



Ministry  
of Defence

# Ministry of Defence

Annual Report and Accounts  
2017-18



HC 1272

# Ministry of Defence Annual Report and Accounts 2017-18

For the year ended 31 March 2018

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

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

Ordered by the House of Commons to be printed  
19 July 2018



© Crown copyright 2018

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3)

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at [www.gov.uk/government/publications](http://www.gov.uk/government/publications)

Any enquiries regarding this publication should be sent to us at: [defstrat-csggovernance-2@mod.uk](mailto:defstrat-csggovernance-2@mod.uk)

ISBN 978-1-5286-0237-2

CCS0318104056 07/18

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

# Contents

Section	Page
<b>Performance Report</b>	
Overview	
Foreword by Secretary of State for Defence	8
Introduction from the Permanent Secretary and the Chief of Defence Staff	9
Our Vision	10
Strategic Objectives – Notable Achievements	11
Departmental Structure	12
Defence Operating Model	14
DG Finance: Financial Performance Summary	15
<b>Performance Analysis</b>	
Protect Our People: National Strategic Objective 1	23
Project Our Global Influence: National Strategic Objective 2	40
Promote Our Prosperity: National Strategic Objective 3	56
Manage the Department of State and the Defence Enterprise: Strategic Objective 4	66
<b>Accountability Report</b>	
Corporate Governance Report	91
Remuneration and Staff Report	110
Parliamentary Accountability and Audit Report	133
<b>Annual Accounts</b>	
Financial Statements	156
Notes to the Accounts	161
<b>Annexes</b>	
Statement of Approved Maximum Armed Forces Numbers	210
Sponsorship Agreements	213
Core Tables	215



Ministry  
of Defence

## Performance Report



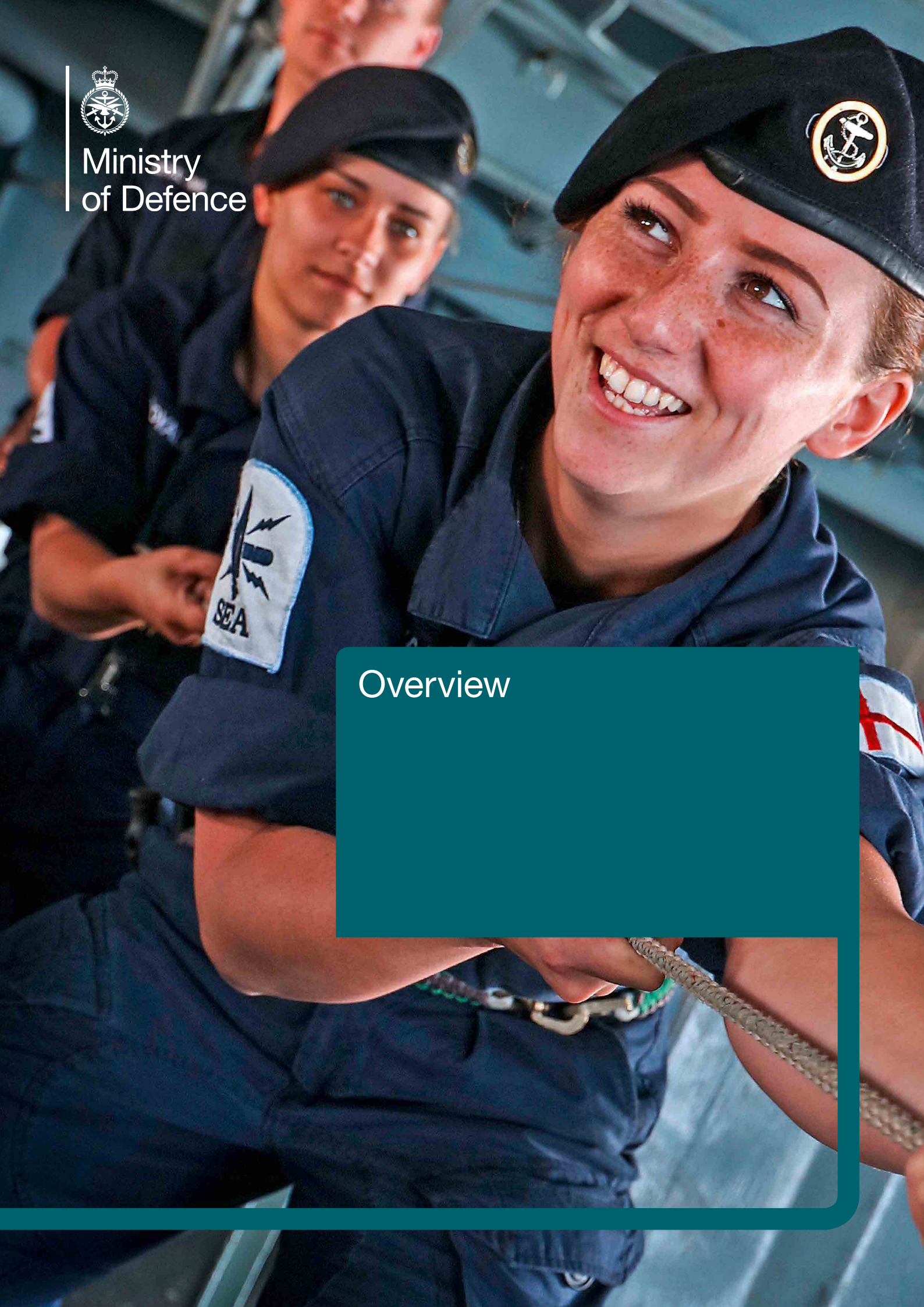






Ministry  
of Defence

## Overview



# Foreword by Secretary of State for Defence



The first duty of Government is to defend our country and to keep our people safe. The Ministry of Defence plays a pivotal role in providing defence and security for our people across the globe, and in doing so we drive a more prosperous economy and allow our nation to thrive.

The 2015 Strategic Defence and Security Review described how the world is changing; but since its publication, threats have continued to intensify and evolve and we are facing a range of complex challenges both at home and abroad. In 2017, the National Security Council commissioned a focused National Security Capability Review (NSCR) to identify how we could develop, deliver and deploy our considerable national security capabilities to maximum collective effect. The NSCR reported in March 2018 and concluded that the fundamentals of our defence strategy within SDSR 2015 remain sound; however, to secure our competitive advantage over potential adversaries, we must be able to move quickly to strengthen further priority capabilities and ensure a proper balance of our investment. In January 2018, I agreed with the Prime Minister and Chancellor that the MOD should lead a Modernising Defence Programme (MDP) to identify how we can deliver better military capability and value for money to make a full and enduring sustainable contribution to national security and prosperity. The programme builds on the firm foundations of SDSR 2015 and the NSCR and aims to strengthen key capability areas more quickly to meet the threats that we now face, and to put UK Defence on an enduringly affordable footing, so that our contribution to national security and prosperity is sustainable over the long term.

Whilst these reviews have been in progress, our people have continued to be involved in a wide range of activities. Operationally, we have continued the fight against Daesh, provided support to the police following terrorist incidents in the UK, supported progress in Afghanistan, deployed troops for vital NATO missions and provided aid in support of hurricane relief efforts.

Our work to promote prosperity grows apace. As published in the Dunne Review report, the UK defence industrial sector has an annual turnover of £22Bn and supports 260,000 jobs. The UK also secured export orders worth £5.9Bn in 2016. We are providing additional support to smaller and non-traditional suppliers and millions of pounds are being spent to promote innovation. We have deployed HMS SUTHERLAND and HMS ALBION to the Asia Pacific region to take part in exercises to demonstrate our capabilities and to support defence industries.

We launched the Veterans Gateway in June 2017 which provides a single point of contact for those who need help and support. In February 2018, we also commissioned a new 24-hour mental health helpline, provided by Combat Stress, aimed at serving personnel and their families who need to seek advice. We have created a Ministerial-led Covenant and Veterans Board to provide strategic oversight of the Covenant. And I announced the commissioning of a new Veterans Strategy and the creation of a Veterans Unit to champion the changing needs of Veterans and ensure action is taken to meet those needs.

Given such a high level of activity I would like to thank all those in Defence for their dedication and commitment to keeping our nation and our people safe. Once the MDP is complete, I believe they will be better able to do this work in future and we will be able to create a modernised force fit for the future.

A handwritten signature in black ink, appearing to read 'C. Jones', written over a light blue horizontal line.



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

Defence has a lot to be proud of in 2018, we have continued to provide enduring support to the defence of the realm but we have also reacted quickly to new threats and challenges.



The tempo and scale of operational commitment remains significant.

The campaign against Daesh continues: we are disrupting their activities and they have now lost control of much of the territory they once held. We are approaching the 50th unbroken year of Continuous at Sea Deterrence and the Submarine Delivery Agency went live in April, to strengthen support to our nuclear submarines and deliver the new Dreadnought class submarines for the future. We are also celebrating 100 years of the Royal Air Force, an achievement we are all proud of. We continue to contribute to a number of NATO activities, including the Enhanced Forward Presence in the Baltic States and Poland and we provided over 2,000 troops to assist with the provision of hurricane relief in the Caribbean. Troops were deployed on the streets following terrorist incidents in the UK and we supported the investigation into the incident at Salisbury. We continue to develop our capabilities in other areas, launching both the Defence Cyber School in March 2018 and the Defence Space Strategy in May 2018.

As we prepare to leave the EU, we have been working hard to strengthen relationships with European Allies. We have signed the Comprehensive Memorandum of Understanding with the Joint Expeditionary Force nations; Defence collaboration agreements with Croatia and the Netherlands; the Northern Group continues to develop as a forum for collaboration; and we continue to contribute to EU operations and missions. The US remains our pre-eminent partner and over the last year we have signed a number of military sales agreements with them and continue to strengthen our cooperation and interoperability across all Services. The UK-France Sandhurst Summit in January was a particular success, with several important agreements reached.

Our efforts to support prosperity continue: we have introduced measures to help bring small and medium enterprises into the supply chain; and we are on-track to meet our targets on cadets and apprentices. We have reached important milestones relating to delivering the Strategic Defence and Security Review: HMS Queen Elizabeth was commissioned into service, the Dreadnought submarine programme commenced Delivery Phase 2 and we have increased the number of F35 aircraft to 15.

We continue to invest in and support our people. In addition to the work on the Covenant, a Veterans Gateway has been launched to provide a single point of contact for those veterans wanting help. In July 2017, we launched the Defence People Mental Health and Wellbeing strategy, which provides a new operating model to help tackle this serious issue. We also accepted the Duke of Westminster's generous gift of Stanford Hall as The Defence and National Rehabilitation Centre. The Royal Assent gained for the Armed Forces (Flexible Working) Act is an important step towards allowing Service Personnel to work more flexibly, reducing disruption to their family life at key times and improving retention. The Future Accommodation Model and Enterprise Approach are also making good progress in improving the offer for Service Personnel.

As we look forward to next year, the strategic context remains dynamic and complex and we will need to be adaptable and agile to match the inevitable challenges that 2019 will bring.

Handwritten signature of Stephen Lovegrove in blue ink.

Handwritten signature of Nick Carter in blue ink.

# Our Vision

- The first duty of Government is to defend our country and to keep our people safe.
- Our national security and our economic security go hand-in-hand. Our strong economy provides the foundation to invest in our security and global influence, which provides more opportunities at home and overseas to increase our prosperity.
- In a more dangerous world, we have chosen to use our hard earned economic strength to support our Armed Forces and give them what they need to help keep Britain safe. We will increase defence spending every year and continue to meet NATO's target to spend 2% of Gross Domestic Product (GDP) on defence for the rest of the decade.
- In the SDSR15 we set out plans for stronger defence with more ships, more planes, more troops at readiness, better equipment for special forces, and more cyber capabilities.
- We will protect our people, territories, value and interests, at home and overseas, through strong Armed Forces and in partnership with Allies, to ensure our security and safeguard our prosperity.



# Strategic Objectives – Notable Achievements

## Protect our people



Daesh lost more than **98%** of territory they controlled in Iraq and Syria

**£1.2Bn** invested in Dreadnought Submarine Programme during the year

**2,100** personnel deployed to support hurricane relief in the Caribbean

Military aid to civil authorities provided on over **130** occasions including in support of the chemical attack in Salisbury

## Project our global influence



**Doubled** the number of UK troops deployed on UN Peacekeeping Missions

Offered **2,240** International Defence Training places to other nations

We maintain an extensive global network with **146** Defence Attaché posts, **17** Loan Service Teams and exchange officers deployed across the world

Our training teams have trained over **7,000** Ukrainian Armed Forces personnel

## Promote our prosperity



Defence and Security Accelerator have funded over **700** proposals and distributed over **£13M**

Launch of **new MOD Supplier Portal** targeting smaller and non-traditional suppliers

We have enrolled **37,466** Civil Service and Armed Forces apprentices between April 2015 and January 2018

**National Ship Building strategy** launched in September 2017 and **Defence Industrial Policy** in December 2017

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



The Veterans gateway was launched following a **£2M** grant from the Covenant Grant Fund

**15** F35B aircrafts delivered to date

**2,000th** signatory to the Armed Forces Covenant

**£15.3Bn** spent on Defence Equipment and Support in 2017-18

# Departmental Structure

The Ministry of Defence (MOD) covers all those matters that are the responsibility of the Secretary of State for Defence. In practice, this means the business carried out by the Secretary of State for Defence, and his fellow Ministers, of the MOD as the Department of State that supports them, and of the Armed Forces as constituted by the Defence (Transfer of Functions) Act 1964. At the most basic level, Defence is made up of two main parts:

- a **Department of State**: the Government Department (MOD) responsible for delivering Defence. It is funded by and answers to Parliament, and ultimately to the Prime Minister, through the Secretary of State for Defence.
- the **Armed Forces**: the professional organisations led by the Chief of the Defence Staff through a Military Strategic Headquarters that delivers military capability and advises on future capability choices.

The Secretary of State for Defence has the following responsibilities:

- the general executive role<sup>1</sup>, as one of Her Majesty's Principal Secretaries of State and a member of the Cabinet and the National Security Council (a sub-committee of the Cabinet providing advice to the Prime Minister on defence and security matters);
- the role set out in defence-related legislation (e.g. the Armed Forces Act 2011);
- Chair of the Defence Council; and
- Chair of the Defence Board.

The Defence Council is chaired by the Secretary of State for Defence, and comprises the other Defence Ministers, the Permanent Secretary, the Chief of the Defence Staff, the Vice Chief of the Defence Staff, the Single Service Chiefs of Staff, Commander Joint Forces Command and Director General Finance. It provides the formal legal basis for the conduct of Defence in the UK through a range of powers vested in it by Parliament (through Acts of Parliament) and 'Letters Patent' (known as prerogative powers) which are issued by Her Majesty the Queen in her role as Commander-in-Chief of the British Armed Forces.

Stephen Lovegrove, as the Permanent Secretary, is the Government's principal civilian adviser on Defence and has primary responsibility for policy, finance and planning, and is the Departmental Accounting Officer. Responsibilities include:

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

---

<sup>1</sup> The general executive refers to the role delivered by the government of the day; these responsibilities are collective and managed through the Cabinet, which is chaired by the Prime Minister.



General Sir Nicholas Carter, as Chief of the Defence Staff, is the professional head of the Armed Forces and principal military adviser to the Secretary of State for Defence and the Government. Air Chief Marshal Sir Stuart Peach was the CDS during 2017-18. Responsibilities include:

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

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

- The four military commands:
  - Navy Command, TLB Holder – Admiral Sir Philip Jones.
  - Army Command, TLB Holder – General Mark Carleton-Smith (General Sir Nicholas Carter during 2017-18)
  - Air Command, TLB Holder – Air Chief Marshal Sir Stephen Hillier.
  - Joint Forces Command, TLB Holder – General Sir Chris Deverell.
- Head Office and Corporate Services (HOCS), which is made up of the Head Office and a range of corporate support functions. TLB Holder – Julie Taylor (during 2017-18); David Goldstone (from April 2018).
- The Defence Infrastructure Organisation (DIO), TLB Holder – Julie Taylor (during 2017-18); David Goldstone (from April 2018).
- The Defence Nuclear Organisation, TLB Holder – Julian Kelly.

The head of each TLB – the 'TLB Holder' – has to personally answer for the performance of their organisation as defined by their Command Plan. They have to deliver agreed outcomes as effectively, efficiently, safely, sustainably and economically as possible. They also have to protect regularity and propriety and they must ensure their organisations stay within set financial limits (known as 'control totals').

MOD has a portfolio of enabling organisations which are entities set up to ensure outputs are delivered efficiently and continue to meet Defence requirements. MOD's principal enabling organisations are:

MOD's Arm's-Length Bodies

- Defence Electronics and Components Agency (DECA): provides maintenance, repair and overhaul services for electronics and components that benefit Defence.
- Defence Equipment and Support (DE&S): delivers equipment and support for the UK's Armed Forces for operations now and in the future.
- Defence Science and Technology Laboratory (Dstl): delivers high-impact science and technology for the UK's defence, security and prosperity.
- Oil and Pipelines Agency (OPA): manages six naval oil fuel depots around the UK.
- Submarine Delivery Agency (SDA): manages the complex submarine procurement, support and disposal programmes, initially created within DE&S in April 2017, and formally established on 1 April 2018.
- UK Hydrographic Office (UKHO): collects and supplies hydrographic and geospatial data for the Royal Navy and merchant shipping, to protect lives at sea.

Organisations that are a TLB, or are part of a TLB, that are managed on an arm's-length basis

- Defence Business Services (DBS): a corporate service delivery body serving military and civilian customers. Its remit is to incorporate finance, human resources, pensions, knowledge and information and vetting functions.
- Defence Infrastructure Organisation (DIO): delivers the infrastructure required so that the people of Defence can live, work, train and deploy at home and overseas.
- Information Systems and Services (ISS): is responsible for designing, delivering and operating MOD's information capabilities to ensure that the Joint Force achieves competitive advantage.
- MOD Police (MDP): deliver high quality, specialist policing services and capabilities to Defence and external customers in support of UK national security.

#### Organisations that carry out regulation

- Defence Safety Authority (DSA): an independent organisation, empowered by charter from Secretary of State for Defence to undertake the roles of regulator, accident investigation and Defence Authority for safety.
- Single Source Regulation Office (SSRO): the regulator of the UK Government's procurement of single source, or non-competitive, military goods, works and services.

## Defence Operating Model

The Defence Operating Model will be refreshed during 2018 as part of the Modernising Defence Programme announced by the Secretary of State for Defence in January 2018. The aim is to establish a refreshed and clearer Operating Model for Defence, to enable better and faster decision-making, more efficient and effective delivery of Defence outputs, while ensuring that a strong Department of State sets the overall strategy and priorities, and oversees performance.

Key organisational changes in Defence during 2017-18 include:

- Two new Director General (DG) posts were established during the year: a new DG Strategy & International post working alongside the existing DG Security Policy position, and a new Chief Operating Officer role focused on delivering the department's efficiency targets and improving its governance. In a further change, the DG-level Chief Information Officer now reports jointly to the Permanent Secretary and the Commander Joint Forces.
- The Defence Nuclear Organisation (DNO), which was established as Directorate General Nuclear following the 2015 SDSR as a TLB. DNO oversees all aspects of nuclear business across Defence and works closely with the SDA, which became an Executive Agency of the MOD 1 April 2018.
- Dstl began operating as an on-vote executive agency of the MOD on the 1 April 2017 following the removal of its Trading Fund status. This change was part of a wider restructuring of Defence's science and technology enterprise which included the separation of the commissioning and delivery roles between MOD Head Office and Dstl, and new governance structures to increase strategic oversight. In addition, on 1 April 2018, the Centre for Applied Science and Technology (CAST) moved from the Home Office to Defence, to become part of Dstl. The integration of Dstl and CAST will create a larger, more resilient and more capable organisation to provide enduring science and technology support to both the MOD and the Home Office.
- From April 2018, the majority of infrastructure funding has been delegated to the TLBs and Military Commands. This is a significant step forward in the way infrastructure is managed and delivers a key recommendation agreed by the Defence Board following the 2016 Defence Infrastructure Model Review. It will give TLBs greater control over their infrastructure investment decisions, supported by expert advice from the DIO as the delivery organisation and the focus for driving estate improvement.

# Financial Performance Summary

This financial year was my first as Director General Finance for the Department. Overall it has been a challenging year but a year in which I believe we have continued to make progress.



We have managed our resources carefully to enable us to remain within the Parliamentary Control Totals. This has required a series of savings exercises through the year. Looking ahead my aim is to deliver a more sustainable approach, setting taut but realistic budgets across the Department with one budget adjustment mid-year.

## Financial Management

The Department receives authority from Parliament to incur expenditure via the Supply Estimates process. The Estimate is published twice in each financial year. The MOD Main Estimate in April 2017 set out the plans for 2017-18 and the Supplementary Estimate (SE) in February 2018 updated these plans along with various transfers. The Department's spending plans for 2017-18 were based on the second year (of five) of Spending Review 2015 published in November 2015. The Statement of Parliamentary Supply, in the Parliamentary and Accountability Report, provides more detail of the final outturn against the SE.

At the start of the financial year, budgets are delegated from the Permanent Secretary, as Principal Accounting Officer, to Top Level Budget Holders who may then make sub delegations to other budget holders within their area of responsibility. Budget holders are required to meet the conditions of their delegation letters and the requirements of the Department's Internal Control and Assurance Framework.

## Performance against Estimates

In 2017-18 our voted Departmental Expenditure Limit (DEL) for the Core programme and Operations and Peacekeeping was £36.9Bn.

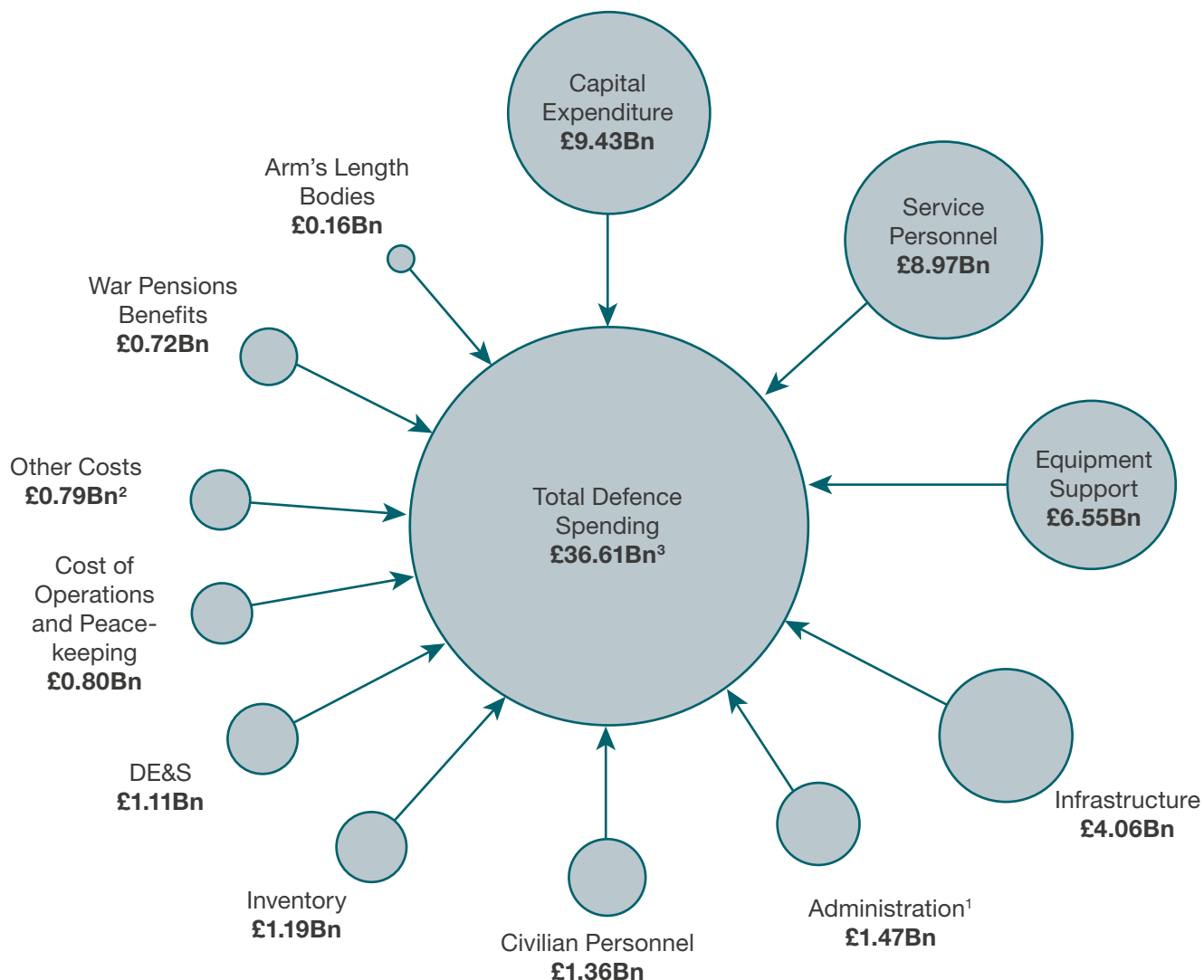
The outturn was £35.8Bn against the Core programme of £35.9Bn for mainstream MOD business, which was a variance of £144m (-0.4%).

Cash Resource and Capital DEL Outturn				
	Estimate £Bn	Outturn £Bn	Variance £Bn	Variance %
Core Programme	35.948	35.804	0.144	0.4%
Operations & Peacekeeping	0.971	0.801	0.170	17.5%
<b>Total</b>	<b>36.919</b>	<b>36.605</b>	<b>0.314</b>	<b>0.9%</b>

The Department is also voted resources to cover the net additional costs of Operations and Peacekeeping expenditure. To ensure that there are sufficient funds for costs of all operations, provision must be made for all potential expenditure and therefore underspends are not uncommon. The £0.2Bn

underspend reflects reduced support costs for aircraft involved in operations over Iraq and Syria, difficulty estimating costs for the enhanced forward presence in Estonia and Poland as well as disaster relief in the Caribbean. Further detail on the areas of conflict are included in later paragraphs regarding Operational Expenditure.

## Where we spent our money in 2017-18



1. Includes all administration costs relating to Other Costs and Services, Cash Release of Provisions and cost of Military and Civilian personnel who perform an administrative role.
2. Includes Other Costs and Services, Receipts and Other Income, Cash Release of Provisions and Research and Development Costs related to Provision of Defence Capability.
3. Total Defence Spending is Cash Resource and Capital DEL Outturn<sup>4</sup>

Despite the varied and complex roles undertaken, the Department does have a high level of fixed or semi fixed costs.

Of the £15.9Bn Capital Expenditure and Equipment Support costs in the chart above £15.3Bn of spend is on equipment, some 41.8% of the total spend. Further details on the expenditure in the core programme are included within Notable Achievements below.



Personnel costs account for some £12.4Bn (33.9% of spend), which include the costs of Service Personnel and Civilian Personnel from the diagram above and the costs of Service and Civilian personnel and those engaged mainly in administrative roles. There has been a small increase in staff costs of £0.2Bn from last year due to the inclusion of Dstl within the Departmental boundary from 1st April 2017. Further breakdown of staff costs can be found in the Remuneration and Staff Report.

The cost of information technology services, financing of Private Finance Initiative (PFI) contracts, facilities management, utilities and other accommodation costs are included above in the £4.1Bn Infrastructure Costs (11.2% of spend).

## Notable Achievements within 2017-18 Expenditure

The first of the Army's new family of Ajax armoured vehicles are progressing through their final acceptance process before being accepted into service. A deal to provide 50 Apache helicopters through a Foreign Military Sales agreement with the US has been signed. Morpheus, the largest project in the Land Environment Tactical Communication and Information Systems programme, is progressing well as it works to deliver the next generation tactical voice and data system for both current and future Operations.

