Ministry of Defence

Ministry of Defence

Annual Report and Accounts

2012-2013

Ministry of Defence Annual Report and Accounts 2012-13

For the year ended 31 March 2013

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Structure of the Annual Report

The Defence Vision:

Our vision is to deliver versatile, agile and battle-winning Armed Forces, working effectively with each other, directed and supported by a professional Ministry of Defence, with people ready to lead, accept responsibility and spend wisely, protecting our security in a changing world.

Defence Priorities

Our priorities for 2012/2013 reflect the Defence Vision. They are:

- to succeed in Afghanistan;
- to continue to fulfil our standing commitments;
- to succeed in other operations we are required to undertake;
- to transform Defence by:
  - restructuring the Armed Forces and their capabilities;
  - implementing the new Defence Operating Model;
  - delivering Defence in the most effective, efficient and sustainable way.

Report Structure

This report is structured in line with these priorities and the MOD Business Plan which is revised annually and can be found on the internet at the following internet address: https://www.gov.uk/government/publications/business-plan-2011-2015.

SECTION A:

The first half of the Annual Report covers our progress on Operations and our other major responsibilities.

Chapter 1 – Current Operations details our progress in Afghanistan, the main priority for the MOD. Our Armed Forces are working to protect the UK by creating security and stability in Afghanistan and training members of the Afghan National Security Forces (ANSF) to help the Afghans to provide their own security in the future.

Chapter 2 – Standing Commitments details how we have been delivering our ongoing commitments such as defending UK airspace, waters and overseas territories; strategic nuclear deterrence; counter-piracy; conflict prevention; arms control and military aid to the civil authorities.

Chapter 3 – Contingent Operations and Defence Exports details our work in providing the defence contribution to the UK's influence throughout the world by projecting power strategically and through expeditionary operations, by providing security for stabilisation and by working with the Department of Business, Innovation and Skills (BIS) to promote defence exports. This chapter also covers our contribution to the success of the London 2012 Olympic and Paralympic Games.

SECTION B:

The second half of the Annual Report covers our progress on Transforming and delivering Defence.

Chapters 4 & 5 – Restructuring the Armed Forces detail our work in implementing the Armed Forces Covenant, developing a New Employment Model for Armed Forces personnel and our progress towards the Future Force 2020 structure.

Chapter 6 – Defence Reform covers our progress in implementing the new Defence Operating Model. Our goal is to create a simpler and more effective organisation whilst significantly reducing our running costs.

Chapter 7 – Delivering Defence covers our progress in performing our tasks in the most effective, efficient and sustainable way and how well we meet Government benchmarking, efficiency and sustainable development targets.

Foreword by Secretary of State for Defence

Defence exists to protect our national interests and provide the United Kingdom's ultimate guarantee of security and independence. As Defence Secretary, my highest priority is ensuring the success of our Armed Forces on operations, whether on enduring operations in Afghanistan, on standing tasks, or on any contingent operations we are called upon to undertake. This requires the effective support of a uniquely complex organisation that can deliver, amongst other things, world class training, equipment, and logistics. This is only possible in the context of well-managed budgets and an affordable forward programme. In May 2012, I announced that we had balanced the Defence Budget for the first time in a generation through tough but necessary decisions that will provide the country with the Armed Forces it needs now and in the future.

This financial stability is a turning point for Defence, and a crucial step towards delivering the vision set out in the 2010 Strategic Defence and Security Review – a vision of versatile, agile and battle-winning Armed Forces, backed by a professional Ministry of Defence. Balancing the books has given us the confidence to press ahead with the important reforms needed to transform the Department and at the close of the financial year we delegated greater authority to the Services to manage their own budgets – deciding for themselves how best to deliver their outputs from an agreed set of resources.

Throughout these and other major changes, we have retained a sharp focus on our highest priority – success on operations in Afghanistan. Over the year the operational tempo has remained high, with Task Force Helmand led first by 12 Mechanised Brigade and then by 4 Mechanised Brigade. We have begun the drawdown of UK troops in Afghanistan: troop levels peaked at 9,500 during the year before falling to 9,000 at the end of 2012 and will draw down to around 5,200 by the end of 2013. I pay tribute to the courage and sacrifice of the 34 servicemen and women who were killed in Afghanistan between April 2012 and March 2013. Our combat role in Afghanistan will soon draw to a close but we owe it to all those who have given so much over the decade since operations began, to make sure that as we draw down, we do so achieving our central aim – preventing Afghanistan from again being used as a safe haven for international terrorists.

This year we have passed significant milestones on the path to sustainable, battle-winning Armed Forces, supported by an efficient Department living within its means. I am proud of this progress but recognise there remains more to be done. In April 2014 we will finish the task of delegating financial control to the front-line commands, completing the central thrust of Lord Levene's review. In parallel, we will press on with the next phase of the Materiel Strategy, which will ensure that we are equipped with the commercial and financial expertise that we need to negotiate with industry on an equal footing. We will continue the process of returning of our troops and their equipment from Afghanistan and also from Germany. In the longer term, the White Paper I laid before the House on the 3rd July lays the foundation for the revitalisation of our Reserve Forces, reversing the decline of the recent past, growing their trained strength and investing an additional £1.8 billion over 10 years to do this.

I do not underestimate the scale of these challenges. Whilst many of the decisions we have taken are tough, and the changes will sometimes be uncomfortable, they are the right decisions, and the changes are necessary to ensure we can continue to deliver Defence.

Introduction by Chief of Defence Staff and Permanent Secretary

Last year, we reported that 2011-12 had been a very challenging year. This year the demands made on Defence have not reduced. But 2012-13 has mainly been a year of consolidation: building on previous progress and relentlessly focussing on delivering the changes started in previous years. Although some of these changes have been painful, we are beginning to see the benefits. We can now respond to unforeseen challenges to our programme without extensive disruptive and expensive re-planning. And because of our improving financial discipline, we have been granted unprecedented freedoms in how we manage our finances. Both represent virtuous circles – each improvement builds confidence, and sets the conditions for the next.

Our overall priorities have not changed: to succeed in Afghanistan and other operations, to meet our standing commitments and to transform how we deliver Defence. We now have concrete plans to return our Armed Forces from Afghanistan, as responsibility for the security of the country is passed to the Afghan people. This has been made possible by continuing to build the capacity and capability of the Afghan National Security Forces, who now are responsible for 80% of security operations. At home, our contribution to the security and safety of the 2012 London Olympic and Paralympics Games saw ships, aircraft and over 18,000 personnel deployed in support of the police and the civilian authorities. The success of our contribution demonstrates the resilience and flexibility of our Armed Forces. We are proud to have been part of such an important event for the UK.

We passed a key milestone in Transforming Defence in May 2012 when the Defence Secretary announced that we had balanced the Defence programme for the first time in a generation. Our prudent approach meant that we could make our contribution to reducing the deficit required in the Autumn Statement 2012 and Budget 2013 without further cutting personnel numbers or equipment. It also meant that we could delegate increased powers to our front line commands, confident that the resources allocated to them would be sufficient to deliver the forces set out in the Strategic Defence and Security review.

Last year we delayed publication of this document to allow us to complete further work to ensure that our accruals balances were correct. Our strenuous efforts to improve financial discipline mean that this year we did not have to make a similar choice between timeliness and accuracy. There remain a small number of issues on which the National Audit Office were not prepared to sign off the accounts this year. Two relate to understood, deep-seated problems that we continue to address through a multi-year programme. The remainder relate to one-off issues which we do not expect to recur. As well as helping us to meet our commitments, this hard-headed approach we are taking to financial discipline has given the Treasury the confidence to allow us to move an unprecedented amount of money from one year to the next, and hence to manage our finances more effectively.

The scale of operations at home and overseas continues to require huge efforts from our people. Our Armed Forces and our Civil Servants continue to rise to the challenges we face, and demonstrate why people remain our greatest asset. Although much has been done, we continue to implement some profound and sometime painful changes to the size and shape of Defence. However, we are entirely confident that the outcome will be a better MOD and resilient, well equipped armed forces able to meet the tasks laid on them. We remain immensely proud to have the honour of leading this Department, and the men and women of Her Majesty's Armed Forces.

Indicators

The MOD has a wide range of responsibilities and the Defence Board uses a comprehensive set of information to monitor and manage our performance in achieving our goals. Due to the nature of our objectives the best way for us to explain our progress is mainly through the written narrative that follows. A summary of some of the numerical indicators which show aspects of our performance that we believe will be of interest to the public, and that can be released without compromising security, can be found below.

Indicators	FY 2012-13	FY 2011-12	Comment
Input Indicators			
Additional cost of operations in Afghanistan, per Service person deployed.	£297,025	£364,000	*This is the total Net Additional Cost of Military Operations (including UORs) over the year, divided by the endorsed manpower level (9,900 for all of 2012-13). It is slightly lower this year due to reductions in the amounts spent on infrastructure and equipment prior to draw down.*
Additional cost of new equipment (Urgent Operational Requirements (UOR)) for operations in Afghanistan, per Service person deployed.	£37,000	£60,012	*This is the total spent on UORs over the year, divided by the endorsed manpower level (9,900 for all of 2012-13). It is substantially lower this year due to sizeable reductions in the amount spent on equipment prior to draw down.*
Average percentage by which the cost of the Department's Equipment Programme (EP) varies compared to forecasts in year.	0.26%	1.41%	*This figure is the average slippage across the Department's largest projects (Category C and above) in the last year. It is a continuation of a long term trend of reduced programme delays, reflecting improvements in project and programme management.*
Cost of major Force Elements (FE): Ship Brigade Aircraft (fixed wing) Helicopter	 £33.5M £654M £8.34M £3.62M	 £34.0M £661M £8.05M £3.41M	*This figure is calculated by attributing Defence expenditure to each of the major Force Elements. The costs have remained roughly constant.*
Direct personnel costs, per Service person.	£55,024	£52,000	*This is the total spend on military manpower divided by the number of Service personnel over the year. It rose slightly this year, in part reflecting the increase in pay for military personnel.*
Impact Indicators			
Progress toward a stable and secure Afghanistan.	96%	105%	*This is the percentage of Afghan National Security Forces against the NATO target. The strength of the ANSF has increase this year from 330,000 to 336,000, but the target for this year also increased from 312,000 to 351,000.*
Number of Service and MOD civilian personnel deployed on all operations in a year.	11,476	15,582	*This is the total number of personnel deployed on operations both in the UK and overseas. The figure is lower this year due to the end of operations in Libya.*
Percentage of Service personnel that are deployable.	91.1%	92.0%	*This figure has remained constant from last year.*
Number of Force Elements (FE) (typically ships, ground force sub-units and aircraft) showing critical or serious weakness against the total number of FE for Strategy for Defence (SfD) priorities	8%	10%	*This figure is slightly better than last year's. We expect it to improve substantially as forces return from Afghanistan*
Percentage of Service personnel (split by Officers and Other Ranks (OR)) who are satisfied with Service life in general	59% / 50%	62% / 56%	*The significant drop from last year is likely to be due to a combination of pay restraint and the announcement of redundancies.*
Overall public favourability of the UK Armed Forces	85%	85%	*This figure remains encouragingly high.*

Section A

Operations and other Major Responsibilities

1. Current Operations Afghanistan

The first Defence Priority is to succeed in Afghanistan – the main effort for the MOD. Our Armed Forces are working to protect the UK by creating security and stability in Afghanistan and training members of the Afghan National Security Forces (ANSF) to help the Afghans to provide their own security in the future.

A Chinook flies in low over the heads of Royal Marines from Alpha Company, 40 Commando Royal Marines in Afghanistan.

Overview

1.1 Operations in Afghanistan continue to be the MOD's top priority. Our objective is to protect British national security by helping the Afghans take control of theirs. We are delivering this by building up the capability of the Afghan National Security Forces (ANSF) so that they can prevent Afghanistan from ever again becoming a safe-haven for international terrorist organisations, such as Al-Qaeda.

1.2 The UK has played a substantial role in progress made so far. In 2001 Afghanistan was in the grip of an extremist regime that harboured terrorists. Today its economy is growing; it has a Parliament, increasingly capable security forces, a developing legal system and the basic building blocks of a functioning democracy. We assess that international terrorist organisations would no longer use Afghanistan as a base to prepare for an attack.

Key Achievements

1.3 Our priority in Afghanistan this year was to continue to transfer security to Afghan national forces, while continuing to play our part in NATO led operations to provide security until this process is complete. The Prime Minister announced in December 2012 that our military presence in Afghanistan will reduce by nearly half this year, from 9,000 to around 5,200. Of the 137 UK bases that we were operating at the height of the conflict, there are now only 14 and we expect this number to fall to around half a dozen by the end of 2013. As at the end of March 2013, 235 vehicles, 127 items of major equipment and some 700 twenty foot equivalent units of materiel have been returned home from Afghanistan.

1.4 UK drawdown has been made possible by the progress of the ANSF. They now lead most security operations (some 80 per cent) and 21 of the 26 ANSF Army Brigades operate independently. The ANSF have a strength of over 330,000 Army, Air Force, and Police personnel, all of which have had the benefit of training delivered largely by the ANSF itself, but supported by the UK and the NATO-led International Security Assistance Force (ISAF).

1.5 Security transition has taken place in a series of tranches. On 31 December 2012 the Afghan Government announced the fourth tranche, which put around 90% of the Afghan population in areas where the ANSF is providing security. The process of transition in the last few Districts will start with the announcement of the fifth and final tranche in mid-2013. This will be a landmark moment for the ANSF as it will assume responsibility for the security of the entire Afghan population. Their performance in dealing with the security challenges of the 2013 fighting season and the Presidential Elections in Spring 2014 will be a test for the maturing forces. The situation will be closely monitored by ISAF.

1.6 Lashkar Gah was the first District that the UK was responsible for to enter the transition process. Since Tranche 1 was announced in July 2011 we have moved from a combat role to one of training, advising and assisting the ANSF, which we have now completed at the lowest levels – Tolay (Army Company) and Precinct (Police) – though we continue to support ANSF development at Kandak (Army Battalion) and District level. By the end of 2013 our forces will no longer mentor routinely below Brigade and Provincial level. In a major new initiative, UK forces will play a crucial role in developing the next generation of Afghan military commanders by leading the coalition support to the new Afghan National Army Officer Academy. The first intake will start training in the coming year. The UK's contribution to the Officer Academy will be in addition to the £70m per annum that the UK has committed to sustaining the ANSF after 2014.

1.7 In addition to the security gains, Afghanistan's economy has grown rapidly since 2001, at an average of 9% a year. Life expectancy has risen dramatically and nearly 6 million children are now in school compared to just 2 million a decade ago under the Taliban. Around a third of the children in school today are girls, where previously they were denied this basic right.

1.8 Despite progress on security and humanitarian development, significant challenges still remain. The insurgency is capable of high profile and mass casualty attacks. A key objective for the Afghan Government and ISAF allies is to build the confidence, capability and leadership of the ANSF so that they can maintain momentum after the ISAF mission concludes in December 2014. ANSF self-confidence is vital to restoring the confidence of the Afghan people in their ability to maintain security without external military intervention.

Casualties

1.9 There were 34 UK Service personnel killed in Afghanistan between April 2012 and March 2013 (44 in 2011-12 and 85 in 2010-11). A further 43 suffered serious or very serious injuries (55 in 2011-12 and 146 in 2010-11). The total number of deaths from the start of operations in October 2001 to 31 March 2013 stands at 441, of which 398 were as a result of hostile action.

A soldier with 1 Mechanized Brigade patrols through a cornfield in Helmand, Afghanistan.

Equipment

1.10 This year has seen a further increase in force protection, particularly to counter the threat from Improvised Explosive Devices (IED). There has been an increase in the numbers of Counter-IED detection systems and working dogs, as well as protective mobility in the form of a new vehicle, Foxhound. We have also continued introducing lightweight, man-portable electronic countermeasures to reduce the burden on our soldiers while maintaining the best level of protection. Several capabilities have been strengthened and delivered to theatre throughout the year, including a range of new surveillance equipments. New and bespoke equipment will continue to be procured through the Urgent Operational Requirement process to meet emerging threats and requirements.

2. Standing Commitments

The second Defence Priority is to continue to fulfil our standing commitments, including strategic intelligence, the strategic nuclear deterrent, defence against direct threats to the UK and its overseas territories, counter-terrorism and military aid to the civil authorities. Carrying out these roles is essential to our security and supports key British interests around the world.

Nuclear submarine HMS Vanguard arrives back at HM Naval Base Clyde, Faslane, Scotland following a patrol.

2.1 We are committed to a range of ongoing activities which fall into three broad categories: first, activities directly ensuring the national security of the UK, such as maintaining the deterrent and protection of our airspace; second, enhancing the security of our broader regional and international interests through our involvement with international bodies such as NATO, the UN and the EU; and third, helping to improve long-term international stability through arms control.

Deterrence

2.2 Nuclear weapons provide the ultimate guarantee of the UK's national security. The UK therefore remains committed to an effective, minimum, credible nuclear deterrent. The sole purpose of the UK's nuclear weapons is to deter: preventing nuclear blackmail and acts of aggression against our vital interests that cannot be countered by any other means. They also make a vital contribution to the defence of NATO, which will remain a nuclear alliance while nuclear weapons exist.

2.3 Throughout 2012-13, we continued to deliver Operation RELENTLESS, the continuous at-sea deterrent patrols by the VANGUARD Class ballistic missile submarines.

2.4 We also continued to work on the replacement to the VANGUARD submarines. In May 2011 the Secretary of State for Defence announced approval of Initial Gate which confirmed decisions on the broad design, propulsion system and the missile compartment and gave approval to commence the Assessment phase of the programme. Work on this Phase of the Successor submarine programme is proceeding via a rolling programme of work packages under overarching contracts with BAE Systems, Babcock Marine, and an extension of an existing contract with Rolls-Royce. The first set of work packages was announced in May 2012 and second set in October 2012. Both sets were valued at £350 million, and fall within the £3 billion approval for the Assessment Phase. The Main Gate decision which will finalise the detailed acquisition plans, design and number of submarines will be made around 2016.

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

Defence of UK Airspace and Waters and UK Overseas Territories

2.5 In 2012-13, we continued to provide effective support to the Defence of UK airspace, territorial waters and overseas territories. The Police and maritime authorities have primacy in protecting the coastline of the UK, but Defence maintains forces to provide support to these authorities if required. Quick Reaction Alert Typhoon aircraft, air surveillance and control facilities continued to be used to defend UK airspace. We remained fully and demonstrably committed to the defence of UK Territories in the South Atlantic.

2.6 In Cyprus we maintained important military facilities in the Eastern and Western Sovereign Base Areas. The Sovereign Base Areas continued to provide vital support to operations in Afghanistan. In Gibraltar our forces played an important role in demonstrating UK sovereignty and the Royal Gibraltar Regiment has been active in supporting operations in Afghanistan.

Military Aid to the Civil Authorities

2.7 The Home Secretary is responsible for the safety and security of the UK and its citizens. Under the Civil Contingencies Act 2004, lead Government departments are allocated to deal with the most likely high-impact, disruptive events. MOD is not the lead for any civil contingency, but if required can provide support through the Military Aid to the Civil Authorities process. We supported the Civil Authorities in carrying out their functions on over 90 occasions in 2012-13. These ranged from the provision of logistics support to the Police and ambulance services, to having personnel trained and on call to deliver fuel in the event of strike action by tanker drivers. The major effort with respect to MACA was the military support to the Olympics, which is covered in Chapter 3.

2.8 Counter-Narcotics. In 2012-13, Defence continued to provide support to UK Government and international efforts to counter the threat from illicit drugs. The Royal Navy operated with international partners in the Caribbean to deter and disrupt the flow of drugs to Europe. In the Arabian Gulf and Indian Ocean, the Navy, operating under the multinational maritime coalition Combined Task Force 150, interdicted 1,800kgs of heroin with an estimated UK street value of £14M and, most recently, 1,500kgs of cannabis resin, valued at over £5M. The MOD continued to work closely in support of the Serious Organised Crime Agency, as UK's lead on tracking narcotics and other illicit trafficking activity worldwide. In Afghanistan, UK forces under NATO have disrupted the production and trafficking of thousands of kilograms of drugs in the course of operations. We have also provided mentoring and logistical support to Afghan forces in their counter-narcotics operations in order to tackle the narcotics threat within, and emanating from, their territory.

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

2.10 Search and Rescue (SAR). The MOD search and rescue service exists to help military aircrew in difficulty. It also contributes to the UK's integrated national search and rescue framework. Helicopter cover for most of the UK, and a large area of the surrounding sea, was provided 24 hours a day by the RAF and Royal Navy from eight helicopter bases. This augmented the service provided by a civilian company from a further four bases under contract to the Maritime Coastguard Agency.

2.11 The Department for Transport announced on 26 March 2013 that the Bristow Group has won a 10-year contract to run the UK SAR service from 2015, ending 70 years of search and rescue in the UK by the Royal Navy and RAF.

2.12 The RAF also maintained four RAF mountain rescue teams in the north of the UK, which are expert in dealing with aircraft crashes and SAR in remote areas. The UK Aeronautical Rescue Co-ordination Centre at RAF Kinloss co-ordinated the response of all UK search and rescue aircraft and mountain rescue teams, and hosted the UK Mission Control Centre for the global satellite based distress beacon detection system. Search and Rescue cover was also provided by the RAF from RAF Akrotiri in Cyprus and in the Falkland Islands – both of which are unaffected by the privatisation of the service in the UK. In 2012-13 Defence Search and Rescue services were called out 1,932 times (1,848 in 2011-12) in the UK and came to the aid of 1,623 people. Statistics on Military Search and Rescue incidents, callouts and people moved can be found at: http://www.dasa.mod.uk/

2.13 Explosives Ordnance Disposal (EOD). MOD provides 24 hours-a-day EOD support to the police in the UK. This includes the provision of operational scientific expertise to deal with complex devices. Routine co-ordination of EOD tasking was conducted by the Joint Service EOD Operations Centre at Didcot which allocated Royal Navy, Army or RAF teams as necessary. EOD teams were stationed at various locations through the UK and responded to over 2,108 callouts in 2012-13, (2,629 callouts in 2011-12).

Counter-Piracy

2.14 An enduring objective for Defence is to ensure that the UK continues to support counter-piracy efforts in the Indian Ocean. While pirate activity levels were lower than in previous years, piracy off the coast of Somalia continued to pose a threat to shipping. No vessel has been seized by pirates since May 2012 thanks to a co-ordinated military effort, and the widespread use of self-defence measures and armed onboard protection teams by merchant vessels.

2.15 Defence played a key role in the international effort that achieved this improvement, both through inter-Governmental leadership and military contributions to the three international counter-piracy coalitions: the US-led Combined Maritime Forces, European Union's Operation ATALANTA; and NATO's Operation OCEAN SHIELD.

2.16 The UK provided Op ATALANTA with the Operational Commander and the multinational Operational Headquarters at Northwood. The Combined Maritime Force has a permanent UK Deputy Commander based in Bahrain and ships have been contributed to the mission throughout the year.

NATO

2.17 NATO remains the cornerstone of UK defence and provides the structure through which the UK engages on a number of operations, including Afghanistan. The UK is at the forefront of driving forward reform of NATO and increasing the utility of NATO Defence Planning following the Chicago Summit in May 2012. The reformed NATO Command Structure continued to be implemented with the UK hosting and commanding NATO's single Maritime Command at Northwood and filling a wide range of influential posts including that of Deputy Supreme Allied Commander Europe.

2.18 The UK also continued to support the NATO Response Force, making regular contributions of command and force elements. Throughout 2012-13 the UK committed an anti-submarine warfare escort ship; a mine counter measures vessel; twelve air defence/ground attack aircraft; two airborne early warning aircraft and two air to air refuelling aircraft. The UK also contributed a number of ships to NATO's counter-piracy mission off the Horn of Africa. We provided the high readiness Land and Air Component Commands and Chemical Biological Radiological Nuclear (CBRN) Task Force Command to the NATO Response Force from 1 January to 31 December 2013. The Land Component HQ is provided by the UK led Allied Rapid Reaction Corps which has been recently accredited as a NATO High Readiness Force (Land) HQ, and is involved in the developing Joint Task Force HQ concept within NATO. The UK is also contributing sizeable force elements in 2013 to the Land Component and CBRN Task Force.

2.19 The Government remains committed to supporting the development of NATO's Ballistic Missile Defence (BMD) system. This system builds on an existing NATO capability which provides limited protection to deployed forces, by extending that protection to include NATO European territory and populations. In 2012-13 we continued to work closely with our Allies to develop the associated command and control system, in terms of both hardware and supporting doctrine, to enable NATO commanders to operate the system. This work supported NATO's declaration of an interim BMD capability, at its summit in Chicago in May 2012.

2.20 Although the UK has no national territorial BMD capability, nor any current plans to develop or acquire such capability, we continue to support the United States' BMD system by sharing data acquired at RAF Fylingdales and transmitted via RAF Menwith Hill. We also continued to collaborate extensively in the development of BMD policy.

United Nations

2.21 The MOD supported three peacekeeping operations in 2012-13, maintaining a deployment of approximately 280 military personnel to United Nations (UN) missions. We also maintained our commitment to UN-mandated peace support operations, with approximately 9,000 personnel involved in operations in Afghanistan.

2.22 We continued to provide three officers on secondment to the UN in New York and to maintain a Defence section in the UK Mission to the United Nations. We contributed to extensive multilateral capacity building in Africa through a combination of short term training teams, British peace support training teams and British military advisory training teams. MOD also continued to implement actions in support of the United Nations Security Council Resolution 1325 on Women, Peace and Security, including through the deployment of cultural advisers into Afghanistan.

Common Security and Defence Policy

2.23 The UK continued to emphasise the importance of operational effect, promoting efficient and effective application of EU effort wherever possible.

2.24 We continued to provide the standby Operational Headquarters at Northwood, currently commanding the EU's counter-piracy operation off the Horn of Africa. We have also contributed to the EU regional maritime capacity building mission in the Horn of Africa and the EU training missions in Mali and Somalia.

British troops are pictured boarding an RAF C-17 flight before the transit to Camp Bastion, Afghanistan.

An Agusta Westland A139 helicopter from the Search and Rescue Training Unit at RAF Valley is pictured on exercise over the Welsh coastline near Anglesey.

Arms Control

2.25 The National Security Risk Assessment identified that the risk from hostile acts by terrorists and states would be greatly increased if weapons of mass destruction, advanced military technologies, and the systems used to deploy them, reached the wrong hands. The following paragraphs summarise MOD's contribution in 2012-13 to meeting the Government's wider arms control and counter-proliferation objectives:

- In support of the 2010 **Nuclear Non-Proliferation Treaty**, MOD continued the UK-Norway initiative on the verification of nuclear warhead dismantlement, agreeing a joint work plan to 2015;

- We continued to fulfil our obligations as the national authority responsible for the UK's commitment to the **Comprehensive Test Ban Treaty**, supporting the Comprehensive Test Ban Treaty Organisation in Vienna;

- We continued to call for negotiations on a **Fissile Material Cut-off Treaty** to commence in the United Nations Conference on Disarmament;

- We continue to implement key politically and legally binding **Conventional Arms Control agreements** on behalf of the UK. During the year, MOD hosted thirteen verification missions, which checked the UK's compliance with the Conventional Arms Control agreements; and led or participated in twenty seven verification missions in other countries.

- MOD continued to provide expertise to strengthen the **Chemical Weapons Convention** and the **Biological and Toxin Weapons Convention**. This included the provision of training to the Organisation for the Prohibition of Chemical Weapons to support the investigation of the alleged use of chemical weapons, with direct relevance to the situation in Syria;

- The UK continued to work to secure agreement on a strong and effective **Arms Trade Treaty**, which would oblige all signatory states to apply common criteria for assessing the export of conventional arms; and

- Finally, we continued to provide expertise to strengthen the four export control regimes (Missile Technology Control Regime, Nuclear Suppliers Group, Australia Group and Wassenaar Arrangement) to reduce the threat to national interests, including UK forces operating abroad, from CBRN and conventional weapons.

3. Contingent Operations

The third Defence Priority is to succeed in other operations we are required to undertake at home and overseas, by providing a defence contribution to UK influence (including working with the Department of Business, Innovation and Skills (BIS) to promote defence exports), by defending our interests by projecting power strategically and through expeditionary operations, by providing security for stabilisation, and by providing a defence contribution in support of other government departments. In 2012 this included providing our contribution to the London Olympic and Paralympic Games.

A Royal Air Force Puma helicopter flying over the 2012 Olympic Stadium during a training flight over London.

2012 Olympic and Paralympic Games

3.1 A major role for the Department and the Armed Forces in 2012 was to provide a very significant and hugely successful contribution to the security and safety arrangements for the London 2012 Olympic and Paralympic Games, including the Torch Relay. Whilst at all times the security of the event remained the responsibility of the Police, Defence Personnel provided a wide range of general and niche capabilities and real estate. When, at short notice, the military was asked to step into the breach to provide additional venue security following the failure of the commercial contract arrangements, the Armed Forces stepped up to the mark in indomitable fashion earning the respect and admiration of the British public and international visitors alike.

3.2 At its peak the Defence contribution to the Olympic and Paralympic Games comprised over 18,000 personnel including:

- 5,000 personnel in support of the police and other civil authorities, with specialist capabilities including explosive ordnance disposal teams, military working dogs and Royal Navy support to maritime policing, as well as a 1,000-strong unarmed contingency force for deployment in the event of an Olympics-related civil emergency;
- A peak of 12,200 personnel to fulfil venue security tasks across London and in Weymouth;
- A number of personnel participating in high profile ceremonial events;
- Military Olympic and Paralympic athletes, serving and retired; and
- Ministry of Defence Police personnel and capabilities.

3.3 Military assets deployed, included:

- HMS OCEAN, the largest ship in the Royal Navy's fleet, was berthed in the Thames at Greenwich to provide logistics support, accommodation and a helicopter landing site;
- HMS BULWARK and RFA Mounts Bay in Weymouth Bay, provided maritime command and control, accommodation, helicopter and small boat basing and logistics supply;
- Typhoon jets, stationed temporarily at RAF Northolt in London and helicopters operating from HMS OCEAN provided support to airspace security;
- Ground-based air defence capabilities were deployed in east London to support airspace security; and
- Defence real estate, including Woolwich Barracks and Horse Guards was a critical contribution to the success of the event.

3.4 Defence was proud to play such a central part in London 2012 while continuing to manage its core business, maintaining its commitments to the protection of the UK, to current operations in Afghanistan and to other standing commitments worldwide – including the ability to respond to the unexpected.

Mali

3.5 In January 2013 rebel forces and Islamists linked to Al-Qaeda were making rapid gains and threatening key strategic towns in Mali. An Al-Qaeda-dominated Mali would pose a real threat to the citizens of Mali, stability in North and West Africa and to international security. Initial French-led action halted the advance towards the capital Bamako and supported by the growing African-led Intervention Force to Mali regained control over the major towns and cities. The UK supported these efforts through contributing logistical and surveillance support to the French with C17 transport and Sentinel surveillance aircraft. The C17 completed around 40 sorties carrying over 1,000 tonnes of materiel, including over 100 vehicles. In addition, the UK moved French supplies from La Rochelle to Dakar using a Roll-on-Roll-off Ferry. We also helped to deploy Ghanaian and Nigerian troops into Mali.

3.6 Separately, the UK supported the launch of the EU Training Mission to increase the capacity of the Malian Armed Forces to address Mali's security challenges. We are contributing 37 military personnel to help train the Malian Armed Forces, the majority of whom deployed to Mali in March 2013. The UK supports plans to deploy a UN Peacekeeping Operation to Mali.

A IX(B) Sqn Tornado GR4 training for deployment to Afghanistan.

Conflict Prevention and Defence Engagement

3.7 The International Defence Engagement Strategy (IDES), jointly developed by the Ministry Of Defence and the Foreign and Commonwealth Office (FCO), was launched by the Secretary of State for Defence and the Foreign Secretary in February 2013. Over the year, the MOD has continued to work with Department for International Development (DFID) and FCO on conflict prevention and capacity building projects across five regional and one thematic programme: Africa; Afghanistan; Wider Europe; South Asia; Middle East & North Africa; and Strengthening Alliances and Partnerships. Of the £189M available to fund this kind of activity in 2012-13, MOD led on projects across all six programmes totalling some £43M. For the first time in 2012-13, the Government put in place an Early Action Facility of £20M, to improve the ability to rapidly respond to crises, National Security Council priorities and new opportunities for Conflict Prevention.

3.8 The largest MOD led projects were in the Middle East and North Africa region:

- The MOD embedded a number of advisors within the **Libyan** MOD and Armed Forces to assist the Libyans in the development and implementation of a National Security Strategy;
- In **Algeria** we have developed a high level security partnership to address joint security concerns emanating from the region;
- We worked with the FCO to assist the **Egyptian** authorities develop new and accountable governance structures;
- In **Morocco** and **Tunisia**, we have continued to undertake a range of short term training activities focussing on developing host nation defence capability and capacity;
- In support of operations in Afghanistan we conducted pre-deployment training in **Jordan** as well as providing highly valued capacity building training activities to the Jordanians;
- engagement in **Lebanon** continued to focus on reinforcing the UK's support for Lebanon's stability and developing their Armed Forces to contain sectarian violence and defend its borders;
- In **Saudi Arabia**, **Qatar**, **UAE**, **Kuwait** and **Bahrain** we maintained a comprehensive network of defence Attaches and Loan Service Personnel; and
- We continue to use our programme of Defence exercises in the **Arabian Gulf** to improve our ability to operate with allies and to build relationships, such as the Royal Navy's participation in the International Mine Counter Measures Exercise that took place in September 2012, involving over 25 nations.

3.9 Defence also maintained strong ties across South Asia.

- We worked closely with the **Pakistan** military, building capacity to combat militant threats including collaboration on a Counter-IED Centre of Excellence to train Pakistan's military and Law Enforcement Agencies; and
- The broad programme of engagement with **India** continued with bilateral navy and air force exercises, placements on each other's courses and the exchange of knowledge. The research and technical relationship moved forward with four joint projects now underway.

3.10 The MOD continued to strengthen Defence ties with countries in the Asia-Pacific region:

- We signed a Defence Co-operation Treaty with **Australia** and Defence Co-operation Memoranda with **Indonesia**, **Japan** and **Mongolia**;
- Lord Astor became the first ever British Defence Minister to visit **Vietnam** and we have established a new Defence Attaché post in **Burma**; and
- We have continued to participate in exercises in the region, both on a bilateral basis and as part of our commitment to the **Five Powers** Defence Arrangements with Australia, Malaysia, New Zealand and Singapore.

3.11 In Africa:

- the MOD continued to contribute strongly to the Government's **Somalia** strategy during 2012-13 through initiatives to improve the capacity of the African Union's peace support mission in Somalia and by supporting the EU's military training mission there. Conflict Pool funding for Somalia-related projects increased again to reflect the importance attached to conflict prevention and conflict resolution across Somalia;

- We remained active in supporting mediation efforts between **Sudan** and **South Sudan**; and

- In **Sierra Leone**, we worked with other UK Government Departments to build on the success of our long-running programme with the Republic of Sierra Leone Armed Forces.

3.12 In Latin America and the Caribbean our defence engagement continued to improve:

- we enhanced our relations with **Brazil**, **Colombia** and **Chile** through continued strategic dialogues; and

- We have developed defence ties with other countries including **Peru**, **Paraguay**, and **Trinidad and Tobago**.

3.13 Closer to home, we have continued to work closely with European nations, both well established partners and new allies:

- Steady progress has been maintained in military-to-military aspects of **UK-French Defence Co-operation** following the change of French Government in May 2012. Although work on the Livre Blanc (the French equivalent of our Strategic Defence and Security Review) has delayed progress on equipment collaboration, the final document reaffirms French commitment to the bilateral relationship and a strong convergence of strategic analysis and objectives;

- Following the structured dialogue talks in 2011 we have continued to reinvigorate our defence relationship with **Germany**;

- In 2012 Parliament approved a treaty signed with **Turkey** in 2011 which provides a basis for enhanced bilateral defence co-operation;

- We maintained the UK contribution to the United Nations Peacekeeping Force in **Cyprus**, our largest commitment to a UN operation;

- In the **Western Balkans** we maintained our commitment of a small number of staff officers on operations in Bosnia and Herzegovina and also committed a UK-based Company to the Intermediate Reserve force for the EU's military operation in Bosnia; and

- In **Serbia**, **Ukraine**, **Georgia** and **Armenia** we have continued to provide advice on improved governance and Defence reform.

3.14 Throughout 2012-13, MOD has assisted in the development of the Armed Forces of partner nations, by providing defence education and training to twelve countries through the Security Sector Education programme. Through the Strengthened Alliances and Partnerships strategy we contributed to capacity building for peace support operations, especially through 'train the trainer' schemes which build training and teaching capacity in target countries. These teams help other countries become self-sufficient, capable of providing for their own security in an accountable and democratic framework, and of contributing personnel to peace support operations.

3.15 The MOD's Defence Assistance Fund was used to further develop and strengthen bilateral and multilateral defence relationships in support of wider Government objectives, as set out in the International Defence Engagement Strategy. The money funds defence education in support of security sector reform and capacity building; short-term training teams; staff talks, and exchange visits.

3.16 The UK has continued to enter into arrangements and agreements with key long-term partners in defence and security. During 2012-13, a Defence Trade Cooperation Treaty with the United States came into force. In September 2012 we signed a series of transit agreements with Uzbekistan to assist with the drawdown from Afghanistan. In total around forty new Memoranda of Understanding (MOU) and many other subordinate arrangements were signed.

Royal Navy Type 45 destroyer HMS Diamond is pictured turning at speed during Exercise Joint Warrior off the coast of Scotland.

Activity and Concurrency Levels

3.17 The MOD monitored activity and concurrency levels over the year to ensure that meeting its objectives does not put an unsustainable strain on our Armed Forces. We also report on the activity that each of the three Services have carried out in support of the Government's priorities.

3.18 The total number of Service Personnel committed to operations (i.e. those forces ready to deploy, those currently deployed and those just returned) averaged 21% across all three Services. The proportion of regular forces actually deployed (as opposed to those ready to deploy, currently deployed and those just returned) on operations and undertaking other military tasks has reduced from 18% to 10% due to the drawdown from Afghanistan and the cessation of operations in Libya.

3.19 The **Royal Navy** continued to make a significant contribution to global operations in Afghanistan, the Arabian Gulf, the Horn of Africa, the Mediterranean and the North and South Atlantic. As well as delivering the United Kingdom's continuous at-sea nuclear deterrent patrols, naval forces maintained the security of our territorial waters and economic zones, including those of Gibraltar, the Falkland Islands, the British Indian Ocean Territory (Diego Garcia) and overseas territories in the Caribbean. The Royal Navy also contributed to, and led, counter-piracy operations off the east coast of Africa. Royal Navy and Royal Marines personnel also undertook Defence Engagement activities with nearly half the world's nations (90 countries in 2012 calendar year). These activities included helping to train and support the security forces of fragile states and developing countries including Libya, Somalia, Yemen, Ghana and Sierra Leone. In addition to the continuous deployment of medical, aviation and logistic personnel to Afghanistan, 40 Commando Group undertook another demanding deployment as part of the UK's contribution to NATO operations under ISAF. The Royal Navy has also provided significant support to the civil authorities in search and rescue operations, maritime bomb disposal, counter-narcotics operations, port survey and fishery protection; naval forces also made a significant contribution to Olympic security. This year the average percentage of Royal Navy and Royal Marine personnel committed to operations at any one time was 29%.

3.20 The **Army** continued to make a major contribution to operations globally with the most significant deployment being supporting Defence's main priority in Afghanistan. Other operations included participation in UN operations in Cyprus, the Democratic Republic of Congo and South Sudan. The Army also had personnel deployed on operations in Mali, Somalia, Libya and the Middle East in support of strategic objectives. All standing commitments were met with Army personnel permanently stationed in Northern Ireland, Cyprus, Brunei, Nepal, the Falkland Islands and Gibraltar. The Army continued to contribute to the Government's counter-terrorism strategy by delivering military advice and building capacity in other countries. This included training assistance to a number of high priority countries in capabilities such as border security, counter-terrorist detention, counter-IED, and logistics. In addition, numerous short term training teams deployed in line with the Defence Engagement Strategy. Support to UK resilience also remained a significant operational commitment with the London Olympics security operations involving nearly 12,000 Army personnel. This year, the average percentage of Army service personnel committed to operations was 18%.

3.21 The **Royal Air Force** remained committed overseas particularly in the Middle East, Afghanistan and West Africa. Security co-operation, strengthening of international peace and stabilisation, and support to wider British interests were delivered through support to arms control, defence diplomacy, NATO counter-intelligence operations and defence export activities. Bilateral relationships with close Allies continued to be strengthened, in particular through the provision of air lift, surveillance and reconnaissance to French operations in Mali. Strategic intelligence was provided in liaison with Government Communications Headquarters (GCHQ), the Joint Aerial Reconnaissance Intelligence Centre and the Defence Intelligence and Security Centre. The high level of commitment of air transport and support helicopter fleets has continued. Standing commitments to nuclear deterrence and air security have continued to be met, along with other Defence military tasks that encompass search and rescue, counter-narcotics activities, airborne surveillance and control. The RAF also contributed to permanent commitments in Northern Ireland, the Falkland Islands, Ascension Island and Cyprus, and to a range of other military tasks including the integrity of UK waters and airspace. This included a significant contribution, alongside maritime and land forces, to the delivery of Olympic security. This year the average percentage of Royal Air Force personnel committed to overseas operations at any one time is 29%.

3.22 The **Joint Force Headquarters** (JFHQ) continued to provide the standing command and control capability at the heart of the United Kingdom's response to emerging crises. The JFHQ remained at extremely high readiness (24 hours notice). It continued to hold an Operational Liaison and Reconnaissance Team (OLRT) of up to eight personnel at four hours notice. OLRTs deployed on a number of occasions during the year to provide information and advice and to inform decision-making. The remainder of the JFHQ (up to forty-seven personnel) was held at twenty-four hours notice. JFHQ was active in four main areas this year: operations; training; Defence diplomacy/engagement and broader development of joint warfare doctrine and concepts. JFHQ draws on wider expertise from other organisations, including the Foreign and Commonwealth Office, the Department for International Development, Civilian Police, International Committee of the Red Cross, single Service staffs, cultural advisors and the Stabilisation Unit. Over the last year it has:

- Deployed specialists to over thirty countries including the Lebanon, Israel, Jordan, Sudan, Nepal and Yemen;
- Worked with headquarters staff of the European Union, the Netherlands, France, Sweden and the USA, as well as British Forces Cyprus and several single-Service headquarters; and
- Conducted Defence diplomacy tasks such as campaign planning with the Ugandan People's Defence Force for the African Union's peace support mission in Somalia, and helping to train the Kenyan Rapid Deployment Force.

Funded Readiness

3.23 As well as succeeding in the operations that we undertake, an enduring priority for the MOD is to maintain a range of forces ready to deal with events that may emerge. In 2012-13 we maintained a graduated readiness system to ensure that the right force elements (typically ships, ground force sub units and aircraft) are ready to deploy to conduct the range of missions that may be required by the Government. Through its budget setting process, MOD's Head Office sets requirements for the Front Line Commands in terms of the force elements and the readiness at which they need to be held, and allocates the resources to achieve this. These requirements are underpinned by specific direction on manning levels, equipment, logistic support, and training, both for individuals and the collective training that units do together to ensure they can fight effectively as part of a larger force. Measuring and aggregating readiness is complex, not least because it is based on a judgement of what is required to enable the Armed Forces to respond to a wide range of potential challenges and deliver a wide range of effects.

3.24 The Armed Forces' readiness targets are measured against the ability to prepare, deploy, fight and recover against the full range of potential operations. In recent years, however, the Armed Forces have focused on preparing for and sustaining operations in Iraq, Afghanistan and Libya. The operations in Libya and Mali showed how forces held at readiness can be deployed at short notice in support of the Government's security and humanitarian priorities. We provided substantial forces at immediate readiness for those operations, deployed them to and sustained them in theatre, and recovered them to their home bases at the end of their tours. Throughout 2012-13 The Armed Forces have continued to generate and sustain high quality, properly trained force elements for other standing military commitments, such as maintenance of the nuclear deterrent and the provision of garrisons in permanent joint operating bases worldwide.

3.25 Performance against the delivery of identified force elements at the required readiness and sustainability enables the Department to identify issues and the associated risk early and take action as necessary.

3.26 This financial year saw the UK's ability to conduct Contingent Operations beyond Afghanistan continue to grow in line with the Defence Plan. The **very high readiness** Responsive Force now includes the Lead Commando Group (part of 3 Commando Brigade Royal Marines), the Airborne Task Force (drawn from 16 Air Assault Brigade) and the Royal Navy's Response Force Task Group (RFTG) together with a range of enabling and force-multiplying capabilities. This enables a range of scalable force packages to deploy at very short notice.

Defence Exports

3.27 Throughout the year we continued to provide support to the British defence and security industry in its efforts to secure exports. We also set out to strengthen the policies underpinning our support to exports by implementing the recommendations in the "National Security Through Technology" White Paper. A new Director General has been appointed to demonstrate the level of commitment the Department places on support to Exports and to help drive delivery.

3.28 Within government, UK Trade and Investment Defence and Security Organisation (UKTI DSO), part of the Department for Business, Innovation and Skills, is responsible for promoting the UK defence and security sectors overseas. We worked closely with UKTI DSO to support industry-led export campaigns, and seconded 49 military staff to UKTI DSO to provide specialist subject matter expertise. Where appropriate, we also worked directly with Industry in support of their export aspirations.

3.29 Last year, UK defence and security exports rose to £11.5 Bn. This represents a 43% increase on figures recorded in 2011 and we remain the world's second biggest defence exporter. Defence exports not only support UK industry and jobs, but also develop and enhance bilateral relationships and defence cooperation with our key allies, help like-minded nations build up their capabilities, contribute to regional security, and enhance interoperability. In particular our Armed Forces provided specific military-to-military support to the UK's commercial prospects in key export markets including: capability demonstrations and evaluations, live firings and visits and briefings to potential customers. These activities served to underpin and deepen our successful defence engagement relationships across the globe. An example of such a campaign, which drew on significant MOD support, was the ongoing industry-led Eurofighter-Typhoon export campaign to Malaysia. The RAF provided two Eurofighter-Typhoon aircraft to display at the Malaysia Langkawi air show in March, showcasing the significant capabilities of the aircraft in front of a Malaysian and international audience.

