The Department provides in full for the cost of meeting pensions up to the minimum retirement age in respect of military and civilian personnel early retirement programmes. Early departure provisions under pension scheme rules are discounted at the pensions' discount rate, issued annually by HM Treasury, 1.8% as at 31 March 2010 (3.2% as at 31 March 2009). Pensions payable after the minimum retirement age are met by the Armed Forces Pension Scheme for military personnel and by the Civil Service pension arrangements for civilian personnel. Redundancies are provided for in full.

Cost of Capital Charge

1.56 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 HM Treasury standard rate for Financial Year 2009-10 of 3.5% (2008-09: 3.5%) in real terms and applied to all assets less liabilities except for the following, where the charge is nil:

- Donated assets and cash balances with the Office of HM Paymaster General (OPG).
- Liabilities for the amounts to be surrendered to the Consolidated Fund and for amounts due from the Consolidated Fund.
- Assets financed by grants.
- Additions to heritage collections where the existing collection has not been capitalised.

1.57 The cost of capital charge on the non-current asset investments in the Trading Funds is calculated at a specific rate applicable to those entities, and is based on their underlying net assets.

Foreign Currency

1.58 All transactions that are denominated in a foreign currency are translated into Sterling using the General Accounting Rate (GAR), calculated by staff in MOD's central treasury function, at the date of each transaction. For each currency, the GAR is updated monthly based on spot rates. In respect of US Dollars and Euros the GAR is based on the published spot rate in the week immediately preceding the new month. Exchange differences will arise when a currency transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. In addition, monetary assets and liabilities are translated at the mid-market closing rate applicable at the Reporting Period date and the exchange differences are reported in the Operating Cost Statement. Prior to 1 September 2008, the GAR for the Department's major trading currencies, US Dollars and Euros, was based on the Department's foreign currency forward contract rates.

1.59 Overseas non-monetary assets and liabilities are subject to annual revaluation and are translated at the mid-market closing rate applicable at the Statement of Financial Position date. The exchange differences are taken to the Revaluation Reserve for Departmentally owned assets or to the Donated Asset Reserve for donated assets.

2. First time adoption of IFRS.

Reconciliation of taxpayers' equity under UK GAAP as at 31 Mar 08 to taxpayers' equity under IFRS as at 1 Apr 08	General Fund £000	Revaluation Reserve £000	Donated Asset Reserve £000	Investment Reserve £000	Total £000
Taxpayers' equity at 31 March 2008 under UK GAAP	76,897,678	20,452,461	2,496,316	239,780	100,086,235
Adjustments for:					
IAS 11 - Construction contracts	1,013	-	-	-	1,013
IAS 17 - Leases	1,195,873	(38,720)	-	-	1,157,153
IAS 19 - Employee benefits	(329,804)	-	-	-	(329,804)
IFRIC 1 - Changes in decommissioning costs	77,248	-	-	-	77,248
IFRS 5 - Non-current assets held for sale	-	(30,506)	-	-	(30,506)
IFRIC 12 - Service concession arrangements	(105,929)	10,207	-	-	(95,722)
Total adjustments	838,401	(59,019)	-	-	779,382
Taxpayers' equity at 1 April 2008 under IFRS	**77,736,079**	**20,393,442**	**2,496,316**	**239,780**	**100,865,617**
Reconciliation of taxpayers' equity under UK GAAP as at 31 Mar 09 to taxpayers' equity under IFRS as at 31 Mar 09					
Taxpayers' equity at 31 March 2009 under UK GAAP	82,154,818	22,481,215	2,479,450	-	107,115,483
Adjustments for:					
First time adoption of IFRS - prior period changes (see above)	838,401	(59,019)	-	-	779,382
Less increase in operating costs (see below)	(594,930)	-	-	-	(594,930)
Gains on revaluation	-	(11,251)	-	-	(11,251)
Impairment and impairment reversals	9,220	(9,220)	-	-	-
Increase in cost of capital	165,040	-	-	-	165,040
Reclassification of assets	142,251	-	-	-	142,251
Increase in payables	130,283	690	-	-	130,973
Asset additions	153,808	-	-	-	153,808
Transfer between reserves	572	(572)	-	-	-
Taxpayers' equity at 31 March 2009 under IFRS	**82,999,463**	**22,401,843**	**2,479,450**	**-**	**107,880,756**

Reconciliation of net operating costs for 2008-09 under UK GAAP to net operating costs for 2008-09 under IFRS	£000
Net operating cost for 2008-09 under UK GAAP	36,717,605
IAS 11 - Construction contracts	817
IAS 17 - Leases	332,999
IAS 19 - Employee benefits	30,027
IAS 36 - Impairments	(9,220)
IAS 37 - Provisions	4,785
IFRS 5 - Non-current assets held for sale	(13,007)
IFRIC 12 - Service concession arrangements	248,529
Net operating cost for 2008-09 under IFRS	**37,312,535**

The above tables include the following movements arising from the first time adoption of IFRS:

- Construction Contracts – the year end balance in respect of the provision of security services to third parties is required to be accounted for as a receivable under IAS 11 (previously accounted for as work-in-progress); the movement identified is based on updated information and includes an increase following the recalculation of related staff costs.

- Leases – a review of PFI contracts not meeting the criteria of a Service Concession Arrangement (IFRIC 12) and some other contracts, including the arrangement with Annington Homes for the provision of Service Families Accommodation, resulted in the £1.2Bn increase in the value of non current assets as property, plant and equipment were added to the Statement of Financial Position under finance leases (in accordance with IAS 17 – Leases).

- Employee Benefits – in accordance with IAS 19 the accounts include an estimate of the value of unpaid overtime, outstanding non-consolidated pay and untaken leave balances as at year end. The initial assessment of the liability was £330M and 83% of this amount relates to untaken leave.

- Provisions – the £77M movement is the increase in the value of the capitalised provisions for nuclear decommissioning. The increase results from the capitalisation of the movement following changes in the discount rate for provisions.

- Non-current Assets Held for Sale – the movement reflects the identification and valuation (fair value less costs of sale) of assets held for sale.

- Service Concession Arrangements – changes to the accounting treatment of some 32 PFI/PPP contracts assessed as Service Concession Arrangements under IFRIC 12 resulted in the net movements as a result of the differences between the depreciation, cost of capital charges and other charges applicable to the assets brought on to the Statement of Financial Position and the corresponding reduction in the service and financing charges.

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in Spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

3. Analysis of Net Resource Outturn

Request for Resources 1 Provision of Defence Capability	Administration Cost £000	Other Current Expenditure £000	Grants £000	Operating Appropriation in Aid £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	2009-10 Total Net Outturn Compared with Estimate £000	2008-09 Total Net Resource Outturn (UK GAAP) £000
TLB HOLDER / TLB								
Navy Command	-	2,250,293	12,688	(39,684)	**2,223,297**	2,236,136	12,839	2,184,745
Land Forces	-	6,695,316	81,878	(141,876)	**6,635,318**	7,029,983	394,665	6,723,709
Air Command	-	2,965,581	7,691	(160,612)	**2,812,660**	2,835,220	22,560	2,733,096
Chief of Joint Operations	-	488,318	(3,755)	(35,813)	**448,750**	418,945	(29,805)	437,319
Defence Equipment & Support	-	17,055,285	672	(268,001)	**16,787,956**	16,340,111	(447,845)	14,596,357
Central	-	2,198,554	214,929	(159,659)	**2,253,824**	2,285,711	31,887	542,580
Defence Estates	-	4,041,491	-	(420,772)	**3,620,719**	4,411,702	790,983	3,099,024
SIT (Science, Innovation, Technology)	-	461,039	4,772	(85)	**465,726**	469,432	3,706	500,350
Administration Costs	2,140,841	-	-	-	**2,140,841**	2,237,948	97,107	2,279,884
Total (RfR 1)	**2,140,841**	**36,155,877**	**318,875**	**(1,226,502)**	**37,389,091**	**38,265,188**	**876,097**	33,097,064

Land Forces' Total Net Resource Outturn for 2009-10 includes the effect of a write on (£432M) of inventory, omitted from the Statement of Financial Position (SoFP) in previous years. The length of time for which the balances have been incorrectly stated is unclear and the adjustment has been treated as a Prior Period Adjustment in accordance with HM Treasury instructions. The effect of the adjustment is to increase the inventory balance as at 31 March 2010 shown on the SoFP; further details are at Note 20.3 to the accounts.

Request for Resources 2 Operations and Peace-Keeping	Administration Cost £000	Other Current Expenditure £000	Grants £000	Operating Appropriation in Aid £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	2009-10 Total Net Outturn Compared with Estimate £000	2008-09 Total Net Resource Outturn (UK GAAP) £000
Programme Rest of the World	-	53,462	-	-	**53,462**	66,833	13,371	76,478
Peace Keeping Rest of the World	-	2,699,220	-	(70,847)	**2,628,373**	2,820,519	192,146	2,788,984
Total (RfR 2)	**-**	**2,752,682**	**-**	**(70,847)**	**2,681,835**	**2,887,352**	**205,517**	2,865,462

Request for Resources 3 War Pensions Benefits	Administration Cost £000	Other Current Expenditure £000	Grants £000	Operating Appropriation in Aid £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	2009-10 Total Net Outturn Compared with Estimate £000	2008-09 Total Net Resource Outturn (UK GAAP) £000
War Pensions Benefits								
Programme Costs	-	-	979,641	-	979,641	1,023,206	43,565	999,271
War Pensions Benefits							-	
Programme Costs - Far Eastern Prisoners of War	-	-	-	-	-	500	500	500
Total (RfR 3)	**-**	**-**	**979,641**	**-**	**979,641**	**1,023,706**	**44,065**	999,771
Total Resource Outturn	**2,140,841**	**38,908,559**	**1,298,516**	**(1,297,349)**	**41,050,567**	**42,176,246**	**1,125,679**	36,962,297

4. Reconciliation of Outturn to Net Operating Cost and Outturn Against Administration Budget

4.1. Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	Outturn £000	Supply Estimate £000	2009-10 Outturn compared with Estimate £000	2008-09 Outturn £000
Net Resource Outturn (Statement of Parliamentary Supply)	3	41,050,567	42,176,246	1,125,679	36,962,297*
– Exclude Prior Period Adjustment for Inventory		432,000	-	(432,000)	
– Less non-supply income (Consolidated Fund Extra Receipts included in operating income and interest)	6	(246,781)	-	246,781	(244,692)
– Less impairments scored in DEL not passing through the OCS	SoCiTE	(27,993)	-	27,993	-
– Less adjustment on first time adoption of IFRS in respect of impairments scored in DEL not passing through the OCS	2	-	-	-	(9,220)
– Adjustment for first time adoption of IFRS	2	-	-	-	604,150
Net Operating Cost		**41,207,793**	**42,176,246**	**968,453**	37,312,535**

*2008-09 Net Resource Outturn on a UK GAAP basis. **2008-09 Net Resource Outturn on an IFRS basis.

4.2 Outturn Against Administration Budget

	Budget £000	2009-10 Outturn £000	Outturn compared with Budget £000	2008-09 Outturn £000
Administration Costs Gross	2,237,948	2,140,841	97,107	2,284,388
Net Administration Costs	**2,237,948**	**2,140,841**	**97,107**	**2,284,388**

The Comprehensive Spending Review settlement 2007 introduced the requirement for an Administration budget and separate disclosure of Administration costs. The Department's Administration Cost Regime separately identifies costs, other than the costs of direct frontline service provision or support activities, as Administration. In order to simplify the process two different approaches were applied for determining the Administration cost boundaries; whole budget areas or expenditure against certain accounting codes. Each TLB has agreed its own basis for allocating costs to Administration; an approach that reflects the varying nature of the activities carried out by TLBs.

5. Reconciliation of Net Resources Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Savings / (Excess) £000
Resource Outturn	3	42,176,246	**41,050,567**	1,125,679
Capital:				
Purchase of non current assets		9,591,612	**9,017,256**	574,356
Non operating cost A in A:				
Proceeds on sale of non current assets	8	(297,000)	**(110,849)**	(186,151)
Loan repayments by Trading Funds		(8,150)	**(8,222)**	72
Accruals adjustments:				
Non-cash transactions-				
Included in operating costs		(10,849,858)	**(9,712,978)**	(1,136,880)
Included in reserves	4.1		**(27,993)**	27,993
Included in net interest payable			**(121,822)**	121,822
Cost of capital charge	OCS	(3,811,572)	**(3,827,560)**	15,988
Exclude Prior Period Adjustment - Inventory	4.1		**432,000**	(432,000)
Non cash movement on derivative			**(357,567)**	357,567
Changes in working capital other than cash, excluding movements on payables falling due after one year		1,613,294	**409,159**	1,204,135
Increase in payables falling due after one year			**(85,841)**	85,841
Use of provisions for liabilities and charges		305,145	**749,544**	(444,399)
Loans to Trading Funds made in 2009-10			**15,079**	(15,079)
Adjustment for movements on cash balances in respect of collaborative projects			**3,925**	(3,925)
Net cash requirement		38,719,717	**37,424,698**	1,295,019

6. 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 being shown in *italics*).

	2009-10 Forecast		2009-10 Outturn	
	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Operating income and receipts – excess A in A Request for Resources 1	-	-	242,541	*242,541*
Operating income and receipts – excess A in A Request for Resources 2	-	-	-	-
Other operating income and receipts not classified as A in A	-	-	4,240	*4,240*
Subtotal operating income and receipts payable to the Consolidated Fund			246,781	*246,781*
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Total income payable to the Consolidated Fund	**-**	**-**	**246,781**	**246,781**

7. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2009-10 £000	2008-09 £000
Operating Income	13	1,408,555	1,479,061
Income included within other operating costs			
– Refunds of formula based VAT recovery		74,234	83,614
– Foreign exchange gains		53,903	110,454
– Less discounts provided		(63)	(67)
Interest Receivable		7,501	23,208
Gross Income		**1,544,130**	**1,696,270**
Income authorised to be appropriated in aid		(1,297,349)	(1,451,578)
Operating Income payable to the Consolidated Fund	6	**246,781**	**244,692**

8. Non-Operating income Appropriations-in-Aid

	2009-10 £000	2008-09 £000
Principal repayments of voted loans	8,222	64,944
Proceeds on disposal of non-current assets	110,849	374,577
Totals	**119,071**	**439,521**

9. Non-Operating income not classified as Appropriations-in-Aid

	Income £000	Receipts £000
Cash receipts surrenderable to the Consolidated Fund	-	-

10. Staff Numbers and Costs

10.1 The average number of full-time equivalent persons employed during the year to 31 March 2010 was: Service 196,420[7] (2008-09: 192,270) and Civilian 76,400[7] (2008-09: 78,550). Source: Defence Analytical Services and Advice (DASA).

	Permanent Staff	Temporary Staff	Armed Forces	Ministers & Special Advisers	**2009-10 Total**	2008-09 Total
Analysis of Staff Numbers	75,942	450	196,420	8	**272,820**	270,820

In order to align with the total pay costs incurred during the year, shown below, the calculation of the average number of staff uses monthly statistics to identify an average number employed for the year. The figures reflect the number of personnel in organisations within the Departmental Boundary for the Annual Accounts (see page 6) and therefore exclude those in the Trading Funds. More information on the Department's staff numbers, and the statistical calculations used, is available on the website: http://www.dasa.mod.uk

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

	2009-10 £000	2008-09 £000
Staff costs – Administration	1,653,573	1,720,683
Staff costs – Programme	10,577,316	10,032,302
	12,230,889	**11,752,985**
Made up of:		
Salaries and wages	9,534,374	9,201,219
Social security costs	657,969	643,606
Pension costs	2,045,529	1,855,193
Redundancy and severance payments*	(6,983)	52,967
	12,230,889	**11,752,985**
Paid to:		
Service	9,481,306	8,941,028
Civilian	2,749,583	2,811,957
	12,230,889	**11,752,985**

*Reductions in the value of provisions for early release during 2009-10 have been greater than the value of increases and new provisions.

Principal Civil Service Pension Scheme

10.3 The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Ministry of Defence is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary Hewitt Associates reviewed the scheme as at 31 March 2007; details can be found at www.civilservice-pensions.gov.uk.

7 Figures are Full Time Equivalent (FTE), weighted averages for the financial year. The Armed Forces figure uses data from the Joint Personnel Administration system and, due to ongoing validation, Army statistics from 1 April 2007, and Navy and RAF statistics from 1 May 2007 are provisional and subject to change.

For the year to 31 March 2010, of the total pension contributions in the table above, £344,479,000 were payable in respect of the various schemes in which MOD civilian staff were members. Contributions to the PCSPS in the same period were £312,628,000 (2008-09: £316,980,000) calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands. The scheme's Actuary reviews employer contributions, usually, every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing, to be paid when the member retires, not the benefits paid during the period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of 0.8% of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Armed Forces Pension Scheme

10.4 The Armed Forces Pension Scheme (known as AFPS 05) is an unfunded, non-contributory, defined benefit, salary-related, contracted out, occupational pension scheme. A formal valuation of the AFPS was carried out as at 31 March 2009 by the scheme's actuary, the Government Actuary's Department. Scheme members are entitled to a taxable pension for life and a tax-free pension lump sum if they leave the Regular Armed Forces at or beyond normal retirement age; those who have at least two years service who leave before age 55 will have their pensions preserved until age 65. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable subject to nomination. AFPS 05 offers ill-health benefits if a career is cut short by injury or illness, irrespective of cause. Additionally, if the injury or illness is mainly attributable to service, compensation for conditions caused on or after 6 April 2005 will be considered under the Armed Forces Compensation Scheme (AFCS).

AFPS 05 members who leave before the age of 55 may be entitled to an Early Departure Payment, providing they have at least 18 years service and are at least 40 years of age. The Early Departure Payment Scheme pays a tax-free lump sum and income of between 50% and 75% of preserved pension between the date of the individual's departure from the Armed Forces and age 55. The income rises to 75% of preserved pension at age 55 and is index linked. At age 65, the Early Departure Payment stops and the preserved pension and preserved pension lump sum are paid.

For the year to 31 March 2010 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £1,701,050,000 (2008-09 £1,505,217,000) based on employer's contribution rates determined by the Government Actuary. For 2009-10, the employer's contribution rates were 38.3% of pensionable pay for Officers (2008-09 36.3%) and 23.8% of pensionable pay for Other Ranks (2008-09 21.8%). The contribution rates reflect benefits as they are accrued, not costs actually incurred in the period, and reflect past experience of the scheme. Further information on the AFPS and the AFCS can be found at: www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/ArmedForcesPensions/.

Other Pension Schemes

10.5 The Armed Forces Pension Scheme incorporates the following schemes: the Non-Regular Permanent Staff Pension Scheme, the Gurkha Pension Scheme and the Reserve Forces Pension Scheme. The membership of these schemes is approximately 3% of the AFPS total membership and the employer's contributions to the schemes are included in the figure payable to the AFPS, at paragraph 10.4.

Certain other employees are covered by schemes such as the National Health Service Pension Scheme and the Teachers' Pension Scheme. The figure for total employers' pension contributions at paragraph 10.3 includes contributions in respect of these schemes. Some employees are members of other schemes, for example Locally Employed Civilians in Germany, Cyprus and Gibraltar and the Merchant Navy Ratings Pension Fund; estimates of the liabilities for these schemes are included in the figure for provisions for liabilities and charges.

11. Other Administration Costs

	2009-10 £000	2008-09 £000
Other Administration Costs – Non-Cash Expenditure		
Auditors' remuneration – audit work only	3,600	3,600
(Surplus) / deficit arising on disposal of inventory (net)	(18)	(17)
Other Administration Costs – Sub Total Non-Cash Expenditure	3,582	3,583
Other Administration Costs – Cash Costs		
Fuel	996	1,272
Inventory consumption	1,220	1,970
Movements. Including: personnel travelling, subsistence / relocation costs and movement of stores and equipment	63,083	95,342
Utilities	32,725	44,432
Property management	26,982	41,529
Hospitality and entertainment	946	1,259
Accommodation charges	28,147	35,892
Equipment support costs	693	6,214
IT and telecommunications	74,133	45,480
Professional fees	140,763	171,851
Other expenditure	99,056	96,230
Research expenditure and expensed development expenditure	3,613	8,135
IFRIC 12 PFI Service Charges:		
– Property management	4,696	2,314
Rentals paid under operating leases – plant & equipment	245	216
Rentals paid under operating leases – other	4,205	4,510
Grants-in-Aid	-	500
Exchange differences on foreign currencies: net deficit/(surplus)	-	(5)
Other Administration Costs – Sub Total Cash Expenditure	481,503	557,141
Total Other Administration Costs	**485,085**	560,724

12. Other Programme Costs

	2009-10 £000	2008-09 £000
Other Programme Costs – Non-Cash Expenditure		
Depreciation and amortisation:		
– Intangible assets (Note 15)	1,515,448	1,289,737
– Property, plant and equipment owned assets (Note 16)	5,510,808	5,074,662
– Property, plant and equipment held under finance leases (Note 16)	101,661	99,465
– Property, plant and equipment held under service concession arrangements (Note 16)	323,497	256,840
– Donated assets depreciation – release of reserve	(60,436)	(50,362)
Impairment on non-current assets		
– Arising on Quinquennial valuation	77,000	240,900
– Arising on Other items	913,109	730,644
Impairment release of reserve	(41,477)	(168,366)
Provisions to reduce inventory to net realisable value	322,282	(249,894)
Inventory written off (net)	374,442	130,407
(Surplus) arising on disposal of property, plant and equipment and intangible assets (2008-09 includes QinetiQ shares £253,457,000)	(31,958)	(327,472)
(Surplus) / deficit arising on disposal of inventory (net)	(8,878)	(14,511)
Intangible and property, plant and equipment assets written off / (written on) - net	(95,018)	423,549
Capital project expenditure write off / (write on)	52,582	112,517
Bad debts written off	9,902	6,940
Increase / (Decrease) in bad debts provision	1,097	(4,197)
Increase / (Decrease) in nuclear and other decommissioning provisions	436,972	(3,738)
Other Programme Costs - Total Non-Cash Expenditure	9,401,033	7,547,121
Other Programme Costs		
Fuel	480,938	693,688
Inventory consumption	1,111,122	1,179,308
Movements. Including: personnel travelling, subsistence / relocation costs and movement of stores and equipment	865,855	878,938
Utilities	324,310	345,057
Property management	1,598,409	1,466,183
Hospitality and entertainment	2,842	2,998
Accommodation charges	302,471	290,054
Equipment support costs	4,211,434	4,144,566
IT and telecommunications	811,688	740,677
Professional fees	167,541	219,096
Other expenditure	1,492,231	1,744,531
Research expenditure and expensed development expenditure	1,218,836	1,106,692
IFRIC 12 PFI Service Charges:		
– IT and telecommunications	507,542	430,333
– Property management	439,471	406,537
– Transport	63,261	62,507
– Equipment support	74,911	207,491
– Plant and Equipment	43,101	49,435
Rentals paid under finance leases		
– Equipment support	71,048	73,014
– Defence housing	111,026	77,390
CLS / IOS Contract Costs	745,783	374,680
Movement on Derivatives	270,606	(1,176,730)
Rentals paid under operating leases - plant & equipment	42,974	56,373
Rentals paid under operating leases - other	206,582	199,746
Grants-in-Aid	150,868	134,712
Exchange differences on foreign currencies: net deficit / (surplus)	(14,044)	87,767
War Pensions Benefits	980,296	1,000,399
Other Programme Costs – Sub Total	16,281,102	14,795,442
Total Other Programme Costs	**25,682,135**	22,342,563

13. Income

Income Source	RfR 1 £000	RfR2 £000	2009-10 Total £000	2008-09 Total £000
External Customers				
Rental income – property	29,526	-	**29,526**	31,933
Receipts – personnel	26,004	-	**26,004**	26,036
Receipts – sale of fuel	79,447	-	**79,447**	107,838
Receipts – personnel related	100,744	-	**100,744**	125,583
Receipts – supplies and services	213,483	-	**213,483**	207,078
Receipts – provision of service accommodation	246,121	-	**246,121**	232,972
Receipts – NATO/UN/US Forces/Foreign Governments	339,828	70,847	**410,675**	329,467
Other	121,273	-	**121,273**	147,607
Other Government Departments, Trading Funds and QinetiQ				
Rental income – property	396	-	**396**	1,576
Receipts – personnel related	411	-	**411**	8,889
Reverse tasking *	34,981	-	**34,981**	25,809
Dividends from Financial Assets (Note 17.26)	24,160	-	**24,160**	57,414
Income from provision of goods and services	116,195	-	**116,195**	171,835
Other	5,139	-	**5,139**	5,024
	1,337,708	**70,847**	**1,408,555**	**1,479,061**

* Receipts for invoiced goods and/or services supplied to the Trading Funds and QinetiQ Group plc by MOD.

Fees and Charges

13.1 Where the Department has spare capacity, it provides a range of services to external organisations. The majority of these services are in the form of military support to foreign governments and other government departments. Where appropriate, costs are recovered in accordance with Managing Public Money. On a smaller scale, the Department provides services to support charities, local community initiatives as well as commercial companies where there is a defence interest.

14. Net Interest Payable

	Administration Cost £000	Programme Cost £000	Total 2009-10 £000	2008-09 £000
Interest receivable:				
Bank interest	(185)	(3,762)	(3,947)	(20,007)
Loans to Trading Funds	-	(3,554)	(3,554)	(3,201)
	(185)	(7,316)	(7,501)	(23,208)
Unwinding of discount on long term receivables and loans	-	(637)	(637)	(15,956)
Total interest receivable	**(185)**	**(7,953)**	**(8,138)**	**(39,164)**
Interest payable:				
Bank interest	-	189	189	338
Loan interest	-	2,891	2,891	3,006
Unwinding of discount on provision for liabilities and charges	-	126,700	126,700	123,757
Unwinding of discount on long term payables	-	(4,241)	(4,241)	334
Finance leases and IFRIC 12 PFI contracts	2,368	268,704	271,072	256,494
Late payment of commercial debts	-	2,206	2,206	10
Total interest payable	**2,368**	**396,449**	**398,817**	**383,939**
Net interest payable	**2,183**	**388,496**	**390,679**	**344,775**

15. Intangible Assets

Intangible assets include development expenditure in respect of non current assets in use and assets under construction.

	Single Use Military Equipment £000	Software £000	Others £000	Total £000
Cost or Valuation*				
At 1 April 2008	31,304,474	32,390	2,819,369	34,156,233
Additions**	930,035	161	380,947	1,311,143
Disposals	(111,582)	(17,772)	(1,818)	(131,172)
Impairments	(28,554)	(966)	30,961	1,441
Revaluations***	1,212,071	-	5,953	1,218,024
Reclassifications****	(810,741)	774	1,152,513	342,546
At 31 March 2009	32,495,703	14,587	4,387,925	**36,898,215**
Additions**	917,729	2,969	350,181	1,270,879
Disposals	(86,483)	-	(195)	(86,678)
Impairments	25,419	(103)	56,408	81,724
Revaluations***	1,052,252	-	676,753	1,729,005
Reclassifications****	(4,368,749)	1,115	4,155,579	(212,055)
At 31 March 2010	**30,035,871**	**18,568**	**9,626,651**	**39,681,090**
Amortisation				
At 1 April 2008	(6,655,315)	(6,403)	(776,282)	(7,438,000)
Charged in Year	(1,007,605)	(2,656)	(279,476)	(1,289,737)
Disposals	110,060	3,729	2,780	116,569
Impairments	5,063	233	(46,841)	(41,545)
Revaluations***	(306,962)	-	(15,104)	(322,066)
Reclassifications****	49,984	1,498	(15,700)	35,782
At 31 March 2009	(7,804,775)	(3,599)	(1,130,623)	**(8,938,997)**
Charged in Year	(1,071,736)	(726)	(442,986)	(1,515,448)
Disposals	29,866	-	46	29,912
Impairments	(18,193)	(108)	15,109	(3,192)
Revaluations***	(267,393)	-	(182,596)	(449,989)
Reclassifications****	1,626,382	208	(1,296,400)	330,190
At 31 March 2010	**(7,505,849)**	**(4,225)**	**(3,037,450)**	**(10,547,524)**
Net Book Value				
At 1 April 2008	24,649,159	25,987	2,043,087	26,718,233
At 31 March 2009	24,690,928	10,988	3,257,302	27,959,218
At 31 March 2010	**22,530,022**	**14,343**	**6,589,201**	**29,133,566**

* Intangible asset valuations are based on the actual costs incurred over time, where available, or derived by applying a ratio to the property, plant and equipment asset valuations based on the historical relationship between development and production costs.
** Additions include accruals of £829,026,000 (2008-09: £527,801,000). Information on Frascati compliant R&D expenditure can be found on the DASA website: http://www.dasa.mod.uk
*** Revaluations include changes due to: Modified Historic Cost Accounting through indexation, impairment and impairment reversals. Intangible non current assets are only impaired when the class of underlying non current assets is changed e.g. when the assets are destroyed.
**** Reclassifications include assets classified to or from property, plant and equipment and transfers to or from operating costs.