This year, the Royal Navy saw the commissioning of HMS QUEEN ELIZABETH, and the arrival in UK of Royal Fleet Auxillary TIDERACE, TIDESURGE AND TIDESPRING for their final fit. The first of our 5 new Patrol Ships, HMS FORTH, joined the Fleet and HMS QUEEN ELIZABETH completed helicopter flying trials. Steel was cut for HMS GLASGOW, the first of the new T26 Frigates, whilst the Type 31e Frigate procurement programme was launched under the new National Shipbuilding Strategy.

We have placed the contract for the seventh Astute class submarine, to be named HMS AGINCOURT, and the second delivery phase of the Dreadnought programme, which will continue the build of the first of class and commence build of the second.

The RAF have continued upgrading and enhancing the Typhoon aircraft through Project Centurion. In tandem, the F-35 Lightning programme delivered a further 12 of the 5th generation platforms, initially, to bases in the USA, while significant infrastructure work continued to prepare for the F-35 Lightning arrival at RAF Marham. Airseeker, which comprises 3 Rivet Joint reconnaissance aircraft reached full operational capability ahead of schedule. Finally, as UK Defence further develops Space based capabilities, the RAF launched its first ever satellite, Carbonite-II.

Joint Forces Command took measures to enhance Cyber Resilience and Defence, and delivered Falcon, secure deployable broadband voice, data and video communications system early entry capability and the Naval EHF Satcom Terminal (NEST) into the Astute and Trafalgar class submarines. Defence's Satellite Communications capability continues to be provided by the Skynet 5 PFI.

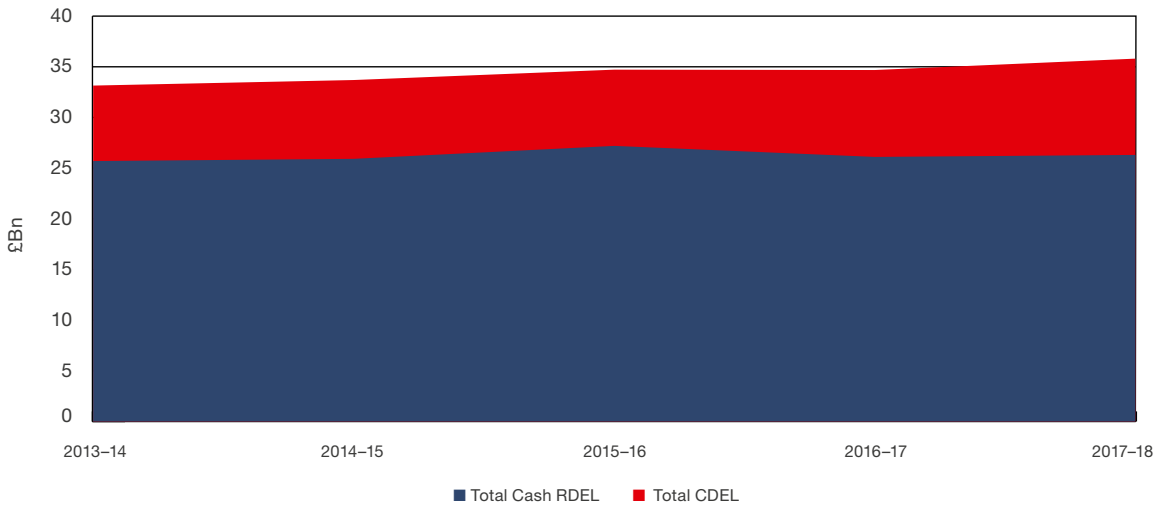
UK and overseas users are seeing the delivery of modern ICT services through New Style of IT, integrating user services, including voice services over the data network and Global Connectivity, as part of a new digital communications network.

# Long Term Expenditure Trends

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

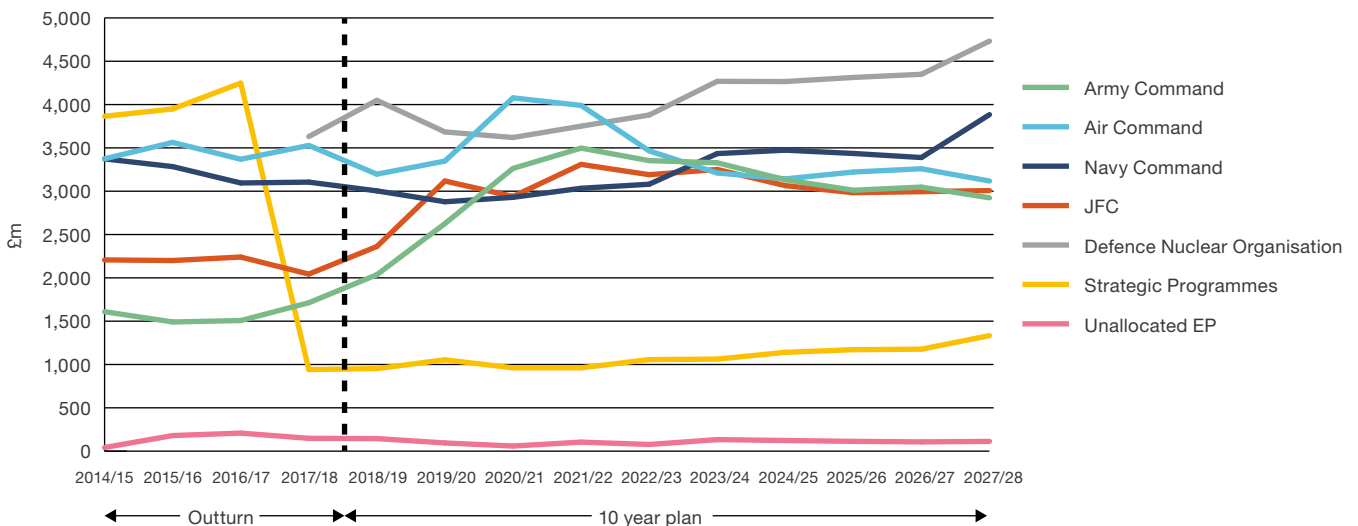
The graph below shows the long-term trend for Resource and Capital expenditure, excluding asset depreciation and impairment, from 2013-14 to the current year. Resource DEL expenditure has remained relatively stable over the past 5 years. In contrast, after a period of stability Capital DEL expenditure is increasing, representing additional investment in the Equipment programme. Further breakdown of the long term trend of Equipment programme spend by TLBs is included below.

**DEL Expenditure (excluding Non Cash RDEL) 2013-14 to 2017-18**



The long term expenditure trend on the Equipment Programme in the diagram below reflects the outcome of Annual Budget Cycle 17, which costed the programme from 2018-19 to 2027-28.

**Equipment programme by TLB**

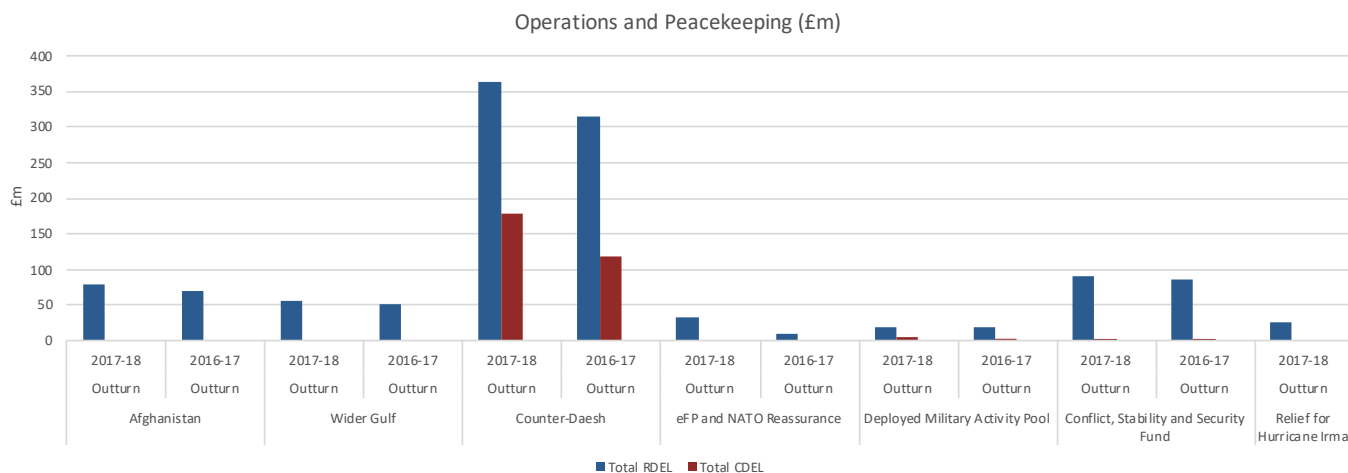


Note 1: From 2017-18, the Defence Nuclear Organisation is reporting Equipment Programme expenditure that previously was shown as part of Strategic Programmes.

# Operational Spend Achievements

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

The graph below reflects the spend on the main areas of conflict in 2016-17 and 2017-18. Further details on military operations can be found within the Performance Report.



1. DMAP - Deployed Military Activity Pool. In 2017-18 a £25m allocation from the HM Treasury Special Reserve was made available in addition to the MOD funding of the same amount. The DMAP is a joint HM Treasury and MOD initiative to make available resources to fund the initial and short term costs of any unforeseen military activity. In 2017-18 the DMAP funded elements of counter-Daesh and overseas counter-terrorism, infrastructure repairs at RAF Akrotiri, support to French forces in North West Africa, NATO reassurance activity, Kosovo Force and Naval activity in the Asia Pacific region.
2. The Conflict, Stability and Security Fund (CSSF) is the Government's mechanism for funding conflict prevention, stabilisation, security and peacekeeping activities, under the strategic direction of the National Security Council.
3. CSSF funded disaster relief support to the Caribbean Islands damaged in the wake of Hurricane Irma.
4. 2016-17 restated to reflect movement in operational profile.

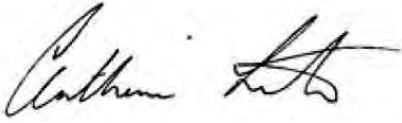
## Next Steps

The Secretary of State has established the Modernising Defence Programme and we are introducing Functional Leadership across the Department, with finance being one of the first areas to adopt this approach. This is consistent with developments in other Government Departments. Functional leadership will ensure a consistent operating model is in place along with simplified and standardised processes, coherent and consistent policies to enable collaborative working both across functions and Government Departments, building the capability of the finance staff and talent management. We are also putting in place a financial management improvement plan which will include for example a review of the approvals process to ensure it is proportionate and risk based; improve the accuracy of forecasting including the identification and management of financial risk; implement a revised operating model for the management of raw material and consumables.

We continue to improve and enhance financial management and recognise that we are on a journey of continuous improvement. Key priorities for the next twelve months are to establish the operating model and identify transactional activities that can be transferred to the in-house shared service centre; produce a systems strategy and pilot robotics; produce a skills and talent management strategy and undertake a skills audit of the finance function.

The Department continues to work on the Modernising Defence Programme, which aims to strengthen our world-leading Armed Forces against the harder threats that we and our allies now face, and to put UK Defence on an enduring and affordable footing, so that our contribution to national security and prosperity is sustainable over the long term.

We have committed to publish the Equipment Plan Summary 2018 in the autumn, to better align with the reported financial period. It will include an assessment of the affordability of the Plan, based on a clear account of the forecast costs, the budget allocated (including all contingency), and risks to affordability.

A handwritten signature in black ink, appearing to read "Catherine Ash". The signature is written in a cursive style with a large initial 'C' and 'A'.





Ministry  
of Defence

A photograph of two British Royal Guards in their iconic red tunics and tall black bearskin hats. They are standing in front of a crowd of people, some of whom are taking photos. The guard on the right is holding a rifle. A teal-colored rectangular box is overlaid on the bottom right of the image, containing the text 'Performance Analysis'.

## Performance Analysis





# Protect Our People:

## National Strategic Objective 1

### What we are trying to achieve:

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

### Key achievements in 2017-18:

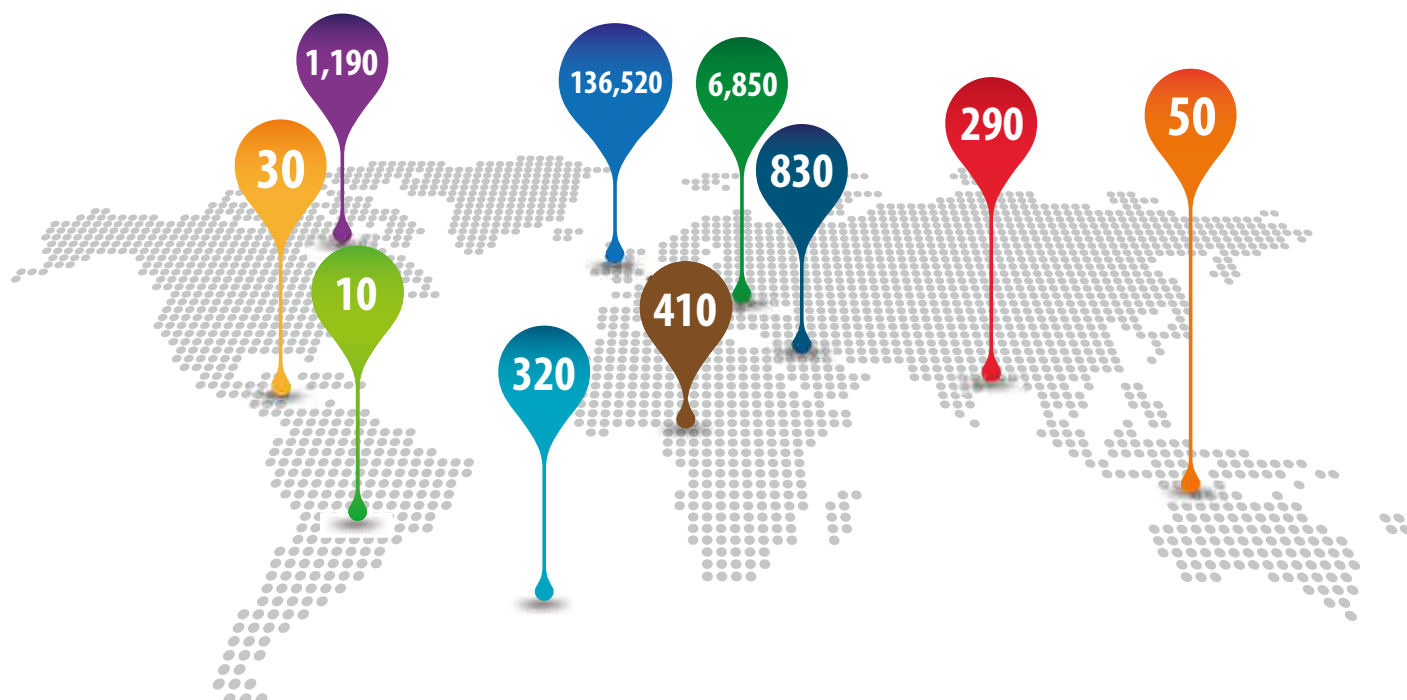
- UK deployed 1,400 military personnel to Iraq and Syria
- Daesh lost more than 98% of territory they controlled in Iraq and Syria
- UK announced an increase in its contribution of troops in Afghanistan to 650
- £1.2Bn invested in Dreadnought Submarine Programme during the year
- Military aid to civil authorities provided on over 130 occasions including in support of the chemical attack in Salisbury
- Submarine Delivery Agency stood up in April 2018
- Over 2,100 personnel deployed to support hurricane relief in the Caribbean
- Royal Navy in command of Mediterranean Maritime and Mines Counter Measures Group
- RAF contributed to NATO enhanced Air Policing – South mission, flying over 280 sorties to support training in the region

## Overview

2017 has been a busy year operationally with our Armed Forces deployed on over 30 operations in more than 25 countries. We have seen the dispersal, but not yet defeat, of Daesh in Iraq and Syria. We have continued to provide Continuous at Sea Deterrence and provided command of a number of NATO operations. There have been terrorist attacks on the homeland, resulting in Operation TEMPERER being activated twice. We have also provided critical Humanitarian Assistance and Disaster Relief to British Overseas Territories in the Caribbean following the wide-scale destruction caused during the 2017 hurricane season.

# Location of UK Regular Forces\*

## 1 April 2018



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

<b>Total</b>	<b>146,560</b>	<b>North America</b>	<b>1,190</b>
<b>UK</b>	<b>136,520</b>	<b>Central America/Caribbean</b>	<b>30</b>
<b>Europe (Exc. UK)</b>	<b>6,850</b>	<b>South America</b>	<b>10</b>
<b>Asia (Exc. Middle East)</b>	<b>290</b>	<b>South Atlantic</b>	<b>320</b>
<b>North Africa/Middle East</b>	<b>830</b>	<b>Oceania</b>	<b>50</b>
<b>Sub Saharan Africa</b>	<b>410</b>	<b>Unallocated</b>	<b>60</b>

# Defence of the United Kingdom

In 2017-18 we continued to defend UK airspace with an integrated Air Defence system that included Quick Reaction Alert aircraft and air surveillance and control facilities. We also used the same capabilities to police NATO airspace alongside our Allies. We provided Royal Navy assets to defend our territorial waters and overseas territories, and to maintain our Continuous at Sea Deterrent. We also supported the police deploying military personnel under Operation TEMPERER on two separate occasions.

The police and maritime authorities have primacy for domestic security of the UK coastline against criminal elements, but Defence maintains forces to provide support to these authorities if required.

## Continuous at Sea Deterrent

Our independent nuclear deterrent deters against the most extreme threats to our way of life, both now and in the future. It provides the ultimate guarantee of our national security, and is a major part of this Government's commitment to ensure the safety and security of its citizens. The Royal Navy's Vanguard Class ballistic missile submarines currently maintain deterrent patrol missions, sustaining Operation RELENTLESS which delivers the Continuous At Sea Deterrence (CASD) posture, which has been uninterrupted since April 1969. In 2016, Parliament voted overwhelmingly in favour of retaining the UK's nuclear deterrent, endorsing the Government's plans to maintain the deterrent beyond the life of the existing system and replacing the current submarines with four new Dreadnought Class ballistic missile submarines. This will ensure that the UK has a credible, independent and capable nuclear deterrent out to the 2060s and beyond.

The commencement of building the Dreadnought submarines was announced by the then Secretary of State for Defence on 1 October 2016. During 2017-18 the department invested £1.2Bn in the Dreadnought submarine programme. The Dreadnought programme remains on track to deliver on time and within the £31Bn (excluding £10Bn contingency) forecast.

The SDSR also noted the intention to strengthen arrangements for the procurement and in-service support of nuclear submarines. The Submarine Delivery Agency (SDA) became an Executive Agency of the MOD in April 2018. The Chief Executive will be responsible for leading what will become a world-class delivery organisation: establishing its structure; shaping the team to deliver; and transforming its capabilities for the long-term. The Director General Nuclear is the sponsor for all aspects of the defence nuclear enterprise, from procurement to disposal, with responsibility for submarines, nuclear warheads, skills, related infrastructure and day-to-day nuclear policy, advising Ministers, the Permanent Secretary and senior military leaders on the nuclear programme.

## Quick Reaction Alert Aircraft

Quick Reaction Alert (QRA) Typhoon aircraft provide a UK air defence capability 24 hours a day, 365 days a year from RAF Lossiemouth in Moray and RAF Coningsby in Lincolnshire. Their purpose is to be ready to detect and deter any aircraft intending to attack any target within the UK. These aircraft are supported by Voyager aircraft from RAF Brize Norton which are also on alert to provide an air-to-air refuelling capability, thus extending the range and endurance of the QRA fighters.



## Operation TEMPERER

Operation TEMPERER is a standing operational contingency plan to provide military personnel in support of the police in response to a major terrorist incident or threat. In 2017, this included the backfill of police guarding roles with military personnel on two separate occasions. TEMPERER was activated for the first time in response to the Manchester Arena bombing in May 2017, which saw 977 military personnel deploy in support of the police. The second was in response to the Parsons Green tube incident.

## Cyber

We have ensured that our cyber capabilities are robust and continue to keep pace with our adversaries. At the heart of this is the investment in our people's skills; typified by the recent opening of the state-of-the-art Defence Cyber School in March 2018. We have built on our world-class defensive capabilities by developing specialist Rapid Response Teams, trained to isolate, defend and respond to cyber threats and prepared to deploy around the UK and to operational theatres overseas. We have refocused the core Science and Technology research programme to efficiently support the wider MOD. Through the National Offensive Cyber Programme – a partnership between MOD and Government Communications Headquarters (GCHQ) since 2015 – we have strengthened our capabilities and have continued to employ offensive cyber alongside the conventional capabilities of our Armed Forces.

## Military Aid to the Civil Authorities

The Home Secretary is responsible for the safety and security of the UK and its citizens. Under the Civil Contingencies Act 2004, lead Government Departments are allocated to deal with the most likely high-impact, disruptive events. The MOD is not the lead for any civil contingency, but if required can provide support through the Military Aid to the Civil Authorities (MACA) process.

We provided MACA on over 130 occasions in 2017-18. Recently, we have supported the police in transporting potentially contaminated vehicles and objects to secure locations following the discovery of two people exposed to a nerve agent in Salisbury in March 2018. The Defence, Science and Technology Laboratory (Dstl) also supported the police with around 150 full-time staff working around the clock for 3 weeks and represents one of the most intensive and enduring operations Dstl has encountered in its history.

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

## Explosives Ordnance Disposal (EOD)

The MOD provides 24 hours-a-day EOD support to the police in the UK. This includes the provision of operational scientific expertise to deal with complex devices. Routine co-ordination of EOD tasking was conducted by the Joint Service EOD Operations Centre at Didcot, which allocates Royal Navy, Army or RAF teams as necessary. In 2017-18, EOD teams responded to 448 Improvised Explosive Device Disposal incidents (406 in 2016-17) and 1,882 Conventional Munitions Disposal Incidents (2,354 in 2016-17) including a high profile incident when a legacy World War II munition was found in the Thames near the City Airport in February 2018.

## Fisheries Protection



### Fisheries Protection Squadron

Completed **4,325** patrol hours

Boarded **257** ships

Issued: **63** verbal re-briefs, **11** official warnings, and **4** financial penalties

Forwarded statements regarding **9** fishing vehicles to the Marine Management Organisation for further investigation

Through a formal agreement between the Ministry of Defence and the Marine Management Organisation (MMO), the Fishery Protection Squadron (FPS) is responsible for the inspection of all fishing vessels in UK waters with the exception of Scottish Waters, enforcing UK and EU fisheries legislation. In 2017-18 the Squadron completed 4,325 patrol hours, boarding 257 fishing vessels. They issued 63 verbal re-briefs, 11 official written warnings, 4 financial penalties and forwarded written statements regarding an additional 9 fishing vessels to the MMO for further investigation and subsequent enforcement action. Increased coordination between UK maritime and security assets through the Joint Maritime Operations and Coordination Centre (JMOCC) has seen FPS assets being used to board vessels of interest suspected of involvement in modern slavery and smuggling operations.

## Space

Over the past year, the Department has increased its investment in space policy and capabilities and deepened co-operation with the UK Space Agency and international Allies. This has been driven by three main factors: the need to address growing threats and hazards to military and civilian space infrastructure; opportunities arising from commercial innovation; and intensified cross-Government activity to enable small satellite launch from the UK, grow the space industry, and protect our space interests in the context of EU exit. The Defence Space Strategy was published in May 2018. It confirmed Air Command as the lead for military space operations and they have also been made responsible for developing a tri-Service military and civilian cadre of space-qualified personnel. It also committed to boosting the number working in the Defence Space sector to over 600 in the next 5 years. We continued the enhancements to the UK Space Operations Centre, which should pave the way towards more integrated and capable civil-military partnership, as well as enabling better information-sharing and contingency planning with Allies. We have also supported the Space Agency's work to enable small satellite launch from the UK, and are actively considering the defence benefits this could provide. We have continued the Skynet 6 programme and procurement activity for a Ballistic Missile Defence Radar, and are examining possibilities for the use of video imagery from satellites in low-earth orbit. We have invested £50M of the core Science and Technology research programme into a five-year Space Programme, delivered by Dstl. This will identify and develop innovative and resilient space concepts and technologies in collaboration across the UK and internationally, with industry, academia and Governments. Operationally, we have continued to enhance our strategic partnership with Australia, Canada, France, Germany, New Zealand, and the United States through the "Combined Space Operations Initiative". In September 2017, the UK hosted the annual meeting of senior officials and military officers to agree proposals for strengthening space co-operation. This included a Table Top Exercise focused on enhancing multinational political and operational co-operation in the event of a regional crisis.

# Key Global Military Commitments



<b>Counter Daesh – around 1,400 currently deployed</b>
<b>Afghanistan – the UK increased its commitment to 650 in 2018</b>
<b>Ukraine – commitment to deploy up to 100 at any one time to train Ukrainian Armed Forces</b>
<b>Estonia – around 800 currently deployed as part of NATO’s Enhanced Forward Presence</b>
<b>Poland – around 150 currently deployed as part of NATO’s Enhanced Forward Presence</b>
<b>Romania – around 150 people deployed as part of NATO Enhanced Air Policing on 24/7 standby to respond instantly to aggression in Black Sea airspace</b>
<b>Cyprus – around 280 currently deployed in support of UN operations</b>
<b>Southern Mediterranean – around 80 currently deployed in support of EU operations to counter illegal people trafficking</b>
<b>Somalia – commitment to deploy up to 100 at any one time in support of EU and UN operations</b>
<b>South Sudan – around 380 currently deployed in support of UN operations, including a Role 2 Hospital</b>
<b>Nigeria – over 350 personnel deployed on a range of tasks in support of the Nigerian Government and counter Boko Haram operations</b>

# Overseas Defence Activity

## Counter Daesh – IRAQ/SYRIA

Coalition combined efforts have resulted in significant military progress being made in Iraq and Syria. Daesh have suffered heavy losses: their finances have been severely reduced, their narrative has been compromised and their freedom to move has been impacted. It is estimated that Daesh have lost more than 98% of territory they once controlled in Iraq and Syria. The liberation of the majority of territory in Iraq from Daesh was announced by Prime Minister Abadi on 9 December 2017 and signals the potential for a more peaceful and prosperous chapter in the country's history. However, Daesh will still pose a threat to Iraq, including from over the Syrian border. In Syria on the 20 October 2017, Coalition-backed forces announced that Raqqah had been liberated. This was a devastating blow to Daesh but patience will still be required to bring about their ultimate defeat.



### Actions taken to help defeat Daesh include...

**1,684 air strikes** as part of Operation SHADER

**1,400 military personnel deployed**

**Helping to train over 72,000** Iraqi Security Forces

As a result of coalition action Daesh have lost more than **98% of their territory**

### Operation SHADER

Operation SHADER is the UK contribution to the global coalition to support the Iraqi Government and local forces in Syria to defeat Daesh in Iraq and Syria. Since Counter-Daesh operations began in Iraq in September 2014 and Syria in December 2015, a significant number of military personnel have deployed in support of Operation SHADER. At the end of 2017-18, around half of all committed personnel were based within the region supporting the air campaign and in staff roles at key coalition HQs. The remaining personnel were on the ground in Iraq providing training and military advice. As at 30 March 2018 around 1,400 military personnel were deployed on Operation SHADER, of which almost 600 were in Iraq.

### Contribution to Air campaign

UK involvement in the Counter-Daesh campaign commenced in August 2014 with UK humanitarian aid drops onto the Sinjar Mountains in Iraq to provide relief to displaced Yazidis. In September 2014, following a request for military support from the Iraqi Government, the UK began strike operations against Daesh in Iraq. Although the UK was conducting Intelligence Surveillance and Reconnaissance (ISR) flights over Syria, it was not until a vote in the House of Commons on 2 December 2015 that the UK began striking Daesh targets in Syria.

The UK's air contribution has steadily increased since 2014; the RAF now delivers an enduring capability across the full spectrum of air power, with effects in Strike/Attack, ISR, Air Command and Control, Air Refuelling and Air Mobility/Transport. Exact deployments vary according to force generation and recuperation requirements, but capabilities currently committed to Operation SHADER include: Tornado; Typhoon; Reaper; Voyager; and the T-101 deployable radar, which helps to build the

Coalition's recognised air picture. The UK also periodically deploys Sentinel, Airseeker and E3-D Sentry as required.