3.30 MOD Ministerial support can be a key discriminator in delivering a successful export campaign and this year MOD Ministers, Service Chiefs of Staff and senior officials have placed a strong emphasis on embracing export-specific dialogue as part of their routine engagements internationally, especially as part of official inward and outward visits. We are committed to ensuring all key Departmental engagements consider defence exports as part of the government's growth and prosperity agenda. The Minister for Defence, Equipment, Support and Technology was appointed as the Departmental lead for export activity. He helped to promote UK exports through regular visits to overseas trade exhibitions which included leading industrial delegations to defence exhibitions in India, Malaysia and the UAE. The Prime Minister also led a cross Government ministerial team to the Farnborough International Air Show in July, where Ministers engaged with heads of international delegations and championed the cutting edge of the British defence and aerospace industry.

3.31 The National Security Through Technology White Paper, published in February 2012, set out a number of departmental commitments in support of responsible defence exports. This year we made steady progress in delivering against those commitments. We continued to undertake work to embed 'exportability' into MOD equipment project plans, so that this gets considered at the earliest phase of the MOD acquisition cycle. Policy is now in place which ensures that every project that is submitted to our Investment Appraisals Committee has its exportability potential considered as part of its business case assessment phase. One early adopter of exportability, the Global Combat Ship, has attracted interest from a number of potential international customers, which we are working to assess and exploit.

3.32 We also made headway in assisting in the development of cross-government policy for Government-to-Government contracting arrangements, which is often seen as a valued piece of industry's export package. We now have an agreed process in place, co-ordinated by UKTI DSO, to assess any major bids from Industry where there is a requirement for Government-to-Government contractual support.

3.33 We took steps to ensure that training alongside the UK Armed Forces was made available at a competitive cost for individual export campaigns, providing it also delivers value-for-money. There are ongoing training opportunities that the three Services provide across a wide range of professions at a variety of ranks and experience that support international engagement in addition to exports. This training includes everything from basic officer training, advanced Command and Staff courses to flying training. The RAF, for example, has continued to provide flying training for the Royal Saudi Air Force throughout this year.

3.34 We also provided support to the UK Chief of Defence Materiel at various international fora, including NATO and the European Defence Agency. This included the successful UK Chairmanship of the 5-Power National Armament Directors meeting in November 2012. A priority this year has been influencing the EU Commission Defence Task Force, which has been set up to assess ways in which the European defence market could be made more efficient. We have worked with our key EU partners to ensure the Commission focus is on promoting open markets and avoiding new regulation. We have also seen the successful introduction of UK/US Defence Trade Co-operation Treaty, which we expect to benefit UK industry supplying equipment to the US and UK armed forces. Several large companies signed up to the new Defence & Security Industrial Engagement Policy, which demonstrates their continued willingness to invest in the UK defence and security industry. More broadly we have provided support to approximately fifty equipment related Memoranda of Understandings and related arrangements with our international partners, with six of these formally signed in the year, including a Terrier armoured vehicle MOU with France and a Defence Material MOU with Canada.

Two Royal Air Force Typhoon jets of 6 Squadron, based at RAF Leuchars in Fife, Scotland are pictured enroute to a practice bombing exercise at Cape Wrath.

Section B

Transforming and Delivering Defence

Structural Reform Plan

The Structural Reform Plan is contained within the MOD's *Business Plan 2012-2015*. It is published, together with monthly updates on progress against its objectives, on the gov.uk website, at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/27185/mod_plan_final_11_06_12_P1.pdf

The actions set out in the Structural Reform Plan are being taken forward through the Transforming Defence programme. This will deliver versatile, agile and battle-winning Armed Forces, working effectively with each other, directed and supported by a professional Ministry of Defence, with people ready to lead, accept responsibility and spend wisely, protecting our security in a changing world. We are doing this through:

- **Restructuring the Armed Forces and their capabilities (Chapters 4 & 5)**: implementing the outcome of decisions taken in the Strategic Defence and Security Review, and subsequently including rebuilding the Armed Forces Covenant and developing a New Employment Model;

- **Implementing the new Defence Operating Model (Chapter 6)**, in response to the Defence Reform Unit's review, creating a simpler and more effective organisation and delivering significant reductions in running costs; and

- **Delivering Defence in the most effective, efficient and sustainable way (Chapter 7)** by meeting benchmarking, efficiency and Government sustainable development targets, building on the Defence Reform Unit's review.

Transforming Defence is managed by the Director General for Transformation and Corporate Strategy through the Defence Transformation Portfolio, which directs, co-ordinates and drives forward implementation of the major change initiatives. The Secretary of State oversees progress routinely through the Defence Board. Lord Levene's Defence Reform Steering Group also reconvenes annually to review progress against their recommendations and report to the Secretary of State.

Progress is scrutinised by Parliament. The Prime Minister submits an annual report on the National Security Strategy and Strategic Defence and Security Review to the Joint Committee on National Security Strategy. The Secretary of State submits Lord Levene's annual Defence Reform progress report. During the year the House of Commons debated Defence Reform and the Secretary of State made oral statements on Carrier strike capability, the Defence budget and transformation, Army 2020, and the Army Basing Plan. The Public Accounts Committee supported by the National Audit Office, the Defence Committee and the Public Administration Committee all conducted enquiries into aspects of Defence Transformation. Details can be found in Annex B.

4. Restructuring the Armed Forces

The fourth Defence Priority is to transform defence by **restructuring the Armed Forces and their capabilities**; implementing the outcome of the Strategic Defence and Security Review (SDSR), including re-building the Armed Forces Covenant; and developing a New Employment Model.

Soldiers watch as a Royal Air Force Merlin helicopter takes off with an underslung load in Afghanistan.

Two Puma HC1 helicopters, taking part in the Air display at IWM Duxford.

Restructuring the Armed Forces

4.1 Our main priority this year was to continue to implement the changes set out in the Strategic Defence and Security Review, including delivering the specific commitments contained in the business plan. These included delivering the first tranches of the plans to reduce Royal Navy, Army and Royal Air Force personnel and the Army 2020 study; disbanding 19 Light Brigade; publishing the Army Rebasing Plan; and achieving the fourth Typhoon squadron's Initial Operating Capability.

4.2 In the **maritime environment:**

- the aircraft carrier programme continued to make progress, including construction of the hulls, appointment of the first crew for Queen Elizabeth, opening of the engineering development facility, and a continuing programme of pilot training. In May 2012 we announced the decision to deliver Carrier Strike capability using the short take-off and vertical landing model of the Joint Strike Fighter jet. The first aircraft have been delivered to the Royal Air Force and flight testing continues in the United States;

- we completed the transition from Type 42 to Type 45 Destroyers, with HMS Edinburgh, the last Type 42, completing her final deployment, and HMS Duncan, the sixth and final Type 45, beginning her sea trials, and we agreed the baseline design for the next generation Type 26 Global Combat Ship;

- work continued on the next generation nuclear deterrent submarines. The second new Astute class nuclear submarine was commissioned, and we placed contracts for the fourth submarine and for delivery and maintenance of our nuclear submarine propulsion capability for the next 10 years;

- the first Royal Navy Wildcat light attack helicopter made its maiden flight; and

- we placed major contracts for Phalanx air defence systems for the Royal Fleet Auxiliary, refit of HMS Ocean, and regeneration of the Royal Marines' fleet of Viking armoured personnel carriers.

4.3 In the **land environment**:

- in July 2012 we announced the way forward on Army 2020, the last major outstanding block of the Future Force 2020 force structure. This set out the vision for the future composition of the Army, creating a smaller, integrated and more flexible force;

- we also announced the way forward on Future Reserves 2020, and work to implement this is underway. All three Services set up programmes to support delivery of a more capable and better integrated reserve component and instigated recruitment campaigns to grow the numbers. We also conducted a wide-ranging consultation with employers, stakeholders and reservists to underpin the Reserves White Paper, which will lay out in detail our plans for the future Reserve Forces, including their potential tasks;

- in March 2013 we announced the Regular Army Basing Plan setting out the future laydown of the Army as it moves back to the UK from Germany and restructures to deliver the future operating model, including investment of some £1.8Bn on accommodation and technical infrastructure. Around 70 per cent of Army personnel in Germany will be brought back by the end of 2015, and the remainder by 2020;

- we invested in further Foxhound light protected patrol vehicles;

- the first Wildcat light attack helicopters for the Army were delivered;

- new Black Hornet miniature surveillance helicopters entered service in Afghanistan;

- training for contingency operations post-Afghanistan continued;

- the first stage of new Army recruiting arrangements were put in place; and

- work continued to deliver the new Army structures, including disbanding 19 Light Brigade.

4.4 In the **air environment**:

- the first Lightning II Joint Strike Fighters were delivered to the RAF, flight testing and evaluation continued in the United States. RAF Marham in Norfolk was confirmed as the future Main Operating Base;

- the Typhoon force continued to grow, including standing up of the fourth Typhoon squadron in Scotland in September 2012, delivery of the 100th aircraft in January 2013, continuing progress developing its multi-role capability, and confirmation that Typhoon operations in Scotland will relocate from RAF Leuchars to RAF Lossiemouth from summer 2014;

- we continued to make progress modernising the air transport fleet. The eighth C17 transport aircraft was delivered in May 2012. Work continues to bring the A400M Atlas into service including investment in its simulator, training facilities and defensive aids. The third A330 Voyager was delivered in December 2012, and we purchased 2 additional BAE146 transport aircraft. Tristar and VC10 drawdowns remain on track, with limited extensions during 2013-14 to provide strategic air transport and air-to-air refuelling resilience; and

- we placed follow-on orders for Paveway IV smart bombs and Brimstone air-to-ground missiles.

4.5 We continued to invest in Joint and supporting capabilities:

- the new Joint Force Command reached initial operating capability in April 2012, and full operating capability in April 2013, in line with the Levene Report's recommendations;

- a further Skynet satellite was successfully launched in support of operations in Afghanistan;

- new pistols were ordered for all of the Armed Forces;

- there was continued investment into UK Cyber Defence and Information Assurance and CBRN protection;

- we continued to invest in medical rehabilitation and recovery facilities for injured Service personnel, at Headley Court and elsewhere;

- we sustained a continuing programme of joint exercises with NATO and other allies and partners; and

- in March 2013 the Department for Transport announced the way ahead for the UK's search and rescue helicopter services, awarding a £1.6Bn contract to Bristow Helicopters ltd. Under this the military search and rescue service will be drawn down between spring 2015 and early 2016, enabling us to retire our ageing SAR Sea Kings from service.

4.6 In January 2013 we published the Equipment Plan setting out how the MOD will invest in capabilities for the Armed Forces over the next ten years to enable delivery of Future Force 2020.

4.7 Reductions in the strength of the Services remained on track. In January 2013 we announced the third tranche of the Armed Forces Redundancy Programme. In the 12 Months to 31st March 2013 3,300 personnel left the Trained Regular Forces under the Armed Forces Redundancy Programme, including 430 Naval Service, 2,060 Army and 810 RAF personnel.

HMS Bulwark, the Flagship of the Royal Navy and the nation.

5. Restructuring The Armed Forces – Personnel

Continuing on the fourth Defence Priority to transform defence by restructuring the Armed Forces and their capabilities this Chapter includes progress on the commitments in the business plan to implement the Armed Forces covenant, develop a new employment model and to transform the role of reserves. It also contains details of our ongoing management of personnel, such as recruiting, manning levels and changes in pay.

Trumpeters from the Bands of the Royal Household Division line up to break the world record for the longest ever trumpet fanfare line.

Armed Forces Covenant

5.1 The Armed Forces Covenant defines the principles for ensuring that our Armed Forces personnel are not disadvantaged in their access to public and commercial services as a result of their service. It also sets out that in some cases special treatment may be appropriate, for example for those that have given the most, such as the injured and the bereaved. The Covenant applies to the whole of the Armed Forces Community, which includes Serving personnel, veterans, their families and the bereaved.

5.2 The Armed Forces Act 2011 places a statutory obligation on the Secretary of State to report to Parliament each year on the Armed Forces Covenant. The first Annual Report was published in December 2012. It painted a broadly positive picture, highlighting a number of achievements under the Covenant. However, it also recognised that there was still much work to be done and made a series of new commitments. This report can be found at the following link: https://www.gov.uk/government/publications/armed-forces-covenant-annual-report-2012

5.3 The 2012 annual report set out progress on a number of different Covenant commitments, including:

- Integration of mental health assessments into routine Service medicals;
- Developing shadow postcodes for BFPO addresses so that Service personnel can access online goods and services;
- Launching a new Defence Discount Service, which offers a privilege card entitling members of the Armed Forces Community to a range of discounts on goods and services.

5.4 Work on the commitments made in the 2012 annual report will be ongoing throughout this coming year. We intend to publish the second annual report on the Covenant in autumn 2013.

5.5 Around 250 communities across Britain signed Community Covenants in 2012-13, bringing the overall total to just over 300. This represents around half of all local authorities in Britain. All local authorities in Scotland have signed Community Covenants, and we hope to have all local councils at unitary level signed by Remembrance Day 2013. The aim of the Community Covenant is to encourage local communities to support the Service community in their area and nurture understanding and awareness amongst the public of issues affecting the Armed Forces community. It is also intended to encourage local authorities to take actions to address unfair treatment.

5.6 Some £30M has been earmarked for the Community Covenant Grant scheme over the four financial years from 2011-12 to 2014-15. We spent nearly £2M on successful applications in the first year, and in 2012-2013 a further £5.5M was allocated to local projects which support the Community Covenant. There is £10M available for each of the following two years. From spring 2013, we have transferred administration of the scheme to a number of regional panels, chaired on a rotating basis by the Royal Navy, the Army and the RAF. The community covenant and the accompanying grant scheme are all about local initiatives and the people best able to judge are those at a regional level. Delegating the allocation of the Community Covenant Grant scheme to regional panels will allow this money to reach the areas which will benefit the most. The Armed Forces covenant team and the Treasury will retain oversight of the process.

5.7 The importance of the Covenant was demonstrated by the Chancellor's decision to allocate £35M from fines levied on banks for attempting to manipulate the LIBOR interest rate, for use in supporting the Armed Forces Community, mainly through Service charities. The funding is being allocated through the Covenant Reference Group and the first tranche of funding for sixteen projects was announced in spring 2013. Successful bids include £1M for Fisher House at Queen Elizabeth's Hospital, £1.1M for SSAFA Support Groups for those experiencing loss, £65,000 for Felix Fund breaks for Explosive Ordinance Disposal teams and £160,000 for Tickets for Troops. The focus for the second tranche, which closes in May 2013, will be on mental health and families.

From left, a Royal Air Force servicewoman, a Royal Navy sailor and an Army soldier stroll through London prior to Armed Forces Day.

Welfare

5.8 In April 2013, in conjunction with the Department for Work and Pensions (DWP), we introduced the **Armed Forces Independence Payment (AFIP)** to provide additional financial support to seriously injured Service and ex-Service personnel. AFIP is designed to support the most seriously injured. It is payable to Service and ex-Service personnel who have an Armed Forces Compensation Scheme (AFCS) award that includes a Guaranteed Income Payment of 50% or higher. The payment will be £134.40 per week, which is the equivalent of the enhanced rates of the daily living and mobility components of the Personal Independence Payment.

5.9 The **Defence Recovery Capability** continues to develop, with Personnel Recovery centres being established in partnership with the charities Help for Heroes and The Royal British Legion, including one in Sennelager serving the British Forces (Germany) community that opened in October 2012.

5.10 We continued to work with the Department of Health (DH) to implement the final recommendation of Dr Andrew Murrison MP's Fighting Fit report to establish a mechanism whereby Service Leavers are contacted 12 months after discharge to ask if all is well and remind recipients where they can obtain help for a range of issues. Phase 1 of the **Veterans Information Service** (VIS) was launched on 18th December 2012 with further phases to follow in 2013/14. At Full Operating Capacity, VIS will include a questionnaire which will allow DH to identify the scale and range of issues considered by Service Leavers to be of concern. VIS supplements the support already being provided to veterans through the MOD helpline and website, the Veterans Welfare Service and by other government Departments, Devolved Administrations and local authorities.

5.11 We worked with the Department of Health to enhance the provision of prosthetic support available to veteran amputees, with up to £4M of government funding made available over 12/13, through NHS Disablement Service Centres. In February 2013, a further £6.7M of government funding was announced to share amongst nine of these NHS facilities to create a network of multi-disciplinary centres that should provide specialist prosthetic and rehabilitation services in England to a similar high quality to that which the Armed Forces provides. At the same time we announced that £6.5 million had been made available from the Special Reserve to enable all serving personnel and veterans injured in Iraq and Afghanistan to have access to the latest micro-processor prosthetics technology, where clinically appropriate.

5.12 The **Funeral Expenses Grant** is paid to families of Service personnel who die whilst in Service; the grant is designed to assist the family with personal expenses incurred as a result of their loss. The Funeral Expenses Grant was doubled from £500 to £1000 in December 2012 and expanded to include all deaths irrespective of funeral type or cause of death.

5.13 Working with the Royal British Legion and Standard Life Charitable trust we launched a financial education website, **MoneyForce.org.uk** on 12th March 2013 to help personnel overcome specific financial challenges resulting from their mobility and deployability.

5.14 On 6 October 2012 we launched the new **Defence Discount Service,** subsequently launching the Defence Privilege card on 6 December 2012, in recognition of service in the Armed Forces. The scheme offers a wide range of discounts and privileges to members of the Armed Forces community. For the first time in the 19 year history of the discount scheme the new Defence Privilege card is available to scheme members, including the spouses/partners of Service personnel and to veterans.

Future Reserves 2020

5.15 On 5 July 2012, the Secretary of State for Defence responded formally to the Future Reserves 2020 Report (published in July 2011), announcing that the Government accepted the broad thrust of the Independent Commission's recommendations. The trained strength of the Reserves of all 3 Services would grow by 50% or more by 2018 to 30,000 in the Army Reserve, 3,100 in the Maritime Reserves and 1,800 in the Royal Auxiliary Air Force.

5.16 The Maritime Reserve (MR) has initiated a number of improvement programmes in the areas of capability delivery, infrastructure and training. The Royal Naval Reserve (RNR) unit HMS DALRIADA in Scotland has successfully relocated from Greenoch to Glasgow where it is better located for greater accessibility. In the next 6 months planning work will be focussed on collocations of RNR and Royal Marines Reserve (RMR) units and other moves that will benefit the recruitment footprint. In addition, smart technology to support modern training methods is in the process of being delivered across the MR estate.

5.17 The Army has delivered significant change in a number of key areas. The Recruiting Partnering Project (RPP) will deliver a step-change in the way the Army conducts recruiting in concert with a commercial partner[1] and the initial training pipeline has been made more efficient with the introduction of measures to increase capacity and reduce wastage while ensuring that new recruits are mentored through the process at unit level. New uniforms and modern equipment, including vehicles, have been issued and opportunities for challenging overseas training have been increased[2]. In parallel the Chief of the General Staff directed the re-design of the Army, and this resulted in the development and approval for Army 2020 integrated whole force structure. From 2018 onward this will see a greater use of Reserves on operations, with reserve sub-units, and units where necessary, being available for routine use as a component of an integrated force for employment on operations.

5.18 The focus of work in the Royal Auxiliary Air Force was on preparing for the opening of its new Squadrons and the re-designing of 3 existing Squadrons. No 611 (West Lancashire) Sqn successfully re-commissioned on 1 October 2012, and No 502 (Ulster) Sqn on 1st Jan 2013. No 614 (Glamorgan) Sqn will stand up in 2014. No 504 (County of Nottingham) Sqn and No 603 (City of Edinburgh) Sqn launched into the new role of Logistics and RAF Police respectively on 1 Apr 2013. No 501 (County of Gloucester) Sqn will follow towards the end of 2013. The establishment of the new Squadrons and the wider transition to future RAuxAF capability is being supported by a number of enhancements in the Reserve training programme.

5.19 All 3 Services have instigated enhanced recruitment campaigns. The number of enquiries about joining the Reserves has increased and early indications are that the strength of Reserve Forces is now broadly stabilising. The recent TA Live campaign has seen an increase in the number of enquiries compared with previous campaigns.

5.20 The Defence Cyber Security Programme now includes work on how reserve forces, as part of a Joint Cyber Unit (Reserve), could play a role in cyber and information assurance, bringing unique skills and training from their daily life to help meet Defence needs. This would require employing cyber reservists using innovative terms and conditions of service.

5.21 The Consultation Paper *Future Reserves: Delivering the Nation's Security Together*, which was presented to Parliament on 8 November 2012, set out our proposals for the future relationships we seek with society, with employers and with reservists and their families. We are considering the responses to the consultation exercise and will publish our firm proposals in a White paper before Summer Recess. This White Paper will set out the Reservist proposition for the future in which Reserves will play an increasingly important role in the defence and security of the UK. We have already committed an additional £1.8Bn to grow the size of the Reserves to meet their new role.

New Employment Model (NEM)

5.22 When the Strategic Defence and Security Review (SDSR) was published in October 2010, the Government made a commitment in respect of Service personnel to:

- Ensure that service in the Armed Forces remains an attractive choice in a rapidly evolving employment market;
- Better balance the demands placed on our people and their families, providing greater domestic stability whilst continuing to support mobility where this is essential to Defence requirements.

5.23 The New Employment Model (NEM) aims to meet this pledge and signifies the Government's commitment to deliver a modernised terms and conditions of service 'offer'. It will be designed to meet the expectations of a generation that has yet to join, but will be delivered in a way that continues to support and motivate existing Service personnel.

5.24 The NEM will update the current package of Terms and Conditions of Service (TACOS) which is costly, complex and does not align sufficiently with the expectations of our people and their families. It is not a savings exercise. Instead it is about obtaining best value for money from the roughly £10Bn that we spend on Service personnel every year. It is an opportunity to take a comprehensive look at the many aspects of policy relating to Service personnel, including accommodation, pay, allowances, and training and education, and to re-shape and reinvest to help achieve the required levels of recruitment and retention. Our people will be affected by the changes introduced by the NEM in different ways, at different times and in different stages of their careers.

1 Capita.
2 In 2012/13 a total of 26 exercises.

5.25 Reserves are an integral part of Defence Capability and the NEM will be designed to support a whole force approach to manning, bringing TACOS up to date for both our Regular and Reserve personnel. The results of the recent Future Reserves 2020 consultation exercise will be integrated into the NEM.

5.26 Stage I (Concept Development) of NEM was completed in September 2012. The focus during Stage I was on scoping the art of the possible in terms of how we develop a balanced and sustainable offer for the future. This delivered a proposed high level model and a number of policy options for further development. Stage II (Policy Design) commenced in October 2012, and is on track for completion by April 2014. NEM implementation will start no later than April 2015, although it may be possible to introduce certain components beforehand.

5.27 A programme of consultation with Regular and Reserve Service personnel will begin in June 2013 and will run until at least September 2013. This is vital, in order to shape policy development, provide evidence to validate design work, test the ways in which Service personnel will respond to the NEM, and ensure that they are kept fully informed.

Remuneration

Service Pay

5.28 In his Autumn Statement on 29 November 2011, the Chancellor announced that all public sector pay awards will be kept to a 1% average for the two years subsequent to the then 2-year public sector pay freeze. In the last Budget Statement on 20 March 2013, the Chancellor further announced that this period of pay restraint would be extended from two to three years.

5.29 Annual progression up the pay range for Service Personnel is not affected during this period of pay restraint. Subject to satisfactory performance, all Service Personnel who are not at the top of their pay range will therefore continue to receive an increment in pay each year in addition to any annual pay rise.

5.30 In March 2013, the Armed Forces Pay Review Body (AFPRB) recommended that all Service Personnel should receive a 1% rise in pay in this, the first year of pay restraint following the recent public sector pay freeze. They also recommended that all full-time Regular personnel should receive a 0.5% increase in their X-Factor, the pensionable addition to pay which recognises the relative disadvantage of conditions of service experienced by members of the Armed Forces compared with civilian employment. As a result the X-Factor component of pay for this group has been increased from 14% to 14.5%.

Manpower

5.31 As part of the SDSR reductions each Service has to reduce their headcount. In addition to using other workforce control measures, the Armed Forces Redundancy Programme is expected to deliver around 15,000 redundancies across the three Services and should be completed by 31 March 2015.

5.32 The first tranche was delivered in 2011-12. The second tranche, covering personnel from all three Services, was announced on 17 January 2012. Those selected for redundancy were notified on the 12 June 2012. The third tranche was announced 12 January 2013 and included Army personnel only; those selected for redundancy will be notified on 18 June 2013. There is likely to be a need for a further tranche for Army personnel and medical and dental personnel from the RN and RAF in due course. Those leaving through redundancy are entitled to a comprehensive resettlement provision to help them transition back to civilian life.

5.33 Those serving in locations, such as Afghanistan, where Operational Allowance is paid on the notification dates are exempt from redundancy, unless they apply. Similarly, those preparing for or recovering from such operations are exempt. Personnel who are assessed as being permanently below the level of fitness required to remain in the Forces will not be considered for redundancy, and will instead leave through the medical discharge route at the appropriate stage in their recovery.

Manning Levels

5.34 Overall manning levels for the Armed Forces are published in the UK Defence Statistics, and can be found at http://www.dasa.mod.uk. We are also committed to publishing data on Pinch Points, which are skills areas where there is insufficient trained personnel. This can reflect a shortage of people against the peacetime requirement, a temporary operational requirement greater than the peacetime requirement, or a combination of the two. Pinch Points are managed by the individual Services. Each Service maintains a list reflecting operational commitments and manning levels within branches and trades, which varies over time. The position as of 31 March 2013 is set out at Table 5.1 opposite. This table excludes information that might jeopardise operational security.

Navy

5.35 The number of Navy Operational Pinch Point (OPP) trades has increased from 11 to 15 since the last report. As with some of the original 11 OPPs, the 4 new OPPs[3] are within specialist cadres which can be heavily affected by relatively small changes to manning numbers.

5.36 As with other OPPs these cadres have transferable skills making them attractive to external organisations. They are also often difficult to replace quickly due to length of the training required. Whilst measures taken to reduce previous shortages of both Royal Marine Other Ranks and Petty Officer Mine Warfare specialists have led to improvements, concerns over specialist Senior Rate Engineering (surface and submarines) and some Medical cadres have increased. Manning options such as the short term use of focused Financial Retention Incentives will continue to be taken.

Army

5.37 The Army currently has 26 OPP trades (an increase of 7 from 2011/12) and 16 other Pinch Point trades (a decrease of 3 from 2011/12). The principal shortage areas are centred on trades within the Army Medical Services, Intelligence Corps and the Royal Engineers. Despite the reduced footprint in Afghanistan, not all OPPs will be resolved quickly. OPP trades will continue to be in great demand within the UK assisting with the provision of homeland security.

RAF

5.38 Within the last year the number of RAF OPPs has reduced to just one. Manpower pressures still exist within a number of branches/trades but remedial action has successfully mitigated the impact. One Trade, General Technician (Mechanical), was designated as a Manning Pinch Point and remedial recruitment activity has commenced.

3 General Service Mechanical Engineer – Warrant Officer Class 2; Medical Assistant Operating Department Practitioner; Medical Assistant Submarines and Nurses.

Table 5.1 – Operational Pinch Points – Quarter 4 2012-13

	Naval Service Operational Pinch Point Groups – Quarter 4 2012/13	Liability	Shortfall	% Diff.
1	Anti-Submarine Warfare Aircrewmen	90	15	15%
2	General Service Mechanical Engineer – Rank: Warrant Officer Class 2	160	10	5%
3	Strategic Weapon System Watch Keeper – Rank: Senior Rate	120	20	15%
4	Medical Assistant Operating Department Practitioner	35	10	30%
5	Seaman Specialists – Rank: Leading Rate to Petty Officer	265	65	25%
6	Royal Marine Other Ranks – Rank: Corporal to Warrant Officer Class 2	2175	190	10%
7	Mine Warfare – Rank: Leading Rate to Petty Officer	135	40	30%
8	Category A2 Nuclear Watch Keepers	140	20	15%
9	Category B Nuclear Watch Keepers	355	40	10%
10	Diver Specialist – Rank: Petty Officer	55	5	10%
11	Medical Assistant Submarines	30	~	15%
12	Nurses	50	15	30%
13	Warfare Specialists – Rank: Leading Rate	430	20	5%
14	Hydrographic	30	10	40%
15	Commando Aircrewman	90	25	25%
	Army Operational Pinch Point Groups – Quarter 4 2012/13	**Liability**	**Shortfall**	**% Diff.**
1	Advanced Explosive Ordnance Disposal Operator	55	20	35%
2	Royal Engineers Explosive Ordnance Disposal Operators – Rank: Corporal to Staff Sergeant	65	15	20%
3	Royal Army Veterinary Corps Dog Handler	220	35	15%
4	Int. Corps Operator Military Intelligence – Rank: Corporal	605	225	35%
5	Interrogators	70	20	25%
6	Int. Corps Operator Military Intelligence – Rank: Sergeant	370	150	40%
7	Int. Corps Operator Military Intelligence – Rank: Staff Sergeant	185	25	15%
8	Int. Corps Operator Military Intelligence – Rank: Warrant Officer Class 2	165	20	10%
9	Int. Corps Operator Military Intelligence (Linguists) – Rank: Private to Warrant Officer Class 2	230	115	50%
10	Human Intelligence Operator	245	105	45%
11	Int. Corps – Rank: Captain	155	14	10%
12	Int. Corps – Rank: Major	140	40	27%
13	Royal Engineers Engineer Logistic Specialist – Rank: Lance Corporal	80	30	35%
14	Radiologists	5	~	50%
15	Royal Artillery Fire Support Team Commanders	140	10	10%
16	Royal Artillery Integrated Unmanned Air System Operator – Rank: Bombardier to Sergeant	275	20	10%
17	Emergency Nurse	100	40	40%
18	Intensive Care Nurse	85	20	25%
19	Anaesthetist	50	20	45%
20	Infection, Prevention and Control Nursing Officer – Rank: Captain to Major	15	5	40%
21	Electronic Warfare System Operator – Rank: OR4	145	55	35%
22	Electronic Warfare System Operator – Rank: OR6	85	35	40%
23	Military Engineer Fitter – Rank: Lance Corporal	105	~	5%
24	Veterinary Officer – Rank: Major	15	~	30%
25	Army Air Corps Aircrew – Rank: Major	135	55	40%
26	Royal Engineers Professionally Qualified Engineers	90	30	35%
	RAF Operational Pinch Point Groups – Quarter 4 2012/13	**Liability**	**Shortfall**	**% Diff.**
1	General Technician (Mechanical) – Rank: Senior Aircraftman to Sergeant	825	15	~

Notes:
* Figures have been rounded to 5 in order to prevent unnecessarily obscuring the data. However, to prevent disclosure any numbers less than 5 are shown as '~'.
* Where rounding has been used, totals and sub-totals have been rounded separately and so may not equal the sums of their rounded parts.

Recruiting

5.39 Campaigns and activity to attract the 23,000 recruits required annually have continued. Some Regular recruiting targets have been met in full. However the Services are facing an increasingly challenging recruiting environment with, for example, a declining 16-24 year old population and a significant increase in Reserves recruiting requirements. A novel TA campaign broadcasting live from Afghanistan was aired in February with some success and the RAF has engaged in TV programme sponsorship resulting in a significant uplift in Reserve unit applications. The 10 year Army Recruiting Partnering Project contract with Capita went live in March 2013 and will be fully operational in July 2013.

Contribution made by Civilians

5.40 MOD civilians play a vital role directly supporting the success of military operations, deploying alongside the military to operational theatres, and undertaking a range of important roles in support of the military mission. Throughout FY 12/13 there were about 180 civilians in around 20 different roles supporting operations in Afghanistan and two deployed posts (in two different roles) established and filled to enable operations in Mali. In addition to the roles of policy advisor, civil secretary, intelligence analyst, and scientific adviser, over half the deployed civilians are engineering specialists from the Defence Support Group (DSG) and one in ten are police officers from the Ministry of Defence Police helping to train the Afghan Police forces.

5.41 Additionally, there were approximately 200 MOD civilian visits to Afghanistan in FY12/13. Typically visitors carry out work to meet urgent operational requirements, such as conducting vital maintenance on equipment. All of those civilians who deploy are volunteers and great care is taken to ensure that they are properly prepared and supported at each stage, before they go, while they are deployed, and after they return. This includes robust risk assessment and management processes, guidance and support for families, assistance with re-integrating into the workplace, and championing their contribution amongst the rest of the Defence community.

5.42 Civilians also provide direct support in a range of UK-based roles, including:

- advising Ministers on areas of current and contingent operational policy;
- managing the Department's finances;
- providing parliamentary and secretariat support to Ministers;
- procuring equipment for urgent operational needs; and
- procuring equipment so that our Armed Forces are equipped for the future.

5.43 Provision of direct support to current and contingent military operations takes precedence over all other work. Civilian resources are diverted to support the Government's priorities, including Afghanistan and emerging operations such as the Government's planned response to a potential fuel tanker drivers' strike or our support to the London 2012 Olympic Games, as well as UK-based contributions to international operations, such as Mali. This ensures that the Cabinet, military commanders and senior officials are fully supported with appropriate policy advice and briefing at all stages of the crisis.

5.44 At the 10 February 2012 Defence Board, direction was given to the Defence Main Effort team (DMEC) to divert civilians to priority posts in Defence Transformation programmes. That work picked up pace over the financial year, meaning that the programmes were resourced with civilian staff with the right skills to enable them to deliver.

6. The New Defence Operating Model

The fifth Defence Priority is to transform defence by implementing the new Defence Operating Model, in response to the Defence Reform Unit's review, creating a simpler and more effective organisation and delivering significant reductions in running costs.

The North Door of the Ministry of Defence Main Building Headquarters in London.

Defence Reform

6.1 As set out in the MOD Business Plan, our specific actions for the year were to identify and implement the Defence Equipment & Support interim structure; complete the detailed organisational design of the Defence Infrastructure Organisation; establish a strategic asset management programme; and to implement the outcomes of the Defence Reform Review by achieving Joint Forces Command Full Operating Capability, implementing the new Head Office structure, publishing Command Plans and implementing the new financial model.

6.2 We continued to work to implement the new Defence Operating Model, to create a simpler and more effective organisation. These changes are also at the heart of how we are delivering our part of the pan-Government Civil Service Reform plan. In November 2012 Lord Levene, in his first annual report to the Defence Secretary on implementation of his Defence Reform recommendations, concluded that we were making strong progress, but noted that there was much still to be done, in particular to ensure that the new model works in practice to deliver the overarching principles of delegation, responsibility and accountability. This will be a key focus in 2013/14.

6.3 Lord Levene also noted that further work was needed to implement the recommendations for management of human capability in the era of the Whole Force Concept. The new Chief of Defence Personnel, Lieutenant General Andrew Gregory, took up post in April 2013, to develop the Whole Force Concept to ensure that we have the most cost-effective balance of regular military personnel, reservists, civilians and contractors. This includes work to improve civilian workforce planning and the development of the New Employment Model for both the Regular and Reserve components of the Armed Forces.

6.4 Work continued throughout the year to set in place the detailed arrangements necessary to implement the new delegated operating model. In August 2012 we published the future Head Office Concept and Senior Structure, and a Blueprint for the new Defence Operating Model setting out how the future MOD will work, followed by a revised version in January 2013. In March 2013 we published the new Defence Strategic Direction 2013. This is our core strategic planning document, giving greater classified detail on how we will achieve our objectives. It is the basis for the annual Defence Plan, which in turn provides the direction for the new Command Plans, which the Commands and Top Level Budget organisations provided in accordance with the new Defence Operating Model. We also made good progress in rolling out the new ways of doing business that underpin the new, more delegated operating model and in particular the new arrangements to transfer military capability planning from Head Office to the Commands from 1 April 2013.

6.5 In parallel with this work the Head Office, Commands and Top Level Budget organisations took forward the associated organisational changes, including the new Joint Forces Command reaching full operating capability in April 2013 as planned. On 2 April 2013 we successfully launched the new operating model. This marks the biggest milestone for Defence Reform and a major step towards achieving the smaller, more professional MOD envisaged in Lord Levene's Defence Reform review. It will achieve a more efficient and effective way to operate Defence with a smaller, stronger, more strategic Head Office complemented by empowered Command and Top Level Budget organisations, ensure sustained delivery of an affordable Defence programme (a balanced budget), and ensure Future Force 2020 is deliverable.

6.6 As recommended by Lord Levene, we are supporting this programme of organisational change with an enduring behavioural change programme looking at how we work. In May 2012 we introduced a new overarching framework for how we work, called Be-Think-Do for its three main strands: Be a Leader; Think Defence; and Do it Better. This gives staff and managers an outline of the core working principles they should be looking to incorporate in their own work and organisations:

- the Permanent Under Secretary is personally driving work to improve our business leadership from the top down, including a new Defence Leadership Framework, a series of focused events and training for the most senior military and civilian leadership, and reinvigoration of our 'Engaging Leaders' programme for senior managers;

- we worked hard to improve how we communicate across defence, making use of digital media and a continuing programme of senior leadership visits across defence sites;

- we continued to look hard at ways to simplify and improve how we work, including supporting and incentivising innovation through relaunch of our world-recognised GEMS staff suggestions scheme and introduction of a Red Tape Challenge for staff to put forward ideas and practical solutions for minimising bureaucracy;

- as far as possible we continued to simplify centrally-set rules, starting with our civilian appraisal and managing poor performance arrangements. In line with the goals of the Civil Service reform plan we have also launched a new Policy, Strategy and Parliamentary Profession, are introducing better skills and talent management arrangements; and

- we continued to work to improve our information systems and approach to digital capability, as set out in the Digital Defence strategy published in December 2012. We are recruiting a new Chief Information Officer to drive forward work to ensure we have the information systems and management we need both to support operations and run the business.

6.7 We also took forward work to draw on private sector expertise to improve how we do business, particularly in the areas of transactional support to the business, defence acquisition, and management of the Defence Estate:

- the Defence Business Services organisation continued working with an external management team from Serco to transform it into a lean and effective shared services centre under the Government's Next Generation Shared Services Strategy. In March 2013 we announced that the Service Personnel and Veterans Agency will join Defence Business Services on 1 April 2014. This will bring all military and civilian Human Resources services into one organisation, underpinning the development of the Whole Force Concept;

- under the Materiel Strategy, work continued to determine how to reform the defence acquisition system to drive better value from the Defence Budget. More on this can be found in paragraphs 6.9 to 6.11 below;

- during the year the Defence Infrastructure Organisation (DIO) took forward a series of linked initiatives to improve how it works and deliver estate management as efficiently and effectively as possible. This included investigating how a Strategic Business Partner could work with the organisation in the future and in August 2012 the DIO selected three consortia to continue to the next stage of the competition to potentially become its private sector business partner. In parallel it took forward work to develop a new Enhanced Operating Model built around a new organisation design, new business processes and leading-edge technology, which went live in May 2013. Work also continued on the Next Generation Estate Contracts programme to determine the most cost-effective way of procuring infrastructure services through national and regional contracts and frameworks as the current estate contracts expire, and on rationalising current soft support service contracts.

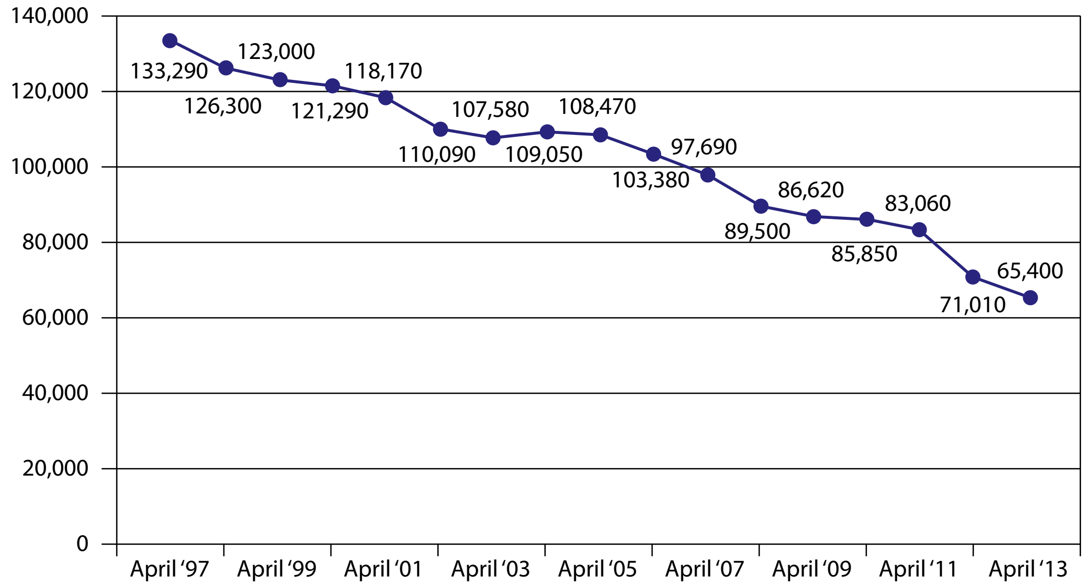
6.8 These programmes enabled us to continue delivering the planned reductions to the civilian workforce. The total civilian workforce fell by about 5,600 during the year, to some 65,400 on 1 April 2013, including over 3,200 under the Voluntary Early Release Scheme. This represents a reduction of over 20,500 (24%) since 1 April 2010, against a total reduction of about 32,000 (38%) by 2020.

The Materiel Strategy

6.9 The Materiel Strategy was launched in May 2011 to investigate how DE&S can operate differently to become more efficient and effective. Three root causes for delays and cost overruns in MOD acquisition have been identified: the overheated Equipment Programme; the weak interface between DE&S and the wider MOD resulting in poor discipline and change control; and insufficient levels of business capability in DE&S for the size and complexity of the programme it is asked to deliver. The Materiel Strategy programme's objective is to create a world class acquisition organisation with improved systems and tools, more effective processes and greater access to skills and training.

6.10 In July 2012 we announced that work to consider a number of potential organisational designs had concluded that the strategic case for a Government Owned Contractor Operator (GOCO) entity was stronger than for other external models. Since then we have refined our understanding of what that model would offer Defence. On 25 April 2013, the Secretary of State for Defence announced the start of the Assessment Phase to develop two options: a GOCO, and a public-sector comparator known as 'DE&S+', being a restructured and improved organisation that would remain within Government. This phase is expected to last about a year, with a final decision made about the future operating model for DE&S expected in Summer 2014.

Figure 6.1 – MOD Workforce – Full Time Equivalent Numbers



6.11 In parallel, the Customer Design programme considered the necessary changes within MOD Head Office and the Front Line Commands to enable the Department to be a more effective and competent intelligent customer to DE&S. This will build on elements of Defence Reform related to capability management within the Front Line Commands, with emphasis on ensuring effective management and delivery of all aspects of the equipment and logistic support programmes, while also ensuring MOD Head Office is able to act as an effective Governor of a GOCO solution if selected. Taken together, the Customer Design Programme and the Materiel Strategy form the Acquisition Architecture Programme which will drive significant change throughout the entire Acquisition system to deliver the required improvements and benefits.

Civilian Workforce Numbers

6.12 The MOD workforce has reduced in size over the past ten years. In 2003 the workforce consisted of 107,580 full-time-equivalent civilian personnel, reducing to 65,400 in April 2013 (figure 6.1, above). Workforce numbers will continue on a downward trend following reductions implemented as a result of SDSR, currently planned to reduce to around 60,000 by 2015.

Civilian Voluntary Early Release Scheme (Vers) 2011

6.13 The first VERS covered the 2011/12 financial year and was originally intended to secure up to 4,000 individual releases. Interest in the scheme, however, exceeded expectations and the allocated funding was re-profiled to enable the Department to maximise the numbers that could be released. A total of 13,943 individuals applied; 8,167 offers were made and 6,266 offers were accepted – all of whom had left by 31 March 2012.

6.14 The second VERS was launched in November 2011 and invited applications for release during the two financial years from April 2012 up to March 2014. A total of 12,640 applied, of which 5,889 applications have been approved (offers made or to follow) and a further 3,074 have been placed on reserve lists. Offers are being issued at quarterly intervals to align with pre-set release dates. From April 2012 to March 2013 a total of 3,229 left under VERS2. A further 144 are expected to leave in June 2013. Offers to the remaining successful applicants and to those on reserve lists will be made throughout 2013-14.

6.15 A significant portion of the overall target reduction will be achieved through normal outflows (resignations, dismissals, retirements etc) combined with the recruitment restrictions that have been in place since May 2010. Moreover, some redundancies will arise as a result of site closures, relocations and draw-downs where affected staff cannot be redeployed.

Recruitment

6.16 The restrictions on external recruitment to the Civil Service, which were first imposed in May 2010, remained in place. They impact civil service recruitment across Government departments and agencies, with only limited exceptions for frontline and business critical staff, requiring approval from Directors of Resources (Senior Civil Servants) or Agency Chief Executives, and with TLB holders accountable to the Defence Board.

6.17 The intake to the Department (excluding Trading Funds) in 2012-13 was 1,500, reflecting the greater numbers of specialist and frontline personnel required for the restructured workforce. In 2011-12 intake was only 870. Non-Industrial intake increased from 690 to 1,290, while Industrial intake increased from 180 to 210 for each 12-months ending 31 March.

6.18 In accordance with our obligations to the Civil Service Commissioners' Recruitment Principles Table 6.1 shows the use of permitted exceptions to the principles of fair and open competition and selection on merit in 2012-13.

Table 6.1 – Permitted exceptions to the Civil Service Commissioners Recruitment Principles

	Non Industrial	Industrial
Total Exceptions	**175**	**29**
Short Term Appointments of up to 2 years	168	17
Reappointment of formal Civil Servants	1	0
Inward Secondments	1	0
Transfer of individuals into the Civil Service	5	12
All other categories	0	0

Equality and Diversity

6.19 As part of the ongoing changes that are being implemented across Defence, a joint military and civilian Equality and Diversity team was formed, achieving initial operating capability in January 2013. The Equality and Diversity team have been working to put into place a refreshed strategy and framework that will be taken forward into FY 13/14 and which will form a core element of Transforming Defence. Table 6.2 below details the changes to civilian personnel strength by protected characteristic.

Table 6.2 – Changes to civilian personnel strength by protected characteristic

	April 2012 Headcount	April 2013 Headcount
Civilian Total[1]	**54,140**	**49,470**
Gender		
Female	20,230	18,370
Percentage Female	37.4	37.1
Ethnicity[2]		
Black & Minority Ethnic	1,760	1,650
Percentage Black and Minority Ethnic	3.7	3.8
Sexual Orientation[2]		
Lesbian, Gay, Bisexual	600	550
Percentage Lesbian, Gay, Bisexual	1.7	1.7
Religion or Belief[2]		
Non Christian Religion	1,860	1,710
Percentage Non Christian Religion	5.1	5.1
Secular	8,810	8,210
Percentage Secular	24.1	24.7
Christian	25,920	23,350
Percentage Christian	70.8	70.2

Source: Defence Statistics (Civilian)
1. Totals include all industrial and non-industrial personnel but exclude all Trading Funds, Royal Fleet Auxiliary and Locally engaged civilians for whom declaration data are not available.
2. Percentages are calculated from known declarations of ethnicity, sexual orientation and religion / belief and exclude personnel whose declarations are unknown or who have chosen not to declare.