15.1 Movement in the revaluation reserve relating to intangible assets

	Revaluation Reserve £000
Balance - 1 April 2008	4,607,535
Revaluation	895,568
Transfers / reclassifications	(230,914)
Disposals	(15,271)
Realised reserve transferred to the General Fund	(1,713,405)
Balance – 31 March 2009	**3,543,513**
Revaluation	1,279,016
Transfers / reclassifications	21,099
Disposals	(8,382)
Realised reserve transferred to the General Fund	(242,393)
Balance – 31 March 2010	**4,592,853**

15.2 Details of intangible assets with a net book value greater than £500M

Description	Net Book Value 31 March 2010 £000	Remaining Useful Economic Life
Typhoon Airframe Development Costs	6,345,399	20.7 years
Nimrod Airframe Development Costs	1,991,906	27.10 years
Merlin Development Costs	1,802,099	20.0 years
Type 45 Destroyer Development Costs	1,167,368	24.8 years
Harrier Development Costs	732,062	5.1 years
HMS DARING Development Costs	729,875	24.3 years
Spearfish Development Costs	602,875	20.0 years
TORNADO Development Costs	556,286	15.1 years
T Class SSN Development Costs	517,108	24.10 years

16. Property, Plant and Equipment

Cost or Valuation	Land Dwellings £000	Land Other Buildings £000	Dwellings £000	Other Buildings £000	Single Use Military Equipment (SUME) £000	Plant and Machinery £000	Transport £000	IT and Communication Equipment £000	Assets under Construction (SUME) £000	Assets under Construction (Other) £000	Total £000
At 1 April 2008	559,957	5,368,861	6,038,307	16,458,913	68,582,435	3,491,688	10,850,296	3,289,392	11,133,403	3,804,605	129,577,857
Additions*	65	2,467	92,792	298,111	552,092	37,484	238,699	865,149	3,660,749	2,835,553	8,583,161
Donations	-	(979)	(56,489)	(1,792)	-	-	-	-	-	-	(59,260)
Disposals	-	-	-	(73,670)	(646,531)	(193,530)	(1,140,107)	(456,252)	-	-	(2,510,090)
Impairments	(47,352)	(64,374)	(185,733)	(646,771)	229,222	116	5,913	(160,110)	2,720	(7,923)	(874,292)
Reclassifications	(32,784)	(167,357)	303,477	(266,939)	(268,151)	849,672	72,932	228,425	(1,670,565)	(1,323,526)	(2,274,816)
Revaluations	2,104	403,129	250,871	654,072	2,659,103	135,398	386,118	(2,808)	682,309	242,783	5,413,079
At 31 March 2009**	481,990	5,541,747	6,443,225	16,421,924	71,108,170	4,320,828	10,413,851	3,763,796	13,808,616	5,551,492	137,855,639
Additions*	10	-	89,308	156,555	504,171	299,163	72,520	347,459	3,923,456	2,353,735	7,746,377
Capitalised Provisions	-	-	-	26,041	5,083	-	-	-	-	-	31,124
Donations	9,915	8,958	1,242	11,827	-	90	-	-	-	-	32,032
Disposals	(3,677)	(641,759)	(201,860)	(205,198)	(1,587,795)	(151,201)	(304,859)	(73,150)	-	(1,862)	(3,171,361)
Impairments	(106,572)	(179,613)	(186,498)	(472,993)	(206,798)	32,872	(106,537)	139,255	(28)	(96,683)	(1,183,595)
Reclassifications	71,669	577,563	518,945	232,099	389,280	(389,441)	3,374,544	(78,226)	(3,442,743)	(2,207,111)	(953,421)
Revaluations	65,335	58,949	230,210	(263,638)	2,399,925	123,153	1,042,895	94,204	688,993	(130,900)	4,309,126
At 31 March 2010**	**518,670**	**5,365,845**	**6,894,572**	**15,906,617**	**72,612,036**	**4,235,464**	**14,492,414**	**4,193,338**	**14,978,294**	**5,468,671**	**144,665,921**
Depreciation											
At 1 April 2008	-	-	(784,403)	(5,026,292)	(32,751,295)	(1,607,755)	(6,093,984)	(880,186)	-	-	(47,143,915)
Charged in Year	-	-	(195,187)	(731,956)	(3,353,202)	(263,802)	(572,600)	(314,220)	-	-	(5,430,967)
Disposals	-	-	-	-	528,869	168,476	1,091,705	207,692	-	-	1,996,742
Impairments	-	-	8,842	21,890	(97,651)	(1,228)	(7,811)	18,811	-	-	(57,147)
Reclassifications***	-	-	62,777	608,281	1,147,186	(211,853)	362,873	(97,560)	-	-	1,871,704
Revaluations†	-	-	(91,400)	(323,228)	(1,110,118)	(92,629)	(180,497)	1,629	-	-	(1,796,243)
At 31 March 2009	**-**	**-**	**(999,371)**	**(5,451,305)**	**(35,636,211)**	**(2,008,791)**	**(5,400,314)**	**(1,063,834)**	**-**	**-**	**(50,559,826)**

Cost or Valuation	Land Dwellings £000	Land Other Buildings £000	Dwellings £000	Other Buildings £000	Single Use Military Equipment (SUME) £000	Plant and Machinery £000	Transport £000	IT and Communication Equipment £000	Assets under Construction (SUME) £000	Assets under Construction (Other) £000	Total £000
Charged in Year	-	-	(250,800)	(745,847)	(3,594,960)	(258,974)	(667,589)	(417,796)	-	-	(5,935,966)
Disposals	-	-	51,974	87,226	1,282,148	68,202	180,007	62,485	-	-	1,732,042
Impairments	-	-	6,591	32,095	174,717	(33,153)	(19,952)	(73,337)	-	-	86,961
Reclassifications***	-	-	(35,073)	317,129	2,385,665	122,549	(653,497)	153,855	-	-	2,290,628
Revaluations†	-	-	(259,889)	(545,650)	(1,326,707)	(42,060)	(370,874)	(634)	-	-	(2,545,814)
At 31 March 2010	**-**	**-**	**(1,486,568)**	**(6,306,352)**	**(36,715,348)**	**(2,152,227)**	**(6,932,219)**	**(1,339,261)**	**-**	**-**	**(54,931,975)**
Net Book Value											
At 1 April 2008	559,957	5,368,861	5,253,904	11,432,621	35,831,140	1,883,933	4,756,312	2,409,206	11,133,403	3,804,605	82,433,942
At 31 March 2009	481,990	5,541,747	5,443,854	10,970,619	35,471,959	2,312,037	5,013,537	2,699,962	13,808,616	5,551,492	87,295,813
At 31 March 2010	**518,670**	**5,365,845**	**5,408,004**	**9,600,265**	**35,896,688**	**2,083,237**	**7,560,195**	**2,854,077**	**14,978,294**	**5,468,671**	**89,733,946**
Asset Financing											
Owned	244,904	4,145,110	2,679,220	7,709,613	35,896,688	1,821,841	7,316,410	1,171,940	14,978,294	5,455,425	81,419,445
Donated****	180,545	1,041,876	336,945	933,434	-	19,613	41	-	-	-	2,512,454
Long Lease	23,997	50,386	10,684	42,812	-	-	-	-	-	-	127,879
Short Lease	35	33,784	556	20,125	-	-	-	-	-	-	54,500
Operating Lease (Lessor)	-	-	-	8,168	-	-	-	-	-	-	8,168
Finance Lease	-	-	1,787,601	-	-	-	167,686	-	-	-	1,955,287
IFRIC 12 PPP/PFI	69,189	94,689	592,998	886,113	-	241,783	76,058	1,682,137	-	13,246	3,656,213
At 31 March 2010	**518,670**	**5,365,845**	**5,408,004**	**9,600,265**	**35,896,688**	**2,083,237**	**7,560,195**	**2,854,077**	**14,978,294**	**5,468,671**	**89,733,946**

* Additions include accruals of £2,501,303,000 (2008-09: £2,803,023,000).
** Property, plant and equipment as at 31 March 2010 include capitalised provisions at cost of £334,655,000 (2008-09: £303,531,000).
*** Includes assets reclassified to / from intangible assets and transfers to / from operating costs.
**** Donated Assets in use have been valued on the same basis as all other assets used by the Department.
† Revaluations include changes due to Modified Historic Cost Accounting through indexation, impairment and impairment reversals. Assets are impaired for a variety of reasons e.g. changes due to increased wear and tear as a result of operations. Land and buildings are subject to quinquennial revaluation; overseas assets are also subject to adjustments to reflect movements in the Euro to Sterling exchange rate.

2009 – 10 Quinquennial Revaluation

16.1 All Property (Land and Buildings) with the exception of Assets under Construction, are subject to a quinquennial revaluation (QQR), which is conducted over a rolling 5 year programme with approximately 25% of the estate being revalued in each of the first 4 years allowing for any residual work to take place in year 5. The valuations are performed by two external organisations – the Valuation Office Agency, who deal with the UK estate, and GVA Grimley, who cover the overseas estate. Valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual. Non-specialist properties are valued at fair value, interpreted as market value for existing use; specialist property for which there is no external market is valued at depreciated replacement cost.

16.2 Data from the 2009–10 quinquennial review resulted in a £362M increase in the value of Land and a £106.8M decrease in the value of Buildings; accruals have been posted to cover some outstanding valuations.

16.3 The net debit to the OCS in respect of impairments arising from the decreases in the value against owned Land and Buildings is £77M. This is made up of: Land – Impairment Writes-Off £38.5M and Impairment Reversals £52.6M; Buildings – Impairment Writes-Off £108.5M and Impairment Reversals £17.4M.

17. Financial Instruments

17.1 IFRS 7 Financial Instruments – Disclosures, requires the Department to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the risks to which the Department is exposed and how these risks are managed. For each type of risk arising from financial instruments, the Department is also required to provide summary quantitative data about its exposure to the risk at the reporting date.

17.2 The cash requirements of the Department are met through the Estimates process, financial instruments therefore play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little liquidity or cash flow risk.

17.3 The Department is subject to some credit risk. The carrying amount of receivables, which is net of impairment losses, represents the Department's maximum exposure to credit risk. Trade and other receivables consist of a large number of diverse customers spread over a wide geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. The following analysis provides details of debtors beyond their due date and the impairments made:

	0 - 3 Months £000	3 - 6 Months £000	6 - 12 Months £000	Over 12 months £000
Trade receivables before impairment	99,522	22,318	10,265	23,827
Impairment	(295)	(665)	(1,578)	(6,599)
Net carrying value of receivables beyond the due date	99,227	21,653	8,687	17,228

The impairments represent 1.2% of trade and other receivables (2008-09: 1.6%).

17.4 The Department is subject to exchange rate risk and enters into forward purchase contracts for Euros and US Dollars to mitigate against the risk that cash inflows and outflows will be affected by changes in exchange rates; foreign currency forward contracts were not in hedging relationships in accordance with IAS 39. £2,023M of expenditure is undertaken in foreign currencies which are not funded through the forward purchase contracts.

Significant Accounting Policies

17.5 Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 1 to the financial statements.

Categories of Financial Instruments

17.6 Details of the Financial Instruments, by category, are:

			Carrying Value	
	Note	**31 March 2010 £000**	31 March 2009 £000	1 April 2008 £000
Financial Assets				
Fair value through OCS – Held for Trading	SoFP	513,611	1,110,800	451,542
Loans and receivables (including cash and cash equivalents)		2,095,522	2,198,611	2,055,473
Held for Sale		1	1	241,029
		2,609,134	3,309,412	2,748,044
Financial Liabilities				
Payables and accruals		(8,166,280)	(8,346,708)	(7,717,540)
Fair value through OCS – Held for Trading	SoFP	(30,984)	-	(191,538)
		(8,197,264)	(8,346,708)	(7,909,078)

17.7 The net gains and losses taken through the Operating Cost Statement and Reserves in respect of financial instruments are listed below:

	31 March 2010		31 March 2009	
	OCS £000	**Reserves £000**	OCS £000	Reserves £000
Financial Assets				
Fair value through OCS - Held for Trading	270,606	-	(1,176,730)	-
Interest on loans and receivables	(637)	-	(15,956)	-
Available for Sale	-	-	(253,457)	239,780
Financial Liabilities				
Payables and accruals	(4,241)	-	334	-
	265,728	-	(1,445,809)	239,780

Interest Rate Risk Management

17.8 A significant proportion of the Department's financial assets and liabilities carry nil or fixed rates of interest. The exposure to interest risk is therefore not significant. Departmental cash requirements are met through the Parliamentary Estimates process.

Foreign Currency Risk

17.9 The Department undertakes certain transactions denominated in foreign currencies; as a result exposure to exchange rate fluctuations arises. Exchange rate exposures for the US Dollar and Euro are managed using forward purchase contracts with the Bank of England and covered 59% of the in-year expenditure (Request for Resources 1 (RfR1) – Provision of Defence Capability).

17.10 The table below details the forward purchase currency contracts outstanding as at 31 March 2010:

	Average Contract Exchange Rates	Foreign Currency US $ '000 Euro € '000 31 March 2010	Contract Value 31 March 2010 £000	Financial Asset / (Liability) Fair Value 31 March 2010 £000	Financial Asset / (Liability) Fair Value 31 March 2009 £000
Delivery 2010-11					
US Dollars ($)	1.66	2,153,000	1,294,265	125,147	205,350
Euro (€)	1.26	1,834,000	1,453,519	182,375	344,384
Delivery 2011-12					
US Dollars ($)	1.63	1,655,000	1,016,591	74,450	153,189
Euro (€)	1.21	1,316,000	1,086,974	86,873	222,649
Delivery 2012-13					
US Dollars ($)	1.58	827,000	525,184	20,007	76,264
Euro (€)	1.11	694,000	625,259	(6,225)	108,964
Total			6,001,792	482,627	1,110,800

17.11 The fair value of the financial asset / liability arising from the forward purchase contracts is determined using the mid-market rate for 31 March published in the Financial Times.

17.12 Pending a review of the appropriateness of forward purchase currency contracts, no new contracts were entered into during 2008-09. The Department recommenced the forward purchase programme, in May 2009, with new contracts for delivery in the period 2009-10 to 2012-13.

Embedded Derivatives

17.13 Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the Operating Cost Statement in accordance with IFRS 7. The Department operates a commercial framework whereby it does not currently hold financial risks of this nature and places restrictions on doing so in the future.

Fair Value of Financial Instruments

17.14 The carrying values of financial assets and financial liabilities are determined as follows:

- Financial assets at fair value through Operating Cost Statement: mid market rate at 31 March as published in the Financial Times.
- Loans and Receivables: Loans to MOD Trading Funds are valued at historical cost less any impairment. Receivables due in less than one year are valued at historic cost less any impairment. Receivables due in more than one year are discounted using either the higher of the interest rate intrinsic to the financial instrument or the HM Treasury rate of 2.2%.
- Available for Sale Assets are measured at book value.
- Payables and accruals: Payables and accruals due in less than one year are valued at historic cost less any impairment. Payables and accruals due in more than one year are discounted using the higher of the interest rate intrinsic to the financial instrument, the HM Treasury rate of 2.2% or, where applicable, the discount rate applicable to pension scheme provisions. Loans payable with a market rate of interest are valued at cost.
- Financial liabilities at fair value through Operating Cost Statement: mid market rate at 31 March as published in the Financial Times.

17.15 Details of the financial instruments by valuation method are:

			Carrying Value
	31 Mar 10	31 Mar 09	1 Apr 08
	£000	£000	£000
Financial Assets			
Fair value	513,612	1,110,801	692,571
Historic cost	1,832,943	1,720,857	1,384,121
Discounted cost	262,579	477,754	671,352
	2,609,134	3,309,412	2,748,044
Financial Liabilities			
Fair value	(30,984)	-	(191,538)
Historic cost	(7,995,442)	(8,210,542)	(7,378,830)
Discounted cost	(170,838)	(136,166)	(338,710)
	(8,197,264)	(8,346,708)	(7,909,078)

Financial Guarantee Contracts

17.16 The Department has entered into the following financial guarantee contracts as defined in IAS 39:

Guarantee	Maximum Liability at 31 March 2010 £000	Probability	Fair value at 31 March 2010 £000
Guarantee to contractor for the provision of Government Records and Storage Facility.	402	Very Low	402
Indemnity to towage companies hired to tow foreign warships in UK ports.	Nil	Very Low	Nil

17.17 Investments in Other Public Sector and Non-Public Sector Bodies

	Non-Current Assets Financial Assets		Total
	Public Dividend Capital £000	Loans £000	£000
Balance at 1 April 2008	184,254	72,011	256,265
Additions		25,879	25,879
Repayments	(38,385)	(26,559)	(64,944)
Balance at 31 March 2009	**145,869**	**71,331**	**217,200**
Additions / Transfers:			
– Defence Science and Technology Laboratory	-	10,700	10,700
– Met Office	-	4,379	4,379
Repayments / Transfers:			
– UK Hydrographic Office	-	(496)	(496)
– Met Office	-	(6,062)	(6,062)
– Defence Support Group (DSG)	-	(1,664)	(1,664)
Balance at 31 March 2010	**145,869**	**78,188**	**224,057**

17.18 Public Dividend Capital (PDC) and Loan Balances by Trading Fund

	Public Dividend Capital (PDC) 31 Mar 10 £000	Loans 31 Mar 10 £000	Interest Rates %p.a.
Defence Science and Technology Laboratory	50,412	32,200	2.75-4.53
UK Hydrographic Office	13,267	9,230	8.55
Met Office	58,867	6,803	1.06-5.65
Defence Support Group	23,323	29,955	4.6
Totals	**145,869**	**78,188**	

17.19 Analysis of Loans Repayable by Instalments

	Due Within One Year £000	Due After One Year £000	Total £000
Defence Science and Technology Laboratory	3,220	28,980	32,200
UK Hydrographic Office	538	8,692	9,230
Met Office	5,698	1,105	6,803
Defence Support Group	1,665	28,290	29,955
Balance at 31 March 2010	**11,121**	**67,067**	**78,188**

17.20 Department's Share of Net Assets and Results of Trading Funds

	Net Assets (after loans due to MOD) 31 Mar 10 £000	Turnover £000	Surplus / profit for the Year (before financing) £000
Defence Science and Technology Laboratory	231,700	435,281	20,884
UK Hydrographic Office	80,011	116,618	34,368
Met Office	195,284	191,965	6,658
Defence Support Group	68,603	232,554	8,676
Total	**575,598**	**976,418**	**70,586**

Other Financial Assets

17.21 On the 9 September 2008 the Department sold its 'financial asset held for sale' (the remaining shareholding in QinetiQ plc). 124,885,445 shares were sold at 206 pence per share; a gross income of £257,264,016.70. The cost of the sale, including the nominal value of the shares was approximately £3.8M and was met by the MOD.

The Department holds one Special Share in QinetiQ Group plc, and one Special Share in each of two of its subsidiary companies, QinetiQ Holdings Limited and QinetiQ Limited. The Special Shares can only be held by the Crown and give the Government the right to: implement and operate the Compliance System; prohibit or restrict QinetiQ from undertaking activities, which may lead to an unmanageable conflict of interest that would be damaging to the defence or security interests of the United Kingdom; and to veto any transaction, which may lead to unacceptable ownership of the company. The Special Shareholder must receive notice of, and may attend and speak at, general and extraordinary meetings. The Special Shares carry no voting rights, except to enforce certain aspects of the compliance regime. The shareholder has no right to share in the capital or profits of the company other than – in the event of liquidation – to be repaid the capital paid up in respect of the shares before other shareholders receive any payment.

17.22 As at 31 March 2010, investments, including Special Shares, were held in the following:

	7.5% Non-cumulative Irredeemable Preference Shares at £1 each
The Chamber of Shipping Limited	688 Shares
The British Shipping Federation Limited	55,040 Shares

	Preferential Special Shares at £1 each
Devonport Royal Dockyard Limited	1 Share
Rosyth Royal Dockyard Limited	1 Share
AWE plc	1 Share
AWE Pension Trustees Limited	1 Share
QinetiQ Group plc	1 Share
QinetiQ Holdings Limited	1 Share
QinetiQ Limited	1 Share
BAE Systems Marine (Holdings) Limited	1 Share

	Non Preferential Shares of £1 each
International Military Services Limited	19,999,999 Shares

17.23 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 settlement of outstanding contracts, the company will be liquidated. The Department has written down the value of the investment to nil.

17.24 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.

17.25 Special 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' annual reports 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, c/o Babcock BES, Rosyth Business Park, Rosyth, Dunfermline, Fife KY11 2YD	SC101959
AWE plc, AWE Aldermaston, Reading, Berkshire RG7 4PR	02763902
AWE Pension Trustees Limited, AWE Aldermaston, Reading, Berkshire RG7 4PR	02784144
QinetiQ Group plc, 85 Buckingham Gate, London SW1E 6PD	04586941
QinetiQ Holdings Limited, 85 Buckingham Gate, London SW1E 6PD	04154556
QinetiQ Limited, 85 Buckingham Gate, London SW1E 6PD	03796233
BAE Systems Marine (Holdings) Limited, Warwick House, PO Box 87, Farnborough Aerospace Centre, Farnborough, Hants, GU14 6YU	01957765

Dividends from Investments

17.26 The following dividends are shown as income in Note 13.

	2009-10 **£000**	2008-09 £000
QinetiQ	-	2,643
Defence Science and Technology Laboratory* †	4,000	28,000
UK Hydrographic Office†	11,160	4,394
Met Office*	4,500	17,177
Defence Support Group†	4,500	5,200
Total	**24,160**	**57,414**

*The figures for 2008-09 include Special Dividends of £25M from Dstl and £6M from Met Office.
†The figures for 2009-10 include Special Dividends of £5.995M from UKHO, £0.5M from DSG and £1M from Dstl.

18. Impairments

The total impairment and impairment reversals charged to the Operating Cost Statement and the revaluation reserve for the year are:

	OCS Impairment **£000**	**OCS Impairment Reversal** **£000**	**Reserves Impairment** **£000**	**Reserves Impairment Reversal** **£000**
Intangibles	181,690	(260,222)	-	-
Land	2,001,172	(1,714,987)	-	-
Property	681,643	(61,230)	392	-
Single Use Military Equipment (SUME)	208,559	(198,204)	21,727	-
Plant & machinery	3,692	(3,724)	313	-
Transport	126,305	(6,049)	6,232	-
IT	43,569	(109,487)	-	-
Assets under construction	99,535	(2,153)	-	(671)
	3,346,165	(2,356,056)	28,664	(671)

19. Assets Held For Sale

The Department has the following non-current assets held for sale:

	31 March 2010 **£000**	31 March 2009 £000	1 April 2008 £000
Land and property	74,183	120,154	154,871
Plant and equipment	8,879	4,666	936
	83,062	**124,820**	**155,807**

19.1 During 2009-10 assets reclassified from property, plant and equipment to current assets – assets held for sale (with net book values shown in brackets) included: – property: Royal Hospital Haslar (£3M) and DE&S Caversfield (£2M); plant and equipment: HMS Roebuck (£3.6M), thirty Gazelle helicopters (£1.2M).

19.2 Disposal of plant and equipment is managed through the Disposal Services Authority. Disposal of land and property is managed by Defence Estates. Assets are held at the lower of market value or net book value with any movement in valuation taken to the revaluation reserve up to historic cost and then to the Operating Cost Statement as an impairment. Costs of impairing the assets to the net realisable value were charged to the operating costs statement and are included in Note 12 – Other Programme Costs.

19.3 During 2009-10 assets held for sale which were actually sold (with sales proceeds shown in brackets) included: RAF Alconbury (£23M), Royal Hospital Haslar (£3M), Barrack Road, Weymouth (£2M), RAF Halton (Nursing Officers Mess) (£2M), Church Crookham (£10M), Forest Moor (£5M), Chelveston Family Quarters (£4M), Molesworth Family Quarters (£2M), Durrington (Main Site) (£4M), Seafield Park (Stubbington) (£2M), DE&S Caversfield (£2M), Goose Bay (£2M).

20. Inventories

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Work in progress - long term contract	6	53,615	124,773
Work in progress - other	-	42,170	-
Raw materials and consumables	7,183,837	6,119,589	5,158,447
Inventory held for sale	12	12	-
	7,183,855	6,215,386	5,283,220

20.1 Where MOD has a Memorandum of Understanding with another country inventory, including major components such as gas turbines and other supporting inventory items, is held in MOD's inventory systems and may physically be at the contractor, in stores or both. The value of these items is not included in the figures above.

20.2 The write-down in the value of inventory which has been recognised in the Operating Cost Statement during the year is £1,217,632,000. During the year, individual reversals of write-downs greater than £1M which had previously been recognised in the Operating Cost Statement amounted to £385,545,000. The circumstances which led to the reversals are summarised below;

	2009-10 £000	2008-09 £000
Annual review of inventory provisions in accordance with inventory plans	407,218	(208,497)
Review of inventory provisions following changes in non-current asset disposal plans	-	(21,126)
Review of inventory provisions following a reduction in inventory balances held in industry	(21,673)	(1,998)
Elimination of unsupported balances	-	(50,569)
	385,545	(282,190)

20.3 The balance of Raw Materials and Consumables of £7,183,855,000 as at 31 March 2010 includes the write-on of £432M of inventory held in Land Forces TLB. This adjustment increases the value of inventory recorded on the SoFP (a corresponding increase to the General Fund is also recorded on the SoFP and on the SoCiTE – as a Prior Period Adjustment) in respect of items which have not previously been included in the accounts. The omission which may span a number of years, relates to items accounted for in sub-depots and other forward stores. However, exact details are not available and we have been unable to recreate the information retrospectively, hence the adjustment has been treated as a Prior Period Adjustment and in accordance with HM Treasury's instructions the benefit is recorded in the resource outturn for 2009-10 and its effect on the Operating Costs for the year are shown at Note 4.1 to the accounts.

21. Trade receivables and other current assets

21.1 Analysis by type

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Amounts falling due within one year:			
Trade receivables	170,442	387,493	388,031
Deposits and advances	84,178	49,882	63,312
Value Added Tax	420,336	362,498	411,187
Other receivables	379,040	173,999	227,460
Staff loans and advances*	33,152	21,998	42,716
Prepayments and accrued income	1,374,298	1,188,952	710,492
Current part of IFRIC 12 PFI prepayment	6,012	45,356	92,554
Under issue of Supply from the Consolidated Fund	239,885	-	-
	2,707,343	**2,230,178**	**1,935,752**
Amounts falling due after one year:			
Trade receivables	193,310	403,621	576,149
Other receivables	7,711	8,280	41,162
Staff loans and advances*	61,360	65,853	52,982
Prepayments and accrued income	620,211	610,576	1,297,614
	882,592	**1,088,330**	**1,967,907**
Total Receivables	**3,589,935**	**3,318,508**	**3,903,659**

* Staff loans and advances includes loans for house purchase. The number of staff with house purchase loans was 13,486 (2008-09:12,225).

21.2 Intra-Government Balances

	31 March 2010	31 March 2009	1 April 2008	**31 March 2010**	31 March 2009	1 April 2008
	Amounts falling due within one year			Amounts due after more than one year		
	£000	£000	£000	**£000**	£000	£000
Balances with other central government bodies	439,040	405,392	470,202	1	-	331
Balances with local authorities	1,277	102,411	103,431	-	-	314
Balances with NHS Trusts	6,774	4,695	4,188	-	-	207
Balances with public corporations and trading funds	10,158	45,028	36,530	-	-	3
Subtotal: intra-government balances	457,249	557,526	614,351	1	-	855
Balances with bodies external to government	2,250,094	1,672,652	1,321,401	882,591	1,088,330	1,967,052
Total Receivables	**2,707,343**	**2,230,178**	**1,935,752**	**882,592**	**1,088,330**	**1,967,907**

The table above provides an analysis of the balances in Table 21.1 by customer type.

22. Cash and Cash Equivalents

	£000
Balance at 1 April 2008	513,852
Net Cash Inflow/(Outflow):	
Received from Consolidated Fund	36,551,725
Utilised	(36,152,007)
Increase / (decrease) during year	399,718
Balance at 31 March 2009	913,570
Net Cash Inflow/(Outflow):	
Received from Consolidated Fund	37,184,813
Utilised	(37,421,026)
Increase / (decrease) during year	(236,213)
Balance at 31 March 2010	**677,357**

The following balances were held at:	**31 March 2010 £000**	31 March 2009 £000	1 April 2008 £000
Office of HM Paymaster General	485,468	560,944	339,757
Commercial Banks and Cash in Hand	191,889	352,626	174,095
Totals	**677,357**	**913,570**	**513,852**

The cash at bank balance includes £207,221,000 (2008-09: £203,296,000) 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. The corresponding liability for these advances is shown under payables due within one year.

The Department holds $40,000,000 in an account with the US Government as a Termination Liability Reserve. This is a US legal requirement in order to trade with US defence contractors through Foreign Military Sales. The balance is accounted for as a prepayment in Note 21 Trade Receivables and other non-current assets.

23. Trade Payables and Other Current Liabilities

23.1 Analysis by type

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Amounts falling due within one year			
VAT	37,833	15,301	55,465
Other taxation and social security	249,233	257,197	278,284
Trade payables	363,252	447,918	499,999
Other payables*	1,259,060	879,947	716,550
Payments received on account	3,439	4,922	13,413
Accruals and deferred income	6,897,837	6,913,855	6,509,141
Current part of finance leases	23,495	22,940	13,500
Current part of imputed finance lease element of IFRIC 12 PFI contracts	167,646	170,670	213,721
Current part of NLF loans**	2,270	2,141	2,019
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	120,807	346,673
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	242,541	242,795	-
	9,246,606	**9,078,493**	**8,648,765**
Amounts falling due after more than one year			
Other payables	67,432	64,094	260,364
Accruals and deferred income	97,575	66,072	75,346
Finance leases	1,013,798	1,028,959	1,041,567
Imputed finance lease element of IFRIC 12 PFI contracts	3,328,899	3,260,468	3,076,169
NLF loans**	40,001	42,271	44,412
	4,547,705	**4,461,864**	**4,497,858**
Total Payables	**13,794,311**	**13,540,357**	**13,146,623**

* Other payables includes amounts advanced by foreign governments to the Department in respect of various collaborative projects where the United Kingdom is the host nation and for the procurement of defence equipment on their behalf of £207,221,000 (2008-09: £203,296,000).
** Under the Armed Forces (Housing Loans) Acts 1949, 1958 and 1965, £94M was borrowed from the National Loans Fund for the construction of married quarters over the period 1950/51 to 1967/68. These loans are fully repayable between 2012 and 2028, with the last instalment due on 20 February 2028. Interest on the loans is payable at rates ranging from 4% to 7% per annum.