As at 30 March 2018, the UK had around 20 aircraft deployed on Operation SHADER and since September 2014, has conducted 1,684 air strikes (second only to the US), 322 of which were in Syria.

## Training Support

Since November 2014 the UK has continued to provide training and advisory support to the Counter-Daesh campaign through the Iraq Building Partner Capacity (BPC) programme.

UK training is predominantly delivered at the four BPC centres across Iraq which are secure bases run by the Coalition. UK training is focused on specific capabilities such as Countering Improvised Explosive Devices (C-IED) training. As a world leader in C-IED, the UK lead the coordination and development of the coalition's C-IED training programme.

In addition to C-IED training, UK trainers are providing infantry skills, engineering and highly valued medical training and to date have helped train over 72,000 Iraqi Security Forces (including the Peshmerga) in preparations for operations against Daesh.

In November 2017, the Prime Minister visited Iraq and announced that the UK would continue to develop a committed security partnership with Iraq in order to build the capacity of their Armed Forces and carry out Security Sector Reform. In January 2018, the Secretary of State for Defence visited Iraq to reinforce the offer made by the Prime Minister and scope further Defence cooperation between the UK and Iraq. Ministry of Defence officials are now developing Defence activities to deliver: a continued contribution to the Coalition training effort; UK support to central Iraqi National Security Institutions; a persistent partnership and focused investment on transforming priority areas of Iraqi military capability such as officer training and aviation.

## Afghanistan

The UK plays a key role in the NATO non-combat Resolute Support (RS) mission, which commenced in 2015, and trains, advises and assists the Afghan National Defence and Security Forces (ANDSF). This includes the provision of security capacity-building, financial aid and political guidance to support the ANDSF in delivering security for their country. The UK remains committed to Afghanistan's future, alongside our coalition partners.



### In our continued support to Afghanistan...

We have committed **650 troops**

The UK led **Kabul Security Forces** employs around **8,000 personnel**

We are the coalition lead for the Afghan National Army Officer Academy which has **trained 3,000 graduates** ... including **100 women**



## UK Contribution

The UK increased its troop contribution in 2017, reflecting our long-term approach to Afghanistan's future, as well as our commitment to NATO following NATO's request to partners for additional personnel. At the start of 2017, the UK had 500 troops in Afghanistan, and on 27 November 2017 the Secretary of State for Defence announced to Parliament an increase to around 650 in 2018. This uplift is now complete, with the additional troops contributing to the development of the Afghan Army, Police and Air Force. In addition, a senior military officer has been in post since October 2017 as Deputy to the US 4\* Commander of RS. Both the Secretary of State for Defence and the Armed Forces Minister visited Kabul during the reporting period to meet British troops deployed there, and to receive progress updates from NATO commanders.

The UK-led Kabul Security Force (KSF) provides force protection for UK and wider NATO military and civilian personnel (approximately 8,000) working within the city. Key tasks for the KSF include coordinating NATO's base protection measures and providing quick-reaction support to NATO personnel endangered by any security incidents in Kabul. Our contribution to the KSF is directly enabling our strategic aim of contributing to the development of the ANDSF by providing security for NATO advisors so they can deliver the mission safely. The ANDSF retain overall responsibility for delivering security for the Afghan population within Kabul.

## Training Support

The UK is the coalition lead at Afghan National Army Officer Academy (ANAOA), helping the Afghans to develop the next generation of military leaders. This training, alongside an increasingly merit-based appointment process, is building a capable and professional force. The ANAOA reached full operating capability in 2015, and has the capacity to train up to 1,050 male students and 90 female students yearly. The Afghans are now delivering all their own training, with coalition mentors from the UK, Australia, Denmark and New Zealand providing close support to maintain the required standards.

On 23 November 2017, the ANAOA celebrated its tenth graduation, its 3,000th graduate, and its 100th female graduate. The prestigious 'Sword of Honour' was awarded for best cadet to female cadet Somaiya Haidari, who has since become the first female Afghan officer to be accepted to train at the UK's Royal Military Academy Sandhurst. Last year the largest number of female cadets graduated to date, representing slow but steady progress on female representation in the ANDSF.

The UK is delivering leadership support to the ANDSF through our mentoring of the Afghan Security Ministries, helping to foster capable and progressive leadership at the institutional level. As part of the NATO advisory effort, the UK has civilian and military advisors working in the Afghan Ministry of Defence. These advisors work in support of Ministers and senior officials in a range of functional areas including policy, finance and human resources. The UK now has advisors who are assisting the Afghan Air Force (AAF) across a range of functional areas, including aspects of air-land battle integration and operational training.

# NATO and Europe



## As part of our NATO commitments we have...

Deployed **800** personnel in Estonia

... and around **150** in Poland

Our Typhoons have completed over **280 sorties** in Romania/Hungary/Bulgaria

We have trained over **2,800** Ukrainian military personnel

## European Support and Assurance Missions

In Europe, the UK contributed widely to NATO and EU operations whilst providing vital bi-lateral support to Ukraine. The UK is one of the four framework nations leading NATO's enhanced Forward Presence (eFP) in the Baltic States and Poland. Approximately 800 UK military personnel have maintained a presence in Estonia as the framework nation for the enhanced Forward Presence (eFP) battlegroup. 5th Battalion, The Rifles completed the first eFP rotation when they handed over to 1st Battalion, The Royal Welsh in October 2017. The French contributed a company-sized contingent to this battlegroup in 2017, whilst the Danes made a similar contribution in early 2018. Additionally, a UK light cavalry squadron (approximately 150 personnel) has deployed as part of the US-led eFP battlegroup in Poland.

In Eastern Europe, the RAF provided assurance to NATO members by contributing to the NATO enhanced Air Policing – South mission. Between May and August 2017, RAF Typhoon aircraft were based at Mihail Kogalniceanu Air Base in Romania. During the deployment, the Typhoons launched once in response to Russian air activity over the Black Sea and flew more than 280 sorties to support NATO training in Romania, Hungary and Bulgaria. In addition, UK E-3D Airborne Warning and Control System aircraft provided support to NATO Assurance Missions throughout 2017, flying sorties over Poland and Romania to monitor activity in Ukraine and Eastern Europe. In the Western Balkans, the UK committed an infantry battalion to the pan-Balkans Strategic Reserve from January 2018 and increased its support to the NATO operation in Kosovo with the deployment of a Human Reconnaissance Team in April 2017. In Ukraine, the UK further strengthened bi-lateral relationships through the provision of Short Term Training Teams that provided non-lethal training to personnel from the Ukrainian Armed Forces. Our training teams directly trained over 2,800 Ukrainian military personnel and mentored training for a further 800.

## Standing NATO Maritime Commitments

Over the last year the UK has continued its significant contribution to NATO's Standing Naval Forces. In the latter part of 2017 and early 2018, the Royal Navy was in command of the Mediterranean Maritime and Mine Counter Measures Groups with HMS DUNCAN and HMS ENTERPRISE respectively. The UK has also contributed a Royal Navy Mine Countermeasure Vessel to NATO's Mine Counter Measures Group based in the Baltic and North Atlantic. Elsewhere, the UK provided direct support to Operation SEA GUARDIAN, contributing to the maintenance of a safe and secure environment for civilian vessels operating in the Mediterranean. We also worked closely with NATO's Northern Maritime Group to provide a robust escort for the Russian Kilo-class submarine Krasnodar as it passed through the North Sea and English Channel.

## Very High Readiness Joint Task Force (VJTF)

The UK's commitment to NATO's VJTF in 2017-18 has been significant.

- In the **maritime** environment, the Royal Navy contributed warships to the abovementioned Standing Naval Forces that also formed part of the VJTF (Maritime).
- In the **land** environment, Headquarters 20 Armoured Infantry Brigade and two UK infantry battlegroups (approximately 3,250 UK personnel) provided the framework for the UK-led VJTF (Land) component. In addition, a UK infantry battlegroup (approximately 1,000 personnel) was held at 30 days' notice to move to support deployment of the Spanish-led Brigade, as part of NATO's Initial Follow-on Forces Group. Throughout 2017, the UK Allied Rapid Reaction Corps Headquarters held command responsibility for the NATO Response Force (NRF) Land Component.
- In the **air** environment, the UK held a number of aircraft at readiness as part of the VJTF (Air) in 2017 and 2018. In 2017 the UK Joint Force Air Component Headquarters also held command responsibility for the NRF Air Component.

See page 43 for further information on NATO.



Multi-national battlegroup receives orders while on Operation CABRIT in Poland



## Counter-Piracy

Defence continues to provide the Operational Headquarters (OHQ) in Northwood for the EU's Naval Force conducting counter-piracy operations off the Horn of Africa, under Operation ATALANTA. Since its launch in 2008, this operation has sought to contain pirate activity and to protect vulnerable vessels, in particular those of the World Food Programme. This has been delivered through the deployment of ships, aircraft and vessels protection detachments to the Indian Ocean and the strategically vital Gulf of Aden.

This has also been complemented through the continued development of a Maritime Security Centre Horn of Africa (MSCHOA), alongside the OHQ in Northwood. In the event that a piracy incident is reported or suspected, MSCHOA, in concert with United Kingdom Marine Trade Operations (UKMTO), seeks to ensure a military response, either via Operation ATALANTA assets, or those of other counter-piracy actors in the area. In this way, and in close cooperation with the shipping industry who have developed self-protection measures, piracy off the Horn of Africa has continued to be suppressed from its height in 2010-11. Over the last year there has been minimal pirate activity off the Horn of Africa, however, the opportunities, intent and capabilities for piracy still exist.

## Countering Illegal Migration

The UK continues to provide naval support to EU Operation SOPHIA in the form of HMS ECHO. HMS ECHO has saved thousands of lives since her deployment to the central Mediterranean, as well as destroying numerous smuggling boats and apprehending multiple suspected smugglers. As well as the deployment of HMS ECHO, the UK also continues to provide six staff officers to the Operation headquarters, and since the start of Operation SOPHIA in 2015, has deployed two separate Royal Marine teams to train the Libyan Coastguard. These teams have helped to train the Coastguard on issues such as small boat operations and international maritime law.

## International Counter-Terrorism

Operation MONOGRAM is the UK MOD's programme for providing counter-terrorism training and equipment to foreign security forces. The programme is predominantly administered in parts of Africa and the Middle East to support the overseas element of the UK's counter-terrorism strategy (CONTEST). It has supported the 'Pursue' strand through its capability to disrupt terrorist groups overseas, such as Daesh in Syria and Iraq. It also supports the 'Prepare' strand focused counter-terrorism capacity building for partner nations and support to overseas law enforcement and security agencies. Operation MONOGRAM continues to contribute to conflict prevention and stabilisation work alongside wider CONTEST objectives. In addition, the MOD enables biometric sharing and matching between agencies and international partners involved in UK Domestic and International Counter Terrorism.

## Middle East

Defence continues to maintain a permanent presence in the Middle East through significant military deployments to the region, constant military engagement with partner nations and considerable contributions to international coalitions. This presence underpins our enduring commitment to regional security and enables us to reassure partners, promote security and resilience, and protect and develop the UK's prosperity interests. UK maritime assets remain active in the Gulf and the Southern Red Sea allowing the UK to contribute to protecting vital shipping lanes. Through the 32-nation Combined Maritime Force we also continue to play a vital role in countering the illegal smuggling of people,



The United Kingdom Bridge Training Team advises and assists Iraqi security force in the construction of an Acrow Poseidon bridge over the Tigris River.

narcotics and weapons. Regular bilateral and international coalition exercises, often at significant scale, continue to serve as confirmation of our commitment and capability.

The opening in April 2018 of the UK Naval Support Facility in **Bahrain** further demonstrates the British Government's enduring commitment to regional security, and enhances the Royal Navy's ability to operate effectively in a vitally important region, providing living accommodation and welfare facilities for our personnel, as well as a logistic support facility.

The UK has worked hard towards a political solution to the **Yemen** conflict and to alleviate humanitarian suffering there. We have continued to support the Saudi-led Coalition's military intervention in Yemen, which came at the request of the legitimate President Hadi, to deter aggression by the Houthis, and allow for the return of the legitimate Yemeni Government. This has included defensive training and liaison officers to improve our insight. For further information on Middle East Defence Engagements, see page 51.

## Africa

UK priorities in **Libya** are to counter terrorism and illegal migration and the UK remains committed to working with all parties to try to reach a political settlement. Defence currently provides staff officers within the UN Support Mission in Libya (UNSMIL) to compliment international assistance and support wider UK political, security and migration objectives associated with Libya. The main point of international co-operation and exchange however, remains in Tunis, **Tunisia** where the UK is well represented by HMG officials from various departments, including staff officers from Defence.



In May 2017, the Secretary of State for Defence led strong MOD representation at the landmark London **Somalia** Conference, hosted by the Prime Minister and the UN Secretary General. The MOD plays a pivotal supporting role to HMG efforts in Somalia, uniquely among donors, providing staff to every major multilateral mission in the country: the African Union's peacekeeping mission (AMISOM); the UN political (UNSOM) and logistic (UNSOS) missions, the EU training mission (EUTM Somalia), and bilaterally with Somalia's national security forces. This year we have made progress on the Prime Minister's promise to strengthen Somalia's national capability through our programme in South West State, and to enhance international co-operation through the collaborative development of a Planning and Delivery Team, working with Turkey and the US.

The UK's contribution to the UN Mission in **South Sudan** (UNMISS) is now at its full strength of around 380 troops, with engineers in Malakal and Bentiu, and a field hospital in Bentiu. This means that, in the last year, the UK has more than doubled its commitment to UN peacekeeping with the deployment to South Sudan. In October 2017, the UK also announced a one year extension to the engineering troop commitment, which will maintain a combined total of 300 engineers in Bentiu and Malakal until April 2020. UK troops are working to improve the infrastructure and physical security of the civilian camps enabling other UNMISS troops to provide better protection for civilians in and around their camps. In Bentiu, the UK is constructing a permanent hospital that the Vietnamese will move into in 2019, as they continue to offer care for the 1,800 entitled UN personnel in their field hospital. The UK also continues to provide a small number of staff officers (9) to UNMISS, predominately based in Juba.

In **Mali**, the UK continues to support both the UN (MINUSMA) and EU (EUTM-Mali) missions, as well as providing strategic airlift support to French operations in the Sahel. At the January 2018 UK-France Summit, we announced the forthcoming deployment of three CH47 helicopters in support of French forces in Mali. Together with the US and France we are also supporting the countries of the Lake Chad region in their efforts to coordinate action against Boko Haram, including through the newly established post of Senior Military Advisor to **Cameroon**, who works closely with our teams in **Nigeria** and the UK/US/France P3 Cell for Coordination and Liaison in **Chad** to provide additional capacity building support to Cameroonian troops operating against Boko Haram. Information on Defence Engagement activity in Africa can be found on page 51.

## UK Overseas Territories

### South Atlantic

We remained fully and demonstrably committed to the defence of UK Territories in the South Atlantic. UK forces continued to defend the right of the Falkland Islanders to determine their own political future and to maintain their way of life against whatever threats may arise. The MOD has continued to employ Quick Reaction Alert Typhoon aircraft in the Falklands.

### Caribbean

The UK has maintained a Defence presence in the Caribbean for counter-smuggling and counter-narcotics tasking, and in support of the UK Overseas Territories (OTs).

The most significant deployment in support of the OTs in recent years occurred in late 2017. Operation RUMAN was the UK Defence Humanitarian Assistance and Disaster Relief response to hurricanes Irma and Maria, which devastated large parts of **Anguilla**, the **British Virgin Islands** and the **Turks and Caicos Islands**. As part of the cross-Government response to the crisis, Defence deployed a total of 2,100 military personnel to the region. In all, MOD transported 109 tonnes of aid on behalf of

Department for International Development, over one fifth of the total aid dispatched. Deployment of the lead elements was achieved within 24 hours. The majority of this was delivered by the Royal Fleet Auxiliary MOUNTS BAY and by HMS OCEAN, as well as via an array of transport aircraft, helicopters and landing craft that formed an effective bridge from the UK. This support provided the OT Governors and wider HMG with pivotal support to enable governance, disaster relief, security and reconstruction. It also provided surge support to the **Commonwealth of Dominica**, also severely affected by Hurricane Maria. Furthermore, the Task Force assisted with the departure of 270 Entitled Persons (those who are entitled to have their evacuation organised and facilitated by the UK, as part of an evacuation operation), as well as carrying out urgent medical evacuations from **St Martin and Dominica**.



Assault Engineers from 40 Commando and Royal Engineers from 54 Commando Squadron cleared storm drains in key locations before hurricane Maria made landfall on the British Virgin Islands later that day

Since the 2017 hurricane crisis, Defence has worked in close cooperation with the Foreign and Commonwealth Office and the Department for International Development to develop a new Humanitarian Assistance and Disaster Relief (HADR) strategy for the Caribbean OTs.



### In response to hurricanes Irma and Maria we have...

Deployed **2,100** military personnel

Transported **109 tonnes** of aid

Assisted with the evacuation of **270** Entitled Persons





A member of the Ship's Company of HMS Monmouth destroys narcotics intercepted on a dhow transiting the Indian Ocean

## Counter-Narcotics

Defence has supported UK Government and international efforts to tackle the threat from illicit drugs. The Royal Fleet Auxiliary (RFA) has operated with US and other international partners to stem the flow of drugs from Latin America through the Caribbean, and across the Atlantic to UK and Europe. The RFA has seized or disrupted approximately 1.5 metric tonnes of illicit cocaine from the region, worth over £50M had those drugs reached the streets of UK. The Royal Navy has also conducted and coordinated counter illicit trafficking operations in the Indian Ocean, under the multi-national maritime coalition Combined Task Force 150. The Navy has been involved in the seizure and disruption of more than 1.5 metric tonnes of heroin and hashish in that region, with a combined estimated value in excess of £33M had the drugs reached UK. The MOD supports the National Crime Agency, as UK's lead on countering narcotics and other illicit trafficking activity worldwide.



### In attempting to tackle the threat of illicit drugs...

The **RFA** in the Caribbean seized or disrupted **1.5 metric tonnes** of cocaine in the region, worth over **£50M**

The **RN** in the **Indian ocean** seized or disrupted over **1.5 metric tonnes** of heroin or hashish in the region, worth over **£33M**

## UK Embedded Forces

On 17 December 2015 the Secretary of State issued a written Ministerial statement about “UK Embedded Forces”. This provided details of UK service personnel embedded in other nations’ Armed Forces who are deployed on operations, together with those who work on operations in deployed coalition or single nation headquarters roles. He also committed to providing an update each year as part of the MOD Annual Report. The following tables set out the position as at the end of each quarter during financial year 2017-18. They provide a snapshot of the numbers of embedded personnel on the specified date.

Numbers of embedded HQ staff at end of:	30 June 2017	30 September 2017	31 December 2017	31 March 2018
<b>EMBEDDED HQ STAFF</b>				
Australia	0	0	0	1
Canada	0	0	1	1
Coalition HQs	34	36	38	36
EU HQs	6	4	7	5
France	0	0	0	0
Germany	0	0	0	0
Netherlands	0	0	0	0
New Zealand	0	0	0	0
Italy	0	0	0	1
NATO	5	3	5	6
UN HQs	4	3	2	1
United States of America	1	1	1	1
<b>Total</b>	<b>50</b>	<b>47</b>	<b>54</b>	<b>52</b>
<b>EMBEDDED EXCHANGE OFFICERS</b>				
Australia	19	18	16	16
Canada	12	11	11	11
Coalition HQs	0	0	0	0
EU HQs	0	0	0	0
France	6	6	4	5
Germany	2	2	2	2
Netherlands	2	3	1	1
New Zealand	2	1	1	1
Italy	2	3	2	2
NATO	0	0	0	0
UN HQs	0	0	0	0
United States of America	40	49	44	48
<b>Total</b>	<b>85</b>	<b>93</b>	<b>81</b>	<b>86</b>

Notes: The data comprises: “UK service personnel embedded in another nations’ Armed Forces, who are deployed on operations together with those who work on operations in deployed coalition or single nation headquarters roles”.



# Project Our Global Influence:

## National Strategic Objective 2

### What we are trying to achieve:

Influence through international Defence Engagement.

### Key achievements in 2017-18:

- We achieved the SDSR 2015 commitment to double the number of UK troops on peacekeeping missions
- The design and build of the Common Missile Compartment is an exemplar of US-UK defence co-operation and will underpin our nuclear capability for decades.
- Offered 2,240 International Defence Training places to other nations
- We maintain an extensive global network with 146 Defence Attaché posts, 17 Loan Service Teams and exchange officers deployed across the world
- Our training teams have trained over 7,000 Ukrainian Armed Forces personnel
- Agreement to launch new Defence Ministerial Council which will drive UK-French cooperation was confirmed in the Sandhurst Summit

## Defence Engagement

We have continued to develop our Defence Engagement programme as a core funded MOD task. We updated our International Defence Engagement Strategy in March 2017 which outlines the ends, ways and means by which UK Defence Engagement should be conducted. The MOD maintains an extensive global network with 146 Defence Attaché posts in 85 Defence Sections, covering another 79 countries by non-resident accreditation, 17 loan service teams in addition to liaison officers and exchange officers deployed around the world. The global network continues to evolve to meet changing Defence and wider Governmental priorities. This year, for example, we have established a resident Defence Attaché in Portugal to further develop our European network and support UK interests ahead of leaving the European Union.

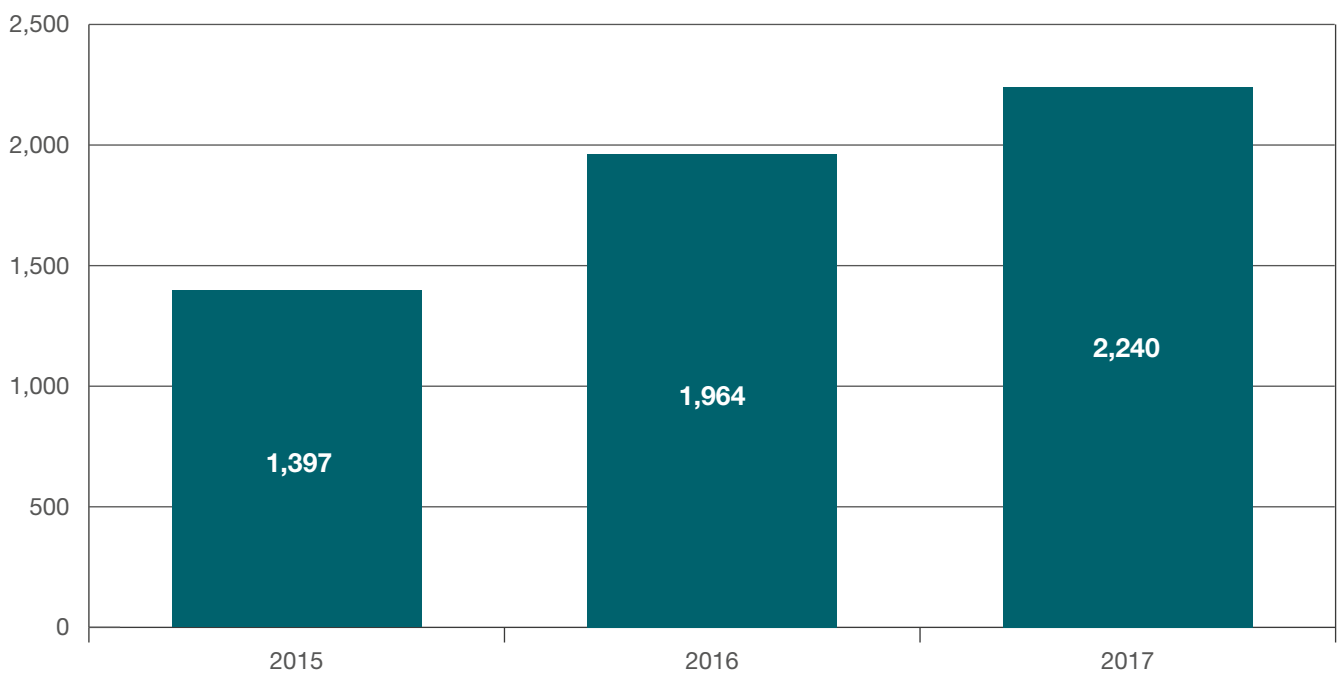
UK training is highly prized, and the offering of places can have a direct impact on relations with international partners or can help secure specific short-term UK goals, particularly in countries where the military are influential and/or defence is a significant element of wider UK engagement. We have continued to increase the overall number of international places being offered on our flagship International Defence Training courses. This training is a key element of defence engagement and contributes towards capacity building, security sector reform, conflict prevention and stabilisation.



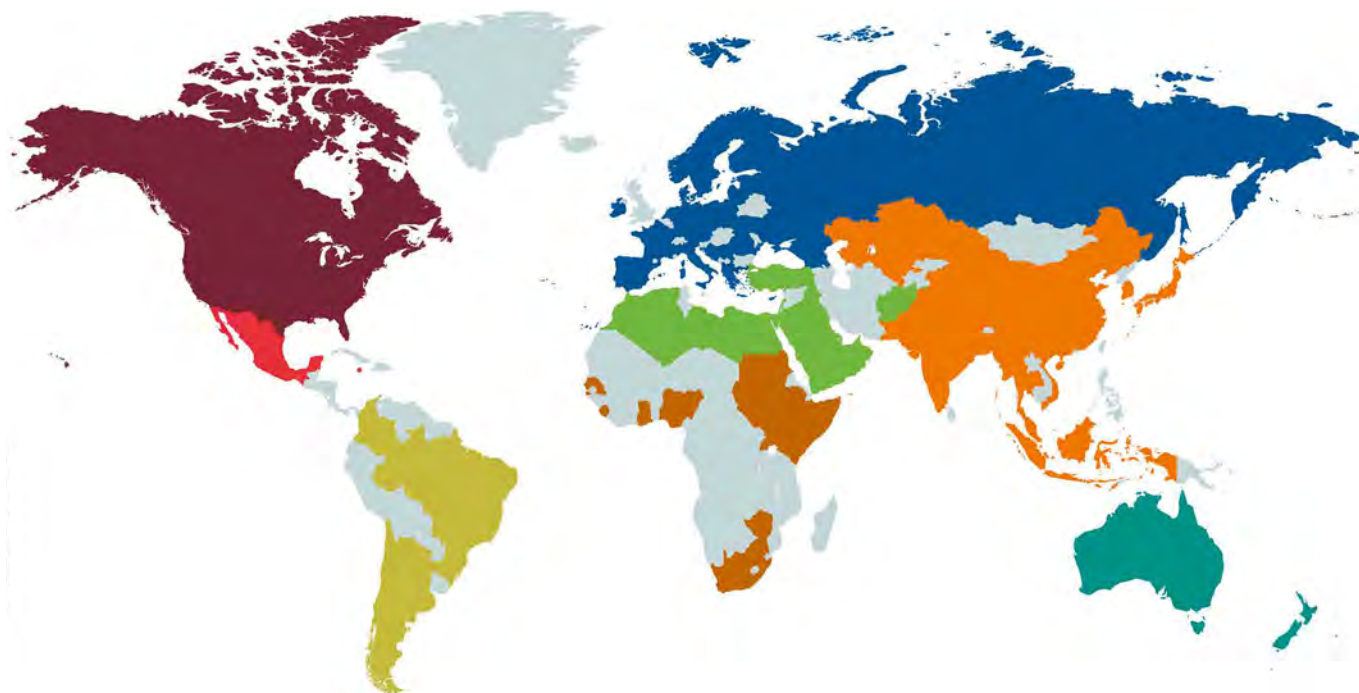
Defence training, including that delivered by deployed training teams, can also offer very specific and immediate benefits to our international partners, for example helping to prepare forces which are to deploy on peacekeeping missions or improving the capacity of partners to deal with internal security challenges. Defence training can also have a longer-term impact through helping to develop strategic leadership skills, improve defence management and the ability to deal with crises, whilst also promoting responsible approaches to the conduct of defence activity, for example with relation to accountability, transparency & corruption, gender & conflict, human rights and humanitarian law.