6.20 Against the backdrop of a large reduction of civilians leaving under the voluntary early release scheme coupled with limited recruitment for key posts, the percentage of women working in the MOD has marginally fallen. The percentage of civilians declaring their ethnicity as Black Minority Ethnic and their faith as secular has increased marginally. The percentage for LGB and non-Christian remain unchanged.

Sickness Rates

6.21 The MOD is committed to the health and well being of its staff and has a comprehensive sickness absence policy. During 2012-13 the average number of days for sickness absence was 7.9 days per employee.

Off Payroll Arrangements

6.22 The table below outlines new off-payroll arrangements made between 23 August 2012 and 31 March 2013, for more than £220 per day and more than 6 months in duration (approximately equivalent to £58,200 per annum) and details the numbers for which assurance has been sought in relation to income tax and National Insurance obligations.

Table 6.3 Off-Payroll arrangements

	MOD	DSTL	DSG	UKHO	Total
Number of new off-payroll engagements	0	51	0	11	62
of which					
Number for whom assurance in relation to income tax and National Insurance obligations has been requested and received	0	49	0	9	58
Number for whom assurance has been requested but not received	0	0	0	0	0
Number of engagements that have been terminated as a result of assurance not being received	0	0	0	0	0

7. Delivering Defence

The sixth Defence Priority is to transform Defence by delivering Defence in the most effective, efficient and sustainable way by meeting benchmarking, efficiency and Government sustainable development targets, building on the Defence Reform Unit's review.

Warrior Infantry Fighting Vehicle of No.1 Company, 1st Battalion, Irish Guards.

Defence Budget & Spending

Management Commentary

7.1 In May 2012, the Secretary of State for Defence announced that the Defence budget was in balance. This means that, over the following ten years, the money we expect to receive from Parliament is sufficient to cover a prudent estimate of the cost of the Defence programme. As a result of this improved financial discipline, the Treasury have allowed us to roll forward money from 2012-13 to the next two years. The tables below reflect that even with this roll forward, the Department has delivered its outputs within the budget set by Parliament. It has also borne down further on costs, and is able to roll forward more into future years than it planned at the Supplementary Estimate.

7.2 Planned expenditure for 2012-13 was set out in the MOD 2012-13 Main Estimate in April 2012, which was updated by a single Supplementary Estimate in January 2013. The Statement of Parliamentary Supply compares the final performance against the final estimate.

7.3 At the Supplementary Estimate, the Department surrendered £1.59Bn of anticipated underspend in near cash (i.e. the capital and resource spending within the Department's Expenditure Limit, excluding depreciation costs). This initial underspend was as a result of a number of factors:

- around £480M had been set aside in case of unexpected cost increases in the programme, which in the event was not needed;
- around £550M had been held for redundancy payments and industrial restructuring costs arising from decisions taken in the SDSR. In the event, some military redundancies will not need to be accounted for until 2013/14, and some of the funds set aside to meet our industrial liabilities were not needed as a result of re-negotiations with industry;
- a further £200M is accounted for by faster than planned drawdown in military manpower due to a higher than expected rate of voluntary outflow;
- £250M was not needed in the equipment programme, some of which will be needed in later years. The balance was due to better than expected commercial negotiations; and
- The remainder reflected a range of smaller adjustments, including the results of efficiencies and other successful commercial negotiations.

7.4 The detail of our final outturn against the Supplementary Estimate is set out in table 7.4. It includes a further underspend in our Total Net Resource outturn of around £1.8Bn. £511M is in Annually Managed Expenditure, of which £453M is due to a change in the book value of the contracts we hold on fuel and foreign currency. This is purely an accounting adjustment and does not affect the Department's spending power. The rest is largely due to movements in the value of provisions (which recognise that the Department will have to pay for things such as decommissioning of nuclear submarines in the future) and reductions in the value of military equipment and other assets. These also do not affect the Department's spending power.

7.5 Of the underspend in the Departmental Expenditure Limit:

- around £300M was as a result in the reduction in the net additional cost of military operations, mainly in Afghanistan. This reflects the increased rate of withdrawal announced by the Prime Minister in December, as well as of improved contract negotiations. The Department's main priority is to ensure that it requests sufficient funds to cover all of the costs of operations, underspends in these areas are therefore not uncommon;
- nearly £220M was due to the Department making greater provision for reducing the book value of military equipment than was needed. This portion of the Defence budget is ring-fenced, and so the funds requested could not have been used to increase the Department's spending power;
- about £290M was an underspend on civilian personnel costs, reflecting the fact that staff numbers have reduced faster than planned. This includes £80M of early release costs that were not required;
- £200M was set aside for contingency which, in the event, was not needed; and
- The remainder includes a £90M underspend on inventory, reflecting the Department's continuing efforts to manage its stock better.

7.6 The Department also underspent by £116M against its DEL for capital. £95M was due to reduced expenditure on infrastructure and military equipment for operations in Afghanistan. There was also an underspend of approximately £43M on other non-military assets, such as land and buildings.

7.7 Overall, most of the underspend in the Departmental Expenditure Limit is due either to the Departments setting aside funds for contingency that were not required, or to the drive to reduce costs exceeding expectations. Both of these are the result of deliberate action by the Defence Board to improve financial discipline and increase value for money. The flexibility secured from the Treasury means that this money is available to spend on Defence capability in later years.

Cost of Operations

7.8 The Department is voted additional resources to cover the net additional costs of Operations and Peacekeeping Programme Expenditure. This expenditure does not include costs that the Department would have incurred in any case, such as the salaries of Service personnel.

Table 7.1 – Net Additional Cost of Operations (£m)

	Afghanistan			Wider Gulf			Mali			Conflict Pool			Total		
	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn	Allocation	Outturn	Outturn
	2012-13	2012-13	2011-12	2012-13	2012-13	2011-12	2012-13	2012-13	2011-12	2012-13	2012-13	2011-12	2012-13	2012-13	2011-12
Personnel	267.20	212.38	294.00	6.70	7.42	6.00	0.00	0.07	0.00	0.00	18.75	18.00	273.90	238.62	318.00
Infrastructure	176.10	158.96	192.00	6.40	4.36	8.00	0.00	1.60	0.00	0.00	0.61	2.00	182.50	165.53	202.00
Inventory/ Other Consumption	654.00	562.60	758.00	4.60	-5.01	3.00	0.00	5.32	0.00	0.00	-0.41	0.00	658.60	562.50	761.00
Equipment Support	482.30	411.27	585.00	13.10	10.94	14.00	0.00	11.82	0.00	0.00	0.16	0.00	495.40	434.19	599.00
Other Costs	415.00	369.60	475.00	7.90	7.97	4.00	0.00	0.59	0.00	54.30	25.03	25.00	477.20	403.19	504.00
Receipts and Other	-28.00	-25.72	-38.00	0.00	0.03	0.00	0.00	-2.00	0.00	0.00	-0.13	1.00	-28.00	-27.81	-37.00
Cash Release of Provision	5.70	1.98	3.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.70	1.98	3.00
Total Cash	1,972.30	1,691.08	2,269.00	38.70	25.70	35.00	0.00	17.40	0.00	54.30	44.01	46.00	2,065.30	1,778.20	2,350.00
Total Non Cash	519.60	499.28	436.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	519.60	499.28	436.00
Total Resource	2,491.90	2,190.35	2,705.00	38.70	25.70	35.00	0.00	17.40	0.00	54.30	44.01	46.00	2,584.90	2,277.47	2,786.00
Total Capital Costs	597.00	473.97	750.00	4.00	31.64	2.00	0.00	0.00	0.00	0.00	0.00	0.00	601.00	505.61	752.00
Total Annually Managed	9.30	8.91	4.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.30	8.91	4.00
Total Costs	3,098.20	2,673.23	3,458.00	42.70	57.34	37.00	0.00	17.40	0.00	54.30	44.01	46.00	3,195.20	2,791.99	3,541.00

1. Of the £17.4M for Mali, £10.4M was charged to the Special Reserve and £7M charged to MOD funding set aside for contingent operations
2. The Wider Gulf outturn includes weapon recuperation in Libya

Table 7.2 – Reconciliation of Resource Expenditure Between Estimates, Budgets and Accounts

	2012-13 £000	2011-12 £000
Net Resource Outturn (Estimates)	**37,740,973**	38,524,362
Prior period adjustments	-	422,419
Net Resource Budget Outturn	**37,740,973**	38,946,781
of which:		
Departmental Expenditure Limits (DEL)	**35,874,176**	37,979,944
Annually Managed Expenditure (AME)	**1,866,797**	966,837
	37,740,973	38,946,781
Adjustments:		
Reverse discount rate reduction included in resource outturn but not passing through net operating costs	**28,000**	235
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts but treated as off-SoFP for Estimates and Budgets.	**81,006**	110,203
Income in respect of donated assets treated as Capital income	**(108,948)**	(26,033)
Loss / (Gain) on foreign exchange contracts in respect of Capital purchases	**56,584**	(58,792)
Adjustment for impairments and impairment reversals included in resource outturn but not passing through Net Operating Cost	**(24,931)**	(17,220)
Add Capital grants included in operating costs but excluded from resource outturn	**3,029**	27,223
Write on of capitalised provision not passing through Resource outturn	**(71,466)**	-
Net Operating Cost (Accounts)	**37,704,247**	38,982,397

Table 7.3 – Total departmental spending, 2006-07 to 2014-15

	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Plans	2014-15 Plans
Resource DEL									
Provision of Defence Capability Service Personnel Costs	8,484,781	8,787,857	8,818,819	9,270,207	9,687,233	9,822,628	9,400,516	8,675,056	9,317,293
Provision of Defence Capability Civilian Personnel Costs	540,380	633,541	627,152	776,422	1,353,353	214,603	200,829	195,884	103,564
Provision of Defence Capability Infrastructure costs	4,146,905	4,122,192	4,532,692	4,575,357	4,130,436	4,365,665	4,428,812	3,980,557	4,045,244
Provision of Defence Capability Inventory Consumption	2,020,993	1,851,609	1,922,549	1,851,181	1,560,057	1,740,806	1,749,176	1,706,542	1,409,684
Provision of Defence Capability Equipment Support Costs	5,140,885	5,186,947	5,417,481	6,066,863	5,721,074	5,625,988	5,161,399	6,034,902	5,513,064
Provision of Defence Capability Other Costs and Services	806,409	906,281	1,379,233	1,310,353	2,590,215	1,339,556	1,500,622	1,607,297	1,712,817
Provision of Defence Capability Receipts and other Income	-1,595,606	-1,813,209	-1,698,504	-1,744,595	-1,280,177	-1,283,873	-1,248,867	-1,060,808	-1,178,673
Provision of Defence Capability Depreciation and Impairments Costs	6,732,334	7,464,384	6,388,871	7,901,575	10,626,669	9,291,756	8,958,447	8,966,464	9,453,000
Provision of Defence Capability Cash Release of Provisions Costs	413,347	486,912	316,031	273,437	242,598	176,464	203,010	207,150	242,431
Provision of Defence Capability Other Capital (Fiscal)	-2,167	-	-	-	-	-	-	-	-
Provision of Defence Capability Research and Development Costs	-	-	-	-	-	833,485	944,069	986,423	1,354,467
Provision of Defence CapabilityAdministration Civilian Personnel Costs	1,936,586	1,931,902	1,947,330	1,929,833	1,355,224	2,673,630	2,134,313	2,072,325	1,844,102
Provision of Defence Capability Administration Other Costs and Services	-	-	-	-	-	18,316	44,548	23,267	22,104
Operations Service Personnel Staff Cost	142,377	162,053	174,953	187,477	204,898	278,285	197,449	175,102	-
Operations and Peacekeeping Civilian Personnel Staff Costs	46,227	52,615	56,804	60,870	23,043	25,570	22,421	19,471	-
Operations Infrastructure Costs	233,372	343,360	367,614	366,443	312,144	214,071	164,921	128,488	-
Operations Inventory Consumption	462,232	645,706	910,319	719,429	786,590	794,614	562,911	419,071	-
Operations Equipment Support Costs	382,203	599,008	847,896	806,205	629,133	630,108	427,032	620,256	-
Operations Other Costs and Services	131,776	134,065	136,399	155,714	560,059	492,251	378,161	447,212	-
Operations Receipts and other Income	-15,557	-27,710	-28,090	-58,486	-33,245	-42,806	-27,686	-24,782	-
Operations Depreciation and Impairment Costs	54,087	266,467	358,109	385,679	308,591	532,998	499,275	621,267	-
Operations Cash Release of Provisions Costs	-	-	-	7,379	11,093	2,827	1,976	3,983	-
Conflict Pools Resource Costs	-	-	-	-	59,705	46,212	44,009	61,000	-
Non Departmental Public Bodies Costs	63,316	63,272	238,811	193,386	186,203	186,791	126,833	209,404	-
IFRS/PFI and other costs	-	-	-	-117,360	-	-	-	-	-
Total Resource DEL	**30,124,880**	**31,797,252**	**32,714,469**	**34,917,369**	**39,034,896**	**37,979,945**	**35,874,176**	**36,075,531**	**33,839,097**

Table 7.3 – Total departmental spending, 2006-07 to 2014-15

	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Plans	2014-15 Plans
Resource AME									
Provision of Defence Capability Depreciation and Impairment Costs	12,256	68,589	352,890	838,438	7,098,741	509,557	1,062,365	1,213,828	1,949,205
Provision of Defence Capability Provisions Costs	-113,578	491,843	441,309	548,128	17,925	-467,009	307,375	466,201	541,697
Provision of Defence Cash Release of Provisions Costs	-413,347	-486,912	-316,031	-273,437	-242,598	-342,499	-237,141	-207,150	-242,431
Movement On Fair Value of Financial Instruments	-	-	-1,177,064	202,354	50,481	347,133	-182,527	277,456	299,271
Provision of Defence Capability AME Capital Fiscal	-2,167	-709,000	-	-	-	-	-	-	-
Operations Provisions	6,285	11,695	-324	7,168	39,575	6,799	10,884	7,500	-
Operations Cash Release of Provisions Costs	-	-	-	-7,379	-11,093	-2,827	-1,976	-3,983	-
War Pensions Benefits Programme costs	1,038,574	1,014,616	1,000,400	980,294	935,066	915,683	907,817	896,769	874,985
Total Resource AME	**528,023**	**390,831**	**301,180**	**2,295,566**	**7,888,097**	**966,837**	**1,866,797**	**2,650,621**	**3,422,727**
Total Resource Budget	**30,652,903**	**32,188,083**	**33,015,649**	**37,212,935**	**46,922,993**	**38,946,782**	**37,740,973**	**38,726,152**	**37,261,824**
Capital DEL									
Provision of Defence Capability Other Costs and Services	-2,298	-2,299	1,603	-1,695	-	25,000	-	-	-
Provision of Defence Capability Receipts and other Income	-4,840	-4,840	-	-	-	-	-	-	-
Provision of Defence Capability Capital Single Use Military Equipment	6,158,123	4,567,698	4,517,457	4,488,004	4,851,719	4,828,748	4,395,170	5,719,000	5,156,000
Provision of Defence Capability Other Capital (Fiscal)	1,037,451	3,211,965	3,361,494	3,197,059	3,432,350	3,536,232	3,008,738	3,879,511	4,191,700
Provision of Defence Capability Fiscal Assets / Estate Disposal	-346,839	-	-87,324	-16,386	-32,154	-149,657	-63,685	-161,137	-342,000
Provision of Defence Capability New Loans and Loan Repayment	-388	-61,802	-101,127	-55,176	-71,903	-5,469	-5,519	-11,545	1,556
Operations Capital Single Use Military Equipment	348,198	526,998	1,148,685	807,357	598,026	454,911	372,970	160,773	-
Operations Other Capital (Fiscal)	-	308,878	77,057	728,431	485,571	322,068	132,636	164,669	-
Conflict Pools Resource Costs	-	-	-	-	694	-	-	-	-
Non Departmental Public Bodies Costs	-	744	-	-	851	2,223	3,029	2,699	-
Total Capital DEL	**7,189,407**	**8,547,342**	**8,917,845**	**9,147,594**	**9,265,154**	**9,014,056**	**7,843,339**	**9,753,970**	**9,007,256**
Capital AME									
Provision of Defence Capability Provisions Costs	-	-	75,868	-4,690	-	-9,615	-35,352	-	-
Provision of Defence Capability AME Capital Fiscal	-	-	-	9,773	-	-	-	-	-
Total Capital AME	**-**	**-**	**75,868**	**5,083**	**-**	**-9,615**	**-35,352**	**-**	**-**
Total Capital Budget	**7,189,407**	**8,547,342**	**8,993,713**	**9,152,677**	**9,265,154**	**9,004,441**	**7,807,987**	**9,753,970**	**9,007,256**
Total departmental spending[1]	**31,232,057**	**33,485,209**	**35,529,058**	**37,994,285**	**38,116,370**	**37,176,648**	**35,210,412**	**37,383,571**	**34,567,604**

[1] 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.

Table 7.4 – Departmental Spending Control

Spending in Departmental Expenditure Limits (DEL)	2012-13 Original Plans		2012-13 Adjusted Plans†		2012-13 Final Plans		2012-13 Outturn	£'000
	Resource	Capital	Resource	Capital	Resource	Capital	Resource	Capital
Voted expenditure	**36,759,408**	**9,916,815**	**36,678,643**	**9,911,815**	**37,156,997**	**7,960,113**	**35,874,176**	**7,843,339**
Of which:								
Provision of Defence Capability Service Personnel Costs	9,547,851	-	9,547,851	-	9,399,051	-	9,400,516	-
Provision of Defence Capability Civilian Personnel Costs	2,279,317	-	2,279,317	-	293,675	-	200,829	-
Provision of Defence Capability Infrastructure costs	4,160,724	-	4,160,724	-	4,395,724	-	4,428,812	-
Provision of Defence Capability Inventory Consumption	1,485,994	-	1,485,994	-	1,835,994	-	1,749,176	-
Provision of Defence Capability Equipment Support Costs	5,600,218	-	5,517,677	-	5,148,218	-	5,161,399	-
Provision of Defence Capability Other Costs and Services (see details)	1,628,857	-	1,623,003	-	1,816,805	-	1,500,622	-
Provision of Defence Capability Receipts and other Income	-1,156,415	-	-1,148,785	-	-1,211,415	-	-1,248,867	-
Provision of Defence Capability Depreciation and Impairments Costs	8,677,012	-	8,677,012	-	9,177,012	-	8,958,447	-
Provision of Defence Capability Cash Release of Provisions Costs	242,868	-	242,868	-	242,868	-	203,010	-
Provision of Defence Capability Capital Single Use Military Equipment	-	5,888,370	-	5,888,370	-	4,376,370	-	4,395,170
Provision of Defence Capability Other Capital (Fiscal)	-	3,346,752	-	3,346,752	-	3,051,954	-	3,008,738
Provision of Defence Capability Fiscal Assets / Estate Disposal	-	-67,000	-	-67,000	-	-67,000	-	-63,685
Provision of Defence Capability New Loans and Loan Repayment	-	-5,000	-	-10,000	-	-5,000	-	-5,519
Operations Service Personnel Staff Cost	246,770	-	246,770	-	241,570	-	197,449	-
Provision of Defence Capability Research and Development Costs	1,176,522	-	1,176,522	-	978,522	-	944,069	-
Provision of Defence CapabilityAdministration Civilian Personnel Costs	-	-	-	-	2,300,642	-	2,134,313	-
Operations and Peacekeeping Civilian Personnel Staff Costs	32,192	-	32,192	-	32,192	-	22,421	-
Operations Infrastructure Costs	239,496	-	239,496	-	182,496	-	164,921	-
Provision of Defence Capability Administration Other Costs and Services	-	-	-	-	24,491	-	44,548	-
Operations Inventory Consumption	720,701	-	720,701	-	658,701	-	562,911	-
Operations Equipment Support Costs	665,413	-	665,413	-	495,413	-	427,032	-
Operations Other Costs and Services	490,855	-	490,855	-	422,855	-	378,161	-
Operations Receipts and other Income	-27,961	-	-27,961	-	-27,961	-	-27,686	-
Operations Depreciation and Impairment Costs	519,617	-	519,617	-	519,617	-	499,275	-
Operations Cash Release of Provisions Costs	5,734	-	5,734	-	5,734	-	1,976	-
Operations Capital Single Use Military Equipment	-	421,340	-	421,340	-	383,340	-	372,970
Operations Other Capital (Fiscal)	-	329,660	-	329,660	-	217,660	-	132,636
Conflict Pools Resource Costs	52,200	-	52,200	-	54,300	-	44,009	-
Non Departmental Public Bodies Costs	171,443	2,693	171,443	2,693	170,493	2,789	126,833	3,029

Table 7.4 – Departmental Spending Control

Spending in Departmental Expenditure Limits (DEL)	2012-13 Original Plans		2012-13 Adjusted Plans†		2012-13 Final Plans		2012-13 Outturn £'000	
	Resource	Capital	Resource	Capital	Resource	Capital	Resource	Capital
Total Spending in DEL	**36,678,643**	**9,916,815**	**36,032,523**	**9,911,815**	**37,156,997**	**7,960,113**	**35,874,176**	**7,843,339**
Spending in Annually Managed Expenditure (AME)								
Voted expenditure	**3,060,487**	**-**	**3,034,303**	**-**	**2,378,760**	**35,000**	**1,866,797**	**-35,352**
Of which:								
Provision of Defence Capability Depreciation and Impairment Costs	1,661,157	-	1,634,973	-	864,430	-	1,062,365	-
Provision of Defence Capability Provisions Costs	457,271	-	457,271	-	562,271	35,000	307,375	-35,352
Provision of Defence Cash Release of Provisions Costs	-242,868	-	-242,868	-	-242,868	-	-237,141	-
Movement On Fair Value of Financial Instruments	252,627	-	252,627	-	252,627	-	-182,527	-
Operations	15,056	-	15,056	-	15,056	-	10,884	-
Operations Cash Release of Provisions Costs	-5,734	-	-5,734	-	-5,734	-	-1,976	-
War Pensions Benefits Programme costs	922,978	-	922,978	-	932,978	-	907,817	-
Total Spending in AME	**3,060,487**	**-**	**3,034,303**	**-**	**2,378,760**	**35,000**	**1,866,797**	**-35,352**
Total	**39,739,130**	**9,916,815**	**39,066,826**	**9,911,815**	**39,535,757**	**7,995,113**	**37,740,973**	**7,807,987**
Of which:								
Voted expenditure	39,739,130	9,916,815	39,066,826	9,911,815	39,535,757	7,995,113	37,740,973	7,807,987

† Figures for Adjusted Plans have been adjusted for machinery of government changes effected during 2012 to reflect the Final Plans structure where applicable

Table 7.5 – Administration budget, 2006-07 to 2015-16

	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Plans	£'000 2014-15 Plans
Resource DEL									
Provision of Defence Capability Service Personnel Costs	750,139	777,450	736,361	735,986	670,788	-	-	-	-
Provision of Defence CapabilityAdministration Civilian Personnel Costs	1,936,586	1,931,902	1,947,330	1,929,833	1,355,224	2,673,630	2,134,313	2,072,325	1,844,102
Provision of Defence Capability Administration Other Costs and Services	-	-	-	-	-	18,316	44,548	23,267	22,104
Non Departmental Public Bodies Costs	63,316	63,272	238,811	193,386	186,203	-	-	-	-
Total administration budget	**2,750,041**	**2,772,624**	**2,922,502**	**2,859,205**	**2,212,215**	**2,691,946**	**2,178,861**	**2,095,592**	**1,866,206**

Table 7.6 – Assets and Liabilites

	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 outturn £m	2010-11 outturn £m	2011-12 outturn £m	2012-13 ouuturn £m	2013-14 Plans £m	2014-15 Plans £m
Assets and liabilities in the Statement of Financial Position at year end:											
Assets											
Non-current assets	92,630	95,272	99,263	111,376	119,142	121,827	116,863	120,890	119,496	120,868	122,673
Property, plant and equipment	69,635	71,775	74,601	82,434	89,877	91,653	88,300	92,070	91,519	91,626	91,754
Intangible assets	22,648	22,983	24,163	26,718	27,959	29,134	27,529	27,851	27,418	28,684	30,361
Financial Assets	347	514	500	256	217	158	147	142	136	136	136
Receivables due after more than one year				1,968	1,088	883	887	828	422	422	422
Current assets	9,405	9,991	9,032	8,581	11,027	11,086	11,306	10,647	12,416	12,430	12,448
Liabilities									-	-	-
Current Liabilities	-6,076	-6,449	-6,739	-8,840	-9,078	-9,278	-10,252	-10,920	-10,800	-10,800	-10,800
Non-current liabilities	-10,313	-7,333	-6,747	-10,252	-11,045	-11,103	-11,025	-10,730	-10,610	-10,610	-10,610
Capital employed within main department	85,645	91,481	94,810	100,866	110,045	112,533	106,892	109,887	110,501	111,888	113,710
NDPB total assets less liabilities	339	336	343	613	608	819	841.910	844.717	915	915	915
Total capital employed in dept'l group	**85,984**	**91,817**	**95,153**	**101,478**	**110,653**	**113,352**	**107,734**	**110,732**	**111,415**	**112,803**	**114,625**

Defence Equipment and Support (DE&S)

Value of New Equipment Delivered

7.9 A major priority for the Department this year has been to continue to deliver equipment to the Armed Forces. The DE&S organisation delivered new equipment valued at £7.8Bn, which includes £0.5Bn of Urgent Operational Requirements (UORs). Further details on UORs are provided in paragraphs 7.17 to 7.19 below. Ten major equipment procurement projects were formally accepted into service during the year: Advanced Jet Trainer; Cutlass; Chinook Project Julius; Head Mounted Night Vision Systems; Medium Range Radar; Falcon Phase 1; Beyond Visual Range Air-to-Air Missile; Future Power; Small Arms Range Targetry System; and Sentry Mode S. More detail on these projects is also provided below.

7.10 Total programmed capital expenditure for DE&S in 2012-13 was £7.2Bn. Capital expenditure covers money spent on acquisition less any capital receipts.

7.11 As the single balance sheet owner for military equipment, at the end of FY 2012-13 DE&S was responsible for £58.9Bn of capital assets. This was an increase of £2.5Bn over the course of the year. DE&S also owns the majority of non-property assets and equipment under construction, which decreased by £1.4Bn (8%) from £18.3Bn to £16.9Bn during the year.

Key Contracts and Achievements

7.12 For the Royal Navy:

- HMS Dragon and HMS Defender, the fourth and fifth Type 45 Destroyers, entered service with the Royal Navy in 2012 and 2013 respectively, after successfully completing sea trials. The final ship in the class, HMS Duncan, will follow in 2014.

- The largest section of the Queen Elizabeth aircraft carrier was completed at the Clyde shipyard in November 2012. This 11,300 tonne segment – known as Lower Block 04 – contains the two main engine rooms, the sick bay and quarters for some of the 1,500 sailors and air group personnel. It was then transported to Rosyth where it was lifted into place and joined to the rest of the ship.

- A £65M contract, securing 600 jobs, was signed for the refit of HMS Ocean at Devonport Royal Dockyard which will be the largest upkeep programme of its kind to be carried out there in more than 20 years.

- A £1.2Bn contract was placed to build Audacious, the fourth submarine in the Astute class. The contract will safeguard 3,000 skilled jobs in Barrow-in-Furness in Cumbria and represents a significant step forward in the Submarine Programme. We also committed another £1.5Bn to the remaining three submarines in the class, enabling early build work on the fifth submarine to begin and long lead items to be ordered for the sixth and seventh. These are the most technologically advanced submarines that the Navy has ordered and offer a step change in capability.

- The long term maintenance of the Royal Fleet Auxiliary Flotilla of naval support ships was secured for another five years with contract extensions worth £349M, following successful demonstration of Value for Money over the initial contract period.

- The modified Merlin Mk2 helicopter was released to service and the Royal Navy started initial training in January 2013. These modifications introduce updated cockpit avionics, an improved mission system and the ability for future upgrades to be quickly incorporated ensuring that the Merlin force will continue to make a vital contribution to Royal Navy operations.

7.13 For the Army:

- The first Lynx Wildcat helicopters were released to service with the Army in April 2012, meeting one of the milestones in the business plan. These aircraft provide more powerful engines, enhanced modern integrated avionics and a stronger and simpler fuselage structure than their Lynx predecessors. They will be used to perform a range of tasks, including reconnaissance, command and control, force protection and light transport.

- In April 2012 the Cutlass Large Explosive Ordnance Disposal Remote Control Vehicle was accepted into service by the British Army. This new "bomb disposal robot" represents a step change in capability and will replace the Wheelbarrow system that has been used by the Army for decades. The Cutlass system has been designed and built in Coventry by Northrop Grumman.

- The next upgrade to the Bowman, Common Battlefield Application Toolset, Infrastructure and Platform Battlefield Information System Application (BCIP) 5.5 (the tactical communications system which integrates digital voice and data technology) has been developed and integrated within cost and on time. It delivers significant improvements to the software elements of BCIP, in particular the Combat application and the commonality between software used in barracks, on exercise and on operations. The upgrade is expected to complete by March 2015.

- The success of the Foxhound vehicles in Afghanistan has seen DE&S award a contract for the supply of an additional 76 Foxhound vehicles by General Dynamics Land Systems for use in support of current operations.

- In March 2013, the New Commercial Arrangement (NCA) was signed with the Defence Support Group (DSG) to deliver, repair and maintain much of the Army's equipment. The NCA is a framework agreement and consolidates all previous DSG arrangements.

7.14 For the RAF:

- The A400M Atlas is the RAF's future tactical and strategic airlift capability. In February 2013 a Training Service Support Contract, worth £226M over an 18 year period, was awarded to a joint venture company between Airbus Military and Thales Training and Simulation Ltd for the delivery and support of a specialist training school at RAF Brize Norton. Also in February 2013 a £70M contract was placed with Airbus Military to modify the UK A400M Atlas aircraft to accept the RAF's preferred Defensive Aids Sub-System equipment.

- A £80.5M single-source contract was placed in March 2013 with the US Contractor Northrop Grumman to support Large Aircraft Infra-Red Counter Measures for five years.

- The build-up of core military capability of the Voyager air-to-air tanker and passenger transport aircraft continues to make good progress with three aircraft accepted into service. In line with programme plans, three aircraft will be delivered in the first half of 2013.

- Project Julius has introduced to service a new integrated cockpit and avionic mission system on the Chinook helicopter. These modifications reduce pilot workload and improve the ability to operate the aircraft, particularly at night. This capability has already been used to support the Department's contribution to the security of the Olympics and on operations in Afghanistan.

- Two contracts totalling c£38M were placed with Raytheon Systems Ltd UK in May 2012 and November 2012 for an additional 624 Paveway IV Precision Guided Bombs.

7.15 Across Defence:

- A contract to provide the Armed Forces with more than 25,000 new Glock 17 pistols was awarded in October 2012 , replacing the Browning 9mm pistol which has been in service since 1967 and been used on operations all over the world.

- The Chief of Defence Materiel commissioned a detailed review of the Department's inventory position and practices in order to undertake corrective action. On review of the findings, The Chief of Defence Materiel launched the Inventory Management Transformation, with the mandate to reduce the amount of inventory held and develop a detailed structural change to the way the department operates. The short term focus has been on providing support to Project Teams to optimise purchasing and reduce inventory, while laying the foundations for the required longer term structural changes. This has directly resulted in circa £400M of Inventory Management expenditure being avoided in FY12/13.

- The first two increments of the BAE Systems supplied Falcon communications system were accepted into service by the Army and RAF on 1 October 2012. This system offers highly resilient, scalable broadband and voice communications across a theatre of operations. The totality of the equipment, 155 nodes including 115 vehicles, will be delivered to units by the end of July 2013.

- The Computer Information System for the flagship new Defence Geospatial Intelligence Fusion Centre at RAF Wyton was delivered, on time and as planned, in March 2013. The Wyton CIS project is one of the most challenging programmes in defence delivering a significant improvement in the fusion of multiple intelligence sources. The project built new systems and improved on legacy systems, all whilst maintaining intelligence on current operations during the transition.

- The latest secure military communications satellite has been launched into space from French Guiana. Skynet 5D is the fourth and last to be put into orbit as part of a £4Bn Private Finance Initiative programme with Astrium, who built the satellite, and service providers Astrium Services.

- In direct support to operations, the Medical & General Supplies team have shipped close to 18,000 blood products, mainly to Afghanistan. This roughly equates to the turnover of an NHS District Hospital.

- Last year Defence Fuels bought 1,189M litres of fuel. In the course of this business, they maintained the fuel supply to Afghanistan despite Pakistan's closure of the Ground Line of Communication through its territory. Defence Fuels served the Royal Navy in over 50 ports world-wide and sold £100M worth of fuel to the US Navy's Pacific Fleet.

Urgent Operational Requirements (UORs)

7.16 The UOR process is used for the rapid purchase of or modification to equipment in order to address urgent and unforeseen capability gaps in support of current or imminent military operations. Where a requirement meets these criteria and is specific to a particular operational theatre, it will be funded from the Government Special Reserve rather than the Defence budget. Over £7.6Bn of expenditure has been approved through the UOR process since 2001, of which over £5.8Bn has been for emerging requirements for Afghanistan.

7.17 For 2012-13, the Department agreed an estimate with HM Treasury for Reserve expenditure on UORs of up to £605M. The final outturn against this estimate, based on operational demand, was £347M. The difference reflects both the changing operational requirements of UK Forces in Afghanistan and the Department's efforts to reduce the costs of UORs without compromising their urgency or quality.

7.18 In 2012-13, we successfully delivered 68 UORs. UOR performance has exceeded targets with 96% of UORs meeting their Equipment Delivery Dates or being delivered early. This included a UOR contract worth £0.3M for "spider cranes" to support the Chinook helicopter fleet which was placed in April 2012 with Terberg DTS UK and a contract worth £20M for Nano-Unmanned Air Systems for 160 Units. In addition there has been a wide range of Joint and Land facing UORs delivered including Foxhound vehicles, a Helicopter dust Suppression System, Water Filtration Systems and a range of Dismounted Close Combat enhancements.

A MAN 6 tonne vehicle of 158 Transport Regiment is put through its paces on a training exercise.

Logistics Management and Support to Operations

7.19 Support to the NATO-led International Security Assistance Force (ISAF) mission in Afghanistan remains the Department's main logistic commitment and challenge. The transition process to hand over responsibility for security to the ANSF is in its final stages and the number of military personnel deployed in Afghanistan will reduce from the current level of 9,000 to 5,200 by the end of 2013.

7.20 In 2012-13, the strategic planning for the redeployment of UK Forces and their equipment was completed and the redeployment phase of the operation commenced on 1 October 2012. Some forces have already returned without being replaced. NATO's involvement in combat operations will cease at the end of 2014 and it is the aim of ISAF to have completed redeployment by this date.

7.21 The redeployment plan will be the most challenging logistic task for a generation. It is designed to facilitate an orderly withdrawal of equipment and materiel in a way that achieves good order and represents value for money to the taxpayer. Multiple Strategic Lines of Communication are being enabled with ISAF partners. Personnel from all three Services, MOD civilians and commercial partners are actively engaged in processing and recovering the equipment and materiel in order to support future contingent operations.

Movements

7.22 The standard pattern of troop movement to and from Afghanistan includes a deployment flight, a return flight to and from Theatre for rest and recuperation and a final return flight home. This amounts to approximately 120,000 individual movements per year, a figure that will reduce as UK forces redeploy. In the last year there were 350 military flights delivering personnel to Afghanistan and 204 charter flights to the United Arab Emirates. There were additional support flights from the RAF C17 and Voyager aircraft for the movement of personnel.

7.23 Air freight amounting to approximately 19,520 tonnes to support operations in Afghanistan was delivered through a combination of C17 aircraft and commercial air charter.

7.24 There were 16 dedicated repatriation flights from Afghanistan returning fatalities and 33 casualty evacuation flights flown by C17 aircraft.

7.25 In the financial year 2012-13, the cost of air charter in support of operations in Afghanistan was £114.1M. The delivery of less outsize equipment, fewer UOR vehicle deployments and the implementation of a Boeing 747 contract for the delivery and recovery of materiel, has reduced costs from the previous year.

7.26 The surface route through Pakistan re-opened after a revised Memorandum of Understanding (MOU) was signed on 31 July 2012. The UK re-commenced movement on 6 February 2013 and have to date delivered some 46 tonnes from UK to Afghanistan and some 65 tonnes from Afghanistan to the UK. Use of the northern route increased substantially while the Pakistan border was closed, resulting in 8.3M tonnes of freight being moved via Central Asia to Afghanistan.

7.27 UK support to the French mission in Mali was significant. During the operation 243 UK personnel and 1,052 tonnes of freight were deployed between 14 January and 4 April 2013 by C17. The C17 also provided support for the deployment of Ghanaian and Nigerian equipment and personnel.

Disposals

7.28 The Disposal Services Authority achieved £40M in net sales during 2012/13 which included 10,900 disposal declarations of equipment no longer required for Defence purposes with a total size of 77,000 tonnes, of which less than 2% was sent to land fill. Major activities included the sale of Advanced Short Range Air to Air Missiles to Australia for £800,000, the sales of Royal Fleet Auxiliary ships Bayleaf and Fort George, and the sale of the trial barge Longbow to Leyal Ship recycling in Turkey for a total of £4.1M.

7.29 The Disposal Services Authority successfully negotiated a contract with Agility to conduct disposals in Afghanistan, and supported the gifting of vehicles to Uzbekistan. It also was awarded a contract to dispose of surplus items following the London 2012 Olympic and Paralympic Games.

Defence Infrastructure

7.30 The MOD is one of the largest landowners in the United Kingdom, with an estate of some 230,000 hectares, about 1% of the UK mainland. Some 73,000 hectares of this comprise a varied built estate including naval bases, airfields, living accommodation for military personnel, scientific facilities, storage and distribution centres, communications facilities and offices, making the MOD the UK's largest property manager. Reflecting the long history of the Armed Forces, the estate contains a substantial number of listed buildings. The rural estate (some 157,000 hectares) comprises mainly training areas and ranges, on undeveloped land often in places of particular environmental or archaeological significance. The MOD has rights to use a further 125,000 hectares in the UK, predominantly for training. In addition, we manage an overseas estate comprising the garrisons and training facilities in Germany, Cyprus, the Falkland Islands and Gibraltar, as well as facilities in Ascension Island, Belize, Brunei, Nepal, Singapore and the United States. The Armed Forces regularly use major training facilities in Canada, Cyprus, Germany, Norway and Kenya. As at 31 March 2013 estate related Defence assets were valued at some £25Bn.

Defence Infrastructure Organisation (DIO) Transformation Programme

7.31 In 2012-13, the implementation phase of a two-year transformation programme to deliver the DIO mandated SDSR outcomes began. This will see the completion of an Enhanced Operating Model which will include new business structures and processes, a new off-the-shelf management information system (which has already been purchased) and development of the high level organisational structure and underpinning behaviours required.

7.32 At the same time, detailed work is continuing to determine the most appropriate future corporate structure, investigating possible new Strategic Business Models for DIO, which could see more private sector involvement in the organisation.

The Union Flag flies high over a medal parade for troops of 7 Regiment, Royal Logistic Corps at Bielefeld, Germany.

Basing Optimisation Programme

7.33 Following the SDSR 2010 announcement to bring the Army back from Germany by 2020 work was undertaken to consider the basing implications, with an initial announcement in July 2011. Following the 2012 publication of Army 2020, which resulted in changes to the Army structures and future locations, the DIO and the Army worked closely together to produce a revised infrastructure solution. The Secretary of State for Defence announced a costed and funded Army Basing Plan on 5 March 2013. The planned cost is £1.8Bn of which some £1Bn will be invested in accommodation, providing 1,900 new Service Families Accommodation (SFA) units and 7,800 new single living accommodation (SLA) bed spaces.

7.34 The Army Basing Plan is a key enabler of Army 2020 providing a basing laydown in the UK that will generate military capability in an effective and efficient way to support future operations, as well as providing certainty and stability for personnel and their families. The Army will concentrate its Reaction Forces around Salisbury Plain and Colchester and the Adaptable Force and Force Troop Brigades throughout the UK on a regional basis. We will be handing back our estate in Germany on a phased basis and we anticipate that seven sites in the UK are no longer required for Regular Army units and will be fully or partially disposed of.

7.35 Other basing work undertaken has included the completion of previously announced preliminary moves of Army units in to the former RAF bases at Kinloss and Cottesmore. Planning and assessment work has also been undertaken to support the basing and growth of the Typhoon force at RAF Lossiemouth.

Next Generation Estates Contract

7.36 The financial year 2012-13 has seen the Next Generation Estate Contracts programme continue to work closely with Defence Infrastructure Organisation customers and industry to identify best practice and build it into our commercial arrangements. The Next Generation Estate Contracts programme is maturing towards contract award. The first round of Regional Prime Contracts for Scotland and Northern Ireland, National Housing Prime and National Training Estate Prime have completed their initial and interim tender evaluations, approval is currently being sought to proceed to the final tender stage. Initial tenders for the second round of contracts, consisting of Regional Primes Central, South East and South West, have been evaluated and preparations to commence negotiations are underway.

Sustainability of the Estate

7.37 DIO is responsible for the policy and delivery of sustainable development across the estate infrastructure. DIO has continued to lead the way for MOD energy efficiency and sustainable practices during the Financial Year 2012-13. The MOD achieved an 11% estate energy reduction (2011-12) against the 2009-10 baseline and we are on track to achieve the Government's target of achieving a 25% reduction by 2015. Water consumption across the estate has been reduced by around 8% since 2009-10 against a 25% target. MOD has met the Government target to achieve 95% of our Sites of Special Scientific Interest in 'favourable' or 'recovering' condition. There are 69 MOD heritage assets currently included on the English Heritage 'At Risk' list; seven were removed during 2012-13.

7.38 The MOD has also progressed against the Government Flexible Framework targets for embedding sustainable development within estate contracts. We are addressing how we can report against the recently released reporting requirements under the Government Buying Standards. MOD continues to lead across Government on its approach to assessing risks to the resilience of its estate from extreme weather events and climate fluctuations. We have a target to conduct climate impact risk assessments on eighty of our most critical and high risk priority operational sites by 2015, which we are on track to achieve (50 completed as at end of 2012/13). When complete the assessments will create a risk register that manages and informs short to medium term estate maintenance, Business Continuity and longer term strategic planning.

DIO Training Estate

7.39 The DIO Training Estate supplies the majority of military training facilities for the Armed Forces in the UK, Germany, Canada and Kenya supporting operations in Afghanistan as well as for individual and collective training for the Regular and Reserve forces, adventure training, Cadets and the test and evaluation community. DIO Training continues to review its estate holdings and is reducing surplus capacity in the UK and continues the drawdown of training estate in Germany, in line with the withdrawal of troops. In light of the Army basing announcements, and the DIO Future Estate Strategy, further reviews of requirement, capacity and utilisation are commencing. Integration of processes between DIO Training Estate and Defence Equipment and Support (Test and Evaluation) continues to maximise utilisation of the available assets as part of the longer-term development of a Defence Training and Evaluation Estate.

Overseas Estate

7.40 DIO continues to provide civilian Commercial and Facilities Management staff deployed in-theatre to support operations in Afghanistan and training environment readying Royal Engineer personnel for deployment in support of expeditionary Air Operations. The mobilisation of the Interserve Defence Ltd contractor, providing Facility Management services on the Permanent Joint Operating Bases (PJOBs), took place on schedule in the South Atlantic in April 2012, in Cyprus during August 2012 and in Gibraltar in February 2013.

Estates Disposals

7.41 Total receipts of some £119.5M were achieved during the Financial Year 2012-13.

Single Living Accommodation (SLA)

7.42 There has been continued investment in SLA modernisation through Private Finance Initiatives, Project SLAM and other MOD funded projects. The modern standard for SLA for junior ranks provides single en-suite bed-sitting rooms configured in either six or eight person flats or hotel layout supported by additional communal space and utility rooms with laundry and kitchenette facilities. There are similar scales for more senior personnel. A detailed break down of delivery is set out below:

Table 7.7 – Project SLAM Delivery

	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Target	1640	2500	1500	2100	2300	1250	2100	1055	1093
Cumulative Target	2640	5140	6640	8740	11040	12240	14340	15395	16488
Delivered	1862	3570	2207	2008	2719	1442	2542	1618	573
Cumulative Delivery	2012	5582	7789	9797	12516	13958	16500	18118	18691

Table 7.8 – TLB Funded and PFI Delivery

	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Target	4300	5300	5800	5550	4150	3630	3018	2535	1544
Cumulative Target	5800	11100	16900	22450	26600	30230	33248	35783	37327
Delivered	3749	1969	3615	4897	5191	4367	3312	3044	1456
Cumulative Delivery	6514	8483	12098	16995	22186	26553	29865	32909	34365

Service Family Accommodation (SFA)

7.43 The MOD controls 67,000 properties worldwide. Of these some 49,000 properties are in the UK and some 18,000 properties are on the overseas estate with the majority being held in Germany. SFA is owned in a variety of ways. In Germany almost all are leased from either the Federal Government or private owners, as is the case in remote overseas locations. However, in the rest of our overseas bases most are MOD owned. In England and Wales, most properties are leased from Annington Homes Ltd (AHL). AHL own 39,393 properties in England and Wales that were purchased from the MOD in 1996 and leased back for a period of 199 years. Most of the properties in Scotland and Northern Ireland are owned by the MOD.

7.44 Standard for Condition is used to determine the overall physical state of SFA, with Standard 1 being the highest and Standard 4 the lowest. Some 98% of the UK housing stock is in Good Condition (Standard 1 or 2). In the UK there are only some 630 properties at Standard 3 (which were not allocated from January 2012) and only 62 properties at Standard 4 (which are no longer allocated).

7.45 A margin of empty properties is required to support the annual rotation of reassigned personnel, particularly in the peak demand period of late summer before the new school year, and to facilitate periodic repair and upgrade. The proportion of empty properties in the UK has been driven down from a historic high of 21% in May 2008 to 11%, with a further 5% held pending decisions on the final outcome of the SDSR and estate re-basing.

7.46 Over £63M was allocated for the upgrade and improvement of UK property during 2012-13. This enabled some 800 properties to be upgraded to Standard 1 for Condition, with a further 3,800 benefiting from other improvements such as new kitchens, bathrooms and double glazing. In addition to these improvements cavity wall insulation was also installed in approximately 12,000 properties.