23.2 Intra-Government Balances

	31 March 2010	31 March 2009	1 April 2008	**31 March 2010**	31 March 2009	1 April 2008
	Amounts falling due within one year			Amounts due after more than one year		
	£000	£000	£000	**£000**	£000	£000
Balances with other central government bodies	587,620	642,063	686,264	40,001	-	44,412
Balances with local authorities	346	332	332	-	-	-
Balances with NHS Trusts	5,128	12,924	12,924	-	-	-
Balances with public corporations and trading funds	99,491	135,189	135,189	-	-	-
Subtotal: intra-government balances	692,585	790,508	834,709	40,001	-	44,412
Balances with bodies external to government	8,554,021	8,287,985	7,814,056	4,507,704	4,461,864	4,453,446
Total Payables	**9,246,606**	**9,078,493**	**8,648,765**	**4,547,705**	**4,461,864**	**4,497,858**

The table above provides an analysis of the balances in Table 23.1 by contractor type.

24. Provisions for Liabilities and Charges

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other £000	Total £000
At 1 April 2008	4,168,222	101,681	416,851	1,067,017	5,753,771
Increase in provisions in-year	177,980	14,524	86,382	204,043	482,929
Provisions not required written back	(181,777)	(23,816)	(55,434)	(38,408)	(299,435)
Provisions utilised in year	(55,180)	(16,514)	(116,172)	(128,165)	(316,031)
Unwinding of discount	96,091	172	5,361	(11,294)	90,330
Provisions capitalised	22,640	-	-	-	22,640
At 31 March 2009	4,227,976	76,047	336,988	1,093,193	5,734,204
Increase in provisions in-year	481,507	216	47,940	124,191	653,854
Provisions not required written back	(44,535)	(828)	(82,571)	(511,716)	(639,650)
Provisions utilised in year	(56,888)	(9,318)	(94,216)	(128,082)	(288,504)
Unwinding of discount	97,618	463	9,775	107,785	215,641
Provisions capitalised	31,124	-	-	-	31,124
At 31 March 2010	**4,736,802**	**66,580**	**217,916**	**685,371**	**5,706,669**

24.1 Analysis of expected timing of discounted cash flows

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other £000	Total £000
In the year to 31 March 2011	122,411	17,013	57,392	173,169	369,985
Between April 2011 and March 2016	829,328	45,132	102,662	197,301	1,174,423
Between April 2016 and March 2021	794,388	4,121	42,804	90,337	931,650
Thereafter	2,990,675	314	15,058	224,564	3,230,611
At 31 March 2010	**4,736,802**	**66,580**	**217,916**	**685,371**	**5,706,669**

Included in the amounts not expected to be called until after 2021 are:

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other £000	Total £000
Amounts not expected to be called until the period beginning April 2021	2,492,481	314	15,058	224,377	2,732,230
Amounts not expected to be called until the period beginning April 2060	284,317	-	-	187	284,504
Amounts not expected to be called until the period beginning April 2085	213,877	-	-	-	213,877
	2,990,675	**314**	**15,058**	**224,564**	**3,230,611**

Nuclear Decommissioning

24.2 Nuclear decommissioning provisions relate principally to the cost of: decommissioning facilities, treatment and storage of nuclear waste (arising from operations at MOD sites and the operation of Royal Navy submarines), and to the Departmental share of planning and constructing a national repository for the eventual disposal of that waste. MOD is also responsible for the Atomic Weapons Establishment (AWE).

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 provision to cover the liabilities is based on schedules of information received by the MOD from major decommissioning contractors. These schedules are based on technical assessments of the processes and methods likely to be used 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 is sensitive to these factors and their likely effect on the calculation and amount of the liabilities is reviewed on an annual basis. For decommissioning operations with an end date costs have been calculated to that date; for operations of an ongoing nature (e.g. storage of materials) costs have been calculated for a period of 150 years.

The latest estimate of the undiscounted cost of dealing with the MOD's nuclear liabilities is £9,343,264,000 (2008-09: £9,641,500,000).

The estimate of £4,736,802,000 (2008-09: £4,227,976,000) at 31 March 2010 represents the liabilities discounted at 2.2% to the reporting date.

In December 2007 the AWE Quinquennial Review (QQR) Submission Report was presented to the Nuclear Installations Inspectorate (NII). The resulting estimates incorporate risk and uncertainty appropriate to each type of expenditure and form the basis of the 2009-10 AWE decommissioning costs. The NII have not yet concluded their work on the QQR but have not identified any issues to date.

Other Decommissioning and Restoration

24.3 Other decommissioning and restoration provisions relate primarily to contaminated sites where the Department has a constructive or a legal obligation to restore the sites for normal use. The estimated payments are discounted by the Treasury discount rate of 2.2% in real terms. During 2009-10 existing provisions have been used to offset expenditure for the removal of asbestos in the UK, restitution of former ranges and training areas and mine stabilisation works in Bath.

Early Retirement Pensions

24.4 The Department meets the additional costs of benefits beyond the normal civil service pension scheme benefits in respect of employees who retire early by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions (currently 1.8%). During 2009-10 increases of £47,940,000 were made to existing schemes. Early retirement / redundancy costs charged to provisions during the period amounted to £94,216,000.

Other

24.5 The balance on Other provisions of £685,371,000 includes costs arising from the disposal of non current assets; redundancy and relocation costs associated with reorganisation and restructuring (£264,411,000) and amounts payable under guarantees, litigation and contractual arrangements (£420,960,000). During 2009-10 provisions have been increased for legal claims (£71,069,000), an outstanding adjudication decision £3,126,000 and Locally Employed Civilian pensions £49,996,000. Costs charged to provisions during the period amounted to £128,083,000 and included £115,580,000 in respect of legal claims and £12,503,000 for Locally Employed Civilian pensions. A provision for an outstanding adjudication decision (£442,126,000) has been reclassified to payables as the payment is expected to be made in 2010-11.

25. Notes to the Statement of Operating Costs by Departmental Strategic Objectives

The net costs of the Departmental Objectives are:

Objective 1: Achieving success in the tasks we undertake, at home and abroad

			2009-10			2008-09
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Operations	**2,752,682**	**(70,847)**	**2,681,835**	2,893,552	(38,536)	2,855,016
Other military tasks	**1,968,419**	**(81,084)**	**1,887,335**	1,558,793	(91,082)	1,467,711
Contributing to the community	**447,086**	**(18,112)**	**428,974**	459,463	(16,592)	442,871
Helping to build a safer world	**525,186**	**(179,400)**	**345,786**	591,847	(214,842)	377,005
Total Objective 1	**5,693,373**	**(349,443)**	**5,343,930**	5,503,655	(361,052)	5,142,603

Operations comprise the additional costs incurred deploying the Armed Forces on military operations, e.g. in Afghanistan, over and above the costs of maintaining the units involved at their normal states of readiness.

Other military tasks include ongoing military commitments, e.g. the costs of identifying and countering the threat of terrorist attack on the UK mainland, and of maintaining the integrity of UK waters and airspace.

Contributing to the community includes ongoing support activities, e.g. search and rescue and administration of cadet forces. In addition, it includes the costs of assistance to other Government Departments and agencies, e.g. in counter drugs operations.

Helping to build a safer world includes the costs of Defence diplomacy undertaken to build confidence and security with our allies. It also includes the Department's support to wider British interests.

Objective 2: Being ready to respond to the tasks that might arise

The costs of delivering the military capability to meet this objective are analysed by the Force Elements of the front line commands (including joint force units where these have been established), and a small number of centrally managed military support activities.

In addition to the direct operating costs of the front line units, the cost of Force Elements includes the attributed costs of logistical and personnel support.

In common with all objectives, costs also contain a share of the costs of the apportioned overheads for Head Office functions and centrally provided services.

The costs, including support services, of Force Elements are as follows:

			2009-10			2008-09
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Royal Navy						
Aircraft carriers	**358,578**	**(9,376)**	**349,202**	335,779	(11,060)	324,719
Frigates and Destroyers	**1,418,185**	**(36,123)**	**1,382,062**	1,320,102	(42,129)	1,277,973
Smaller warships	**237,004**	**(5,863)**	**231,141**	209,818	(6,696)	203,122
Amphibious ships	**361,211**	**(7,279)**	**353,932**	312,571	(11,746)	300,825
Strategic sealift	**35,622**	**(2,399)**	**33,223**	101,712	(11,073)	90,639
Fleet support ships	**477,364**	**(10,533)**	**466,831**	533,478	(12,506)	520,972
Survey and other vessels	**265,243**	**(5,692)**	**259,551**	243,478	(6,299)	237,179
Naval aircraft	**1,786,919**	**(39,094)**	**1,747,825**	1,601,188	(38,736)	1,562,452
Submarines	**2,574,814**	**(51,037)**	**2,523,777**	2,180,861	(53,546)	2,127,315
Royal Marines	**616,133**	**(18,337)**	**597,796**	608,936	(20,346)	588,590
	8,131,073	**(185,733)**	**7,945,340**	7,447,923	(214,137)	7,233,786
Army						
Field units	**11,060,295**	**(265,283)**	**10,795,012**	10,714,369	(294,870)	10,419,499
Other units	**3,065,086**	**(175,229)**	**2,889,857**	1,923,561	(152,940)	1,770,621
	14,125,381	**(440,512)**	**13,684,869**	12,637,930	(447,810)	12,190,120
Royal Air Force						
Combat aircraft	**2,062,093**	**(65,309)**	**1,996,784**	2,128,733	(74,452)	2,054,281
Intelligence, Surveillance, Target Acquisition and Reconnaissance aircraft	**1,630,051**	**(45,879)**	**1,584,172**	1,535,680	(45,627)	1,490,053
Tankers, transport and communications aircraft	**1,220,537**	**(50,559)**	**1,169,978**	954,779	(56,220)	898,559
Future capability	**819,225**	**(19,390)**	**799,835**	542,244	(18,405)	523,839
Other aircraft and RAF units	**1,625,673**	**(175,499)**	**1,450,174**	1,572,274	(196,088)	1,376,186
	7,357,579	**(356,636)**	**7,000,943**	6,733,710	(390,792)	6,342,918
Centre Grouping						
Joint and multinational operations	**285,122**	**(4,898)**	**280,224**	210,558	(6,256)	204,302
Centrally managed military support	**919,308**	**(16,252)**	**903,056**	704,422	(16,108)	688,314
Maintenance of war reserve stocks	**6,855**	**(67)**	**6,788**	88,157	(2,079)	86,078
	1,211,285	**(21,217)**	**1,190,068**	1,003,137	(24,443)	978,694
Total Objective 2	**30,825,318**	**(1,004,098)**	**29,821,220**	27,822,700	(1,077,182)	26,745,518

Most groupings are self explanatory. The following, however, should be noted:

Smaller warships includes mine hunting and offshore patrol vessels.

Amphibious ships includes assault ships providing platforms for landing craft and helicopters, and Royal Fleet Auxiliary landing support ships.

Strategic sealift is the Roll-On Roll-Off ferry facility supporting the Joint Rapid Reaction Force.

Fleet support ships includes Royal Fleet Auxiliary ships providing tanker and replenishment support to warships.

Survey and other vessels includes ocean and coastal survey and ice patrol ships.

Naval aircraft include Sea King, Lynx and Merlin helicopters deployed in anti-submarine, airborne early warning, Royal Marine support, and reconnaissance and attack roles.

Submarines includes the operating costs of submarines, nuclear weapons systems and logistical support of nuclear propulsion, including nuclear decommissioning.

Army – Field units includes 1 (UK) Armoured Division, 3 (UK) Division, Joint Helicopter Command and Theatre troops.

Army – Other units includes Regional Divisions and Land support and training.

Combat aircraft (formerly strike/attack and offensive support aircraft and Typhoon/Tornado F3 within defensive and surveillance aircraft)) includes Tornado GR4, Joint Force Harrier and Jaguar aircraft deployed in strike/attack and offensive support roles and Typhoon and Tornado F3 in air defence roles for the UK's standing commitments and contingent overseas operations. Typhoon has a multi-role capability since mid 2008.

Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) (formerly within defensive and surveillance aircraft and reconnaissance and maritime patrol aircraft) includes Sentry AEW1, Sentinel and Nimrod aircraft deployed in UK contingent operations, NATO and UN Peace-Keeping commitments.

Tankers, transport and communications aircraft includes C-17, Hercules, Tristar and VC10 aircraft providing air transport and air to air refuelling, and smaller transport aircraft (BAe 125/146 and Squirrel/Agusta 109 helicopters) used in a rapid communications role.

Future capability includes the Joint Test and Evaluation Group, development and use of geographic information and Nimrod MR4A.

Other aircraft and RAF units includes ground forces (e.g. the RAF Regiment), miscellaneous aircraft not included elsewhere and the RAF Logistics Hub and Air Traffic Services.

Joint and multinational operations includes Chief of Joint Operations HQ and the costs less receipts of UK participation in NATO.

Centrally managed military support includes intelligence operational support and Special Forces.

Maintenance of war reserve stocks includes the holding costs and charges of munitions and other stocks, above the levels required for planned consumption.

Objective 3: Build for the future

This objective comprises the following elements:

			2009-10			2008-09
	Gross £000	**Income £000**	**Net £000**	Gross £000	Income £000	Net £000
Research	**1,241,890**	**(103)**	**1,241,787**	1,113,378	(71)	1,113,307
Equipment Programme	**1,696,540**	**(53,371)**	**1,643,169**	1,493,879	(40,605)	1,453,274
Non Equipment Investment Programme	**2,179,586**	**(1,540)**	**2,178,046**	1,858,213	(151)	1,858,062
Total Objective 3	**5,118,016**	**(55,014)**	**5,063,002**	4,465,470	(40,827)	4,424,643

Research comprises the costs, including capital charges, of the Science, Innovation, Technology TLB, and research expenditure incurred by other TLBs.

Equipment Programme refers to the administration and programme costs incurred by DE&S TLB, associated with specifying requirements for and procurement of fighting equipment and other assets. The values of property, plant and equipment additions are shown in Notes 15 and 16.

Non-Equipment Investment Programme refers to the administration and programme costs associated with specifying requirements and delivering investment in defence estate and business infrastructure, enabling the military capability of the Armed Forces.

Attribution to Objectives

Gross expenditure of £39,456,911,000 (92.6%) (2008-09 – 93.1%) and Operating Income of £1,122,403,000 (79.7%) (2008-09 – 81.2%) were allocated to tasks, force elements or activities directly supporting the Objectives. The remainder was apportioned in one of two ways:

- by means of cost attributions to "customer" Management Groupings, using local output costing systems to identify the full local costs of services provided. Cost attributions from suppliers are analysed onward to final outputs on advice from the recipients. If specific advice is not given, attributed costs are assumed to follow the same pattern as locally incurred expenditure;
- as an element of central overhead, shared among Objectives in proportion to all other attributions. The force elements etc. described above receive a share of the expenditure and income components of these overheads, on the basis of their net costs.

The central overheads comprised:

			2009-10			2008-09
	Gross £000	**Income £000**	**Net £000**	Gross £000	Income £000	Net £000
Support for Ministers and Parliament	**6,725**	**(239)**	**6,486**	9,511	(201)	9,310
Departmental corporate services	**1,617,672**	**(264,013)**	**1,353,659**	1,620,410	(265,669)	1,354,741
Strategic Management	**133,526**	**(294)**	**133,232**	173,046	(5,449)	167,597
Totals	**1,757,923**	**(264,546)**	**1,493,377**	1,802,967	(271,319)	1,531,648

Support for Ministers and Parliament includes provision of advice to Ministers and the costs incurred in the Department, of dealing with Parliamentary business.

Departmental corporate services comprises internal support functions, e.g. payment of bills, payroll administration and medical care for service personnel, and costs of Departmental restructuring.

Strategic Management includes strategic, personnel, scientific and medical policy functions.

Capital employed

The deployment of the Department's capital in support of its objectives does not follow the pattern of operating costs. Assets totalling £97,957,974,000 (74.7%) support the military capability required to meet Objective 2. The remainder can be attributed to tasks within Objective 1 (£6,158,508,000 – 4.7%), and intangible assets, Single Use Military Equipment (SUME) and other assets under construction, and assets related to equipment procurement within Objective 3 (£27,015,578,000 – 20.6%), and payment of War Pensions Benefits (£7,330,000).

26. Capital Commitments

Capital commitments, for which no provision has been made in these financial statements, were as follows:

	31 March 2010 £000	31 March 2009* £000
Intangible assets	2,642,846	3,142,456
Property, plant and equipment	20,544,090	18,151,531
	23,186,936	21,293,987*

*Restated from £21,793,987 in the published 2008-09 accounts

27. Commitments Under Leases

27.1 Operating leases:

The total of future minimum lease payments under operating leases for the periods: not later than one year; later than one year but less than five years and later than five years are set out in the following table:

	31 March 2010 £000	31 March 2009 £000
Obligations under operating leases comprise:		
Land		
Not later than one year	48,734	48,604
Later than one year and not later than five years	193,873	193,620
Later than five years	8,739,771	8,791,394
	8,982,378	9,033,618
Buildings		
Not later than one year	58,120	50,165
Later than one year and not later than five years	171,116	200,499
Later than five years	239,168	251,512
	468,404	502,176
Other		
Not later than one year	74,384	67,906
Later than one year and not later than five years	190,687	40,931
Later than five years	119,547	44,530
	384,618	153,367

The following PPP / PFI arrangements failed to fulfil the criteria of IFRIC 12 – Service Concession Arrangements. They were subsequently assessed under IFRIC 4 (Determining whether an arrangement contains a lease) and IAS 17 (Leases) and have been accounted for as operating leases:

- Hayes Records and Storage: Pan-Government Records Management and Archive Services (Expires September 2028).
- Light Aircraft Flying Training: Provision of flying training and support services for Air Experience Flying and University Air Squadron Flying Training (Expired March 2009).
- Defence Elementary Flying Training Services: Provision of aircraft, instructors and services to support Elementary Flying Training (Expired July 2009).
- Light Aircraft Flying Training 2: Provision of aircraft, instructors and services to support University Air Squadrons and Elementary Flying Training (Service commenced April 2009).
- Hazardous Stores Information System (Expired October 2008).

27.2 Obligations under finance leases:

The total of future minimum lease payments under finance leases for the periods: not later than one year; later than one year but less than five years and later than five years are set out in the following table:

	31 March 2010 £000	31 March 2009 £000
Obligations under finance leases comprise:		
Buildings		
Not later than one year	47,720	47,720
Later than one year and not later than five years	190,880	190,880
Later than five years	8,828,508	8,876,228
	9,067,108	9,114,828
Less interest element	(8,224,108)	(8,271,828)
	843,000	843,000
Other		
Not later than one year	33,596	35,290
Later than one year and not later than five years	106,657	97,046
Later than five years	131,904	146,151
	272,157	278,487
Less interest element	(77,865)	(101,597)
	194,292	176,890

The following PPP / PFI arrangements failed to fulfil the criteria of IFRIC 12 – Service Concession Arrangements. They were subsequently assessed under IFRIC 4 (Determining whether an arrangement contains a lease) and IAS 17 (Leases) and have been accounted for as finance leases:

- Strategic Sealift: Provision services based on 6 Roll-on Roll -Off ferries in support of Joint Rapid Reaction Force deployments (part only – 4 vessels), (ends December 2024).

- Marine Support to Range and Aircrew Services: Provision of management, manning, operation and maintenance of Air Support Craft and Range Safety Craft (ends March 2012).

- Defence Helicopter Flying School: Provision of helicopter flying training (ends March 2012).

27.3 The arrangement between the MOD and Annington Homes Ltd for the provision of service housing in England and Wales has been accounted for as a lease. The lease is for 200 years and commenced in November 1996, in accordance with IAS 17 – Leases the land is treated as an operating lease and the houses treated as a finance lease. Rental payments for properties in excess of the minimum lease payment are included in Finance Lease Charges – Service Housing within the Operating Cost Statement. Payments of £111,026,000 were made during 2009-10.

28. Commitments Under IFRIC 12 Service Concession Arrangements

All PPP / PFI arrangements have been assessed in accordance with IFRIC 12 – Service Concession Arrangements as adopted by HM Treasury. Any arrangements not fulfilling the criteria for IFRIC 12 have subsequently been assessed against IFRIC 4 (Determining whether an arrangement contains a lease) and IAS 17 (leases). The following PFI arrangements fulfilled the criteria for IFRIC 12 and the assets have been accounted for as assets of the Department:

Project Description	Contract Start*	Contract End
Training, Administration and Financial Management Information System: Provision of training administration and financial management information systems to the Army Recruiting and Training Division	Aug 1996	Jan 2011
Defence Fixed Telecommunications System: Integration of 50 fixed telecommunications networks used by the Armed Forces and MOD, including the delivery of voice, data, LAN interconnect and other WAN services	Jul 1997	Jul 2012
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson	Oct 1997	Oct 2037
Service Personnel & Veterans Agency: Provision of personnel administration, pay and pensions services for military personnel	Nov 1997	Nov 2009
Service Personnel & Veterans Agency: Provision of personnel administration, pay and pensions services for military personnel – interim contract	Nov 2009	Nov 2012
Hawk Synthetic Training Facility: Provision of replacement simulator training facilities at RAF Valley	Dec 1997	Dec 2015
Joint Services Command and Staff College (JSCSC): Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters	Jun 1998	Aug 2028
RAF Lossiemouth Family Quarters: Redevelopment and re-provision of 279 Service family quarters	Jun 1998	Aug 2020
Attack Helicopter Training Service: Provision of full mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training	Jul 1998	Sep 2017
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton	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	Aug 1998	Aug 2023
VEOLIA PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage, serving a population of 12,000 military and dependants at Tidworth	Feb 1998	Aug 2018
RAF Mail: Provision of informal messaging services for the RAF	Nov 1998	Mar 2011
RAF Fylingdales: Provision of guaranteed power supply	Dec 1998	Mar 2024
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury	Mar 1999	Jun 2025
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy	Apr 1999	Jan 2021
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth	Jun 1999	Jun 2031
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service families in Central Scotland	Aug 1999	Jan 2021
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers	Feb 2000	Dec 2029
Main Building Refurbishment: Redevelopment and management services for MOD Main Building	May 2000	May 2030
Tri-Service Material Handling Equipment: Provision of Tri-Service materials handling capability	Jun 2000	Jun 2010
Defence Electronic Commerce Service: Strategic partnership to deliver e-business environment to share information between MOD and trading partners	Jul 2000	Jul 2010
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington	Jul 2000	Dec 2030
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew	Jul 2000	Jul 2025
Defence Animal Centre: Redevelopment of new office and residential accommodation, animal husbandry and training support	Aug 2000	Feb 2010
Family quarters at Wattisham: Provision of married quarters accommodation for 250 Service families	May 2001	Mar 2028
Astute Class Training: Provision of a training environment for crewmen and maintainers to support Astute Class submarines for 30 years	Sep 2001	Sep 2037
Defence Housing Information Systems: Provision of a management information system for Defence Housing	Oct 2001	Oct 2011
Family quarters at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families	Nov 2001	Sep 2028
Heavy Equipment Transporters: Provision of vehicles to replace existing fleet and meet future requirements	Dec 2001	Jul 2024
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field	Jun 2002	Jun 2022

Project Description	Contract Start*	Contract End
Material Handling Equipment: Provision of Tri-Service material handling equipment for Army, Navy and RAF storage depots	Aug 2002	Jan 2011
Flight Simulation and Synthetic Trainers: Provision of a Flight Simulation and Synthetic Trainers Integrated Aircrew Synthetic Training Service	Oct 2002	Dec 2020
Aquatrine Project A: Provision of water and waste water services	Apr 2003	Nov 2028
Aquatrine Project B: Provision of water and waste water services	Sep 2004	Mar 2030
Aquatrine Project C: Provision of water and waste water services	Oct 2004	Mar 2030
Naval Communications: Submarine fleet communications service	Jun 2003	Dec 2030
Defence High Frequency Communications Services: Provision of High Frequency communication services	Jun 2003	Jun 2018
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service	Jun 2003	Aug 2033
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites	Oct 2003	Feb 2020
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops)	Feb 2004	Feb 2039
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base	Jul 2004	Mar 2029
C Vehicles: Provision of Earthmoving and Specialist Plant, Engineer Construction Plant and Material Handling Equipment and support services	Jun 2005	Jun 2021
Portsmouth 2 Housing: Provision of 148 Family quarters in Portsmouth	Oct 2005	Oct 2030
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down	Mar 2006	Apr 2041
Defence Medical Information Capability Programme: provision of information capability system for the Defence Medical Services	May 2006	Apr 2016
Northwood: Rebuild, refurbishment, management and operation of facilities for the Permanent Joint Headquarters	Jul 2006	Oct 2031
Combined Aerial Targets (CATS): Provision of aerial targets and associated ground equipment and support services	Dec 2006	Mar 2028
Provision of Marine Services: Provision of marine services at UK Dockyard Ports at Portsmouth, Devonport and Clyde and support to military exercises, training and deep water trials, worldwide	Dec 2007	Dec 2022
Future Strategic Tanker Aircraft (FSTA): FSTA is an innovative PFI programme that will provide modern air-to-air refuelling and passenger air transport capabilities	Mar 2008	Mar 2035
Corsham Development Project: Rebuild, refurbishment, management and operation of facilities at the Basil Hill site	Aug 2008	Jul 2033
UK Military Flying Training System: Advanced Jet Trainer, Ground Based Training Equipment Element: Management and provision of Fast Jet Phase IV training	May 2008	May 2033

* Date when contract signed

29 The substance of an arrangement accounted for under IFRIC 12 is that the Department has a finance lease with the provider with payments comprising an imputed finance lease charge and a service charge. Payments are accounted for within the Operating Cost Statement – IFRIC 12 service charges and charges for 2009-10 were £1,132,982,000 (2008-09 £1,158,617,000). Total obligations for IFRIC 12 arrangements are shown in the table below:

	31 March 2010 £000	31 March 2009 £000
Total obligations under IFRIC 12 contracts for the following periods comprise:		
Not later than one year	382,776	416,812
Later than one year and not later than five years	1,492,220	1,779,936
Later than five years	4,285,515	4,483,579
	6,160,511	6,680,327
Less interest element	(2,663,966)	(2,856,938)
	3,496,545	3,823,389

	31 March 2010 £000
Payments committed during 2010-11 analysed by the period in which the contract is due to expire	
Not later than one year	42,966
Later than one year and not later than five years	270,162
Later than five years	1,039,058
	1,352,186

30. Contingent liabilities and contingent assets disclosed under IAS 37

Contingent Liabilities

30.1 The following quantifiable contingent liabilities have been identified:

Description	Liability at 31 March 2010 £000
Indemnity to contractors in respect of nuclear risks and decontamination	485,294
Environmental clean up costs	405,300
Indemnity to contractors for third party risks	140,000
Statutory liability for International Military Sales	100,000
Underwriting costs associated with Defence Training Review	57,360
Contractor claim relating to project deferment	33,000
Liability for redundancy following contractorisation	26,806
Indemnity for utilities and services following the sale of Service Housing	17,031
Indemnity for non-MOD personnel in operational theatres	8,052
Legal claims (personal)	5,385
Indemnity for excavation of the wreck of British warship Sussex	1,185
Legal claims (contractors)	520
Restricted – not disclosed due to reasons of commercial confidentiality and / or national security	157,410
Total quantifiable contingent liabilities	**1,437,343**

The Department has a number of unquantifiable liabilities in accordance with IAS 37:

- Indemnities to AWE Management Ltd for non-nuclear risks
- Standard shipbuilding indemnity in respect of Vanguard and Astute class submarines
- Service Life Insurance – providing access to life insurance for service personnel. Details of the scheme and key features can be found at www.servicelifeinsurance.co.uk
- Guarantee to NAAFI
- Indemnity to Services Sound and Vision Corporation (SSVC) for costs arising from the early termination of the contract

Contingent assets

30.2 A US salvage company, Odyssey Marine Exploration, has found what is believed to be the wreck of the British warship Sussex, which sank in the Western Mediterranean in 1694 carrying gold and silver coins estimated to be valued at the time at £1 million. If confirmed as the Sussex, the wreck and its contents are legally the property of Her Majesty's Government.

A licensing agreement was signed on 27 September 2002 between the Disposal Services Authority of the Ministry of Defence, on behalf of Her Majesty's Government, and Odyssey for further archaeological exploration of the wreck and recovery of artefacts et cetera. Full responsibility for the project, including the sale of the artefacts has been transferred to the Department. Proceeds from the sale of any artefacts will be surrendered to HM Treasury.

The Department will be responsible for the preservation of any part of the wreck brought up as part of the salvage effort.

Contingent liabilities not required to be disclosed under IAS 37

30.3 The MOD has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote.

Quantifiable – unrestricted

Unrestricted - Indemnities	1 April 2009 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2010 £000	Amount reported to Parliament by Departmental Minute £000
Residual liability for the remediation of unidentified contamination in parts of the former Rosyth Naval Base which has been sold to Rosyth 2000 plc	Up to 1,000				Up to 1,000	1,000
Liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force	2,600				2,600	

Quantifiable – restricted

30.4 Details of restricted indemnities are not given due to reasons of commercial confidentiality and / or national security.

Unquantifiable – unrestricted

30.5 The MOD has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

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

Unquantifiable – restricted

30.6 Details of restricted indemnities are not given due to reasons of commercial confidentiality and / or national security.