The Foreign Liaison Staff in MOD are tasked with liaising with the 230 foreign attachés accredited to the UK, which is the second highest number of defence attachés in residence in the world, outside the USA. These attachés receive a comprehensive programme of events that showcase UK defence, transmit core UK messages and add to the prosperity agenda.

**Number of International Defence Training places offered**



# Defence Advisers/Attachés



Region	No. of Attachés	Countries
Asia (exc. Middle East)	16	Bangladesh, Brunei, Burma, China, India, Indonesia, Japan, Kazakhstan, South Korea, Malaysia, Nepal, Pakistan, Singapore, Thailand, Uzbekistan, Vietnam
Central America/ Caribbean	2	Jamaica, Mexico
Europe (ex. UK)	28	Albania, Austria, Bosnia & Herzegovina, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Macedonia, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Spain, Sweden, Ukraine
North Africa/Middle East	17	Afghanistan, Algeria, Bahrain, Egypt, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Turkey, United Arab Emirates, Yemen
North America	2	Canada, United States of America
Oceania	2	Australia, New Zealand
South America	4	Argentina, Brazil, Chile, Colombia
Sub Saharan Africa	12	Ethiopia, Ghana, Kenya, Nigeria, Senegal, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Uganda, Zimbabwe
<b>Total</b>	<b>85</b>	<b>incl. United Nations, Organization for Security and Co-operation in Europe</b>

## NATO

NATO is the cornerstone of UK Defence and we continue to take a leading role in the Alliance. UK forces have been active across the Maritime, Land, Air, and Cyber domains, contributing to the full range of Alliance activities and NATO Assurance Measures, demonstrating our commitment to meeting the evolving and intensifying challenges the Euro-Atlantic area faces.

The UK has been a driving force behind the need to ensure that NATO has a command structure fit to confront the security challenges facing the Alliance today and tomorrow. The UK is actively involved in a Functional Assessment of NATO's command structures which will report at the end of the summer for consideration at the November 2018 Defence Ministerial meeting. The UK also co-authored a letter with the US encouraging NATO to progress command structure reform. We continue to drive this issue forward and are actively engaged in the discussions about NATO Command Structure Adaptation.

We are encouraging greater coherence of NATO initiatives in the South, and remain firm on the issue of ensuring no unnecessary duplication of efforts between the EU and NATO. Good progress has been made since the NATO-EU implementation plan was formally launched in December 2016, including Joint work on addressing hybrid and cyber threats. The UK has seconded staff to centres across Europe to advance the hybrid agenda and improve working between NATO and the EU. 42 cooperation proposals were originally announced and 32 further areas for cooperation were announced at December 2017 Foreign Ministers meeting, with over 50% directly reflecting UK priorities and language.

As we look towards the NATO Summit in July 2018, we will continue to work with other Allies to ensure a modernised NATO, fit to face new global challenges and delivering against its commitments. Detail on our input to NATO operations can be found on page 32.



Soldiers from 1st Battalion of the Princess of Wales Royal Regiment being briefed during NATO Exercise Allied Spirit 8

## European Union

The UK will leave the European Union on 29 March 2019. During 2017, negotiations with the Commission led to the agreement at the December European Council that ‘sufficient progress’ had been made to move to the next phase of negotiations. The focus since then, for Defence and security, has been to consider how transitional arrangements during an Implementation Period would apply, given the Prime Minister’s intent that during this period the EU acquis will apply with no exceptions.

Work to get an agreed policy position on our desired end state for the external security partnership has also been ongoing. This reflects the Prime Minister’s clear direction that, whilst we are leaving the European Union, we are not leaving Europe. We want to ensure that Europe remains strong and prosperous and can project its values, leading in the world, and defending itself from security threats. We want a new, deep and special partnership between the UK and the EU which is based on both economic and security cooperation. These messages were reiterated at the Prime Minister’s speech at the Munich Security Conference in February 2018.

At the March 2018 European Council, EU Member States reached an important milestone and endorsed a time-limited implementation period. This will give us the time we need to put new arrangements in place as we move towards our future partnership – for both the Common Foreign and Security Policy and Common Security and Defence Policy, we will move more quickly to bring into force ambitious new arrangements and our future relationship as soon as possible. The full Withdrawal Agreement will be finalised by October 2018.

While we remain a member of the European Union, we will continue to contribute to EU operations and missions. In 2017, we maintained our commitment to the EU’s three military operations: we continued to deploy a ship to Operation SOPHIA in the Mediterranean; we promoted stability and security in Bosnia-Herzegovina through our support and leadership of the European Union Force (EUFOR) Operation ALTHEA in Bosnia Herzegovina; and we continued running the European Union Naval Force (EUNAVFOR) Operation ATALANTA’s Headquarters in Northwood. The UK continues to contribute personnel and funds to EU Training Missions in both Somalia and Mali.

## United Nations

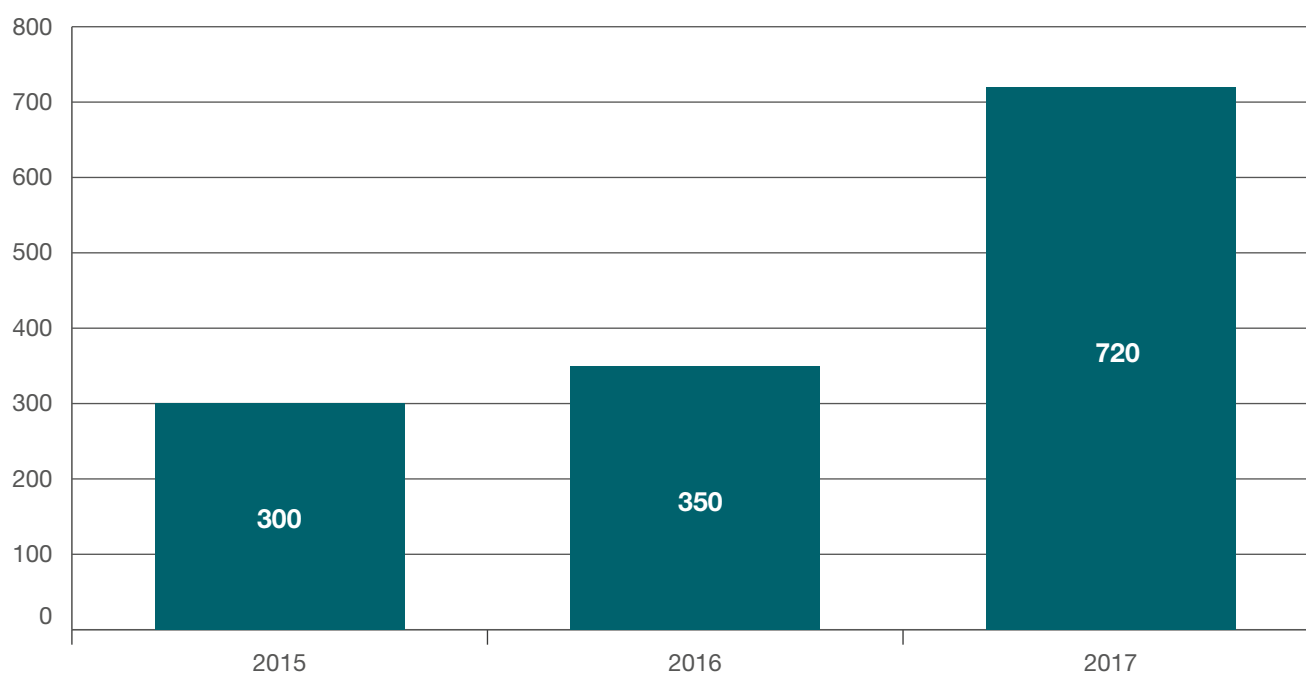
UN Peacekeeping plays a critical role in international security. UK leadership through the UN Security Council, our financial and military contributions and support on UN reform demonstrates our commitment to UN Peacekeeping. In the last year, we achieved the SDSR 2015 commitment to double the number of UK troops on UN Peacekeeping missions from 300 personnel to over 700 through our deployments to South Sudan and Somalia. The UK deployment to the UN Mission in South Sudan, of around 380 engineering and medical personnel, makes it one of the largest Defence deployments globally. Additionally, we continue to maintain our long-standing commitment to the UN mission in Cyprus, of around 280 Service Personnel, and deploy some 20 staff officers to critical roles in UN missions in South Sudan, the Democratic Republic of Congo, Somalia, Mali and Libya.

In November 2017, the UK co-hosted a global UN Peacekeeping Defence Ministerial in Vancouver. This brought together 85 countries and organisations, and generated 49 new pledges of personnel and equipment for UN peacekeeping missions. The UK committed to extending its engineering deployment to South Sudan until April 2020 and co-launched, with Canada and Bangladesh, a Chief of Defence Women, Peace and Security Network. The Ministerial meeting maintained the momentum generated from the London UN Peacekeeping Ministerial in 2016. It continued to promote the importance of



reforming UN peacekeeping, on which the UK has been a leading advocate through HMG's "3Ps" reform agenda of improved planning, quality pledges of people and equipment, and better performance.

**Number of UK military personnel deployed on UN-led peacekeeping operations**



## Women, Peace and Security

MOD continues to work to meet its commitments to the Women, Peace and Security (WPS) agenda. In January 2018, Secretary of State for Defence launched the UK National Action Plan (NAP) on Women Peace and Security for 2018-22 along with the Foreign Secretary and the International Development Secretary. This document builds upon the NAP for 2014-17 to promote global gender equality to improve peace and stability, economic growth and poverty reduction.

Significant progress has been made towards improving gender representation and awareness in the Armed Forces. Since November 2016, there has been a phased approach to enabling women to serve in ground close combat roles. Women are now able to join the Royal Armoured Corps, both Regular and Reserve. By the end of 2018, all roles in the Armed Forces will be open to women. Military doctrine continues to be updated to be made gender sensitive on a rolling basis, where applicable and appropriate, and all UK troops deploying on large scale overseas missions now receive training on WPS, including gender awareness and prevention of sexual violence in conflict. Women now make up around 7% of those the UK deploys on UN peacekeeping missions, more than twice the UN average (approximately 3%).

The Armed Forces continue to deliver expert training to international partners through their overseas training establishments. The British Peace Support Team (Africa) (BPST(A)) provides training on Sexual and Gender Based Violence (SGBV) to more than 7,000 African peacekeeping personnel every year. Short term training teams have also now provided gender sensitive training to over 7,500 Kurdish Peshmerga in Iraq. In Afghanistan, the UK continues to reinforce the importance of gender perspectives in training at the Afghan National Army Officer Academy (ANAOA) and over 100 female officers have now passed out of the Academy.

In November 2017, the Vice Chief of the Defence Staff, General Sir Gordon Messenger launched the WPS Chiefs of Defence Network with Canada and Bangladesh at the UN Peacekeeping Defence Ministerial in Vancouver. The Network will enable military leaders to drive the integration of gender perspectives into their military planning, operations and culture. The Network further aims to improve the participation of women in members' Armed Forces and in peacekeeping.

## Arms Control and Counter Proliferation

In 2017-18, the MOD has contributed to meeting the Government's arms control and counter proliferation objectives covering chemical, biological, nuclear and conventional weapons.

The MOD continued to provide expertise to strengthen the Chemical Weapons Convention and the Biological and Toxin Weapons Convention, including through the provision of scientific and technical expertise. It remains a priority to support the international community in addressing concerns about Syria's continuing use of chemical weapons in breach of the Chemical Weapons Convention, and its failure to fully declare and destroy its chemical weapons programme. The MOD continued to work with the Foreign and Commonwealth Office (FCO) and international partners with the goal of achieving the full declaration and destruction of Syria's entire chemical weapons programme, and ensuring effective investigation and response to the use of chemical weapons in Syria.

During March 2018, MOD provided expertise to support the investigation of the attempted murder of the Skripals in Salisbury, including through the analysis by the Defence Scientific and Technology Laboratory at Porton Down of environmental and biomedical samples. The results of this analysis played an important role in informing the response by HMG and the international community to this outrageous attack.

The MOD continued to work closely with international partners to strengthen international cooperation in the field of biological security. Supporting the G7 Global Partnership against the Spread of Weapons and Materials of Mass Destruction, the MOD continued to implement projects to strengthen biological security, primarily in Central Asia and the Middle East.

The MOD continued to contribute towards a cross-Government workstream which addresses the threat from the misuse of drones. This workstream, looking at technical, behavioural and legislative solutions, is coordinated by the Counter-Drones Working Group jointly chaired by the Home Office and MOD.

The MOD supported counter-proliferation regimes such as the Wassenaar Arrangement, Missile Technology Control Regime, Australia Group and Nuclear Suppliers Group through providing expertise and organising meetings in London.

As part of national obligations under the Anti-Personnel Mine Ban Convention (the Ottawa Convention), we are jointly funding and managing the ongoing programme to complete demining of the Falklands Islands. The MOD also continues to monitor and maintain our obligations under the Convention on Cluster Munitions (the Oslo Convention) and the Convention on Certain Conventional Weapons, and supports UK engagement on International Humanitarian Law.

The MOD implements key politically and legally binding Conventional Arms Control agreements on behalf of the UK. During 2017, MOD hosted seven missions, which checked the UK's compliance with Conventional Arms Control agreements; and led or participated in 23 verification missions in other countries.

## USA

The USA continues to be our pre-eminent partner for security, defence, foreign policy and prosperity. Our defence relationship with the USA is fundamental to our shared national and international interests, particularly for the conduct of operations and for strategic capability programmes. We continue to work together with the USA in NATO and across the globe. This includes providing political leadership and vital operational capabilities. Our unrivalled intelligence sharing partnership remains vital to our national security and that of the USA.



### In 2017-2018 we signed Foreign Military Sales (FMS) agreements with the USA for...

C17 Support – worth **\$301M**

Hellfire for Reaper – worth **\$132M**

P-8A Training Aids – worth **\$80M**

F35 Countermeasures – worth **\$28M**

There were another **87 FMS cases, amendments or modifications**

This defence and security partnership with the USA continues to underpin the successful delivery of leading edge capabilities to our Armed Forces. We continue to deliver our 'Continuous at Sea Deterrence' based on a common stock of Trident D5 missiles. The design and build of the Common Missile Compartment (CMC), integral to future submarines with the Royal Navy's Dreadnought Class and US Navy's Columbia Class submarines, remains an exemplar of US-UK defence co-operation and will underpin the UK's nuclear capability for decades. The Queen Elizabeth Carrier Programme is entering the delivery phase and the pace of collaborative development with the US will only quicken as HMS QUEEN ELIZABETH's First of Class Flying Trials with the new F35B aircraft brings the ship to US waters later in 2018. Following UK Secretary of State for Defence and US Secretary of Defense level agreements, the US Marine Corps will provide a detachment of 6 F35B aircraft to operate alongside Royal Navy and Royal Air Force F35Bs on the inaugural deployment. Planning for this combined deployment is at an advanced stage.

In engaging with the US Administration, we will seek opportunities to strengthen our bilateral defence cooperation and interoperability across all Services and at all levels. From the Prime Minister's engagement with President Trump, through to Secretary of State for Defence's engagement with US Secretary of Defense, Jim Mattis, and engagement at levels below, we will seek to sustain our existing relationships and build new ones to achieve this.

## France

We continued to develop the bilateral defence relationship with France in 2017. Core UK and French defence policy is closely aligned and engagement extends across almost all areas of defence policy, with a focus on NATO and on current strategic challenges. Military cooperation during the year has been extensive and included UK and French forces operating alongside each other in the Middle East as part of the coalition against Daesh and French forces supporting the UK-led NATO enhanced Forward Presence deployment in Estonia. The UK continues to provide logistic support to French operations in Africa. The Royal Navy and French Navy shared joint command of a multi-national maritime task group in the waters off the Arabian Peninsula and the Horn of Africa; and, further afield,



Merlin Mk3A helicopter of 845 Naval Air Squadron working from the flight deck of French amphibious assault ship FS MISTRAL in the Far East

Merlin helicopters from the Royal Navy participated in the French Jeanne d’Arc deployment to the Indian Ocean and Far East. UK and French forces also cooperated extensively in disaster relief in the Caribbean following Hurricane Irma.

The UK-France Sandhurst Summit in January 2018 confirmed and strengthened bilateral policy, military, capability and nuclear cooperation. At the summit, we agreed to launch a new Defence Ministerial Council to oversee and drive further cooperation. Under our Combined Joint Expeditionary Force initiative, we are taking forward a programme of work that will deliver a force that could number over 10,000 with Full Operating Capability in crisis management operation involving early entry in a potentially hostile territory by 2020. Drawing on this, we are also working together on development of the European Intervention Initiative. We set out a programme of deepening maritime cooperation, agreed that French forces will again support the UK-led enhanced Forward Presence deployment in Estonia in 2019, and that the UK will deploy three CH47 Chinook helicopters to provide logistic support to France’s Operation Barkhane in the Sahel. The Summit also agreed a continuing programme of joint capability cooperation, and the continuing importance of the ability of United Kingdom defence industry to be able to engage in European defence research and capability development programmes post Brexit.

## Germany

The bilateral relationship strengthened further during 2017. We continued our programme of bilateral meetings at Ministerial and senior official / military levels hosted by our respective governments and in the margins of NATO, EU and other multilateral meetings. We have finalised a “Joint Vision Statement” and are identifying an opportunity for signature. As part of NATO defence and deterrence measures



agreed at the Warsaw Summit, the UK and Germany have troops deployed in Estonia and Lithuania respectively as framework nations for NATO's enhanced Forward Presence.

A workshop on increasing operational cooperation was held in London during May 2017. As well as facilitating an ongoing exchange of views, it provided an opportunity to share ideas, assessments and to develop proposals. In the Middle East, German Tornado aircraft contribute to counter-Daesh operations alongside our own and German ground forces have participated in the training of Peshmerga personnel in Iraq. Equipment capability and industrial-related co-operation continues to be a promising area for the UK-German bilateral relationship. Ministerial Equipment Capability Cooperation talks were held in June 2017 and in November 2017 and the Royal Navy held a capability symposium in Portsmouth.

## Europe Bilateral Relations

Close defence co-operation with our European partners is overwhelmingly in our national interest. During 2017, we signed defence collaboration agreements with **Croatia** and the **Netherlands**. In December 2017, at the Prime Minister led inter-Governmental discussions with **Poland**, a Defence and Security Co-operation Treaty was signed and we agreed to establish a Defence Capability and Industrial Dialogue. Our NATO deployments provide opportunities for UK forces to increase interoperability and perform training exercises with regional partners. The signing of several agreements with **Norway** regarding the operation of the P8 Maritime Patrol Aircraft will allow us to develop further our existing defence partnership with Norway. The UK continues to lead the development of the Joint Expeditionary Force (JEF), which **Finland** and **Sweden** joined in June 2017, the first non-NATO members to do so. The Northern Group (consisting of Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, the Netherlands, Norway, Poland, Sweden and the UK) continues to develop as a forum for defence and security co-operation in northern Europe, with meetings at Ministerial level and between military and senior officials.

## Ukraine

The UK remains committed to providing support and assistance to the Ukrainian Armed Forces (UAF) and its Ministry of Defence, as the country continues to face aggression in the East and its senior political and military leaders pursue a programme of comprehensive reforms. Tackling both issues in parallel is no mean feat and Ukraine is to be commended for the defence reforms to which it has committed itself whilst also managing an ongoing conflict. The UK's military training mission is defensive and non-escalatory and continues to be delivered away from the area of conflict. Our short term training teams have now directly trained over 7,000 personnel. Training has been expanded this year to include counter-sniper, anti-armour and mortar-planning courses and is focused increasingly on mentoring activity within the construct of UAF Brigades being prepared for deployment to eastern Ukraine. Close co-ordination with other Allies and partners remains an important aspect of ensuring coherent delivery of training. In 2017, the British and Canadian Prime Ministers agreed to undertake joint activity between our respective training missions where this offered an effective and efficient way of enhancing that coherence and delivering ever greater impact in support of the UAF. The UK also continues to fund and manage a wide-ranging programme supporting Ukraine's ambitious defence reform programme. This is led, day-to-day, by the UK Special Defence Advisor embedded in the Ukrainian MOD and is supplemented by advice and guidance offered by a senior retired British Army General, who is the UK representative on the Ukrainian Defence Minister's Defence Reform Advisory Board, alongside representatives from several other of Ukraine's international partners.

## Russia

The National Security Advisor has described Russia as the primary strategic threat to the UK, combining increasingly aggressive behaviour with the development of new means of hybrid warfare and seeking to upgrade their conventional and nuclear capabilities. Russia has continued to stoke the conflicts in Syria and Ukraine and engaged in a wider pattern of behaviour that threatens the rules based international order. In seeking to assert itself as a great power, Russia has increasingly opposed the West and is becoming bolder and even brazen when doing so.

The department has continued to play a key role in supporting the wider cross-Government strategy towards Russia. Defence has been extensively involved in the cross-Government response to the illegal nerve agent attack in Salisbury. World-leading scientists from Porton Down have been providing specialist advice and assistance, and Defence personnel and equipment conducted a variety of tasks in and around the Salisbury area. Collective expulsions of Russian intelligence and security officers have demonstrated to Russia that we will impose a heavy cost on its unacceptable behaviour.

Our commitment to collective defence and security through NATO remains central to our approach to the security challenges Russia presents. The UK is working closely with NATO Allies to deter and defend against the most dangerous and complex threats Russia poses. Our Quick Reaction Alert aircraft continue to scramble to intercept Russian military aircraft operating around the UK and there have been no incursions into UK sovereign airspace. The Royal Navy continues to monitor ships in the UK area of responsibility and we have also committed assets to a number of NATO exercises and operations in the North Atlantic, Barents, Baltic and Black Seas. MOD also supports partner states at risk and we provide defence assistance to improve their resilience.



HMS SUTHERLAND keeping a watchful eye on a Russian ship transiting through UK territorial waters

## Middle East and North Africa

Our commitment to the relationships with our Middle Eastern and North African partners remains strong, with 118 bespoke training activities taking place over the year. These efforts develop a range of capabilities with and for our partners and Allies. These range from specific in-demand skills, for instance Countering Improvised Explosive Devices, through to more basic Infantry skills. All these activities are aimed to enable our key Allies to ensure security in the region. Personnel from across the region have taken places on over 300 UK courses, including at over 90 courses of our top-class Tier 1 UK Defence Education Courses. In addition to this capability building and training effort, we have undertaken some 45 exercises involving partners from the region that enable us to support and learn how to better cooperate with them to counter threats which affect them and us.

Alongside this interaction we have continued to maintain a significant defence presence of over 1,500 people to promote stability in the region, support our relationships and oversee our engagement efforts. We have established a British Defence Staff in the Gulf that has helped to cohere our activity in the region, and we plan to expand the capacity of this hub in the coming year.

We delivered a programme of regular engagement from senior officials in defence and at Ministerial level including the Secretary of State for Defence. Our continued engagement with the Gulf Co-operation Council is aimed at promoting security in the region. The successful visit of the Crown Prince of Saudi Arabia, Mohammed Bin Salman has launched a strategic partnership with **Saudi Arabia**, a key partner in the region for mutual security and prosperity. A major defence co-operation agreement was signed with Saudi Arabia in September 2017.

Our relationships with Allies in **North Africa** and **the Levant** are maturing. The roll-back of Daesh forces in **Iraq** and **Syria** has presented more scope for Defence Engagement activity, with more capacity-building activities delivered this year.

Whilst the region remains fragile, beset by persistent conflicts and significant instability, Defence is playing its part in developing mutual security, mutual prosperity and regional stability.



### Capability building and training support provided to the region includes...

118 bespoke training activities delivered

45 exercises involving partners from the region

A defence presence of **1,500 people** in the region

Personnel from the region have taken up places on **300 courses** including **90 tier 1 courses**

## Africa

The rebalancing of Defence's network in Africa has continued, with the establishment of a Strategic British Military Adviser for Africa, the expansion of the British Peace Support Team Africa's remit to cover all of Sub-Saharan Africa, and the closure of British Peace Support Team (South Africa). These changes aim to help improve our understanding of the many challenges the region faces, and to improve the coherence and quality of our capacity building activity in Africa.





Pictured is a handshake between trainer and trainee, in front of a group of British Army trainers mentoring Somali soldiers on vehicle maintenance

In **Nigeria**, the British Defence Staff (West Africa), and our resident British Military Advisory and Training Team (BMATT) and Liaison and Support Team (LST) continue to provide valued support and guidance, working with the Nigerian Armed Forces to help improve capacity and capability to combat the threat of Boko Haram terrorists. We have worked to strengthen the coherence of our offer, exploiting the opportunities presented by the creation of a senior military Head of the British Defence Staff, and have worked ever more closely with international partners to provide a growing programme of training and advisory support. More than 350 British military personnel deployed on a range of tasks in support of the Nigerian Armed Forces in 2017.

British Army Training Unit **Kenya** (BATUK) training on private land in Laikipia was interrupted from mid-2017, due to licencing issues, therefore training was subsequently restricted to gazetted Kenyan Government-owned land. Following the second UK-Kenya Defence Staff Talks, held in London in March 2018, training has since resumed in a limited number of training areas, and discussions to resolve the remaining licensing issues continue with the Kenyan Ministry of Defence.

In addition to existing counter-Illegal Wildlife Trade (IWT) training conducted in **Gabon**; in 2017 we conducted a pilot project to train counter-poaching operatives in **Malawi**, funded by the DEFRA IWT Challenge Fund. Following the successful completion of the pilot project, we have been developing options to expand the approach into other countries across Africa.



## Asia Pacific

In the last year, the UK has conducted a wide range of defence engagement activity across the Asia Pacific region, delivering against our regional aims. In support of security and prosperity objectives, we have deployed both HMS SUTHERLAND and HMS ALBION to the region, conducting multinational exercises and visits which demonstrated both the capabilities of the Royal Navy and supported UK defence industries. We have provided a variety of training courses to countries in the region in support of UN Peacekeeping missions, allowing them to contribute to international security and stability. Along with training, we have participated in annual exercises with our key regional defence partners, maintaining influential relationships in a continually evolving geopolitical environment.

## South Asia

The UK-**India** defence relationship continues to move forward at great pace, following the agreement of the Defence and International Security Partnership in 2015. Work is progressing on the 8 capability partnerships spanning Counter Terrorism to Carrier Cooperation and military doctrine to training. Over the next 12 months, exercises in the Land, Air and Maritime domains are planned. The RAF Aerobatic Team displayed in India as part of Exercise EASTERN HAWK, and the Royal Navy exercised with the Indian Navy during Exercise KONKAN. The previous Secretary of State for Defence visited India for the inaugural Strategic Defence Dialogue, leading to further visits between the two nations.

After the UN High Commissioner for Human Rights Report in 2015, the MOD developed a Defence Relations Re-engagement Strategy with **Sri Lanka**, using a Non-Resident Defence Advisor to the High Commission in Colombo to implement a conditions-based, incremental programme focused on the role of the military in democracy, accountability, transparency and ethics. In **Bangladesh**, we continue to focus on education and training to professionalise the Bangladeshi military and reinforce understanding and compliance with ethical behaviours and International Humanitarian Law.



As part of the Eastern Hawk tour, the Royal Air Force Aerobatic Team flew over southern Jordan in a display of friendship with the Jordanian people

In **Nepal**, we continue to focus on reinforcing our long and distinguished relationship, enhancing the Nepalese Army's capabilities to ensure that they remain a major troop contributing country to UN Peacekeeping Operations. In addition we have delivered Counter Improvised Explosive Device training and Disaster Management Training through UK-approved Universities.

**Afghanistan** and **Pakistan** have made continued efforts to improve bilateral relations, including the development of an Afghanistan-Pakistan Action Plan for Peace and Solidarity framework during this reporting period. The UK recognises the critical role Pakistan plays in facilitating stability in the region, and in enabling the conditions for peace talks between Afghanistan and the Taliban. This is one of the reasons that the UK continues to invest in the close Defence relationship with Pakistan.