7.47 In 2012-13, the DIO funded a capital programme to purchase new SFA from local housing developers to improve further the condition of the housing stock, reduce reliance on costly substitute accommodation rented from the private sector and meet new housing requirements to support rebasing. DIO purchased 703 new properties across 11 locations at a total cost of £150m. All the properties will be completed by March 2014 and a number have already been occupied by Service families.

Departmental Accounting Boundary

7.49 As at 31 March 2013, the Department consisted of 7 (2011-12: 7) Top Level Budget (TLB) Holders. The TLBs are responsible for providing forces and support services required for a modern defence force; within the TLBs, there were 29 (2011-12: 31) 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 Departmental and TLB level returns.

7.50 The Departmental accounting boundary includes an on-vote Agency, several Non Departmental Public Bodies (NDPBs), including advisory NDPBs, and a number of other bodies classified to the public sector by the Office of National Statistics. For the accounting statements, the NDPBs and other bodies, referred to as Arm's Length Bodies (ALBs), are added to the Core Department (which includes the on-vote Agency) to form the Departmental Group. The complete list of Arm's Length Bodies is at Note 29 – Entities Within the Departmental Boundary.

7.51 There are 3 (2011-12: 3) Executive Defence Agencies established as Trading Funds. The Trading Funds produce their own accounts and fall outside the Departmental Boundary. Further details are provided in: Note 12 – Financial Instruments, Note 26 – Related Party Transactions and on the following 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
Defence Support Group (DSG)	http://www.dsg.mod.uk/default.asp

7.52 The Oil and Pipelines Agency and the NAAFI are Public Corporations, and are outside the Departmental Boundary.

Pension Liabilities

7.53 The transactions and balances of the Armed Forces Pension Scheme (AFPS) (including the Gurkha Pension Scheme, the Non-Regular Permanent Staff Pension Scheme, the Reserve Forces Pension Scheme and other minor pension schemes covering locally employed personnel) and the Armed Forces Compensation Scheme are not consolidated in the financial statements. The report and accounts of the AFPS are prepared separately and are available at:
http://www.official-documents.gov.uk/document/hc1213/hc00/0039/0039.asp
further information on Armed Forces pensions is available at
https://www.gov.uk/pensions-and-compensation-for-veterans

7.54 The Department's share of the transactions and balances of other pension schemes to which employees belong (e.g. under Civil Service Pension (CSP) arrangements, the NHS Superannuation Scheme and the Teachers' Pension Scheme) is also not consolidated in the accounts; separate accounts are prepared for the schemes and details can be found on the following websites:
http://www.civilservice.gov.uk/pensions
http://www.education.gov.uk/schools/careers/payandpensions
http://www.nhsbsa.nhs.uk/pensions

7.55 Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians in Germany, Cyprus and Gibraltar, the Merchant Navy Ratings Pension Fund, the Commonwealth War Graves Commission Superannuation Scheme and the Council of Reserve Forces and Cadets Associations Pension Scheme; estimates of the assets and liabilities for these schemes are included in the financial statements and additional details are provided in Note 20 – Employee Benefits – Pension Schemes.

7.56 Employer's contributions payable to the Armed Forces, Civil Service, NHS, Teachers and other pension schemes have been charged to the Statement of Comprehensive Net Expenditure. Further information on the various pension schemes can be found in the Remuneration Report and at Note 6 – Staff Numbers and Costs.

Research and Development

7.57 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.

7.58 In accordance with IAS 38 – Intangible Assets (as adapted for the public sector by the Government

Financial Reporting Manual (FReM), chapter 7) amounts spent on research are not capitalised and certain development expenditure is expensed. The amounts are included at Note 7.2 – Other Programme Costs.

7.59 Capitalised development expenditure is included in Note 10 – Intangible Assets.

Payments to Suppliers

7.60 The Department's invoices, with the exception of some payments to suppliers made by units locally, are paid through the Defence Business Services (DBS) organisation. In the period 1 April 2012 to 31 March 2013, the DBS paid 99.99% of all correctly submitted invoices within 11 calendar days. This contributed to the Department's overall performance of 100% 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. No commercial debt interest was paid during this period (2011-12: £21,000). From May 2010 all Government Departments were asked to pay 80% of invoices from suppliers within 5 working days. The Department, including its Trading Funds, has achieved a performance of 91.63% against this target up to 31 March 2013.

Financial Instruments

7.61 The MOD holds financial instruments to finance its operations, to manage related currency risks and as a hedge against future fuel price risk 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 also uses swap contracts as a hedge against future changes in fuel prices. 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.

7.62 The Department's funding, liquidity and cash flow risks are managed, based on consideration of the cash flows from operations, by a central treasury function whose primary role is the forecasting of cash requirement and management of the Supply funding. The central treasury function is subject to controls set out in: Managing Public Money, which sets out HM Treasury's principles for dealing with resources used by public sector organisations, Departmental regulations (Joint Service Publications) and a biennial banking review, completed by Defence Internal Audit, as well as additional controls and monitoring by HM Treasury.

7.63 The Department has entered into forward currency contracts for the US Dollar and the Euro. These contracts are designed to mitigate 80% of the risk that operating cash flows will be affected by changes in exchange rates; thus providing greater certainty over transactions in these key foreign currencies. As a result MOD's foreign currency risk arises mainly on residual exposure in overseas Operations and exposure in other currencies. The value of the forward currency contracts is detailed at Note 12 – Financial Instruments.

7.64 The Department has also entered into swap contracts for Aviation Turbine Fuel and Gasoil. These contracts are designed to mitigate 80% of the risk that operating cash flows will be affected by changes in the prices of the two fuel commodities. The value of the swap contracts is detailed at Note 12 – Financial Instruments.

7.65 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 Note 16 – Trade Receivables and Other Current Assets.

Provision of Information and Consultation with Employees

7.66 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.

IFRIC 4 – Determining Whether an Arrangement Contains a Lease

7.67 In preparing these accounts MOD has not complied with paragraph 6.2.43 of the Government

Financial Reporting Manual (FReM), specifically the requirement to assess all its supplier arrangements to determine whether they are dependent on the use of specific assets and convey the right to use the assets. The assessments need to be made against criteria set out in the accounting standards as IFRIC 4 – Determining whether an Arrangement Contains a Lease. If these arrangements, particularly strategic procurement arrangements with key contractors, once reviewed, are considered to be finance leases, the assets and offsetting liabilities associated with the contracts would be brought into the MOD Accounts.

7.68 On the introduction of IFRS across Government in 2009-10, it was deemed too costly and time consuming to review MOD's contracts within the timescales for the 2009-10 Accounts. The review was then further deferred beyond 2011-12 when it became apparent that a large number of major contracts would have to be renegotiated as a result of the outcome of the SDSR. The Department is now undertaking a review, by contract and supplier, of those industry facilities where IFRIC 4 is likely to apply. The review will assess the potential resource implications both in terms of internal manpower and external costs for obtaining and maintaining the reportable information on the relevant assets held by industry. It will also assess the timescales for completing the work and is due to report by the end of September 2013.

7.69 The Comptroller and Auditor General's (C&AG's) opinion on the financial statements will be qualified for as long as non-compliance with IFRIC 4 is considered to have a material impact on the accounts.

Performance

7.70 The MOD's internet site www.gov.uk/government/organisations/ministry-of-defence 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 site includes reviews and plans against which performance is assessed; three are highlighted in the following paragraphs.

7.71 The Strategic *Defence and Security Review,* available via a link on the following page: https://www.gov.uk/government/policies/providing-versatile-agile-and-battle-winning-armed-forces-and-a-smaller-more-professional-ministry-of-defence

- describes Defence strategies, priorities 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.

7.72 Additional detail is provided by the *Business Plan 2011-15* published by the Department at: https://www.gov.uk/government/publications/business-plan-2011-2015

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

7.73 In June 2011 Lord Levene published his independent report into the structure and management of the Ministry of Defence. The report is available at: https://www.gov.uk/government/publications/defence-reform-an-independent-report-into-the-structure-and-management-of-the-ministry-of-defence--2 and details of progress against its recommendations are also available on the website.

Environmental, Social, Community, Employee and Other Matters

7.74 The *Business Plan 2011-15* 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 on MOD's section of the gov.uk 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: https://www.gov.uk/defence-infrastructure-organisation-estate-and-sustainable-development
- **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: https://www.gov.uk/defence-infrastructure-organisation-estate-and-sustainable-development

- **Employees** – personnel related information can be found at: https://www.gov.uk/government/organisations/ministry-of-defence/about/recruitment and statistical information including staff numbers can be found at: https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics

- **Performance Indicators** – Some details of MOD's performance are published as part of the Government's transparency initiative at: http://transparency.number10.gov.uk/

- **Contractual Arrangements** – the Department's contractual commitments under leases and service concession arrangements are detailed in Note 22 to the accounts. During 2012-13 the Defence Science and Technology Laboratory, the UK Hydrographic Office and Defence Support Group were Executive Defence Agencies financed by Trading Fund; they provided essential services to the Department. Details of expenditure published under the Government's transparency agenda, including links to the data sets is available at: http://transparency.number10.gov.uk/business-plan/18

- **Spending Review 2010** – implications of significant changes following the Department's Comprehensive Spending Review settlement are set out in the *Business Plan 2011-15*.

- **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 24 to the accounts.

Personal Data Related Incidents

7.75 The following tables set out details of the Department's personal data related incidents during 2012-13. An incident is defined as a loss, unauthorised disclosure or insecure disposal of personal data. Protected personal data is information that links an identifiable living person with information about them which, if released, would put the individual at risk of harm or distress. The definition includes sources of information that, because of the nature of the individuals or the nature, source or extent of the information, is treated as protected personal data by the Department.

Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioners Office in 2012-13

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

Month of Incident	Nature of Incident	Nature of Data Involved	Number of People Potentially Affected	Notification Steps
No Personal Data Related Incidents were reported to the Information Commissioner's Office in 2012-13				
Further action on information risk:		The Senior Information Risk Owner assessed that at April 2012 MOD had the profile of a Level 3[1] Information Assurance Maturity Model (IAMM) organisation; with the majority of the TLBs/Agencies working at Level 3. Of the 3 remaining business units still to achieve Level 3, two have been assessed as virtually at IAMM Level 3; the third has a deadline for achieving Level 3 by December 2013. The Department is focused on ensuring IAMM is achieved and maintained.		

1. Level 3 Information Assurance Maturity means that awareness, across the Department, has increased leading to a measured improvement in Information Risk Management behaviours and all critical areas of the business are subject to a robust Information Assurance regime.
Further information can be found at: http://www.cesg.gov.uk/policyguidance/IAMM/Pages/index.aspx

Summary of Other Protected Personal Data Related Incidents 2012-13

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

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	1
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	3
III	Insecure disposal of inadequately protected paper documents.	-
IV	Unauthorised disclosure.	5
V	Other.	1

Financial Position

7.76 The Statement of Parliamentary Supply – Summary of Resource and Capital Outturn compares Estimates and Outturn and is analysed in more detail in Note 2 to the accounts.

7.77 Both Resource expenditure (e.g. expenditure on staff, utilities and maintenance) and Capital expenditure (e.g. money spent on purchasing or significant upgrades to physical assets such as buildings and military equipment) are separated into the following budgetary controls:

- **Departmental Expenditure Limit (DEL)** – firm multi-year plans are set in Spending Reviews and MOD may not exceed the limits set. Spending is assumed to be DEL unless HM Treasury has stated otherwise;

- **Annually Managed Expenditure (AME)** – 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 in its normal DEL controls. Examples of AME expenditure are: certain pension, disablement or death payments arising out of war service; the creation and revaluation of provisions; impairments in the value of non-current assets e.g. following catastrophic damage to equipment; and costs associated with nuclear decommissioning.

- **Non-Budget costs** – items of expenditure which are subject to Parliamentary but not Treasury control, and therefore outside DEL and AME, for example a Prior Period Adjustment resulting from an error in a previous account.

7.78 The net outturn for Total Resource is £37.7Bn against an Estimate of £39.5Bn, an under spend of £1.8Bn. The underspend consists of:

- an underspend of £1.3Bn against the approved limit for Resource DEL; and

- an underspend of £0.5Bn against the approved limit for Resource AME.

7.79 The net outturn for Total Capital is £7.8Bn against an Estimate of £7.9Bn, an under spend of £0.1Bn.

7.80 The Net Cash Requirement shows an outturn of £36.8Bn against an Estimate of £38.6Bn.

7.81 The Net Administration Costs were £2.179Bn; £0.146Bn lower than the Estimate of £2.325Bn.

7.82 Additional information on the Department's budget and expenditure including a reconciliation of resource expenditure between Estimates, Accounts and Budgets and information on expenditure on military operations is included in the section on Delivering Defence.

Directorships and Significant Interests

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

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

7.85 Details of Related Party Transactions, including those arising as a result of the interests of Ministers or Defence Board members, are listed at Note 26 – Related Party Transactions. The MOD works closely with many organisations in the charitable sector, and this can include representation on governing bodies, for example, The Secretary of State for Defence is trustee of Greenwich Hospital. The Department provides information (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

7.86 The financial statements of the Department and four of its ALBs (the National Army Museum, the National Museum of the Royal Navy, the RAF Museum and the Royal Hospital Chelsea) are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000 . The audit fees for this work are included at Note 7.2 to the accounts. The Department did not contract with its external auditor for any non-audit services.

Statement as to Disclosure of Information to Auditors

7.87 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.

Remuneration Report

Remuneration Policy

7.88 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.

7.89 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).

7.90 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.

7.91 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.

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

Performance and Reward

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

7.94 Minima and maxima of SCS pay bands are set by the Cabinet Office. Small increases to Pay Band minima will be made from 1 April 2013. Funding for these increases comes from the 1% available for base pay increases, which will allow for small flat rate increases, of about 0.75%, payable to the SCS, except for those judged to be in the bottom 10% following moderation. The SCS have not received any base pay increases since 1 April 2009, nor any increases to pay band minima since that date, and exited a three year pay freeze on 31 March 2013. Non-consolidated awards for performance in year 2012-13 will again be limited to the top 25% of SCS performers.

7.95 The Department also employs a number of members of the SCS on Fixed Term Appointments. These individuals are externally recruited to fill specific roles where the Department does not already have the necessary skills in-house. They are employed on individual contracts which allow them a base salary and the opportunity to earn performance related awards, specifically linked to business and corporate objectives. They are expected to deliver substantial benefits to the Department both in terms of outputs, delivering change programmes and skills transfer. As with the rest of the SCS the awards paid to those on Fixed Term Appointments are non-consolidated and non-pensionable and are subject to rigorous scrutiny. In line with SCS standard contracts they have not received any base pay increases since 1 April 2009.

7.96 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, time in rank and position on the pay scale, individuals can be awarded a single increment or no increment, and progress accordingly up the incremental pay scale for their rank. The average value of one incremental rise under the PMPS is 2.6% of salary (2011-12: 2.6%).

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

Senior Managers' Contracts

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

7.99 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.

7.100 The lead NEBM is appointed to the Defence Board for an initial period of three years, from a list of candidates recommended by the Cabinet Office and his/her appointment is approved by the Prime Minister.

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

7.102 The Chief of Defence Materiel was recruited on a four year fixed term appointment. Conditions covering termination of employment are set out in his contract of employment and include a notice period of not less than 6 months. The contract also provides for the opportunity to earn a non-consolidated performance award.

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

Management

7.104 As part of work to transform Defence the MOD has created a smaller Defence Board. Chaired by the Secretary of State and including the Minister for the Armed Forces, the Defence Board is the main corporate board of the MOD, providing senior level leadership and strategic management of Defence, driving forward delivery and change. The following pages contain details of pay and pensions in respect of individuals who served as Ministers or members of the Defence Board during the financial year.

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

Secretary of State for Defence
The Right Honourable Philip Hammond MP (appointed 15 October 2011).

Minister of State for the Armed Forces
The Right Honourable Andrew Robathan MP (appointed 5 September 2012 replacing Sir Nick Harvey MP).

Minister of State for Defence Personnel, Welfare and Veterans
The Right Honourable Mark Francois MP
(appointed 5 September 2012).

Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy)
Dr Andrew Murrison MP
(appointed 5 September 2012 replacing Sir Gerald Howarth MP).

Parliamentary Under-Secretary of State for Defence (Minister for Defence Personnel, Welfare and Veterans)
The Right Honourable Andrew Robathan MP
(from 14 May 2010 to 4 September 2012).

Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology)
Mr Philip Dunne MP
(appointed 5 September 2012 replacing Mr Peter Luff MP).

Parliamentary Under-Secretary of State and Spokesperson on Defence in The Lords
The Lord Astor of Hever DL
(appointed 26 May 2010).

7.106 During the year, in addition to the Secretary of State for Defence and the Minister of State for the Armed Forces, the following served as members of the Defence Board:

Permanent Under-Secretary of State
Mr Jonathan Thompson
(appointed 3 September 2012 replacing Mr Tom McKane. Mr McKane was appointed 1 July 2012 replacing Dame Ursula Brennan DCB).

Chief of the Defence Staff
General Sir David Richards GCB CBE DSO ADC Gen
(appointed 29 October 2010).

Vice Chief of the Defence Staff
General Sir Nicholas Houghton GCB CBE ADC Gen
(re-appointed on 20 January 2012).

Chief of Defence Materiel
Mr Bernard Gray
(appointed 4 January 2011).

Director General Finance
Mr David Williams
(appointed 3 September 2012 replacing Mr Jonathan Thompson).

Non-Executive Board Members:

Mr Gerry Grimstone
(appointed 15 September 2011).

Mr Graham Williams
(appointed 21 December 2011).

Dr David Allen
(From 11 January 2010 to 11 January 2013).

Ministerial Salaries, Allowances and Taxable Benefits

(This section has been subject to audit)

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

	2012-13 Salary* (£)	**2012-13 Benefits-in-kind (to the nearest £100)***	2011-12 Salary* (£)	2011-12 Benefits-in-kind (to the nearest £100)*
Secretary of State for Defence				
The Rt Hon Philip Hammond MP				
(from 15 October 2011)	68,827	Nil	31,823	Nil
Full year equivalent salary			68,827	
Minister of State for the Armed Forces				
The Rt Hon Andrew Robathan MP				
(from 5 September 2012)	18,885	Nil	Nil	Nil
Full year equivalent salary	33,002			
Sir Nick Harvey MP				
(to 4 September 2012)	14,118	Nil	33,002	Nil
Full year equivalent salary	33,002			
Minister of State for Defence Personnel, Welfare and Veterans				
The Rt Hon Mark Francois MP				
(from 5 September 2012)	18,885	Nil	Nil	Nil
Full year equivalent salary	33,002			
Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy)				
Dr Andrew Murrison MP				
(from 5 September 2012)	13,560	Nil	Nil	Nil
Full year equivalent salary	23,697			
Sir Gerald Howarth MP				
(to 4 September 2012)	10,137	Nil	23,697	Nil
Full year equivalent salary	23,697			
Parliamentary Under-Secretary of State for Defence (Minister for Defence Personnel, Welfare, and Veterans)				
The Rt Hon Andrew Robathan MP				
(to 5 September 2012)	10,137	Nil	23,697	Nil
Full year equivalent salary	23,697			
Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology)				
Mr Philip Dunne MP				
(from 5 September 2012)	13,560	Nil	Nil	Nil
Full year equivalent salary	23,697			
Mr Peter Luff MP				
(to 4 September 2012)	10,137	Nil	23,697	Nil
Full year equivalent salary	23,697			
Parliamentary Under-Secretary of State and The Lords Spokesperson on Defence				
The Lord Astor of Hever DL				
(from 26 May 2010)	Nil	Nil	Nil	Nil

*Disclosures cover the period during which individuals served as Ministers in the MOD.

7.108 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. Three payments were made in 2012-13 (2011-12 – one).

Ministerial Salary

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

7.110 The figures above are based on payments made by the Department and thus recorded in the 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 – £65,738 pa with effect from 1 April 2012 (£65,738 pa with effect from 1 April 2011) 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

7.111 The monetary value of benefits-in-kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument.

Ministerial Pensions

(This section has been subject to audit)

7.112 The real increase in the value of the accrued pension compared to the 2011-12 value, is shown *in italics* (in bands of £2,500).

	Total Accrued Pension at Retirement as at 31 Mar 13 £000	CETV* at 31 Mar 12 or date of Appointment if Later £000	CETV* at 31 Mar 13 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
Secretary of State for Defence				
The Rt Hon Philip Hammond MP	**0 - 5**			
(from 15 October 2011)	*0 - 2.5*	**44**	**72**	**17**
Minister of State for the Armed Forces				
The Rt Hon Andrew Robathan MP	**0 - 5**			
(from 5 September 2012)	*0 - 2.5*	**71**	**82**	**6**
Sir Nick Harvey MP	**0 - 5**			
(to 4 September 2012)	*0 - 2.5*	**23**	**29**	**3**
Minister of State for Defence Personnel, Welfare and Veterans				
The Rt Hon Mark Francois MP	**0 - 5**			
(from 5 September 2012)	*0 - 2.5*	**16**	**19**	**0**
Parliamentary Under-Secretary of State for Defence (Minister for International Security Strategy)				
Dr Andrew Murrison MP	**0 - 5**			
(from 5 September 2012)	*0 - 2.5*	**0**	**5**	**4**
Sir Gerald Howarth MP	**0 - 5**			
(to 4 September 2012)	*0 - 2.5*	**26**	**30**	**3**
Parliamentary Under-Secretary of State for Defence (Minister for Defence Equipment, Support and Technology)				
Mr Philip Dunne MP	**Nil**	**Nil**	**Nil**	**Nil**
(from 5 September 2012)				
Mr Peter Luff MP	**5 - 10**			
(to 4 September 2012)	*0 - 2.5*	**82**	**86**	**2**
Parliamentary Under-Secretary of State and The Lords Spokesperson on Defence				
The Lord Astor of Hever DL	**Nil**	**Nil**	**Nil**	**Nil**
(from 26 May 2010)				

*CETV – Cash Equivalent Transfer Value.

7.113 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.

7.114 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.

7.115 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 revalued annually in line with changes in Pensions Increase legislation. From 1 April 2013 members pay contributions between 7.9% and 16.7% depending on their level of seniority and chosen accrual rate. The contribution rates are planned to increase in April 2014, subject to consultation. In line with reforms to other public service pension schemes, it is intended to reform the Ministerial pension Scheme in 2015.

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

7.116 During the year the following served as members of the Defence Board.

(This section has been subject to audit)

	2012-13 Salary £000	**2012-13 Annual Performance Award**	**2012-13 Benefits-in-kind (to the nearest £100)**	2011-12 Salary £000	2011-12 Annual Performance Award	2011-12 Benefits-in-kind (to the nearest £100)
Secretary of State for Defence The Rt Hon Philip Hammond MP (from 15 October 2011)	See the Ministerial salaries, allowances and benefits-in-kind table above					
Minister of State for the Armed Forces The Rt Hon Andrew Robathan MP (from 5 September 2012) Mr Nick Harvey MP (to 4 September 2012)	See the Ministerial salaries, allowances and benefits-in-kind table above					
Permanent Under-Secretary of State Mr Jonathan Thompson (from 3 September 2012) *Full year equivalent salary*	100 - 105 175 - 180	Nil	Nil	Nil	Nil	Nil
Mr Tom McKane (from 1 July 2012 to 2 September 2012) *Full year equivalent salary*	20 - 25 140 - 145	Nil	Nil	Nil	Nil	Nil
Dame Ursula Brennan DCB (to 30 June 2012) *Full year equivalent salary*	40 - 45 175 - 180	Nil	5,700*	175 - 180	Nil	22,100
Chief of the Defence Staff General Sir David Richards GCB CBE DSO ADC Gen (from 29 October 2010) *Full year equivalent salary*	240 - 245	Nil	98,400	235 - 240	Nil	86,600
Vice Chief of the Defence Staff General Sir Nicholas Houghton GCB CBE ADC Gen (from 20 January 2012) *Full year equivalent salary*	185 - 190	Nil	58,900	35 - 40 180 - 185	Nil	11,300
Chief of Defence Materiel Mr Bernard Gray** (from 4 January 2011) *Full year equivalent salary*	215 - 220	Nil	31,200*	225 - 230 240 - 245	Nil	36,000

	2012-13 Salary £000	2012-13 Annual Performance Award	2012-13 Benefits-in-kind (to the nearest £100)	2011-12 Salary £000	2011-12 Annual Performance Award	2011-12 Benefits-in-kind (to the nearest £100)
Director General Finance						
Mr David Williams (from 3 September 2012)	55 - 60	Nil	Nil	Nil	Nil	Nil
Full year equivalent salary	100 - 105					
Mr Jonathan Thompson (to 2 September 2012)	70 - 75	5 - 10	Nil	175 - 180	Nil	Nil
Full year equivalent salary	175 - 180					
Non-Executive Board Members						
Mr Gerry Grimstone*** (From 15 September 2011)	Nil	Nil	Nil	Nil	Nil	Nil
Mr Graham Williams (From 21 December 2011)	15 - 20	Nil	Nil	0 - 5	Nil	Nil
Full year equivalent fees				15 - 20****		
Dr David Allen*** (to 11 January 2013)	Nil	Nil	Nil	20 - 25	Nil	Nil

*2012-13 civilian benefit in kind figures are estimates pending the agreement of HMRC to the method of calculation.
**CDM's remuneration in 2011-12 included an allowance for which the Department had not obtained the necessary approval from the Chief Secretary to the Treasury. Following a review the Department withdrew the request for retrospective approval and the allowance was stopped in February 2013. CDM has agreed to repay the allowance received in 2012-13 (repayment will be complete by December 2014). The Department has not sought to recover the £10,000 (net of tax) paid in 2011-12; the gross amount has been written off as a loss.
***Mr Gerry Grimstone and Dr David Allen have elected to waive the £15,000 fee to which they are entitled.
**** Restated

Defence Board Salary

7.117 Salary includes gross salary, taxable allowances and payment in lieu of untaken leave (if applicable). Any annual performance award paid is shown separately and is in respect of amounts paid in 2012-13 but based on performance in an assessment period ended prior to the start of the financial year. Unlike other SCS pay bands, the pay band minimum for Permanent Secretaries remains unchanged from 1 April 2013. Permanent Secretaries have also waived their right to any non-consolidated performance related pay award. The payment of business expenses e.g. travel costs incurred on duty, is not part of salary and is not disclosed above.

Defence Board Benefits in Kind

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

Pay Multiples

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

	2012-13	2011-12
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning military Board member in the table above.	£342,500	£322,500
Median total remuneration of Armed Forces personnel	£31,987	£31,261
Ratio	10.7	10.3
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian Board member in the table above.	£252,500	£282,500
Median total remuneration of civilian staff	£27,299	£26,870
Ratio	9.2	10.5

7.120 The military pay ratio has increased as a result of the additional taxable value (resulting from increased drivers' costs) attributed to the benefits in kind provided to the highest paid military board member.

7.121 The main factor in the reduction to the civilian pay ratio is the lower remuneration of the highest paid director resulting from the removal of a taxable allowance.

7.122 In 2012-13 the remuneration of civilian employees ranged from £15,083 to £299,000 and 2 (2011-12, Nil) civilian employees received remuneration in excess of the highest paid director.

Defence Board – Pension Benefits

(This section has been subject to audit)

7.123 Pension benefits for individuals who served on the Defence Board are set out below. The real increase in the pension, from 2011-12, and where applicable the real increase in the lump sum payment, are shown in *italics*.

	Total Accrued Pension at Retirement as at 31 Mar 13 £000	CETV at 31 Mar 12 or date of Appointment if Later £000	CETV at 31 Mar 13 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Secretary of State for Defence The Rt Hon Philip Hammond MP	See the Ministerial pensions table above			
Minister of State for the Armed Forces The Rt Hon Andrew Robathan MP Mr Nick Harvey MP	See the Ministerial pensions table above			
Permanent Under-Secretary of State Mr Jonathan Thompson	Pension **35 -40** *0 - 2.5* Lump Sum **Nil**	**485**	**543**	**25**
Mr Tom McKane (from 1 July 2012 to 2 September 2012)	Pension **60 - 65** *0 - 2.5* Lump Sum **190 - 195** *2.5 - 5*	**1,402**	**1,434**	**25**
Dame Ursula Brennan DCB (to 30 June 2012)	Pension **85 - 90** *(0 - 2.5)* Lump Sum **265 - 270** *(0 - 2.5)*	**1,962**	**1,963**	**(10)**
Chief of the Defence Staff General Sir David Richards GCB CBE DSO Adc Gen	Pension **140 - 145** *5 - 7.5* Lump Sum **420 - 425** *20 - 22.5*	**3,417***	**3,774**	**277**
Vice Chief of the Defence Staff General Sir Nicholas Houghton GCB CBE ADC Gen	Pension **105 - 110** *5 - 7.5* Lump Sum **320 - 325** *15 - 17.5*	**2,447***	**2,700**	**199**

	Total Accrued Pension at Retirement as at 31 Mar 13 £000	CETV at 31 Mar 12 or date of Appointment if Later £000	CETV at 31 Mar 13 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Chief of Defence Materiel	Pension			
Mr Bernard Gray	**10 - 15**			
	2.5 - 5			
	Lump Sum			
	Nil	**80***	**147**	**48**
Director General Finance	Pension			
Mr David Williams	**25 - 30**			
	0 - 2.5			
	Lump Sum			
	80 - 85			
	5 - 7.5	**349**	**395**	**29**
Non-Executive Board Members				
Mr Gerry Grimstone	N/A	N/A	N/A	N/A
Dr David Allen	N/A	N/A	N/A	N/A
Mr Graham Williams	N/A	N/A	N/A	N/A

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

Civil Service Pensions

7.124 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 Pensions Increase legislation. 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).

7.125 Employee contributions are salary related and range between 1.5% and 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions apply from 1 April 2013. 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' initial 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 uprated in line with Pensions Increase legislation. 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.

7.126 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).

7.127 Further details about the Civil Service pension arrangements, including pensions reforms e.g. the increases in contribution rates effective from 1 April 2013 can be found at the website www.civilservice.gov.uk/pensions

Armed Forces Pension Scheme (AFPS)

7.128 From 6 April 2005, the 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 42.8% for Officers and 30.8% for 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 https://www.gov.uk/pensions-and-compensation-for-veterans

Cash Equivalent Transfer Value

7.129 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 Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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

7.130 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.

Jon Thompson
Accounting Officer 5 July 2013

Part Two – Annual Accounts

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Ministry of Defence to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental and other arm's length public bodies designated by order made under the GRAA by Statutory Instrument 2012 No. 717 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 29 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the Departmental Group for the financial year.

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

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

HM Treasury has appointed PUS as Accounting Officer of the Ministry of Defence. The Accounting Officer of the Department has appointed some Chief Executives (or equivalents) of its sponsored Arm's Length Bodies as Accounting Officers of those bodies. The Accounting Officer of the Department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department or Arm's Length Bodies for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

Governance Statement

1. Introduction

This Governance Statement represents my assurance to Parliament that, as Accounting Officer, I am satisfied that the Department's finances are adequately controlled.

I delegate responsibilities within the MOD to control the Department's business and meet the standards required by the relevant regulatory authorities. The systems used to do this give me insight into the business of the Department and its use of resources, and allow the Defence Board to make informed decisions about progress against Departmental objectives, and if necessary to steer performance back on track.

As set out in Chapter 6 of the main report, the MOD is undergoing rapid internal change. This is strengthening the internal control framework by making it clearer who is responsible for what, ensuring that budget holders are held effectively to account and by improving the quality of financial and other management information. At the heart of this change is the delegation to Top Level Budgets of the responsibility for a range of activities that were previously performed centrally. I formally delegated a number of additional responsibilities to the Top Level Budget holders immediately after the end of this accounting period, on the 1st April 2013. I expect to delegate the remainder on 1st April 2014. The Defence Board continues to monitor this process closely and take any necessary corrective action.

2. Governance Framework

During the 2012-13 financial year the Department's outputs were primarily delivered through seven Top Level Budgets. The seven Top Level Budgets are the core financial structure of Defence and consist of:

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

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 submitted an annual statement of assurance, endorsed by their Management Board and in most cases their Audit Committee.

The MOD now has one on-vote agency: Service Children's Education. The Chief Executive of this agency is responsible for producing annual accounts which are laid before Parliament, but which also form part of the Departmental Accounts. The Chief of the General staff, as the Top Level Budget Holder for the Army, is responsible for setting the operating framework of the agency through a Framework Document and agreeing performance targets and for monitoring progress.

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, both military and civilian.

The Chief of the Defence Staff is the Government's and the Secretary of State's principal adviser on military operations. He is responsible for the maintenance of military operational capability and for the preparation and conduct of military operations, including managing risks to their success. 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 Service Chiefs is obtained on operational issues. As their head, and as the UK's strategic military commander, the Chief of the Defence Staff also chairs the Armed Forces Committee, which is designed to lead and direct the Armed Forces. 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.

The Department is also responsible for three Trading Fund Agencies, three Executive Non-Departmental Public Bodies (NDPBs) and one Public Corporation.

- The three MOD Trading Funds (the Defence Support Group, the Defence Science and Technology Laboratory (dstl), and the UK Hydrographic 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 prepare Governance Statements for their Annual Accounts. Defence Internal Audit and representatives from Head Office are members of their Audit Committees and carry out an assurance role on my behalf before the Governance Statement is presented to the Chief Executive for approval. This process will escalate any issues to me, which if sufficiently material will be reflected in this document. There were no such issues this year. In addition, a Departmental representative sits on the Trading Funds' Management Boards. Ministers, supported by an Owner's Board, are responsible for setting the Trading Funds' top level objectives, approving major business decisions including their Corporate Plans and setting annual key targets.

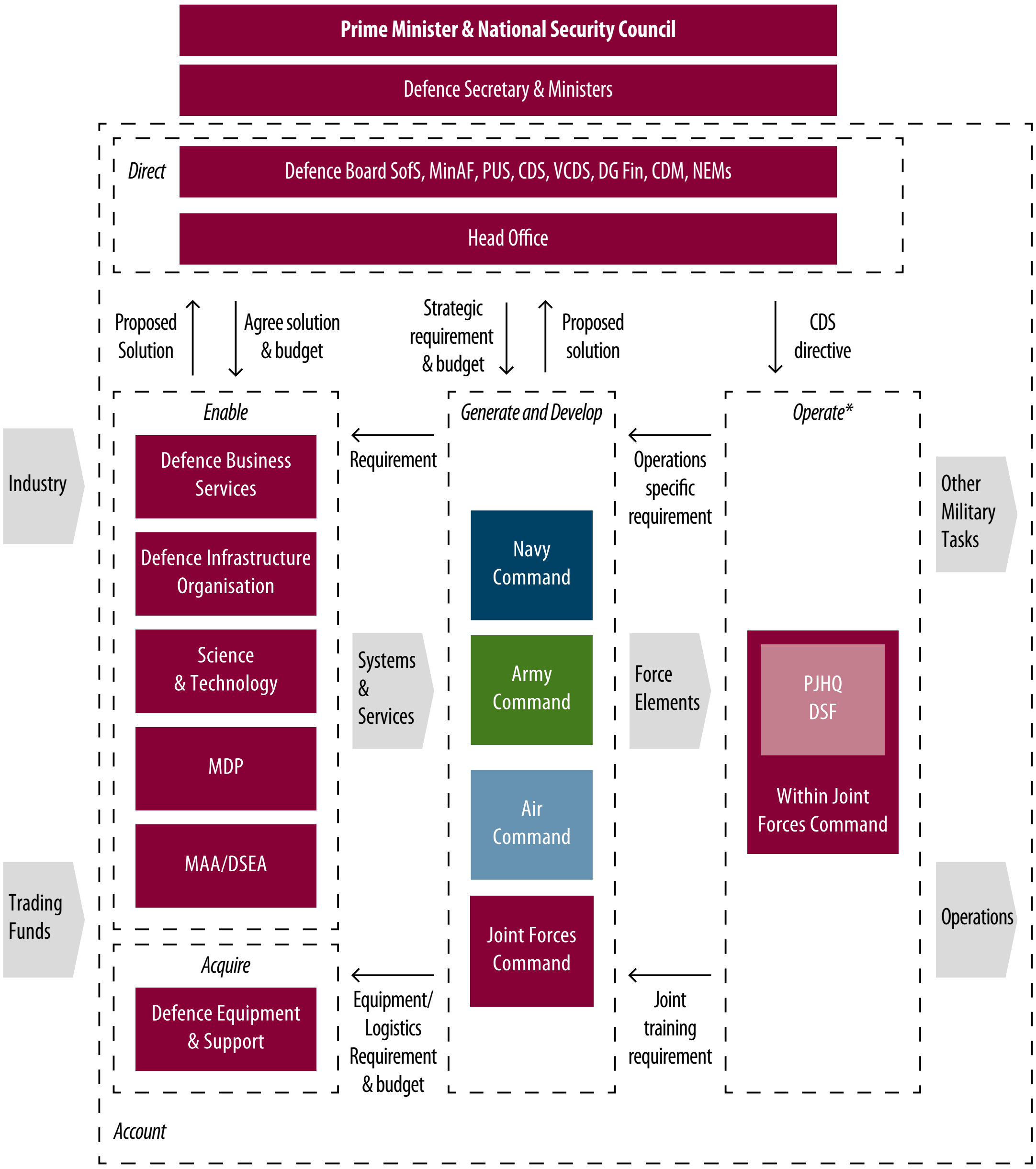
- The three Executive NDPBs (National Museum of the Royal Navy, National Army Museum, and Royal Air Force Museum) are sponsored by the Department and fall within the Departmental Accounting Boundary. We have one Public Corporation (Oil and Pipelines Agency), which is also sponsored by the Department, but it falls outside the Departmental Accounting Boundary and its accounts are published separately. We are currently considering selling the Government Pipeline and Storage System, which would result in the winding up of the Oil and Pipelines Agency. The NDPBs operate within a financial memorandum agreed between their respective Boards of Trustees and the MOD. The Public Corporation has a Board of Directors on which the MOD is represented.

The Armed Forces Pension Scheme and the Armed Forces Compensation Scheme are administered by the Service Personnel and Veterans Agency. Payments to eligible individuals under the Armed Forces Pension Scheme and Armed Forces Compensation Scheme 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 Accounting Boundary and fall within the Head Office and Corporate Services Top Level Budget.

I also appoint senior individuals as Process Owners to ensure that activities in certain enabling business areas are carried out on a coherent and consistent basis across Defence. Process owners are responsible for maintaining or improving the overall effectiveness and efficiency of their processes, which include human resources, procurement, IT, finance, health services, logistics and security. Process owners are also responsible for ensuring compliance with relevant legislation and other external requirements.

Organisation of Defence

The Defence Operating Model adopted in 2012 is set out below:



*Subject to the outcome of the Review of the future governance of operations, FLCs remain required to provide a command function for the non-SF, operations/activities that lie outside JFC's remit

3. The Defence Board

The Defence Board, chaired by the Secretary of State, 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 and risk management and assurance. The Board comprises senior executive members of the Department and two external independent members. I present a monthly spot report to the Board, which provides a succinct overview of key issues and activity since its last meeting and looks ahead to highlight issues that the Board will wish to address. The Board also considers a quarterly performance and risk report against the Department's objectives and aims, as set out in Defence Strategic Direction and the Defence Plan. This ensures that the Board has a view of progress against the delivery of the Government's priorities as set out in the Strategic Defence and Security Review and enables the Board to provide timely direction and guidance.

Three sub-committees sit beneath the Defence Board:

- The Defence Audit Committee, chaired by a Non-Executive member of the Defence Board which has a remit to review and challenge constructively the adequacy of internal controls, risk management and assurance processes within the Department;
- The Investment Approvals Committee, chaired by the Director General Finance, which takes the lead in examining investment proposals and providing advice on them to Ministers; and
- The People Committee, chaired by a Non-Executive member of the Defence Board which provides assurance that talent management systems for military and civilian personnel are effective in delivering the workforce which Defence needs in terms of skills, experience and behaviours.

4. The Board's Performance

Lead Non Executives Report on Board Effectiveness

This is my second statement for the Departmental annual report since my appointment as the Lead Non-Executive for Defence in September 2011.

I am pleased to report that the Defence Board has continued to develop in line with the Levene Review's recommendations. Our monthly meetings, increasingly informed by good quality management information and analysis, have put the Board at the centre of decision-making in the Ministry of Defence. Ably chaired by the Secretary of State for Defence, the Board has benefited from its balanced ministerial, civilian and military membership with the added spice of non-executive challenge and rigour. I have no doubt that the Secretary of State feels the Board helps him take better decisions.

Over the past year, the Board has been devoting time to the consideration of a wide range of strategic issues as well as continuing to deliver a balanced budget. Maintaining capabilities and maximising efficiencies have been key priorities. We have continued to be deeply involved in the progress of the Transforming Defence programme, because of its importance, sheer size and complexity. In addition, the Board has been overseeing DE&S and DIO transformation as both of these key organisations move towards a more arms-length relationship with the Department. Cyber security, the Army 2020, and looking after the morale and well-being of our Armed Forces and Civilians are amongst the range of items that have received deep consideration.

The Board has three sub-committees, Investment Approvals, Audit and People. The Board receives a report at each meeting from the chair of each committee. The Investment Approvals committee, under the chairmanship of the Director General Finance (which is responsible for scrutinising and advising on all major investment decisions) continues to provide a timely and robust challenge during the major investment process. The Audit Committee has had a progressive year under the very effective chairmanship of Graham Williams. Focusing primarily on the Defence Board's strategic risk register, the Committee has conducted a thorough programme of work to support the Governance Statement that you will see elsewhere in the report. The People Committee is beginning to focus on the assurance of our appointments processes as ensuring that we have the right people in the right jobs is key to the management of the Department in all its various activities.

Dr David Allen stepped down as one of the Board's non-executives at the end of his term of office after a period of distinguished service. Searches are commencing for additional non-executives both for the Defence Board and to help strengthen governance throughout the Department and its Commands.

The Armed Forces Committee has continued to develop into a very effective body. The Chief of the Defence Staff, who chairs the committee, the Vice Chief of the Defence Staff, the single Service Chiefs and the Commander Joint Forces, assisted by the Permanent Under Secretary and the Chief of Defence Materiel, ensure that a clear, coordinated military voice is heard at the Defence Board as this is naturally a key part of our deliberations.

I promised, in last year's report, to provide an update on progress against the Defence Board's action plan. The Board has made good progress and built on the foundations that my last review identified although our work still needs to be better understood throughout Defence. . During the year, we published a short pamphlet called 'Leading Defence', which provided a guide to the Board. This was followed up by a series of visits, led by me, to each TLB/FLC in the Department to explain what the Board is; what it does; how the

Board's role relates to Defence Reform; and to gather feedback to help improve our performance. The Board also published details of its operating framework to provide clarity about its role. In addition, a detailed user guide which explains the structure of decision making in Defence is set to be published this summer. The Board's decision making process benefitted from a marked improvement in the standard of Management Information it receives and the standard, timeliness and analytical content of papers submitted to the Board also improved during the year. We think that we have one of the most effective Departmental Boards and we are determined to maintain this position as well as continuing to improve our effectiveness.

The Defence Board met nine times in 2012-13. The table below lists the current Defence Board membership and the attendance record for each appointment. The vacant position for a non-executive member was filled by Dr David Allen until January 2013; he attended 4 of a possible 6 meetings.

Name	Attended
The Rt Hon Philip Hammond MP	9
The Rt Hon Andrew Robathan MP	8
Mr Jon Thompson	9
General Sir David Richards	8
General Sir Nicholas Houghton	9
Mr Bernard Gray	8
Mr David Williams	9
Mr Gerry Grimstone	9
Mr Graham Williams	9
Vacant position for Non Executive Member	4

5. Highlights of Board Committee Activities

Main sub-committees of the Board

Defence Audit Committee (DAC)

The DAC met six times over the financial year. The minutes of each meeting were circulated to the Defence Board. The Chair of the DAC also presented regular oral updates.

The DAC concentrated its efforts this year on assessing how effectively the Department manages risk, particularly the fourteen strategic risks identified by the Defence Board. The Committee commissioned reports from the officials identified by the Defence Board as the 'owner' of each risk. It also considered the assurance reports produced by TLB holders, as well as independent assurance provided by Defence Internal Audit. Where the Committee judged it necessary, risk owners and TLB holders or Directors of Resources also appeared before the Committee to answer questions. The TLB holders for Defence Equipment and Support, and Head Office and Corporate Services both attended the Board, as well as the Director of Resources for the Army. Owners of eight of the fourteen risks also attended.

The Committee concluded that the quality of risk management was continuing to improve. The fourteen risks identified were broadly drawn from the areas where there was the greatest potential threat to the Department achieving its objectives. The Committee was concerned, however, that the articulation of certain risks was not sufficiently precise to enable effective, targeted management. The Committee observed that there was a tendency to describe a 'negative objective' rather than a specific set of events that would result in an objective not being met.

Within that constraint, the Committee concluded that the mechanisms in place to manage most of the risks were adequate, and that the risks received sufficient attention from the Defence Board. The Committee had some concerns about the effectiveness with which the Department manages the risks around business continuity. In particular, the Committee was concerned about the extent to which the risk owner is able to ensure that TLBs have adequate plans in place. They were also concerned that the structural changes taking place as part of Transforming Defence had led to some lack of clarity on where responsibilities in this area lie. These issues are expected to reduce as the new structures bed in.

The Committee also concluded that the management of the risk that 'Defence Transformation does not deliver the required change to ways of working, so that restructuring means Defence Outputs are not delivered' could be improved. The Committee believes that it would be useful to define the required behaviours and ways of working more clearly so that they can be successfully adopted throughout the Department. This would also allow the likely effect of a failure on the Department's strategic objectives to be properly assessed.

More broadly, the Materiel Strategy represents a major and unprecedented change in the way the Department does its business. The Committee recommend that the risks inherent in the scale of the change required by the Materiel Strategy should be explicitly considered by the Board throughout the assessment phase, as well as any risks generated by lack of progress in improving the control framework in DE&S in the interim. Where necessary, these risks should be included in the main Defence Board's risk register. The Committee also thought that the dependence of the wider Transformation programme on the Materiel Strategy should have greater exposure at Board level.

The Committee concluded that the Department should take steps to introduce a stronger culture of compliance across the Department. It observed that in some areas, such as the physical condition of the fuel infrastructure or the correct treatment of accruals, the relevant regulations were not always being met. The Committee recognised that there is merit in the Department's focus on delivering results, but stressed the need to ensure that this is not done at the cost of compliance with necessary statutory requirement and processes.

Investment Approvals Committee (IAC)

The chair of the IAC has provided regular oral updates to the Board on its work. The only investment decision that was escalated to the main Defence Board this year concerned the Materiel Strategy programme.