31. Losses and Special Payments

CLOSED CASES: these are losses and special payments which have been formally signed off following completion of all the relevant case work. Closed cases include some cases which in previous years were shown as Advance Notifications.	Arising in 2009-10 £000	Reported in 2008-09 as Advance Notifications £000
Total (excluding gifts, special payments and War Pensions Benefits) under £250,000 each: 13,666 cases	**20,311**	
Total (excluding gifts, special payments and War Pensions Benefits) over £250,000 each: 17 cases (detailed below)	**22,744**	**45,013**
Totals	**43,055**	**45,013**
Total Value of Closed Cases – Arising in 2009-10 and Reported in 2008-09 as Advance Notifications	**88,068**	
Details of the Closed Cases over £250,000 each are:		
Bookkeeping Losses		
Write-off following the 2009-10 asset verification exercise. The loss consists entirely of balances which could not be verified with the information available.	**2,427**	
Re-alignment of ledgers to account correctly for the return of exercise funds in the US resulted in a bookkeeping loss. No cash was lost.	**640**	
Losses arising from failing to make adequate charges		
The payment of staff from public funds within a non-public organisation covering the period April 1999 to March 2009 – The British Mőhnesee Sailing Club.		**741**
The payment of staff from public funds within a non-public organisation covering the period April 1999 to March 2009 – The British Dümmersee Yacht Club.		**675**
Losses of pay, allowances and superannuation benefits		
An additional payment has been made to the Civil Service Pension Scheme following the incorrect calculation of pension benefits for Royal Fleet Auxiliary personnel joining the Classic Plus and Premium pension schemes between 2002 and 2007.	**2,004**	
Fruitless Payments		
Recovery of HMS Endurance from the Falkland Islands and associated stores losses following a flooding incident on 16 December 2008.	**6,860**	
In May 2009 a contractor successfully challenged the Department's interpretation of contract terms via adjudication. As a result MOD was ordered to pay sums withheld, and interest thereon.		**2,131**
Failure to test sufficiently the initial delivery of sample garments has resulted in a loss relating to clothing that is not fit for purpose.	**893**	
In three separate incidents during 2008, Gnome helicopter engines were inadvertently damaged during loading or in transit. Each of these events necessitated corrective engineering work by Rolls-Royce.	**564**	
In 2006, four Gnome helicopter engines were found to have been transported in the incorrect orientation; additionally one had suffered impact damage. The engines had to be returned to the workshop for overhaul.		**487**
Write-off of Air Cargo Pallets which were not fit for purpose when used to transport cargo by C17 aircraft.	**434**	
Constructive Losses		
The decision to move construction of part of the Queen Elizabeth class aircraft carriers from Barrow to the Tyne resulted in a Constructive Loss. Savings of over £50M will be achieved as a result of the change.	**7,945**	
Cancellation of the Alternative Launcher Drive System programme resulted in a write-off.		**3,752**
Following an accident on HMS Tireless the Board Of Inquiry recommended that all Self Contained Oxygen Generators (SCOGs) should be withdrawn from service and replaced with a new design. 8,388 units are being disposed of.		**3,730**
The Department is disposing of stocks of Avian Influenza vaccine which, following testing by the Department of Health, are no longer viable.	**977**	
Claims waived or abandoned		
A potential claim against a contractor on the Airborne Stand-Off Radar programme has been abandoned resulting in a loss, although other benefits have been secured in compensation.		**28,000**

CLOSED CASES: (continued)	Arising in 2009-10 £000	Reported in 2008-09 as Advance Notifications £000
The loss represents the difference (amount waived) between the maximum level of charges which the Department could have raised against EDS for its failure to deliver contract requirements and the level of charges actually raised during the year.		5,497
Totals for the 17 cases above	**22,744**	**45,013**
International Courtesy Rules		
Supplies and services provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British Ports at Clyde, Portsmouth, Devonport and Gibraltar.	306	
Special Payments		
Total under £250,000 each: 70 cases	1,043	
Gifts		
Total under £250,000 each: 13 cases	495	
Total over £250,000 each: 2 cases (detailed below)	885	
Total	1,380	
Details of the 2 cases over £250,000 each are:		
Four permanent structures located within the Contingency Operating Base, Basra, to the United States of America on the withdrawal of UK Forces. Details of the transfer were notified to the House of Commons in a Departmental Minute dated 8 May 2009.	457	
Abatement of charges in respect of support provided to the British Military Tournament at Earls Court. Details were notified to the House of Commons in a Departmental Minute dated 3 March 2010.	428	
War Pensions Benefits (WPB):		
Claims Abandoned-WPB		
Irrecoverable overpayments of war pensions relating to 2,909 cases have been written off.	437	
Total	437	
Special Payments-WPB		
Total number of payments made during the year was 372 at a total cost of £1,594,170. These payments were for War Disability Pensions, and were made under the authority of Treasury Dispensing Instruments but outside the scope of the Service Pension order. These relate to the following payments:		
(a) Far Eastern Prisoners of War Ex-gratia payments		
In the 2000 pre-Budget speech, the Chancellor of the Exchequer announced that ex-gratia awards of £10,000 would be paid to surviving members of British groups held prisoner by the Japanese during the Second World War or their surviving spouses, including the Gurkhas from November 2003. Although the majority of cases have been paid in previous financial years, 10 claims were processed and paid in financial year 2009-10.	100	
(b) Empire Air Training Scheme Pensions		
These Payments relate to members of the Royal Australian Air Force who were trained under the Empire Air Training Scheme and were subsequently selected for service in the RAF. The British Government agreed in June 1942 that it would contribute towards pensions in respect of disablement or death due to the service with the RAF. The total number of cases in 2009-10 was 201.	1,020	
(c) Noise Induced Sensorineural Hearing Loss		
During financial year 2009-10 152 payments were made.	412	
(d) Crown Agents Supplementation payments		
Crown Agents Financial Services make payments to ex-members of the colonial forces who are resident in the UK and who have been awarded a disablement pension by the colonial government. The payment is a supplementation amount that increases the disablement pension to the rate equivalent to a UK war pension.		
The Service Personnel and Veterans Agency re-imburses Crown Agents Financial Services for these payments. During financial year 2009-10, the total number of cases was 9.	62	
Totals	1,594	

ADVANCE NOTIFICATIONS: these are losses and special payments, which arose during 2009-10 and prior years, but where the cases have not yet been formally signed off because all the work necessary to establish the validity of the loss or special payment, and the exact amount thereof, has not yet been concluded. The amounts shown below are, therefore, estimates, and it is likely that the final value of these losses and special payments will differ when they are reported as closed cases in future years. Should the final value be less than £250,000, they will not be separately identified.	Arising in 2009-10 £000	Reported in 2008-09 as Advance Notifications £000
Notified in prior years		
The value of 8 Chinook Mk3 helicopters has been written down under prudent accounting practices while the MOD establishes a way forward for the programme. The write-down has arisen because, although the terms of the contract had been met, the helicopters did not meet the operational requirement. and could not acquire Military Aircraft Release. The MOD is converting the Mk3 airframes to a modified Mk2 standard as a way forward, with a revaluation exercise of the 8 aircraft at the point of asset delivery. Whilst the value of the loss reported in the accounts is currently an estimate, the final write-off case, expected to be completed in 2010-11, will report the actual recalculated value of the loss.		205,000
As a result of the Dublin Diplomatic Conference it was agreed to cease the use, development, production and transfer of Cluster Munitions resulting in a Constructive Loss.		55,700
A potential loss has been identified in respect of an overpayment made to a MOD contractor. Whilst repayment is being actively pursued, there is no assurance that the overpayment can be recovered owing to statute of limitation restrictions.		372
Notified during the year		
Stores Losses		
Loss of a Typhoon aircraft which crashed on landing at US Naval Air Weapons Station, California and was damaged beyond economic repair.	49,420	
Fruitless Payments		
Non-refundable flying training tuition fees, incurred over a four year period, following a change to a better value for money option.	24,400	
A loss has arisen due to the need for early cancellation of the Synergy mobile managed service contract.	1,885	
Between February 2009 and January 2010, a total of fourteen Gnome helicopter engines were damaged by being incorrectly packaged in their Special-to-Type Containers, necessitating corrective engineering work by Rolls Royce.	1,675	
Between April 2008 and January 2010, a total of four Gnome helicopter engines were damaged by transportation in the incorrect orientation, necessitating corrective engineering work by Rolls Royce.	711	
Legal costs of defending an unfair dismissal claim by two members of the Gibraltar Service Police and unrecovered salary paid while they were suspended and the case was being handled in the courts.	431	
Constructive Losses		
Termination of the Ballistic Sensor Fused Munition project as a result of technical difficulties has resulted in a Constructive Loss.	10,307	
Cancellation of work on a facility to build a nuclear reactor core has resulted in a Constructive Loss.	3,000	
Contract amendments resulted in a Constructive Loss.	459	
A Constructive Loss has arisen on a contract for the refurbishment of Kitchener Hall at the Defence Academy, Shrivenham, following a change in requirement for the use of the premises.	285	
Project Soothsayer: contract terminated. The matter is subject to arbitration and may result in a Constructive Loss.	-	
Claims waived or abandoned		
The loss represents the expected difference (the amount waived) between the maximum level of charges which the Department could raise against EDS for its failure to deliver contract requirements and the level of charges actually raised during the year.	3,189	
A failure to invoice NAAFI Support Services for payroll administration costs (dating back to 1999).	720	
	96,482	261,072
Total Value of Advance Notifications – Arising in 2009-10 plus Reported and Arising in Prior Years	357,554	
Special Payments – advance notifications requiring disclosure		
Notified during the year		
A loss in respect of the Employment Tribunal Compensation payments to former Part Time members of the Royal Irish Regiment.	6,800	
Totals	6,800	
Gifts		
Notified during the year		
Gifting of sites in Northern Ireland	26,500	

32. Related Party Transactions

32.1 The Defence Science and Technology Laboratory, the UK Hydrographic Office, the Met Office, and the Defence Support Group operate as Executive Defence Agencies financed by Trading Fund. The Navy Army Air Force Institutes (NAAFI) and the Oil and Pipelines Agency are Public Corporations.

The Trading Funds, the Oil and Pipelines Agency and the NAAFI are regarded as related parties outside the Departmental Boundary with which the Department has had material transactions. Transactions are carried out on terms which are contracted for on an arms-length basis, and are subject to internal and external audit. The values of transactions with some of these organisations are set out below and balances with the Trading Funds at year end, are in the following table:

Organisation	Receivables Balances £000	Payables Balances £000
Defence Science and Technology Laboratory	1,344	89,888
UK Hydrographic Office	97	-
Met Office	14	2,199
Defence Support Group	8,592	7,340

Oil and Pipelines Agency (Public Corporation)

Agency Fees (excluding VAT): £2,220,000 (2008-09: £2,100,000)

Director Finance Defence Equipment & Support (DE&S), Commercial Director DE&S and the Head of Financial Management Policy and Development for the MOD are members of the Board of Directors.

Navy Army Air Force Institutes (NAAFI)

The NAAFI Council acts as the most senior NAAFI body responsible for approving the policy and direction of NAAFI's business. The rules governing the NAAFI Council and its proceedings are laid out in NAAFI's Memorandum and Articles of Association. The Council's membership consists of: Deputy Chief of Defence Staff (Personnel) (President); Assistant Chief of Naval Staff, Adjutant General, Air Member for Personnel, Director Service Personnel Policy, Chief of Joint Operations, DE&S – Head of Commercial Command and Centre; as well as the Chairman and Deputy Chairman of NAAFI. During 2009-10 receipts from NAAFI were £97,000 (2008-09 £164,000); payments to NAAFI were £21,509,000 (2008-09 £18,208,000).

Executive Non-Departmental Public Bodies (NDPBs)

32.2 The following are Executive NDPBs of the MOD. They are designated NDPBs under the National Heritage Act 1983 and produce their own annual accounts, in accordance with the Charities (Accounts and Reports) Regulations 2005, on an accruals basis, and are regarded as related parties. During the period 1 April 2009 to 31 March 2010, each Executive NDPB had a material transaction with the Department, as listed below:

National Army Museum
Grant-in-Aid: £5,515,000 (2008-09: £5,735,000)
Further information can be found at: www.national-army-museum.ac.uk

Royal Air Force Museum
Grant-in-Aid: £7,367,000 (2008-09: £7,989,000)
Further information can be found at: www.rafmuseum.org.uk

The National Museum of the Royal Navy
Grant-in-Aid £3,237,000 (2008-09: £3,050,000)
Further information can be found at: www.royalnavy.mod.uk

Other

32.3 The Department also pays a number of grants to other bodies outside the Departmental Boundary. These include Grants-in-Aid to: the Council of Reserve Forces and Cadets Associations (CRFCA), the Commonwealth War Graves Commission, the Royal Hospital Chelsea, the Marine Society & Sea Cadets, the Gurkha Welfare Scheme and Skill Force.

In addition, the MOD has had a number of transactions with other government departments and central government bodies. Most of the transactions have been with: the Foreign & Commonwealth Office, the Government Communications Headquarters, the Home Office, the Learning and Skills Council, the United Kingdom Trading and Investment Department, the Treasury Solicitor, the Cabinet Office, the Department for Work and Pensions, the Department for Environment Food and Rural Affairs, the National Assembly for Wales, HM Revenue and Customs and the Department for International Development.

Joint Ventures

32.4 There are no Joint Ventures within the Departmental accounting boundary. Some of the Trading Funds have set up Joint Ventures and the Department is involved in collaborative projects with various foreign countries for the development and production of Single Use Military Equipment.

33. Events After the Statement of Financial Position Date

33.1 These accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG's Audit Certificate.

33.2 It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the pension schemes that MOD provides to employees.

34. Non-Operational Heritage Assets

34.1 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 FReM, non-operational heritage assets are valued except where the cost of obtaining a valuation for the asset is not warranted in terms of the benefits it would deliver or where 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.

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

Item	Location	Description
HMS Victory	Portsmouth	HMS Victory is the world's oldest commissioned warship and is most famous for her role as Lord Nelson's Flagship at the Battle of Trafalgar. HMS Victory is open to the public, details are available at: www.hms-victory.com
Army Historic Aircraft Flight	Middle Wallop	Formed in 1977, the flight consists of seven aircraft and makes public appearances between May and September.
Battle of Britain Memorial Flight	RAF Coningsby	The Memorial Flight operates eleven mainly World War II aircraft that appear at several hundred public events each year and can also be viewed at their hangar at RAF Coningsby. Further information is available at: www.bbmf.co.uk/index.html
Pickling Pond	HMNB Portsmouth	Pickling or mast ponds enabled long lengths of timber to be soaked before being used to build ships; well-seasoned planks would not split or shrink in the water.

Item	Location	Description
Enigma Machine	RAF Cosford	Cryptographic equipment captured during World War II and used at Bletchley Park to assist in the breaking of German signal traffic.
Artefacts, records and artworks	Various locations	Over one hundred Regimental and Corps Museums and collections 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. Further information is available at: http://www.army.mod.uk/events/museums/default.aspx
MOD Art Collection	Various locations	The MOD Art Collection comprises approximately 800 works of fine art and 250 antiques such as clocks and furniture. Many other miscellaneous items, such as photographs and manuscripts are contained in the archive. At the core of the collection are works commissioned by (and bequeathed to) the Admiralty during the 19th century, and those given to the Admiralty and to the War Office by the War Artists Commission at the end of the Second World War. Items from the MOD art collections are displayed in conference rooms and senior officers' accommodation throughout the Defence estate. The most important items are on permanent public display in the National Maritime Museum and on temporary loan to many other public museums and galleries. Further information is available at: www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/DefenceEstateandEnvironment/MODArtCollection
Records and artworks	London, Gosport, Stanmore	The Admiralty and Institute of Naval Medicine Libraries and the Air Historical Branch (RAF) comprise text and records of historical and research items. Although not open to the public, access is available on application.

35. Entities within the Departmental Boundary

The entities within the boundary during 2009-10 were as follows:

Executive Agencies
Defence Storage and Distribution Agency
Defence Vetting Agency
Ministry of Defence Police and Guarding Agency
People, Pay and Pensions Agency
Service Children's Education
Service Personnel and Veterans Agency
Advisory Non-Departmental Public Bodies
Advisory Committee on Conscientious Objectors
Advisory Group on Military Medicine
Animal Welfare Advisory Committee
Armed Forces Pay Review Body
Central Advisory Committee on Pensions and Compensation
Defence Nuclear Safety Committee
Defence Scientific Advisory Council
National Employer Advisory Board
Nuclear Research Advisory Council
Review Board for Government Contracts
Science Advisory Committee on the Medical Implications of Less Lethal Weapons
War Pensions Committees
Stakeholder Advisory Group - Op Telic Health Research Programme Review Board
Independent Monitoring Board for the Military Corrective Training Centre, Colchester

36. Votes A Statement – Statement of Approved Maximum Armed Forces Numbers

36.1 Votes A provide the formal mechanism by which Parliament sets limits for and monitors the maximum numbers of personnel retained for service in the Armed Forces. They are presented to the House shortly before the start of each financial year (late February), and form part of the Parliamentary Supply process.

36.2 Votes A numbers represent uppermost limits for Service manpower; they neither predict actual strengths nor act as a control over numbers in the Services. Votes A includes a contingency margin to cover unforeseen circumstances. Manpower levels are monitored routinely, and if it is anticipated that the numbers could be breached, then a Supplementary Estimate may be required to increase the limit.

36.3 The tables included below compare, for each service, the numbers voted by the House of Commons with the maximum numbers maintained and the date at which this peak occurred. The aggregate maximum numbers maintained may not equal the sum of Officers plus Men and Women as these categories peak at different times of the year. The "Men and Women" categories represent the Services' Ratings and Other Ranks.

36.4 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
NAVAL SERVICE				
Royal Navy	Officers	7,150	6,640	May 2009
	Men and Women	26,500	24,130	March 2010
	Aggregate	33,650	30,760	March 2010
Royal Marines	Officers	1,050	860	September 2009
	Men and Women	7,800	7,130	August 2009
	Aggregate	8,850	7,960	December 2009
ARMY SERVICE				
Army	Officers	15,600	14,740	February 2010
	Men and Women	103,660	94,560	December 2009
	Aggregate	119,260	109,180	December 2009
Commonwealth, Colonial, etc., troops abroad and Gurkhas	Officers	170	160	April 2009
	Men and Women	4,230	3,930	April 2009
	Aggregate	4,400	4,090	April 2009
AIR FORCE SERVICE				
Royal Air Force	Officers	10,490	9,850	March 2010
	Men and Women	35,780	34,280	December 2009
	Aggregate	46,270	44,120	March 2010

36.5 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				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,000	3,867	March 2010
	Men and Women	7,000	5,201	October 2009
	Aggregate	11,000	8,299	March 2010
Royal Fleet Reserve (Marine Officers and Marines)	Officers	400	329	May 2009
	Men and Women	2,000	1,886	March 2010
	Aggregate	2,400	2,186	March 2010
Royal Naval Reserve	Officers	950	776	August 2009
	Men and Women	1,430	1,233	March 2010
	Aggregate	2,380	1,989	March 2010
Royal Marines Reserve	Officers	105	63	July 2009
	Men and Women	912	821	March 2010
	Aggregate	1,017	883	March 2010
Royal Naval Reserve (List 7)	Officers	855	-	*
RESERVE LAND FORCES				
Army Reserve	Officers	11,000	-	*
	Men and Women	26,000	-	*
	Aggregate	37,000	-	*
Territorial Army	Officers	7,500	-	*
	Men and Women	39,500	-	*
	Aggregate	47,000	-	*
RESERVE AIR FORCES				
Royal Air Force Reserve	Officers	4,000	3,815	January 2010
	Men and Women	7,000	5,711	May 2009
	Aggregate	11,000	9,448	May 2009
Royal Auxiliary Air Force	Officers	400	222	July 2009
	Men and Women	2,300	1,471	December 2009
	Aggregate	2,700	1,677	December 2009

Figures for Regular Forces are rounded to the nearest 10; figures for Reserve Forces are not rounded.
* Figures for the Royal Navy Reserve (List 7), Territorial Army and Army Reserve forces are not available.

36.6 Maximum numbers to be maintained for service as Special Members of the Reserve Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
SPECIAL MEMBERS OF THE RESERVE NAVAL FORCES				
Royal Naval Reserve	Officers	923	144	November 2009
	Men and Women	630	113	November 2009
	Aggregate	1,553	257	November 2009
SPECIAL MEMBERS OF THE RESERVE LAND FORCES				
Territorial Army	Officers	1,000	-	*
	Men and Women	5,000	-	*
	Aggregate	6,000	-	*
SPECIAL MEMBERS OF THE RESERVE AIR FORCES				
Royal Air Force Reserve	Officers	110	58	December 2009
	Men and Women	270	77	April 2009
	Aggregate	380	134	April 2009

Figures for Regular Forces are rounded to the nearest 10; figures for Reserve Forces are not rounded.
* Figures for the Royal Navy Reserve (List 7), Territorial Army and Army Reserve forces are not available..

Annexes

Contents

Annex A

Core Data Tables[1,2]

Table 1 Total Departmental Spending

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
£'000	Outturn	Outturn	Outturn	Outturn	Outturn	Estimated Outturn	Plans	Plans	Plans
Resource budget									
Resource DEL									
Provision of Defence Capability	26,838,179	28,525,500	28,655,775	29,537,822	29,765,101	32,366,718	32,781,797	-	-
Peace-Keeping and Operations	938,181	1,059,356	1,462,134	2,220,547	2,854,662	2,838,774	3,173,469	-	-
Total resource budget DEL	**27,776,360**	**29,584,856**	**30,117,909**	**31,758,369**	**32,619,763**	**35,205,492**	**35,955,266**	**-**	**-**
Resource AME									
Provision of Defence Capability	666,820	59,660	-516,836	-592,891	-602,822	1,398,459	986,765	-	-
Armed Forces Pay and Pensions etc	3,302,397	4,314,545	4,398,961	5,474,562	5,800,810	5,471,466	6,707,537	-	-
War Pensions and Allowances etc	1,110,083	1,069,135	1,038,574	1,014,616	1,000,400	1,023,623	972,691	-	-
Peace-Keeping and Operations	-	1,123	6,285	8,640	-5,360	1,622	-5,000	-	-
Total resource budget AME	**5,079,300**	**5,444,463**	**4,926,984**	**5,904,927**	**6,193,028**	**7,895,170**	**8,661,993**	**-**	**-**
Total resource budget	**32,855,660**	**35,029,319**	**35,044,893**	**37,663,296**	**38,812,791**	**43,100,662**	**44,617,259**	**-**	**-**
of which: depreciation	5,040,364	6,587,952	6,610,253	7,253,489	6,631,053	8,842,409	9,819,411	-	-
Capital budget									
Capital DEL									
Provision of Defence Capability	6,580,508	6,635,227	6,844,511	7,770,314	7,754,165	7,512,608	8,537,754	-	-
Peace-Keeping and Operations	173,842	211,243	348,198	835,876	1,225,742	1,725,330	1,533,305	-	-
Total capital budget DEL	**6,754,350**	**6,846,470**	**7,192,709**	**8,606,190**	**8,979,907**	**9,237,938**	**10,071,059**	**-**	**-**
Capital AME									
Provision of Defence Capability	-	-	-	-	-	5,083	68,156	-	-
Total capital budget AME	**-**	**-**	**-**	**-**	**-**	**5,083**	**68,156**	**-**	**-**
Total capital budget	**6,754,350**	**6,846,470**	**7,192,709**	**8,606,190**	**8,979,907**	**9,243,021**	**10,139,215**	**-**	**-**

1 The figures in the Departmental tables (Tables 1,2,3 & 5) for the estimated outturn are taken from a forecast position that is consistent with data published in the Supplementary Budgetary information report and Estimates, and does not reflect the audited accounts position.
2 The figures in the Departmental tables (Tables 1,2,3, 4 & 5) are based on a Clear Line of Sight basis and therefore will differ from those reported in previous years due to changes in the Control Framework.

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans	2011-12 Plans	2012-13 Plans
									£'000
Total departmental spending†									
Provision of Defence Capability	29,118,073	28,691,525	28,427,046	29,724,286	30,642,549	32,801,851	33,006,920	-	-
Armed Forces Pay and Pensions etc	3,302,397	4,314,545	4,398,961	5,474,562	5,800,810	5,471,466	6,707,537	-	-
War Pensions and Allowances etc	1,110,083	1,069,135	1,038,574	1,014,616	1,000,400	1,023,623	972,691	-	-
Peace-Keeping and Operations	1,039,093	1,212,632	1,762,768	2,802,533	3,717,886	4,204,334	4,249,915	-	-
Total Departmental spending†	**34,569,646**	**35,287,837**	**35,627,349**	**39,015,997**	**41,161,645**	**43,501,274**	**44,937,063**	**-**	**-**
of which:									
Total DEL	29,490,346	29,843,374	30,712,621	33,182,932	34,295,192	36,964,390	37,219,510	-	-
Total AME	5,079,300	5,444,463	4,914,728	5,833,065	6,866,453	6,536,884	7,717,553	-	-
† Total Departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.									
Spending by local authorities on functions relevant to the Department									
Current spending	**-**	**-**	**-**	**-**	**-**	**-**			
of which:									
financed by grants from budgets above	-	-	-	-	-	-			
Capital spending	**-**	**-**	**-**	**-**	**-**	**-**			
of which:									
financed by grants from budgets above††	-	-	-	-	-	-			
†† This includes loans written off by mutual consent that score within non-cash Resource Budgets and not included in the capital support to local authorities line in Table 3.									

Table 2 Resource budget DEL and AME

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans	2011-12 Plans	2012-13 Plans
									£'000
Resource DEL									
Provision of Defence Capability	**26,838,179**	**28,525,500**	**28,655,775**	**29,537,822**	**29,765,101**	**32,366,718**	**32,781,797**	**-**	**-**
of which:									
Front Line TLBs	**10,613,777**	**11,257,740**	**7,543,585**	**9,087,878**	**11,983,394**	**12,480,737**	**12,682,595**	**-**	**-**
of which:									

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans	2011-12 Plans	£'000 2012-13 Plans
Navy Command	2,755,391	2,749,610	1,776,850	1,819,157	2,166,394	2,221,747	2,223,875	-	-
General Officer Commanding (Northern Ireland)	497,208	427,022	277,662	-	-	-	-	-	-
Land Forces	4,114,460	4,405,852	3,513,923	4,625,819	6,643,910	7,066,870	7,168,717	-	-
Air Command	2,794,902	3,214,513	1,640,298	2,284,603	2,741,972	2,782,537	2,820,704	-	-
Chief of Joint Operations	451,816	460,743	334,852	358,299	431,118	409,583	469,299	-	-
Personnel	**2,874,895**	**2,848,025**	**2,360,114**	**907,082**	**-**	**-**	**-**	**-**	**-**
of which:									
2nd Sea Lord / Commander-in-Chief Naval Home Command	654,796	629,408	-	-	-	-	-	-	-
Adjutant General (Personnel and Training command)	1,432,276	1,474,018	1,661,756	907,082	-	-	-	-	-
Commander-in-Chief Personnel and Training Command	787,823	744,599	698,358	-	-	-	-	-	-
Logistics	**5,701,673**	**6,482,828**	**10,423,688**	**-**	**-**	**-**	**-**	**-**	**-**
of which:									
Chief of Defence Logistics	5,701,673	6,482,828	10,423,688	-	-	-	-	-	-
Central	**5,333,874**	**5,739,503**	**6,211,930**	**5,787,394**	**5,548,602**	**6,076,020**	**5,612,394**	**-**	**-**
of which:									
Central	5,333,874	4,797,217	4,234,581	4,403,971	3,709,928	4,015,732	3,955,384	-	-
Defence Estates	-	942,286	1,977,349	1,383,423	1,838,674	2,060,288	1,657,010	-	-
Equipment & Support Costs	**2,313,960**	**2,197,404**	**2,116,458**	**13,755,468**	**12,233,105**	**13,809,961**	**14,486,808**	**-**	**-**
of which:									
Defence Procurement Agency	1,803,578	1,694,708	1,591,696	-	-	-	-	-	-
Defence Equipment & Support Agency	-	-	-	13,210,290	11,727,626	13,340,681	14,057,852	-	-
Science Innovation Technology	510,382	502,696	524,762	545,178	505,479	469,280	428,956	-	-
Peace-Keeping and Operations	**938,181**	**1,059,356**	**1,462,134**	**2,220,547**	**2,854,662**	**2,838,774**	**3,173,469**	**-**	**-**
of which:									
Peace-Keeping and Operations	938,181	1,059,356	1,462,134	2,220,547	2,854,662	2,838,774	3,173,469	-	-
Total resource budget DEL	**27,776,360**	**29,584,856**	**30,117,909**	**31,758,369**	**32,619,763**	**35,205,492**	**35,955,266**	**-**	**-**
of which:†									