The **UK-Pakistan** Defence relationship is reinforced through annually held Army, Navy and Air Force staff talks which seek to promote understanding and collaboration between our respective Defence forces. This had been further supported by regular interaction of senior military officers. This year the third annual UK-Pakistan military to military forum was held in the UK and focused on exchanging knowledge and experience in the area of stabilisation operations. The RAF's Red Arrow Display team also conducted a hugely successful aerial display in Karachi this year to mark the 70th year of UK-Pakistan relations.

We continued our efforts to develop Pakistan's Counter Improvised Explosive Devices (IED) through our Capacity Building programme. This aims to support Pakistan in establishing a multi-agency capability for tackling IEDs, which have been perpetrated by terrorist groups and have historically been a severe threat, but has now been substantially reduced.

Our medical capacity building project is seeking to share with the Pakistan Military Medical establishment the valuable lifesaving lessons we have learned from our recent operations.

In addition, the UK has also continued its international staff training co-operation programme, with over 70 Pakistani personnel coming to the UK to be trained at UK military training institutions such as the Royal Military Academy Sandhurst and the Royal College of Defence Studies.

## Latin America and the Caribbean

The UK took part in the multi-national search operation for the missing **Argentine** submarine ARA San Juan. This included deploying various personnel and assets, including HMS PROTECTOR and RAF Hercules and Voyager aircraft. Despite the valiant efforts by all involved, the location of the submarine remains unknown.

In **Columbia**, we supported the UN Mission monitoring the implementation of the FARC peace process. We continued to support the UN as the Mission transitioned to verify the reincorporation of the FARC into civil society and the Colombian Government's Security Guarantees. In **Belize**, the expansion of our training provided through the British Army jungle training facility continues, with regular inclusion from partner nations across the Caribbean.

We held Strategic Defence Dialogue talks with both **Chile** and **Argentina**, the latter for the first time since 2006. The talks focused on identifying opportunities for sharing information and experience in various fields, including peacekeeping and deployed medical expertise. In February 2018, the MOD agreed the sale of HMS OCEAN to **Brazil** for approximately £84M.

## Official Development Assistance

The MOD spent £6.1M of Official Development Assistance (ODA) in Calendar Year 2017<sup>2</sup>. The main activities reported as ODA were:

- Certain aspects of defence education and training which fall within ODA guidelines;
- Elements of the support to international partners in maritime charting provided by the UK Hydrographic Office;
- Assistance to refugees in the UK Sovereign Base Areas in Cyprus;
- Retraining programme for local staff in Afghanistan benefitting from an in-country option of a range of courses such as High School diplomas and qualifications in Engineering and Law.

Additionally, elements of activity delivered by MOD, but funded by cross-Government funds have been reported as ODA against those budgets; for example, capacity building programmes to tackle corruption in the Defence sector, funded from the Conflict, Stability & Security Fund; or the Hydrographic Office contribution to the Commonwealth Marine Economies Programme, funded from the Prosperity Fund.

MOD is involved in spending ODA because it has unique capabilities which can contribute to development outcomes. In particular, defence education and training can contribute to the development of effective, accountable and inclusive institutions, recognised in the UN Sustainable Development Goals as being at the core of sustainable development.

---

<sup>2</sup> ODA is reported on the basis of Calendar Years rather than the UK Financial Year, and is reported on a cash rather than an accruals basis. This is a provisional figure as official Statistics on International Development for 2017 have not yet been published



# Promote Our Prosperity:

## National Strategic Objective 3

### What we are trying to achieve:

Promote UK prosperity and civil society.

### Key achievements in 2017-18:

- A refreshed Defence Industrial Policy was published in December 2017.
- National Shipbuilding Strategy published in September 2017.
- A new MOD Supplier Portal and a Twitter Channel were launched specifically targeting smaller and non-traditional suppliers
- Defence Innovation Panel and Innovation Advisory Panel have been established
- Defence and Security Accelerator have funded over 700 proposals and distributed over £13M
- Delivery of 150,000th Apprenticeship since records began
- Over 400 cadet units now parading
- We have enrolled 37,466 Civil Service and Armed Forces apprentices between April 2015 and January 2018

## Overview

Our economic and national security go hand-in-hand. Our strong economy provides the foundation to invest in our security and global influence, which in turn provides more opportunities at home and overseas for us to increase our prosperity. A growing global economy helps to reduce poverty and build security for all. To promote our prosperity we need to seize opportunities, harness innovation to strengthen our national security, and work with industry to ensure we have the capabilities and equipment that we need. During the last year we have published our Defence Industrial Policy and the National Shipbuilding Strategy, which closely aligns with the Government's UK Industrial Strategy and have made good progress in a number of specific areas.

## Defence Industrial Policy

In December 2017, we published "Industry for Defence and a Prosperous Britain: Refreshing Defence Industrial Policy". Building on the National Security through Technology White Paper (2012) and the SDSR (2015), the Policy focuses on our overall engagement with defence industry, and how this is best structured to serve our national security objectives.



Since 2015, we have worked with business of all sizes to understand how we can support growth and competitiveness in the sector, as well as our wider national security objectives. The refreshed Defence Industrial Policy sets out the results of this work. It identifies what has been achieved so far, as well as the areas where further work is needed.

As a customer of the defence industry, the Government has a responsibility to obtain the right capability for our Armed Forces and to ensure value for money for the taxpayer in the goods and services that we buy. Alongside this, we also want to create an environment that encourages a thriving and globally competitive UK defence sector as an important part of our wider industrial base.

In refreshing our policy, our goal has been to strengthen these two objectives and encourage a mutually reinforcing approach to delivering them. There are three strands to our policy approach:

- Improving the way defence delivers wider economic and international value, and national security objectives.
- Helping UK industry in its plans to be internationally competitive, innovative and secure.
- Making it easier to do business with defence, particularly for innovators, small and medium-sized enterprises (SMEs) and non-traditional defence suppliers.

We are committed to delivering value for money for defence and a fair return to industry by implementing the single source contracting regulations in new and modified non-competitive contracts, as set out in the Defence Reform Act (2014).

We are implementing the concept of 'International by Design' to ensure a coherent strategic approach to our international capability choices, maximising the value for the UK and our partners. In line with this we will strengthen industrial collaboration with our key Allies and partners, including in the context of NATO, the US National Technology and Industrial Base and the European Technology and Industrial Base, with which UK industry and research will remain closely linked.

To deliver this refreshed approach we will need to continue our close partnership with industry in the UK and we will strengthen our strategic dialogue, to generate value and strengthen our security without prejudicing our commitment to open competition.

The National Shipbuilding Strategy, published in September 2017, sets out our approach for transforming the UK's ship building industry and driving prosperity through export-led growth, competition and a focus on national and regional productivity and key skills. It is an important pathfinder to develop and implement a new framework to ensure the impact on UK prosperity will be considered as part of our procurement decisions.

This work is part of a whole of government approach, spearheaded by the Industrial strategy, to set the UK on a path to improved productivity and putting the UK at the forefront of the industries of the future. The Government's ambitious, modern Industrial Strategy sets out a long-term plan to deliver this and through doing so, increase the earning power of people throughout the UK. The focus on increasing productivity, driving investment in skills and R&D, supporting innovation and building UK's competitive advantage, is closely aligned with our refreshed Industrial Policy and we continue to work closely with colleagues across Government and Industry to grow Defence's contribution to the economy.

## Supporting Small and Medium Enterprises

The MOD has committed in its Single Departmental Plan to take action to make it easier for Small and Medium-size Enterprises and non-traditional suppliers to bid for defence and security contracts. There is currently a challenging target that 25% of MOD's procurement spend should go directly and indirectly to SMEs by 2022.

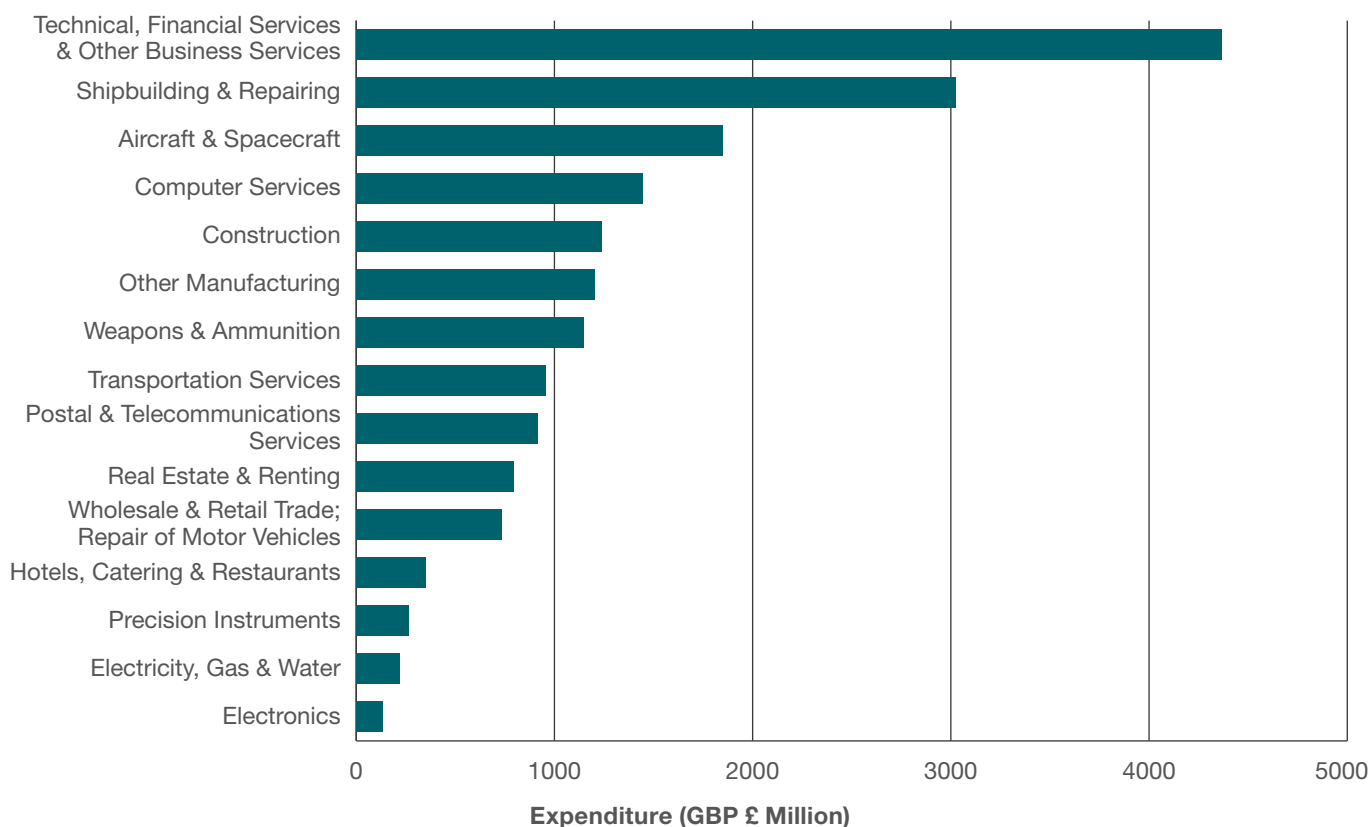
In support of this target MOD is implementing the new SME measures that Government announced in April 2018. These include a request for major suppliers to report on sub-contract spend with SMEs, and a new requirement that for major contracts sub-contract opportunities will be advertised on official platforms, including Defence Contracts Online and Contracts Finder.

The MOD Chief Commercial Officer is the department's SME Champion, and is leading work to support SMEs through a detailed Action Plan. The plan addresses key themes including improving engagement with MOD procurement teams, encouraging support from MOD's largest suppliers, ensuring our commercial policies, practices and training support the agenda and simplifying access to and improving the visibility of MOD procurement opportunities.

In September 2017, we launched a new MOD Supplier Portal hosted on the Defence Contracts Online portal, which brings together supplier-focused information in one place. To complement this portal we have also launched a new Twitter channel, @defenceproc, specifically targeting smaller and non-traditional suppliers who will not be familiar with the MOD organisation or our terminology.

Underpinning all of these activities is the long-standing MOD outreach service, known as 'Doing Business with Defence' which provides direct advice and guidance to new suppliers and plays a key role in the department's efforts to improve access to contracting opportunities and support for smaller businesses.

**MOD Expenditure with UK Industry, by Industry Group: 2016–17**



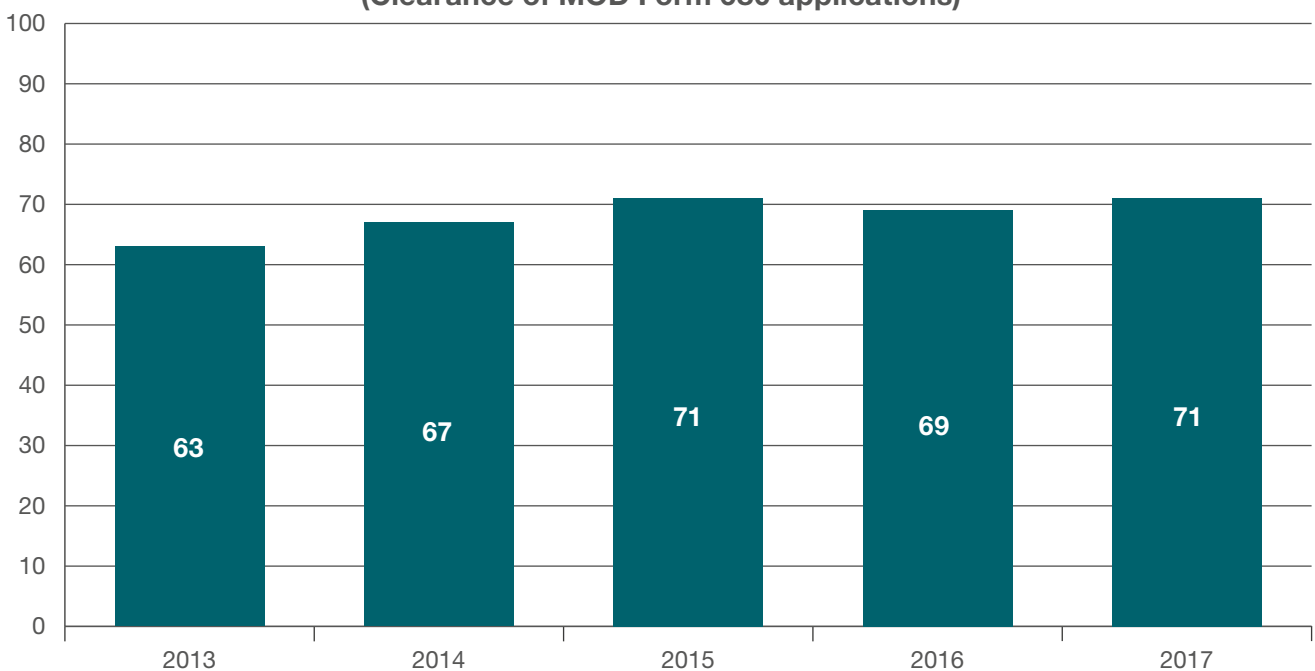
# Defence Exports

The MOD leads on supporting strategic defence export campaigns. This year we have been leading strategic export campaigns for Typhoon, Complex Weapons and the F35 Maintenance, Repair, Overhaul and Upgrade programme. In December 2017, we signed a contract with Qatar for 24 Typhoon aircraft and in March 2018, a Letter of Intent was signed to finalise discussions on the supply of a further 48 Typhoon aircraft to the Royal Saudi Air Force. Additionally, we are supporting the Department for International Trade on export campaigns for the new Type 26 and the Type 31 programme is progressing, with exportability a fundamental consideration from the outset.

The Department for International Trade Defence & Security Organisation (DSO) has overall Government responsibility for defence export promotion. DSO works closely with MOD's Exports Policy team to support industry-led export campaigns, leveraging the MOD's position as the primary user of UK derived capabilities. Through the MOD/DSO Service Level Agreement, MOD provides support to campaigns including direct customer engagement by Ministers and senior officers/officials; supporting the development of bid proposals; provision of expert military advice and/or assets for demonstrations; support to equipment evaluation; and the provision of training and/or other key enablers.

The contribution to Her Majesty's Government's prosperity agenda, through the support of responsible Defence exports, remains a priority and is consistent with our obligations under Treaties, Regimes and the Consolidated EU and National Arms Export Licensing Criteria regime. Through its team in the Export Control Joint Unit (ECJU) based in the Department of International Trade, the MOD acts as the authority that enables the UK Government to ensure the controlled release of classified equipment and information by UK companies to overseas nationals without comprising the UK's national security (MOD Form 680). This supports defence exports by assessing the proposed release by companies to foreign entities of equipment or information with a classification of OFFICIAL SENSITIVE or above. The target is to clear 60% of MOD Form 680 applications within 30 working days, which was again exceeded this year. In 2017 the MOD processed 71% of applications within this timescale.

**Assessment of applications for proposed release of equipment or information to foreign entities (Clearance of MOD Form 680 applications)**



## Science & Technology

Science and Technology (S&T) is critical to the Defence and Security of the United Kingdom. It helps the Armed Forces maintain freedom of action and operational advantage, contributes to UK prosperity and growth, is an essential pillar of relationships with key Allies, and enables us to respond quickly to national security emergencies, home and abroad.

Our world-class S&T capabilities were demonstrated recently through the Chemical, Biological and Radiological (CBR) and forensic explosives support that Defence provided following the terrorist incidents at Manchester Arena and Parson's Green Tube Station and, crucially, in expert support that we provided in response to the chemical weapons attack in Salisbury in March.

The Defence S&T enterprise was restructured last year in line with the Science Capability Review 2015. In 2017, we have built on this foundation, including through:

- The Defence S&T Strategy, setting out a new vision to mainstream S&T at the heart of Defence decision-making and culture – enhancing our strategic understanding and helping identify novel solutions to current and future challenges;
- Appointing Gary Aitkenhead as the new Chief Executive of the Defence Science and Technology Laboratory (Dstl);
- Refocusing the Core Research Programme to prioritise high-risk yet high-reward research and achieve a better balance between MOD's long and short-term needs;
- Introducing more effective peer review and independent capability assurance through a restructured Defence S&T Expert Committee, chaired by Prof Hugh Griffiths (UCL); and
- S&T's contribution to the Modernising Defence Programme, exploring opportunities to exploit game-changing technologies and new ways of working to modernise military capabilities, counter emerging threats and deliver strategic affordability and prosperity gains.

## Innovation

In September 2016, the Ministry of Defence launched the 'Defence Innovation Initiative', setting out how we would catalyse cultural change in the Department and develop solutions to key defence challenges through systematic approaches that encompass our people, organisation and processes.

In support of this, the Defence Innovation Unit (DIU) has been established to co-ordinate, cohere and communicate innovation activities across Defence, share best practice and exploit opportunities across Government and internationally. Additionally, the four Commands have established innovation hubs to drive innovation change in their own organisations.

This year the MOD has stepped up its engagement with partners across Government and with Industry to further enhance joint working. Building on the previously established Innovation Research and InSight (IRIS) unit, the Defence and Security Accelerator (DASA) and the Defence Innovation Fund, two panels have been initiated to help the Department further shape its approaches to innovation:

- A Defence Internal Innovation Panel, bringing together military, scientific and policy leaders in the MOD to guide the allocation of the Defence Innovation Fund.
- An Innovation External Advisory Panel to advise, scrutinise and challenge the MOD, identifying opportunities to improve innovative practices and thinking to develop a more innovative culture.



IRIS – a team which provides advice on the opportunities and threats of new science and technology – has assessed the Defence implications of machine learning, autonomy, and quantum computing and helped shape Defence’s response to these emerging technologies.

DASA exists to help UK military and security users access innovative ideas, equipment and services more quickly, working closely with the MOD, the Home Office, the Department for Transport and security services. Since April 2017, DASA have funded over 700 proposals and distributed over £13M of funding.

The DIU manages the Defence Innovation Fund (approximately £800M over 10 years), to get innovative solutions into initial operational use within three years. The DIU fund an Incentive Scheme for internal innovation projects, open to MOD business units. Competitions are also run through DASA to harness the entrepreneurship and ingenuity of the private sector. The external Themed Challenge ‘Revolutionise the human information interface relationship for Defence’ moved into its second phase of funding and the Defence People Challenge was launched.

Together, these developing organisations and work streams have already seen successes that will benefit our Armed Forces, for example in the application of Machine Learning to predictive maintenance and threat analysis, and in the development of mini autonomous systems.



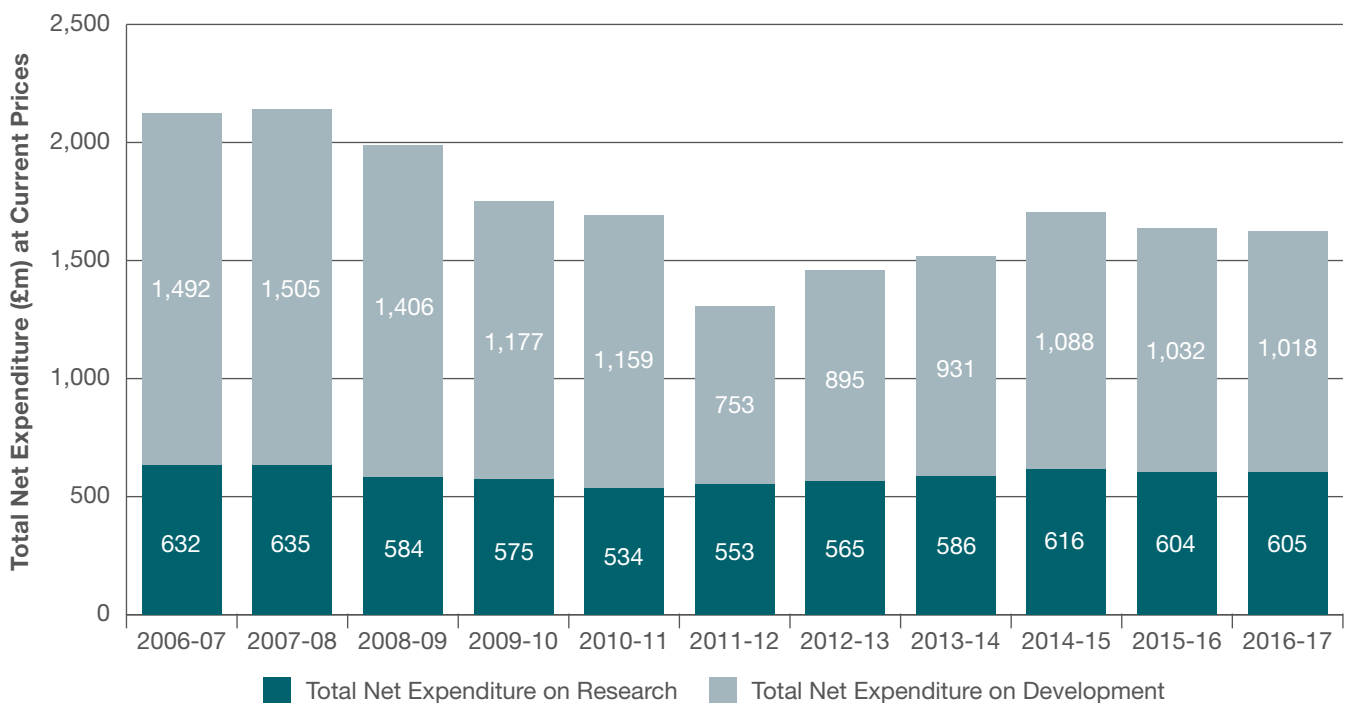
**In our drive to improve innovation we have...**

Provided **£800M** funding through the Defence Innovation Fund for the next 10 years

DASA has received **700** proposals

... and distributed over **£13M** funding

**MOD Research & Development Expenditure 2006-2017**



Note: 2017-18 figures are not available until completion of a survey run by Defence Statistics for the Office for National Statistics to identify R&D expenditure in the Annual Report and Accounts that meets the Frascati international definition of R&D.

## Land Release

The Ministry of Housing, Communities and Local Government (MHCLG) has acknowledged that the overall Government housing target to build 160,000 homes on surplus public sector land is challenging. The MHCLG has pressed the MOD with respect to its current housing unit projections under the Public Sector Land Release programme along with those from Other Government Departments.

In November 2016, the MOD announced the potential disposal of 91 sites by 2032 of which some 25 sites were to be disposed of before 2020, and would contribute towards the 2020 land release target.

To date, land to provide capacity for 2,284<sup>3</sup> houses has been scored against the target (including 1,765 Service family homes and Single Living Accommodation) and land for up to a further 3,500 units has been transferred to Homes England.

## Government Estate Strategy

The Defence Infrastructure Organisation is driving forward the MOD's contributions to the Government Estate Strategy. The key contributions are:

**National Government Hub Programme** – The MOD are participating in the National Government Hubs Programme whereby departments will move in to hubs where prudent to do so (taking into account value for money and Civilian workforce relocation considerations). For example, the Defence Infrastructure Organisation headquarters in Sutton Coldfield is planned for disposal by 2020 and negotiations have been held regarding relocation to the Birmingham national hub.

**Office Benchmark target** – There is an office benchmark target of 8 Sqm per Full Time Equivalent (FTE) individual by 2018. The MOD continues to engage with the Office for Government Property (OGP) and in January 2018 reported a reduction from 11.6 Sqm/FTE in FY15-16 to less than 10.2 in FY16-17. However, we recognise there is more work to do to align ourselves with the performance of Other Government Departments. Further reductions will be reported in the coming quarters as an area for new Government colleagues is currently being prepared in MOD Main Building. Including the areas occupied by DExEU; this will mean that near 15% of MOD Main Building in London will be occupied by Other Government Departments. The quality of data and the consistency of data provision on office benchmarking across the estate in many cases is poor. Some costs have historically been under reported or not reported at all, so while costs across some sites have decreased, new costs that have not been previously provided have now been accounted for and MOD is working to resolve this through more thorough and consistent reporting. The MOD is working in partnership with the Government on their One Public Estate Programme and has identified that key disposals will support this.

---

<sup>3</sup> This figure is based on the amount of land that has been scored for release (meaning they have reasonable planning certainty and a contract with the Private Sector for their sale is in place by 2020). Sites are scored in a number of ways including transfers to the Homes England, building of single living or service families accommodation, homes that MOD have previously been leasing from Annington Homes which are now released or sub-let. For sales that are released for development, professional judgement is used to assess how many homes are likely to be built on these sites, based on a number of factors (e.g. location, size of site, types of homes likely to be built) and validated by Homes England.

## MOD Apprentices

The MOD is committed to enrolling 50,000 Apprentices (Civil Service and Armed Forces personnel) by 2020. We have enrolled 37,466<sup>4</sup> Civil Service and Armed Forces apprentices between April 2015 and January 2018, so are on track to exceed this target. The MOD is an active member of the Apprenticeship Ambassador Network and National 5% Club, hosting the latter in 2016 and taking the opportunity to celebrate delivery of the 150,000th<sup>5</sup> Defence apprenticeship since accurate records began. Fully supportive of Government Apprenticeship Reform, all three Services remain actively involved in Trailblazer groups which are developing the new Apprenticeship Standards.

Since 2002, the Naval Service has trained over 48,000 apprentices. At any one time the Naval Service has over 10% of its personnel enrolled on one of 19 Apprenticeships, affirming its membership of the 5% Club. All new recruits regardless of Branch or Specialisation are offered a Level 2 Intermediate Apprenticeship with subsequent progression opportunities including advanced, higher and degree apprenticeships; opportunities which will continually develop over the next 2 years as part of the Naval Service learning and development agenda. The Naval Service Apprenticeship Programme offers apprenticeships in engineering, aviation, telecommunications, catering, logistics, healthcare, business, management and sports. The Naval Service recognises the essential role Apprenticeships play in addressing the critical skills shortage across all industries, particularly within the Science, Technology, Engineering and Mathematics (STEM) discipline and has a 91% success rate in the related STEM apprenticeships.



RAF Vehicle and Mechanical Apprentice Technician responsible for the scheduled maintenance, fault diagnostic and rectification of a varied range of specialist airfield support vehicles

- 4 The figures include all apprenticeship places taken up that meet the Skills Funding Agency definition for an apprenticeship. While these numbers have been quality assured, they have not undergone the full quality assurance process that would be used for official statistics.
- 5 The figures include all completed apprenticeships that meet the Skills Funding Agency definition for an apprenticeship. While these numbers have been quality assured, they have not undergone the full quality assurance process that would be used for official statistics.