The IAC considered a wide range of projects, including the Type 26 (Global Combat Ship), Core Production Capability, Maritime Support Delivery Framework, Materiel Strategy, Defence Infrastructure Organisation Transformation, Future Transport Aircraft A400M Training and Defence Core Network Services (DCNS).

The IAC completed 95 approvals on projects worth over £400M, including 17 Main or Initial Gate Business Cases. Of these Business Cases, five were approved, 11 were approved with caveats, and one was not approved. The IAC also considered five projects which did not complete the approvals process by 31 Mar 13, three of which were because the IAC directed the project to complete further work before re-submitting the business case for approval. The remaining 78 cases considered by the IAC related to Review Notes and Information Notes submitted by project teams.

People Committee

The People Committee met on only one occasion during the period due to key members not being available for much of the year. The Committee has now reconvened and has a plan for forward work, and plans to meet again in the autumn.

6. Compliance with Corporate Governance Code

I reviewed the Department's compliance with the Corporate Governance in Central Government Departments: Code of Practice 2011 issued by the Cabinet Office in July 2011.

The Department complies with all of the requirements except:

At the start of the year, the Defence Board only had three Non-Executive Board members, in contravention of section 3.3 of the Code, which requires four. Unfortunately one of the existing Non-Executive Board Members was not available for much of the year, and has now resigned. We have also not been able to recruit a suitable candidate for the existing vacancy. We are continuing our efforts to fill both vacancies.

Section 5.9 of the Code requires at least one Non-Executive Defence Board member to sit on the Defence Audit Committee apart from the Chair. The Defence Audit Committee is composed of some of the Non-Executive chairs of Top Level Budget audit committees. I believe that this provides a broad perspective of the Department's business, whilst maintaining the necessary independence of audit committee members.

7. The risk and control framework

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. 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 Civil Service Learning organisation and the Department's in-house training provider.

A new format for Defence Board strategic risks was introduced for this financial year, based on 14 risks identified and owned by the Board. They have been the basis for the Board's main risk discussions, leading to further directed studies on specific risks. Additionally, the Board have identified two additional risks of which they wish to have particular oversight. A review of these risks will be scheduled for Autumn 2013 to ensure the risks and process remain up-to-date and relevant. The Board report has been updated to begin to give better visibility of risks that are escalated from TLBs; further changes are planned that will make this process more rigorous. The complete list of risks is not published for reasons of national security but it includes these risks:

- that we do not have the right numbers of people with the right skills;
- that we cannot generate future leadership;
- that we do not retain the confidence and commitment of our people, causing them to leave;
- surrounding the withdrawal from Afghanistan;
- that Transformation does not deliver the required ways of working;
- to the delivery of operational capability;
- to our information, including from cyber attack; and
- from a disruptive event such as a flu epidemic or terrorist attack.

The Department's tolerance of risk varies between the different areas of Defence business. Military operations are inherently risky. The level of risk that Ministers agree to accept is based on advice from senior military officers and civilian officials. Every effort is made to provide personnel and assets with proper protection through planning, equipment and training, but we ultimately rely on the judgement of Force Commanders to manage the risks on a day–to-day basis. On the non-operational side, the Defence Board receives regular Security, Business Continuity and Health & Safety reports.

The findings of last year's Defence Internal Audit review of risk management have now been crystallised into an implementation plan that will be delivered over the next 2 years. Changes will include:

- an updated Risk Management framework that supports delegated operating model;
- consistent approach to Impact and Likelihood criteria that will allow comparisons across TLBs;
- redesigned report to the Defence Board to allow better focus on escalated risks that need attention, and better visibility of risks for profiling purposes;
- introduction of 'target' risk assessments, that will improve consideration of risk appetite;
- refreshed risk management training within the Defence Academy; and
- improved communications on risk matters.

The Defence Audit Committee, chaired by an external independent member of the Defence Board, reviews the Department's approach to internal control and provides independent advice both to the Defence Board and the Accounting Officer. The conclusions of the Defence Audit Committee are set out at paragraph 5 above.

Most Top Level Budget Holders are supported by an Audit Committee or equivalent, which is chaired by a Non-Executive member and at which representatives from the internal and external auditors are present. Like the Defence Audit Committee, these committees focus their activities to provide advice on wider business risk and assurance processes. The Defence Audit Committee has a meeting with the Chairs of the Top Level Budget Audit Committees once a year to seek their perspective on potential issues to be raised in this Governance statement.

An annual risk-based programme of internal audit is provided by Defence Internal Audit, which is the primary source of independent assurance. For the first time this year, DIA included an audit of six of the Department's strategic level risks.

Overall, the opinion provided by Head of Internal Audit is 'limited assurance', the same as in 2011-12. In particular, Defence Internal Audit found:

- processes were not always being re-engineered to meet reductions in staff numbers, which in some cases has resulted in gaps in the control framework;
- the push to make processes slicker and less bureaucratic had led to a reduced focus on policy rules and guidance, especially where accountability was unclear;
- there is some inconsistency across and within budget holders in the way that the control framework is applied; and
- the quality of management information needs to improve, especially to reduce the risk of errors arising as information is held in multiple places. The Management Information programme currently underway will address many of these issues in the longer term.

The Head of Internal Audit also expressed concern that the number of cases where follow-up actions were assessed as 'unsatisfactory' had increased substantially from previous years. As well as action already in hand within TLBs, such as more rigorous follow up with action owners, I have put in place mechanisms to raise serious failings with the relevant TLB Holder.

I also draw assurance from a number of other bodies on specific issues, many of which concern safety and security. These include the Military Aviation Authority, the MOD Police Committee and Defence Security Assurance Services.

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. As part of the assurance process, the National Audit Office see all Defence Audit Committee and Top Level Budget Audit Committee papers and attend their meetings.

8. Significant Control Risks

Financial Skills in Defence Equipment and Support

I reported last year that skills shortages in the finance area in DE&S had contributed to the errors in accounting for accruals. Strenuous efforts by the Director General Resources in DE&S to improve the skills of his finance staff, and the engagement of external assistance from KPMG, have meant that this issue did not arise again this year. But both the main issues on which this year's accounts are qualified sit within DE&S, and the underlying problems will take some time to resolve. As I said last year, the Materiel Strategy is expected to result in a step change in financial discipline in DE&S, and further incremental improvements are planned. In the mean time, financial control within DE&S remains a concern.

Transforming Defence

I share the Defence Audit Committee's view that the structural changes we are undertaking are leading to some lack of clarity in roles and responsibilities, particularly in business continuity. We will continue to monitor this issue closely, but, as the DAC said, I expect the situation to improve as the new structure beds-in.

The sheer volume of change underway in the Department also presents a challenge, especially given the importance of delivering 'business as usual', which in our case includes success in operations in Afghanistan and procuring cutting edge military equipment. We are actively managing these risks, but they will require sustained attention from the Defence Board, especially as the drawdown from Afghanistan and the return of the Army from Germany gather pace.

Materiel Strategy

The Materiel Strategy sets out a completely new approach to the procurement of military equipment. While the potential benefits are great, there are also significant risks. As the DAC has pointed out, much of this is due to the central role that DE&S plays in the new operating model, and hence the critical dependence of the future delivery of Defence on the success of this project. To mitigate this, a Defence Board member, the

Chief of Defence Materiel, has a dedicated role to deliver the Materiel Strategy, and all major decisions are approved by the relevant authorities in the MOD, the Treasury and the Cabinet Office.

Control of the proposed organisation also poses some challenges, especially the need to balance accountability to Parliament and the responsibilities of the Accounting Officer with the freedoms needed for the new organisation to deliver the benefits. We will tackle this issue in the Assessment Phase, and ensure that any remaining risk is thoroughly understood by the Defence Board.

9. Conclusion

I am satisfied that the mechanisms in place to identify and manage risks in the Department are adequate, and will continue to improve as the turbulence resulting from major structural changes we have introduced diminishes. Moreover, an important strand of these changes is improving the way in which we manage risk. These improvements are already producing benefits, including a much sharper focus on risk at the Defence Board. As the Board's approach continues to mature, and further changes to the risk management framework take effect, I expect further improvements.

Jon Thompson 5 July 2013

Accounting Officer

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 and of its Departmental Group for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agency. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2013. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply 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, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in Part One: *Performance and Key Facts*, Part One; Section B: *Delivering Defence* and Annex E: *Sustainable Development* of the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Basis for Qualified Opinion on regularity

For 2012-13 Parliament authorised a limit for Resource Annually Managed Expenditure (RAME) for the Department of £2,378,760,000. The Department's outturn against this limit, as reported in the Statement of Parliamentary Supply, was £1,866,797,000. As explained below, I disagree with the accounting treatment adopted in respect of the part of the impairment to the Department's German Estate which has been charged against the revaluation reserve instead of operating costs. Had this part of the impairment been treated in the manner I consider consistent with the Government Financial Reporting Manual, the Department would have exceeded the authorised limit set by Parliament by £395 million. I have therefore qualified my opinion on regularity.

Qualified Opinion on regularity

In my opinion, except for the effects of the matter described in the basis for qualification opinion paragraph:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for Qualified Opinion on Financial Statements

I have qualified my opinion on the financial statements in three respects:

Firstly, I disagree with the accounting treatment adopted by the Department, and endorsed by HM Treasury, in respect of the impairment to the Department's German Estate. £907 million of a total impairment of £1,504 million has been charged against the revaluation reserve. I consider this to be inconsistent with the Government Financial Reporting Manual, which requires impairments arising from a loss of service potential to be recognised in full as operating costs. If this treatment had been adopted, the Department's net operating costs for 2012-13 would increase by £907 million, with a consequent increase in net resource outturn. I have therefore qualified my opinion in this respect.

Secondly, 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 International Financial Reporting Standards (IAS 17: *Leases*, as interpreted by IFRIC 4: *Determining when an arrangement contains a lease*). Consequently, I have concluded that the Ministry of Defence has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2011, 31 March 2012 and 31 March 2013. This has also led to a material misstatement of the Statement of Comprehensive Net Expenditure for 2011-12 and 2012-13 and Statement of Parliamentary Supply for 2011-12 and 2012-13. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not maintained the records or obtained the information required to comply with International Financial Reporting Standards in this respect.

Thirdly, in respect of the valuation of inventory and certain non-current assets in the form of capital spares recorded in the financial statements, the evidence available to me was limited due to the Department having failed to perform an adequate impairment review. Consequently I was unable to obtain sufficient, appropriate audit evidence to support the valuation of £7.2 billion of non-current asset Capital Spares and £3.3 billion of non-explosive inventory held within the Department's Logistics and Commodities Services stores and represented in the Statement of Financial Position. In addition I am unable to assess the completeness and accuracy of the associated transactions in the Statement of Comprehensive Net Expenditure. I have also been unable to obtain sufficient, appropriate audit evidence for the corresponding figures for 2011-12, which were also subject to this qualification.

Qualified Opinion on financial statements

In my opinion, except for the effects of the matters described in the basis for qualification opinion paragraph:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2013 and of the Department's and Departmental Group's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

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

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 Part One: *Performance and Key Facts* and Part One; Section B: *Delivering Defence* and Annex E: *Sustainable Development* of the Annual Report 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 absence of accounting records held by the Department to support the proper application of IAS 17; and the limitations on my work relating to inventory and non-current asset capital spares, described above:

- I have not received 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 and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Opinion on Votes A

The Ministry of Defence's Votes A is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained for service with the armed forces. As reported in Annex G of the Annual Report, the maximum numbers maintained during 2012-13 for the Naval, Army and Air Force Services in all active and reserve categories were within the numbers voted by Parliament, except for Special Members of the Reserve Naval Forces. The Department has reported that the maximum numbers maintained as Special Members of the Reserve Naval Forces during the year was 1,950 against a voted limit of 1,940. My role is to inform Parliament whether or not the approved Estimate (Votes A) has been exceeded.

Qualified Opinion on Votes A

In my opinion, except for Special Members of the Reserve Naval Forces, the numbers provided for in the Estimate have not been exceeded.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
157 – 197 Buckingham Palace Road
Victoria, London SW1W 9SP

11 July 2013

Report of the Comptroller and Auditor General on the 2012-13 Accounts of the Ministry of Defence

Introduction

1. The principal activity of the Ministry of Defence (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 2012-13 the Departmental Group was responsible for £37.7 billion of net operating costs and assets of some £133.0 billion mainly consisting of land, buildings, fighting equipment and stores, together with gross liabilities of some £21.6 billion.

2. The Department is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FReM). Under the FReM, the Department is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

The purpose of my report

3. This Report explains the basis for the qualification of my audit opinion on the Department's 2012-13 financial statements. This report also provides an update on the actions taken by the Department to address the issues identified in my Report on the 2011-12 Annual Report and Accounts[1].

Accounting for the impairment to the value of the Germany Estate

4. I have qualified my opinion on the financial statements as I disagree with the accounting treatment adopted in respect of the part of the impairment to the Department's German Estate which has been charged against the revaluation reserve. Applying the accounting treatment which I consider to be appropriate and consistent with the Government Financial Reporting Manual (the FReM) would have resulted in an increase in net operating costs of £907m for 2012-13.

Background

5. In March 2013, the Defence Secretary made a Statement to Parliament announcing the Regular Army Basing Plan which set out plans for the Army's move back to the UK from Germany. Part of the Department's overseas estate includes garrisons and training facilities in Germany which, following the announcement, the Department will hand back on a phased basis. Therefore, the Department has impaired the value of land by £638 million to £170 million and buildings by £866 million to £313 million, a total impairment of £1,504 million. This reflects the fact that the previous valuation was based on the continued use of the estate beyond the drawdown timetable announced to Parliament.

Accounting requirements

6. The Department is required to prepare its accounts in accordance with the Financial Reporting Manual (the FReM). The FReM requires that the impairment of assets arising from a loss of service potential or economic value is recorded in net operating costs. The Department considers that the impairment is not the result of a loss of service potential as the policy announcement has not affected the asset values or their future capability because the assets could be used beyond 2019 if considered necessary. Consequently the Department has charged £907 million of the impairment to the revaluation reserve, which was the full balance on this reserve, with no impact on net operating costs. The remaining impairment of £597 million has been charged to net operating cost. The Department sought the view of and received endorsement from HM Treasury's Group Financial Reporting Team in reaching its conclusion over the accounting treatment applied.

7. I have considered the Department's views and the advice provided by HM Treasury's Group Financial Reporting Team. However, in my opinion there has been a loss of service potential in respect of these assets. The Department plans to use these assets for a substantially shorter period than anticipated in its most recent revaluation. While the assets could be used for a period beyond 2019 if necessary, I consider it reasonable to assume that the policy announced to Parliament will be implemented and that the consequent loss of service potential should be reflected in the accounting treatment.

8. Consequently, I am of the opinion that the full value of the impairment should be charged to net

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operating costs, with a transfer of £907 million from the revaluation to the general reserve. If this treatment were adopted, the Department's net operating costs for 2012-13 would increase by £907 million to £38,611 million.

Implications on Statement on Parliamentary Supply

9. The expenditure of government departments is authorised by Acts of Parliament, which set annual limits on the net expenditure which the Department may not exceed. Departments have separate limits for expenditure recorded as Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). Had this impairment been treated in the manner I consider appropriate the £907million increase in net operating cost would have resulted in an increase in Net Resource Outturn of the same amount.

10. Under the Consolidated Budgeting Guidance impairments are charged against either Resource DEL or AME based on certain criteria and by agreement with HM Treasury. As disclosed in the financial statements, the Department has charged £597 million to net operating costs as a result of the impairment, and these costs have been recorded under AME in the Statement of Parliamentary Supply.

11. The Department considers it is appropriate to charge £907 million to the revaluation reserve. Consequently it has not indicated the budgeting treatment that would have been adopted if the full impairment was charged to net operating costs. Were the Department to charge the full amount to net operating costs, as I consider it is required to do under the FReM, and if the expenditure charged to the revaluation reserve was treated in a consistent manner with the elements charged to AME, the Department would have exceeded the AME limit set by Parliament by £395 million. I have therefore qualified my opinion on regularity as I consider the Department would have exceeded the resources voted to it by Parliament if this transaction had been accounted for correctly.

Accounting for lease-type arrangements

12. I have qualified my opinion for a fourth year because the Department has not complied with the required accounting treatment for leases in International Financial Reporting Standards (IFRS) and is therefore likely to have omitted a material value of lease 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

13. In preparing its accounts, the Department must comply with the requirements of the Government Financial Reporting Manual (FReM). Since 2009-10 the FReM has required the adoption of International Financial Reporting Standards (IFRS) by UK central government bodies. IFRS[2] requires preparers of accounts to establish whether lease-type contracts are in substance either a finance or operating lease. These decisions could have a significant impact on the financial statements because if the contract is classified as a finance lease then, rather than recording contract spend as capital or revenue expenditure as it is incurred, the value of assets used to deliver the service would be recognised in the Statement of Financial Position (SoFP) alongside a liability for the minimum lease payments due under the contract.

14. The accounting requirements for lease type arrangements are particularly relevant to the Department. It necessarily enters into strategic arrangements with certain contractors to procure specialist defence platforms on a non-competitive basis, for example in relation to surface ships, submarines and aircraft. These arrangements may provide for the exclusive, or near exclusive use of industrial assets and capability which have only limited utility to other customers. Consequently, the contractual terms, which are covered by the Government Profit Formula and its Associated Arrangements (GPFAA)[3], may give rise to the Department controlling the significant majority of the outputs of the supplier's assets involved in the arrangement. For example, where shipyards are used exclusively on defence contracts and the pricing of the contract recognises this by allowing recovery of fixed costs other than through market rate or unit cost

2 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)

3 The GPFAA, also commonly referred to as the Yellow Book, is agreed by Government and industry, as represented by the CBI, and is subject to periodic review by an independent review board.

pricing. As such, these arrangements may be considered to contain a lease under IFRS, and may have the characteristics of a finance lease.

Action by the Department

15. As part of the work undertaken in 2009-10 when it first adopted IFRS, the Department assessed its Private Finance Initiatives and Public Private Partnership contracts against the revised accounting requirements but it did not carry out this assessment for other contractual arrangements. Based on the results of the assessments performed at the time of IFRS adoption the Department believed that there may be a number of its contracts which would require disclosure as leases. Given the potential number and size of the contracts identified from the Department's initial review, I concluded that the impact of the non-compliance would be likely to give rise to material omissions in its financial statements.

16. Since I last reported the Department has conducted a review of its contracts to identify those which have characteristics indicating that they contain lease type arrangements not currently recognised as leases. Through that review the Department has identified 27 contracts which they consider require a detailed assessment against the standards. The Department has committed to completing an assessment of all of these contracts, and for a small sample of these contracts, obtaining the necessary information and calculating the accounting entries required to comply with accounting standards by September 2013. Based on the results of this exercise, including the cost and time involved, the Department will consider whether to extend compliance to all relevant contracts.

17. Although progress is being made to address this issue the Department did not have the necessary information at 31 March 2013 to measure the value of the assets and liabilities associated with these arrangements in order to comply with the financial reporting requirements. In my view, if this information were available and presented in the financial statements the consequences of any potential decision to exit or scale back a finance lease type arrangement would be more transparent to the reader of the accounts. For example the loss of asset utility would be disclosed as an impairment cost.

Non-current assets and inventory

Limitation on the scope of my opinion

18. I have limited the scope of my opinion in relation to certain non-current assets recorded within the SoFP, in the form of non-current asset capital spares (£7.2 billion) and inventory (£3.3 billion). The limitation arises as a result of the Department having an insufficiently robust and systematic process to assess impairment and the consequent impact on the valuation of these assets. Due to the lack of a systematic assessment the Department has been unable to provide me with sufficient evidence to support the valuation of these balances and the associated accounting entries which have been made in the accounts.

19. I have qualified my opinion for the past four years over the valuation of inventory. In June 2012 I also published a Value for Money Report 'Managing the Defence Inventory' in which I set out some of the wider issues and difficulties the Department was facing in managing its inventory and rationalising its holdings. In its responses to the House of Commons Defence Select Committee the Department has stated that it considered the problems to be deep rooted and complex and that it would require significant changes to business processes and the upgrade and replacement of many legacy systems over several years to enable it to provide a full resolution to the issues which give rise to my qualification.

20. My audit of these financial statements, again, considered how the Department currently assesses its inventory and capital spares holdings to ensure that the appropriate value is reflected in its accounts and that adequate assessment of impairment has been made.

21. During the year the Department established an exercise to systematically review stock-lines which represented the most significant elements of the Capital Spares and Inventory balances. The exercise required a review of each stock line for impairment against criteria set out in centrally issued guidance. The Department estimated that by covering the top 1% of stock-lines they would cover around 75% of their total reported inventory balance of £15bn and that a portion of other balances would also be assessed to provide a suitable analysis on which management could draw conclusions over the remainder. The exercise represented a significant commitment by the Department to address my previous recommendations and to write down the relevant assets to their fair value.

22. The results of my audit have led me to conclude that the process is not yet sufficiently robust to provide management with the necessary assurance over the valuation of capital spares and inventory because:

- The impairment review was not systematically performed in line with the Department's plans and did not evidence the coverage of the top 1 per cent of stock-lines. From my audit of a sample of assessments I found that not all aspects of impairment had been adequately considered. In addition, a large number of stock-lines within the scope of the exercise had not been reviewed.

- There was an insufficiently robust management review of the work performed by project teams which meant that the process was applied inconsistently. Consequently I was unable to confirm the coverage or that all aspects of impairment had been sufficiently considered; and

- I was unable to determine the total level of impairment action that has been reflected in the accounting records as a result of the exercise. This was a result of inadequate central collation of the exercise; and a lack of clarity in the accounting guidance and account code structures to record the impairment activity.

23. Some Project Teams carried out separate reviews of elements of their holdings and posted adjustments. I audited impairments made during 2012-13 as a result of the 1 per cent exercise and ad hoc adjustments that contributed to a reduction of over £355m to the year-end balances. Unfortunately the accounting entries were not consistently posted and have highlighted that the need for clearer guidance and an improved account code structure. For example, the information presented for impairments in Note 11 records a net value of £85m.

24. I am therefore unable to conclude on the appropriateness of the valuation of capital spares and inventory, nor on the completeness of impairment charges recorded in the 2012-13 financial statements.

Recommendations for further action

25. As a result of work in 2012-13 the Department is in a stronger position than previous years. Firstly, the Department has made strides in disposing of much of the inventory previously identified as obsolete or surplus. Secondly, the Department can learn lessons from the 1% exercise and to facilitate a more consistent application in 2013-14 supported by improved guidance and training.

26. The Department remains hampered by legacy warehouse and inventory systems which necessitate a high level of manual intervention to ensure data integrity, both within the inventory systems and the general ledger; this is data that Project Teams require to effectively manage their inventory holdings. The roll-out of new systems in 2012-13 is allowing some greater visibility of deployed stockholdings, although a number of issues related to this roll-out required significant manual intervention to address data transfer issues. I understand that the Department is reflecting on these issues in the context of the planned inventory solutions.

27. I support the Department's commitment to improve its processes for adequately assessing the valuation of its non-current asset Capital Spares and Inventory balances through the establishment of a systematic impairment review process to meet the requirements of IAS 36[4] and IAS 2[5]. This will evidence that impairment actions are systematically considered and applied and; that appropriate accounting entries and disclosures are supported by an adequate audit trail. In order for the Department to achieve this it should:

- Revise its internal guidance and accounting policy, building on the feedback from my review of its application in 2012-13. It should ensure that the process is consistently and systematically applied and that inventory managers and finance staff involved with the management of non-current assets are sufficiently skilled to identify and account for impairment to meet the requirements of the policy;

- Ensure all significant non-current assets and inventory balances come within the scope of the review process, including assets held in industry and off-system;

- Amend the resource account code structure to ensure that impairment actions can be properly reflected in the accounting record in a way which will provide the necessary level of information to support accounting disclosures and the associated SoCNE and SoFP impacts;

4 International Accounting Standard 36: *Impairment of Assets* (IAS 36)
5 International Accounting Standard 2: *Inventories* (IAS 2)

- Strengthen the process to provide central oversight and to collate the outcomes from the impairment reviews across the non-current asset balances, to enable management to assess the adequacy of the level of coverage and the accuracy and support for the associated adjustments; and

- Establish a process to provide assurance to management on the implementation and application of these processes in advance of my audit in 2013-14.

Qualified Opinion on Votes A – Excess Vote on Royal Navy Special Reserves Category

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

29. The Special Members of the Reserve Naval Forces category should include personnel who have sponsored reserve status i.e. civilians who are temporarily classed as military to enable them to carry out their duties. Some Royal Fleet Auxiliary personnel fall into this category but the Department identified that the actual figures reported have not previously included them. Their inclusion results in the voted maxima for Officers in this category being exceeded by 50, and in aggregate the total for these reserves was exceeded by 10 in respect of the month of April 2012. The maximum numbers retained within the Reserve was 1,950 against a voted limit of 1,940 (as shown in Annex G). The Department has identified that similar breaches have occurred since 2007-08 as a result of the omission of Royal Fleet Auxiliary personnel.

30. The failure to include all eligible reserve personnel in the calculation of maximum numbers represents a weakness in the monitoring controls in respect of Votes A, although the small number of personnel exceeded represents only a very small proportion of the overall number of military personnel maintained.

31. My opinion is limited to providing a statement to certify whether the approvals for military personnel have been exceeded. I have therefore qualified my opinion to reflect that the number of Royal Navy Special Reserve Personnel approved in the Estimates has been exceeded.

Recommendations for further action

32. The Department should consider the level at which Parliament requires Votes A categories to be reported in the audited Annual Reports and Accounts, and whether there is scope for reporting at a higher aggregate level.

Progress on previous areas of qualification

Cabinet Office approval for Board member remuneration

33. For 2011-12 I qualified my regularity opinion on the grounds that the Department had not obtained the required approval for the overall remuneration and benefits for the Chief of Defence Materiel (CDM). As noted in the Remuneration Report (Page 76), the Department has now withdrawn its request for the approval of the accommodation allowance element of the remuneration package and CDM has agreed to repay the allowance received since 1 April 2012. The Department has not sought to recover the allowance paid prior to that date (£10k net of tax); the gross amount has been written off as a loss.

34. I have confirmed that the Department has now obtained the required approvals for the full remuneration package of the Chief of Defence Materiel for 2012-13.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
157 – 197 Buckingham Palace Road
Victoria, London SW1W 9SP

11 July 2013

Statement of Parliamentary Supply

Summary of Resource and Capital Outturn 2012-13

		Estimate			Outturn			2012-13 Total Outturn Compared to Estimate Saving / (Excess)	2011-12 Outturn
	Note	Voted £000	Non Voted £000	Total £000	Voted £000	Non Voted £000	Total £000	£000	£000
Departmental Expenditure Limit									
Resource	2.1	37,156,997	-	37,156,997	35,874,176	-	35,874,176	1,282,821	37,979,944
Capital	2.2	7,960,113	-	7,960,113	7,843,339	-	7,843,339	116,774	9,014,056
Annually Managed Expenditure									
Resource	2.1	2,378,760	-	2,378,760	1,866,797	-	1,866,797	511,963	966,837
Capital	2.2	35,000	-	35,000	(35,352)	-	(35,352)	70,352	(9,615)
Total Budget		47,530,870	-	47,530,870	45,548,960	-	45,548,960	1,981,910	47,951,222
Non-budget									
Resource		-	-	-	-	-	-	-	(422,419)
Total		47,530,870	-	47,530,870	45,548,960	-	45,548,960	1,981,910	47,528,803
Total Resource		39,535,757	-	39,535,757	37,740,973	-	37,740,973	1,794,784	38,524,362
Total Capital		7,995,113	-	7,995,113	7,807,987	-	7,807,987	187,126	9,004,441
Total		47,530,870	-	47,530,870	45,548,960	-	45,548,960	1,981,910	47,528,803

Net Cash Requirement 2012-13

	Note	Estimate £000	Outturn £000	2012-13 Outturn compared to Estimate: Savings/ (Excess) £000	2011-12 Outturn £000
Net Cash Requirement	4	38,651,322	36,837,976	1,813,346	37,608,179

Administration Costs 2012-13

	Estimate £000	2012-13 Outturn £000	Outturn compared with Estimate £000	2011-12 Outturn £000
Administration Costs	2,325,133	2,178,861	146,272	2,691,946

Notes 1 to 29 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statement of Parliamentary Supply

The Total Net Resource outturn is £37.7Bn against an Estimate of £39.5Bn, an under spend of £1.8Bn.

The underspend consists of:

- an underspend of £1.3Bn against the approved limit for Resource DEL.
- an underspend of £0.5Bn against the approved limit for Resource AME.

The Total Net Capital outturn is £7.8Bn against an Estimate of £7.9Bn, an under spend of £0.1Bn.

The Net Cash Requirement shows an outturn of £36.8Bn against an Estimate of £38.6Bn.

The Net Administration Costs were £2.179Bn, £0.146Bn lower than the Estimate of £2.325Bn.

Further details of the Department's budget and expenditure are included in the Annual Report.

Statements of Comprehensive Net Expenditure (SoCNE)

for the year ended 31 March 2013

	Note	2012-13 Core Department £000	2012-13 Departmental Group £000	2011-12 Core Department £000	2011-12 Departmental Group £000
Administration Costs					
Staff costs	6.2	2,100,182	2,100,182	2,505,314	2,505,314
Other administration costs	7.1	44,548	44,548	18,316	18,316
Total administration costs		**2,144,730**	**2,144,730**	**2,523,630**	**2,523,630**
Programme Costs					
Staff costs	6.2	9,836,452	9,923,254	10,334,868	10,423,509
Other programme costs	7.2	26,723,578	26,697,617	26,979,082	26,961,894
Gross programme costs		**36,560,030**	**36,620,871**	**37,313,950**	**37,385,403**
Operating income	8	(1,380,212)	(1,494,429)	(1,345,504)	(1,405,930)
Net programme cost before interest		**35,179,818**	**35,126,442**	**35,968,446**	**35,979,473**
Net interest payable / (receivable)	9	433,433	433,075	479,466	479,294
Net programme cost		**35,613,251**	**35,559,517**	**36,447,912**	**36,458,767**
Net operating cost	3.1	**37,757,981**	**37,704,247**	**38,971,542**	**38,982,397**

Other Comprehensive Expenditure

	Note	2012-13 Core Department £000	2012-13 Departmental Group £000	2011-12 Restated Core Department £000	2011-12 Restated Departmental Group £000
Net (gain) / loss on revaluation of property, plant and equipment	SoCiTE	(1,212,634)	(1,201,915)	(3,632,541)	(3,655,320)
Net (gain) / loss on revaluation of intangible assets	SoCiTE	(314,067)	(314,067)	(423,350)	(423,350)
Net (gain) / loss on revaluation of assets held for sale	SoCiTE	115,591	118,589	46,727	45,044
Net (gain) / loss on revaluation of inventories	SoCiTE	(168,590)	(168,590)	(238,796)	(238,796)
Net (gain) / loss on pensions	SoCiTE	28,098	31,305	5,770	5,770
Impairments / (Impairment Reversals) not included in operating costs	3.1	24,931	24,931	17,220	17,220
Transfer between reserves and asset writes-on	SoCiTE	(4,465)	(37,734)	(130,704)	(119,904)
Total Other Comprehensive Expenditure		**(1,531,136)**	**(1,547,481)**	**(4,355,674)**	**(4,369,336)**
Total Net Comprehensive Expenditure		**36,226,845**	**36,156,766**	**34,615,868**	**34,613,061**

Notes 1 to 29 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statements of Financial Position (SoFP)

as at 31 March 2013

	Note	31 March 2013 Core Department £000	31 March 2013 Departmental Group £000	31 March 2012 Core Department* £000	31 March 2012 Departmental Group* £000
Non-current assets					
Intangible assets	10	27,418,111	27,418,111	27,850,751	27,850,751
Property plant and equipment	11	91,518,899	92,277,442	92,069,562	92,812,600
Financial assets		136,404	136,404	141,976	163,886
Receivables due after more than one year	16.1	422,227	604,857	827,907	987,827
Total non-current assets		**119,495,641**	**120,436,814**	**120,890,196**	**121,815,064**
Current assets					
Financial assets held for sale	12.6	1	105,396	1	57,567
Non-current assets held for sale	14	41,508	41,508	91,992	91,992
Inventories	15	7,576,987	7,585,586	7,246,283	7,246,792
Trade and other receivables	16.1	2,843,978	2,859,040	2,433,296	2,440,949
Financial assets		167,436	167,436	110,585	110,585
Cash at bank and in hand	17	1,785,834	1,851,149	764,522	812,101
Total current assets		**12,415,744**	**12,610,115**	**10,646,679**	**10,759,986**
Total assets		**131,911,385**	**133,046,929**	**131,536,875**	**132,575,050**
Current liabilities					
Trade and other payables due within one year	18.1	(10,732,080)	(10,792,423)	(10,706,570)	(10,750,888)
Financial liabilities		(68,147)	(68,147)	(213,497)	(213,497)
Total current liabilities		**(10,800,227)**	**(10,860,570)**	**(10,920,067)**	**(10,964,385)**
Non-current assets plus net current assets		**121,111,158**	**122,186,359**	**120,616,808**	**121,610,665**
Non-current liabilities					
Provisions	19	(4,702,960)	(4,863,339)	(4,608,219)	(4,757,311)
Other payables	18.1	(5,907,499)	(5,907,525)	(6,121,421)	(6,121,469)
Total non-current liabilities		**(10,610,459)**	**(10,770,864)**	**(10,729,640)**	**(10,878,780)**
Assets less liabilities*		**110,500,699**	**111,415,495**	**109,887,168**	**110,731,885**
Taxpayers' equity and other reserves					
General fund	SoCiTE	85,179,244	85,179,244	84,095,437	84,095,437
Revaluation reserve	SoCiTE	25,321,455	25,321,455	25,791,731	25,791,731
Taxpayers Equity		**110,500,699**	**110,500,699**	**109,887,168**	**109,887,168**
Arm's Length Bodies restricted reserves		-	176,743	-	65,463
Arm's Length Bodies unrestricted reserves		-	738,053	-	779,254
Total Arm's Length Bodies' reserves		**-**	**914,796**	**-**	**844,717**
Total taxpayers' equity and other reserves		**110,500,699**	**111,415,495**	**109,887,168**	**110,731,885**

*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 1.39 to 1.41 to the accounts.

Jon Thompson 5 July 2013

Accounting Officer

Notes 1 to 29 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statements of Cash Flows (SoCF)

for the year ended 31 March 2013

	Note	2012-13 Core Department £000	2012-13 Departmental Group £000	2011-12 Core Department £000	2011-12 Departmental Group £000
Cash flows from operating activities					
Net operating cost	SoCNE	37,757,981	**37,704,247**	38,971,542	38,982,397
Adjustments for non-cash transactions		(10,662,311)	**(10,720,406)**	(10,260,738)	(10,272,958)
Increase / (Decrease) in trade and other receivables	SoFP	5,002	**35,121**	(56,213)	(56,575)
Adjustment for movements on receivables relating to items not passing through operating costs		189,097	**197,171**	20,214	20,214
Movement in net inventories including provisions		243,002	**274,072**	291,458	291,467
(Increase) / Decrease in trade payables	SoFP	188,412	**172,409**	(1,139,328)	(1,140,213)
Adjustment for movements in payables relating to items not passing through operating costs		(102,047)	**(102,047)**	634,875	634,832
Realised loss / (gain) on derivatives		76,610	**76,610**	(132,182)	(132,182)
Use of provisions	19	230,174	**230,174**	331,140	331,140
Net cash outflow from operating activities		**27,925,920**	**27,867,351**	28,660,768	28,658,122
Cash flows from investing activities					
Purchase of property, plant and equipment	11	7,410,658	**7,420,650**	7,780,551	7,787,234
Purchase of intangible assets	10	1,054,279	**1,054,279**	1,458,845	1,458,845
Adjustment for non cash movements relating to PPE and intangibles		394,447	**412,875**	(185,639)	(185,639)
Proceeds on disposal of property, plant and equipment		(137,264)	**(142,952)**	(300,289)	(300,289)
Repayments from other bodies	12.18	(5,519)	**(5,519)**	(5,469)	(5,469)
Income from investments		-	**18,101**	-	(1,084)
Net cash outflow from investing activities		**8,716,601**	**8,757,434**	8,747,999	8,753,598
Cash flows from financing					
From the consolidated fund (Supply) – current year		(37,535,446)	**(37,535,446)**	(37,461,000)	(37,461,000)
From the consolidated fund – settlement of prior year receivable		(147,179)	**(147,179)**	(127,641)	(127,641)
Repayment of other loans		-	**-**	-	43
Repayment of loans from the National Loans Fund	18.1	2,418	**2,418**	2,407	2,407
Capital element of payments in respect of finance leases and Service Concession Arrangements		193,036	**193,036**	197,006	197,014
Movement on collaborative projects		(176,662)	**(176,662)**	(100,160)	(100,160)
Net financing		**(37,663,833)**	**(37,663,833)**	(37,489,388)	(37,489,337)
Net increase / (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**1,021,312**	**1,039,048**	80,621	77,617
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**1,021,312**	**1,039,048**	80,621	77,617
Cash and cash equivalents at the beginning of the period	17	**764,522**	**812,101**	683,901	734,484
Cash and cash equivalents at the end of the period	17	**1,785,834**	**1,851,149**	764,522	812,101

The 2011-12 Cash Flow Statements have been restated on a basis comparable with the method used for 2012-13.

Notes 1 to 29 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Statements of Changes in Taxpayers Equity (SoCiTE)

		Core Department			Arm's Length Bodies (ALBs)			Departmental Group
	Note	General Fund £000	Revaluation Reserve £000	Taxpayers Equity £000	Restricted Reserves £000	Unrestricted Reserves £000	Total of ALBs' Reserves £000	Total Reserves £000
Balance at 31 March 2011		**83,401,034**	**23,491,023**	**106,892,057**	**58,759**	**783,151**	**841,910**	**107,733,967**
Parliamentary Funding – drawn down in-year		37,461,000	-	37,461,000	-	-	-	37,461,000
Parliamentary Funding – Supply receivable	16.1	147,179	-	147,179	-	-	-	147,179
Non-cash charge – auditors remuneration	7.2	2,800	-	2,800	-	-	-	2,800
Net operating costs	SoCNE	(38,971,542)	-	(38,971,542)	(141)	(10,714)	(10,855)	(38,982,397)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	3,632,541	3,632,541	6,712	16,067	22,779	3,655,320
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	423,350	423,350	-	-	-	423,350
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(46,727)	(46,727)	83	1,600	1,683	(45,044)
Net (loss) / gain on revaluation of inventories	SoCNE	-	238,796	238,796	-	-	-	238,796
Net (loss) / gain on pensions	SoCNE	(5,770)	-	(5,770)	-	-	-	(5,770)
Impairments / (Impairment Reversals) not included in operating costs	SoCNE	-	(17,220)	(17,220)	-	-	-	(17,220)
Transfer between reserves and asset writes-on	SoCNE	2,060,736	(1,930,032)	130,704	50	(10,850)	(10,800)	119,904
Balance at 31 March 2012		**84,095,437**	**25,791,731**	**109,887,168**	**65,463**	**779,254**	**844,717**	**110,731,885**
Parliamentary Funding – drawn down in-year		37,535,446	-	37,535,446	-	-	-	37,535,446
Parliamentary Funding – Supply payable	18.1	(697,470)	-	(697,470)	-	-	-	(697,470)
Non-cash charge – auditors remuneration	7.2	2,400	-	2,400	-	-	-	2,400
Net operating costs	SoCNE	(37,757,981)	-	(37,757,981)	44,484	9,250	53,734	(37,704,247)
Other net comprehensive expenditure:		-	-		-	-		
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	1,212,634	1,212,634	638	(11,357)	(10,719)	1,201,915
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	314,067	314,067	-	-	-	314,067
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(115,591)	(115,591)	-	(2,998)	(2,998)	(118,589)
Net (loss) / gain on revaluation of inventories	SoCNE	-	168,590	168,590	-	-	-	168,590
Net (loss) / gain on pensions	SoCNE	(28,098)	-	(28,098)	-	(3,207)	(3,207)	(31,305)
Impairments / (Impairment Reversals) not included in operating costs	SoCNE	-	(24,931)	(24,931)	-	-	-	(24,931)
Transfer between reserves and asset writes-on	SoCNE	2,029,510	(2,025,045)	4,465	66,158	(32,889)	33,269	37,734
Balance at 31 March 2013		**85,179,244**	**25,321,455**	**110,500,699**	**176,743**	**738,053**	**914,796**	**111,415,495**

Notes 1 to 29 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

Notes to the Accounts

1. **Statement of Accounting Policies**

Introduction

1.35 These financial statements have been prepared in accordance with the 2012-13 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 1.40 to 1.41 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 departures to enable the Department to reflect its own particular circumstances or the departures to not have a material impact on the financial statements. The departures are:

- The FReM's requirement for Departments to prepare accounts that present the transactions and balances by: Core Department, Agencies and Departmental Group, has not been applied in respect of Agencies because the Department's remaining Agency is on-vote and embedded within the chain of command. HM Treasury permits the Agency to be treated as an integral part of the Core Department. Throughout these accounts, the Departmental Group figures for the Ministry of Defence consist of the consolidation of the Core Department and its ALBs. Details of the entities within the accounting boundary are at Note 29 to these accounts.

- The Department has not fully complied with the FReM regarding the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and similar schemes' accounting requirements on the grounds of materiality. Rather than registering an asset and a liability to reflect its holding of allowances and its obligation to pay for emissions, the Department has reflected the purchase and sale of allowances as expenditure and income within the Statement of Comprehensive Net Expenditure. All other costs associated with the scheme, such as compliance checking, are also charged to the Statement of Comprehensive Net Expenditure.

- On the grounds of materiality, the Department, in applying IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities – uses the cost model rather than the revaluation model to measure changes in its capitalised asset provisions.

- On the grounds of materiality, HM Treasury has also agreed that the information normally required by the FReM on Fees and Charges disclosures (paragraph 5.4.28) is not required and the disclosure provided at Note 8.1 is sufficient.

1.36 The Statement of Comprehensive Net Expenditure is analysed between administration and programme costs. Administration costs consist of the costs of civilian staff, excluding health care professionals and staff working in operational areas such as Afghanistan plus the cost of external assistance such as technical and legal services. The Armed Forces are excluded from the ACR as are the ALBs. The cost of redundancies and early release schemes is included in Administration costs.

Segmental Reporting

1.37 The Defence Board reviews performance and allocates resources at an aggregated level, varying their mix to meet prioritised changes in activities which, in combination, deliver defence capability. Although the Department is organised into separate budgetary areas for financial management purposes e.g. procurement and equipment support, Navy Command, Land Forces and Air Command, it is only by combining the activities undertaken by each of these budgetary areas that the Department is able to deliver its principal output of meeting UK defence commitments. The wider departmental group includes charities e.g. Service museums and the Commonwealth War Graves Commission; these are not considered material to the delivery of defence capability. Therefore, on the basis that the Department's business output is not organised on any specific geographic, economic, regulatory, product or service basis, it is deemed appropriate to treat it as a single operating segment.

Accounting Convention

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

Basis of Preparation of Department's Annual Accounts

1.39 These financial statements comprise the consolidation of the Department, its Supply financed Agency, Advisory NDPBs and ALBs sponsored by the Department. The Defence Agency, Advisory NDPBs and ALBs which are included in the accounting boundary of the Departmental Group are listed in Note 29. The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies and requires the individual bodies to be designated for consolidation by order of HM Treasury under statutory instrument. This has implications for ALBs with subsidiaries. Subsidiaries which are public corporations, or fall outside the central government classification for some other reason have been excluded from the accounting boundary except for some minor entities where inclusion does not have a material impact on the consolidated position and the work required to exclude them is therefore not justified.

1.40 The ALBs use categories for their costs which do not always align with MOD categories. As they are not material, the costs of the Department's ALBs are split into three categories for the purpose of consolidation – 'staff costs', 'depreciation' and 'other'. Following transfer of responsibility for the Met Office from MOD to the Department for Business, Innovation and Skills the Department now has three agencies established as Trading Funds. The Trading Funds produce their own accounts and, as they fall outside Voted Supply, the Department's interests are included in the financial statements as non-current financial assets.

1.41 The AFPS is not consolidated within these financial statements. Separate accounts are prepared for the AFPS and are available at: http://www.official-documents.gov.uk/document/hc1213/hc00/0039/0039.pdf

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

Non-Current Assets

1.43 Intangible non-current assets and plant and equipment assets are expressed at their fair value through the application of indices produced by Defence Statistics; indices are also applied to property assets during periods between the quinquennial revaluations undertaken by external professional valuers.

1.44 The useful economic life of an equipment asset is assessed by reference to its estimated out of service date and for other assets on the basis of their estimated period of utility to the Department. There is an inherent uncertainty in estimating the annual depreciation charge and the carrying amount of a tangible non-current asset. For example an increase in the useful economic life will decrease the depreciation charged to the Statement of Comprehensive Net Expenditure during the year and increase the asset's carrying amount at financial year end.

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

Inventories

1.46 Where inventories have become surplus, unserviceable, defective or obsolescent, an estimated financial provision is applied to their carrying value to reduce it to net realisable value. Details of inventories balances are given in Note 15.

Accruals

1.47 Where expenditure has been incurred but not invoiced an estimate is made of the amount to be accrued. It is key to retain evidence to support this estimate. This is particularly so in complicated contractual arrangements where it is necessary to present fairly the substance of the arrangement. Accruals are listed in Note 18.

Nuclear Decommissioning

1.48 Provisions have been made for the cost of decommissioning facilities and for the treatment, storage, and disposal of nuclear waste arising from operations at Rosyth and Devonport dockyards and at Atomic Weapons Establishment sites. Provisions are also included for the future cost of decommissioning operational nuclear submarines and likewise for the cost of decommissioning those which have reached their out of service date.

1.49 In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. Key assumptions in this estimate are the time period over which the provisions are estimated, the costs for the future storage and decommissioning of waste, the VAT rate and the discount rate used. While the discount rate applied to the future cash flows is subject to assumptions, the Department has used the discount rate mandated by HM Treasury. Details of how nuclear decommissioning provisions have been calculated are included in Note 19.

Changes During FY 2012-13 Which Have Affected the Preparation of These Annual Accounts

1.50 The main changes in accounting policies, estimates and conventions in 2012-13 were.

- The discount rate for general provisions (i.e. excluding provisions relating to pensions) are those advised by HM Treasury and are dependent on the time boundary of the provision. Three different rates are used. Previously, only one rate was used for discounting general provisions. This has an impact on the value of provisions and the associated charge to the Statement of Comprehensive Net Expenditure.