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans	2011-12 Plans	£'000 2012-13 Plans
Pay	10,756,401	11,211,679	11,263,549	11,708,002	11,772,534	12,343,326	12,340,312	-	-
Procurement	10,937,964	11,450,292	12,137,068	12,847,142	14,268,358	14,575,293	14,653,355	-	-
Current grants and subsidies to the private sector and abroad	164,108	128,548	141,578	152,664	182,118	171,076	146,930	-	-
Current grants to local authorities	-	-	-	-	-	-	-	-	-
Depreciation	5,040,364	6,587,952	6,597,997	7,181,627	7,304,478	7,479,040	8,806,815	-	-
Resource AME									
Provision of Defence Capability	**666,820**	**59,660**	**-516,836**	**-592,891**	**-602,822**	**1,398,459**	**986,765**	**-**	**-**
of which:									
Front Line TLBs	**10,455**	**103,803**	**22,803**	**9,596**	**-42,376**	**4,849**	**-96**	**-**	**-**
of which:									
Navy Command	3,585	60,194	-5,077	1,023	372	-5,315	-873	-	-
General Officer Commanding (Northern Ireland)	738	36,678	21,991	-	-	-	-	-	-
Land Forces	-5,574	-2,529	1,509	-20,059	-41,592	-16,569	-1,819	-	-
Air Command	-2,454	229	-1,601	-20,077	-7,015	15,357	3,450	-	-
Chief of Joint Operations	14,160	9,231	5,981	48,709	5,859	11,376	-854	-	-
Personnel	**175,017**	**119,178**	**-146,562**	**-35,471**	**-**	**-**	**-**	**-**	**-**
of which:									
2nd Sea Lord / Commander-in-Chief Naval Home Command	-87	-1,178	-	-	-	-	-	-	-
Adjutant General (Personnel and Training command)	26,098	138,785	-67,761	-35,471	-	-	-	-	-
Commander-in-Chief Personnel and Training Command	149,006	-18,429	-78,801	-	-	-	-	-	-
Logistics	**82,883**	**94,733**	**76,948**	**-**	**-**	**-**	**-**	**-**	**-**
of which:									
Chief of Defence Logistics	82,883	94,733	76,948	-	-	-	-	-	-
Central	**120,655**	**-64,016**	**-38,438**	**-745,174**	**-600,949**	**1,334,731**	**950,821**	**-**	**-**
of which:									
Central	120,655	-86,316	-40,621	-40,201	-1,033,848	-68,824	-4,390	-	-
Defence Estates	-	22,300	2,183	-704,973	432,899	1,403,555	955,211	-	-
Equipment & Support Costs	**277,810**	**-194,038**	**-431,587**	**178,158**	**40,503**	**58,879**	**36,040**	**-**	**-**
of which:									

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans	2011-12 Plans	£'000 2012-13 Plans
Defence Procurement Agency	277,810	-194,038	-432,196	-	-	-	-	-	-
Defence Equipment & Support Agency	-	-	-	178,896	40,404	58,816	36,040	-	-
Science Innovation Technology	-	-	609	-738	99	63	-	-	-
Armed Forces Pay and Pensions etc	**3,302,397**	**4,314,545**	**4,398,961**	**5,474,562**	**5,800,810**	**5,471,466**	**6,707,537**	**-**	**-**
of which:									
Armed Forces Pay and Pensions etc	3,302,397	4,314,545	4,398,961	5,474,562	5,800,810	5,471,466	6,707,537	-	-
War Pensions and Allowances etc	**1,110,083**	**1,069,135**	**1,038,574**	**1,014,616**	**1,000,400**	**1,023,623**	**972,691**	**-**	**-**
of which:									
War Pensions and Allowances etc	1,110,083	1,069,135	1,038,574	1,014,616	1,000,400	1,023,623	972,691	-	-
Peace-Keeping and Operations	**-**	**1,123**	**6,285**	**8,640**	**-5,360**	**1,622**	**-5,000**	**-**	**-**
of which:									
Peace-Keeping and Operations	-	1,123	6,285	8,640	-5,360	1,622	-5,000	-	-
Total resource budget AME	**5,079,300**	**5,444,463**	**4,926,984**	**5,904,927**	**6,193,028**	**7,895,170**	**8,661,993**	**-**	**-**
of which:†									
Pay	8,097	-	-	-	-	-	-	-	-
Procurement	-	-	-	-	-	460	-	-	-
Current grants and subsidies to the private sector and abroad	1,109,506	1,064,746	1,038,574	1,014,616	1,000,400	1,023,614	972,691	-	-
Current grants to local authorities	-	-	-	-	-	-	-	-	-
Depreciation	-	-	12,256	71,862	-673,425	1,363,369	1,012,596	-	-
Total resource budget	**32,855,660**	**35,029,319**	**35,044,893**	**37,663,296**	**38,812,791**	**43,100,662**	**44,617,259**	**-**	**-**

† The economic category breakdown of resource budgets only shows the main categories, so may not sum to the total. The breakdown may even exceed the total where further income scores in resource budgets

Table 3 Capital Budget DEL and AME

									£'000
	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans	2011-12 Plans	2012-13 Plans
Capital DEL									
Provision of Defence Capability	**6,580,508**	**6,635,227**	**6,844,511**	**7,770,314**	**7,754,165**	**7,512,608**	**8,537,754**	**-**	**-**
of which:									
Front Line TLBs	**252,045**	**111,717**	**103,309**	**206,453**	**238,919**	**368,531**	**606,957**	**-**	**-**
of which:									
Navy Command	17,078	6,739	13,971	29,012	19,644	16,167	27,163	-	-
General Officer Commanding (Northern Ireland)	28,000	5,790	2,441	-	-	-	-	-	-
Land Forces	153,000	61,679	75,369	120,677	150,093	223,061	429,023	-	-
Air Command	28,000	18,420	7,083	13,428	14,365	38,775	81,838	-	-
Chief of Joint Operations	25,967	19,089	4,445	43,336	54,817	90,528	68,933	-	-
Personnel	**69,374**	**42,626**	**26,354**	**2,936**	**-**	**-**	**-**	**-**	**-**
of which:									
2nd Sea Lord / Commander-in-Chief Naval Home Command	23,000	10,978	-	-	-	-	-	-	-
Adjutant General (Personnel and Training command)	22,374	18,110	15,598	2,936	-	-	-	-	-
Commander-in-Chief Personnel and Training Command	24,000	13,538	10,756	-	-	-	-	-	-
Logistics	**1,309,138**	**1,040,135**	**1,224,755**	**-**	**-**	**-**	**-**	**-**	**-**
of which:									
Chief of Defence Logistics	1,309,138	1,040,135	1,224,755	-	-	-	-	-	-
Central	**335,394**	**213,627**	**206,919**	**836,180**	**605,156**	**413,988**	**246,653**	**-**	**-**
of which:									
Central	335,394	-11,967	48,153	41,171	-43,228	-66,237	-16,533	-	-
Defence Estates	-	225,594	158,766	795,009	648,384	480,225	263,186	-	-
Equipment & Support Costs	**4,614,557**	**5,227,122**	**5,283,174**	**6,724,745**	**6,910,090**	**6,730,089**	**7,684,144**	**-**	**-**
of which:									
Defence Procurement Agency	4,614,557	5,227,122	5,283,056	-	-	-	-	-	-
Defence Equipment & Support Agency	-	-	-	6,724,386	6,909,325	6,729,219	7,684,144	-	-

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans	2011-12 Plans	2012-13 Plans
									£'000
Science Innovation Technology	-	-	118	359	765	870	-	-	-
Peace-Keeping and Operations	**173,842**	**211,243**	**348,198**	**835,876**	**1,225,742**	**1,725,330**	**1,533,305**	**-**	**-**
of which:									
Peace-Keeping and Operations	173,842	211,243	348,198	835,876	1,225,742	1,725,330	1,533,305	-	-
Total capital budget DEL	**6,754,350**	**6,846,470**	**7,192,709**	**8,606,190**	**8,979,907**	**9,237,938**	**10,071,059**	**-**	**-**
of which:									
Capital expenditure on fixed assets net of sales†	6,828,080	6,922,037	7,196,789	8,616,139	9,017,369	9,281,729	10,078,185	-	-
Capital grants to the private sector and abroad	-	-	-	-	-	-	-	-	-
Net lending to private sector	-	-	-	-	-	-50,660	-	-	-
Capital support to public corporations	-73,730	-75,567	-4,080	-9,949	-39,065	6,869	-7,126	-	-
Capital support to local authorities††	-	-	-	-	-	-	-	-	-
Capital AME									
Provision of Defence Capability	**-**	**-**	**-**	**-**	**-**	**5,083**	**68,156**	**-**	**-**
of which:									
Equipment & Support Costs	**-**	**-**	**-**	**-**	**-**	**5,083**	**68,156**	**-**	**-**
of which:									
Defence Equipment & Support Agency	-	-	-	-	-	5,083	68,156	-	-
Total capital budget AME	**-**	**-**	**-**	**-**	**-**	**5,083**	**68,156**	**-**	**-**
Total capital budget	**6,754,350**	**6,846,470**	**7,192,709**	**8,606,190**	**8,979,907**	**9,243,021**	**10,139,215**	**-**	**-**
of which:									
Capital expenditure on fixed assets net of sales†	6,828,080	6,922,037	7,196,789	8,616,139	9,017,369	9,281,729	10,146,341	-	-
Less depreciation†††	5,040,364	6,587,952	6,610,253	7,253,489	6,631,053	8,842,409	9,819,411	-	-
Net capital expenditure on tangible fixed assets	1,787,716	334,085	586,536	1,362,650	2,386,316	439,320	326,930	-	-

† Expenditure by the Department and NDPBs on land, buildings and equipment, net of sales. Excludes spending on financial assets and grants, and public corporations' capital expenditure.

†† This does not include loans written off by mutual consent that score within non-cash Resource Budgets.

††† Included in Resource Budget.

Table 4 Capital Employed[3]

Assets and liabilities in the Statement of Financial Position at year end:	2004-05 outturn (UK GAAP) £m	2005-06 outturn (UK GAAP) £m	2006-07 outturn (UK GAAP) £m	2007-08 outturn £m	2008-09 outturn £m	2009-10 Projected outturn £m	2010-11 plans £m
Assets							
Non-current assets	92,630	95,272	99,263	111,376	116,561	119,974	121,774
of which:							
Property, plant and equipment	69,635	71,775	74,601	82,434	87,296	89,734	91,080
Intangible assets	22,648	22,983	24,163	26,718	27,959	29,134	29,571
Financial Assets	347	514	500	256	217	224	227
Receivables due after more than one year				1,968	1,088	883	896
Current assets	9,405	9,991	9,032	8,581	10,595	11,165	11,333
Liabilities							
Current Liabilities	- 6,076	- 6,449	- 6,739	- 8,840	- 9,078	- 9,278	- 9,417
Non-current liabilities	-10,313	- 7,333	- 6,747	- 10,252	- 10,196	- 10,254	- 10,408
Capital employed within main department	85,645	91,481	94,810	100,866	107,881	111,607	113,282
NDPB total assets less liabilities	339	336	343	613	608	608	608
Total capital employed in dept'l group	85,984	91,817	95,153	101,478	108,488	112,215	113,889

3 Figures from 2007-08 onwards are on an IFRS basis

Table 5 Administration Costs

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans	2011-12 Plans	£'000 2012-13 Plans
Administration Expenditure									
Paybill	2,560,163	2,616,612	2,356,948	2,356,626	1,796,432	2,239,446			
Other	-	-	-	27,091	487,767	23			
Total administration expenditure	**2,560,163**	**2,616,612**	**2,356,948**	**2,383,717**	**2,284,199**	**2,239,469**	**2,182,586**	**-**	**-**
Administration income	-	-	-	-	-	-	-	-	-
Total administration budget	**2,560,163**	**2,616,612**	**2,356,948**	**2,383,717**	**2,284,199**	**2,239,469**	**2,182,586**	**-**	**-**
Analysis by activity									
Provision of Defence Capability	2,560,163	2,616,612	2,356,948	2,383,717	2,284,199	2,239,469	2,182,586	-	-
Provision of Defence Capability	**2,560,163**	**2,616,612**	**2,356,948**	**2,383,717**	**2,284,199**	**2,239,469**	**2,182,586**	**-**	**-**

Table 6 Staff Numbers for the Ministry of Defence

	Permanent Staff (Civilian)	Temporary Staff (Civilian)	Armed Forces	Ministers & Special Advisers	**2009-10 Total**	2008-09 Total
Analysis of Staff Numbers	75,942	450	196,420	8	**272,820**	270,820

The average number of full-time equivalent persons employed during the year to 31 March 2010 was: Service 196,420[4] (2008-09: 192,270) and Civilian 76,400[4] (2008-09: 78,550). Source: Defence Analytical Services and Advice.

4 Figures are Full Time Equivalent, weighted averages for the financial year. The Armed Forces figure uses data from the Joint Personnel Administration system and, due to ongoing validation, Army statistics from 1 April 2007, and Royal Navy and RAF statistics from 1 May 2007 are provisional and subject to change.

Table 7 Reconciliation of Resource Expenditure Between Estimates, Accounts and Budgets (£m)

	Provision	Outturn
Net Resources Requirement (Estimates)	**42,176**	**41,051**
Adjustments to include:		
Consolidated Fund Extra Receipts in the OCS		-247
Other adjustments	-7	-28
Prior Period Adjustment for Inventory		432
Net Operating Cost (Accounts)	**42,170**	**41,208**
Adjustments to remove:		
gain on derivative financial instruments		-257
voted expenditure outside the budget	-337	-20
Adjustments to include:		
other Consolidated Fund Extra Receipts		247
resource consumption of non departmental public bodies	6	192
IFRS treatments of PFI	178	-232
Other adjustments		28
Resource Budget Outturn (Budget)	**42,017**	**41,166**
of which:		
Departmental Expenditure Limits (DEL)	39,100	38,740
Annually Managed Expenditure (AME)	2,917	2,426

Notes:
1. All figures are rounded to the nearest £m
2. All figures are based on a Pre-Clear Line of Sight Basis
3. Resource Budget Outturn is subject to finalisation and is therefore subject to minor changes

Annex B

Public Service Agreement and Departmental Strategic Objectives Performance Data Tables (Unaudited)

A factual description of outturns is listed against each of the three Departmental Strategic Objectives and 10 Performance Indicators.

Indicator	Indicator belongs to: (PSA x and/or DSO y)	Statement on data	OGDs (where indicator lead different to PSA reporting lead)
PI 1.1: Success on operations: assessed against the military strategic objectives for each operation or military task we are conducting, including counter terrorism.	DSO 1: achieve success in the military tasks we undertake at home and abroad.	During 2009-10 the Armed Forces have sustained a high tempo of operations in Afghanistan. In Iraq, the UK Training and Maritime Support Agreement came into force and the majority of forces withdrew in July 2009. They have also undertaken the other military tasks required of them in the year. The proportion of forces deployed on operations and other military tasks decreased from 17% in the last quarter of 2008-09 to 14% in the last quarter of 2009-10, largely due to the withdrawal from Iraq.	
PI 2.1: UK Defence Contingent and delivery of force elements at readiness: our ability to maintain forces at the readiness we deem necessary to respond to possible threats, assessed against the requirements set out in the Defence Strategic Guidance and the Defence Plan.	DSO 2: Objective: Be ready to respond to the tasks that might arise.	The overall level of Force Elements demonstrating no SERIOUS or CRITICAL weakness is 50% at the fourth quarter. This reflects the heavy commitment to operations in Afghanistan and other Military Tasks.	
PI 2.2: Manning Balance: Our ability to attract, recruit and retain the military personnel we need to deliver the capability to succeed on current operations and support our future readiness, assessed against what we deem to be the appropriate size and structure of the Armed Forces.		As at 1 Mar 2010 position is: Naval Service manning was at 99.2% and in Manning Balance; Army manning was at just over 100% and in Manning Balance; Royal Air Force manning was at 98.4% and 0.5% below Manning Balance.	
PI 3.1: Procuring and supporting military equipment capability, through life.	DSO 3: Build for the Future.	One of four sub-indicators (support) is being reported annually for the first time. Out of the remaining three sub-indicators two are showing improvement from the end of the previous reporting year.	
PI 3.1.1 – Key User Requirements; Achieve at least 97% of key user requirements for all category A to C Projects, that have passed Main Gate approval, to be achieved throughout the PSA period.		PI 3.1.1 – Achieved 98% of all Key User Requirements.	

Indicator	Indicator belongs to: (PSA x and/or DSO y)	Statement on data	OGDs (where indicator lead different to PSA reporting lead)
PI 3.1.2 – Cost; Average in-year variation of forecast costs for design and manufacture phase, for all Category A to C projects that have passed Main Gate approval, of less 0.2%		PI 3.1.2 – Average in-year forecast cost increase was 1.88%	
PI 3.1.3 – Time; Average in-year variation of forecast In Service Dates (ISD), for all Category A to C Projects that have passed Main Gate Approval, to be no more than 0.4 months		PI 3.1.3 – Average in-year forecast ISD slippage was 0.39 months	
PI 3.1.4 – Support		PI 3.1.4 – The supporting military equipment capability through life element of this measure is being reported for the first time at the fourth quarter. The assessment relates to key support outputs, covering that part of the support that DE&S is responsible for, but does not encapsulate the element of support that is undertaken directly by the relevant Front Line Command. Navy – The surface ship performance met Joint Business Agreement (JBA) targets at year end in the Capital Ships and Afloat Support groups with minor shortfalls by Mine Patrol & Hydrographic Vessels and frigates. Land – Availability targets continue not to be met for some non-operational equipment, with some dips in performance. Land Forces are not reporting an impact on training. Most helicopters have achieved the required flying hours in this quarter, and serviceability has fluctuated across platforms. Merlins have failed to achieve target flying hours, mainly due to the need for increased support to the aircraft deployed in Afghanistan. Air – Overall performance of the Air Domain at year end is forecasted as a low risk with only Air Intelligence, Surveillance, Target Acquisition and Reconnaissance predicted to continue as medium risk.	

Indicator	Indicator belongs to: (PSA x and/or DSO y)	Statement on data	OGDs (where indicator lead different to PSA reporting lead)
PI 3.2: Procuring and supporting non-military equipment capability, through life	DSO 3: Build for the Future	Not yet assessed.[5]	
PI 3.3: Sustainable Development	DSO 3: Build for the Future	Five out of the seven sub-indicators are forecasting that they will achieve their targets.	
PSA 26: Objective: To reduce the risk to the UK and its interests overseas from international terrorism[6] PSA 30: Objective: Global and regional reduction in conflict and its impact and more effective international institutions[7]		Not reported by MOD.	The Home Office leads on PSA 26, with the Cabinet Office, MOD, Foreign and Commonwealth Office (FCO) Department for International Development (DFID), the Department for Communities and Local Government, the Security Industry Authority, Her Majesty's Revenue Customs and Excise, The Northern Ireland Office, the Ministry for Justice, the Department for Transport, and the Department for Children, Families and Schools, all contributing. The FCO leads on PSA 30, with MOD and DFID contributing.

MOD Value for Money (VfM) Programme

The CSR07 efficiency programme was a CSR07 commitment to an overall target across Government of £35Bn efficiency savings for that spending review period.

Under the CSR07, the MOD is committed to Value for Money (VfM) reforms generating net cash releasing savings of £2.7Bn by 2010-11, building on savings of £3.045Bn in the 2004 Spending Review Period. In the November 2009 Pre-Budget Report MOD's 2010-11 VFM target was increased by £450M to £3.15Bn.	By the end of 2009-10, the second financial year of the CSR07 settlement, MOD has achieved over £1.8Bn in cash-releasing, sustained and net costs of savings.
Spending Review 2004 Over Delivery	The MOD agreed with HM Treasury that £267M of savings delivered in the SR04 period can be reported as early delivery towards our Comprehensive Spending Round 2007 VfM target

5 The methodology that the MOD uses to measure the performance of the Non Equipment Investment Plan (NEIP) was revised midway through the year. Due to the lack of previous data and the immaturity of the process it has not been possible to assess Departmental performance at this point.

6 The MOD contribution to PSA 26 is supported by Departmental Strategic Objective 1 (Achieve success in the military tasks we undertake, at home and abroad) and Departmental Strategic Objective 2 (Be ready to respond to the tasks that might arise).

7 The MOD contribution to PSA 30 is supported by Departmental Strategic Objective 1 (Achieve success in the military tasks we undertake, at home and abroad) and Departmental Strategic Objective 2 (Be ready to respond to the tasks that might arise).

Annex C

Public Accounts Committee Recommendations

Eleventh Report (2008/9) – The United kingdom's Future Nuclear Deterrent Capability

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
1	**The Department's existing cost estimates do not provide an accurate baseline against which to measure progress. The forthcoming revised cost estimates should distinguish between future deterrent costs and the general overheads of the submarine industrial base, and provide clarity as to how the Department intends to deal with VAT, inflation and contingency.**	The Department accepts that at the time of the PAC hearing (November 2008) the cost estimates were not sufficiently developed to provide accurate baseline. This was to be expected nearly one year prior to the Initial Gate investment decision. Since then work has continued on developing the cost models and the Department is on course to have a robust (and independently assured) cost model to support Initial Gate in Autumn 2009. The cost model will distinguish between the direct costs of the future deterrent and the general overheads. As overhead costs are typically apportioned across multiple projects, the deterrent cost models consider the overhead costs across the whole of the submarine industrial base in order to assess the costs, which should correctly be attributed to future deterrent. In accordance with the Department's approvals process, the initial gate business case will state how VAT, inflation and contingency will be handled. The Department has currently assumed zero rating will apply to the submarine platform in the same way it currently applies to the Astute programme, whereas other elements of the programme (such as infrastructure at Faslane, Coulport and Devonport, Command and Control Infrastructure, and nuclear warheads) may possibly incur VAT. The actual tax treatment cannot be determined until nearer the time the contracts are placed and the precise manner in which we will procure the programme elements has been determined. The costing model will provide detailed inflation indices to be used for each category of expenditure (for example: labour, materials and construction), thereby allowing a full analysis of the effects of inflation on the programme. Uncertainty and risk will be incorporated into cost estimates in the usual way. The Department will, via the Future Deterrent Management Board, maintain oversight of costs across the programme and take action where required to control costs, for example by making design trade-offs where necessary.	Met – Cost modelling work continues, in parallel with the Value for Money Review of Trident, in order to inform the Initial Gate Business Case which will now be considered in Autumn 2010. The Business Case will provide a baseline against which to measure progress and will set out the treatment of VAT, inflation and contingency. The Initial Gate Business Case will also include the latest estimated for the infrastructure, C4 and warhead elements of the programme to generate an updated view of overall costs compared to the White Paper.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
2	**In September 2009, the Department has to make key decisions about the submarine design which will have implications for the procurement and support costs of the programme for decades to come. Given the importance of these decisions, the Department should commission independent validation of the assumptions underpinning its cost models and assess the reasonableness of its estimates using historic trend analysis.**	The Department long ago decided that the cost model should be subjected to independent scrutiny and in October 2007, following a competition, the Department commissioned Deloitte to provide ongoing independent validation and challenge of the design of the cost model and of the cost inputs and assumptions that underpin that cost model. Deloitte's work will culminate with a formal assessment of the cost model, which will be incorporated into the Initial Gate Business Case. Deloitte will also apply past experience and lessons learned from other major acquisition projects in providing their opinion as to the reasonableness of the cost estimates. This work is supported by assurance activity conducted by the Department's cost assurance team. This team, who are independent of the Future Submarine delivery team, will also conduct an independent cost estimate to provide a benchmark. Other benchmarking activity includes cost estimates provided by the US Government and UK industry. A historic trend analysis is also being conducted by the Department to assure the reasonableness of its estimates. The outcome of this activity will be presented at the Initial Gate decision point.	Met – Independent assurance was commissioned in Oct 2007 and will continue up to the Initial Gate submission. In addition, the Office of Government Commerce Major Projects Review Group will review the Initial Gate Business Case prior to its submission to Ministers.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
3	**Suppliers to the submarine industry constitute a highly specialised industry sector, with a number of monopoly suppliers. Given this imperfect market environment, value for money will be hard to achieve. The Department should specify exactly how it will ensure it obtains value for money from its suppliers and set out performance indicators for the programme, against which it will report to Parliament.**	The Department agrees that achieving value for money will be challenging given the number of monopoly suppliers in the sector. The overall approach will need to be one of partnering with a clear understanding of where risk can and cannot be transferred and clear demonstration of value for money. At the strategic level, the Department has established a steering group with representatives from HM Treasury and the Shareholder Executive to support the commercial work and the driving of value for money from monopoly suppliers. Internally, the programme will be subject to the usual approvals process, with funding only being released once value for money has been demonstrated. Central to this is the Future Deterrent Value Book, a comprehensive document that clearly identifies 15 key tenets of value[8]. The Value Book will set out the strategy for delivering through life value for money through the management of the programme and its commercial / procurement activities. The key areas of value are clearly documented and updated regularly to demonstrate progress and delivery of value. These are: ● Should Cost Modelling & Benchmarking – The Department will seek to set its budget lines based on much more rigorous cost modelling which has been informed by robust benchmarking and should-cost modelling; ● Commercial Constructs – The Department will work with Industry to introduce commercial constructs best suited for the complex nature of the programme and the industrial landscape; ● Incentivisation – The Department will develop appropriate incentivisation mechanisms to help deliver our key requirements for each phase;	Met – The Department recognises that its relationship with its key suppliers is key to the success of the programme. It is investing significant effort into the development and implementation of a new commercial strategy (known as the Submarine Enterprise Performance Programme or SEPP) between itself and the submarine enterprise. SEPP emphasises to a greater degree than in the past the need for partnering, not just between MOD and Industry, but also between the key Industrial participants. Joint MOD/Industry Governance arrangements have been established and the Department is working with its key suppliers, (BAES, Rolls-Royce and Babcock Marine) to drive down cost and improve performance whilst ensuring that the overall Submarine Enterprise is sustainable. SEPP will be taken forward via a combination of multilateral and bilateral agreements. The first of these, a Terms of Business Agreement (TOBA) with Babcock marine is already in place with bilateral agreements with BAES and Rolls-Royce to follow in 2011.

8 Should Cost Modelling, Benchmarking, Risk, Commercial Data, Post Costing & Robust Audit, Rationalisation, Asset Rationalisation, Portfolio Analysis, Core Programme, Terms & Conditions, Cost Allocations, Commercial Constructs, Long Term Partnering Agreements, Incentivisation, Through Life Capability Management.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
		● Project Controls & Performance Management – The Department will implement and maintain strong control over the programme using an Earned Value Management (EVM) system, complemented with robust Governance and Assurance processes; and ● Contractual Terms & Conditions – The Department will ensure that Value for Money principles are better reflected in all contracts and that there is provision for the on-going evidencing of VfM through-life. This process is a path-finder project that forms part of Director General Industrial Relations' "New Business Model" which is being developed to demonstrate the delivery of value for money. The Department has committed to providing an annual cost report to Parliament, which will contain a cost comparison between the programme and the initial estimates contained in the White Paper, and will draw on the analysis within the Value Book. The first report will be presented to Parliament by the end of the year.	

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
4	**The United Kingdom's new submarine will incorporate an American-supplied missile compartment. As the current Vanguard fleet will go out of service in the 2020s, the United Kingdom's programme is running ahead of the United States' programme. The United Kingdom will therefore have to make key design decisions on a replacement submarine before the United States. Given the unavoidable dependence on the American programme, the Department should analyse the lessons from other projects where the Department has been dependent on the United States for critical elements of technology. The Department should use this analysis to inform the development of its proposed communications plan.**	The Department agrees that the UK will have to take decisions on submarine design in advance of the US and that relevant lessons from other projects involving critical elements of technology supplied by the US should be incorporated in the programme. Discussions have been held with the Joint Combat Aircraft team to identify whether relevant lessons exist and the Strategic Weapons team, which has close liaison with US staff, is located within the same cluster as the Deterrent team facilitating knowledge transfer. Key project staff regularly attend learning from experience events within the Department. Clear communication with the US will be critical to managing this risk, however the UK has a long history of effective cooperation with the US on deterrent matters, underpinned by key treaties (the 1958 UK/US Mutual Defence Agreement, and the 1963 Polaris Sales Agreement as modified in 1982 for Trident). As a result of these formal Treaties there is a much closer relationship between our two countries on issues across the nuclear piece than on many other technologies. The Department is therefore satisfied that the Treaties provide effective channels for ongoing cooperation. Greater clarity has also been given by the recent announcement by the US Government that it intends to formally commence the programme for the replacement of the Ohio class submarines in 2010. At a more detailed level, the establishment of a Joint Project Office in the US and the secondment of US officers to the UK project team are key mitigations activities. The decision to enter into a joint programme with the US on the Common Missile Compartment (CMC) is illustrative of the way in which key design decisions can be agreed despite the different stages of the UK and US's programmes. The design of the CMC is a key driver for the overall configuration for the submarine and agreeing a common missile tube size will ensure that any successor to the D5 missile will be compatible with UK submarines.	Partially Met – close collaboration with the US continues through the basing in the US of elements of the programme office and through periodic progress reviews of the Common Missile Compartment.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
5	**Given the lack of time contingency for the submarine construction programme, some overlap between the design and production phases of the programme is likely to be necessary. The Senior Responsible Owner needs to set out how he will trade between the risks and opportunities involved in managing overlaps, and agree an explicit change management mechanism with other departmental teams and commercial partners at the outset of the project to deal with emerging difficulties in a timely manner.**	The Department agrees that there must be an explicit change management mechanism. Overlapping design and production phases is not something which is unique to the future submarine programme – it is a characteristic of most complex engineering programmes in defence or elsewhere. Whilst non-overlapping programmes reduce certain risks by requiring that designs are fully mature before manufacture commences, the longer timescales also increases the risk of obsolescence. Modern engineering design and manufacture tools (including the use of 3 dimensional modelling and simulation) and programme management methods enable the risk of overlapping project phases to be effectively managed. The Department has taken account of overlapping phases in developing its procurement, commercial and approval strategies and these will ensure that effective governance is exercised at key programme decision points. In accordance with programme management best practice, the Department will have a clear change management process within the design team to ensure that changes to specifications are managed carefully. This process, which will be managed jointly with the Department's commercial partners, will operate across the engineering disciplines/functions and will ensure that the cost, time and performance impact of all significant changes is understood before the change is approved by the appropriate authority.	Met – An appropriate change management mechanism has been implemented by the project team. Balance of Investment decisions continue to be discussed at the Future Strategic Deterrent Management Board and at the Programme Board. A performance dashboard has been developed by the Programme Support Office which collates key data (plan, progress, risk, cost), for use at Board meetings. This is subject to ongoing development to ensure that it meets the evolving needs of the programme.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
6	**The programme's Senior Responsible Owner role still does not conform to Office of Government Commerce guidance. The Department should review what prevents it moving to an arrangement which conforms more closely to Office of Government Commerce guidance and set out ways to redress the current shortfall as part of its Initial Gate submission.**	The Department believes that the current governance structures are robust enough to ensure the effective delivery of this programme. The Senior Responsible Owner (SRO) is well resourced to fulfil his duties, is able to discharge all of the responsibilities of an SRO described by the OGC and all key stakeholders are represented on the Future Strategic Deterrent Management Board. Establishing an SRO who has line management responsibility for all those involved in the programme (which include representatives from other departments) is not practical given the range of stakeholders involved in this programme. However, the SRO does have direct access to the Permanent Secretary to escalate issues should that be necessary. The Deterrent programme was subject to an OGC-led independent Gateway Review in July 2007. The Review made no recommendations on the SRO arrangements then in place, and noted that the arrangements being considered for the future, which included the occupant of the Director General Equipment (now renamed as Director Equipment Resources) acting as SRO were 'credible' and within the 'latitude' available for reconfiguring the SRO role. Nonetheless, the Department recognises that there is an issue of balance around the current arrangements which may change as the programme progresses, and will continue to keep these arrangements under review to ensure that they remain appropriate in line with current and emerging OGC guidance. In addition, the authority of the Deterrent SRO is likely to be reinforced by work currently underway under the direction of the 2nd Permanent Secretary aimed at clarifying and supporting the responsibilities and authority of SROs within the Department, in line with OGC guidance and best practice.	Met – The SRO continues to exercise appropriate governance of the future deterrent programme through the Future Strategic Deterrent Management Board. The Department has reviewed Programme Governance arrangements, and the intention is that the Senior Responsible Owner (SRO) will continue to exercise governance of the programme through the Future Strategic Deterrent Management Board until at least the Initial Gate decision has been made. The 1* Head of Capability is now the Programme Director, focusing exclusively on the future deterrent. The Department will continue to periodically review its governance arrangements to ensure that they meet the needs of the programme and recognises that changes are likely to be appropriate in due course.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
7	**The Senior Responsible Owner does not have direct line management responsibility for some Programme Board members and must therefore work in part by influence and consensus. The Department is confident that it can align incentives and reward good behaviour when individual Programme Board members have conflicting priorities. However, it did not explain persuasively how it would achieve this goal and should clearly set out how this can be done.**	All stakeholders on the Future Strategic Deterrent Management Board have the shared goal of introducing the successor in time and on budget to maintain a credible deterrent system and the behaviour of all members of the Board is aligned to achieving this goal. The governance process has been shown to work effectively by the decision to participate in the CMC, which has removed many of the uncertainties about key submarine and missile design parameters.	Met – The Programme Support Office now reports more directly to the SRO and Programme Director, strengthening its ability to influence Programme Board members not directly line managed. All stakeholders on the Future Strategic Deterrent Management Board have the shared goal of introducing the successor in time and on budget to maintain a credible deterrent system and the behaviour of all members of the Board is aligned to achieving this goal.