Since the implementation of the unified single Army apprenticeship contract in 2004, the Army has increased participation year on year. 98% of new soldiers are now enrolled onto a trade-related apprenticeship during their training. The Army programme is the largest employer-provider programme in the country with around 15,500 apprentices undergoing training in one of 43 apprenticeships appropriate to their trade. The programmes on offer include engineering, telecommunications, catering, logistics, healthcare and animal care. The Army has introduced Level 4 Apprenticeships in Intelligence Analysis for the Intelligence Corps, IT and Telecommunications for the Royal Artillery and Network Engineering for the Royal Signals. In addition, the Army enrolled its first cohort of 30 SNCOs and WOs on a Chartered Manager Degree Apprenticeship in January 2018.

The RAF has actively engaged in developing Apprenticeship Standards within Trailblazer Reform, currently sitting on 17 Standards Working Groups, ensuring appropriate accreditation for training, providing a transferability route to and from industry. RAF Reservists may be placed on an Apprenticeship where possible when mobilised for long periods. Wherever possible, the RAF seeks to upgrade the apprenticeship offered to a trade and this year saw the Firefighters convert to a Level 3 standard recognised for entry into all English Fire Services. The RAF has completed 28,400 apprentices since 2002.

The MOD is also heavily involved in Apprenticeship delivery to the Civil Service, with over 30 schemes available and is one of the major deliverers of such Apprenticeships across Government Departments. Nearly 400 civilian apprentices have been recruited externally, to a range of schemes including Engineering and Science Apprenticeships and fast-track Civil Service schemes providing opportunities for all those aged over 16 from a diverse range of backgrounds. We anticipate that over 300 internal staff will be enrolled by the end of this reporting year.



## Cadets

The Ministry of Defence now sponsors and supports five different cadet forces (voluntary youth organisations): the Sea Cadet Corps, the Army Cadet Force, the Air Training Corps and the Volunteer Cadet Corps based in the community, and the Combined Cadet Force based in schools. In total, there are just over 126,000 cadets in the UK. The cadet forces offer challenging and enjoyable activities for young people, providing them with opportunities to develop valuable life skills such as self-discipline, resilience and leadership which can improve employability and social mobility. The Government has committed £50M of LIBOR funding to increase the number of cadet units in schools across the UK to 500 by 2020 through the Cadet Expansion Programme. The programme, which now focuses on state schools in less affluent areas and where the MOD wants to raise awareness of the Armed Forces, is on track to meet this target with over 400<sup>6</sup> units already parading and interest from schools remaining high.

The Ministry of Defence is also implementing its Cadet Force 2020 Strategy which will ensure that the cadet experience continues to stimulate, challenge and inspire young people whilst delivering coherence, innovation and value for money across Defence. The critical success factor for cadet forces is the continuing commitment of sufficient, high-quality adult volunteers to instruct the cadets. Therefore, a key priority for the Strategy is to ensure that the contribution of adult volunteers as national youth organisation leaders is appropriately recognised and valued.



Army Cadets taking part in a practical activity at their STEM (Science, Technology, Engineering and Mathematics) Camp



### To provide challenging opportunities for young people...

We have committed **£50M** funding to increase the number of Cadet units

Meaning, in total, there are just over **126,000 cadets** in the UK

So far over **400 units** are already parading

<sup>6</sup> This figure includes all parading cadet units in schools across the UK. Each school is counted once: if there are multiple sections in one school this is counted as one unit. If units are temporarily closed at the date of counting then a judgement will be made as to whether or not they are counted as parading units at that time. While these numbers have been quality assured, they have not undergone the full quality assurance process that would be used for official statistics.”



# Manage the Department of State and the Defence Enterprise:

## Strategic Objective 4

### What we are trying to achieve:

Direct Defence and Deliver Key Enabling Functions.

### Key achievements in 2017-18:

- Armed Forces Flexible Working Act gained Royal Assent in February 2018
- The Veterans gateway was launched following a £2M grant from the Covenant Grant Fund
- 2,000th signatory to the Armed Forces Covenant
- The Defence Mental Health and Wellbeing Strategy was launched in July 2017
- 15 F35B aircrafts delivered to date
- £15.3Bn spent on Defence Equipment and Support in 2017-18

## People

We will invest in our people, the men and women of our Regular and Reserve Armed Forces, ensuring that we provide full support to them and deliver policies that promote a modern, inclusive, diverse and highly skilled workforce. We will also be focusing on Service personnel's families, developing a modern and efficient civil servant workforce and honouring our commitment to veterans through the Armed Forces Covenant. The quality, dedication and experience of our people remains one of Defence's strongest assets. Under the Chief of Defence People, Defence is undertaking to recruit, develop and retain the right mix of sufficient, capable and motivated military and civilian people.

Good workforce planning is a priority for Defence and comprises a range of considerations including recruitment, skills and qualifications, training and development, diversity and succession planning. The Defence People Organisation brings together delivery of MOD Civilian and Service personnel policy to achieve the Whole Force Concept first recommended by Lord Levene in the June 2011 Defence Reform Report. The Whole Force encompasses all personnel required to deliver Defence outputs, including non-operational roles, Regular and Reserve Service personnel, Civil Servants and other civilians (including contractors and Sponsored Reserves).

The Service Chiefs retain Full Command of their people and together with the other TLB Holders are responsible for planning their workforce and managing their people on a day-to-day basis within the framework set by Chief of Defence People. There is a focus on addressing critical skills shortages, notably for science, technology, engineering, maths and entrepreneurial (STEM). The Armed Forces also use 'Operational Pinch Points' to determine key risk areas, and target appropriate mitigation measures.

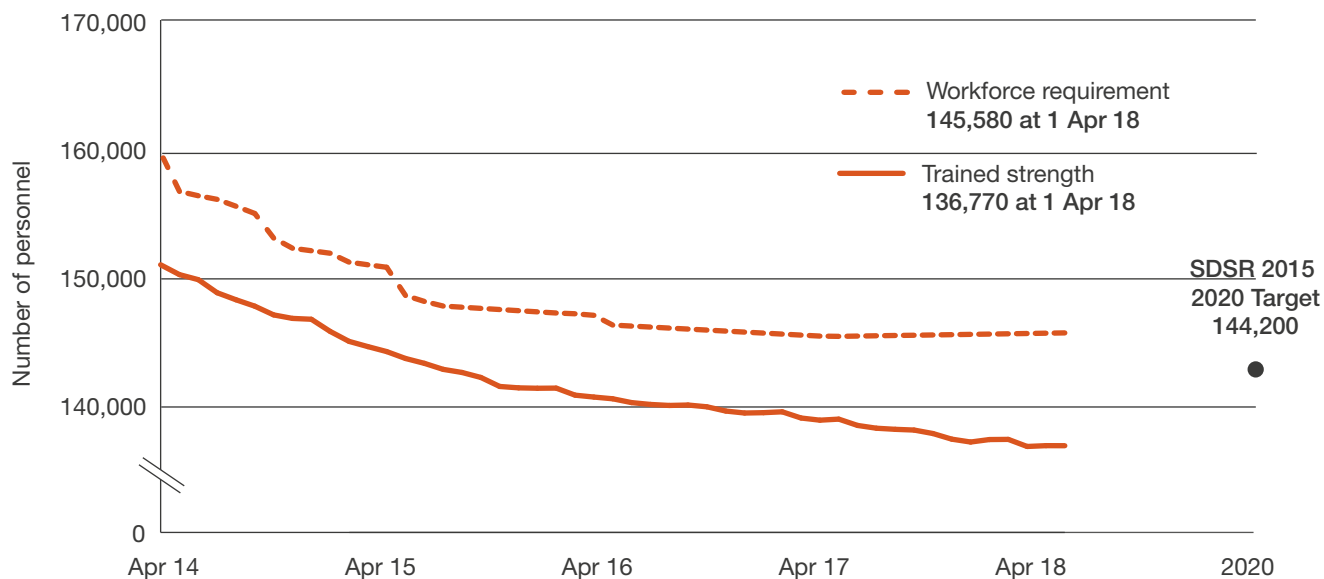
## Workforce size, shape and dynamics

<b>Military Full Time Trained (RN/RM and RAF) and Trade Trained (Army) Strength and Civilians</b>	<b>01 April 2018</b>	<b>2020 Target</b>
Royal Navy / Royal Marines	29,300	30,450
Army	77,120	82,000
RAF	30,350	31,750
Total Full Time Full Time Trained (RN/RM and RAF) and Trade Trained (Army) strength	136,770	144,200
Civilian	56,870	41,000
<b>Total Personnel</b>	<b>193,640</b>	<b>185,200</b>

<b>Future Reserves 2020 Trained Strength</b>	<b>01 April 2018</b>	<b>2020 Target</b>
Maritime Reserve	2,760	3,100
Army Reserve	26,960	30,100
RAF Reserves	2,510	1,860
<b>Total Reserves</b>	<b>32,220</b>	<b>35,060</b>

## Military Full-Time Trained Strength against Workforce Requirement



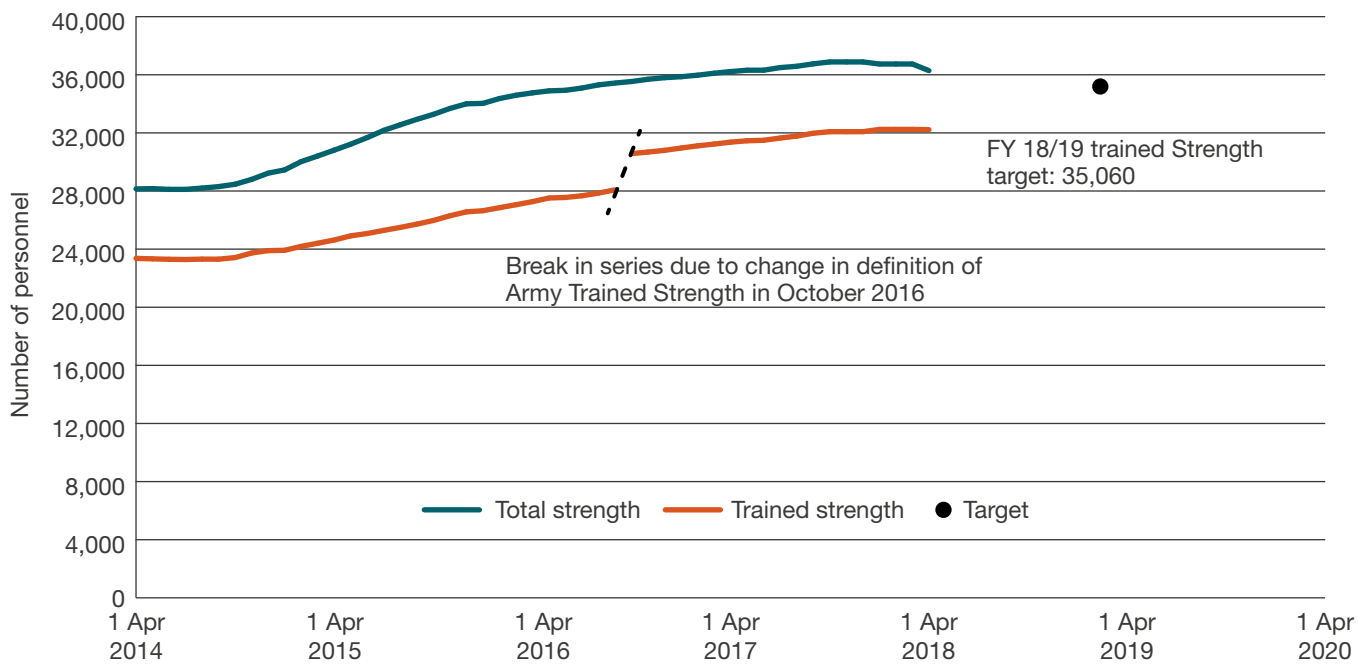
### Notes

1. Full-Time Trained/Trade Trained Strength is the element of the UK Armed Forces comprising trained UK Regular Forces, trained Gurkhas and a number of Reserve Forces personnel filling Regular posts whilst serving on FTRS. It does not include mobilised reservists.
2. Trained Strength comprises military personnel who have completed Phase 1 and 2 training for Royal Navy/Royal Marines, the Army (prior to 1 October 2016) and the Royal Air Force. Following the change in definition of trained strength for Army, from 1 October 2016, trained strength for the Army comprises of personnel who have completed Phase 1 training

There was a 1.5% decrease in the overall size of the Full Time Trained strength of the Armed Forces in the year to April 2018. This largely reflects shortfalls in recruitment in a challenging market with a strong national employment picture (particularly amongst young people), increased competition for skills and a reduction in the size of our traditional recruiting pool (16-24 year old white males). The Armed Forces have active and targeted recruitment campaigns in those communities where Armed Forces recruitment has been traditionally low and the proportion of BAME recruitment increased by 1.2 percentage points compared to last year.



## Strengths for Tri Service Future Reserves 2020 as at 1 April 2018

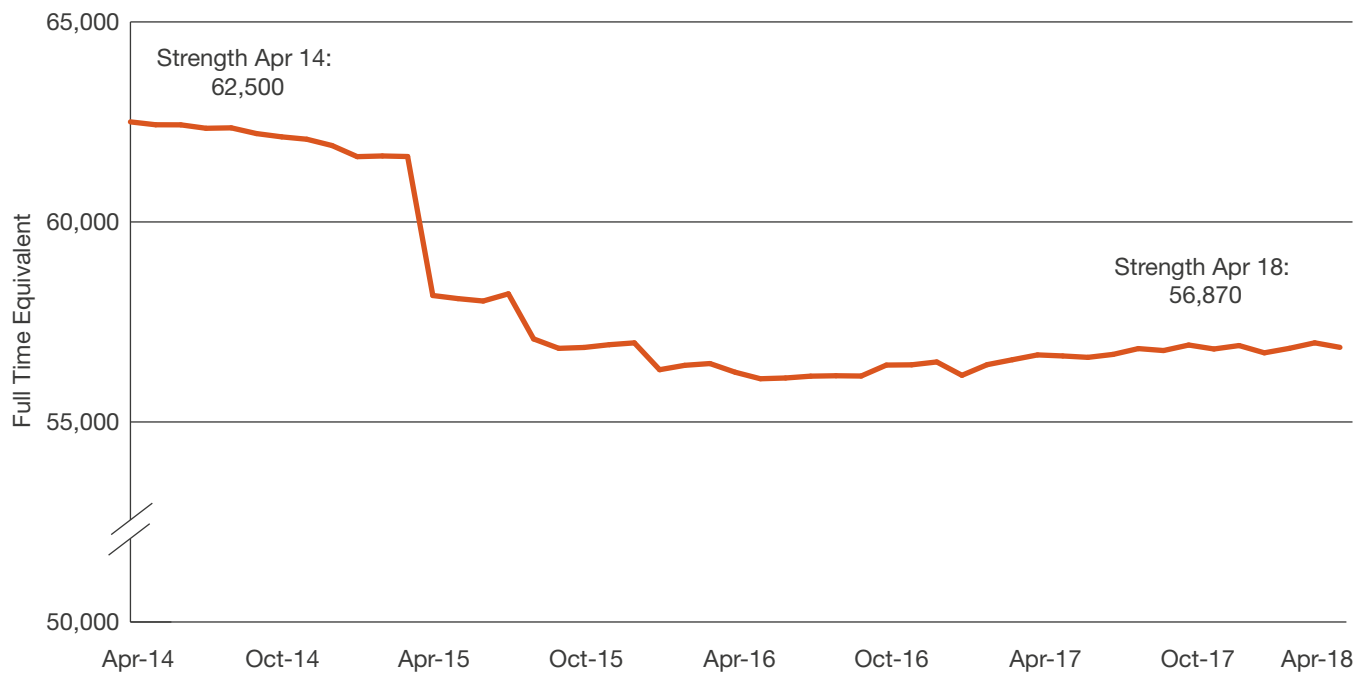


### Notes

- Future Reserves 2020 Total Strength includes volunteer reserves who are mobilised, HRR and volunteer reserve personnel serving on ADC or FTRS contracts. Sponsored Reserves who provide a more cost effective solution than volunteer reserve are also included in the Army Reserve FR20. Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI) and University Officer Cadets and Regular Reservists are excluded.
- Future Reserves 2020 Trained Strength comprises only those military personnel who have completed Phase 1 and 2 training for the Maritime Reserve, the Army Reserve (prior to 1 October 2016) and the Royal Air Force Reserves. Following the change in definition of trained strength from 1 October 2016, trained strength for the Army Reserve comprises of personnel who have completed Phase 1 training.

The Trained Future Reserves increased by 2.7% during the last year. The Reserve Forces are being expanded as part of the Future Reserves 2020 programme, which is a £1.8Bn 10 year programme designed to revitalise all aspects of the Reserve Forces. To ensure the growth profile continues the single Services are examining ways to further improve recruitment processes.

## Ministry of Defence departmental Civilian personnel strength (Full Time Equivalent)



MOD Civilian numbers have been largely stable during the last year (an increase of 0.3% in the last year). The shape and size of future Civilian workforce is being considered as part of the Modernising Defence Programme which is looking to drive forward greater efficiency. This includes maximising the use of digital technology to enable people to operate more effectively and developing “Whole Force by Design” to ensure the most appropriate organisational construct. This includes the potential to replace some military roles with civilians where appropriate to achieve greater value for money.

## Defence Diversity and Inclusion Strategy

Over recent years, Defence has increasingly challenged itself to become a more diverse and inclusive organisation. The need to act is based on the business benefits this will bring, rather than just the moral or legal case, although these are also compelling.

We recognise the Defence workforce is not representative of the demographics within UK society. In order to address this the Defence Diversity and Inclusion Programme (DDIP) was established to increase the diversity of the military and civilian workforce, and to create a more inclusive working environment in which everyone is able to reach their full potential. The Armed Forces are working towards a recruitment target of 10% of recruits to come from Black, Asian and Minority Ethnic (BAME) backgrounds by 2020 and 15% of recruits to be female by 2020. These are challenging targets but reflect the importance Defence places on having Armed Forces that better reflect the society they serve.

We are proud of what we have achieved so far on diversity and inclusion in Defence, but we want to ensure that we will deliver substantial improvements in the years ahead. We are therefore in the process of reviewing our D&I strategy, to ensure it is continuing to have the desired impact on the organisation, building on the good work already undertaken and providing coherence with the Civil Service Diversity and Inclusion Strategy<sup>7</sup> (published in October 2017). We plan to publish an updated Strategy in late summer 2018.

<sup>7</sup> <https://www.gov.uk/government/publications/a-brilliant-civil-service-becoming-the-uks-most-inclusive-employer>

## Percentage of UK Regulars and Reserves/MOD Civilians who are BAME at April

	2014	2015	2016	2017	2018
<b>Regulars</b>					
RN/RM	3.5	3.5	3.5	3.5	3.8
Army	10.3	10.2	10.2	10.6	11.1
RAF	2.1	2.1	2.2	2.2	2.3
<b>Reserves</b>					
Maritime Reserve	3.1	2.8	3.0	2.9	3.1
Army Reserve	5.2	5.3	5.6	5.8	5.8
RAF Reserves	3.8	3.9	3.9	4.5	4.7
<b>Civilian</b>	3.9	4.1	4.2	4.4	4.7

- 1) The figures in these tables are regarding UK Regular Forces which comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists.
- 2) Future Reserves 2020 includes volunteer reserves who are mobilised, HRR and volunteer reserve personnel serving on ADC or FTRS contracts. Sponsored Reserves who provide a more cost effective solution than volunteer reserve are also included in the Army Reserve FR20. Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI) and University Officer Cadets and Regular Reservists are excluded.
- 3) Civilian figures include all core MOD and Industrial personnel, but exclude all Trading Funds personnel, Royal Fleet Auxiliary and Locally engaged civilians.
- 4) Ethnicity is self-declared. Non-declarations have been excluded from figures.
- 5) BAME – Black, Asian and Minority Ethnic.

## BAME intake to the UK Regulars and Reserves

12 Months Ending:	2016 31 Mar	2016 30 Sep	2017 31 Mar	2017 30 Sep	2018 31 Mar	Target
<b>All Services</b>	<b>5.7%</b>	<b>5.8%</b>	<b>7.2%</b>	<b>9.2%</b>	<b>8.4%</b>	<b>10%</b>
RN/RM	3.0%	2.9%	3.0%	4.0%	6.0%	
Army	6.7%	6.9%	9.0%	11.8%	10.2%	
RAF	4.0%	4.0%	4.1%	4.2%	4.4%	

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

## Percentage of UK Regulars and Reserves/MOD Civilians who are Female at April

	2014	2015	2016	2017	2018
<b>Regulars</b>					
RN/RM	9.1	9.3	9.3	9.3	9.4
Army	8.7	9.0	9.0	9.1	9.3
RAF	13.8	13.9	14.0	14.0	14.1
<b>Reserves</b>					
Maritime Reserve	15.5	15.9	14.9	15.0	14.5
Army Reserve	13.1	13.1	12.9	13.2	13.6
RAF Reserves	16.3	17.9	19.6	20.6	20.8
<b>Civilian</b>	37.7	38.1	40.6	41.6	42.4

- 1) The figures in these tables are regarding UK Regular Forces which comprises trained and untrained personnel and excludes Gurkhas, Full Time Reserve Service personnel and mobilised reservists.
- 2) Future Reserves 2020 includes volunteer reserves who are mobilised, HRR and volunteer reserve personnel serving on ADC or FTRS contracts. Sponsored Reserves who provide a more cost effective solution than volunteer reserve are also included in the Army Reserve FR20. Non Regular Permanent Staff (NRPS), Expeditionary Forces Institute (EFI) and University Officer Cadets and Regular Reservists are excluded.
- 3) Civilian figures include all core MOD and Industrial personnel, but exclude all Trading Funds personnel, Royal Fleet Auxiliary and Locally engaged civilians. Figures up to Apr 15 include DE&S. From July 2015 onwards DE&S is classified separately as a Bespoke Trading Entity and is not included in the figures. The inclusion of DE&S in figures up to Apr 15 and its exclusion from the figures after this point explains the increased percentage of Civilian Female representation between Apr 15 and Oct 15.

## Female intake to the UK Regulars and Reserves

12 Months Ending:	2016 31 Mar	2016 30 Sep	2017 31 Mar	2017 30 Sep	2018 31 Mar	Target
<b>All Services</b>	<b>11.2%</b>	<b>11.4%</b>	<b>11.4%</b>	<b>12.2%</b>	<b>12.2%</b>	<b>15%</b>
RN/RM	11.1%	10.8%	11.3%	10.4%	9.8%	
Army	10.1%	10.5%	10.1%	11.4%	11.8%	
RAF	17.3%	16.8%	17.5%	18.4%	17.1%	

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

Further information on workforce size, shape and dynamics can be found at:

- Service Personnel Statistics (Regulars and Reserves):  
<https://www.gov.uk/government/statistics/quarterly-service-personnel-statistics-2018>
- Service Personnel Diversity Statistics:  
<https://www.gov.uk/government/statistics/uk-armed-forcesbiannual-diversity-statistics-2018>
- Civilian Personnel Report:  
<https://www.gov.uk/government/statistics/mod-biannual-civilian-personnelreport-2018>
- Civilian Diversity Dashboard:  
<https://www.gov.uk/government/statistics/mod-diversity-dashboard-2018>



# People Strategy

A range of major People Change Programmes are underway which will ensure we are well positioned for future strategic challenges. Updates against some of these programmes are included below.

## Armed Forces People Programme

Under the Armed Forces People Programme we are continuing to modernise the terms and conditions for our Service Personnel through four projects.

- **Flexible Engagement System (FES):** Service Personnel who have dedicated themselves to public duty can find it difficult to meet their full military commitment sometimes and this can lead them to feel that their only option is to leave the Armed Forces. Not only is this disruptive to them and their families, it also means we lose valuable knowledge, skills and experience. To address this challenge we are developing additional flexible working options – known as Flexible Service – to enable Service Personnel to request to work part-time or to restrict their separation from their home base.

This Flexible Service will be limited to maximum periods of time to ensure the majority of an individual's service is full commitment and requests will only be approved in the Service interest, thus preserving operational capability. Work is ongoing to provide additional opportunities for Reserves to serve in different roles to provide the optimal force mix to support Flexible Service.

Flexible Service has been underpinned by the Armed Forces (Flexible Working) Act, which gained Royal Assent in February 2018. We are now on the path to full implementation by April 2019.

- **Future Accommodation Model (FAM):** Affordable, good quality accommodation is a key part of our employment offer to Service Personnel. FAM will enable Service Personnel to have increased choice over where they live with a future model making use of the Private Rental Sector, alongside existing options of Single Living Accommodation (SLA) and Service Families Accommodation (SFA), while still fulfilling the needs of the Services and remaining affordable. Entitlement will be based on need rather than service, rank, age or marital status.

Through FAM, the MOD will offer a standard accommodation payment which means that Service Personnel can choose to rent or buy a property and FAM will provide financial support for Service Personnel choosing to purchase a home and to support those who wish to keep their families stable in a location of their choosing.

Options for the model are being developed through ongoing consultation and engagement with the single Services, JFC, Service Personnel and their families. A pilot is planned to begin from late 2018. The pilot will last three years and then be reviewed, and if approved, we expect wider roll out across the UK through the 2020s and 2030s.

- **New Joiner Offer (NJO):** The NJO project was an SDSR15 commitment to develop a new Armed Forces offer for new joiners to better meet the expectations of future recruits and target resources at the people the Armed Forces need most. The aim of the project was to improve recruitment and retention, particularly of key skills, and improve agility to respond to future skill shortages by developing the most efficient way to target reward at Service Personnel.

Following a review of the project's extensive analysis and policy work the decision was made in May 2018 to close this project and develop the opportunities it had identified through two new projects. These will focus on reform of the Early Departure Payment and delivering continued improvements

to the pay structure for all Service personnel through the next Quinquennial Review of Pay 16 due in 2021.

- **Enterprise Approach (EA):** By drawing on existing relationships as well as establishing new ones, the MOD is taking an Enterprise Approach and collaborating with Industry on the critical skills challenge. The aim is to find ways to access skilled people within the Defence sector and allow them to move across organisational boundaries throughout their careers, enabling the sharing of skills where and when they are needed.

From April 2016 to Autumn 2017 the MOD collaborated with the maritime key industry partners to develop an outline operating model based on a nuclear submarine enterprise case study. Such is the quality of the model it has been transferred to the Defence Nuclear Organisation to mature it further and explore what interventions for an enterprise solution can be trialled during 2019.

The next stage for the core team is to scale the outline operating model with new partnering organisations and see how it can be applied in four other critical skills shortage areas: Cyber, Logistics, Complex Weapons Engineering and Health. On completion of this work in late 2018 a series of policy options will be presented to Ministers before proceeding to formal assessment and demonstration and then implementation.

## Skills gaps

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

The management and mitigation of OPPs is a priority, with the focus being on incentivising personnel to join (and/or retrain) and remain within pinch point trades. OPPs are closely managed by the single Services, who have implemented a number of programmes to address staffing shortfalls. In addition to these longer term initiatives, the Services apply a range of targeted workforce levers, including extensions of service and financial incentives. Personnel in OPPs are excluded from Redundancy. The position as at April 2018 is summarised below:

**Naval Service:** The number of Naval Service OPPs is 19 which is an increase of four since April 2017. The key pinch points relate to engineering roles plus some specialist roles such as warfare specialists.

**Army:** The Army has 9 OPPs which is an increase of five since April 2017. The key pinch points relate to logistics roles.

**RAF:** The RAF has 7 OPPs, which is a decrease of four since April 2017. The key pinch points relate to engineering and intelligence roles.