- IAS 39 was applied to loans and investments (with the exception of Public Dividend Capital) in entities outside the Departmental Accounting Boundary. This requires all loans and investments within its scope to be initially measured at fair value with subsequent measurement to be determined by its classification category. Investments are listed in Note 12. The previous application was that loans and investments in bodies designated as outside the departmental boundary be reported at historic cost less impairment.

- The application of merger accounting in the public sector context has been amended. The combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another, will be accounted for as either a Transfer by Merger or as a Transfer by Absorption. The previous treatment was that only merger accounting (i.e. a Transfer by Merger) was used.

- Accounting for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and similar schemes. Previously, HM Treasury accounting policy only applied to the EU Greenhouse Gas Emission Allowance Trading Directive. On the grounds of materiality, the MOD did not fully comply with accounting requirements as stated in Note 1.1.

Recent Changes to Regulations Affecting the Preparation of Future Annual Accounts

1.51 The 2013-14 FReM introduces the following main changes.

- Amendments to Employee Benefits which determine when termination benefits are recognised together with enhanced disclosures.

- Amendments to how Service Concession Arrangements are accounted for in respect of the recognition of Service Concession assets.

- Separate disclosure of the Statement of Parliamentary Supply (SoPS), with its own accounting notes, from the primary financial statements.

In addition, the 16th Report of the Financial Reporting Advisory Board provides further information on developments in financial reporting and governance in the public sector. The report is available at; https://www.gov.uk/government/publications/financial-reporting-advisory-board-frab-report

Net Operating Costs

1.52 Costs are charged to the Statement of Comprehensive Net Expenditure in the period in which they are incurred and matched to any related income. Details of exit packages are included at Note 6 to the accounts. 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 HMRC. Surpluses and deficits on disposal of assets classified as held for sale and inventories declared for disposal are included at Note 7 Other Administration and Programme Costs.

1.53 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

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

- Land (by region and type);
- Buildings – Non Dwellings (UK and specific overseas indices);
- Buildings – Dwellings (UK and specific overseas indices);
- Single Use Military Equipment – Air Systems;
- Single Use Military Equipment – Sea Systems;
- Single Use Military Equipment – Land Systems;
- IT and Communications Equipment – Communications Equipment;
- IT and Communications Equipment – Office Machinery and Computers;
- Plant and Machinery – specific UK index covering all assets;
- Transport – Fighting Equipment;
- Transport – Other; and
- Assets Under Construction – index applicable to the underlying tangible asset category.

1.55 Property assets are also subject to a quinquennial revaluation by external professional valuers in accordance with IAS 16 – Property, Plant and Equipment, 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 positioning of housing in certain areas or as a result of the lack of an alternative market for certain holdings due to their remote geographic locations. Where market value for existing use is more appropriate, for example for small numbers of houses in a single location, this basis of valuation has been applied.

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

Intangible Non-Current Assets

1.57 Research costs are charged to the Statement of Comprehensive Net Expenditure in the period in which they are incurred.

1.58 Development costs are capitalised where the project is expected to result in an asset which will enter service. Those not capitalised are charged to the Statement of Comprehensive Net Expenditure. 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 Statement of Comprehensive Net Expenditure, along with the value of the underlying property, plant and equipment non-current assets.

1.59 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

1.60 The useful economic lives of property, plant and equipment non-current assets are reviewed annually and adjusted where necessary.

1.61 It is the Departmental capitalisation threshold which determines whether or not an asset is recorded on the Department's Non-Current Asset Register (NCAR). The threshold is £25,000 although Agencies are still permitted to apply a lower capitalisation threshold to those assets which form part of their own Statement of Financial Position. Where ALBs have used a lower capitalisation threshold, the assets have also been consolidated.

1.62 The Departmental threshold of £25,000 is not applied to individual capital spares and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, for accounting purposes, these items are treated as pooled assets and included within the SUME category of non-current assets. GWMB and capital spares are depreciated and the depreciation charge in the Statement of Comprehensive Net Expenditure also includes the cost of GWMB fired to destruction.

1.63 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

	Category	Years
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

1.64 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.

1.65 Income to the value of the donated assets is recognised in the year of donation except where donation is subject to conditions. Where donation is subject to conditions income is deferred to the year in which the conditions are met.

Componentisation and Subsequent Expenditure

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

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

- Where a property asset is refurbished or part of it replaced, the expenditure is recognised within the carrying amount of the overall asset. For assets above £500,000, the carrying amount of the part which is replaced is de-recognised. The Quinquennial Revaluation is used to adjust any short term valuation differences.

- Material expenditure on major refits and overhauls in the sea environment 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

1.67 Impairment charges to the Statement of Comprehensive Net Expenditure occur in circumstances which reduce the carrying amount of property, plant and equipment assets to their recoverable amount. All impairment losses (except for those arising from a clear consumption of economic value or service potential) are written off against the Revaluation Reserve until the carrying amount of the asset reaches its depreciated historic cost. Impairment losses below this amount are charged to the net operating cost section of the Statement of Comprehensive Net Expenditure. Any reversal of an impairment charge is recognised in the Statement of Comprehensive Net Expenditure to the extent that the original charge was previously recognised there. Any remaining amount is recognised in the Revaluation Reserve.

1.68 All impairment losses arising from a clear consumption of economic value or service potential should be written off to the net operating cost section of the Statement of Comprehensive Net Expenditure. Any balance on the Revaluation Reserve (up to the level of the impairment) is transferred to the General Fund.

Disposal of Tangible Non-Current Assets

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

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

1.71 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

1.72 Assets held under finance leases are capitalised as non-current assets and a corresponding liability recognised. The assets are depreciated over the shorter of the lease term and their estimated useful economic life. Payments are apportioned between reductions in the capital obligations included in payables and finance costs charged to the Statement of Comprehensive Net Expenditure. Expenditure under operating leases is charged to the Statement of Comprehensive Net Expenditure in the period to which the charge relates.

1.73 The Department may also enter into arrangements that do not take the legal form of a lease but which give the Department the right to use an asset in return for payment. IFRIC 4 – Determining whether an Arrangement Contains a Lease provides guidance on determining whether such arrangements contain leases. Where leases are identified, they should be classified as operating or finance leases in accordance with IAS 17 – Leases and accounted for in accordance with the accounting policies set out in Note 1.38.

1.74 The Department has not complied with IFRIC 4 – Determining whether an Arrangement Contains a Lease. The Department has been conducting a review of the impact of implementing IFRIC 4. The review is due to report in 2013-14.

1.75 The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position. Commitments under operating leases and finance leases have also been omitted from Notes 22.1 and 22.2.

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

1.76 Where PPP including PFI arrangements fall within the scope of the IFRIC 12 – Service Concession Arrangements 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 Statement of Comprehensive Net Expenditure for service performance and finance costs.

1.77 Where PPP including PFI arrangements are outside the scope of IFRIC 12 – Service Concession Arrangements, 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

1.78 The Department has foreign currency forward purchase contracts, denominated in US Dollars and Euros, and fuel fixed price swap contracts denominated in US Dollars which are accounted for as derivatives and classified as Held For Trading financial instruments.

1.79 The foreign currency forward purchase contracts are measured at fair value with movements in fair value being charged or credited to the Statement of Comprehensive Net Expenditure. 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, the derivative 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 Notes 12.9 to 12.11 to the accounts.

1.80 The Department uses fixed price swap contracts to manage its risk of fuel price movements in respect of Aviation Turbine Fuel and Gas Oil. The contracts are measured at fair value with movements in fair value being charged or credited to the Statement of Comprehensive Net Expenditure. The fair value is measured as the difference between the market rate for the two commodities at the date of valuation and the rate stipulated in the contract, multiplied by the contracted volumes, in the contracted currency. These values are converted to sterling using the closing mid-market rate obtained from the Financial Times. The swap contracts will only have a fair value up to their date of settlement. Once each contract is settled, it is removed from the Statement of Financial Position. Swap contracts are purchased by competitive tender using a panel of banks (the latter chosen following a comprehensive assessment) and the contracting process began in 2010-11 for supply in 2011-12 onwards. Details of existing contracts are at Notes 12.12 and 12.13 to the accounts.

1.81 Public Dividend Capital is not treated as a financial instrument in the Department's financial statements and is reported at historic cost less any impairment. The Department's investments in special or 'golden' shares are not recognised on the Statement of Financial Position. The entities in which the Department holds special shares are listed at Note 12.22.

1.82 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.

1.83 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.

1.84 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

1.85 Inventories 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. During the year the consumption for Land Forces' inventories is recorded as the point at which inventory is issued from depots, an 'add back' is made at year end to reflect the value of inventory issued but not yet consumed. For Navy Command and Air Command the point of consumption is when inventories are issued from final depots such as an air base or a ship's hold.

1.86 Inventory which is expected to be used is valued at the cost of replacing the materiel – i.e. at current cost or historic cost if not materially different. However, where there is no expectation of consumption or sale in the ordinary course of business, the value is abated by the creation of a financial provision to reduce it to Net Realisable Value. The creation of the financial provision is a charge to the Statement of Comprehensive

Net Expenditure. On actual disposal both the gross carrying amount and the previously created provision are written off/released to the Statement of Comprehensive Net Expenditure.

1.87 Some items of inventory, for example munitions, have a limited shelf life and a financial provision is applied 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 the current cost is charged to the Statement of Comprehensive Net Expenditure along with the credit of any accumulated provision.

Cash and Cash Equivalents

1.88 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.

1.89 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 change in value. Cash and cash equivalents in the Department's Statement of Financial Position comprise balances held by the Government Banking Service, commercial banks and cash in hand.

Provisions for Liabilities and Charges

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

1.91 On initial recognition, provisions are charged to the Statement of Comprehensive Net Expenditure unless the expenditure will provide access to current and future economic benefits, in which case a capitalised asset is created. The carrying amount of any capitalised asset provision is depreciated and charged to the Statement of Comprehensive Net Expenditure over the remaining estimated useful economic life of the underlying asset. Provisions are discounted at rates advised by HM Treasury and three different rates are used for provisions depending on the time boundary they fall into. The pensions discount rate advised by HM Treasury is used for provisions relating to employee benefits The discount is unwound over the remaining life of the provision and shown as an interest charge in the Statement of Comprehensive Net Expenditure.

Reserves

1.92 The Revaluation Reserve reflects the unrealised element of the cumulative balance of revaluation and indexation adjustments on non-current assets and inventories.

1.93 The General Fund represents the balance of the Taxpayers' Equity in the Core Department. Reserves relating to the ALBs are split into 'Restricted' and 'Unrestricted' reserves, where restricted reserve have limitations, e.g. covenants and other legal restrictions, on their use.

Pensions

1.94 Present and past employees are mainly covered by the Civil Service pension arrangements for civilian personnel and the AFPS for Service personnel. There are separate scheme statements for the AFPS and Civil Service pensions. Further details can be found at: www.civilservice-pensions.gov.uk and https://www.gov.uk/pensions-and-compensation-for-veterans

1.95 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 42.8% (Officers) and 30.8% (Other Ranks) of pensionable pay. In addition, civilian personnel contribute between 1.5% and 3.9% of pensionable earnings if they are members of the classic, premium, classic plus or nuvos schemes. 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 employee contributions 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.

1.96 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 normal retirement age and are charged to the Statement of Comprehensive Net Expenditure.

1.97 The Department operates a number of small pension schemes for civilians at overseas locations. The scheme liabilities are included in the total provisions figure reported at Note 19 – 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). Further information on these pension schemes and other schemes for example those operated by CWGC and CRFCA is included in Note 20.

1.98 The disclosures for the main pension schemes are included in: the Remuneration Report, Note 6 – Staff Numbers and Costs, (see paragraphs 6.3 to 6.9) and on the websites of the Civil Service Pension Scheme and the Armed Forces Pension Scheme.

Early Departure Costs

1.99 The Department provides in full for the cost of meeting pensions up to the normal 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, 2.35% from 31 March 2013 (2.8% from 31 March 2012). Pensions payable after the normal retirement age are met by the Armed Forces Pension Scheme for military personnel and by the Civil Service pension arrangements for civilian personnel. However, any additional element payable beyond normal retirement age, which derives from the enhancement of reckonable service, continues to be met by the Department. Redundancies are provided for in full.

Foreign Currency

1.100 All transactions that are denominated in a foreign currency are translated into Sterling using the General Accounting Rate (GAR) prevailing at the date of each transaction. For each currency, the GAR is updated monthly based on spot rates. In respect of US Dollars and Euros the GAR is based on the average of the published spot rates in the week immediately preceding the new month. Exchange differences will arise when a currency transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. In addition, monetary assets and liabilities are translated at the mid-market closing rate applicable at the Reporting Period date and the exchange differences are reported in the Statement of Comprehensive Net Expenditure.

1.101 Overseas non-monetary assets and liabilities are subject to annual revaluation and are translated at the mid-market closing rate applicable at the Reporting Period date. Nuclear inventories are revalued using the GAR. Exchange differences are taken to the Revaluation Reserve.

VAT

1.102 The Department is registered for VAT and pays tax on its purchases in accordance with Value Added Tax Act 1994 (VATA94). As it is a non-business organisation, most of the VAT the Department incurs is non-recoverable and therefore a cost to the Department.

Third Party Assets

1.103 Third party assets are those for which the Department acts as custodian or trustee but in which neither the Department nor the government has a direct beneficial interest. As they are not public assets they are not recorded in the Statement of Financial Position.

Heritage Assets

1.104 Operational heritage assets are valued at fair value using the same methodology applied to other assets of the same general type. Non operational heritage assets are valued at fair value if information is available and if valuation is considered beneficial. Further details of heritage assets are at Note 28.

2. Analysis of Net Resource and Capital Outturn

2.1 Analysis of Net Resource Outturn

Spending in Departmental Expenditure Limits (DEL)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	2012-13 Total Net Outturn Compared with Estimate £000	2011-12 Total Net Resource Outturn £000
Voted Expenditure							
A Provision of Defence Capability Service Personnel Costs	-	9,400,516	-	**9,400,516**	9,399,051	(1,465)	9,822,628
B Provision of Defence Capability Civilian Personnel Costs	-	200,829	-	**200,829**	293,675	92,846	214,603
C Provision of Defence Capability Infrastructure Costs	-	4,428,812	-	**4,428,812**	4,395,724	(33,088)	4,365,665
D Provision of Defence Capability Inventory Consumption	-	1,749,176	-	**1,749,176**	1,835,994	86,818	1,740,806
E Provision of Defence Capability Equipment Support Costs	-	5,161,399	-	**5,161,399**	5,148,218	(13,181)	5,625,988
F Provision of Defence Capability Other Costs and Services	-	1,500,622	-	**1,500,622**	1,816,805	316,183	1,339,555
G Provision of Defence Capability Receipts and Other Income	-	-	(1,248,867)	**(1,248,867)**	(1,211,415)	37,452	(1,283,873)
H Provision of Defence Capability Depreciation and Impairment Costs	-	8,958,447	-	**8,958,447**	9,177,012	218,565	9,291,756
I Provision of Defence Capability Cash Release of Provisions Costs	-	203,010	-	**203,010**	242,868	39,858	176,464
N Operations Service Personnel Staff Costs	-	197,449	-	**197,449**	241,570	44,121	278,285
O Operations and Peace-keeping Civilian Personnel Staff Costs	-	22,421	-	**22,421**	32,192	9,771	25,570
P Operations Infrastructure Costs	-	164,921	-	**164,921**	182,496	17,575	214,071
Q Operations Inventory Consumption	-	562,911	-	**562,911**	658,701	95,790	794,614
R Operations Equipment Support Costs	-	427,032	-	**427,032**	495,413	68,381	630,108
S Operations Other Costs and Services	-	378,161	-	**378,161**	422,855	44,694	492,251
T Operations Receipts and Other Income	-	-	(27,686)	**(27,686)**	(27,961)	(275)	(42,806)
U Operations Depreciation and Impairment Costs	-	499,275	-	**499,275**	519,617	20,342	532,998
V Operations Cash Release of Provisions	-	1,976	-	**1,976**	5,734	3,758	2,827
Y Global Pool - Resource	-	44,138	(129)	**44,009**	54,300	10,291	46,212
Z Arm's Length Bodies	-	126,833	-	**126,833**	170,493	43,660	186,791
AA Provision of Defence Capability - Research and Development Costs	-	944,069	-	**944,069**	978,522	34,453	833,485
Administration Costs							
B Administration Costs - Civilian Personnel Costs	2,100,182	-	-	**2,100,182**	2,300,642	200,460	2,505,314
I Administration Costs - Cash Release of Provisions Costs	34,131	-	-	**34,131**	-	(34,131)	168,316
F Administration Costs - Other Costs and Services	44,548	-	-	**44,548**	24,491	(20,057)	18,316
Total Spending in DEL	**2,178,861**	**34,971,997**	**(1,276,682)**	**35,874,176**	**37,156,997**	**1,282,821**	37,979,944

Spending in Annually Managed Expenditure (AME)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Resource Outturn £000	Total Net Resource Estimate £000	2012-13 Total Net Outturn Compared with Estimate £000	2011-12 Total Net Resource Outturn £000
Voted Expenditure							
AB Provision of Defence Capability – Depreciation and Impairment Costs	-	1,062,365	-	**1,062,365**	864,430	(197,935)	509,557
AC Provision of Defence Capability – Provisions Costs	-	307,375	-	**307,375**	562,271	254,896	(467,009)
AD Provision of Defence Capability – Cash Release of Provisions Costs	-	(237,141)	-	**(237,141)**	(242,868)	(5,727)	(342,499)
AE Provision of Defence Capability – Movement on the Fair Value of Financial Instruments	-	-	(182,527)	**(182,527)**	252,627	435,154	347,133
AF Operations and Peace-keeping – Provisions Costs	-	10,884	-	**10,884**	15,056	4,172	6,799
AG Operations and Peace-keeping – Cash Release of Provisions Costs	-	(1,976)	-	**(1,976)**	(5,734)	(3,758)	(2,827)
AH War Pensions Benefits	-	907,817	-	**907,817**	932,978	25,161	915,683
Total Spending in AME	**-**	**2,049,324**	**(182,527)**	**1,866,797**	**2,378,760**	511,963	966,837
Total Resource Outturn	**2,178,861**	**37,021,321**	**(1,459,209)**	**37,740,973**	**39,535,757**	**1,794,784**	**38,946,781**

2.2 Analysis of Net Capital Outturn

Capital Spending in Departmental Expenditure Limits (DEL)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	2012-13 Total Net Outturn Compared with Estimate £000	2011-12 Total Net Capital Outturn £000
Capital – Voted Expenditure							
J Provision of Defence Capability – Capital Single Use Military equipment (SUME)	-	4,395,741	(571)	**4,395,170**	4,376,370	(18,800)	4,828,749
K Provision of Defence Capability – Other Capital (Fiscal)	-	3,008,738	-	**3,008,738**	3,051,954	43,216	3,561,231
L Provision of Defence Capability – Capital Asset / Estate Disposal Costs	-	-	(63,685)	**(63,685)**	(67,000)	(3,315)	(149,657)
M Provision of Defence Capability – Capital New Loans and Loan Repayments	-	-	(5,519)	**(5,519)**	(5,000)	519	(5,469)
W Operations Capital Single Use Military Equipment	-	372,970	-	**372,970**	383,340	10,370	454,911
X Operations Other Capital (Fiscal)	-	132,636	-	**132,636**	217,660	85,024	322,068
Z Arm's Length Bodies	-	3,029	-	**3,029**	2,789	(240)	2,223
Total Capital Spending in DEL	**-**	**7,913,114**	**(69,775)**	**7,843,339**	**7,960,113**	**116,774**	9,014,056

Capital Spending in Annually Managed Expenditure (AME)	Administration Expenditure £000	Programme Expenditure £000	Programme Income £000	Total Net Capital Outturn £000	Total Net Capital Estimate £000	2012-13 Total Net Outturn Compared with Estimate £000	2011-12 Total Net Capital Outturn £000
Capital – Voted Expenditure							
Provision of Defence Capability – Provisions Costs (release)	-	(35,352)	-	**(35,352)**	35,000	70,352	(9,615)
Total Capital Spending in AME	-	**(35,352)**	-	**(35,352)**	**35,000**	**70,352**	(9,615)
Total Capital Outturn	-	**7,877,762**	**(69,775)**	**7,807,987**	**7,995,113**	**187,126**	9,004,441

3. Reconciliation of Outturn to Net Operating Cost and Administration Budget

3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	Outturn £000	Supply Estimate £000	2011-12 Outturn £000
Net Resource Outturn (Statement of Parliamentary Supply)	2	**37,740,973**	**39,535,757**	38,524,362
Adjustment for changes in discount rates not passing through net operating costs		**28,000**	-	235
Adjustment for Service Concession Arrangements treated as on-SoFP for Accounts but treated as off-SoFP for Estimates and Budgets and therefore excluded from the resource outturn but included in operating costs		**81,006**	-	110,203
Income in respect of donated assets treated as capital income		**(108,948)**	-	(26,033)
Loss/(Gain) on foreign exchange contracts in respect of Capital purchases		**56,584**	-	(58,792)
Adjustment for impairments and impairment reversals included in resource outturn but not passing through Net Operating Cost	SoCiTE	**(24,931)**	-	(17,220)
Add capital grants included in operating costs but excluded from resource outturn	SoCiTE	**3,029**	-	27,223
Write on of capitalised provision not passing through Resource outturn	SoCNE	**(71,466)**	-	-
Prior Period Adjustment in the 2011-12 accounts to correct an impairment error		-	-	422,419
Net Operating Cost		**37,704,247**	**39,535,757**	**38,982,397**

3.2 Outturn Against Administration Budget and Administration Net Operating Cost

	Note	2012-13 £000	2011-12 £000
Estimate – Administration Cost Limit		2,325,133	2,785,180
Outturn – Administration Costs	2	2,178,861	2,691,946
Less release of early retirement provisions	19	(34,131)	(168,316)
Administration Net Operating Costs	SoCNE	**2,144,730**	2,523,630

Administration costs consist of the costs of civilian staff, excluding: health care professionals, movement on provisions and staff working in operational areas (including Royal Fleet Auxiliary personnel) such as Afghanistan plus the cost of external assistance such as technical and legal services. The Armed Forces are excluded from the Administration Cost Regime as are the ALBs. The cost of redundancies and early release schemes is included in Administration costs.

4. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Estimate £000	Outturn £000	Net Total Outturn Compared with Estimate: Savings / (Excess)
Net Resource Outturn	39,535,757	37,740,973	1,559,858
Net Capital Outturn	7,995,113	7,807,987	122,871
Accruals Adjustments			
Non cash transactions	(10,813,686)	(9,898,221)	(851,210)
New provisions and adjustments to previous provisions	(577,327)	(318,259)	(24,142)
Adjustment for ALBs			
Remove outturn (Resource and Capital)	(173,282)	(129,862)	(43,420)
Add cash Grant in Aid	172,294	183,596	(11,302)
Movement in Working Capital			
Increase / (Decrease) in Inventory	692,709	330,704	362,005
Increase / (Decrease) in Receivables	387,496	5,002	382,494
(Increase) / Decrease in Payables	1,183,646	885,882	297,764
Use of provisions	248,602	230,174	18,428
Net Cash requirement	**38,651,322**	**36,837,976**	**1,813,346**

5. Segmental Analysis

5.1 Information on operating activities, financial results, forecasts and plans is presented to and reviewed by the Defence Board on an aggregated basis. This reflects the way in which the Department manages its business in that the resources and activities of each of the Top Level Budget areas must be aggregated in order to determine the overall cost of delivering the Department's principal output of providing the UK's defence capability.

5.2 For financial reporting purposes, the Department is therefore considered to have a single operating segment.

6. Staff Numbers and Costs

6.1 The average number of full-time equivalent persons employed during 2012-13 and 2011-12 are set out in the following table.

		2012-13		2011-12
	Core Department	**Departmental Group**	Core Department	Departmental Group
Civilian Staff				
Permanent staff	60,770	63,603	69,580	72,281
Temporary staff	90	163	70	96
Ministers and special advisers	8	8	8	8
Armed Forces	181,470	181,470	189,650	189,650
Totals	**242,338**	**245,244**	259,308	262,035

In order to align with the total pay costs incurred during the year, shown at paragraph 6.2 below, the calculation of the number of staff uses monthly statistics to identify an average number employed for the year. The figures reflect the number of personnel in organisations within the Departmental Boundary for the Annual Accounts and therefore exclude those in the Trading Funds. Locally Employed Civilians are included as permanent staff because the additional detail required to analyse the figures between permanent and temporary is not available. More information on the Department's staff numbers, and the statistical calculations used, is available on the website: http://www.dasa.mod.uk

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

	2012-13 Core Department £000	2012-13 Departmental Group £000	2011-12 Core Department £000	2011-12 Departmental Group £000
Staff costs – Administration	2,100,182	2,100,182	2,505,314	2,505,314
Staff costs – Programme	9,836,452	9,923,254	10,334,868	10,423,509
	11,936,634	**12,023,436**	12,840,182	12,928,823
Made up of:				
Salaries and wages	8,787,619	8,866,833	9,446,052	9,527,584
Social security costs	655,095	658,167	686,260	689,224
Pension costs	2,313,096	2,317,612	2,414,081	2,418,226
Redundancy and severance payments	180,824	180,824	293,789	293,789
	11,936,634	**12,023,436**	12,840,182	12,928,823
Paid to:				
Armed Forces	9,615,216	9,615,216	10,116,441	10,116,441
Civilian	2,321,418	2,408,220	2,723,741	2,812,382
	11,936,634	**12,023,436**	12,840,182	12,928,823

Principal Civil Service Pension Scheme

6.3 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 Aon Hewitt Limited reviewed the scheme as at 31 March 2007; details can be found at www.civilservice.gov.uk/pensions .

6.4 For the year to 31 March 2013, of the total pension contributions for the Departmental Group in the table above, £290M (2011-12: £313M) were payable in respect of the various schemes in which civilian staff were members. Contributions to the PCSPS in the same period were £269M (2011-12: £303M) calculated using four percentage rates (16.7%, 18.8%, 21.8% and 24.3%) of pensionable pay, based on four salary bands. The salary bands were revised for 2012-13; percentage contribution rates remain unchanged. 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.

6.5 Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £1.5M (2011-12 £1.6M) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2011-12 from 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £0.1M (2011-12 £0.1M) representing 0.8% of pensionable pay were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

Armed Forces Pension Scheme

6.6 The Armed Forces Pension Scheme 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 1 April 2005 (formal valuations for unfunded public service pension schemes have been suspended, by HM Treasury, on value for money grounds) 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).

6.7 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.

6.8 A new Armed Forces Pension Scheme will be introduced in April 2015. It is currently known as Future Armed Forces Pension Scheme (FAFPS). All Service personnel who are members of one of the Armed Forces Pension Schemes (e.g. AFPS 75, AFPS 05, FTRS 97 and RFPS) who will be serving beyond April 2015 will be automatically transferred to the new scheme unless they qualify for Transitional Protection. The Government has offerred Transitional Protection to those who are within 10 years of their respective scheme's Normal Pension Age on 1 April 2012. Further details of the new scheme are available at: https://www.gov.uk/pensions-and-compensation-for-veterans#the-future-armed-forces-pension-scheme

6.9 For the year to 31 March 2013 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £2Bn (2011-12: £2.1Bn) based on employer's contribution rates determined by the Government Actuary. For 2012-13, the employer's contribution rates were 42.8% of pensionable pay for Officers (2011-12 42.8%) and 30.8% of pensionable pay for Other Ranks (2011-12 30.8%). 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: https://www.gov.uk/pensions-and-compensation-for-veterans.

Other Pension Schemes

6.10 The Armed Forces Pension Scheme incorporates a number of smaller schemes, including: the Non-Regular Permanent Staff Pension Scheme, the Gurkha Pension Scheme and the Reserve Forces Pension Scheme. The membership of these schemes is approximately 4% of the AFPS total membership and the employer's contributions to the schemes are included in the figure payable to the AFPS, at paragraph 6.9.

6.11 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 6.4 includes contributions in respect of these schemes. Some employees and former employees are members of other schemes, for example the Merchant Navy Ratings Pension Fund and schemes covering locally employed civilians in Germany, Cyprus and Gibraltar. Estimates of the liabilities for these schemes are included in the accounts and additional details are provided at Note 20 – Pensions.

Civil Service and Other Compensation Schemes – Exit Packages

6.12 The figures in the following table include redundancy and other departure costs paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS). Where the Department has agreed early retirements the costs are met by the MOD and not by the Civil Service Pension Scheme. The table includes 107 individuals who retired early on ill-health grounds during 2012-13 (2011-12 172); their total accrued pension liabilities for the year were £0.2M, (2011-12 £0.3M)

6.13 For staff leaving under voluntary exit or voluntary redundancy terms the cost includes any top-up to compensation provided by the Department to buy out the actuarial reduction on an individual's pension as well as the compensation payment.

6.14 The table also includes the members of the Armed Forces released under schemes introduced as part of the SDSR. All Armed Forces redundancies are compulsory; the law does not provide for voluntary redundancy. While personnel are invited to apply for consideration, the Services may retain applicants, and make non-applicants redundant in their stead, in order to retain the right balance of skills and experience across the rank structures. In 2011-12 only successful applicants were included in the table as 'other departures agreed'; non applicants were listed as compulsory. For 2012-13 all redundancies have been included as 'other departures agreed' because the detail of 'compulsory' redundancies was not available prior to publication.

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band	
	2012-13	2011-12	**2012-13**	2011-12	**2012-13**	2011-12
<£10,000	4	5	312	405	316	410
£10,000 – £25,000	28	16	2,567	3,027	2,595	3,043
£25,000 – £50,000	11	11	3,139	2,700	3,150	2,711
£50,000 – £100,000	-	9	1,356	1,388	1,356	1,397
£100,000 – £150,000	-	-	139	164	139	164
£150,000 – £200,000	-	-	22	34	22	34
£200,000 – £250,000	-	-	6	7	6	7
Total Number of Exit Packages	**43**	41	**7,541**	7,725	**7,584**	7,766
	£M	£M	£M	£M	£M	£M
Total Resource Cost (£M)	**0.8**	1.3	**263.7**	268.1	**264.5**	269.4

6.15 In addition to the exit packages detailed above the Department may occasionally make use of early release schemes to reduce the number of civilian staff who are not members of the CSCS, for example locally employed staff in Germany and Cyprus, teachers and nursing staff.

6.16 Members of the Armed Forces Pension Scheme who leave before the age of 55 may be entitled to an Early Departure Payment (EDP); these payments are not included above unless they are a result of SDSR redundancy schemes. Details of the EDP scheme are set out at Note 6.7 to the accounts.

7. Other Costs

7.1 Other Administration Costs

	2012-13		2011-12	
	Core Department £000	**Departmental Group £000**	Core Department £000	Departmental Group £000
External Assistance (e.g. legal and professional fees)	**44,548**	**44,548**	18,316	18,316
Total Other Administration Costs	**44,548**	**44,548**	18,316	18,316

7.2 Other programme Costs

	2012-13		2011-12	
	Core Department £000	**Departmental Group £000**	Core Department £000	Departmental Group £000
Other Programme Costs - Non-Cash Expenditure				
Auditors' remuneration - audit work only†	2,400	2,400	2,800	2,800
Depreciation and amortisation:				
– Intangible assets	1,692,096	1,692,096	1,672,657	1,672,657
– Property, plant and equipment (PPE) owned assets*	5,606,203	5,621,198	5,984,594	5,997,301
– PPE held under finance leases	99,479	99,479	155,655	155,655
– PPE held under service concession arrangements	239,944	239,944	331,775	331,775

	2012-13 Core Department £000	2012-13 Departmental Group £000	2011-12 Core Department £000	2011-12 Departmental Group £000
Impairment on non-current assets:				
– Arising on Quinquennial valuation	197,000	197,000	126,300	126,300
– Arising on Other items	998,318	998,318	454,853	454,853
Provisions to reduce inventory to net realisable value	468,095	468,095	965,767	965,767
Inventory write off / (on) – net	(333,629)	(333,629)	93,736	93,736
(Surplus) on disposal of property, plant and equipment and intangible assets.	(73,183)	(73,183)	(150,243)	(150,243)
(Surplus) / deficit arising on disposal of inventory – net	(4,761)	(4,761)	(9,018)	(9,018)
Intangible and property, plant and equipment assets write off / (write on) - net	1,397,295	1,397,295	1,043,737	1,043,737
Capital project expenditure write off / (write on) – net	339,498	339,498	150,484	150,484
Bad debts written off	2,377	2,377	2,282	2,282
Increase/(Decrease) in bad debts provision	4,977	4,977	(4,072)	(4,072)
Increase/(Decrease) in nuclear and other decommissioning provisions	(26,401)	(26,401)	(770,964)	(770,964)
Other Programme Costs – Total Non-Cash Expenditure	**10,609,708**	**10,624,703**	10,050,343	10,063,050
Other Programme Costs				
Fuel	758,809	758,809	635,354	635,354
Inventory consumption	1,048,331	1,048,331	1,404,368	1,404,368
Movements. Including: personnel travelling, subsistence / relocation costs and movement of stores and equipment	715,726	715,726	813,863	813,863
Utilities	393,992	393,992	346,889	346,889
Property management	1,438,814	1,438,814	1,468,440	1,468,440
Hospitality and entertainment	1,527	1,527	1,542	1,542
Accommodation charges	358,779	358,779	409,458	409,458
Equipment support costs	3,504,362	3,504,362	4,306,489	4,306,489
IT and telecommunications	1,105,376	1,105,376	1,117,093	1,117,093
Professional fees	309,540	309,540	290,144	290,144
Other expenditure*†	1,645,623	1,785,234	1,266,498	1,412,539
Research expenditure and expensed development expenditure	944,069	944,069	875,532	875,532
Service Concession Arrangements:				
– IT and telecommunications	493,323	493,323	377,576	377,576
– Property management	546,232	546,232	499,172	499,172
– Transport	44,673	44,673	51,513	51,513
– Equipment support	227,963	227,963	118,879	118,879
– Plant and Equipment	30,916	30,916	46,517	46,517
Payments under finance leases:				
– Equipment support	56,557	56,557	81,304	81,304
– Defence housing	63,557	63,557	60,231	60,231
Contractor Logistic Support and Integrated Operational Support contracts for equipment support	1,219,350	1,219,350	1,197,995	1,197,995
Movement on Derivatives	(125,943)	(125,943)	215,359	215,359
Payments under operating leases – plant & equipment	10,100	10,100	37,520	37,520
Payments under operating leases – other	221,903	221,903	195,417	195,417
Grants-in-Aid	161,344	17,327	181,526	5,590
Other Grants to bodies within the accounting boundary	36,550	-	35,481	35,481
Exchange differences on foreign currencies: net deficit / (surplus)	(5,420)	(5,420)	(21,104)	(21,104)
War Pensions Benefits	907,817	907,817	915,683	915,683
Other Programme Costs – Sub Total	**16,113,870**	**16,072,914**	16,928,739	16,898,844
Total Other Programme Costs	**26,723,578**	**26,697,617**	**26,979,082**	**26,961,894**

* Expenditure by Arm's Length Bodies is classified as either depreciation of PPE or other expenditure.

† In addition to the notional audit fee for the Department's audit, other programme costs for the Departmental Group includes, as Other Expenditure, the cost of the NAO's audit of the National Army Museum, the National Museum of the Royal Navy, the RAF Museum and the Royal Hospital Chelsea: £79,000 in 2012-13 (2011-12 : £71,000).

8. Income

	2012-13 Core Department £000	Departmental Group £000	2011-12 Core Department £000	Departmental Group £000
Rental income – property	30,022	30,022	28,526	28,526
Receipts – personnel	341,533	341,533	344,256	344,256
Receipts from sale of fuel	138,407	138,407	127,616	127,616
Donated Assets	108,948	108,948	26,033	26,033
Receipts – supplies and services	300,983	300,983	317,180	317,180
Receipts – NATO/UN/US Forces/Foreign Governments	264,317	264,317	324,640	324,640
Reverse tasking *	37,558	37,558	35,239	35,239
Dividends and income from investment property (Note 12.26)**	28,274	31,207	31,628	34,746
Other income**	130,170	241,454	110,386	167,694
	1,380,212	**1,494,429**	1,345,504	1,405,930

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

** The income of Arm's Length Bodies is classified as dividends or other income.

Fees and Charges

8.1 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. Where a chargeable activity produces a tangible benefit to Defence, the Department has authority to abate charges below full costs.

9. Net Interest Payable

	2012-13 Core Department £000	Departmental Group £000	2011-12 Core Department £000	Departmental Group £000
Interest receivable:				
Bank interest	(2,574)	(2,876)	(3,457)	(3,586)
Loans to Trading Funds	(2,845)	(2,845)	(3,100)	(3,100)
Other interest receivable	-	(56)	-	(43)
	(5,419)	**(5,777)**	(6,557)	(6,729)
Unwinding of discount on long term receivables and loans	(24,449)	(24,449)	(3,329)	(3,329)
Total interest receivable	**(29,868)**	**(30,226)**	(9,886)	(10,058)
Interest payable:				
Loan interest	2,470	2,470	2,629	2,629
Unwinding of discount on provision for liabilities and charges	86,212	86,212	122,786	122,786
Unwinding of discount on long term payables	2,515	2,515	24,428	24,428
Finance leases and Service Concession Arrangements	372,104	372,104	339,488	339,488
Late payment of commercial debts	-	-	21	21
Total interest payable	**463,301**	**463,301**	489,352	489,352
Net interest payable / (receivable)	**433,433**	**433,075**	479,466	479,294

10. Consolidated Departmental Group – Intangible Assets

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

	Note	Single Use Military Equipment £000	Software £000	Others £000	Total £000
Cost or Valuation†					
At 1 April 2011		29,078,180	16,418	8,892,164	37,986,762
Additions	i	924,037	1,169	533,639	1,458,845
Disposals		(497,879)	-	(55,993)	(553,872)
Impairments	ii	(84,802)	(2)	6,614	(78,190)
Revaluations	iii	572,063	289	66,798	639,150
Reclassifications	iv	59,865	(324)	(35,481)	24,060
At 31 March 2012		**30,051,464**	**17,550**	**9,407,741**	**39,476,755**
Additions	i	951,409	3,527	99,343	1,054,279
Disposals		(1,265,694)	-	(316,424)	(1,582,118)
Impairments	ii	(24,197)	-	(31,163)	(55,360)
Revaluations	iii	361,966	(33)	134,665	496,598
Reclassifications	iv	602,943	(1,313)	(309,179)	292,451
At 31 March 2013		**30,677,891**	**19,731**	**8,984,983**	**39,682,605**
Amortisation					
At 1 April 2011		(6,900,306)	(4,013)	(3,553,596)	(10,457,915)
Charged in Year		(1,273,007)	(598)	(399,052)	(1,672,657)
Disposals		502,695	-	250,540	753,235
Impairments	ii	(21,993)	-	(10,875)	(32,868)
Revaluations	iii	(160,512)	(63)	(55,225)	(215,800)
Reclassifications	iv	41,244	-	(41,243)	1
At 31 March 2012		**(7,811,879)**	**(4,674)**	**(3,809,451)**	**(11,626,004)**
Charged in Year		(1,286,829)	(559)	(404,708)	(1,692,096)
Disposals		986,846	-	246,712	1,233,558
Impairments	ii	(23)	-	1,491	1,468
Revaluations	iii	(150,099)	16	(32,448)	(182,531)
Reclassifications	iv	(784,126)	(3)	785,240	1,111
At 31 March 2013		**(9,046,110)**	**(5,220)**	**(3,213,164)**	**(12,264,494)**
Net Book Value					
At 1 April 2011		22,177,874	12,405	5,338,568	**27,528,847**
At 31 March 2012		22,239,585	12,876	5,598,290	**27,850,751**
At 31 March 2013		**21,631,781**	**14,511**	**5,771,819**	**27,418,111**
Of the total net book value as at 31 March 2013					
Core Department		21,631,781	14,511	5,771,819	27,418,111
ALBs		-	-	-	-
Total		**21,631,781**	**14,511**	**5,771,819**	**27,418,111**

Notes

i. Additions include accruals of £548M (2011-12: £705M). Information on Frascati compliant R&D expenditure can be found on the website: http://www.dasa.mod.uk.

ii. Capitalised development costs directly linked to a class of asset are only impaired if the whole class of the associated non current asset is impaired e.g. when a whole class of asset is withdrawn from service.

iii. Revaluations include changes due to Modified Historic Cost Accounting through indexation.

iv. Reclassifications include assets classified to or from property, plant and equipment.

† Intangible asset valuations are based on the actual costs incurred, or derived by applying a ratio to the property, plant and equipment asset valuations based on the historical relationship between development and production costs.

10.1 Movement in the revaluation reserve relating to intangible assets

	2012-13 £000	2011-12 £000
Balance – 1 April	5,637,297	5,112,477
Revaluation	304,646	421,993
Transfers / reclassifications	1,104	3,066
Disposals	-	-
Realised reserve transferred to the General Fund	(333,721)	99,761
Balance – 31 March	**5,609,326**	5,637,297

10.2 Details of intangible assets with a net book value greater than £0.5Bn

Description	Net Book Value 31 March 2013 £Bn	Remaining Useful Economic Life
Typhoon development costs	6.9	17 years
Merlin helicopter development costs	2.1	16 years 11 months
Type 45 destroyer development costs	1.9	21 years 8 months
Astute class submarine development costs	0.9	22 years
Lynx helicopter development costs	0.8	31 years 9 months

11. Consolidated Departmental Group – Property, Plant and Equipment

	Note	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
Cost or Valuation												
At 1 April 2011		2,273,575	5,229,892	7,485,438	16,302,452	72,166,314	4,056,705	16,069,482	4,334,678	12,054,793	4,734,785	144,708,114
Additions	i	-	713	110,994	52,560	528,815	13,012	378,888	262,111	4,026,828	2,413,313	7,787,234
Capitalised Provisions	ii	-	-	-	4,621	(4,329)	-	-	-	-	-	292
Donations	iii	-	-	-	-	26,033	-	-	-	-	-	26,033
Disposals†		(417)	4,848	(8,922)	(50,066)	(3,472,410)	179,757	(881,645)	(366,896)	(94,804)	(51,430)	(4,741,985)
Impairments	iv	(190,915)	(27,908)	122,163	(51,490)	(226,780)	4,738	(3,739)	26,958	(6,935)	25,963	(327,945)
Reclassifications	v	(4,657)	(55,107)	211,333	761,506	2,789,696	49,071	568,702	(50,119)	(2,674,375)	(1,204,800)	391,250
Revaluations	vi	40,748	15,343	2,509,258	39,781	1,186,098	203,300	249,235	(3,927)	323,867	51,103	4,614,806
At 31 March 2012		**2,118,334**	**5,167,781**	**10,430,264**	**17,059,364**	**72,993,437**	**4,506,583**	**16,380,923**	**4,202,805**	**13,629,374**	**5,968,934**	**152,457,799**
Additions	i	3,463	97,133	57,721	82,342	920,550	40,116	190,504	191,445	3,385,277	2,452,099	7,420,650
Capitalised Provisions	ii	-	-	-	49,903	29,253	-	-	-	-	-	79,156
Disposals		405	(2,718)	(78,425)	(171,757)	(4,423,829)	(403,556)	(169,504)	(54,427)	(185,541)	(78,184)	(5,567,536)
Impairments	iv	(59,124)	(167,446)	(333,355)	(466,673)	(91,985)	(1,323)	(141,204)	(103)	(12,804)	185,221	(1,088,796)
Reclassifications	v	(5,302)	(124,120)	(69,073)	1,218,345	3,865,526	376,918	456,860	113,573	(4,906,268)	(3,184,944)	(2,258,485)
Revaluations	vi	(41,396)	378,816	(188,865)	608,685	983,179	95,952	222,166	76,532	170,326	82,285	2,387,680
At 31 March 2013		**2,016,380**	**5,349,446**	**9,818,267**	**18,380,209**	**74,276,131**	**4,614,690**	**16,939,745**	**4,529,825**	**12,080,364**	**5,425,411**	**153,430,468**
Depreciation												-
At 1 April 2011		(37,536)	-	(1,459,596)	(6,423,350)	(36,439,854)	(2,113,190)	(7,589,641)	(1,607,105)	-	-	(55,670,272)
Charged in Year		(8,728)	-	(276,352)	(518,307)	(3,982,355)	(315,290)	(944,627)	(439,072)	-	-	(6,484,731)
Disposals		466	-	1,570	35,782	2,377,862	(161,512)	855,587	389,869	-	-	3,499,624
Impairments	iv	2,819	-	(8,562)	20,793	(81,500)	(4,784)	(10,679)	(36,975)	-	-	(118,888)
Reclassifications	v	405	-	37,291	(194,444)	255,539	9,286	(21,747)	2,224	-	-	88,554
Revaluations	vi	(791)	-	(224,904)	(1,121)	(515,995)	(59,860)	(128,260)	(28,555)	-	-	(959,486)
At 31 March 2012		**(43,365)**	**-**	**(1,930,553)**	**(7,080,647)**	**(38,386,303)**	**(2,645,350)**	**(7,839,367)**	**(1,719,614)**	**-**	**-**	**(59,645,199)**

	Note	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		(8,369)	-	(231,711)	(585,926)	(3,697,236)	(220,651)	(866,495)	(350,233)	-	-	(5,960,621)
Disposals		(405)	-	58,300	122,670	3,021,045	243,270	595,763	76,544	-	-	4,117,187
Impairments	iv	1,309	-	5,340	2,888	(7,351)	(2,352)	51,126	7,333	-	-	58,293
Reclassifications	v	-	-	94,932	195,897	1,087,813	108,963	10,394	(34,920)	-	-	1,463,079
Revaluations	vi	55	-	(46,338)	(408,487)	(568,278)	(46,502)	(125,879)	9,664	-	-	(1,185,765)
At 31 March 2013		**(50,775)**	**-**	**(2,050,030)**	**(7,753,605)**	**(38,550,310)**	**(2,562,622)**	**(8,174,458)**	**(2,011,226)**	**-**	**-**	**(61,153,026)**
Net Book Value												
At 1 April 2011		2,236,039	5,229,892	6,025,842	9,879,102	35,726,460	1,943,515	8,479,841	2,727,573	12,054,793	4,734,785	89,037,842
At 31 March 2012		2,074,969	5,167,781	8,499,711	9,978,717	34,607,134	1,861,233	8,541,556	2,483,191	13,629,374	5,968,934	92,812,600
At 31 March 2013		**1,965,605**	**5,349,446**	**7,768,237**	**10,626,604**	**35,725,821**	**2,052,068**	**8,765,287**	**2,518,599**	**12,080,364**	**5,425,411**	**92,277,442**
Asset Financing												
Owned		210,016	4,844,071	3,582,290	8,958,390	35,712,575	1,651,311	8,323,591	1,165,634	12,080,364	5,419,419	81,947,661
Donated		133,899	404,191	40,113	510,083	13,246	17,968	-	-	-	-	1,119,500
Long Lease		1,809	18,224	11,669	37,932	-	-	-	-	-	-	69,634
Short Lease		51	13,674	256	18,648	-	-	-	-	-	-	32,629
Operating Lease (Lessor)		-	-	-	5,030	-	-	-	-	-	-	5,030
Finance Lease		1,533,775	-	3,402,049	-	-	-	43	-	-	-	4,935,867
Service Concession Arrangements		86,055	69,286	731,860	1,096,521	-	382,789	441,653	1,352,965	-	5,992	4,167,121
At 31 March 2013		**1,965,605**	**5,349,446**	**7,768,237**	**10,626,604**	**35,725,821**	**2,052,068**	**8,765,287**	**2,518,599**	**12,080,364**	**5,425,411**	**92,277,442**
Of the total net book value as at 31 March 2013												
Core Department		1,965,605	5,344,421	7,322,332	10,467,191	35,725,821	1,922,789	8,754,660	2,513,607	12,080,364	5,422,109	91,518,899
Arm's Length Bodies		-	5,025	445,905	159,413	-	129,279	10,627	4,992	-	3,302	758,543
Total		**1,965,605**	**5,349,446**	**7,768,237**	**10,626,604**	**35,725,821**	**2,052,068**	**8,765,287**	**2,518,599**	**12,080,364**	**5,425,411**	**92,277,442**

Notes

i. Additions include accruals of £3Bn (2011-12: £3.3Bn) and donated assets of £109M (2011-12: £26M).

ii. Property, plant and equipment as at 31 March 2013 include capitalised provisions of £473M (2011-12: £440M).
iii. Donated Assets in use have been valued on the same basis as all other assets used by the Department.
iv. Assets are impaired for a variety of reasons e.g. loss, damage, unforeseen obsolescence, abandonment of assets under construction and as part of the disposal process.

v. Includes assets reclassified to intangible assets of £211M and assets reclassified to inventories of £16M, assets reclassified as held for sale of £265M and heritage assets added in-year £51M.

vi. Revaluations include changes due to Modified Historic Cost Accounting through indexation, impairment and impairment reversals. 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.