Eighth Report (2008/09) – Chinook Mk 3

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
1	**The problems with the Mk3 procurement stemmed from the Department's failure to specify in the contract that it required access to the software source code in order to assess the safety risks and establish whether the helicopters would meet UK airworthiness standards. Given that software is key to the operation of most modern defence equipment, this is irresponsible. The Department should specify access to software as a clear requirement within any contract, especially where access to proprietary software is needed to provide airworthiness certification. The Department should also review its airworthiness approvals process to take into account the safety records of other nations in using similar software and equipment.**	The Department partially accepts this conclusion and has acknowledged that there were significant problems with the acquisition of the Chinook Mk3 helicopter. Under current working practices these problems would not occur. The Department will not place contracts with suppliers until the means for accessing essential source code have been put in place or appropriate alternative safety assurance processes have been identified. If source code licence rights are required by the Department, these will be provided for in the contract or through a separate software licence with the contractor or any relevant third party. Any denial of access will be taken into account as a selection factor when tenders are considered for either competitive or single source procurements and when procuring from overseas, the Department will be mindful of the added restrictions that may be imposed by the export control authorities of foreign governments. By the end of June 2009, the Department will publish guidance specifically for the assurance of software acquired when applying Defence Standard 00-56: Safety Management Requirements for Defence Systems. Joint Service Publication (JSP) 553 Military Airworthiness Regulations, is the publication that describes the principles and policy for the regulation of the Airworthiness of UK Military Aircraft. As a result of a Departmental review, the UK airworthiness approvals process has been updated to take account of the safety records of other nations. The Department's approach is dependent on the aircraft systems being previously certified and the overseas certification body demonstrating their competence. It is recognised that the certification basis used by other bodies may not be wholly suitable for meeting the Department's requirements. Hence the safety case must address any differences in the operating environment and proposed usage, as well as demonstrating that risks have been mitigated to a tolerable and As Low As Reasonably Practicable (ALARP) level.	The Treasury Minute was placed before Parliament on 19 May 2009. By the end of June 2009, the MoD funded Software Systems Engineering Initiative published guidance specifically for the assurance of software acquired when applying Defence Standard 00-56: Safety Management Requirements for Defence Systems. **April 2010 update** Met: The MoD funded Software Systems Engineering Initiative (SSEI) published in August 2009, provided guidance specifically for the assurance of software entitled "Interim Standard of Best Practice on Software in the context of DS 00-56 Issue 4". The Defence Standard covers "Safety Management Requirements for Defence Systems." In addition the SSEI are now working on Standards of Best Practice to establish a systematic approach to Software Safety Cases, and a report is expected in February 2011.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
2	**In 2003, the Department introduced the Night Enhancement Package as a short-term, urgent operational fix. It will not be replaced until 2009 at the earliest, and the Joint Helicopter Command still assess it as a key safety risk. The Department has to make difficult judgements to balance the safety risk of using capabilities like the Night Enhancement Package against the operational downside of not having it at all. However, the Department should examine whether its acceptance of the risks associated with short-term fixes like the Night Enhancement Package is consistent with the priority accorded to identifying funding for long-term solutions, the duty of care it has to personnel and the principles underpinning its approach to airworthiness.**	The Department agrees with the conclusion and intends to examine the issue of managing safety in the operational environment to ensure that approaches remain consistent. The Department has a responsibility for the safety of all its personnel and routinely has to balance equipment related risks with the operational risks that the Armed Forces are exposed to. For aircraft such decisions are taken by the Aircraft Operating Authority, in this case the Joint Helicopter Command. The Night Enhancement Package (NEP), procured as a short term modification to meet operational requirements in Afghanistan, was never intended for long-term use. A contract has been placed to replace the NEP installation to provide an integrated display system addressing the pilot workload issues associated with the current fit. This is scheduled to deliver the first modified aircraft with an enhanced low visibility capability before the end of 2011, within the timeframes of the F2F project. As the Committee has stated, difficult judgments have to be made and the Department continues to use the NEP as it enables important missions to be undertaken which would otherwise not be attempted in a non-NEP aircraft. Planning, delivery and the consideration of the risks associated with military capability, including equipment safety, are an integral part of Through Life Capability Management (TLCM), the Department's approach to acquisition and in-service management of military capability. Under TLCM, consistent capability planning is managed through Capability Management Groups (CMGs), and their supporting Capability Planning Groups (CPGs). In managing safety, the CMGs undertake a risk assessment that enables the Department to decide whether risks have been mitigated to a tolerable level and are ALARP. The status of the risks is reviewed routinely to take account of the time at risk and, in particular, to ensure the risk of the extended use of short-term solutions remains both tolerable and ALARP. Recognising the challenges of managing safety in the operational environment, the Department's Defence Environment and Safety Board has commissioned a review of safety in operations and this will include aspects of capability.	Met: The Treasury Minute was placed before Parliament on 19 May 2009. The Safety in Operations Study was reported to the Department's Defence Environment and Safety Board in September 2009 and the key points included in the DESB action plan. This now forms part of the newly-produced MoD Safety Strategy.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
3	**The Department admitted that, particularly when buying existing equipment 'off-the-shelf', it tends to specify too many modifications, when what is needed is equipment that is safe, effective and can be made available for operations quickly. To better inform future decisions on whether to specify modifications to off-the-shelf equipments, the Department should analyse all such recent acquisitions to determine how often technical problems have arisen or costs increased, and whether these outweigh the expected and/or delivered operational benefits.**	The Department disagrees that an analysis of recent 'off the shelf' equipment acquisitions is required. The Department agrees that when buying equipment 'off the shelf' it should be safe, effective and available for operations quickly. That said, the Department has a duty to ensure that the 'off the shelf' equipment can be operated safely and effectively in a range of environments and against a range of threats. These important factors have to be judged by the Department since the UK perception of threats is not always the same as the perception other nations have and because the way the UK uses military equipment to counter these threats also differs. Therefore, there will very often be a need for some modification of 'off the shelf' equipment and the Department will re-emphasise to staff the need to ensure that these modifications are kept to a minimum.	The Treasury Minute was placed before Parliament on 19 May 2009. The Department's Smart Acquisition Approvals guidance is currently being revised and when complete will re-emphasise that modifications to 'off the shelf' equipment should be kept to a minimum. **April 2010 Update** Not met: The Department's Smart Acquisition Approvals Guidance will be published in July 2010 and will include a re-emphasis that modifications to 'off the shelf' equipment should be kept to a minimum.

Twentieth Report – Ministry of Defence: Major Projects Report 2008

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
1	**Nine projects have been further delayed in 2007-08. Delays to projects have caused gaps in front-line capability, or increased the risk that gaps may arise in future. In the case of the Terrier armoured engineering vehicle, these gaps have been filled by the purchase of interim equipment but in others, such as the Nimrod MRA4 aircraft, existing equipment has been kept in service longer than originally intended. In order to better understand and adjust for the impact of delays, the Department needs to measure the full costs of delays to projects, including the costs of maintaining existing equipment in service for longer.**	As the report acknowledges, the Department has addressed any potential gaps in capability through interim purchases and running on existing equipment. The Major Projects Report already provides information about the additional costs of running-on existing equipment where projects are delayed.	Met. The Department has addressed any potential gaps in capability through interim purchases and running on existing equipment. The Major Projects Report already provides information about the additional costs of running on existing equipment where projects are delayed.
2	**The Department has recently announced delays to projects which have not yet reached their main investment decision point. These projects include elements of both the Future Rapid Effect System and the Military Afloat Reach and Sustainability fleet auxiliary programme. Delaying projects to generate short-term savings can create future capability gaps and raise overall project costs. The Department should identify the financial and capability impacts of slipping projects, even if they have yet to pass their main investment decision point.**	The Department accepts this conclusion. Decisions to defer projects are sometimes necessary to deliver an affordable programme and enable necessary enhancements to be funded, although such deferrals are generally undesirable for the reasons given by the Committee. When such measures are considered in the planning round process, each measure has an associated assessment of the impact in terms of both capability delivery and through life cost.	Partially met. Controlling project costs is an important part of managing equipment acquisition. We have made a great many important steps forward in the last ten years, first through Smart Procurement and then the Defence Acquisition Change Programme. While these initiatives are proving effective, there is still room for improvement. The NAO acknowledged this in their 2008/2009 Major Projects Report. The Strategy for Acquisition Reform, which we announced in December 2009, following the Bernard Gray Report, will build on the achievements of these previous initiatives. It will increase our focus on the decision-making end of the acquisition system, and the transparency of MOD spending on the Equipment Programme.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
3	**On far too many projects the Department is over-optimistic and sets unachievable cost, time and performance objectives. In future, when making the main investment decision on projects, the Department should develop quantified measures against which to assess how well it has:** ● understood the capability required and avoided over-specification; ● assessed whether the technology can be delivered by industry within the agreed cost and time envelopes; ● worked with industry to determine whether they have the right technical and project management skills to deliver the requirement; ● identified any key interdependencies with other equipments and developed a strategy in case these impact on the project, and ● assessed whether there is sufficient funding available to deliver the project.	The Department accepts this recommendation and through recent acquisition reform has been working to counter the tendency towards over-optimism that the Committee observed. We will continue to do so, including through the rigorous use of 'shared cost' and other benchmarking techniques. In the MPR 2008 report, the NAO noted that progress had been made, although performance remained variable, partly reflecting the complexity of defence acquisition and rapidly changing operational requirements.	Met. This is one of the important issues the Department is addressing through the Strategy for Acquisition Reform, which was published in February 2010 (Cm7796) [in response to Bernard Gray's Review of Defence Acquisition]. The main actions it identifies to address over-optimism in project planning are improved costing methodology (our previous answer should have referred to "should-cost" rather than "shared cost" techniques) and management of risk, and better governance and oversight of the acquisition process. An enhanced role has been agreed for the Cost Assurance & Analysis Service (CAAS). Their role in assuring project cost estimates is now mandated, a first group of recruits has been appointed, with more to follow, and additional money has been allocated to engage external partners to help develop best practice in cost estimating.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
4	**Recent fixed-price contracts with industry, for example, on the Terrier and Soothsayer projects, have ensured cost overruns are borne by industry, yet the Department's influence over these projects has correspondingly been reduced, eroding its ability to tackle project delays. The Department should assess whether the risks to delivery inherent in the type of commercial arrangements it agrees with industry at the start of projects are appropriate. Further, before contracts are placed, it should routinely develop a joint strategy with industry for addressing these risks if they materialise, including, for example, if a gap in capability is created if the project is delayed.**	The Department accepts this conclusion and seeks to put in place appropriate commercial arrangements consistent with the levels of risk associated with a project. Recognising the scope for improvement in this area, since late 2007 the commercial arrangements proposed for all major (Category A and B) projects have been subjected to additional formal assessment by independent experts as part of the commercial scrutiny process put in place by the Defence Commercial Director who has been a formal member of the Department's Investment Approvals Board since 2006. This tests, to the material level, the procurement and contract strategy, fallback options, market analysis, key terms and conditions, incentivisation, payment mechanisms, the risk assessment and appropriate risk distribution. Furthermore, the appropriate treatment of risk will vary from case to case – in some instances there may be more that could be done about jointly managing the risk to any potential gap in capability arising from delay, but this will be subject to appropriate cost-benefit analysis and the most appropriate management approach would be selected on that basis: The Department already requires a risk management strategy and risk management plan for all projects and that project teams and their contractors should, when appropriate, operate a common risk management process that utilises common risk information. The management of risk of delays to major projects, especially with the potential to create gaps in capability, would be explicitly covered in the Main Gate Business Case. Finally, it should be noted that the application of fixed pricing in contracts does not directly mean a loss of influence by the customer as the effective application of management control, incentives and break points at key decision stages is still possible.	Met. The Investment Approvals Board (IAB) processes have continued to apply independent scrutiny of the procurement and contract strategy, fallback options, market analysis, key terms and conditions, incentivisation, payment mechanisms, risk assessment and appropriate risk distribution. The commercial arrangements are scrutinised for the placement of risk and the legal and commercial implications of project failure. Improvements have been made in the approach such that 'knock-on' effects on other projects and the cost of maintaining legacy capabilities are addressed. Technical scrutineers scrutinise the risk logs produced for all projects and included in the cost and time estimation of projects, as part of the approval process. As previously stated the application of fixed pricing in contracts does not directly lead to a loss of influence by the customer. The issue is not whether it is fixed price or not but the quality of performance and payment regime as written in the contract and the quality of the project management through life. In the case of Terrier, for example, the Department pursued a vigorous negotiation with the supplier on delivery timescales and performance requirements, and there was no loss of influence over the project simply because the cost overruns were borne by the contractor. In many ways this increased the pressure on the contractor to remedy the situation as quickly as possible.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
5	**Although recent progress has been made in licensing project managers, the Department admits that it needs to achieve more consistent skill levels across its procurement staff. The Department should introduce a more consistent approach across its own project management discipline, including further development of staff skills and the use of standardised project management systems.**	The Department accepts the conclusion, recognises the need to achieve more consistent skills levels across its procurement staff, and has established a Programme and Project Management Centre of Excellence to develop a consistent approach to standards and skills. Project Managers are being developed to standards set by the Association for Project Management, the leading professional body in the UK. This enables key Project Management posts to be filled by those with nationally recognised qualifications, leading to a more professional and consistent approach to Project Management. The Department now has more than 600 qualified staff with Project Management Licenses at levels 1 and 2. A more advanced, level 3 License is being piloted. Standardised Project Management systems and skills are being developed with the defence industry.	Met. The Programme and Project Management Centre of Excellence drives consistency across the discipline through sponsorship of the training and development portfolio and development of standard project Management systems. DE&S has identified its key project management posts and has set performance targets to increase the occupation of these posts by suitably licensed project managers By April 2010, the Department had over 850 suitably qualified and experienced Project Managers, formally recognised through the award of a professional license. This includes 20 staff who have successfully undertaken the level 3 License pilot. Standardised Project Management systems continue to be developed, for example the Project Management Standard has been extensively peer reviewed by representatives from the Defence Industry as a key stage in its development.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
6	**Because many defence projects are very complicated and involve 'cutting-edge' technologies and complex commercial arrangements, the Department and industry must work together to solve problems that are likely to occur. Specific actions to encourage both parties to develop a common understanding of the challenges include sharing joint risk analyses and developing more common project and technical management training.**	The Department accepts that close working with industry is a key factor in successful project delivery. This forms a core element of our strategy to further improve Programme and Project Management across the Department. The Department is working with the National Defence Industries Council to encourage the use of common Standards, the consistency of application and the professionalism of staff. The implementation of Through Life Capability Management has been the focus for this work, involving the adoption of Office of Government Commerce best practice at Managing Successful Programmes. National Defence Industries Council experience has been used to review the Through Life Capability Management design, helping to ensure that industry implications, such as technology readiness, risk and capacity, are considered in the Capability Planning Stages and Programme Board activities. A Project Management Peer Group has been formed jointly between MoD and 14 leading Defence contractors to develop common practices and skills. Their Campaign Plan includes improvement to joint Risk Management and Project Controls. Many Projects already operate joint risk registers with their industrial partners. This approach is being re-enforced, with Assurance arrangements in place to confirm a common and comprehensive understanding of the risks and how they will be managed.	Met. By February 2010, 82% of programmes under Through Life Capability Management were judged 'mature' in achieving co-ordination of the delivery of grouped projects. In particular, the most recent Through Life Capability Management Design Review, attended by Industry representatives, concluded there were no critical vulnerabilities in the design. In terms of common standards and professionalism over 150 staff undertook Managing Successful Programmes training in 2009/10 with a pass rate at practitioner level of approximately 95%. The MoD/Industry Peer Group continues to provide tangible benefit in terms of common practise and skills development. For example, common processes have been established for the application of Earned Value Management including maturity measurement and Integrated Business Review.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
7	**The Department is moving towards more incremental procurement strategies on some projects, with work broken into 'bite-sized chunks'. If well applied in appropriate circumstances, this approach is sensible, but the existing two-stage approval process does not fit well with incremental projects or provide a sound basis for accountability to Parliament. The Department should:** ● review whether the two-stage approach introduced under Smart Acquisition remains the most appropriate mechanism for delivering all defence projects and ● ensure that publicly reported performance, measured from the decision points for each increment, meet the same rigorous accountability criteria as required for the current key decision point at Main Gate.	The Department accepts this recommendation. The two-stage approval process does not prescribe or constrain the acquisition strategy. As the report acknowledges the Department is already taking a more incremental approach to acquisition, and the Major Projects Report is evolving to address this. The Departments acquisition system aims to meet the needs of the front line and provide value for money by being more agile and better able to deliver capability through life. The Department's wide agenda for change continues to build on the reforms introduced under Smart Acquisition; and looks to exploit innovation, open systems architecture and technology in evolutionary and incremental acquisition approaches, alongside traditional approaches where these are most appropriate, to deliver the capability the Department requires and support sustained improvement in performance. The independent review of acquisition, being undertaken by Bernard Gray and due to report in summer 2009, may also take a view on this approach. The Department needs to be careful about establishing rigorous boundaries before Main Gate because of the uncertainty and risk prior to that point.	Met. This is another issue the Department has considered as part of its Acquisition Reform work. The Strategy for Acquisition reform did not recommend significant changes to the approvals process, but it endorsed the need for us to understand, cost and manage risk better and for new projects only to proceed to Main Gate when we were confident of successful delivery.
8	**The Department is faced with some risks such as fluctuating exchange rates, which are hard to manage. The Department should take a portfolio view across its projects to make sure it is not committing to too many where it faces risks of similar magnitude, and where it has only limited ability to influence successful delivery.**	The Department accepts this recommendation. On exchange rates, the Department already has in place a buy-forward programme for US$ and Euro which provides certainty for a large proportion of our foreign exchange requirement. This risk is managed centrally and ensures that individual programmes do not bear the brunt of exchange rate fluctuations and that broader affordability judgements are made in the context of the wider Defence programme as part of the planning round process. On portfolio management, the Department's Through Life Capability Management and Programme Board approach is designed to manage a portfolio of capabilities and provides an opportunity to trade within the portfolio to balance priorities to achieve the optimum capability within the available resource envelope. Balancing priorities across portfolios will continue to remain planning round business.	Met. As previously outlined we have buy-forward programme for US$ and Euros which has successfully provided the Department with stability during 09/10 so the underlying individual programmes are not unduly impacted on by exchange rate fluctuations. The predicted currency volumes are adjusted as part of the planning round process.

Thirtieth Report (2008/09) – Type 45 Destroyer

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
1	**The Department made serious mistakes in the early stages in the procurement of the Type 45 Destroyer, and set unrealistic cost and time objectives. In line with our recommendation in our report on the Major Projects Report 2008, when making the main investment decision on projects, the Department should develop quantified measures against which to assess how well it has:** **(a) understood the capability required and avoided over-specification;** **(b) assessed whether the technology can be delivered by industry within the agreed cost and time envelopes, and** **(c) assessed whether there is sufficient funding available to deliver the project.**	The Department accepts this conclusion. The Type 45 is a highly complex programme with around 80% of the equipment used on the Platform being new to service. The Department has previously acknowledged that some of these new systems were not at a sufficient level of maturity at the time the contract was placed, and the integration challenges were not matched by an incentivised commercial arrangement. The Department has responded to these issues with a series of improvements and the programme is now performing well. Since renegotiation of the contract in 2007 the programme has stabilised and there have been no further cost increases or delays. Through recent acquisition reform the Department has been working to counter the tendency towards over-optimism including the rigorous use of shared cost and other benchmarking techniques. Specific recent initiatives include the introduction of Through-Life Capability Management (TLCM), which seeks to ensure that contributions from all Defence Lines of Development are understood and managed coherently to achieve the desired effect. The recent introduction of Programme Boards, as part of TLCM, will further strengthen both the specification of projects and the measures of their contributions to the desired Capability. A key function of Programme Boards, which are chaired by the relevant Head of Capability, is oversight and trading of the funding allocated to component projects to balance affordability. The Department recognises its important responsibility to understand, and intelligently assess, the ability of Industry to deliver the technology required. Subject matter experts are available to assist project teams during contract negotiations with this responsibility. In addition, a senior officer at Director level and accountable to the Defence Equipment and Support (DE&S) Investment Board has been recently appointed to help projects better assess and manage the risk presented by technology.	Met. TLCM Programme Boards have been established and, by February 2010, 82% of programmes were judged 'mature' in achieving co-ordination of the delivery of grouped projects across Defence Lines of Development. Assistance to project teams and the Director level appointment are both in place. This has been further enhanced by a new Defence Science & Technology (S&T) Programme Office, which acts as the MoD's delivery agent for S&T, and the inclusion of S&T as a core element of Through-Life Capability Management. In addition, the recently announced Defence Acquisition Reform Programme will lay the foundation to maintain and enhance intelligent customer status.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
2	**Although the Type 45 was based on 80% new technology, the Department failed to take sufficient account of this in its assessment of technical risk or in the commercial construct that it agreed. The Department needs to improve its understanding of technical risks at the start of its projects. It should factor in more realistic allowance for risk on its more technically complex projects.**	The Department accepts the need to better understand technical risk at the start of projects and now includes this assessment as a mandatory element of the approvals and governance processes. To assist project managers delivering technically complex projects and managing the inherent risk involved with new technology, the Department now deploys Technology Managers within project teams, with support from science & technology specialists across the Department. The resulting improved quantification of technical risk, particularly on complex projects, will be reflected in Business Case submissions. In addition, DE&S is undertaking an investigation to confirm that Risk Management and Estimating techniques are sufficient for the most complex projects.	Met. Deployment of Technology Management skills has been reinforced through on-going training and guidance and also the provision of Science and Technology specialists embedded within DE&S Operating Centres. Assurance of project approvals and focus on the management of technology risk has been strengthened by the specific inclusion of technology management requirements. Experts are in place to carry out this Assurance. The externally commissioned investigation into Risk Management has confirmed that DE&S techniques compare well with external benchmarks.
3	**As we see on so many defence projects, the Department was over-optimistic in its estimates of the costs to deliver the Type 45. The Department needs to spend more time at the start of projects to ensure its cost estimates are robust and realistic. In particular, it should:** **(a) build time in at the start of projects to estimate costs more thoroughly, and** **(b) routinely check the realism of its cost estimates using different methods such as historical trend analysis.**	The Department accepts this conclusion. Through the Department's SMART Acquisition system, guidance is provided on the proportion of investment and time that should be spent in the various stages of a project life-cycle in order to reduce risk and quantify cost. Work is also underway to introduce an additional early review point to ensure that the foundations for project success have been properly established before any significant expenditure is committed. The construction of cost estimates is undertaken by functional experts and assured as part of the financial governance process. In addition, cost estimating processes will be embraced within the work underway to confirm that risk management and estimating techniques are sufficient for the most complex projects.	Met. The Approach for establishing the foundation for project success has been agreed by the Defence Board Sub-Committee for Equipment. This Approach will govern entry of projects into the Equipment Programme and improve consistency and robustness of initial project cost estimates. Rollout of this Approach is currently underway. The leading strand of the Defence Acquisition Reform Project's Upskilling initiative has been funded to address the trilogy of Cost Estimating, Forecasting and Assurance. This will reinforce and embed the robust approach and review of project costings.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
4	**Many of the problems on the Type 45 result from the commercial arrangements the Department put in place. Inappropriate commercial structures are a major cause of slippage and cost growth in the early part of the lifecycle of large projects. The Department needs to give greater consideration that the arrangements it agrees with industry are realistic, sensible and appropriate for specific types of project. It should:** **(a) build in time at the start of projects to get the arrangements right;** **(b) agree an appropriate means of incentivising the contractor;** **(c) make sure that it does not set a fixed price too early; and** **(d) assess whether the risks in the commercial arrangements are appropriate and develop a joint strategy with industry for addressing risks, in line with the Committee's recommendations in its report on the Major Projects Report 2008.**	The Department accepts this conclusion and seeks to put in place appropriate commercial arrangements consistent with the levels of risk associated with a project. Recognising the scope for improvement in this area, since late 2007 the commercial arrangements proposed for all major (Category A and B) projects have been subjected to additional formal assessment by independent experts as part of the commercial scrutiny process put in place by the Director General Defence Commercial. This tests the procurement and contract strategy, fallback options, market analysis, key terms and conditions, incentivisation, payment mechanisms, and the risk assessment and appropriate risk distribution. The appropriate treatment of risk will vary from case to case. In some instances there may be more that could be done jointly to manage the risk to any potential gap in capability arising from delay, but this will be subject to appropriate cost-benefit analysis and the most appropriate management approach would be selected on that basis. The Department already requires a risk management strategy and risk management plan for all projects, and also requires that project teams and their contractors should, when appropriate, operate a common risk management process that utilises common risk information. Where the Department and the Contractor have reasonable confidence that the risks around a contract are sufficiently understood, then the parties will determine which is the most appropriate pricing mechanism for the contract. Where it is accepted by both parties that the risks are fully understood, can be accurately costed and properly managed, then the parties may determine to agree a firm or fixed price for a clearly defined package of work. Where there is limited or no confidence then the Department will not authorise work until such time as both parties can agree that it is sensible to do so and at that time will select the appropriate pricing mechanism that both incentivises the contractor to perform and safeguards the Department from cost growth. The management of risk of delays to major projects, especially those with the potential to create gaps in capability, would be explicitly covered in the Main Gate Business Case.	Met. The measures referred to in the Treasury Minute response are in place. In addition the Department, as part of its continuous improvement of risk processes, is developing a 'contract risk allocation management' process, to ensure more effective risk; identification, allocation, and management .

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
5	**Project management arrangements on the Type 45 project were poor and allowed the culture of over-optimism to persist for too long. For its high risk projects, the Department needs to ensure someone sufficiently senior has a high level overview of the project, and aligns responsibility with budgetary authority. The individual tasked with the overview must be in a good position to oversee capability delivery across all the Defence Lines of Development.**	The Department accepts this conclusion and recognises the importance of senior ownership of programmes and projects. The Department applies the Office of Government Commerce (OGC) best practice guidance. The most significant capability and business change projects in MOD have a Senior Responsible Owner (SRO) appointed by the Permanent Under Secretary. All other programmes and projects have an equivalent role undertaken by the relevant Head of Capability.	Met. SRO policy has recently been reviewed and re-endorsed. Individuals discharging the SRO role are regularly reviewed, selected on the basis of their ability to overview capability across all Defence Lines of Development, and are in place.
6	**Following the contract renegotiation, project management is much improved and there have been no further costs increases and delays. Much of this is because of the work of the Project Director. The Department needs to recognise the importance of the role that good project managers play and keep key individuals in place during the critical stages of projects, albeit without hampering their career development. It should align the career development of such individuals with significant developments on projects, and if necessary keep them in high risk posts for longer periods of time. The Department must be prepared to promote key individuals in post so that people do not compromise their career development by remaining in projects to provide important continuity.**	The Department accepts this conclusion and recognises the key role of project and programme managers including at senior levels, and the importance of keeping individuals in place through the critical stages of a project. The processes for appointing people into posts already provide the scope for tour lengths to be aligned to key project milestones and these arrangements have recently been strengthened. The aim is to keep individuals in post to ensure delivery of key programme milestones, but provide an agreed point at which individuals can move to continue their career development. There are a range of measures and incentives that can be used if the needs of the programme require an individual to remain in post longer than originally planned. These include the ability to promote in situ where individuals are successful in Departmental promotion processes and the use of temporary promotion to incentivise individuals where there is judged to be a good business case to do so.	Met. The measures referred to in the Treasury Minute response are in place.