## New Employment Model Closure

The New Employment Model (NEM), which provides updated Terms and Conditions of Service for Service Personnel formally closed in December 2017 following a final Infrastructure Projects Authority Gateway Review in September 2017 and has since moved into Benefits Realisation. The NEM aim was to increase the agility of the Whole Force and maximise recruitment and retention effect, within available resources. It was designed to produce a modernised offer that allows Armed Forces personnel and their

families more choice, whilst still meeting the Services' needs. The NEM components have now been passed to the relevant policy areas to ensure that implementation is followed up by embedding and maturing alongside future development.

## Armed Forces Continuous Attitude Survey

The Armed Forces Continuous Attitude Survey (AFCAS) is a key source of information on the attitudes, opinions and experiences of Armed Forces Regular Service personnel and their perceptions of working in the Armed Forces. Statistics from AFCAS are used by both internal MOD teams and external bodies to inform the development of policy and measure the impact of decisions affecting personnel, including major programmes such as the Armed Forces People Programme and Armed Forces Covenant.

The Armed Forces Continuous Attitude Survey 2018 shows that 41% of Service personnel are satisfied with Service life in general. Overall, 2018 has seen further decreases in levels of self, Unit and Service morale and satisfaction with basic pay. Despite these changes, the overall engagement index is 58%, a similar level to 2017, and nearly three quarters of Service personnel are proud to be in their Service, unchanged from 2017. There continues to be general agreement that people have the necessary skills, knowledge and training to do their current jobs (86%), with 71% agreeing that their skills and experience are currently being used, and there have been improvements in areas, such as integration between Regulars and Reserves.

## MOD People Survey

Theme	2016 Result	2017 Result	Percentage point change
<b>Engagement Index</b>	<b>58%</b>	<b>58%</b>	<b>-</b>
<b>Theme Score</b>			
Leadership and managing change	30%	31%	+1
My work	74%	74%	-
Pay and benefits	30%	28%	-2
My manager	63%	64%	+1
Learning and development	51%	50%	-1
Resources and workload	67%	67%	-
Organisational objective and purpose	77%	76%	-1
My team	76%	77%	+1
Inclusion and fair treatment	73%	73%	-

Staff engagement is important to us, and we measure this through the MOD People Survey. We want to create the right environment so that staff are able to contribute as effectively as possible and feel that the MOD is a great place to work.

In 2017, our staff engagement score (comprised of the 5 key questions that make up the score/engagement index) remained the same compared to the previous year at 58%. This is the second highest score out of the Big 5 Departments, just behind DWP, and was 3 percentage points below the Civil Service average. The survey measures experiences at work through 9 themes. This year we improved our score in 3 of the themes, with the majority remaining the same compared to the previous year, and a few slight decreases. Over 23,000 staff completed the survey.

MOD's Executive Committee has agreed four areas that they will be championing for improvements and focusing on as a leadership team. They are:

- Investing in the capability of line managers
- Continuing to improve leadership and managing change capability across the department
- Ensuring everyone has a clear understanding of our organisational objectives
- Creating a culture and environment in which it is safe to challenge at all levels

Plans are in place to improve in these areas and a range of activity is underway. Extensive work has been taking place both corporately and within the major business units. For example, performance management remains an important issue and we introduced a new process in April 2017 following extensive consultation with staff. We were pleased to see that all the scores associated with performance management increased in the Staff Survey, most notably an increase of 8 percentage points in the number of staff who believe that their performance is assessed fairly. We are also focusing on how we support our staff's longer term career development, and working to develop the professions (e.g. commercial, finance, policy) and the career paths which sit within these. Our major business units are also undertaking specific programmes of work and are producing local action plans developed from specific analysis of survey results for those areas of the organisation. We are sharing learning across the Department in order to further improve our results.

We continue to focus on Discrimination, Bullying and Harassment and introduced a Speak Safe helpline in November 2017, which further expands the range of ways in which we seek to enable people to share their concerns and find a route to resolve them. This was launched jointly by the Permanent Secretary and Chief of Defence Staff, with a message to all staff in the Armed Forces and Civil Service making clear that MOD has zero tolerance for discrimination, bullying and harassment in any form. This is further supported by a range of different engagements seeking feedback from staff on a range of subjects, such as the Defence Blog, all staff dial-ins and the SCS ambassador scheme. We will continue to develop and expand these engagements to ensure we are sharing information, gaining views and drawing on the expertise of our staff in a range of ways over the coming year.

We are committed to continuous improvement for the long term, and are developing our plans to reflect this. The engagement, views and contributions of our staff will always be important to us and we are committed to ensuring that we make the most of the potential and expertise of those who work here.

## Support to the Armed Forces Community

### The Armed Forces Covenant

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

The principle of the Covenant was formalised in the 2011 Armed Forces Act. In accordance with the Act, the Department published its annual report on 18 December 2017, setting out the key deliverables under the Covenant, which included launch of the Veterans' Gateway, the Veterans Covenant Hospital Alliance and the Transition Intervention and Liaison mental health services; initiatives which focus on sharing best practice to ensure services are accessible to those who need them the most.

Reflecting this approach at a strategic level, 2017 also saw the creation of the Ministerial Covenant and Veterans Board (MCVB). Chaired jointly by the Secretary of State for Defence and the Minister

for the Cabinet Office, the Board is tasked with having strategic oversight of Covenant delivery. The first meeting of the Board focused on the development of new metrics to improve the measurement of performance against the Covenant and a review of society's perceptions of Veterans. The second meeting on 26 April considered the Health and Wellbeing priorities across the Armed Forces community alongside proposals for a Veterans' Strategy.

The MCVB acknowledges the collective responsibility for the Covenant across central and local Government and the Devolved Administrations. This was strengthened with the nomination of Ministers with responsibility for Covenant and Veterans issues in each of the key departments.

At official level the Covenant Reference Group sets the priorities for the Covenant, including the criteria for award of grants under the £10M per annum Covenant Fund. During 2017, funds were allocated in support of projects which looked to improve integration between civilian and military communities through various initiatives; including sporting events and artistic and celebratory experiences. Continuing the emphasis on community, £3.5M was made available to 23 clusters of Local Authorities to strengthen delivery of the Covenant at a local level.

For 2018 and beyond, improving our ability to measure performance will be a priority. This will include a means of identifying veterans and reviewing the level of support that is available to them to help the transition to civilian life. Similarly, we will be working closely with the Department for Education to improve the quality of contextual information available to education professionals on Service children when moving schools.

In December 2017, O2 became the 2,000th signatory of the Covenant, reflecting the fast-growing support for the Armed Forces Community within the private sector. To ensure we take advantage of this, we have commissioned a review into the Covenant in Business so that we can build a better understanding of why companies pledge support and the barriers that prevent others from doing so.



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

We provide **£10M** per year through the Covenant Fund

O2 became the **2,000th signatory** of the Covenant

**£3.5M** has been provided to 23 clusters of Local Authorities

## Veterans

The provision of welfare support for veterans is a cross-Government responsibility and by adhering to the principles of the Armed Forces Covenant, the MOD continues to work closely with Other Government Departments, Local Authorities, Devolved Administrations and the Charitable Sector to ensure they receive appropriate support.

The Veterans' Gateway was identified as a top priority for delivery in 2017. The Royal British Legion – as the lead organisation for a consortium of partners including the Soldiers, Sailors, Airmen and Families Association (SSAFA), Combat Stress, Poppyscotland and Connect Assist – were awarded a grant for £2M from the Covenant Grant Fund. The service was launched in June 2017 and has been established to provide a single point of contact for those unsure of where to seek help and who require support and advice on issues such as housing, finance and employment.



As part of our regular liaison with the Service charities, the MOD continues to chair the Service Charities Partnership Board which comprises senior MOD staff and representatives of the Confederation of Service Charities (Cobseo) Executive Board. It is the focal point for structured liaison and engagement between the MOD and the Service charities, covering both the serving and veteran communities.

The Department is reviewing a range of options that will enable veterans to have a form of identification, if they wish, that verifies Service in the Armed Forces. In addition to acting as a recognition of Service, a Veterans ID card will also act as a verification of their status as a veteran. This will ensure that veterans can be easily identified as part of the Government's continued commitment under the Armed Forces Covenant, when accessing specific support services such as healthcare, housing or from the charitable sector.

Work is underway to produce a Joint Service Publication on Defence transition policy and provide tri-Service guidance on what is expected for the single Services to deliver. This will set out a core baseline which the single Services must make provision for, based on a set of key principles, with a focus on providing holistic transition support for Service personnel and their families which covers more than the existing resettlement employment support services provided. The new policy will be published later in 2018 and will better prepare both the Service person and their family in their preparation, planning and support for all the life changes which will happen on discharge from the Armed Forces.

## Welfare

A top priority continues to be reviewing and updating the policy for Casualty and Compassionate processes following an internal audit. We are closely engaged with the Defence Bereaved Family Group on issues such as the updating of the Family Purple Pack Bereavement Guide for bereaved families of Service personnel. This is now available through Gov.UK<sup>8</sup> and provides guidance, information and support to those who have lost a loved one whilst still in service.

The Quinquennial Review of the Armed Forces Compensation Scheme (AFCS) was published in February 2017 and concluded that the AFCS fundamentally remained fit for purpose. A number of recommendations were made which the Department has considered with internal and external stakeholders. Some of the recommendations will be simpler to implement than others, with the more complex ones requiring further, detailed analysis, and legislative work. The 'One Year On'<sup>9</sup> report was published in April 2018 giving details of how the recommendations have been taken forward.

The Defence Discount Service continues to go from strength to strength with 8,000 supporting businesses and 475,000 members (including both serving personnel and Veterans). This concession scheme was retendered in 2017.

The MoneyForce programme is maintained and delivered in collaboration with the Royal British Legion. It has now been running for five years and continues to support the improvement of knowledge regarding personal finances.

The enablement of access to Credit Unions (CU) via Joining Forces CU has given additional choice to our people when they consider their financial options.

Significant progress has been made with the Navy, Army and Air Force Institutes (NAAFI) Pension Scheme, with agreement being reached between HMT, NAAFI Pension Fund and MOD to guarantee the

---

8 <https://www.gov.uk/government/publications/purple-pack-bereavement-guide-for-families-of-service-personnel>

9 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/697937/QuinquennialReviewAFCS.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/697937/QuinquennialReviewAFCS.pdf)

scheme, allowing NAAFI to continue as a profitable business supporting UK Armed Forces across the globe for the foreseeable future.

## Health and Wellbeing

Two in every three of the UK population will at some stage experience symptoms of poor mental wellbeing. Defence People are part of wider society and as this society evolves so do the needs of its people. As an employer, Defence is adapting to these changes to maintain a mentally healthy working population and to ensure those who leave the Service are given the tools to lead long and healthy lives. The physical and mental health and wider wellbeing of Defence people contributes directly to our operational capability; improving both is therefore a high priority.

In July 2017, the Defence People Mental Health and Wellbeing Strategy was launched building on the work of the 2011 Armed Forces Mental Health Strategy. The focus is on using health data, research and innovation to approach a new Mental Health and Wellbeing Operating Model focused around the pillars of Promote, Prevent, Detect and Treat. Defence continues to promote positive mental health and wellbeing, by preventing and detecting the onset of mental health illness, maintaining good levels of mental fitness and treating such illness when it is diagnosed. Recognising we cannot do this on our own, we are forging partnerships with health and third sectors to share best practice and resource to ensure a flexible, integrated though life approach to mental health and wellbeing. As part of this, the MOD and The Royal Foundation in October 2017, announced a new partnership enabling a pooling of resources to allow Defence to take advantage of the Royal Foundation's ideas and innovation; helping to deliver something that will resonate with our people and further reduce the residual stigma of mental health across the Defence community while introducing the importance of good mental fitness.

In February 2018, MOD commissioned a new 24-hr Freephone mental health helpline provided by Combat Stress (with its own memorable number 0800 323 4444) aimed at serving personnel and their families who need to seek advice. Defence continues to communicate and support the task of optimising the health, wellbeing and fitness of Defence people to develop resilience and improve the health of the Whole Force.

Many of the initiatives and measures highlighted in the last year's report have been achieved including a new Smoking and Tobacco Control Strategy, the introduction of a Defence-wide Unit Alcohol Advisor's course and single Service initiatives aimed at reducing the number of Musculoskeletal Injuries during recruit training. Work is underway to introduce a phased no smoking policy across the Defence working environment and a new weight and nutrition policy which aims to target help at those that need it the most. These policies and other Defence initiatives are now in the early stages of implementation.

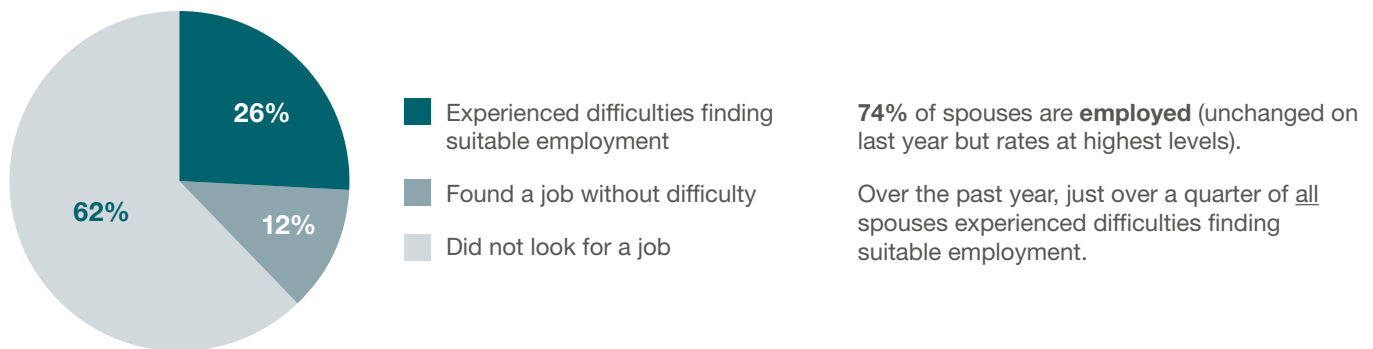
## Families

The Armed Forces Families Strategy, published in 2016, articulates the important relationship between operational capability and supporting families, as well as the need to ensure Service personnel have confidence that their families can access the right support, if needed, particularly during deployments. The Strategy focuses and coordinates efforts across the Department to deliver the 'offer' to families.

Spousal Employment has remained a focus this year. Results from the 2017 Families Continuous Attitude Survey show that UK employment rates for UK based Service spouses are on a par with their civilian equivalents, however, employment rates are lower for those posted overseas. The picture for families overseas is of particular interest to the MOD chaired Partner Employment Steering Group, which was established in October 2017 drawing together organisations offering bespoke employment support to Service families, charities and academia. The group is exploring this issue further to better

understand the specific barriers and consider initiatives that might assist Service spouses seeking employment overseas or who wish to enhance/further their skill set through, for example, volunteering in readiness for a return to work in the UK.

### Spousal employment (FAMCAS 2017)



The top reasons for those who had difficulties were: Having a spouse who is often away (50%) and partner unable to assist with care responsibilities (48%).

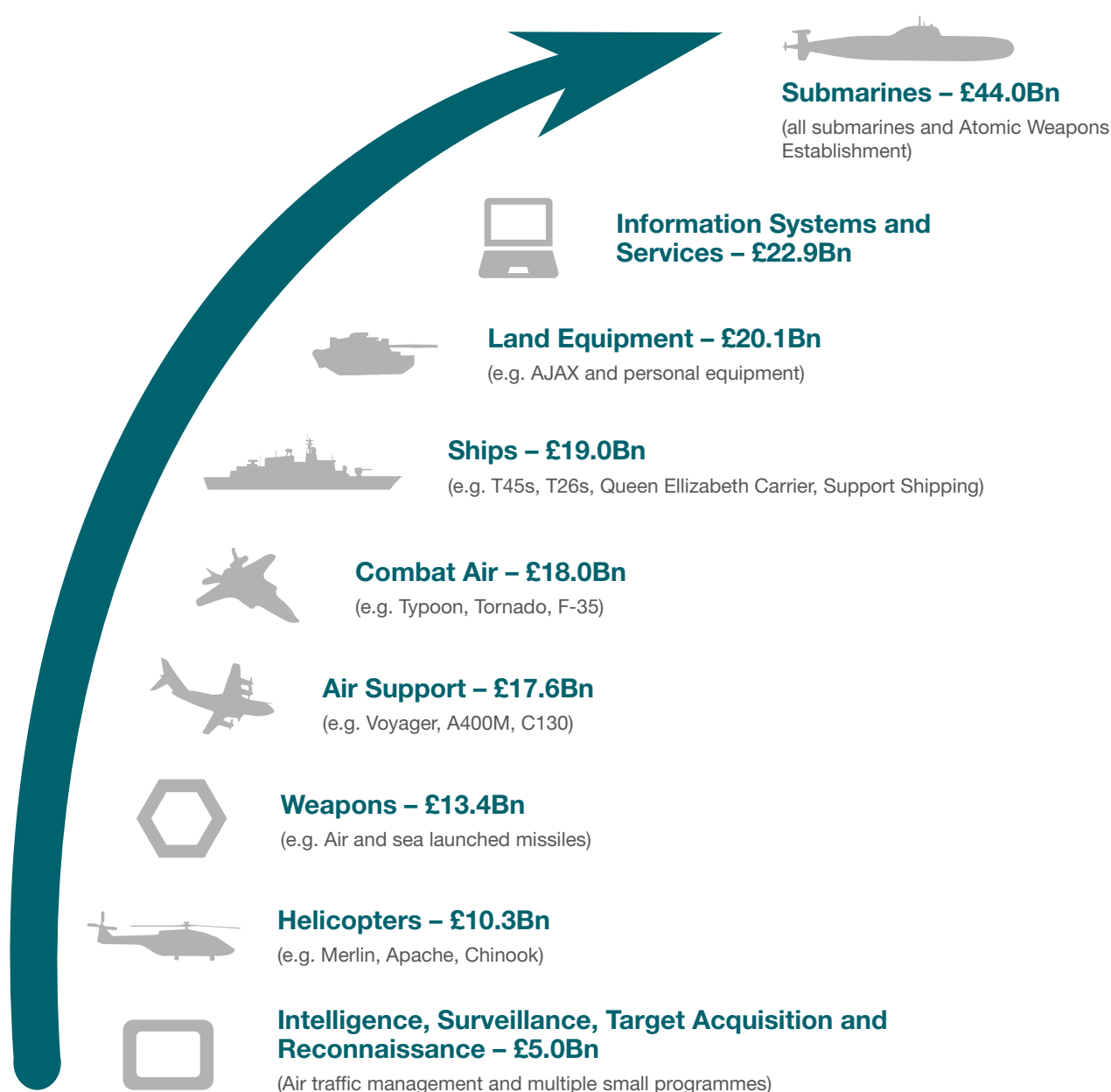
A Domestic Abuse Working Group was established in May 2017, which is taking forward work to launch the first Defence Domestic Abuse strategy ‘No Defence for Abuse’. The Strategy aims to build on the existing good work being delivered by each of the Services and their welfare organisations to respond in a professional and appropriate manner to support individuals exposed to domestic abuse, and their children, and to proactively tackle perpetrator behaviour. Efforts towards improving support for families transitioning to civilian life and exploring new initiatives around childcare have also gathered momentum this year.

# Joint Force 2025 – Delivery of Major Projects

We are committed to delivering Joint Force 2025 as outlined in SDSR 2015 and the National Security Capability Review in March 2018. The Joint Force will need to be versatile and agile; and effective in a range of environments, operating with our Allies and partners. The major elements of the Force are:

- a maritime task force centred on a Queen Elizabeth Class aircraft carrier with F35 Lightning combat aircraft;
- a land division with three brigades, including a new Strike force;
- an air group of combat, transport and surveillance aircraft; and
- a Special Forces task group.

## Planned spend on Equipment and Support between 2017-18 and 2026-27 includes:



Source: MOD Equipment Plan 2017

In line with the SDSR we have spent £15.3Bn this year on defence equipment and support. This year has seen:

- HMS QUEEN ELIZABETH completing her sea trials and being commissioned into service. The HMS PRINCE OF WALES was floated for the first time and moved to her fitting out berth in Rosyth.
- The launch of the 4th new attack submarine Audacious
- The first of the Army's new £4.5Bn family of Ajax armoured vehicles going through their final acceptance process
- The delivery of a further 12 F35B aircraft bringing the total to 15
- The securing of a deal to provide nine P8 Maritime Patrol Aircraft and 50 Apache helicopters through a Foreign Military Sales agreement with the US.

These programmes form part of the Defence Major Programmes Portfolio (DMPP) which consists of 41 of the largest programmes across the Ministry of Defence, of which 37 are in the Government Major Programmes Portfolio. In this financial year, performance over the portfolio has been generally stable, however, there has been a slight reduction in overall delivery confidence, which the Department is seeking to address with advice from the Infrastructure and Projects Authority. Delivery highlights across the breadth of the DMPP in this financial year include:

**Army Basing Programme (ABP)** – The programme is to coordinate and deliver infrastructure and non-infrastructure requirements to enable the Army 2020 organisational structure and UK laydown to be achieved, withdrawing MOD Staff and dependants from Germany and delivering reduced costs. Salisbury Plain Training Area (SPTA) Service Family Accommodation (SFA) is a critical enabler to the successful drawdown of remaining personnel from Germany. The contract for SFA was signed on 27 November 2017 and the programme remains on track to deliver in summer 2019.

**Maritime Sustainment Programme** – The Military Afloat Reach and Sustainability (MARS) Tanker Project makes up the acquisition element of the Maritime Sustainment Programme. The four vessels will replace the single hulled tankers operated by the Royal Fleet Auxiliary with an efficient and cost-effective solution. The programme is continuing to deliver well within the approved value of £596M against predicted costs of circa £550M. RFA TIDESPRING (Ship1) was accepted into service in December 2017. TIDERACE (Ship 2) is undergoing Capability Assessment Trials and Support (CATS), which commenced in April 2018. TIDESURGE (Ship 3) was Accepted Off Contract (AOC) in November 2017, she arrived in Falmouth on 27 March 2018 and is undergoing UK Customisation. TIDEFORCE (Ship 4) achieved AOC late May 2018 and is due to arrive at Falmouth and commence UK Customisation (UKC) in mid-August 2018. Alongside the environmental benefits which will be realised by this programme it is also a key enabler for the RN elements of JF2025 through the provision of fuelling and at sea support out to the 2040's.



**Wildcat** – The new light multirole helicopter for the Royal Navy and Army. These provide military commanders with an enduring Intelligence, Surveillance, Targeting, Acquisition and Reconnaissance capability, operating at long range across the full spectrum of conflict and will extend the area capability and influence of its host maritime platform whilst being capable of autonomously targeting and engaging hostile elements in the maritime with the Sea Venom and Martlet missiles. Through extensive re-design and addition of state-of-the-art sensors and cockpit integration, it builds on, sustains and significantly improves the capability delivered by the Lynx, extending the capability delivery to meet JF 2025 requirements and Navy Strategic Objectives to 2045. This year the Wildcat programme has delivered both the Battlefield Reconnaissance Helicopter and Helicopter Maritime Attack platforms, as a result it has graduated from the DMPP and will transition to in-service management of the capability.



Wildcat Mk1 Helicopter fitted with 50Cal Browning M3M Machine Gun and its Door Gunner

**Complex Weapons** – The aim of the Complex Weapons Pipeline is to deliver an affordable and adaptable Complex Weapons programme that protects sovereignty, ensures Operational Advantage, contributes to prosperity and supports exports. The programme provides a way of working that maximises modularity, reuse of equipment and commonality across the Services with a consequent reduction in costs. During the year, a number of notable delivery milestones were achieved including the successful firing of a Common Anti-air Modular Missile as part of the Ground Based Air Defence programme and the delivery of Brimstone 2 missiles to the RAF, allowing Full Operating Capability to be declared. Additionally, First of Class firings of Sea Ceptor from HMS ARGYLL and the first firings of ASRAAM Block 4 by F-35 were made. Typhoon made the first Guided Firings of ASRAAM Block 6 and salvo firings of Meteor, and Qualification Firings of the Lightweight Multi-Role Missile were carried out.



The Brimstone Missile fitted to a Tornado GR4

# Implementation of the SDSR: Efficiency Programme

The Department has completed the second year of our five-year efficiency programme from the Spending Review 2015. We remain committed to meeting our ambitious and challenging £7.4 billion target, with all savings reinvested in front line capability over the Spending Review period.

This is an ambitious efficiency programme which is seeking to transform almost every part of Defence through a combination of business and behavioural changes, including:

**Military manpower:** Work is underway to build on the previously announced 1% public sector pay restraint, which is already delivering significant savings during the period of the Spending Review. These include the targeted revision of the military allowance package to ensure it remains appropriate and fair, whilst also continuing to explore ways to make sure that military manpower is used in the most effective manner possible and that military expertise is best utilised.

**Civilian pay and manpower:** We remain committed to achieving financial savings for the Department, but doing so in a manner that does not diminish either our people or Defence. We are carefully reviewing each function and considering the need, all possible delivery methodologies and the skills required. Key to this is ensuring the right people are in the right roles across the organisation.

**Equipment:** DE&S is continuing to deliver significant efficiencies through its comprehensive programme of transformation, designed to raise the skills and productivity of staff and introduce world-class systems for managing and controlling projects. DE&S has been focused on embedding its new ways of working, maturing new systems and driving best practice, all of which is focused on supporting the UK's Armed Forces and improving value for money on a sustainable and enduring basis.

**Estate and Infrastructure:** The Department continues to undertake a rationalisation programme which will deliver a smaller, more efficient and better-quality estate for the military to live, work and train in.

**Future Efficiency:** These initiatives are all important in delivering our goal to maximise the efficiency of the MOD, however, we know we must go further. As a department, we plan to develop a stronger, more proactive approach to change and efficiency, including developing a sustainable culture of efficiency, to identify a wider range of efficiency opportunities – including in areas which cut across delegated budget areas, and to use the opportunities of automation to deliver a programme of digitally enabled transformative change. This work is a key strand of the Modernising Defence Programme which will look at how Defence works as well as what Defence needs. It will aim to improve how we operate, focus on achievable efficiency, and create better arrangements with suppliers. This modernisation will contribute to meeting the budget shortfall, while still allowing us to make the necessary long-term decisions about military capability.

## Legal challenges against military personnel

The Iraq Historic Allegations Team (IHAT) closed on 30 June 2017 and its remaining caseload was reabsorbed into the Service Police system. Service Police Legacy Investigations (SPLI) stood up on 1 July 2017 and comprised 40 service police drawn from the Royal Navy Police and RAF Police, overseen by a senior Royal Navy Police officer. They are supported by a small number of civil servants and contractors, who provide specialist support functions and are not involved in interviewing service personnel or veterans. SPLI are investigating diligently and expeditiously those allegations that require

investigation. They have been disposing 20-25% of their inherited caseload each quarter, and expect that investigations will be substantially complete around the end of 2018.

Operation Northmoor, which is investigating allegations into detention-related incidents in Afghanistan, continues to make progress and all investigations are expected to be complete by the end of 2018.

As set out in last year's annual report, the MOD has also been working with other Government departments to ensure our Armed Forces overseas are not subject to persistent human rights claims that undermine their ability to do their job. This included working with the FCO to refresh and strengthen our Overseas Security and Justice Assistance policy to better protect those in countries where we give advice and our armed forces personnel. We continue to work with the Cabinet Office on their revision of the Consolidated Guidance on the detention and interviewing of detainees overseas to ensure the UK's commitment to international humanitarian and human rights law is among the best globally.

Additionally, the Prime Minister and Secretary of State for Defence announced in October 2016 the Government's intention to derogate from the relevant Articles of the European Convention on Human Rights in future conflicts, where this is appropriate to do so for the military operation in question. Any derogation would need to be justified and could only be made from certain Articles of the Convention. In the event of such a derogation, UK Armed Forces will continue to operate to the highest standards and be subject to the rule of law.

Last year, the MOD consulted on the Government's plans to provide enhanced compensation for service personnel injured, or the families of those killed, as a result of enemy action in combat, whilst also legislating to bar all future civil claims against the Government in such circumstances. We are considering the responses to that consultation in detail and will announce our proposed next steps in due course.