11.1 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. Financial year 2012-13 represents the last year of the current QQR3 programme. Valuations for the UK estate were performed by the Valuation Office Agency and for the overseas estate in-house by Defence Infrastructure Organisation personnel and reviewed by GVA plc. All valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual. Non-specialist properties are valued at fair value, interpreted as market value for existing use; Specialist properties, for which there is no external market, are valued at depreciated replacement cost.

11.2 The 2012–13 quinquennial review resulted in a £618M increase in the value of Land and a £171M increase in the value of Buildings at Net Book Value. The majority of the valuations, effective 1 November 2012, were applied to the asset registers in November 2012 with a smaller number being applied in March 2013. Accruals have been posted to cover the valuations not yet applied to the asset registers.

11.3 The net charge to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings is £197M impairment write-off. This is made up of: Land, £14M net impairment reversal; Buildings, £211M net impairment write off. These figures include Land and Building assets professionally valued during Financial Year 2012-13, including Donated, IFRIC 12 and IAS 17 leased assets.

12. Financial Instruments

12.1 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.

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

12.3 The Department is subject to some credit risk. The carrying amount of receivables, which is net of impairment losses, represents the Department's maximum exposure to credit risk from these instruments. Trade and other receivables consist of a large number of diverse customers spread over a wide geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability: that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. The Department has cash balances with commercial banks in the Eurozone and is therefore exposed to additional credit risk in respect of these holdings. The cash balances are relatively small and are being managed in order to minimise the risk; in addition, wider corporate services development will see much of the activity on these accounts transferred to the Government Banking Service.

12.4 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.

Significant Accounting Policies

12.5 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

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

	Note	31 March 2013 Core Department £000	31 March 2013 Departmental Group £000	31 March 2012 Core Department £000	31 March 2012 Departmental Group £000
Financial Assets					
Fair value through Net Operating Cost – Held for Trading	SoFP	167,436	167,436	110,585	110,585
Loans and receivables (including cash and cash equivalents)		2,798,604	2,884,955	1,673,859	1,722,659
Held for Sale		1	105,396	1	57,567
		2,966,041	**3,157,787**	1,784,445	1,890,811
Financial Liabilities					
Payables and accruals*		(9,442,181)	(9,456,198)	(10,398,803)	(10,409,154)
Fair value through Net Operating Cost – Held for Trading	SoFP	(68,147)	(68,147)	(213,497)	(213,497)
		(9,510,328)	**(9,524,345)**	(10,612,300)	(10,622,651)

*An error in the Departmental Group figure for Payables and accruals as at 31 March 2012 has been corrected and the amount restated from that previously published; £10,338,452,000 to £10,409,154,000.

12.7 The net gains and losses, for the Departmental Group, taken through Net Operating Cost or Other Comprehensive Expenditure in respect of financial instruments are listed below:

	31 March 2013 Net Operating Cost £000	31 March 2013 Other Comprehensive Expenditure £000	31 March 2012 Net Operating Cost £000	31 March 2012 Other Comprehensive Expenditure £000
Financial Assets				
Fair value through Net Operating Cost – Held for Trading	(125,943)	-	215,359	-
Loans and receivables	(24,449)	-	(3,329)	-
Available for Sale	-	(2,998)	-	1,683
Financial Liabilities				
Payables and accruals	2,515	-	24,428	-
	(147,877)	**(2,998)**	236,458	1,683

Interest Rate Risk Management

12.8 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 Supply funding process.

Foreign Currency Risk

12.9 The Department undertakes certain transactions denominated in foreign currencies; as a result exposure to exchange rate fluctuations arises. Exchange rate exposure for the US Dollar and Euro are managed using forward purchase contracts with the bank of England and covered 66% of the in-year expenditure in those currencies.

12.10 The table below details the forward purchase currency contracts outstanding as at 31 March 2013:

	Average Contract Exchange Rates	Foreign Currency US $ '000 Euro € '000 31 March 2013	Contract Value 31 March 2013 £000	Financial Asset / (Liability) Fair Value 31 March 2013 £000	Financial Asset / (Liability) Fair Value 31 March 2012 £000
Delivery 2012-13					
US Dollars ($)		-	-	-	(26,807)
Euro (€)		-	-	-	(63,674)
Delivery 2013-14					
US Dollars ($)	1.56	2,350,000	1,510,132	37,448	(36,618)
Euro (€)	1.18	2,145,000	1,824,136	(10,183)	(36,151)
Delivery 2014-15					
US Dollars ($)	1.56	1,790,000	1,151,018	27,778	(16,078)
Euro (€)	1.18	1,598,000	1,352,005	(631)	(26,621)
Delivery 2015-16					
US Dollars ($)	1.56	1,008,000	646,297	17,516	-
Euro (€)	1.20	743,000	620,945	7,385	-
Total			**7,104,533**	**79,313**	(205,949)

12.11 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.

Fuel Price Risk

12.12 The Department undertakes substantial purchases of aviation and marine fuels. Exposure to fluctuations in the market prices of these commodities is managed using Swap contracts for forward deliveries. The Swap contracts are placed with a small range of major financial institutions.

12.13 The table below details the Swap contracts outstanding as at 31 March 2013:

	Average Price US$ / Tonne	Volume Tonnes	31 March 2013* US$000	Contract Value 31 March 2013 £000	Financial Asset / (Liability) Fair Value 31 March 2013 £000	Financial Asset / (Liability) Fair Value 31 March 2012* £000
Delivery 2012-13						
Aviation Turbine Fuel		-	-	-	-	38,017
Gas Oil		-	-	-	-	16,443
Delivery 2013-14						
Aviation Turbine Fuel	970	373,628	362,488	238,715	5,330	22,197
Gas Oil	891	183,334	163,365	107,583	2,485	9,960
Delivery 2014-15						
Aviation Turbine Fuel	988	275,590	272,221	179,270	737	6,933
Gas Oil	898	145,799	130,867	86,182	1,352	3,968
Delivery 2015-16						
Aviation Turbine Fuel	963	146,555	141,189	92,979	2,746	-
Gas Oil	876	75,742	66,387	43,719	1,754	-
Total			**1,136,517**	**748,448**	**14,404**	97,518

*US $ values have been converted to sterling using the mid market exchange rate as at 31 March.

Embedded Derivatives

12.14 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 Statement of Comprehensive Net Expenditure 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

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

- Financial assets at fair value through Statement of Comprehensive Net Expenditure: 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, with the element due within one year treated as fair value. 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%.

- Financial assets held for sale are measured at fair 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 Statement of Comprehensive Net Expenditure: mid market rate at 31 March as published in the Financial Times.

12.16 Details of the financial instruments by valuation method are:

		31 March 2013		31 March 2012
	Core Department £000	Departmental Group £000	Core Department £000	Departmental Group £000
Financial Assets				
Fair value	167,437	272,832	110,586	168,152
Historic cost	2,611,661	2,676,492	1,473,165	1,521,945
Discounted cost	186,943	208,463	200,694	200,714
	2,966,041	**3,157,787**	1,784,445	1,890,811
Financial Liabilities				
Fair value	(68,147)	(68,147)	(213,497)	(213,497)
Historic cost*	(9,186,294)	(9,200,297)	(9,849,313)	(9,859,628)
Discounted cost*	(255,887)	(255,901)	(549,490)	(549,526)
	(9,510,328)	**(9,524,345)**	(10,612,300)	(10,622,651)

*Errors in the Departmental Group figures for Historic cost and Discounted cost as at 31 March 2012 have been corrected and the amounts restated from those previously published; £9,838,998,000 to £9,859,628,000 and £549,454,000 to £549,526,000 respectively.

Financial Guarantee Contracts

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

- Under the terms of the contract with TNT Ltd for the Government Records Management and Archive Service, MOD guarantees to pay the operator should any other government department fail to settle its outstanding invoices. The total value of invoices outstanding against all government departments as at 31 March 2013 was nil.

- MOD provides an indemnity to towage companies who are contracted to tow foreign warships in to UK ports, should the foreign nation default on payment of the invoice.

12.18 Departmental Group – Investments in Public Sector and Non-Public Sector Bodies

	Non-Current Assets – Financial Assets			Total
	Public Dividend Capital £000	Loans £000	Investment Property £000	£000
Balance at 31 March 2012	87,002	60,493	21,910	169,405
Repayments				
Defence Science and Technology Laboratory	-	(3,220)	-	(3,220)
UK Hydrographic Office	-	(635)	-	(635)
Defence Support Group	-	(1,664)	-	(1,664)
Reclassification of investment property to PPE	-	-	(21,910)	(21,910)
Balance at 31 March 2013	**87,002**	**54,974**	**-**	**141,976**

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

	Public Dividend Capital (PDC) 31 March 2013 £000	Loans 31 March 2013 £000	Interest Rates % p.a.
Defence Science and Technology Laboratory	50,412	22,540	2.75-4.53
UK Hydrographic Office	13,267	7,472	8.55
Defence Support Group	23,323	24,962	4.6
Totals	**87,002**	**54,974**	

12.20 Analysis of Loans Repayable by Instalments

			31 March 2013
	Due Within One Year £000	Due After One Year £000	Total £000
Defence Science and Technology Laboratory	3,220	19,320	22,540
UK Hydrographic Office	689	6,783	7,472
Defence Support Group	1,663	23,299	24,962
Balance at 31 March	**5,572**	**49,402**	**54,974**

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

	Net Assets (after loans due to MOD) 31 March 2013 £000	Turnover £000	Surplus / profit for the Year (before financing) £000
Defence Science and Technology Laboratory	318,640	628,644	25,893
UK Hydrographic Office	134,278	129,798	22,932
Defence Support Group	141,137	182,492	17,414
Total	**594,055**	**940,934**	**66,239**

Other Financial Assets

12.22 As at 31 March 2013, 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

12.23 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 and any remaining value distributed in accordance with the company's constitution. The Department has written down the value of the investment to nil.

12.24 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.

12.25 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

Departmental Group – Dividends from Investments

12.26 The following dividends are shown as income in Note 8.

	2012-13 £000	2011-12 £000
Defence Science Technology Laboratory	10,000	8,500
UK Hydrographic Office*	11,274	18,628
Defence Support Group	7,000	4,500
Other	2,933	3,118
Total	**31,207**	34,746

* The UKHO figure for 2011-12 includes a Special Dividend of £8M

13. Departmental Group – Impairments 2012-13

Details of impairments and impairment reversals through Net Operating Costs and Other Comprehensive Expenditure, for the year, are:

	Net Operating Cost Impairment £000	Net Operating Cost Impairment Reversal £000	Other Comprehensive Expenditure Impairment £000	Other Comprehensive Expenditure Impairment Reversal £000
Intangibles	51,655	(7,184)	9,421	-
Land	294,204	(68,943)	-	-
Property (including assets held for sale)	893,520	(101,720)	-	-
Single Use Military Equipment (SUME)	101,835	(2,500)	-	-
Plant & machinery	5,013	(1,338)	-	-
Transport	90,951	(872)	-	-
IT	3,694	(10,924)	-	-
Assets under construction	-	(187,927)	15,510	-
Assets held for sale	135,854	-	-	-
	1,576,726	**(381,408)**	**24,931**	**-**

Following the announcement on 6 March 2013 that UK forces would withdraw from Germany by 2019 the value of land and buildings was impaired. The figures above include impairments of £399M for buildings and £198M for land through Operating Costs (a further £467M for buildings and £440M for land was removed from the revaluation reserve). The valuation of the land is based on an estimated investment return of 3% per annum, derived from investment yields for properties in Germany and adjusted to reflect returns on land only. Each 1% change in the rate of return would give rise to a £56M change in the valuation of the land. Building valuations are based on existing rates of depreciation up to end 2019. There remains uncertainty surrounding the valuations; the phased nature of the drawdown, the exact timing of individual base closures, the readiness of the UK estate to accommodate returning personnel and families, environmental factors and the value of MOD buildings and enhancements being handed over are all factors contributing to this uncertainty. As the programme for withdrawal from Germany develops, greater certainty will be achieved and future adjustments to the valuations may be required.

14. Departmental Group – PPE Assets Held For Sale

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

	Land and Property £000	Plant and Equipment £000	Total £000
Balance as at 31 March 2012	7,257	84,735	91,992
Additions (transfers in)	334,465	3,992	338,457
Disposals	(59,506)	(4,274)	(63,780)
Revaluation	(250,413)	(74,748)	(325,161)
Balance as at 31 March 2013	**31,803**	**9,705**	**41,508**

Disposal of plant and equipment is managed through the Disposal Services Authority. Disposal of land and property is managed by Defence Infrastructure Organisation. Assets are held at the lower of market value or net book value with any movement in valuation taken to the revaluation reserve up to historic cost and then to Net Operating Cost as an impairment. Costs of impairing the assets to the net realisable value were charged to the operating costs statement and are included in Note 7.2 – Other Programme Costs.

15. Departmental Group – Inventories

To conduct its activities across the world, on operations and standing commitments, the Armed Forces require a wide range of supplies and spares for immediate and potential use. A large part of these supplies and spares are recorded on the inventory accounting systems and comprise over 750,000 different types and around 900 million items. The type and range of items accounted for include: Guided Weapons, Missiles and Bombs and significant equipment spares (e.g. aircraft engines), which are reported in the accounts at Note 11 as part of the Single Use Military Equipment figures; as well as raw materials and consumable items which are reported in the table below. The total, approximate, value of these different 'categories' is £36.4Bn (gross), £15.9Bn after deducting depreciation and other costs. These overall figures comprise Guided Weapons, Missiles & Bombs £2.7Bn gross (£1.3Bn net); significant equipment spares (usually referred to as Capital Spares) £23.7Bn gross (£7Bn net) and raw materials and consumable items (often referred to as Stock) £10Bn gross (£7.6Bn net). Further analysis of the net £7.6Bn figure for 'stock' is below:

	31 March 2013 £000	31 March 2012 £000
Munitions	**1,968,753**	1,945,098
Clothing & textiles	**347,966**	309,795
Engineering & technical	**2,739,235**	2,433,596
General	**2,215,785**	2,215,239
Medical, dental & veterinary	**53,281**	86,469
Oil, fuel & lubricants	**251,967**	256,086
Inventory held for sale by ALBs	**8,599**	509
Total	**7,585,586**	7,246,792

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

16. Trade Receivables and Other Current Assets

16.1 Analysis by type

		31 March 2013		31 March 2012
	Core Department	**Departmental Group**	Core Department	Departmental Group
	£000	**£000**	£000	£000
Amounts falling due within one year:				
Trade receivables*	213,995	214,190	313,608	313,786
Deposits and advances	123,068	123,068	74,429	74,582
Value Added Tax	463,675	463,772	489,231	489,313
Other receivables	389,718	399,657	104,331	106,384
Staff loans and advances**	42,062	42,312	36,580	36,930
Prepayments and accrued income	1,603,339	1,607,920	1,260,358	1,265,195
Current part of Service Concession Arrangement prepayment	8,121	8,121	7,580	7,580
Under issue of Supply from the Consolidated Fund	-	-	147,179	147,179
	2,843,978	**2,859,040**	2,433,296	2,440,949
Amounts falling due after one year:				
Trade receivables*	100,013	100,013	-	-
Other receivables	104,883	287,513	129,605	289,525
Staff loans and advances**	73,378	73,378	71,089	71,089
Prepayments and accrued income	143,953	143,953	627,213	627,213
	422,227	**604,857**	827,907	987,827
Total Receivables	**3,266,205**	**3,463,897**	3,261,203	3,428,776

* 2012 trade receivables have been recorded as due within one year as more detailed analysis is not currently available.

** Staff loans and advances includes loans for house purchase. The number of staff with house purchase loans was 14,801 (2011-12:15,003).

16.2 Departmental Group – Additional analysis of the receivables balances

	Amounts falling due within one year		Amounts falling due within more one year	
	31 March 2013	31 March 2012	**31 March 2013**	31 March 2012
	£000	£000	**£000**	£000
Balances with other central government bodies	493,981	517,674	76	-
Balances with local authorities	679	636	1	-
Balances with NHS Trusts	816	1,002	-	-
Balances with public corporations and trading funds	9,893	24,785	4	794
Subtotal: intra-government balances	505,369	544,097	81	794
Balances with bodies external to government	2,353,671	1,896,852	604,776	987,033
Total Receivables	**2,859,040**	2,440,949	**604,857**	987,827

17. Cash and Cash Equivalents

	Core Department £000	Departmental Group £000
Balance at 31 March 2012	764,522	812,101
Net change in cash and cash equivalents	1,021,312	1,039,048
Balance at 31 March 2013	**1,785,834**	**1,851,149**

The following balances were held at:	**31 March 2013 £000**	31 March 2012 £000
Government Banking Service	1,290,480	440,927
Commercial Banks and Cash in Hand	560,669	371,174
Totals	**1,851,149**	812,101

The commercial banks and cash in hand figure as at 31 March 2013 includes £620.844M (31 March 2012: £444.182M) 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 $40M 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 16 Trade Receivables and Other Current Assets.

18. Trade Payables and Other Current Liabilities

18.1 Analysis by type

	31 March 2013		31 March 2012	
	Core Department	**Departmental Group**	Core Department	Departmental Group
	£000	**£000**	£000	£000
Amounts falling due within one year:				
VAT	113,470	113,470	33,213	33,213
Other taxation and social security	208,687	210,159	219,431	221,759
Trade payables	507,392	510,754	497,512	500,024
Other payables*	2,106,300	2,106,853	1,545,398	1,546,201
Payments received on account	678	13,621	2,642	15,201
Accruals and deferred income	6,880,486	6,922,452	8,178,015	8,204,075
Current part of finance leases	7,870	7,917	7,318	7,374
Current part of imputed finance lease element of Service Concession Arrangement contracts	207,430	207,430	220,623	220,623
Current part of NLF loans**	2,297	2,297	2,418	2,418
Supply Payable	697,470	697,470	-	-
	10,732,080	**10,792,423**	10,706,570	10,750,888
Amounts falling due after one year:				
Other payables	243,619	243,645	527,352	527,400
Accruals and deferred income	12,267	12,267	28,780	28,780
Finance leases	1,796,893	1,796,893	1,804,781	1,804,781
Imputed finance lease element of Service Concession Arrangement contracts	3,821,841	3,821,841	3,725,332	3,725,332
NLF loans**	32,879	32,879	35,176	35,176
	5,907,499	**5,907,525**	6,121,421	6,121,469
Total Payables	**16,639,579**	**16,699,948**	16,827,991	16,872,357

* 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 £621M (2011-12: £444M).

** 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.

18.2 Departmental Group – Additional analysis of the payables balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2013	31 March 2012	**31 March 2013**	31 March 2012
	£000	£000	**£000**	£000
Balances with other central government bodies	536,287	505,213	32,879	35,176
Balances with local authorities	639	141	-	-
Balances with NHS Trusts	1,642	3,526	-	-
Balances with public corporations and trading funds	197,612	211,181	214	-
Subtotal: intra-government balances	736,180	720,061	33,093	35,176
Balances with bodies external to government	10,056,243	10,030,827	5,874,432	6,086,293
Total Payables	**10,792,423**	10,750,888	**5,907,525**	6,121,469

19. Provisions for Liabilities and Charges

19.1 Departmental Group – Provisions for Liabilities and Charges

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other £000	Total £000
At 31 March 2012	**3,718,412**	**56,608**	**146,051**	**836,240**	**4,757,311**
Increase in provisions in-year	521,696	6,076	13,929	240,584	782,285
Provisions written back and reclassifications	(548,097)	(10,211)	(17,636)	(12,566)	(588,510)
Provisions utilised in year	(68,075)	(8,590)	(34,131)	(125,944)	(236,740)
Unwinding of discount	75,713	(853)	2,907	37,651	115,418
Provisions capitalised	33,575	-	-	-	33,575
At 31 March 2013	**3,733,224**	**43,030**	**111,120**	**975,965**	**4,863,339**

19.2 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
Due within 1 year	88,651	19,266	22,240	193,973	324,130
Due over 1 year and less than 5 years	664,208	23,139	45,421	376,700	1,109,468
Due over 5 years	2,980,365	625	43,459	405,292	3,429,741
At 31 March 2013	**3,733,224**	**43,030**	**111,120**	**975,965**	**4,863,339**

Nuclear Decommissioning

19.3 Nuclear decommissioning provisions relate principally to the cost of decommissioning of facilities and equipment, the treatment and storage of nuclear materials and waste, and the long term management of irradiated submarine fuel. These nuclear liabilities have arisen from operations at MOD sites and the operation of Royal Navy submarines. The liabilities include the costs associated with decommissioning including care and maintenance of redundant facilities (the conditioning, retrieval and storage of contaminated materials), and the procurement of facilities to handle the various waste streams. In October 2007 the Department published its Policy for Decommissioning and Disposal of Radioactive Waste and Residual Nuclear Material Arising from the Nuclear Programme. In September 2011 the Department published the initial version of its Nuclear Liabilities Management Strategy which sets the overall context for the establishment of decommissioning provisions. MOD is working closely with the Nuclear Decommissioning Authority (NDA) to refine the assumptions underpinning its provisions, which has resulted in a significant recalculation in 2012-13 as part of an ongoing programme of work. Following the Quinquennial Review (QQR) at AWE, provisions for nuclear decommissioning were reduced by £276M due to revised cost estimates. The uncertainties that surround nuclear provisions mean that quantifying the financial impact of changes to assumptions is very difficult. For example, in the strategic weapons area, a change of plus or minus two years in the decommissioning dates could result in a change in the value of the liability of between plus £5M and minus £6M, and a change in the discount rate of plus or minus 0.1% would result in a change in the value of the liability of between plus £33M and minus £35M.

19.4 In applying accounting policies it is necessary to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Where costs have been derived using a confidence model, the 50% value has been used as this represents most likely cost. Where costs have been calculated using a deterministic method the most likely value has been used as the basis for valuing the long term liability. The nuclear provisions are based on the most recently available estimates discounted in line with HM Treasury guidance. HM Treasury have replaced the general discount rate (2.2% for 2011-12) with three rates: a short term rate applicable to years 0-5 (-1.8%); a medium term rate for the period after 5 years and up to 10 years (-1%); and a long term rate for the period over 10 years (2.2%). These estimates are necessarily based on assumptions of the processes and methods most likely to be used to discharge the obligations reflecting a combination of the latest technical knowledge available, the timescales involved and the requirements of the existing regulatory regime, Government policy and commercial agreements. However, there remains further strategy development required to decide on the most appropriate end state for each of our liabilities given the developing nature of UK strategies and final disposal options.

19.5 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.

19.6 The location of the Geological Disposal Facility (GDF) and the facility's entry into service is uncertain following the rejection of a planned development by Cumbria County Council in January 2013. Many of the nuclear provisions are underpinned by assumptions agreed with stakeholders prior to this decision and in consequence will require reassessment. For instance the current assumption that the GDF will be available from 2041 onwards may now be invalid. The subsequent effect of this would be that storage costs would be incurred by MOD for a longer period. As the NDA assumptions have yet to be revalidated it has not been possible to quantify the financial effect.

Other Decommissioning and Restoration

19.7 Other decommissioning and restoration provisions relate primarily to contaminated sites where the Department has a constructive or a legal obligation to restore the sites for normal use. The estimated payments are discounted by the Treasury discount rates listed at paragraph 19.4. During 2012-13 existing provisions have been used to offset expenditure for the removal of asbestos in the UK, and restitution of former ranges and training areas.

Early Retirement Pensions

19.8 Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions; 2.35% with effect from 31 March 2013 (2.8% from 31 March 2012). Following changes in December 2010, employees who retire early do so on a 'clean break' basis so no provision is required as there are no costs in future years. During 2012-13 increases of £13.9M were made to existing schemes and early retirement / redundancy costs charged to provisions during the period amounted to £32.1M.

Other

19.9 Other provisions of £976M includes: costs on disposal of non current assets, redundancy and relocation costs associated with restructuring (£54M), provision for Locally Employed Civilian pensions (£344M), provision for the pension liabilities of ALBs (£160M), and amounts payable under guarantees, litigation and contractual arrangements (£418M). During 2012-13 provisions have been increased for legal claims (£130M) and Locally Employed Civilian pensions (£10M). Costs charged to provisions during the period amounted to £127.5M and included £102M in respect of legal claims and £15M for redundancy and Locally Employed Civilians' pensions. For the latter, comprising three separate pension schemes, the United Kingdom Departments Gibraltar Pension Scheme, the Sovereign Base Administration Areas Pension Scheme Cyprus and the British Forces Cyprus Fire Service Pension Scheme, costs charged to operating costs were £11.7M.

20. Departmental Group – Employee Benefits – Pension Schemes

20.1 The Armed Forces and the majority of the Department's staff are members of one of the following pension schemes: The Armed Forces Pension Scheme, The Principal Civil Service Pension Scheme, The NHS Pension Scheme or the Teachers' Pension Scheme. The pension liabilities, any assets and the costs of running these schemes are not included in these accounts (with the exception of the costs of administrating the

Armed Forces Pension Scheme which forms a part of the Department's expenditure). Separate accounts are published for these schemes details can be found at:

- https://www.gov.uk/pensions-and-compensation-for-veterans;
- http://www.civilservice.gov.uk/pensions;
- http://www.education.gov.uk/schools/careers/payandpensions; and
- http://www.nhsbsa.nhs.uk/pensions.

20.2 Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians overseas. Estimates of the liabilities (and assets where applicable) for these schemes are included in the accounts; the liabilities are included in the figure for Other provisions for liabilities and charges at Note 19.1 and set out with additional details in the following table.

	2012-13 £000	2011-12 £000
Net (Liabilities) / Assets of the Schemes		
United Kingdom Departments Gibraltar Pension Scheme (Unfunded)*	(219,600)	(219,600)
Sovereign Base Administration Areas Pension Scheme Cyprus (Unfunded)*	(63,000)	(63,000)
British Forces Cyprus Fire Service Pension Scheme (Unfunded)*	(29,700)	(29,700)
Council of Reserve Forces and Cadets Associations Pension Scheme (Funded)**†	11,200	11,200
Commonwealth War Graves Commission Superannuation Scheme (Funded)***	1,113	-
Total	**(299,987)**	(301,100)

* The UKDGPS, SBAAPS – Cyprus and the BFCFSPS were valued by the Government Actuary's Department as at 31 March 12

** The latest valuation of the Council of Reserve Forces and Cadets Association Pension Fund was completed as at 31 March 2009. The table shows the estimated net scheme surplus £11.2M (an estimated liability of £69.5M which is off-set by assets worth £80.7M).

*** The funded defined benefit scheme was closed to new members in 2012-13 and a new defined contribution scheme was opened. The latest valuation, completed as at 31 March 2013, assessed the value of the defined benefit scheme liabilities as £83.3M; scheme assets were valued at £84.4M; an estimated surplus of £1.1M.

† A recent valuation of this funded scheme is not available and there is therefore a significant degree of additional uncertainty over the value of the assets and liabilities which are included, based on the best information available, in the Group Accounts and detailed (as a net position) above.

20.3 The Department also makes payments to The Merchant Navy Rating Pensions Fund; a funded, multi-employer defined benefit scheme for which the Department can not reliably estimate its share of the assets and liabilities. The scheme is closed to new members and the payments are the Department's agreed long term contribution towards the overall scheme deficit. The liability for payments (£16M) are included in the accounts based on the latest actuarial valuation as at 31 March 2008.

20.4 The numbers of members in these smaller schemes are:

	Active	Pensioners	Deferred Pensioners
United Kingdom Departments Gibraltar Pension Scheme	617	1,551	362
Sovereign Base Administration Areas Pension Scheme Cyprus	340	145	2
British Forces Cyprus Fire Service Pension Scheme	119	66	1
Merchant Navy Ratings Pension Fund	-	-	-
Council of Reserve Forces and Cadets Associations Pension Scheme	803	1,070	288
Commonwealth War Graves Commission Superannuation Scheme	263	399	145
Total	2,142	3,231	798

21. Departmental Group – Capital Commitments

Capital commitments, for which no provision has been made in these financial statements, are:

	31 March 2013 £000	31 March 2012 £000
Intangible assets	2,262,655	2,202,698
Property, plant and equipment	14,422,790	14,423,526
	16,685,445	16,626,224

22. Departmental Group – Commitments Under Leases

The totals of future minimum lease payments under operating and finance leases for the periods: not later than one year; later than one year but less than five years and later than five years are set out below:

22.1 Operating leases:

Obligations under operating leases comprise:	31 March 2013 £000	31 March 2012 £000
Land		
Not later than one year	2,953	4,739
Later than one year and not later than five years	10,380	13,613
Later than five years	72,104	59,124
	85,437	77,476
Buildings		
Not later than one year	57,434	55,825
Later than one year and not later than five years	142,061	146,528
Later than five years	148,405	148,351
	347,900	350,704
Other		
Not later than one year	110,195	95,424*
Later than one year and not later than five years	206,678	380,265*
Later than five years	32,082	73,255*
	348,955	548,944

22.2 Finance leases:

Obligations under finance leases comprise:	31 March 2013 £000	31 March 2012 £000
Land		
Not later than one year	48,042	48,042
Later than one year and not later than five years	192,168	192,168
Later than five years	8,743,646	8,791,689
	8,983,856	9,031,899
Less interest element	(8,135,144)	(8,183,184)
	848,712	848,715
Buildings		
Not later than one year	47,848	47,849
Later than one year and not later than five years	191,392	191,392
Later than five years	8,706,033	8,753,883
	8,945,273	8,993,124
Less interest element	(8,102,302)	(8,150,149)
	842,971	842,975
Other		
Not later than one year	13,782	13,601*
Later than one year and not later than five years	55,688	53,734
Later than five years	95,444	103,412
	164,914	170,747
Less interest element	(59,387)	(60,010)
	105,527	110,737

* Figures for 2012 in respect of Operating Leases – Other and Finance Leases -Other (<1 year) were incorrect in the published 2011-12 accounts; they have been corrected.

23. Departmental Group – Commitments Under Service Concession Arrangements

23.1 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 arrangements fulfilled the criteria for IFRIC 12 and the assets have been accounted for as assets of the Department:

Project Description	AP9 Contract Start*	2012-13 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-96	Nov-12
Defence Fixed Telecommunications System: Integration of 50 fixed telecommunications networks used by the Armed Forces and MOD, including the delivery of voice, data, LAN interconnect and other WAN services	Jul-97	Jul-15
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson	Oct-97	Oct-37
Hawk Synthetic Training Facility: Provision of replacement simulator training facilities at RAF Valley	Dec-97	Dec-15
Veolia PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage, serving a population of 12,000 military and dependants at Tidworth	Feb-98	Aug-18
Joint Services Command and Staff College (JSCSC): Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters	Jun-98	Aug-28
RAF Lossiemouth Family Quarters: Redevelopment and re-provision of 279 Service family quarters	Jun-98	Aug-20
Attack Helicopter Training Service: Provision of full mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training	Jul-98	Sep-17
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton	Jul-98	Jul-28
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, serving a population of 7,000, to meet regulatory standards at RAF Lyneham	Aug-98	Aug-23
RAF Fylingdales: Provision of guaranteed power supply	Dec-98	Mar-24
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury	Mar-99	Jun-25
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy	Apr-99	Jan-21
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth	Jun-99	Jun-31
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service families in Central Scotland	Aug-99	Jan-21
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers	Feb-00	Dec-29
Main Building Refurbishment: Redevelopment and management services for MOD Main Building	May-00	May-30
Tri-Service Material Handling Equipment: Provision of Tri-Service materials handling capability	Jun-00	Dec-13
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington	Jul-00	Dec-30
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew	Jul-00	Jul-25
Family quarters at Wattisham: Provision of married quarters accommodation for 250 Service families	May-01	Mar-28
Astute Class Training: Provision of a training environment for crewmen and maintainers to support Astute Class submarines for 30 years	Sep-01	Sep-37
Defence Housing Information Systems: Provision of a management information system for Defence Housing	Oct-01	Sep-14
Family quarters at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families	Nov-01	Sep-28
Heavy Equipment Transporters: Provision of vehicles to replace existing fleet and meet future requirements	Dec-01	Jul-24
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field	Jun-02	Jun-22
Material Handling Equipment: Provision of Tri-Service material handling equipment for Army, Navy and RAF storage depots	Aug-02	Dec-13
Flight Simulation and Synthetic Trainers: Provision of a Flight Simulation and Synthetic Trainers Integrated Aircrew Synthetic Training Service	Oct-02	Mar-17
Aquatrine Project A: Provision of water and waste water services	Apr-03	Nov-28
Naval Communications: Submarine fleet communications service	Jun-03	Dec-30
Defence High Frequency Communications Services: Provision of High Frequency communication services	Jul-03	Jun-18
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service	Jun-03	Aug-33
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites	Oct-03	Aug-22

Project Description	AP9 Contract Start*	2012-13 Contract End
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops)	Feb-04	Feb-39
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base	Jul-04	Mar-29
Aquatrine Project B: Provision of water and waste water services	Sep-04	Mar-30
Aquatrine Project C: Provision of water and waste water services	Oct-04	Mar-30
C Vehicles: Provision of Earthmoving and Specialist Plant, Engineer Construction Plant and Material Handling Equipment and support services	Jun-05	Jun-21
Portsmouth 2 Housing: Provision of 148 Family quarters in Portsmouth	Oct-05	Oct-30
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down	Mar-06	Apr-41
Northwood: Rebuild, refurbishment, management and operation of facilities for the Permanent Joint Headquarters	Jul-06	Oct-31
Combined Aerial Targets (CATS): Provision of aerial targets and associated ground equipment and support services	Dec-06	Mar-28
Provision of Marine Services: Provision of marine services at UK Dockyard Ports at Portsmouth, Devonport and Clyde and support to military exercises, training and deep water trials, worldwide	Dec-07	Dec-22
Future Strategic Tanker Aircraft (FSTA): FSTA is an innovative PFI programme that will provide modern air-to-air refuelling and passenger air transport capabilities	Mar-08	Mar-35
UK Military Flying Training System: Advanced Jet Trainer, Ground Based Training Equipment Element: Management and provision of Fast Jet Phase IV training	May-08	May-33
Corsham Development Project: Rebuild, refurbishment, management and operation of facilities at the Basil Hill site	Aug-08	Jul-33

23.2 The substance of an arrangement accounted for under IFRIC 12 is that the Department has a finance lease with the provider with payments comprising an imputed finance lease charge, a repayment of capital and a service charge. Payments are accounted for within the Statement of Comprehensive Net Expenditure – Service Concession Arrangements (SCA) and charges for 2012-13 were £1.35Bn (2011-12 : £1.094Bn). Total obligations under SCA (consisting of the minimum lease payments, interest and any minimum service charges) analysed by time periods are shown in the table below:

Total obligations under Service Concession Arrangements for the following periods comprise:	31 March 2013 £000	31 March 2012 £000
Not later than one year	457,048	445,599
Later than one year and not later than five years	1,740,046	1,948,221
Later than five years	4,583,241	4,043,906
	6,780,335	6,437,726
Less interest element	(2,751,065)	(2,491,771)
	4,029,270	3,945,955

24. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed Under IAS 37

Contingent Liabilities

24.1 The following quantifiable contingent liabilities have been identified:

Description	Liability at 31 March 2013 £000
Restricted – not disclosed due to reasons of commercial confidentiality and / or national security	631,681
Indemnity to contractors in respect of nuclear risks and decontamination	281,935
Indemnity to contractors for third party risks	140,000
Statutory liability for International Military Sales	100,000
Environmental clean up costs	41,802
Redundancy costs associated with the rationalisation of basing arrangements in Germany	28,256
Liability for redundancy following contractorisation	26,483
Indemnity for utilities and services following the sale of Service housing	17,031
Underwriting costs associated with Defence Training Review	3,500
Indemnity for non-MOD personnel in operational theatres	3,000
Indemnity for excavation of the wreck of the British warship Sussex	1,185
Legal claims (personal)	858
Contractor claims relating to project deferment or termination	500
Total quantifiable contingent liabilities	**1,276,231**

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 that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements.
- Indemnity to Services Sound and Vision Corporation (SSVC) for costs arising from the early termination of the contract
- The Department has a number of sites where it may be necessary to carry out decontamination work. As it is not practicable or cost effective to identify all contamination at those sites, any possible liability is not quantifiable, so possible site remediation exposure is recognised as an unquantifiable contingent liability

Contingent assets

24.2 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. 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

24.3 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 2012 £000	Increase in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	**31 March 2013 £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	2,190		-	-	2,190	-
Indemnity to Help for Heroes and Royal British Legion should recovery centres have a change in use within ten years	4,889		-	-	4,889	28,400
Remediation costs associated with the discovery of unknown environmental contamination at the Fleetlands site	17,000		-	-	17,000	-

Quantifiable – restricted

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

Unquantifiable – unrestricted

24.5 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.
- Indemnity to contractors for potential third party risks arising from construction of Queen Elizabeth carriers.

Unquantifiable – restricted

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

25. Departmental Group – Losses and Special Payments

25.1 Losses

CLOSED CASES: these are losses that 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 2012-13 £000	Reported in 2011-12 as Advance Notifications £000
Total Losses (excluding gifts) under £250,000 each: 25,010 cases.	17,690	
Total Losses (excluding gifts) over £250,000 each: 16 cases (detailed below).	114,016	3,937,269
	131,706	3,937,269
Total Value of Closed Cases – arising in 2012-13 and reported in 2011-12 as Advance Notifications	4,068,975	
Details of the Closed Cases over £250,000 are:		
Bookkeeping Losses		
Write-off of unsupported balances. The loss consists of balances that could not be verified with the information available.	33,602	
	33,602	–
Stores Losses		
Accident resulting in the loss of a Tornado aircraft off Stornoway.	11,751	
The number of Lightweight Field Generators could not be verified to the information available.	743	
Loss of a spare part related to an anti-aircraft missile system.	527	
Accident, during an air display, resulting in the loss of a Hawk aircraft of the RAF's Aerobatic Team.		281
	13,021	281
Fruitless Payments		
Costs associated with the grounding of HMS ASTUTE and its subsequent towing.		1,613
Failure to notify the training areas of changes in the number of personnel resulted in catering and accommodation wastage.	393	
	393	1,613
Constructive Losses		
Cancellation of Nimrod MRA4.		3,746,123
Early withdrawal from service of 3 Royal Fleet Auxiliary vessels.		187,501
The buy out of a lease arrangement which was terminated early as part of a departmental Value for Money decision.	38,880	
Cancellation of an Information Integration and Management project due to unaffordability.	17,391	
Cancellation of the Intelligence Requirements Management & Resource Tasking Project due to changes in the requirement.	6,671	
Cancellation of a planning and decision support tool project due to unsustainable future support and training commitments.	3,369	
Defence Targeting Toolset programme cancelled due to a change in operatational priorities.		1,751
Cancellation of the purchase of practice bombs due to changes in the requirement.	277	
	66,588	3,935,375
Claims waived or abandoned		
A claim for the cost of security provided for a G8 conference has been abandoned.	413	
	413	–
Gifts		
Total under £250,000 each: 180 cases.	562	
Total over £250,000 each: 1 case (detailed below).		294
	562	294
Total Value of Gifts – arising in 2012-13 and reported in 2011-12 as Advance Notifications	856	
Detail of the gifts over £250,000 are:		
Training equipment to the Government of Pakistan.		294
	–	294

CLOSED CASES: these are losses that 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 2012-13 £000	Reported in 2011-12 as Advance Notifications £000
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.	565	
	565	–

ADVANCE NOTIFICATIONS: these are losses, which arose during 2012-13 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, 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 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 2012-13 £000	Reported in 2011-12 as Advance Notifications £000
Total Advance Notifications over £250,000 each	1,678,465	2,691,660
	4,370,125	

Bookkeeping Losses		
Write-off of historical balances relating to the Military pay system that could not be verified with the information available.	640	
	640	–
Stores Losses		
Loss of two Tornado aircraft after an accident over the Moray Firth.	23,502	
Accident resulting in the loss of a Lynx Helicopter.	9,000	
Accommodation stores discrepancies relating to the military training area in Canada.	390	
	32,892	–
Claims waived or abandoned		
Abandoned claim in respect of overpayment of tax to HM Revenue & Customs.	1,477	
Waiver of charges against a contractor relating to disputed utility and computer services charges at the Defence Academy.	417	
	1,894	–
Constructive Losses		
Impairment charges for land and buildings resulting from the early withdrawal of Forces from Germany.	1,504,427	
Early withdrawal from service of the fleet of Harrier aircraft.		1,294,050
Early withdrawal from service of 5 Royal Navy vessels.		513,303
Reduction in the numbers of Challenger 2 tanks, Driver Training Tanks and Challenger Armoured Repair and Recovery Vehicles.		253,321
Reduction in the stockpile of Storm Shadow missiles.		173,100
A joint radiographic and hydrodynamics facility with France resulted in the termination of Project Hydrus.		120,574
Project Soothsayer: terminated contract.		88,676
Cancellation of the Queen Elizabeth Class aircraft carrier conversion programme, following the decision to revert to the Short Take Off and Vertical Landing (STOVL) variant of the Joint Strike Fighter Aircraft.	74,561	
Reduction in the number of Sentry Aircraft ZH105.	64,051	
Reduction in holdings of the Multi Launch Rocket System due to a change in the operational environment.		59,725
Reduction of the AS90 Howitzer self-propelled guns due to a change in the operational environment.		58,573
Following a capability review a decision was made that the Shielder Anti-Tank mine canisters and associated vehicles were no longer required.		43,144
Withdrawal from the Typhoon engine In Service Support System as a review determined that the majority of the system is no longer required.		33,419
Reduction in the number of reconnaissance vehicles – Combat Vehicle Reconnaissance (Tracked).		24,800
Cancellation of Solid Intermediate Level Waste Treatment Plant as it failed to meet regulations and controls.		23,603
Reduction in the number of Warrior Armoured Fighting Vehicles.		5,372
	1,643,039	2,691,660

ADVANCE NOTIFICATIONS: these are losses, which arose during 2012-13 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, 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 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 2012-13 £000	Reported in 2011-12 as Advance Notifications £000
Gifts		
The MOD will gift to the Northern Ireland Executive the net proceeds from the sale of three sites.		**5,500**
50 Leyland DAF 4-ton trucks plus associated spares, Land Rover vehicle components and major assemblies to Government of Uzbekistan.	**450**	
HMS Caroline to National Museum of the Royal Navy.	**300**	
	6,250	

25.2 Losses Notes

In addition to the cases listed in the tables above there are a further 3 cases (1 closed, 2 advance notifications) relating to cancelled contracts, details of which are not disclosed due to legal, security or commercial reasons.

25.3 Special Payments

CLOSED CASES: these are special payments that 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 2012-13 £000	Reported in 2011-12 as Advance Notifications £000
Total under £250,000 each: 51 cases.	**461**	
Total over £250,000 each: 409 cases (detailed below).	**1,460**	
	1,921	–
Total Value of Closed Cases – arising in 2012-13 and reported in 2011-12 as Advance Notifications.	**1,921**	
Details of the closed cases over £250,000 are:		
War Pensions Benefit cases		
The payments detailed below were for War Disability Pensions, and were made under the authority of Treasury Dispensing Instruments but outside the scope of the Service Pension order:		
(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, 49 claims were processed and paid in 2012-13.	**490**	
(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 number of cases in 2012-13 was 236.	**573**	
(c) Noise Induced Sensorineural Hearing Loss:		
During financial year 2012-13 124 payments were made.	**397**	
	1,460	–

ADVANCE NOTIFICATIONS: these are special payments, which arose during 2012-13 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, 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 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 2012-13 £000	Reported in 2011-12 as Advance Notifications £000
Extra-Contractual payments to indemnify a contractor for redundancy costs of ex-MOD staff transferred under TUPE.		1,800
	1,800	

26. Related Party Transactions

26.1 The Defence Science and Technology Laboratory, the UK Hydrographic 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.

26.2 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 value of transactions with some of these organisations are set out below and balances with the Trading Funds (excluding loans and dividends, which are shown at Note 12) at year end, are in the following table:

Organisation	Receivables Balances £000	Payables Balances £000
Defence Science and Technology Laboratory	2,735	178,522
UK Hydrographic Office	1,880	-
Defence Support Group	5,228	19,733

Oil and Pipelines Agency (Public Corporation)

26.3 During the year MOD paid the agency fees (excluding VAT) of: £3.8M (2011-12: £3.8M) Director Commercial DE&S and the Head of the Business Strategy and Governance for the MOD are members of the Board of Directors.