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7	**The first Type 45 – Daring – is forecast to meet its Key User Requirements when it enters service in 2009, but will not achieve full operational capability until 2011. There are a number of improvements in capability that will be installed incrementally after Daring comes into service. The Department needs to measure the delivery of its equipment against milestones which are meaningful, and which correspond to the provision of capability. It should:** **(a) avoid working to two different sets of dates (target and most likely), which can cause confusion and a lack of clarity;** **(b) develop a clear route map of when it will achieve capability, which is not necessarily linked to the Key User Requirements, and** **(c) approve a series of milestones for the introduction of meaningful capability, rather than basing plans around the In-Service date alone.** **Equipment which will enhance the ship's ability to conduct anti-air warfare operations will not be fitted until several years after the ship enters service. This is in line with the Department's planned approach to improve the capability of the ship incrementally to meet changing threats. While the development and addition of the new technologies progressively is a sensible approach, the Department needs to be clear as to how the destroyers can be tasked until full capability is achieved.**	The Department partially agrees with these conclusions. The In-Service Date (ISD) for projects is approved by the Department's Investment Approvals Board normally at the 50% confidence level. This includes a carefully judged allowance for risks that might occur, and is the most likely point that the Capability will be delivered. In order to maximise the chances of meeting or delivering earlier than the most likely date, project teams are encouraged to work to more demanding Stretch (or target) project milestones. Through managing the project to meet these more ambitious target milestones, the emergence of any unforeseen events (or risks) should only delay the project beyond the target date, but not critically, beyond the approved most likely date. The ISD is the date that the minimum usefully deployable military capability is accepted by the relevant Customer and thus comes into Service. It is normally coincident with the achievement of Initial Operating Capability (IOC), and is the point at which all Key User Requirements for the project are met. The SRO of a project confirms formally at the time of ISD that the capability is integrated across all relevant Defence Lines of Development (DLODs) and with existing systems, with all elements at a sufficient maturity for IOC. The nature of Full Operational Capability (FOC) may vary from one case to another, but generally represents delivery of the total military capability which is envisaged for a particular project. All DLODs are required to have achieved their fully mature state by FOC. Both Initial and Full Operational Capability have an expected date of achievement. Recently on Type 45, a number of further milestones have been introduced which provide a clearer and more comprehensive articulation of Type 45 capability delivery, building on that provided through the achievement of the ISD. These milestones provide a meaningful differentiation between individual platforms achieving their ISD, and the number of Type 45 platforms available for tasking at certain readiness levels. Through this suite of platform and class based milestones there is a demonstrable and progressive generation of the Type 45 class as a capable force that is ready for operational tasking.	Met. As explained in the Treasury Minute response, the use of two different sets of dates maximises the chances of delivering projects to their Approved In-service date. The use of two sets of dates has proved effective on Type 45 which, since having its In-service Date re-approved in 2007, has continued to forecast an In-service Date consistent with the re-approved date (of November 2010). The Treasury Minute explained how MOD uses a series of milestones, notably Initial Operating Capability and Full Operating Capability. The latter of these is not only linked to the achievement of Key User Requirements and the In-service Date, but also the Defence Lines of Development reaching their full state of maturity.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
8	**The Department has learnt a number of lessons from the Type 45 project, which it needs to apply to other projects and, in particular, to its other surface ship projects, the Carrier and Future Surface Combatant. The Department needs to manage its surface ship capability in the round. It should maximise the transfer of technology from the Type 45 to these projects, and should build on the improvements it has made it its relationships with the Industry as it take the Carrier project forward.**	The Department accepts this conclusion. The Department has learned a number of lessons from the Type 45 procurement, which are being transferred to other programmes. For example, the Future Carriers (Queen Elizabeth class) and Future Surface Combatant (FSC) programmes have a much reduced technology risk by the extensive use of existing technology. This includes the combat management system, electric propulsion and long-range radar from Type 45. This contrasts with Type 45 where 80% of the equipment was new to service. The Future Carrier programme is an example of how more open and effective relationships with industry are being established from the beginning, learning the lessons from the recent and more successful period on the Type 45 programme. The Aircraft Carrier Alliance enables the Department to draw on the strengths, resources and expertise of all parties, providing more effective ways to manage risks, exploit opportunities and promote 'best for project' behaviours. On both the Future Carrier and the FSC programme a common (MOD / industry) understanding of both projects is being achieved through shared schedules, risk registers, cost models and 'open book' accounting. A range of fora exists which facilitate the exchange of lessons learned across surface ship programmes. In particular, the Maritime Platform Programme Board, which draws together all stakeholders including the end User on a quarterly basis to review progress and discuss issues, reviews all three of these key surface ship programmes jointly.	Met. The working relationship between MOD and the Aircraft Carrier Alliance (ACA) continues to develop and the strength of this relationship was a key factor in successfully addressing the challenges of the 2008 MOD Equipment Examination. Good progress continues to be made on the programme with shipbuild work well underway across the UK. The close working relationship and greater levels of openness and transparency facilitated by the ACA construct are ensuring that all parties have a common understanding of the programme and allow for emerging issues to be tackled early, on a best for project basis. A number of personnel have been transferred from the Type 45 project team into both the Future Aircraft Carrier (Queen Elizabeth Class) and Future Surface Combatant project teams to ensure 'learning from experience' is maintained.
9	**The Department has access to the contractor's Integrated Cost Model for support cost data, but only has limited resources available to enable it to understand and challenge the information. The Department needs to ensure it is able to benefit fully from the access it has gained to the contractor's cost model for the support solution, and that it has the appropriate skills and resources in place to be able to challenge the contractor's costs and assumptions where appropriate.**	The Department accepts this conclusion. The Department appointed in November 2008 a dedicated resource to work with BVT Surface Fleet Ltd (the Prime Contractor for the Type 45 warship) to fully understand, verify and where necessary challenge the Type 45 Support cost data used in the Integrated Cost Model operated by BVT.	Met. The Integrated Cost model was independently validated in 2008. The project team had additional resource in 2009 to ensure appropriate MOD input into and oversight of the cost model. The model now includes a document set that defines its structure, the data history and amendments. Having placed the In-Service Support contract a streamlined cost model will be generated by August 2010 that will enable incurred costs to be tracked and related to projected Type 45 Support costs.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
10	**The reduction in the number of destroyers to be procured from eight to six means it will be more challenging for the Department to meet its policy requirement of five destroyers available for tasking at any one time. The Department believes that the longer-term support arrangements for the Type 45 will help give it the best chance of meeting this requirement. The Department is already later than planned in putting support arrangements in place. The Department must avoid repeating the early mistakes of the procurement of the destroyers in finalising its support arrangements. It should:** **(a) spend time ensuring that the costs and timescales are realistic and that the commercial arrangements are appropriate to the project;** **(b) put in place affective ways to incentivise industry, linked to the need to have five ships operational at all times, and** **(c) maintain the good relationship with industry going forward, ensuring it continues to improve in the medium and long term.**	The Department accepts this conclusion. The Type 45 Support Cost Model has been developed jointly and is available to both BVT and project team staff, and has been assured by independent experts. In the early stages, development of the support solution was assisted by experts from the Department's Equipment & Support Continuous Improvement Team who specialise in delivering, with project teams, optimised support solutions. A contract for up to seven years of support for the Type 45 warship was placed on 10 September 2009 with BVT. Following this initial support period, Type 45 support is expected to migrate to the developing Surface Ship Support Programme. This programme is designed to transform how the Department in future provides support to its surface to its surface Fleet through an alliance between MOD, BVT and Babcock. A key tenet of both of these arrangements is the creation of industry led Class Output Management (COM) organisations for each platform type. The role of the COM will be to provide the day-to-day management to ensure all individual components of support (in both Fleet Time and Upkeep) are integrated to provide platform availability. The COM will be incentivised with contract payments based on maintaining agreed levels of Platform Availability, not thr ough input of work.	Partially Met. The Type 45 In-Service Support Contract was placed in September 2009 with BAE Systems. This contract provides up to seven years support for the Type 45 complex systems and up to three years of support for the remainder (with options to extend). This contract has enabled the support arrangements to be mobilised in advance of the In-service Date. The Type 45 In-Service Support contract is incentivised against both cost and availability performance. Failure to deliver platform availability to the required five ship level impacts on payments received by Industry. A contract for longer term Support for the Sea Viper System, using similar incentivisation clauses, is due for placement later in 2010. A Stakeholder charter was jointly signed in February 2010 by all key industry suppliers and the Department. The charter provides a behavioural framework for joint working. Customer satisfaction surveys are undertaken monthly where the MOD and Royal Navy are given the opportunity to assess the performance of Industry. The results of the survey are assessed on a monthly basis and on a quarterly basis at strategic review meetings with industry.

Fifty Fourth Report – Support for High Intensity Operations

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
1	**The Department has been highly reliant on the Urgent Operational Requirements process to deliver new or enhanced capability for current operations, raising a question about the balance of its existing equipment programme. The Urgent Operational Requirements process clearly has its place in enabling the Department to respond to rapidly evolving threats. Nonetheless, as part of the Government's forthcoming defence review, the Department should fundamentally re-examine whether the equipment programme is delivering the right balance between those capabilities relevant to current operations and those for the future.**	The Department agrees with the Committee's conclusion. The forthcoming Defence Review will re-examine whether the equipment programme is delivering the right balance between those capabilities relevant to current operations and those for the future. Through the Urgent Operational Requirements (UOR) process, the Department has delivered around £5.2 billion worth of equipment to operations. All of this expenditure is in addition to the money spent from the Departments core budget. The Department has used a number of exercises, including the 'Equipment Examination' and its routine planning round, to ensure that support to current operations continues, as far as possible, to be prioritised within its equipment programme. As well as delivering equipment designed to meet the specific needs of today's war, the Departments core budget needs also to deliver capabilities which can counter the unpredictable security challenges of the future. However, there is not necessarily a zero sum choice to be made here. High end capabilities such as Tornado and Warrior were designed with very different threats in mind. Modified through the UOR process, they are proving their worth on operations in Afghanistan today. There are also other programmes, such as the Vallon metal detector, or the programme to upgrade the Chinook fleet's engines, which have a clear relevance to current operations.	Partially met – While the forthcoming Strategic Defence and Security Review will examine the balance in the equipment programme between long term contingent capabilities and current operations, Defence continues to deploy the appropriate capabilities to theatre both from our core equipment fleets and equipment procured through the Urgent Operational Requirements (UORs) process. Indeed, often UOR funding provides minor modifications to core-equipment to enable its deployment such as the Warrior Infantry Fighting Vehicle. A recent example of core-equipment deploying successfully on operations has been the Trojan armoured engineering vehicle which was sent to theatre to clear belts of Improvised Explosives Devices during Operation MOSHTARAK.

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2	**The Department has delivered important new equipment quickly through its Urgent Operational Requirements process in order to address evolving threats, but the consequence has sometimes been inadequate initial support or a time limited capability. The Mastiff vehicle has performed well but suffered spares shortages, whereas the Vector vehicle proved to have low reliability and is now being replaced by an upgrade version of the Snatch vehicle it was intended to replace. There have also been shortages of equipment for pre deployment training. The Department should;** **(a) analyse a range of possible scenarios in which the equipment may be used beyond those initially envisaged, and model the resulting support and spares requirements;** **(b) prioritise the security of supply of spares, for example, by arranging for an alternative supplier from the outset where a manufacturer's capacity to deliver spares is constrained;** **(c) ̀introduce a rigorous but streamlined process for the testing and evaluation of equipment before it is deployed in order to identify any reliability issues, and** **(d) consider procuring additional training solutions, such as simulators, where it judges that the initial delivery of new equipment needs to be prioritised for deployment rather than the training pool.**	The Department partially agrees with the Committee's conclusion. The consequence of introducing vehicles quickly by the UOR process will sometimes mean that the initial support for these vehicles is less than optimal. However, it should be remembered that fielding the equipment as rapidly as possible, particularly where lives are at stake, must be the absolute priority. Once the initial capability has been fielded to theatre and to the training pool, an analysis of a wider range of possible scenarios, in which the equipment may be used in theatre, will be undertaken in future. However to undertake the additional analysis and modelling of scenarios at an earlier stage would lengthen the UOR process and delay the fielding of the capability to theatre. An initial 12 month support solution is approved before the UOR vehicles are procured, which gives the Department time to negotiate a more comprehensive solution based on the actual usage of the vehicle, without impacting detrimentally on the time taken to deliver the capability. Training, spares, and attrition requirements are taken into account in the UOR process when selecting a solution. This includes, where possible, making arrangements from the outset to obtain spares from alternative sources where it has been determined that a manufacturer's capacity to deliver spares may be constrained. The Department does have a trial and evaluation process for the introduction of equipment, although this process is compressed when seeking to deliver the capability to theatre. The Department will apply a more rigorous process when there is not genuine confidence in the reliability of the equipment. The Department accepts in part the recommendation that additional training solutions, such as simulators, should be considered when the initial delivery of equipment is prioritised for deployment, rather than training. For a simulator to be procured at the same time as the UOR equipment, the equipment would need to be an off the shelf procurement. If a simulator does not exist, there would be a requirement to design, trial, and manufacture one. If the equipment being purchased were currently supported by a simulator, additional mission and operational specific software would still be required. The time taken to design, trial and manufacture the simulator, and the mission and operation specific software, would lengthen the process and unduly delay the fielding of the capability to theatre.	Met – Vehicles being procured are required to have weight growth potential as part of the overall requirement. Comprehensive rolling 3 year spares contracts are now being negotiated to take account of the campaign plan. Modelling as a result of hot weather trials has helped to ensure that a better initial spares situation is achieved. Knowledge gained from blast damage on other fleets has guided the provisioning of spares for new vehicles that will be likely to suffer from blast damage The provisioning of spares for the Protected Mobility fleet by the Defence Support Group now has specific targets to drive alternative sourcing to allow as much freedom of supply. This has to be balanced against the International Traffic in Arms Regulations restrictions and Original Equipment Manufacturer ownership of design. The rapid acquisition process for UORs takes risk to accelerate by concurrent manufacture and development activity. This can lead to reliability issues being discovered on the point of delivery. Recent programmes such as Husky and Warthog now have explicit reliability targets to meet through sentenced reliability trials run over representative battlefield missions. Future buys such as Light Protected Patrol Vehicle will have Equipment Programme levels of reliability as requirements in the contract. While there is no endorsed requirement on UOR platform teams in DE&S to deliver platform level mission simulation, the scope for use of simulators is considered during the acquisition process. For safety purposes, part task trainers for specific scenarios such as emergency egress are being considered.

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3	**The Department has failed to meet consistently its own supply chain targets for both Iraq and Afghanistan, although the average length of time a unit waits for a particular demand has reduced. Inadequate logistic information prevents the Department from identifying stocks that could be routinely delivered to theatre using surface transport, in turn placing more pressure on the air-bridge. The Department's key priority is to improve the visibility it has of stocks in theatre and supplies in transit. Although progress has been made in the last few years, the Department still has not achieved a total visibility system for the tracking of assets deployed on operations. Nor does it yet have an integrated inventory management system. The Department should, within the next two years, address the deficiencies in its logistics information systems, so that it can see the stock available at any location in theatre or elsewhere in the Department's inventory, and fully track items as they move through the supply chain.**	The Department agrees in large part with the Committee's conclusion. The supply chain statistics examined are based on very stringent Departmental delivery targets, and represent deliveries, which arrive at the exact scheduled time. They do not take account of deliveries delayed by only a matter of hours. Where a delay could have significant impact on operational capability, high priority items are closely managed to ensure timely delivery. Measures are already in hand to review the balance of stocks held in operational theatres. Improvements to the logistics systems continue to be implemented. Consignment Visibility (CONVIS) has been delivering staged improvements since 2006. The Management of Material in Transit project has improved visibility of material being delivered to operational units. It can be better managed as it moves through the Purple Gate (the name used to describe the system of moving materiel through the Defence supply chain) and on into theatre and, importantly, back again through the reverse supply chain. Further improvements this year will enable this information to be shared more widely and will provide a capability to identify patterns of activity to assist in improving demand trends. Plans are in place for further improvements through the introduction of the Management of the Joint Deployed Inventory (MJDI), and logistics programmes such as the Joint Asset Management Engineering Solutions (JAMES). The improvements being delivered by MJDI, including improved visibility of stocks in theatre, will also help to smooth demands from theatre. MJDI has now been fully funded, without the need for the Deputy Chief of the Defence Staff (Equipment Capability), to levy a charge during the first three years of the programme, on all of the Department's equipment approvals. It is estimated that full roll out of improved logistics systems will be complete by 2014. Progress is also being made towards the integration of logistic information systems but this is a highly complex process. The construction of a virtual Enterprise Data Warehouse, coupled with the completion of initial business process models for elements of the Joint Support Chain, has been a good start. A programme of further advance integration is being pursued within the source available.	Partially Met – In the last 18 months, the forward inventory on Operation HERRICK for one key account has improved and now meets the required standard. Performance of the pipeline to Operation HERRICK has not improved significantly as the volume of the highest priority demands has increased significantly. Consignment Visibility (from December 2009), Visibility In Transit Asset Logging and Management of Material in Transit (MMiT) (from February 2010) are the main systems for supply chain tracking. MMiT achieved Full Operating Capability in March 2010 and is making significant improvements by providing greater visibility of materiel into, and out of theatre. Management of the Joint Deployed Inventory (MJDI) provides a joint capability to manage inventory of all commodity groups more effectively. The Pilot Operating Capability is already successfully in use, supporting the Air environment on operations, and the full rollout is forecast to be complete by 2014. The Joint Asset Management Engineering Solutions (JAMES) system will improve engineering and asset management for equipment in the Land environment, and will be fully rolled out by early 2014. The Future Logistics Information Services (FLIS) project is establishing the commercial and business framework required to sustain, optimise and transform current logistics information systems. The aim of FLIS is to rationalise the support of Logistics systems under a single commercial Delivery Partner to improve the availability of critical information to both Front Line Commanders and the wider MOD. In the longer term, the FLIS Delivery Partner will support the MOD in delivering the necessary changes to systems to enable further improvements to Logistics information. The FLIS Delivery Partner is expected to be on contract in Mid 2010 and to have achieved Initial Operating Capability in January 2011.

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4	**Helicopters are a key operational capability but in addition to its own fleets the Department has been reliant on significant contracted helicopter support and on coalition helicopters. Commanders say they have enough helicopters to undertake their key tasks but that greater availability would give them more flexibility in planning offensive operations. The Department is looking to increase helicopter availability, for example, through the re-deployment of Merlin helicopters from Iraq. The Department needs to ensure that its Lynx upgrade programme, due to deliver the first enhanced helicopter at the end of the year, delivers aircraft to theatre in time to free up other helicopter types to support troops directly over the summer months. The Department should also ensure that the Chinook Mark 3 reversion programme, due for completion by May 2010, is delivered on time.**	The Department agrees with the Committee's conclusion. However, the delivery of the Chinook Mk3 into service is currently forecast to be completed in late 2010. The timetable will be advanced if possible. The first of these aircraft will be available to the Front line Command by the end of this year. The availability of helicopters on operations, and the number of helicopter flying hours, has increased significantly. Since November 2006, the number of UK battlefield helicopters available to commanders in Afghanistan has increased by 79%; over the same period, the number of helicopter flying hours increased by 95%. By January 2010, the number of flying hours will have increased by more than 130% compared to November 2006. Improvements are being made as quickly as practicable and in a sustainable way. Investment has been made in recruiting, training, and retaining Merlin and Apache crews to fly and maintain the additional helicopters, and on increasing spares to improve availability. It must be ensured that any aircraft sent to Afghanistan is suitable for the job required of them. Aircrafts must be safe, airworthy, and have sufficient appropriately trained crews to operate and maintain them. Merlin has now been deployed to Afghanistan. Eight Chinook Mark 3 aircraft are being converted to a support helicopter configuration suitable for use in Afghanistan; including more powerful engines. More powerful engines are also being installed on Lynx Mark 9 that will allow these helicopters to operate in Afghanistan, during the summer months, providing a light-utility capability on a year-round basis. These measures will also be complemented by the £6 billon investment that the Department intends to make over the next decade to replace and enhance helicopter capability. This work remains a high priority within the Department. In addition to these increases in UK helicopter capability, the Department also continues to benefit from the capabilities of NATO allies, particularly those of the US, Dutch, Canadians and Australians. The Department notes the Committee's acknowledgement of the important contribution of commercial helicopter contracts, which free up military helicopters for direct support to operations. The UK contracts 340 hours per month of helicopter capacity to carry freight, at a cost of about £3.9 million, and also draws, along with other coalition nations, on a NATO contract that provides a further 600 hours per month.	Partially met – The Department agrees with the Committee's conclusion. The first two Chinook Mk.3 were delivered to the Front Line Command before the end of 2009, a third was delivered in January 2010, and the fourth is in flight testing. Work on the remaining four aircraft and hence delivery of all eight Chinook Mk3 into service will be completed by the end of 2010 – this will allow us to deliver more Chinooks to Afghanistan. We are also fitting the full Chinook fleet with more powerful T55-714 engines, increasing their ability to operate 'hot and high' and improving flight safety. The first upgraded Lynx Mk 9A started to fly operational sorties in Afghanistan in May 2010 – this will provide us with a 'year round' light helicopter capability in Afghanistan for the first time. The availability of helicopters on operations, and the number of helicopter flying hours, has increased significantly in recent years. Since November 2006, the number of UK airframes available to commanders in Afghanistan has doubled, and the number of helicopter hours – which is what commanders use to plan – has increased by nearly 140%. The Merlin fleet began its deployment to Afghanistan last November, one month ahead of schedule, and the first airframes to arrive are flying operational sorties. It has been performing extremely well in theatre, having been equipped with the latest avionics and defensive aids to ensure it is capable of performing a range of military tasks. In addition to these increases in UK helicopter capability, the Department also continues to benefit from the capabilities of NATO allies, particularly those of the US, Dutch, Canadians and Australians. The Department notes the Committee's acknowledgement of the important contribution of commercial helicopter contracts, which free up military helicopters for direct support to operations. The UK contracts up to 400 hours per month of helicopter capacity to carry freight, at a cost of about £3.9 million, and also draws, along with other coalition nations, on a NATO contract that provides a minimum of a further 600 hours per month. Our new Rotary Wing Strategy, which was announced last December by the then Secretary of State, will ensure that MOD will continue to deliver increased levels of helicopter capability for our Armed Forces in the years to come. The key element of the strategy is procurement of an additional 22 new-build Chinook (in addition to replacements for two destroyed in Afghanistan last summer) which is highly regarded by those who fly it and troops who use it. The first 10 Chinook will be delivered in 2012 and 2013. The strategy's priority is support to operations – through it we will deliver, by 2016, some 40% more support helicopters suitable for operations in demanding environments such as Afghanistan. The strategy is part of a £6Bn investment over the next decade to replace and enhance helicopter capability. This work is an extremely high priority within the Department.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
5	**Key spares for Merlin and Apache helicopters are in short supply, necessitating cannibalisation of aircraft and reducing helicopter availability in the United Kingdom. The Department rightly prioritises operations within it's objective of seeking a sustainable balance between operational and training requirements. The Department should, however, seek ways to further incentivise industry to achieve better availability of spares in order to provide support to helicopters both in the United Kingdom and deployed overseas.**	The Department partially agrees with the Committee's conclusion. Spares supply has historically been a challenge for Merlin and Apache during the early stages of their operational development, but steps have now been taken to rectify this. Every effort is made to ensure that the demand for helicopters spares is predicted and the spares requirement is met. Robust logistics chains are in place to ensure this is done effectively. Inevitably, when conducting high intensity operations, there will be rare occasions when the availability of some spares becomes low, and to mitigate any negative effect on the forward fleet, spares may be drawn from reserve or non-effective aircraft. This process (known colloquially as 'cannibalisation') is done in a considered, well managed process, and as a short-term, but necessary course of action. The Department accepts that the appropriate provision of spares is an important element of ensuring aircraft remain operational. Merlin, Sea King and Chinook fleets are managed under support arrangements where aircraft availability (and consequently spares availability) represent a key performance measure against which there are strong incentives to increase the availability of spares. The Department signed a contract for similar arrangements on Apache, in September 2009. Similar arrangements for engine support contracts are beginning to be explored, and may be utilised on other areas of the fleet (including Lynx Wildcat and Puma) where they add value. Finally, internal performance management arrangements ensure that where an aircraft is unserviceable the reasons are documented. Any consequences arising from the non-availability of spares can therefore be identified early and remedial action implemented. This data shows that the percentage of days lost awaiting spares varies across helicopter types and operating locations.	Met – The Apache Integrated Operational Support (IOS) Contract effective date was achieved on 1 April 2010. Apache IOS is an output based contract that pays for flying hours achieved and therefore incentivises Industry to ensure all the materiel (spares, technical support, repair instructions etc) required is available. Payment for the flying hours element of the contract is withheld if the relevant Key Performance Indicators are not met. The Integrated Merlin Operational Support (IMOS) contract has continued to incentivise industry to improve reliability of components and availability of spares as part of the holistic support to this output based contract. For example, AgustaWestland has launched procurement of additional spares in anticipation of increased MOD flying rates. Industry is also investing in a number of reliability and maintainability modifications that will pay dividends in the medium term. These industry led measures are testament to the commercial incentivisation within long-term IMOS availability based support contract.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
6	**The effectiveness of body armour provided to the soldiers has improved since the invasion of Iraq in 2003, but this and other equipment, such as electronic countermeasures, are a considerable weight for soldiers to carry whilst on foot patrol, making it challenging to move quickly and freely while under fire. The Department is making progress with the introduction of lighter Osprey body armour and has plans to develop lighter batteries. The Department now needs to turn its attention to reducing the weight of more complex equipment, including electronic counter-measures, over the next two years.**	The Department agrees with the Committee's conclusions. The burden on the dismounted soldier is a combination of weight, form/fit, thermal load and cognitive load. For example, Osprey Assault body armour weighs a similar amount to its predecessor, but imposes a reduced burden on the soldier due to its improved ergonomic fit. Soldiers serving in Afghanistan typically carry between 50kg and 75kg. The Department has set in train a range of measures to remove an average of 4.5kg per soldier, and further measures to remove an average of an additional 3.1kg are being evaluated across all equipment (including batteries). This represents a weight reduction of between 10% and 15%. The Department recognises that reducing the burden on the dismounted soldier is a high priority and has commissioned a Capability Vision (CV) to Reduce the Burden on the Dismounted Soldier (RBDS). This programme is exploring four technology themes: lightweight personal protection; weapons; electronic systems and personal power; and assisted load carriage. The RBDS CV aims to insert technology into the Soldier System (meaning the soldier and everything he wears and carries) within the next two years, in order to reduce the burden. A fifth theme, the development of Soldier System Architecture, will deliver the optimised integration needed to reduce the burden. The Department is taking a systems approach to integrating the Soldier System. The Integrated Soldier System Executive has been established to coordinate this work across Defence Equipment and Support project teams. It is supported by the Soldier Reference Centre, based within the Infantry Trials and Development Unit at Warminster.	Met – To date the department is delivering measures to remove an average of 8kg per soldier and assessing an average of a further 3kg. Significant progress has been made on power management. Further headway has been made on electronic counter measures (ECM) with new equipment being delivered which will remove one third of the equipment weight. ECM equipment weight may be further reduced in the near future, possibly to up to 60% of the original weight.