Navy Army Air Force Institutes (NAAFI)

26.4 The NAAFI Council acts as the most senior NAAFI body responsible for approving the policy and direction of NAAFI's business. The rules governing the NAAFI Council and its proceedings are laid out in NAAFI's Memorandum and Articles of Association. Further details of the activities of the NAAFI including membership of The Council can be found at http://www.naafi.co.uk. During 2012-13 receipts from NAAFI were £0.2M (2011-12: £0.2M); payments to NAAFI were £23M (2011-12: £23M). The Department has provided NAAFI with a guarantee that it will reimburse 90% of additional costs arising from any changes in MOD's service requirements.

Executive Non-Departmental Public Bodies (NDPBs)

26.5 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. The value of the NDPBs' income, expenditure, assets and liabilities are consolidated in the accounts as part of the Departmental Group. Further details of these organisations can be found at:

- The National Museum of the Royal Navy http://www.royalnavalmuseum.org/
- National Army Museum www.national-army-museum.ac.uk
- Royal Air Force Museum www.rafmuseum.org.uk

Other

26.6 The Department also pays a number of grants and grants-in-aid to other bodies included in the Departmental Group e.g. the Council of Reserve Forces and Cadets Associations (£70M), the Commonwealth War Graves Commission (£46.5M) and the Royal Hospital Chelsea (£11.3M), as well as grants-in-aid to bodies outside the accounting boundary e.g. the Marine Society & Sea Cadets (£10.1M) and the Gurkha Welfare Scheme (£1.2M).

26.7 The MOD works closely with many charitable organisations and this can include representation on governing bodies, for example: The Secretary of State for Defence is trustee of Greenwich Hospital.

26.8 The MOD has also 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 Security and Intelligence Services, the Home Office, the Skills Funding Agency, UK Trade and Investment, the Procurator General and Treasury Solicitor, the Cabinet Office, the Department for Work and Pensions, the Department for Environment Food and Rural Affairs, HM Revenue and Customs and the Department for International Development.

Joint Ventures

26.9 The Department has not established any Joint Ventures. Some of the Trading Funds and NDPBs 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.

27. Events After the Reporting Date

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

28. Heritage Assets

28.1 Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are preserved in trust for future generations because of their cultural, environmental or historical associations and include: historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art.

28.2 Heritage assets display the following attributes: their value to the Government and to the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market price; established custom and, in many cases primary statute and trustee obligations, impose prohibitions or severe restrictions on disposal by sale; they are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; they may require significant maintenance expenditure to enable them to be enjoyed by future generations; and their life may be measured in hundreds of years.

28.3 Heritage assets are categorised as either operational or non-operational. Non-operational heritage assets are those which are held primarily for the purpose described above e.g. archaeological sites. Operational heritage assets are those which, in addition to being held for their characteristics as part of the nation's heritage, are also used by the Department for other activities or to provide other services e.g. historical buildings used as office accommodation.

28.4 Operational heritage assets are usually valued using the same valuation methodologies as for other assets of that general type. Non-operational heritage assets are valued where this information can be obtained at a cost commensurate with the benefits to users of the Annual Accounts. Heritage assets are not separately disclosed in the SoFP.

28.5 Details of the scale and scope of some of the heritage assets, held by the Department and its ALBs can be viewed on the following websites:

- http://www.nmrn.org.uk
- http://www.nam.ac.uk
- http://www.rafmuseum.org.uk
- http://www.chelsea-pensioners.co.uk/home
- https://www.gov.uk/defence-infrastructure-organisation-estate-and-sustainable-development

28.6 The Department owns a range of non-operational heritage assets. 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. Assets may, for example, be valued when loaned to other organisations as occurred last year when artefacts valued at £75M were loaned to the National Maritime Museum.

28.7 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
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.
Artefacts, records and artworks	Various locations	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. Further information is available at: http://www.armymuseums.org.uk
Battle of Britain Memorial Flight	RAF Coningsby	Further information is available at: http://www.raf.mod.uk/bbmf

29. Entities Within the Departmental Boundary

The entities within the boundary during 2012-13 were as follows:

On Vote Agency

Service Children's Education*

Advisory Non-Departmental Public Bodies

Advisory Committee on Conscientious Objectors

Advisory Group on Military Medicine

Armed Forces Pay Review Body

Central Advisory Committee on Pensions and Compensation

Defence Nuclear Safety Committee

Defence Scientific Advisory Council

National Employer Advisory Board

Nuclear Research Advisory Council

Review Board for Government Contracts

Science Advisory Committee on the Medical Implications of Less Lethal Weapons

Veterans Advisory and Pensions Committees

Non-Departmental Public Bodies

National Museum of the Royal Navy

National Army Museum

Royal Air Force Museum

Other Bodies

ABF The Soldiers' Charity**

Council of Reserve Forces and Cadet Associations

Independent Monitoring Board for the Military Corrective Training Centre, Colchester

Royal Hospital Chelsea

Commonwealth War Graves Commission

* Service Childrens Education ceased to be an Executive Agency with effect from 31 March 2013

** ABF The Soldiers' Charity was reclassified from the public sector to the Non-Profit Institutions Serving Households (NPISH) sector by the Office for National Statistics with effect from March 2013. The charity will therefore not be included in the Department's accounting boundary from 2013-14.

Annex A

Defence in the Public Eye

A.1 In 2012-13, we continued to work hard to ensure that Parliament, the public, the media and other stakeholders understand our role, what we do, and why we do it. The results of independent public opinion polling conducted on our behalf show that the British population continues to be highly favourable towards the UK Armed Forces. The reputation of the MOD has continued to improve steadily and that of the Armed Forces remains at a high level.

A.2 The MOD has conducted surveys of public opinion on an annual or bi-annual basis since 1999. Up until spring 2011 qualitative research was conducted in face-to-face interviews. However, following a requirement to achieve cost savings, the Department switched to a more cost-effective and flexible telephone-based methodology in Spring 2012. This switch in methodology means that detailed comparison between our most recent survey results undertaken in 2013 and 2012 by telephone and previous waves undertaken in face-to-face interviews should not be made. For continuity, we show historical data and indicate clearly at which point the shift in methodology occurred.

Table A.1 – External opinion of the Armed Forces and MOD

March 2013*	March 2012*	March 2011	March 2010	March 2009
Favourable ratings for Armed Forces				
85%	85%	88%	82%	84%
Unfavourable ratings for the Armed Forces				
5%	4%	3%	4%	2%
Favourable ratings for MOD				
69%	68%	57%	56%	55%
Unfavourable ratings for MOD				
12%	13%	15%	11%	9%

Figure A.1 – External opinion of the Armed Forces and MOD 2006-13

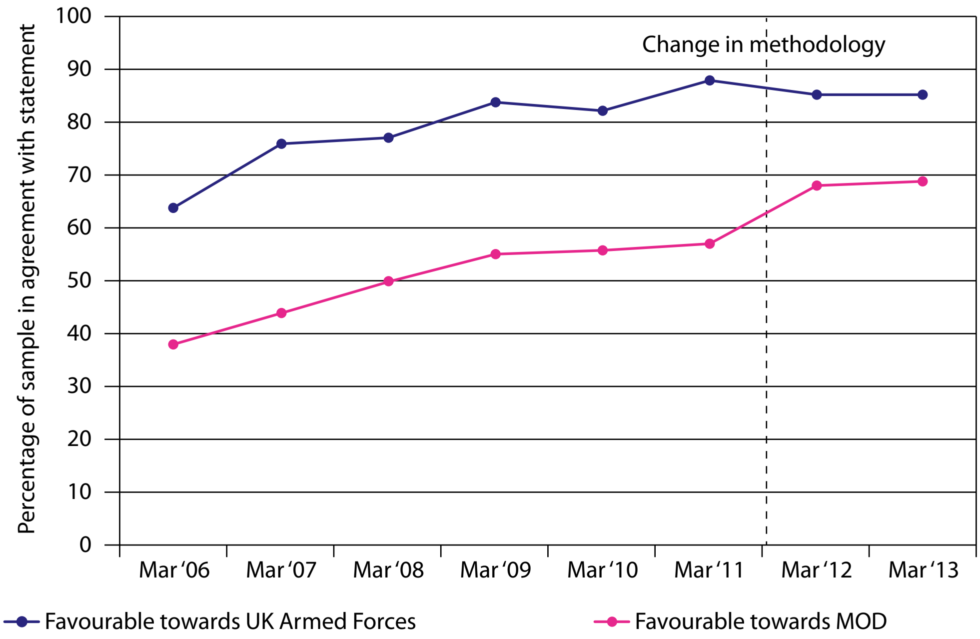
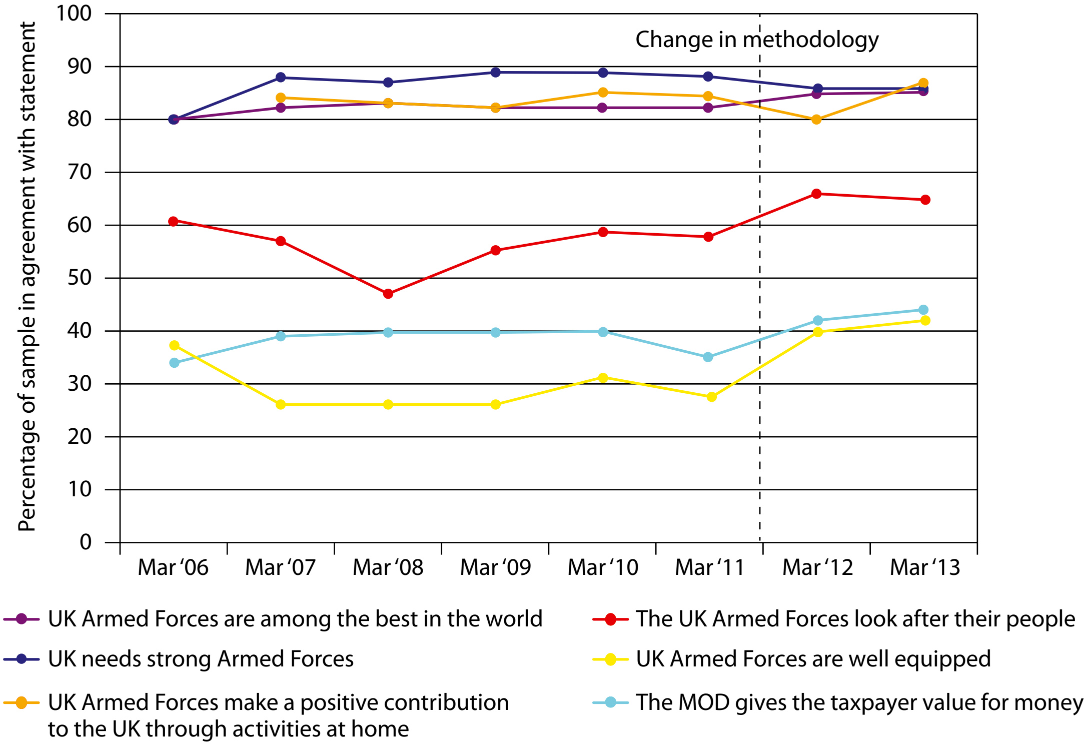


Table A.2 – External Opinion Survey Headlines

Armed Forces	March 2013*	March 2012*
Favourable towards Armed Forces	85%	85%
UK Armed Forces are among the best in the world	85%	85%
UK needs strong Armed Forces	86%	86%
UK Armed Forces look after their people	65%	66%
UK Armed Forces make a positive contribution to the UK through their activities at home	87%	80%

Ministry of Defence	March 2013*	March 2012*
Favourable towards MOD	69%	68%
UK Armed Forces are well equipped	42%	40%
MOD gives the taxpayer value for money	44%	42%

Figure A.2 – External Opinion Survey Polling Results, 2007-12



Reputation among Service and Civilian Personnel

A.3 We also carry out an annual survey to determine the views of our own people – Service and civilian – on Defence issues and the Armed Forces. Our most recent poll conducted in Spring 2013 showed that the majority of our people agree that both the Armed Forces and the MOD are a force for good at 91% and 76% respectively. There has been a 5% increase in the proportion of our people who agree that the UK Armed Forces make a positive contribution to the UK through their activities at home, from 89% in 2012 to 94% in 2013. The latest external survey also demonstrated this trend, with a 7% increase from 80% in 2012 to 87% in 2013. These results may reflect recognition of the contribution made by the Armed Forces towards providing security for the London 2012 Olympic Games.

Table A.3 – Internal opinion (Service and civilian personnel) of MOD and Armed Forces

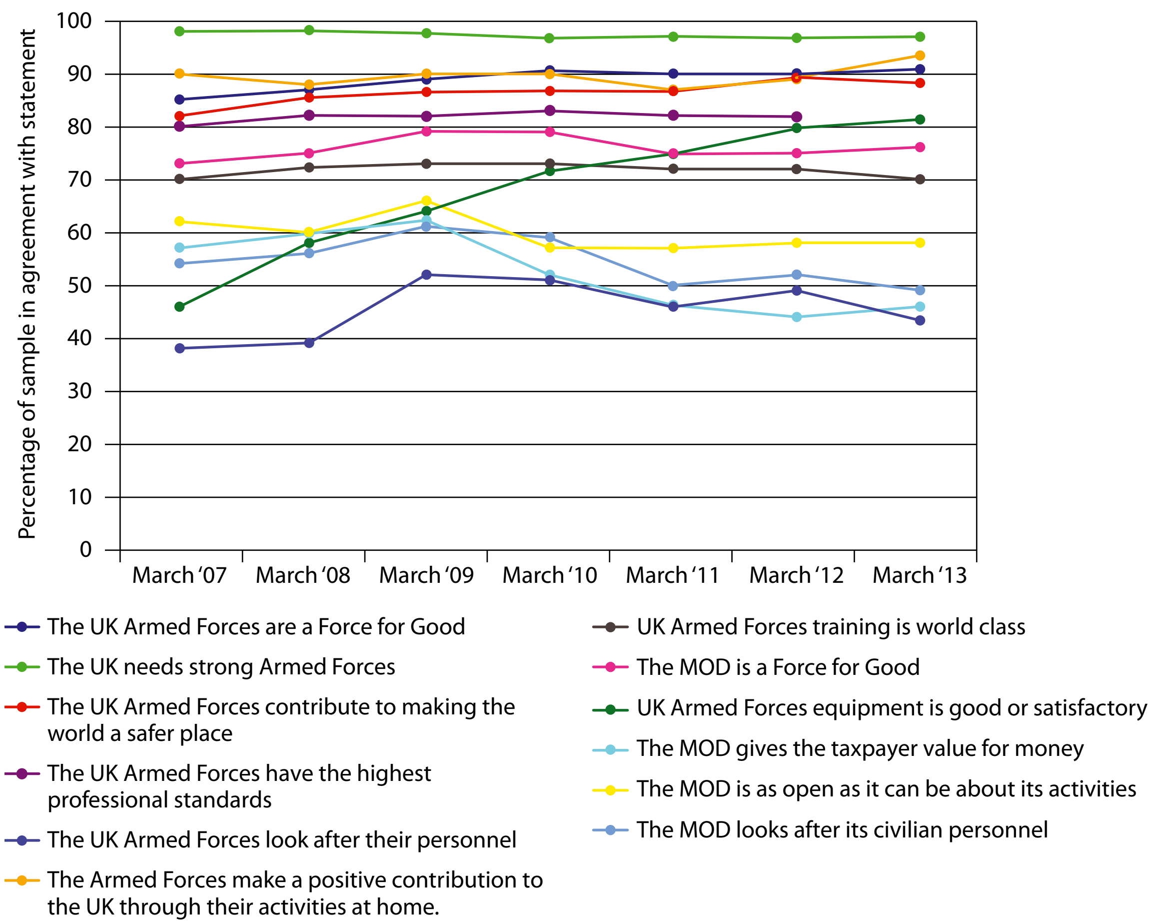
Spring 2013	Spring 2012	Spring 2011	Spring 2010
% of Service and civilian personnel who thought that the Armed Forces were a Force for good			
91%	90%	90%	91%
% of Service and civilian personnel thought that the MOD was a Force for good			
76%	75%	75%	79%

Table A.4 – Internal Opinion Survey headlines

Armed Forces	March 2013	March 2012
UK Armed Forces are a Force for good in the world	91%	90%
UK needs strong Armed Forces	98%	97%
UK Armed Forces contribute to making the world a safer place	88%	90%
UK Armed Forces have the highest professional standards	79%	82%
UK Armed Forces look after their personnel	44%	49%
UK Armed Forces make a positive contribution to the UK through their activities at home	94%	89%
UK Armed Forces training is world class	70%	72%

Ministry of Defence	March 2013	March 2012
MOD is a Force for good in the world	76%	75%
UK Armed Forces equipment is good or satisfactory	82%	80%
MOD gives the taxpayer value for money	46%	44%
MOD is as open as it can be about its activities	58%	58%
MOD looks after its civilian employees	49%	52%

Figure A.3 – Internal polling results, 2007-2013



Annex B

Accountability to Parliament

B.1 Ministers have accounted to Parliament during the financial year 2012-13 on all aspects of the Ministry of Defence's business. A total of 3542 Parliamentary Questions were tabled. Defence Ministers participated in 15 debates on Defence issues in the House of Commons and 10 in the House of Lords and responded to 12 Adjournment Debates in Westminster Hall. Ministers made seven oral statements to the House of Commons and six to the House of Lords. They also made 69 Written Ministerial Statements to the House of Commons and the House of Lords. Details are published in Hansard.

B.2 From 1 April 2012 to 31 March 2013, Defence Ministers received 5052 items of correspondence from Members of Parliament and Peers (and some members of the public to which a Ministerial response was deemed appropriate) of which 4363 (86%) were answered within the Departmental target of 20 working days.

Evidence to House of Commons Defence Committee (HCDC)

B.3 Since 1 April 2012, the Ministry of Defence has given evidence to the House of Commons Defence Committee on a number of occasions covering a wide range of issues, and the Government has responded to a number of the Committee's reports. All Committee publications, including published evidence given to the Committee, are available at:

B.4 Reports published during this reporting period are listed below.

Table B.1 – Parliamentary Session 2012-13 Reports/evidence (Government Responses, if published, are listed in brackets after the report to which they relate)

Report	Title	Publication Date
HC 99 (HC 577)	Ministry of Defence Supplementary Estimate 2011-12	21 May 2012
HC 331 (HC 578)	The Armed Forces Covenant in Action? Part 2: Accommodation	26 June 2012
HC 833 (HC 607)	MoD Main Estimate 2012-13	2 July 2012
HC 419	Scrutiny of Arms Exports (2012): UK Strategic Exports Controls Annual Report 2010, Quarterly Reports for July to December 2010 and January to September 2011, the Government's Review of arms exports to the Middle East and North Africa and wider arms control issues	13 July 2012
HC 110 (HC 827)	Future Maritime Surveillance	19 September 2012
HC 106 (HC 719)	Defence and Cyber-Security:	9 January 2013
HC 9	Defence Acquisition	5 February 2013
HC 720	The Work of the Service Complaints Commissioner for the Armed Forces	26 February 2013
HC 828	Ministry of Defence Annual Report and Accounts 2011-12	7 March 2013

B.5 The Defence Committee also visited the Armed Forces in the UK and overseas as part of its inquiries, as shown in Table A.2.

Table B.2 – Visits by the Defence Committee to UK Armed Forces

Date of Visit	Establishment	Related Inquiry
21 June 2012	Hereford	General visit
28 June 2012	Global Operations and Security Control Centre	Defence and Cyber Security
25-30 Nov 2012	Afghanistan	Securing the Future of Afghanistan
5 March 2013	Army Training Regiment Pirbright and Defence College of Logistics and Personnel Administration, Deepcut	The Armed Forces Covenant in Action? Part 4: Education of Service Personnel
12 March 2013	HMNB Clyde (Faslane and Coulport)	Defence Implications of possible Scottish Independence
12 March 2013	Scotstoun Dockyard	Defence Implications of possible Scottish Independence
13 March 2013	Redford Barracks, Edinburgh and Rosyth Dockyard	Defence Implications of possible Scottish Independence
14 March 2013	RAF Lossiemouth	Defence Implications of possible Scottish Independence

Evidence to the House of Commons EU Scrutiny Committee and the House of Lords EU Committee.

B.6 Since 1 April 2012 the Ministry of Defence has also given written and oral evidence on various issues to the House of Commons and House of Lords EU Scrutiny Committees to keep both Houses appraised of routine EU business in accordance with Government undertakings. All Committee publications including transcripts and correspondence between Ministers and the Committees are to be found at:

http://www.parliament.uk/business/committees/committees-a-z/commons-select/european-scrutiny-committee/ (Commons)

http://www.parliament.uk/business/committees/committees-a-z/lords-select/eu---foreign-affairs-defence-and-development-policy-sub-committee-c/ (Lords)

B.7 Evidence given during this reporting period is listed below:

Table B.3 – Parliamentary Session 2012-13 Reports/evidence

Select Committee	Subject	Publication Date
HOL EU Committee HL 43	Turning the Tide on Piracy, Building Somalia's Future: Follow-up Report on the EU's Operation Atalanta and beyond	21 August 2012

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

B.8 Since 1 April 2012 the Ministry of Defence has also given written and oral evidence on various issues to the following Select Committees of the House of Commons and House of Lords: All Committee publications, including published evidence given to the Committee, are available at:
http://www.parliament.uk/business/committees/committees-a-z/#E

B.9 Evidence given during this reporting period is listed below:

Table B.4 – Parliamentary Session 2012-13 Reports/evidence

Select Committee	Subject	Publication Date
HOL Science and Technology Committee HL 33	Sport and exercise science and medicine: building on the Olympic legacy to improve the nation's health	18 July 2012
HOC Scottish Affairs Committee HC 676 (HC 861)	The Referendum on Separation for Scotland: Terminating Trident – Days or Decades?	25 October 2012
HOC Welsh Affairs Committee HC 131	Support for Armed Forces Veterans in Wales	12 February 2013
Joint Committee on the National Security Strategy HL 115/HC 984	The work of the Joint Committee on the National Security Strategy in 2012	28 February 2013

B.10 Select Committees also visited the Armed Forces in the UK as part of their inquiries, as shown in Table A.5.

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

Date of Visit	Select Committee	Establishment	Related Inquiry
29 August 2012	Scottish Affairs Committee	HMNB Clyde, Faslane and Coulport	The Referendum on Separation for Scotland
27 September 2012	Scottish Affairs Committee	RAF Leuchars and Rosyth Dockyard	The Referendum on Separation for Scotland
1 November 2012	Scottish Affairs Committee	Glencorse Barracks	The Referendum on Separation for Scotland
6 December 2012	Scottish Affairs Committee	Defence Munitions, Beith	The Referendum on Separation for Scotland
21 February 2013	Scottish Affairs Committee	General Officer Commanding Scotland, Edinburgh	The Referendum on Separation for Scotland

Annex C

Trading Fund Performance

Defence Support Group (DSG)

C.1 DSG provides MOD with secure access to assured onshore capacity and capability for through-life maintenance, repair, overhaul, upgrade and procurement support services for defence equipment. This is in line with the Defence White Paper, National Security through Technology, published in February 2012. Our core mission is to be a trusted partner for the UK Armed Forces, including, for current and future MOD equipment acquisition and support strategies, with our vision to excel in supporting Defence.

C.2 DSG delivered another solid business performance in 2012/13, achieving all four of its major internal business performance targets. DSG has continued to improve and streamline its operations over the year, reducing operating costs by £5M and delivering a £5M cost rebate to its MOD customers. In addition, DSG has worked closely with the MOD to develop capability enhancement opportunities to improve DSG service delivery, and grow the business.

C.3 DSG support to UK Armed Forces' operations in Afghanistan, through its management of the Equipment Sustainability System Regeneration Facility at Camp Bastion, has, once again, served to show-case the organisation's capabilities and value. Over the last 12 months, DSG continued to improve the operational capability of the facility and delivered further cost-avoidance savings, which now stand at over £90M. Over 100 volunteers from the DSG workforce are employed at a time at Camp Bastion on tour lengths between 6 and 12 months.

C.4 During the year, DSG played a key role in the MOD's planning for the redeployment of equipment from Afghanistan at the end of operations there in 2014. As part of this, it established the DSG Equipment Redeployment Hub Forward in Camp Bastion and the HERRICK Exchange Point at its site in Warminster. This will enable DSG to take equipment off the battlefield, manage it through recuperation and deliver it to the Army in the home base ready for future operations and training.

C.5 DSG also continued to work with MOD in preparation for the sale of the business within the Spending Review 2010 period, as set out in the Strategic Defence and Security Review.

C.6 DSG's trading performance during the year was solid. Turnover was £182M (compared to £184M in 2011-12) and cost reductions across the corporate and business areas of £5M contributed to a net profit, before interest and dividend, of £17M (compared to £14M the previous year). The Return on Capital Employed was 10.6%

C.7 More information can be obtained from the DSG Annual Report and Accounts on the DSG website.

Defence Science And Technology Laboratory

C.8 Dstl's vision is to be the first port of call for defence- and security-related Science and Technology (S&T) within Government. As MOD's in-house S&T organisation, Dstl seeks to maximise the impact of S&T for the defence and security of the UK. Dstl provides the Government with an extensive portfolio of S&T support, delivered from its professional in-house expertise and by acting as a trusted interface with industry, academia, wider Government laboratories and international agencies.

C.9 This year, Dstl has continued to develop and manage a substantial and broad-ranging programme of research on behalf of MOD. More than 60 per cent of this research was delivered by industry and academic partners, thereby prioritising investment in new technologies that will, in turn, enable Dstl to provide vital support to UK defence and security and to potential future operations.

C.10 Through this collaborative work this year, Dstl has delivered successful projects and programmes that have had significant impact for its customers across the defence and security sector, at home and abroad. Of particular note was the contribution Dstl made to the delivery of safe and secure London 2012 Olympic and Paralympic Games, and in support of operations in Afghanistan.

C.11 Dstl has continued to evolve and adapt its structures and systems, and to invest in new skills. An internal reorganisation is giving a clearer focus on supporting customers through account management, and by a more coherent and efficient delivery of programmes and projects using both internal resources and external suppliers.

C.12 As a key enabler within defence, Dstl has continued to support the Transforming Defence programme. As a result of action taken this year, Dstl is well placed to provide the scientific advice and support needed by the four Front Line Commands in their new transformed roles. Dstl has also worked hard on realising the opportunities offered through Civil Service Reform.

C.13 Dstl has also been more proactively supporting responsible exports through advice and support to UK industry and to foreign Governments, in line with Government policy. It has developed a framework for decision-making in support to exports, and has been investigating the benefits of designing-in exportability for requirements placed with industry.

C.14 Ploughshare Innovations Ltd, Dstl's wholly-owned technology transfer company, has been actively exploring opportunities to exploit Intellectual Property (IP), and has been examining options for significantly improving the funding available for its commercialisation.

C.15 TThe Centre for Defence Enterprise (CDE) at Dstl has continued to remove barriers for Small- and Medium-sized Enterprises (SMEs) to enter the defence supply chain. More than two-thirds of CDE contracts have gone to SMEs and innovators within academia, providing a vital mechanism for defence to access their fresh thinking and capabilities. To date, CDE has received more than 4,100 research proposals, with around 700 selected for funding, resulting in a total contract value of £39M.

C.16 Dstl achieved its required financial performance. Turnover for the year was £628.7M (compared to £595.7M in 2011/12). Net profit was £25.5M (2011/12: £30.2M), achieved while further reducing staff charge-out rates in real terms. Staff charge rates have been held constant since 1 April 2009. Dstl delivered a Return on Capital Employed of 7.8%.

C.17 More information can be obtained from the Dstl Annual Report and Accounts on the Dstl website.

UK Hydrographic Office (UKHO)

C.18 UKHO's vision is to be the world leader in the supply of hydrographic information and services. The products and services UKHO supply to Defence are crucial to the conduct of operations globally and support the National Security Strategy. UKHO also support the Maritime and Coastguard Agency in discharging the UK's obligations for National Charting under the UN Convention on the Safety of Life at Sea. Having met these objectives, there role as a Trading Fund requires them to establish profitable commercial revenue streams through the supply of Admiralty-branded navigational charts, publications and other services to international mariners. During the year, commercial business represented 90.8% of UKHO total turnover.

C.19 UKHO's Defence Section, the Defence Maritime Geospatial Intelligence Centre (DMGIC), has continued to support operations and has delivered against all targets. Notable highlights this year have included support to operations in Libya, to the London 2012 Olympic and Paralympic Games, and to the Queen's Diamond Jubilee celebrations. DMGIC staff also deployed in support of Royal Navy activity, including operation COUGAR aboard HMS Bulwark, Exercise Joint Warrior and Deterrent pre-deployment work-up.

C.20 The safety and quality of Admiralty products and services has remained the UKHO's top priority, reflected in the culture and ethos embedded throughout the entire organisation. The technical ability of UKHO's staff in validating and assuring the information provided for the global maritime industry is exemplary and will continue to be the primary differentiation for Admiralty products.

C.21 The UKHO has successfully rolled out an Electronic Print on Demand Service; allowing distributors to print the majority of the British Admiralty chart series at their own premises and so ensure 100% stock availability at their points of sale. This is a major opportunity to increase both its service to customers and end users and improve the efficiency of the distribution processes. The UKHO has also continued the roll-out of the Admiralty e-Navigator electronic navigation management platform in the commercial market. The UKHO have continued to invest significantly in the quality assurance of electronic navigation, working with other Hydrographic Offices and manufacturers of electronic chart display systems to improve quality and reliability and providing a quality assurance overlay to users of its Admiralty Vector Chart Service.

C.22 The shipping market is experiencing its toughest downturn in 50 years. In addition to the effect this is having on the number of new build ships entering service, this is driving significant changes in the buying behaviour of UKHO's distributors and end users. The impact of this has been particularly visible in the sales of paper charts, although digital chart sales have continued to grow. Overall, UKHO's turnover was £129.8M, which was down 4.8% on last year. Net profit on ordinary activities was £22.5M, which was down by 29.8%, although this also reflected continuing business investment in the UKHO's digital future. Return on Capital Employed was 28.4%. All five key targets, encompassing Safety, Defence, Finance, Organisational Excellence and Customer Satisfaction, were achieved.

C.23 More information can be obtained from the UKHO Annual Report and Accounts on the UKHO website.

Annex D

Government Standards

Fraud

D.1 The MOD has a zero tolerance policy towards fraud, along with a clear process on how to report suspicions of fraud, theft, bribery and corruption. MOD commissioned a review by KPMG of its current arrangements for managing the risk of fraud. The KPMG report set out a number of recommendations for improving the current arrangements and in response MOD established a 1 star post: Head of Counter Fraud & Loss Prevention in November 2012 to head the counter fraud function. In addition a team of senior professional and expert counter fraud team is currently being recruited. To provide strategic direction, a new Counter Fraud & Loss Prevention Board has been established, and met for the first time in January 2013, chaired by DG Finance. A Counter Fraud Strategy setting out five pillars of a counter fraud response – Risk Assessment, Prevention, Detection, Enforcement, and Awareness – has been developed.

Transparency

D.2 The Departmental *Open Data Strategy (ODS)*[1] was published in 2012. It outlines the Transparency commitments the Department aims to deliver during the period 2012-2014, including release of further datasets, improving data quality and embedding Transparency. Proactively releasing datasets of public interest can lead to a greater understanding of the Department, an improved public image, trust and accountability. The Department must ensure that it meets the Transparency legislative requirements outlined in the Freedom of Information Act (FOIA) and additionally the Protection of Freedoms Act (2012), whilst taking into account the need to protect certain types of information, for example, for national or personal security reasons. The principles of Transparency have been embedded in the MOD Business Plan.

D.3 MOD has met the publishing commitments set by the Prime Minister and has published additional datasets of public interest to the Internet, signposting them on http://www.data.gov.uk. At the end of this reporting period, MOD had published three of the seven datasets promised in the ODS; and an additional six datasets have also been published during the period.

Freedom of Information

Category	MOD performance	Total for Monitored Bodies Representing Central Government Departments
Number of requests received[1]	3,454	49,068
Of these:		
% of requests responded to within 20 working days	81%	86%
% of requests answered 'in time' [2]	87%	91%
Total of 'resolvable requests' [3]	2,796	36,376
Of these:		
% of resolvable requests answered in full	66%	54%
% of resolvable request refused in full	23%	14%
% of resolvable requests refused in part	8%	27%
% resolvable requests yet to receive a response at the time these statistics were collected	5%	5%

D.4 In 2012-2013, the MOD received 3,454 requests for information under the Freedom of Information Act 2000. The MOD's record on timeliness in respect of its responses to Freedom of Information requests has improved over the previous year. 81% of requests received a substantive response within the 20 working day statutory time limit, and 66% of 'resolvable' requests were answered in full. MOD refused 23% of requests in full and 8% in part, on the grounds that information was exempt from disclosure under the provisions of the FOI Act 2000.

1 http://www.data.gov.uk/library/mod-open-data-strategy

D.5 FOI is an important element of MOD business and as such, the department keeps its internal operating procedures under regular review. Formal training, seminars and workshops establish and maintain the necessary levels of expertise in business units. In-house guidance is regularly updated to reflect the evolving views of the Information Commissioner, the Information Tribunal, and policy developments issued by the Ministry of Justice.

Corporate Memory – The National Archives

D.6 2012-13 saw the routine review and transfer of records to The National Archives (TNA) resulting in around 10,000 files being identified and selected for permanent preservation. Almost half of these files related to the 1982 Falklands Crisis, which were made publicly available at TNA in January 2013. MOD continues to comply with its obligations under the Public Records Act and due to a change in the Act that replaces the 30 Year Rule with a 20 Year Rule, has increased the volume of files to be assessed for selection. In addition, MOD has continued to support TNA in dealing with Freedom of Information requests for files that are held by TNA but not available to the public.

Commercial Sponsorship within MOD during 2012-13

D.7 This sponsorship return satisfies the Cabinet Office requirement to publish details of commercial sponsorship deals with a value of £5,000 or greater, excluding VAT, where they supplement Government funding of Departmental core business.

Table D.1 – Commercial Sponsorship within MOD 2012-13

Activity	Individual Sponsors	Company Contribution £ EX VAT
Navy Command		
HMS Illustrious	Land Rover UK	12,983
HMS Bulwark	Land Rover UK	10,128
HMS Ocean	Land Rover UK	7,932
RNAS Yeovilton	Jaguar	11,147
Royal Naval Presentation Team	Jaguar	7,355
HMS Diamond	Land Rover UK	5,574
HMS Dragon	RNRMC, Sir Brooke Boothby, The Worshipful Company of Plasterers, BAE, MBDA	35,000
Black Cats	Rolls Royce	3,000
HMS Ambush	L-3 Communications Marine Systems Ltd, Thales UK Limited, Ultra Electronics Limited, Mactaggart Scott & Company Limited, Rolls-Royce Power Engineering Plc	20,000
HMS Defender	BAE Systems, ECS Global Ltd, Jaguar Land Rover, MBDA Missile Systems, South West Metal Finishing Ltd, Thinkanalytics Ltd	23,500
DIO		
Sanctuary Magazine	Lend Lease, Aspire, Babcock International, Landmarc, Kelda Water Services & Carillion Enterprise,MODern Housing Solutions	9,000
DE&S		
Ship Open Day	BAE Systems	10,000
JFC		
Study Day	Cassidian Systems	10,000
Defence Academy	General Dynamics, SELEX Galileo, Serco, MDBA, BAE Systems	5,000
Army Command		
Aldershot Army Show	Aspire, Babcock International, Grainger, MUJV, Holiday Inn,Thales	11,300

Table D.1 – Commercial Sponsorship within MOD 2012-13

Activity	Individual Sponsors	Company Contribution £ EX VAT
Chinook Display Team	Land Rover UK	7,392
D Inf Parachute Display Team – The Red Devils	Victorinox, Kukri, Virgin Media, SEAT, Chemring, Pure Innovation	53,000
Royal Signals Display Team	DAVIDA,Weise	4,000
Royal Signals Display Team	LF Harris International	10,000
Cadets	The Honourable Artillery Company (HAC) (Four year Agreement)	228,760
Air Command		
Typhoon Display Team	Rolls Royce, Selex Galileo, BAE Systems	32,888
Battle of Britain Memorial Flight	BAe Systems Ltd, Rolls Royce, Land Rover & Pullman Wincanton, Blackbrokes LLP	43,963
Falcons	Fiat Motors, Peli Products	7,888
Biennial Commonwealth Flying Training Conference	Ascent, Bancock, Hawker Beechcraft, Inzpire Ltd	8,300
RAF Aerobatic Display Team – The Red Arrows	Breitling, BAE Systems, Land Rover, Leeds Commercial, BMB Mensware, m2c2, Barbour, Ping, Oakley, Grant International, Pitscards, Rolls Royce, XS Creativity, Aquilla ATMS, Connect Colour & KodaK, Oakley, Alexandre	159,500
TOTAL		**£737,611**

Annex E

Sustainable Development

E.1 New and emerging threats including global environmental, social and economic pressures pose risks to Defence's ability to meet its strategic objectives. Climate change and resource security – water, food, energy, materials – are potential catalysts for instability and are national security risks as set out in the National Security Strategy.

E.2 To meet the challenges the Department has a Sustainable Development strategy, which sets out Defence Sustainable Development principles and aims to mainstream these in all other Defence strategies, policies, decision-making processes, programmes, projects, activities, and behaviours. MOD is committed to achieving the Government's Mainstreaming Sustainability Vision including the Greening Government Commitments and MOD's Business Plan targets. Progress was good, but the Defence Transformation programmes are increasing waste volumes in the short term.

E.3 Sustainable Procurement is a key element in the planning and delivery of military capability. In year progress was delayed due to resource constraints and reorganisation. The Resilience Research Programme continued to inform capability decisions, with further acquisition guidance issued on materials security. Targets have yet to be agreed with key suppliers on reducing greenhouse gas emissions, and water consumption and waste: this is led through the joint MOD-Industry Sustainable Procurement Working Group.

E.4 The MOD has worked with other Government Departments and stakeholders to identify and understand the global impact of climate change on resource security and the effects on UK interests and security. MOD's Climate and Energy Security Envoy continued to engage in a range of activities to further domestic and international understanding of these issues and of the actions necessary to reduce the risks to global stability.

E.5 A significant proportion of our expenditure with third parties is for major military systems, the contracts for which are not directly addressable by Small and Medium Enterprises (SMEs). We have identified measures to increase our expenditure with SMEs to 15% by 2015 and are working to capture additional SME spend at lower tiers of the Supply Chain.

Mainstreaming

E.6 The mainstreaming requirements of the Sustainable Development Strategy are embedded in the Defence Plan, enabling inclusion in the annual Departmental Planning Round, with progress monitored through the Department's Holding to Account process. All projects submitted to the Investment Approvals Committee must consider Sustainable Development. Business areas are required to develop mainstreaming plans by March 2014 and to conduct Sustainability Appraisal on options as part of the annual Departmental Planning Round and to report outcomes.

E.7 We undertake sustainability appraisals for our plans, programmes and projects. The impacts of defence programmes on rural communities, and land management activities are considered as an integral part of the MOD's sustainability appraisal process.

E.8 MOD is taking action to ensure programmes with long term implications are robust in the face of changing weather, extreme events and sea-level rise. We have supported climate change adaptation of defence business by:

- roll-out of climate impacts risk assessments (CIRAM) across the estate;
- development of guidance, awareness and training on increasing estate climate resilience,
- embedding Climate resilience considerations into estate management processes.
- launching a sustainable procurement workshop on equipment acquisition;
- increasing the climate resilience considerations in the Resilience Research Programme.

E.9 A full version of the MOD's Sustainability Report can be found at: https://www.gov.uk/government/publications/mod-annual-report-and-accounts-2012-13.

Annex F

Annual Data Summary

F.1 As part of the Government's transparency agenda we report data regarding common areas of spend to the Cabinet Office, along with all other Government departments on a quarterly basis. The data for quarters 1-3 will be published on 12 July and will be updated on a quarterly basis after that. To increase comparability between Departments this spend is categorised according to Cabinet Office definitions, which cannot be readily reconciled with those used in Note Two of the Accounts. The indicators that we are required to report on were changed by the Cabinet Office in 12/13 compared to those we reported on in 11/12. An extract of the quarter four submission showing the spend over the whole year is provided below for the indicators remaining from the previous Annual Report and Accounts.

F.2 Of the remaining indicators, there have been three significant changes: The definition of procurement has changed, and Intellectual Property Rights and Cost Analysis and Assurance Service are no longer counted; we have changed the reporting of Fraud, Error and Debt to a financial total, rather than number of incidents; and we have reported on Grants for the first time – the figure quoted in the quarterly data summary is for centrally disbursed grants-in-aid, and does not represent the totality of all grants paid out by the Department.

Common Areas of Spend		2012-13	2011-12
Estate Costs	Total Office Estate	N/A[1]	232,194 m^2
	Total cost of office estate	N/A[1]	£152.57M
	Cost per FTE	N/A[1]	£10,011
	Cost per m^2	N/A[1]	£657
Procurement	Total Procurement Spend (£M)	£20,307M	£20,204M
IT	Cost of desktop provision per FTE (£)	£1,235	£1,439
Corporate Services Cost	HR	£21.6M	£45.6M
	Finance	£117.0M	£147.4M
	Procurement	£72.0M[2]	£97.0M
Fraud, Error, Debt	Detected Fraud	£13.20M[3]	1,073
Voluntary and community sector (VCS)/SME	Procurement Spend with SME	£1,027M	£2,632M
	Central Grants	£143M	£182M

Note 1: Figures are last validated from GPU and are therefore only available for 11/12.
Note 2: Definition has changed since last year due to restructuring (Intellectual Property Rights and CAAS have been removed).
Note 3: Reporting has changed and we are now reporting total value rather than number of incidents.

Major Projects (top 5)	Cost
Typhoon including Future Capability Programme	£18,252
Joint Combat Aircraft	£15,979
Nuclear Warhead Capability Sustainment Programme	£15,979
Type 26 Global Combat Ship	~[1]
Astute Boats 1-7	£9,947
Whole life cost of ALL major projects	£88,100

Note 1: Firm projected costs will not be produced until Main Gate approval.

Structural Reform Plan Actions	2012-13*
Total number of actions completed during the period	20
Total number of actions overdue at the end of the period	0
Number of overdue actions that are attributable to external factors	0
Total number of actions ongoing	59

* Table covers 01/06/12 - 31/03/13 as the MOD Business Plan was refreshed on 31 May.

Department and Agencies Only		Year ended 31 March 2013	Year ended 31 March 2012
Workforce Shape	Administrative Assistants and Administrative Officers	37.4%	39.5%
	Executive Officers	20.5%	20.2%
	Higher and Senior Executive Officers	36.0%	34.5%
	Grade 7/6	5.5%	5.0%
	Senior Civil Servants	0.6%	0.5%
	Part time	10.7%	10.0%
Workforce Dynamics	Recruitment Exceptions	1,080	870
Workforce Diversity	Black and Minority Ethnic	3.8%	3.7%
	Women	37.1%	37.4%
	Disabled[1]		
Workforce Diversity (Senior Civil servants only)	Black and Minority Ethnic	~	2.7%
	Women	23.9%	21.9%
	Disabled[1]		
Attendance (Average Working Days Lost)	Actual	7.9 days	8.1 days
Average Staff Salary Costs		N/A[2]	£38,795

Note 1: It has not been possible to calculate this number for the last two years, due to the implementation of the 2011 Census disability definitions.
Note 2: The average staff costs is taken from the Treasury Pay Bill Remit which is not available until end of September.

Department only; People Survey Metrics		2012 Survey	2011 Survey
Engagement Index		52%	53%
Theme Scores	Leadership and Managing Change	22%	22%
	My Work	70%	70%
	My Line Manager	59%	60%
	Organisational Objectives & Purpose	76%	76%

Annex G

Votes A Statement – Statement of Approved Maximum Armed Forces Numbers

G.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.

G.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.

G.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.

G.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	6,900	6,350	April 2012
	Men and Women	23,780	21,300	April 2012
	Aggregate	30,680	27,650	April 2012
Royal Marines	Officers	950	850	October 2012
	Men and Women	7,720	7,070	May 2012
	Aggregate	8,670	7,910	May 2012
Army Service				
Army	Officers	15,730	14,570	June 2012
	Men and Women	101,470	89,900	May 2012
	Aggregate	117,200	104,340	May 2012
Commonwealth, Colonial, etc, troops abroad and Gurkhas	Officers	170	140	May 2012
	Men and Women	4,170	3,890	April 2012
	Aggregate	4,340	4,030	April 2012
Air Force Service				
Royal Air Force	Officers	9,530	9,030	April 2012
	Men and Women	32,680	30,970	April 2012
	Aggregate	42,210	40,000	April 2012

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
Reserve Naval and Marine Forces				
Royal Fleet Reserve	Officers	4,660	3,540	October 2012
(Naval Officers and Ratings)	Men and Women	9,380	3,220	August 2012
	Aggregate	14,040	6,740	August 2012
Royal Fleet Reserve (Marine Officers and Marines)	Officers	420	260	March 2013
	Men and Women	2,200	1,160	March 2013
	Aggregate	2,620	1,420	March 2013
Royal Naval Reserve	Officers	1,200	770	March 2013
	Men and Women	1,980	1,220	August 2012
	Aggregate	3,180	1,980	March 2013
Royal Marines Reserve	Officers	70	50	April 2012
	Men and Women	920	600	February 2013
	Aggregate	990	640	April 2012
Royal Naval Reserve (List 7)	Officers	950	940	December 2012
Reserve Land Forces				
Army Reserve	Officers	10,340	9,150	January 2013
	Men and Women	25,320	22,530	November 2012
	Aggregate	35,660	31,570	January 2013
Territorial Army	Officers	9,110	4,740	April 2012
	Men and Women	38,770	27,090	May 2012
	Aggregate	47,880	31,820	May 2012
Reserve Air Forces				
Royal Air Force Reserve	Officers	4,500	3,880	February 2013
	Men and Women	8,000	7,830	January 2013
	Aggregate	12,500	11,700	January 2013
Royal Auxiliary Air Force	Officers	480	220	March 2013
	Men and Women	2,440	1,330	June 2012
	Aggregate	2,920	1,540	March 2013

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
Special Members of The Reserve Naval Forces				
Royal Naval Reserve	Officers	650	700	April 2012
	Men and Women	1,290	1,250	April 2012
	Aggregate	1,940	1,950	April 2012
Special Members of The Reserve Land Forces				
Territorial Army	Officers	10	-	March 2013
	Men and Women	180	100	August 2012
	Aggregate	190	100	August 2012
Special Members of The Reserve Air Forces				
Royal Air Force Reserve	Officers	100	50	August 2012
	Men and Women	210	60	April 2012
	Aggregate	310	100	March 2013

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