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7	**The proportion of personnel deploying to theatres who have completed short packages of individual reinforcement training, rather than full collective pre deployment training, has increased. The Department should either reverse the trend so that a higher proportion of personnel deploying receive collective training, or consider a redesign of its individual reinforcement training, based on a full analysis of the risks being transferred to theatre commanders.**	The Department partially agrees with the Committee's conclusion. It is important to understand that many who complete an Operational Training Advisory Group (OPTAG) Individual Reinforcement course also undertake collective training. There are several groups of people who attend Individual Reinforcement courses who also conduct other pre-deployment training: ● Soldiers joining their units, after the unit has conducted its own OPTAG briefings. ● Those who belong to units (such as Army Air Corps units) who deploy out of synch with the brigade and therefore run their own training tailored to their role in theatre. ● Territorial Army soldiers who conduct Individual Reinforcement courses after completing their mobilization cadre and before joining their units to undertake collective training. There are also several groups of people who only require Individual Reinforcement training or for whom collective training is and always will be impossible: ● Visitors to theatre of more than 5 days. Visitors are always accompanied and do not carry weapons, so require no collective training. ● Staff officers who will be employed throughout their tour in a main operating base (Kandahar, Bastian or Kabul). The Department accepts that there are a minority of people who only complete the Individual Reinforcement course, who should be receiving additional training. Headquarters Land Forces staff are currently seeking to identify the number who only attend individual training, and to understand better what proportion of these people are actually preparing to deploy – as opposed to those who are preparing for short visits to theatre or training for contingent tasks. Headquarters Land Forces is reviewing the content of Individual Reinforcement training in light of Permanent Joint Headquarters' recently published statement of Individual Pre Deployment Training requirements. The aim of the review is to identify those who require additional training in line with the Permanent Joint Headquarters (PJHQ) requirement. In particular, in theatre specific skills such as Counter-IED, and to develop a solution that delivers this. The content of the Individual Reinforcement course will be examined as part of this work.	Met – The RAF Generate in a different way to the Army who deploy largely as formed units which require collective training (CT). RAF personnel predominantly deploy as individual augmentees and receive Individual Pre-deployment Training (IPDT) in accordance with PJHQ direction. This training package is constantly reviewed and updated in accordance with Theatre Lessons Identified and post-operational debriefs. RAF Formed Units (FU) also complete CT as part of Mission Specific Training (MST) prior to deployment. The amount of CT completed is in accordance with the LAND Mounting Instruction (PJHQ endorsed) and the content varies pending the FU role. Where required, appropriate 'Mission Rehearsal Exercises' are completed to provide a degree of assurance to commanders that all elements of their FU are ready to deploy. The content of CT is constantly reviewed to ensure that the training meets the operational requirement. Lastly, RAF personnel who join a Land Forces (LF) Force Element (FE) for deployment are attached to the FE to complete the requisite CT. Such individuals complete RAF IPDT prior to joining the lead FE for MST.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
8	**In order to focus on the particular skill sets required for current operations, the Royal Air Force have minimised the numbers of personnel trained in certain skills which may be required for future operations. The Department should, more systematically, examine the effect of this 'hibernation' on the generic warfighting capability across the three Services and the risk of not being able to regenerate such capabilities after two, five and 10 years of hibernation.**	The Department agrees with the Committee's conclusion. The Royal Air Force (RAF) has taken measures in order to enable the focus of manpower and resources to be directed at current operations. Therefore, the capacity for conducting a number of generic warfighting skills has been reduced. Regeneration of some of these capabilities will take at least two years, depending on depth and breadth of capability required, availability of assets and resources, and the level of commitment to existing operations. Risks associated with this policy are under constant review to ensure that the impact on current operations is kept to an absolute minimum.	Met – The Department has done a considerable amount of work examining recuperation targets and priorities. The Royal Navy has taken measures in order to enable the focus of manpower and resources to be directed at current operations. Therefore, the capacity for conducting a return to high intensity warfighting skills has been reduced. Regeneration of some of these capabilities will take at least two years, depending on depth and breadth of capability required, availability of assets and resources, and the level of commitment to existing operations. The Navy Plan aims to meet this regeneration, with waypoints of Small Scale Focussed Intervention being achieved by 2014 and Medium Scale Force Intervention by 2018. Risks associated with this policy are under constant review to ensure that the impact on current operations is kept to an absolute minimum; 2* ownership of this requirement within Navy Command is Chief of Staff (Capability). The Royal Air Force has revised its exercise and training priorities to maintain the ability to regenerate. Although the main priority for training is current operations and standing military tasks, some priority is also given over to regenerating our small scale focussed intervention capability and a 'seedcorn' capability to regenerate to much larger scales of operation. This 'seedcorn' capability is such that it would allow us to regenerate to the required scale of effort within the policy timelines. Land Force's (LF) Main Effort is Op HERRICK. Under Op ENTIRETY, LF has task organised to deliver operational effect and adopted Campaign FORM (Formation Operational Readiness Mechanism), taking risk against Medium Scale capabilities. Those capabilities which do not directly deliver operational effect in Afghanistan have been pared down to the minimum levels possible without re-negotiating Defence contracts. Examples in terms of structural reorganisation are the re-roling of 3 x Mechanised and 1 x Armoured Infantry Battalions to Light role. Examples of reductions in capabilities not directly delivering operational effect are the reduction of CR2 Live-Fire to contracted minimum number of rounds (15,000 per year) and High Velocity Missile (HVM) Live Fire restricted to the use of missiles that have reached the end of shelf-life. Work continues within HQLF to monitor the risk being carried and efforts required to meet directed contingent capability and LF's ability to generate Force Elements at Readiness to meet Defence Strategic Guidance.

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9	**The Department has made progress in developing a process to identify, on operations, personnel at risk of developing Post Traumatic Stress Disorder or other mental illnesses.** **The Department should continue with this work and mandate Trauma Risk Incident Management across the three Services.**	The Department agrees with the Committee's conclusion. Each of the three single Services has mandated the use of Traumatic Risk Incident Management (TRiM). The outline policy guidelines are as follows: ● Royal Navy – TriM policy is contained in their Concept of Operations which is issued throughout the Naval Service. Whilst the default is for TRiM to be carried out, Commanding Officers are given a degree of discretion should they feel that a particular set of circumstances would not benefit from TRiM; they would however, have to demonstrate pressing and valid reasons for not engaging with the process. ● Army – A Land Forces Policy Letter has been distributed stating that all Units are to carry out TRiM. This will also be reflected in the Army Stress Management Training Policy (as of 9 November 2009). ● RAF – The RAF Command Board directed in March 2009 that the use of TRiM is to be mandatory for all RAF formations on front-line operational duties with a substantive risk of traumatic exposure with effect from 1 July 2009. Additionally, the use of TRiM is now endorsed for implementation across the RAF with the intent of Service-wide application and familiarisation by no later than 1 April 2012.	Met – Each of the three single Services has mandated the use of Traumatic Risk Incident Management (TRiM). The department has also gone a stage further with the establishment of the Joint Stress Management Training Centre which will reach Full Operation Capability in Apr 2011. It will coordinate and develop Operational Stress Management training and policy (including TRiM) across the three Services.
10	**Operational circumstances mean that there is a difference between the welfare provision available at Main Operating Bases and that available at Forward Operating Bases. Whilst it is not practical to deliver the entire welfare package to personnel at the more austere Forward Operating Bases, delays in providing equipment should not result from delays in seeking funding approval. The Department should make every effort to deliver promptly those elements of the welfare package which can be made available at forward bases, such as satellite telephones.**	The Department agrees with the Committee's conclusion. It is not practical to deliver the entire welfare package to the more austere Forward Operating Bases (FOB). However, efforts will always be made to provide the best standard of welfare package that the operational environment will allow. Indeed, there have been a number of initiatives over the last six months to bring the operational welfare package forward into FOB. In particular, dependent on the security situation in theatre, live entertainment is now being delivered in FOB, and the number of Iridium satellite phones and BGAN internet terminals has been significantly increased (a further 150 were deployed last year). The Department fully accepts that every effort should be made to deliver promptly to FOB those elements of the welfare package which can be made available. The Department is not aware of any delays to the provision of welfare equipment resulting in delays from seeking funding approval. The delivery of equipment to more austere locations such as FOB can be affected by the security situation. Furthermore, the delivery and movement of equipment in operational theatres is prioritised according to operational needs. Unfortunately, this can result in essential supplies such as ammunition and food being given a higher priority than welfare equipment. The security situation is kept under constant review, and as it changes, delivery to FOB is reviewed accordingly.	Met – There have been no unexpected delays in gaining funding approval for welfare equipment forward. The delivery of the full Deployment Welfare Package (Operations) for those in Forward positions remains dependent on the security situation and available infrastructure to support it.

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11	**The Contingency Operating Base at Basra airport came under sustained mortar and rocket attack from May 2006. The Department decided in June 2007 that hardened accommodation was required, but the second tranche of this accommodation had not been brought into use by the time United Kingdom Forces withdrew in 2009. The Department should examine the contingency plans for Camp Bastion in Afghanistan and established call-off contracts so that it can more quickly begin construction of hardened accommodation should a similar escalation in the threat to personnel arise.**	The Department agrees with the Committee's conclusion. Force protection at the Contingency Operating Base at Basra airport was subject to a layered system of defence of which the provision of hardened accommodation was just one part. The Department took a series of steps to improve protection to the troops at the Coalition Operating Base in Basra. Measures included increased patrolling, the provision of better warning systems, and personal (hardened) shelters and hardened accommodation. The provision of hardened accommodation, which was designed to mitigate the risk of an attack causing mass casualties, was carefully arranged to ensure both that these considerable structures were constructed promptly, but also that the facilities would be used by UK forces. Once it became apparent that changes to troop levels in Iraq meant that the second tranche would not be required, work on the tranche was suspended ensuring that nugatory spend was minimised. The Department keeps force protection arrangements at Camp BASTION under constant review. But the geography at, and the current threat to the base is very different to that at Basra. A call-off contract option does exist with the contractor, so hardened accommodation can be constructed if required.	Met – The Department already has enabling contracts in place to provide this capability should it be required.

Forty First Report – Service Families Accommodation

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
1	**Almost a third of Service families surveyed by the National Audit Office describe the condition of their house as poor. The Department plans to upgrade 2,300 of its houses in the lowest Conditions 3 and 4 to the best Condition 1 by 2012, and do the same for the remaining stock within the next 20 years. The Department should use its new condition standards data to assess which properties meet the Government's Decent Homes Standard and targets for energy efficiency, and quickly tackle the problems in those that do not. The Department should also further analyse properties rated Condition 2 so it can prioritise upgrade work in this broad band towards those most in need of improvements.**	The Department partially agrees with this conclusion. It will use the results of the current Condition survey to target and prioritise housing for upgrade programmes to meet Standard 1 and 2 for Condition, which are judged to meet or exceed the Government's Decent Homes Standard. The Defence Accommodation Management Strategy, published in August 2009, sets out our intention to have all UK homes in the top two Standards for Condition by March 2013. From 2013, the Department will switch focus to bringing Standard 2 houses up to Standard 1. The intent is that all Service Family Accommodation (SFA) will have modern showers and that further energy measures will be undertaken such as roof insulation. This will be specifically targeted over the next five years in areas where existing insulation does not meet Government requirements. This will contribute to the Department's Sustainability targets as well as meeting the Government's 2020 housing targets.	Partially Met. The Condition survey has been completed throughout England and Wales. An initial analysis of the results show that 39% of Service Family Accommodation(SFA) surveyed is Standard 1 for Condition, while 57% is Standard 2, with 3% at Standard 3 and 1% at Standard 4. Service personnel in the UK are no longer allocated SFA at Standard 4 for Condition and from 1 January 2012 no Service personnel will be allocated SFA at Standard 3. The results from the Condition survey will continue to inform SFA improvement priorities. It remains the Department's intention that all SFA in the UK will be at Standard 1 for Condition by March 2020. In parallel, action will continue to contribute to the Department's Sustainable Development targets for reductions in carbon emissions and water consumption. Over 7,000 SFA in the UK have benefited from a loft insulation programme. This together with upgrades to boiler, installation of double glazed doors, windows and dual cistern systems will all assist in achieving overall sustainability targets.
2	**The Department was wrong to release new data on the condition of its housing stock the day before publication of the Comptroller and Auditor General's Report, particularly as it contained known errors, and neither the survey nor the analysis were complete. The Department must complete the survey, validation and analysis to its planned timescale so it can identify all the properties needing an upgrade using reliable data. It should update Parliament on the condition of the housing stock once its survey work is complete. In future, Departments should make the National Audit Office fully aware of relevant data they intend to release at, or around, the time of the publication of a report by the Comptroller and Auditor General and only release information that is sufficiently reliable.**	The Department agrees with this conclusion. The survey in England and Wales will be complete by April 2010. Scotland and Northern Ireland will be completed by April 2011. Data is reported on a quarterly basis to Parliament using the most up to date data available. The Department will amend its guidance to emphasise the need to work closely with the NAO throughout the preparation and publication period of any report.	Partially Met. The recently completed Condition survey results for England and Wales are being fully analysed to ensure their overall accuracy. Once this process has been completed (by end of May), Parliament and other interested bodies will be informed of the results. The Condition survey for Northern Ireland has been brought forward, and it is anticipated the results will be available by end of May 2010. A Condition survey in Scotland has also commenced. The Department has reviewed and revised its guidance about making the National Audit Office aware of the release of material which is relevant to data the NAO intends to release at, or around the time of the publication of a report by the C&AG.

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3	**Currently around 17% of properties sit empty, at significant cost, well above the Department's target of 10%. Each percentage point reduction in empty properties reduces costs and frees resources by over £2 million. To reach its target more quickly, the Department should speed up the process by which it makes strategic decisions on the location and make up of its housing stock. Where it has identified that empty stock needs to be retained for future basing requirements, it should explore alternative uses for the houses during the interim period, for example, leasing appropriate blocks to other housing providers.**	The Department agrees with this conclusion. The proportion of void (empty) properties has already reduced to 15.9% and is intended to be at or below 15% by the end of this financial year. The Department aims to reduce the level of the Management Margin to 10% by 2012. A base level of voids has to be maintained in order to provide the flexibility needed to support the number of family moves (around 20,000) undertaken each year. Voids also occur when properties are under report or refurbishment and the nature of the work would be too disruptive for the property to be occupied. In addition, there are some voids that are being held for future requirements, such as Service personnel returning from Germany. In those areas where SFA is held pending a planned unit move, the Department is actively seeking sublet arrangements with Local Authorities and private landlords. To date, a number of initiatives have already been put in place for the temporary sub letting of SFA. For example, arrangements are in place for some 100 properties at Innsworth, Brize Norton and Woodbridge with further properties identified at nine other locations, including Woolwich, for letting to local authorities, housing associations and private landlords. Since 2008, a Void Surge Programme has brought 1,600 houses back on-line for allocation, with a further 900 planned during financial year 2009-10. This should see the number of voids dropping to around 7,000 by April 2010. The programme has been effective through better identification of properties for disposal (some 2,650 properties have been disposed of over the last three years with 765 identified by end of this financial year) and by subletting where there is a long term requirement. Progress has also been made with the contractor by speeding up repairs, fitting new carpets, and through a 48 hour hand back process to housing staff for checking completion of repairs and cleanliness standards prior to letting.	Met. The Department achieved the interim target of reducing the proportion of void (empty) SFA properties in the UK at 31 March 2010 to 15% or below (14.8% – 7,271 properties were void). The Voids Surge Programme will continue and properties will be released for disposal where possible. Through constant review, the Department aims to reduce the number of void properties to 12% by March 2011, and 10% by March 2012. The Department continues to identify opportunities for sub-letting SFA. Some 30 SFA have recently been sublet at RAF St Athan and RAF Wyton. Additionally, the Department is exploring with the Department for Communities and Local Government opportunities for sub-letting SFA to personnel as they transition out of the Services. The intention would be for this approach not to affect the individual's position on the appropriate waiting list for social housing. The Department continues to take steps to improve the presentation and standard of SFA prior to letting. For instance, the Department conducts regular joint training with MODern Housing Solutions at specified 'Reference Houses' to reinforce the Move-In standard requirements. This training allows for a common understanding of the precise Move-In standards between Departmental officials and Contractor staff. 96% of lettings pass the Move-In standard first time.

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4	**The Department's entitlement system is complex, and Service personnel have limited ability to request a property outside their strict entitlement. The Department is constrained by its existing housing stock, but it should review the scope to simplify the number of property types it offers when providing new stock. It should also increase the flexibility around the margins of the system, for example, in reviewing the scope for using properties designated for Officers for larger Other Ranks families where there is a shortage of appropriate stock.**	The Department partially agrees with this conclusion. An internal review has found that high levels of housing delivery staff turnover has reduced the number of experienced staff, who can use, to maximum effect, the flexibility inherent in the current policies. Training programmes have been introduced to address this shortfall. Current policy allows re-typing of patches of Officers' housing stock for use by larger Other Ranks families. How this is implemented is being revisited in consultation with relevant chains of command. Area Accommodation Plans, which will reflect these agreements at local level, will be rolled out across all regions by 2010. The Department acknowledges that for future new builds, a standard approach to three and four bedroom properties to simplify variations in types would ease some of the complications of having the right type of housing in a location to meet different manning profiles and family constructs. This is currently being investigated to determine if it is sufficiently financially viable to be taken forward.	Partially Met. The previous high level of turnover of the Department's Housing Delivery staff is stabilising.Training programmes have been developed and rolled out to current staff in a phased approach. Phase 1: Using Reference Houses to understand cleaning standards is due for completion by 31 May 2010. Phase 2: Customer Care training is due for completion by 30 September 2010. This, together with continuing, regular training (which forms part of normal HIC business), has ensured the flexibility inherent in current policies is now being optimised. Reviews continue with the relevant chains of command to identify locations where it would be possible to use Officers' housing stock for larger Other Ranks families. However, this is largely dependent on stock availability. Where agreements have been reached, these have been reflected in Area Housing Plans (for SFA). Area Accommodation Plans (which include Single Living Accommodation) are being developed to address wider accommodation issues. The first one has been agreed with local commanders in London. Full roll out is expected to be completed by 2012. The standardisation of properties is considered for all new build and upgrade projects to maximise flexibility and usage. For example at South Cerney a flexible approach through using loft space to convert from a three bedroom to four bedroom in new build programmes is being considered to maximise the current density rules. Furthermore we are considering the planning profile in more detail at Brize Norton to accommodate larger three and four bedroom properties for more flexible use for other ranks and officers.

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5	**Families receive very limited information about the properties which they are allocated and in many cases only see the house for the first time when they arrive to move in. The Department should introduce estate agent style details for occupants including photos, information on layout and floor plans. It could make use of data collected during the recent condition survey where feasible, and should build the generation of estate agent details into the data collection plans for its survey of the remainder of the housing stock.**	The Department agrees with this conclusion. The Department intends to use the new condition data to inform and contribute towards estate agent-type information to be sent to Service personnel and families. These will be available by post on offer of SFA and will include details of address, pictures, rooms, garden and availability of parking facilities. A trial is going on in the UK, with intention of a full roll out in Spring 2010. A training programme has been introduced for the housing staff to improve their knowledge of the housing stock for which they are responsible. By improving awareness, staff should be able better to allocate housing to match occupants' aspirations against available stock, noting that availability of stock will be a limiting factor around that flexibility.	Met. On 11 January 2010, the Department launched the SFA Property Details Sheet which provides estate agent style information for Service personnel and families in the UK. Details Sheets are sent with the offer letters that are provided to every potential occupant. As well as confirming address, type of property and number of bedrooms, the Sheet also provides details on heating, type of cooker, provision of shower(s) and space and plumbing for white goods such as washing machine, tumble drier and dishwasher. A photograph of the property (or type of property) is included, if available. The Department intends to develop the information provided as the scheme evolves. Through structured training and liaison visits, the Department's Housing officials now have greater knowledge and understanding of the housing areas ('patches') for which they have responsibility. This enables them to allocate properties on a more informed and intelligent basis. The interface between Housing Officials and occupants has been enhanced by the creation of 3 Military Liaison Officer posts within Housing Information Centres at High Wycombe, Aldershot and Warminster.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
6	**Over a third of those surveyed by the National Audit Office were dissatisfied with the cleanliness of their property on moving in. The Department should either undertake to clean all properties before a family moves in, or strengthen expectations that families leave them clean by inspecting properties and completing minor repairs before another family moves in. The Department should also:** **(a) make permanent the process being trialled in England and Wales whereby staff "take back" properties from the contractor two days before a new family arrives (particularly after repair work, or if the house has been empty) to allow for attention to unsatisfactory repairs or cleaning;** **(b) introduce a deposit, from which the Department can deduct cleaning charges for properties not left in a satisfactory state:** **(c) create a record of tenants who abuse their accommodation so incidents can be taken up with their military units and involve the Services on a more systematic basis, and** **(d) make more rigorous the collection of charges levied on moving out, and return the charges collected to the local area so that costs incurred do not reduce funding for other maintenance work.**	The Department partially agrees with the Committee's recommendations. All families should move into a clean house without outstanding repairs. Following a successful roll out across Scotland, housing staff in England and Wales have started a programme of ensuring that properties are fit for occupation and meet the required cleanliness standards by getting them handed back from the contractor and checking them 48 hours in advance of families moving in. Staff annual performance objectives, have from October 2009, been more clearly defined, so that the staff measure delivery/acceptance of the required standards. The Department has developed training programmes for housing staff to improve their understanding of the required cleanliness standards. The Department therefore, considers there is no need to implement a deposit scheme. Reference houses are in place across the UK estate to show examples of the required standards for housing staff, contractors, chains of command and families to view. The Department has introduced a pre-payment cleaning scheme pilot to an approved cleanliness standard. This has proved successful and is now being rolled out across the UK estate. The scheme, together with better advice, will go some way to reducing the number of occupants who struggle to meet the standard. In those instances where occupants continue to fail, the chain of command is made aware and will assist with educating Service personnel in the standards that are expected. The Department has a net budget, which assumes a certain level of receipts and these are recycled into expenditure. However, where it is appropriate to do so, Barrack Damage charges levied on occupants can be recycled back to the area in which they were incurred.	Partially Met. A 48-hour Take Back system was introduced in England and Wales on 6 April 2009, following a successful roll out in Scotland. This system allows for both Housing and Contractor officials to inspect the property 48 hours prior to occupants moving in. This gives time for any defects to be rectified. The system has proved successful with a move-in pass rate of over 96% (in Quarter 3). In addition, the system has highlighted some systemic issues: failure of MODern Housing Solutions appointed cleaning contractor; poor grounds maintenance; and inadequate void preparation. These have been taken forward with the Contractor who now reviews all related data on a weekly basis with DE senior management. Robust indicators have been set by DE which has already helped to raise the Contractor's performance in other areas significantly. For instance, over 90% of maintenance orders (ie repairs) are put 'right first time'. In addition, the occupant satisfaction rate for the maintenance service is at 91% The improvements have attracted positive comments from both the Chains of Command and Families Federations, both having noticed a reduction of related complaints to them. The Department has rolled out the pre-handback Pre-Payment Cleaning Scheme across the UK. This, together with better advice and information to occupants on the required Move-Out standard, has proved beneficial with 75% (Quarter 3) of properties meeting, or exceeding, the required standard. Thus enabling properties to be reallocated more quickly. Discussions are ongoing within the Department to establish how the process for recovery of damages could be improved. New arrangements will be introduced by Autumn 2010.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
7	**Although some of the problems with the maintenance contract have been overcome, the level of first time repairs is too low, communication of progress to occupants is often poor and the contract excludes some important items. The Department should benchmark the maintenance system with other housing providers and manage the contract to ensure that the contractor meets meaningful key performance targets. In particular, it should work with the contractor to improve the actual rate of first time repairs. The contract excludes important items such as carpets. The Department should seek to extend the existing contract to include them, and should build currently omitted items into any new contract it agrees. It should also prepare the market so there is sufficient competition for the incumbent provider.**	The Department partially agrees with this conclusion. The Department accepts that there are benefits to be gained from understanding contrasts with other housing providers and has joined HouseMark, a professional body that measures performance of Housing Associations and Local Authorities. Membership of this organisation represents an opportunity for identifying best practice. However, the Department has to manage high mobility of its occupants, not normally replicated in the private sector, which makes it difficult when making meaningful comparisons of key performances. As the contract with Modern Housing Solutions (MHS) has progressed, the relationship between the contractor and the Department has matured. The contractor is continuing to address concerns over standards and has introduced PDAs (Personal Digital Assistants) to enhance performance. These allow visiting technicians' immediate access to information about the maintenance history of a property, for comprehensive records of types of assets installed to be accessed; as well as providing better information on the task in hand. While it is too early for conclusive data to be available, the initial assessment is that it has started to make a positive difference on the ground. The contract has been amended to include some items originally excluded. These include common areas such as hallways in blocks of flats as well as areas contained within the footprint of the housing estates, such as the maintenance of garage blocks, grounds maintenance and pavement repairs. However, the wholesale inclusion of carpets into the contract is not affordable at present. It therefore makes better use of resources to maintain the current arrangements. Future contract arrangements will be examined in the light of the Department's 'Next Generation of Estate Contracts' project, which is looking at how estate services might be procured in the future as existing contracts approach their end dates.	Partially Met. A benchmarking exercise is being undertaken. Data has been passed to HouseMark, a professional body that measures performance of Housing Associations and Local Authorities. Discussions are underway between the Department and HouseMark on the relevance of the data, and how it might best be analysed, given the high mobility of SFA occupants. HouseMark notices are monitored for best practice initiatives. Advice has been sought on two specific issues: radon testing and maintenance arrangements. The advice received assisted the Department in its decision making. The introduction of a Diagnostic Decision Tool has meant that MODern Housing Solutions Helpdesk staffs are now better equipped to diagnose the root cause of a problem. The Helpdesk staffs are then able to identify the appropriate tradesmen to deal with the problem. This, together with the introduction of Personal Digital Assistants (PDAs), which provide property specific information to technicians, have resulted in around 90% of all repairs being put 'right first time' (emergency repairs are at 99%). The present contract has not been amended to include carpets as the Department considers the available budget can be better managed by maintaining the current arrangements. However, in preparation for the Department's Next Generation Estate Contracts (NGEC), the lessons learnt on the current contract are being used to refine the future contract content and processes.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
8	**The Department needs to develop better mechanisms for communicating with occupants and for recording their experiences and complaints. The Department should use the results of its planned survey of Service families to inform its priorities for improving customer service. It should also consult more widely with occupants on their priorities when determining what upgrade work to carry out. It should introduce a more rigorous system for recording and monitoring occupants' complaints to quickly identify recurrent problems and take prompt action to address them.**	The Department agrees with this conclusion that communication with families could be better. All occupants of SFA will be included in a survey programmed for early 2010 to follow up the one undertaken by the National Audit Office during 2008. The data generated by that survey, will be used to help inform upgrade programmes, as well as to give the Department valuable feedback on the overall service. The Department agrees that the monitoring and processing of complaints could be improved. A recent review identified a number of issues relating to governance, audit trails, responsibility and accountability between stakeholders. A more rigorous system for management and monitoring complaints is under development, starting to provide greater ownership of complaints at all levels, for all stages of the process.	Partially Met. A follow up survey identical in content to the one undertaken by the NAO during 2008 was carried out in the UK during December 2009. Although not as large a sample as the NAO survey, some 15,400 questionnaires were issued (to families who had moved in the previous 12 months) with 4,346 replies (28%). The headline figure shows that 68% (of the 28%) of respondents were satisfied with their property. The final report has just been issued. A full analysis of the results will be carried out and an Action Plan developed by summer 2010. This work will feed into future improvement and communication strategies. While there have been no changes to the 3-stage Complaints Procedure, the Department has revised its internal processes to ensure, through improved management oversight, that all complaints are dealt with as expeditiously as possible. In addition, the Department has worked with the Contractor and Family Federations to improve the Contractor's handling of contract-related complaints (which is the level at which most should be addressed or resolved). The contractor appointed a new Customer Service Director in April 2010 to focus on the complaints process and a revised MODern Housing Solutions complaints procedure will be introduced by June 2010.
9	**The Department is improving the way in which it delivers housing services, but could do more to follow good practice. To improve its own performance further, the Department should benchmark its performance and practices against other housing providers such as Housing Associations and Local Authorities, and draw on good practice in these sectors to develop a greater customer focus.**	The Department agrees with the Committee's recommendation. The Department will use membership of HouseMark as an opportunity to draw on good practice, which has been developed by Housing Associations and Local Authorities for improving customer focus, and to apply it to the Defence Estate.	Partially Met. See serial 7 above.

Serial	PAC Recommendations	Response Reported in the Treasury Minute	Departmental Action and Current Status
10	**It is more difficult for Service personnel to be home owners than the civilian population because they are required to move frequently. The Department assists with home ownership and plans to pilot a shared equity scheme where it would acquire a share of the property bought by Service personnel. The Department should undertake an early evaluation of the pilot shared equity scheme to assess the likely take-up from lower income Service families, as well as the potential risks it may be taking in committing to long-term equity shares in private housing.**	The Department accepts this conclusion. The pilot Armed Forces Home Ownership scheme is still expected to be announced by the New Year. It is aimed at lower income personnel who are in the early stages of their career (in the four to six years bracket). Evaluation is planned quarterly between the service deliverer, the Department, and Homes and Communities Agency. Annual strategic assessment to evaluate the scheme will inform any extension. Personnel will be encouraged to take independent financial counselling before embarking on the scheme. A specialist service deliverer will undertake affordability checks and will also facilitate access to debt counselling services in the event of the purchaser facing difficulties. The Department continues to deliver with Government Departments and the devolved administrations the commitments set out in the 2008 'The Nations Commitment: Cross Government Support to our Armed Forces, their Families and Veterans' in order to remove disadvantages for the Armed Forces. Improvements to Government-run affordable housing schemes across the UK include agreement to subletting arrangements and extending the priority status to the Armed Forces for a further 12 months after their career ends.	Met. The Armed Forces Home Ownership Scheme 4 year pilot was launched on 26 January 2010. The Homes and Communities Agency on behalf of the Department has appointed Swaythling Housing Association to administer the scheme. There have been 323 applications eligible for the Scheme. Of the 323, 119 have been called forward for Independent Financial assessment, 12 are searching for suitable properties and 30 have found properties. The average loan sought is £60,986. Of those properties found 1 purchase was completed on 30 April and 2 are due for completion on 7 May. Of the 323 eligible applicants, 77 are officers and 246 are other ranks. Key enhancements to Government affordable home ownership schemes have been agreed for Service personnel e.g. subletting from date of purchase, application in an area of choice not residence, porting to similar schemes and extending priorty status to bereaved spouses/partners for a 12 month period. A leaflet was published in April 2010 detailing these key benefits. From April 2009 to Jan 2010,1440 Service personnel in England registered onto Government affordable home ownership schemes.

Annex D

Ombudsman's Queries Relating to Complaints against the MOD

Number of complaints accepted for investigation by the Parliamentary Ombudsman in 2009-10	0
Number of investigations reported on by the Parliamentary Ombudsman in the year and the percentage of those reports where the complaint was: i. upheld in full ii. upheld in part iii. not upheld	 i.0 ii.0 iii.0
Number of Ombudsman recommendations: i. complied with ii. not complied with	 i.0 ii.0

Complaints to the Ombudsman

In response to a recommendation from the Public Accounts Committee in 2009 Departments are required to publish information on complaints on the Department by the Parliamentary Ombudsman. The MOD has a robust process for dealing with complaints of maladministration including, if it becomes necessary, for an independent internal review. During the year no complaints have been referred to our internal review body, nor was any complaint referred to the MOD by Parliamentary and Health Service Ombudsman.

The MOD treats any complaint seriously and has procedures for managing and responding to any complaints received, internally or from the public. Separate procedures exist for complaints about low flying aircraft. In addition, members of the Armed Forces are able to raise complaints via the Service Complaints Commissioner.

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ISBN 978-0-10-296625-1

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