## Chilcot

Since the publication of The Iraq Inquiry (Chilcot) Report in July 2016, the MOD has had in place a dedicated team led by a Senior Civil Service Director which has undertaken extensive work to counter 'groupthink' and improve professionalisation. It has also initiated work to improve the way in which the MOD captures, curates and enables access to knowledge. The Chilcot Team's work centres on:

- A stronger culture of challenge in decision-making, drawing on greater diversity of thought. Activities such as shadow boards (in which a group of junior staff receive the same papers as senior board members and input directly into board meetings) are now actively used within the organisation.
- The professionalisation of our staff, particularly in the policy profession, ensuring that the Department supports world class policy making through learning and development at all levels.
- The Challenge Guide, which is now widely used across the Department, incorporated into Defence Academy course curricula and handed out to participants on Civil Service development schemes.
- 'The Good Operation' handbook<sup>10</sup> for those involved in operational policy and its implementation. This prompts its readers to ask the right questions as they plan for and execute a military operation, drawing on the lessons of the Chilcot Report in particular, and has been very well received, both within and beyond the MOD.
- Addressing the UK Government's approach to assessing civilian casualties in conflict, including plans to publish the number of civilians admitted to deployed UK military field hospitals.

---

<sup>10</sup> <https://www.gov.uk/government/publications/the-good-operation>



# Counter Fraud and Corruption

During the year the Department has continued to drive risk and intelligence led counter fraud activities, working collaboratively across Government, internationally and with Defence Industry.

We are an active contributor to the development of Functional Standards for Counter Fraud and the Counter Fraud Profession across UK Government, designed to increase capability to detect and deal with fraud. We have made a number of commitments in the UK Anti-Corruption Strategy 2017 – 2022, reflecting our strong desire to reduce the impact of corruption. The commitments focus on reducing vulnerability to corrupt insiders, reducing corruption in public procurement and enhanced action to address corruption in fragile and conflict affected states.



Since 2014, more than 1,500 Senior Defence & Security Sector officials from over 80 countries have benefited from the UK funded Building Integrity programme (shown above)

The Department is building a collaborative relationship with Defence Industry, sharing insights on fraud and corruption challenges, leading practices and identifying ways Defence Industry and the Department can work together to reduce fraud and corruption in the supply chain. Similarly the Department works closely with NATO and other Allies to tackle fraud and corruption, sharing insights and experience particularly in relation to fraud risk management and the prevention of procurement fraud. The Department recently brought Defence Industry, NATO and other partner nations together when it hosted a NATO Building Integrity conference.



# Sustainable MOD

The UK is a signatory of the UN Global Sustainable Development Goals (SDGs), a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The Ministry of Defence does not lead on the policy towards the delivery of any of the 17 goals (see below), however, due to the remit of the Department, MOD contributes towards a number of them. This contribution has been reflected in the Single Departmental Plan. The SDGs where current defence activity and commitments makes the greatest contribution towards are: Goal 16 – Peace and Justice Strong Institutions; Goal 8 – Decent Work and Economic Growth; Goal 11 – Sustainable Cities and Communities; and Goal 9 – Industry Innovation and Infrastructure. More information on MOD activities that support the SDGs at home and overseas can be found in the 2015 to 2020 Government policy on Military Aid to the Civil Authorities for action in the UK<sup>11</sup> and the UK’s International Defence Engagement Strategy<sup>12</sup>.

As one of the largest departments, MOD continues to make a considerable contribution to the overall Government targets performance. The MOD Greening Government Commitment 2020 carbon emissions target was met in 2017 as a result of measures taken and decarbonisation of UK electricity supplies. Full detail of the 2017-18 performance is contained in the Sustainable MOD Annual Report 2017-18<sup>13</sup> and the MOD Sanctuary Magazine<sup>14</sup>.



**Stephen Lovegrove**

Accounting Officer

12 July 2018

11 <https://www.gov.uk/government/publications/2015-to-2020-government-policy-military-aid-to-the-civil-authorities-for-activities-in-the-uk/2015-to-2020-government-policy-military-aid-to-the-civil-authorities-for-activities-in-the-uk>

12 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/596968/06032017\\_Def\\_Engag\\_Strat\\_2017DaSCREEN.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/596968/06032017_Def_Engag_Strat_2017DaSCREEN.pdf)

13 <https://www.gov.uk/government/collections/sustainable-development-mod>

14 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/660061/Sanctuary\\_2017\\_Complete\\_lo-res.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/660061/Sanctuary_2017_Complete_lo-res.pdf)



Ministry  
of Defence

# The Accountability Report



# The Accountability Report

The purpose of our Accountability Report is to meet key accountability requirements to Parliament. It is comprised of three key sections:

- Corporate Governance Report
- Remuneration and Staff Report
- Parliamentary Accountability and Audit Report



## Corporate Governance Report

The Corporate Governance Report outlines the composition and organisation of MOD, what our governance structures are, and how they support our objectives. It includes three sections:

- Directors' Report
- Statement of Accounting Officer's Responsibilities
- Governance Statement

### The Directors' Report

The Directors' Report includes a number of disclosures about those who have authority or responsibility for directing or controlling MOD.

#### Who we are

The tables below set out the names and titles of all Ministers, and members of the Defence Board, Executive Committee, People Committee, and Investment Approvals Committee who have had responsibility for the Department during 2017-18. They also include detail on the number of meetings attended during the year.

Ministers	Role	Defence Board
The Rt Hon Gavin Williamson CBE MP (from 2 Nov 17)	Secretary of State for Defence	3 of 3
The Rt Hon Sir Michael Fallon MP (to 1 Nov 17)	Secretary of State for Defence	4 of 4
The Rt Hon The Earl Howe PC	Minister of State in the House of Lords	7 of 7
The Rt Hon Mark Lancaster TD MP (from 13 Jun 17)	Minister of State for the Armed Forces	–
The Rt Hon Sir Mike Penning MP (to 12 Jun 17)	Minister of State for the Armed Forces	–
Guto Bebb MP (from 10 Jan 18)	Parliamentary Under-Secretary of State and Minister for Defence Procurement	–
Harriett Baldwin MP (to 9 Jan 18)	Parliamentary Under-Secretary of State and Minister for Defence Procurement	–
The Rt Hon Tobias Ellwood MP (from 14 Jun 17)	Parliamentary Under-Secretary of State and Minister for Defence People and Veterans	–
The Rt Hon Mark Lancaster TD MP (to 12 Jun 17)	Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel	–

Non-executive members	Role	Defence Board	People committee
Danuta Gray	Non-Executive Board Member	7 of 7	10 of 10
Simon Henry (from 1 Jan 18)	Non-Executive Board Member	1 of 2	–
Graham Williams (to 31 Dec 17)	Non-Executive Board Member	5 of 5	–
Paul Skinner CBE	Non-Executive Board Member	6 of 7	–
Sir Gerry Grimstone	Non-Executive Board Member	7 of 7	–
Laura Whyte	Non-Executive Member	–	9 of 10

Executive members of the Defence Board and Executive Committee	Role	Defence Board	Executive committee	Investment approvals committee	People committee
Stephen Lovegrove CB (from 25 April 2016)	Permanent Under-Secretary of State	7 of 7	13 of 17	–	7 of 10
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL (from 19 July 16)	Chief of The Defence Staff	6 of 7	–	–	–
General Sir Gordon Messenger KCB DSO* OBE ADC (from 21 May 16)	Vice Chief of The Defence Staff	7 of 7	15 of 17	12 of 13	10 of 10
Lieutenant General Sir Mark Poffley, KBE, OBE	Deputy Chief of the Defence Staff (Military Capability)	–	14 of 17	7 of 13	6 of 10
Lieutenant General Mark Carleton-Smith	Deputy Chief of the Defence Staff (Military Strategy and Operations)	–	12 of 17	–	–
Lieutenant General Richard Nugee CVO CBE	Chief of Defence People	–	17 of 17	–	10 of 10
Professor Hugh Durrant-Whyte	Chief Scientific Adviser	–	11 of 17	10 of 13	–
Charlie Forte (from 29 Jan 18)	Chief Information Officer	–	5 of 6	–	–
Andrew Forzani (from 25 Sept 17)	Chief Commercial Officer	–	–	7 of 7	–
Stephen Morgan (to 24 Sept 17)	Chief Commercial Officer	–	–	6 of 6	–
David Goldstone CBE (from 4 Dec 17)	Chief Operating Officer	–	8 of 8	–	–
Professor Robin Grimes (from 3 April 17) (Note 1)	Chief Scientific Adviser Nuclear	–	–	3 of 6	–
Julian Kelly (from 8 May 17)	Director General Nuclear	–	10 of 15	–	–
Ian Forber (to 7 May 17)	Director Change and Efficiency (representing vacant Director General Nuclear post)	–	2 of 2	–	–
Isabel Letwin CBE (Note 2)	Director Central Legal Services	–	–	0 of 13	–
Robert Miller	Head Commercial Law Division	–	–	13 of 13	–
Catherine Little (from 25 Sep 17)	Director General Finance	4 of 4	10 of 10	6 of 6	6 of 6
Louise Tulett CBE (to 24 Sep 17)	Director General Finance	3 of 3	5 of 6	7 of 7	3 of 4
Julie Taylor	Director General Head Office & Commissioning Services	–	17 of 17	–	7 of 10
Peter Watkins CBE	Director General Strategy and International	–	14 of 17	–	–
Dominic Wilson (from 1 Dec 17)	Director General Security and Policy	–	4 of 9	–	–

1. Chief Scientific Adviser Nuclear is employed by MOD for one day a week, only 3 out of 6 meetings had a specific nuclear case that would require CSA Nuclear Attendance.
2. Director Central Legal Services delegated attendance to Head Commercial Law Division.



## Directorships and Significant Interests

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

Any significant Related Party Transactions relating to the interests of Ministers or Defence Board members, are shown in Note 22 – Related Party Transactions.

## Personal Data Related Incidents

An incident is defined as a loss, unauthorised disclosure or insecure disposal of personal data. No significant personal data related incidents were reported to the Information Commissioners Office (ICO) in 2017-18.

MOD continually monitors its information risks to ensure that any weaknesses identified are swiftly addressed, and our systems' security is robust. Whilst no matters have been reported to the ICO this year, a number of more minor incidents have occurred.

### *Summary of Other Protected Personal Data Related Incidents 2017-18*

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.	22
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	11
III	Insecure disposal of inadequately protected paper documents.	4
IV	Unauthorised disclosure.	73
V	Other.	7

## The Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Ministry of Defence to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of and the use of resources, during the year by the Department. These accounts are inclusive of its executive agencies and its sponsored Non-Departmental and other Arm's Length Bodies (ALB's) designated by order made under the GRAA by Statutory Instrument 2017 No. 1256 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 23 to the Accounts). The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

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

Stephen Lovegrove was appointed as the Permanent Secretary and the Department's Accounting Officer on 25th April 2016.

As Accounting Officer for the Department the Permanent Secretary has appointed the Chief Executives of the Department's Agencies and sponsored Non-Departmental and other Arms Length Bodies as Accounting Officers. The details of the accountability relationships and processes within the MOD are set out in the MOD Accounting Officer System Statement.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department or non-departmental and other ALBs for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

## Accounting Officer Confirmation

I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Department's auditors are aware of that information. As far as I am aware, there is no relevant audit information of which the Department's auditors are unaware. The annual report and accounts as a whole is fair, balanced and understandable. I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

## The Governance Statement

### Introduction

The Department is required to prepare an annual Governance Statement to describe the organisation's system of internal control, record the assurances received and provide an assessment of the organisation's risk profile and effectiveness in managing those risks. This Governance Statement represents my assurance to Parliament that, as Accounting Officer, I am satisfied that the Department's aggregated system of internal control is effective.

I am supported in preparing the Governance Statement by:

- Insight into the Department's performance from Internal Audit, including an audit opinion on the quality of the systems of governance, management and risk control.

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

My personal judgement as the Accounting Officer, taking account of all the advice and support provided, is that over the last two years the Department has made improvements in a number of areas, including senior leadership, with the appointments of a new Chief Operating Officer and Chief Information Officer; the management of risk; the management of the Defence Nuclear Enterprise, with the appointment of a new Director General Nuclear in May 2017; and the stand-up of the Submarine Delivery Agency (SDA) on 1 April 2018 – meeting two key SDSR15 commitments. We will continue to take every opportunity to strengthen these arrangements even further.

However, there are still a number of areas where we have extant control weaknesses, including estate management; workforce and skills; business and financial planning; approval for contingent liabilities; and management of the supply chain. This position is untenable and to address these issues we have a transformation programme underway which will improve these areas but it is likely to take several years to complete. By this time next year I expect to have in place a revised operating model and new governance structures and we will be implementing functional leadership in line with other Departments in Whitehall. This will ensure that we have a stronger, more authoritative, Head Office in line with the principles of delegation.

## Significant Control Risks

### Workforce and Skills Risk

The Department is facing significant challenges with suitably qualified, experienced personnel (SQEP) in some areas, including engineering, commercial, information and P3M.

During this year work has continued to better understand the strategic factors affecting recruitment and retention, including the influence of the economy, employment and wages trends as well as changes in the age profile/ethnic mix of the reducing main target population for Armed Forces recruitment. As part of the National Security and Capability Review and subsequently the Modernising Defence Programme, the focus is moving towards Whole Force by Design which will build on the Defence Critical Skills Strategy and take a systematic approach to creating a properly constructed and integrated workforce, sufficiently skilled to meet commitments based on capability requirements. Work has continued to modernise the 'offer' including flexible engagements to support improved work/life balance to better meet the expectations of future recruits, more flexibility about future accommodation provision, and a focus on improving Diversity and Inclusion.

The NAO published a report in April 2018, "Ensuring Sufficient Skilled Military Personnel", which the MOD has accepted. The Department is implementing a substantial workforce change programme, although this has not yet improved recruitment and retention. The Modernising Defence Programme will consider the future requirement for Armed Forces personnel and skills requirements as part of its work.

## Business and Financial Planning

The Department's Annual Budget Cycle process is well established. The challenge remains to construct a sustainable, long term balance between the available budget and the cost of the programme. However, the control framework has been improved through the Chief of Defence Staff's and my oversight of improved transparency and leadership of collective discussion of the Department's financial and business planning between the Head Office and TLB Holders. This has been supported by regular dialogue and information sharing between Finance and Military Capability staffs across the Department. The intention is to adopt a more open and transparent approach to setting budgets and managing financial risk and, by doing so, lay the foundations for delivering a successful outcome to the Modernising Defence Programme and Annual Budget Cycle 19 implementation.

The NAO published a report in January 2018 on the Equipment Plan 2017 to 2027 in which they stated that the plan was unaffordable. The risks highlighted by the NAO are part of the challenge the Department is addressing in the Modernising Defence Programme.

## Commercial Capability and Governance

The shortage of professional commercial staff was reported as a significant risk last year. This remains a concern given the amount of procurement activity that is undertaken in the department but in the last twelve months work has continued to mitigate this risk. We have delivered a Commercial Professionalism Programme. This has been a substantial development activity which is providing MOD with specific acquisition training and externally recognised qualifications for our staff. This includes specific courses on Contract Management at Practitioner and Masterclass level. Contract management is now an increasingly established competence within the commercial function helping drive value in the procurement programme. The great majority of senior staff in the commercial function are now part of the Government Commercial Organisation and benefit from training and development inherent in being part of a cross departmental community sharing best practice. The Function has strengthened governance across its business units and continues to strengthen programme management of its transformational activities.

This year the Modernising Defence Programme has included reviews of both Commercial Capability generally and Strategic Supplier Management more specifically. The commercial capability reviews have led to the initiation of a transformation programme that will invest in senior strategic roles; improved systems and processes; and operating model changes that will result in functional cost efficiencies and increase commercial savings from the procurement programme. The increased investment in senior roles will improve our functional leadership, as will our Commercial Functional Plan which was released at the end of May. The plan sets out the improvement initiatives that we are focusing on over the next three years and includes the establishment of four working groups across the function. These working groups cover people and capability; risk, assurance and audit; process, systems and information and commercial policy. The groups will be held to account on a regular basis by the 2\* led commercial function forum. The plan will be shared with the 2000+ commercial staff and provide an opportunity for them to be involved in the improvements we are seeking.

## Strategic Suppliers and the Supply Chain

The need to better understand supply chain fragility and risk was highlighted when, during the year, a strategic Infrastructure supplier was placed into liquidation requiring contingency plans to be put in place as part of a coordinated pan-Government response. Work is continuing with Joint Venture partners and with the strategic supplier to ensure that services continue and contracts are delivered. Work undertaken during the year to better understand and monitor supply chain vulnerabilities includes supplier fragility

assessments, intelligence briefs and criticality models. A Strategic Relationship Management Plan has been developed and a refreshed Key Supplier Management process is to be launched in 2018.

There is an increasing recognition of the need to better understand wider risks to the supply chain beyond financial fragility and failure, such as the impact of Brexit, and cyber-crime.

Review of the commercial framework and accountability is being taken forward within the supplier management element of the Modernising Defence Programme. A Commercial Director has recently been appointed to lead on supply chain management to drive improvement in this critical area.

## **Contingent Liabilities**

The Department is required to identify contingent liabilities when agreeing contracts, and to seek HM Treasury approval and provide timely notification to Parliament of those in excess of £300K. This allows Parliament and HM Treasury to scrutinise the extent to which the taxpayer might be exposed to potentially significant liabilities in the future. During 2017 and 2018 a number of contracts were identified by the Department where the procedures had not been followed. This issue was included in Public Accounts Committee hearings in January 2017 and January 2018.

During the year improvements have been made to policies, procedures and training and these are being embedded. This includes greater clarification of the nature of contingent liabilities in the approvals process, and scrutiny of new contracts by commercial and finance staff. A review of all open Defence and Equipment Support (DE&S) contracts has been undertaken and similar reviews undertaken across the Department. Further strengthening of the control environment is expected as a result of these reviews.

## **Estates**

### *Condition*

The overall condition of the built estate continues to decline. There is a mixed approach to management and funding of the estate creating a significant variation in condition and user experience. Where Private Finance Initiatives and programme-led investment supports areas of infrastructure they are in good condition. But a significant proportion of the estate is in long-term decline due to insufficient funding to cover routine maintenance, repair and lifecycle component replacement. Key components of buildings including electrical, heating, fire detection and protection systems are at or beyond their economic life and in need of renewal.

Whilst managing a declining estate, safety is of paramount importance and Defence Infrastructure Organisation (DIO) has continued to improve its Safety Management System, achieving a Gold award from the Royal Society of the Prevention of Accidents (RoSPA) in 2017 for demonstrating a very high level of safety performance, well developed occupational health and safety management systems and culture, outstanding control of risk and very low levels of error, harm and loss.

In order to address the declining condition of the estate, the Defence Estate Optimisation (DEO) Programme, which will deliver a smaller but better defence estate in support of military capability, has been established and is now in its second year. Progress to date includes development of governance structures and detailed delivery plans. The top twenty sites for disposal have been identified and work plans developed. In addition, the base financial model for the programme, including potential sources of available funding, is currently being reviewed. As part of an improving asset management system, DIO undertook an intensive asset condition survey across the DIO managed estate and is now



increasingly able to advise TLBs on the priorities for investment by site, by building and by system type. Significant enhancement of this stewardship and advisory role for DIO is a critical part of the 'Future DIO' transformation programme.

With effect from 1 April 2018, the majority of infrastructure expenditure is being delegated to TLBs in order that they will have the financial levers to balance levels of investment in the estate with the needs of and risks to military outputs and capabilities. This is a significant change to the operating model and will take time to mature but progress will be monitored closely during 2018-19.

To prepare for the delegation of infrastructure budgets, DIO launched its transformation programme 'Future DIO' in June 2017. Over the next two years, DIO will transform from Landlord to an expert Estate Services Business, supporting and advising TLBs on their infrastructure investment decisions and acting as the delivery agent. DIO has stood up a regional delivery structure, providing the customer with a responsive, professional service at a local level from 1 April 2018.

The DEO Programme and delegation of infrastructure funding to TLBs should result in more informed decision-making and an incentive to close or dispose of under-utilised buildings, additional establishments and surplus land. DIO also continues to work on wider Government priorities such as land release for housing and the progress being made with the Land Sale Delivery Partners (LSDPs), which are now delivering significant value back to the Department through the disposals programme.

#### *Contract Management*

Work to develop and embed DIO's Contract Management processes has continued to mature during this year, with increasing adoption of the Infrastructure Management System (IMS) to control work flow and connectivity between IMS and MOD's Purchase to Payment system to reduce multiple data entry points. Nevertheless, DIO has identified a small number of additional breaches of approval within internal MOD delegations. The DIO scrutiny team continues to develop with support provided from the Head Office for training and process improvement. The DIO Finance Director is undertaking a further approvals review to improve current controls which is being developed into an Approvals Get Well Plan during 2018-19.

#### *Strategic Management*

In 2015-16 and 2016-17, I reported that the Strategic Business Partner (SBP) which provided senior contractor roles to lead and manage the DIO, had experienced higher than expected turnover, impacting on stakeholder confidence. This was addressed as part of contractual negotiations during the year and more widely, as part of the Defence Infrastructure Model Review (DIMR).

During 2017-18, the majority of senior contractor roles have remained stable, and a major change programme was launched by that team to align DIO's operations with TLB customer requirements. The DIMR recommendations to replace key SBP roles with Civil Servants have been implemented leading to the recruitment of a Commercial Director and Finance Director. Other SBP personnel now work solely to deliver the MOD business plan with no misaligned contract demands. There is an agreed phased transition plan to replace other key SBP roles with civil servants by summer 2019. The DIO board was refreshed during the year with the appointment of a new chairman and three new Non-Executive Directors. That Board is now actively supporting the executive team in building DIO's capability as in infrastructure advisor and delivery business.

## *Service Family Accommodation*

Following improvements put in place last year, including more effective contractor performance monitoring, and new governance and assurance processes, to address significant shortcomings in the delivery of contracted maintenance services, the performance of the National Housing Prime contract has stabilised and is broadly delivering to the expected standards. This has been reflected in feedback from TLBs and Families Federations, and has been achieved despite the liquidation of the Service Families Accommodation (SFA) Joint Venture contractor Carillion during the year. Lessons from the current contract will be incorporated into the Future Defence Infrastructure Services programme which is designed to award successor contracts for SFA and wider estate maintenance in 2020.

An NAO report was published in January 2018, into the sale and leaseback of housing with Annington Property Limited. The report concluded that the deal was based on pessimistic views of future growth in property values, but with the mitigating feature that the rents charged were restricted for the first twenty years. This has cost the public sector a great deal in capital growth. In 2021 the period of restricted rent is over and a rent review is due to take place. We have a dedicated in-house team, supported by expert external advice, preparing for the upcoming negotiations with Annington.

## **Safety**

The nature of Defence activity is, by necessity, inherently dangerous. Safety responsibilities flow to TLB Holders (Senior Duty Holders) through appropriate delegations. The Defence Safety Authority provides independent assurance to the Secretary of State and the Defence Board that policy and regulation are being complied with to achieve outcomes at least as good as required by statute. I am in the process of refining further governance arrangements, aimed at improving corporate management and decision making and to enhance the governance and management of safety and safety risks.

## **Management Information**

Some progress has been made to address the lack of quality Management Information (MI), but this remains a significant control risk. With a large number of fragile legacy systems and no single 'version of the truth' across the Department, an updated MI strategy has been published, as the Business Intelligence Strategy. This provides strategic direction for data governance, business intelligence and advanced analytics and reflects an improved understanding of the challenges. A key aspect of the strategy, Master Data Management, has achieved successful proof of concept, but implementation remains a challenge due to lack of resources. A new Chief Information Officer has been appointed and over the first quarter of 2018-19 will develop a Defence-wide plan, building on the work already undertaken for the Data and Management Information Strategy, and supporting the Modernising Defence Programme. This plan will create options for rationalisation, and the increased use of automation and analytical tools within the HR, Finance and Logistic domains. In addition, a standard financial report has been produced which will be used to report both internally in the MOD and to HM Treasury. This is the first step in standardising financial reporting.

## **Business Resilience**

Development of the centrally directed process for identifying, assessing and reporting the status of Defence elements of critical national infrastructure (CNI) has improved the understanding of resilience at a site level. This has enabled us to reach a higher level of maturity in producing the annual Defence Sector Security and Resilience Plan. The integration of resilience into Defence Plan 2018 recognises that it is an essential consideration for all TLBs that must be better embedded into task and output

planning. The new Security and Resilience governance structure introduced this year will provide greater assurance over the Departmental approach to resilience.

## Cyber Risk

The nature of work in Defence means that cyber risk extends beyond affecting our ability to access data and systems and manage our business effectively. It also covers the effectiveness of a complex and interconnected portfolio of military capability and therefore poses risk to our ability to protect and defend the UK. We adopt a risk based approach to managing our response to cyber threats through the way we design and protect our systems, and we test the effectiveness of our mitigations in a number of different ways. The requirement for us to maintain higher levels of security than most other organisations sometimes restricts functionality and usability and we have established processes through which we balance benefits against risks in our decision making. We work continuously to mature and strengthen our cyber resilience and work closely with our partners across government, our allies and our industry partners to ensure that we have the right balance of protection and collaboration in place to support modern working practices

## National Security Vetting

In SDSR15 Government created a single vetting provider and made the Department responsible for all of Government's vetting, incorporating into Defence the processes and staff which previously sat within the Foreign and Commonwealth Office (FCO). Following the launch of the new organisation, known as United Kingdom Security Vetting (UKSV), a number of consequent resource and system issues arose which impacted on service delivery. This resulted in delays in clearances with consequential impact on recruiting timelines within both the Department and Other Government Departments, which are customers of UKSV. Extra resource was deployed to reduce the higher than usual queues of vetting applications and a recovery programme was put in place to reduce delays and enhance the systems to improve resilience.

During the year service delivery has been actively monitored by the Head Office in conjunction with Defence Business Services and UKSV to ensure the recovery plan remains on track. This has resulted in improved UKSV resilience and reduced clearance timescales. 'Security Check' (SC) clearances have now returned to agreed performance levels and, based on current plans, Developed Vetting (DV) clearance holdings will be reduced to an acceptable level by August 2018, with average clearance timelines improving in the following months, delivering against performance target by the end of 2018 and remaining stable thereafter. In parallel a new organisation structure has been designed to deliver a new Target Operating Model, which will enable UKSV to deliver the SDSR15 intent with increased resilience and customer focus. The Senior Leadership Team is now recruited; full re-organisation is underway and is expected to be complete by spring 2019.

In June 2018 it was announced that UKSV would transfer from MOD into the Cabinet Office and that this move would take place no earlier than April 2020. Defence Business Services is now putting arrangements in place to support the Cabinet Office in implementing this decision and to help manage any impact on the Defence business. Lessons learned from the transfer of the FCO Vetting Service into MOD will be drawn upon to help with the identification and management of key risks.

## Physical Security of Assets and Infrastructure

The Department's security assurance arrangements are based on a three tier system with operators, TLBs and the Defence Authority for Security providing three separate lines of assurance. Good progress has been made in increasing the Department's capacity to undertake third line assurance. This will

better enable Head Office direction and monitoring of the security and accounting of the Department's most critical assets.

## National Audit Office Management Letter

Within the 2016-17 Annual Report and Accounts Management letter, the National Audit Office (NAO) reported weaknesses in the Department's financial controls relating to processes in the cash environment, estate assets valuation and impairment. Significant work has been undertaken during 2017-18 to ensure bank accounts are reconciled and adjustment journals raised. Early engagement with the NAO during the year resulted in their agreement to infrastructure asset impairment models. The Department's control framework is maturing and changes being considered as part of the Financial Management Improvement Plan and the introduction of the Accounting Steering Group will contribute to improving financial management still further.

## Governance Framework

### Defence Board

Chaired by the Secretary of State, the Defence Board provides top-level strategic leadership of the Department, focusing on strategy and plans for generating military forces, including financial planning, performance against those plans, and risk.

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

*The Board has continued to monitor top-level Departmental risks, reviewing process and activity to address these via a deep-dive analysis of one at every Board meeting. Our work in this area has become increasingly mature, and there is robust engagement with Top-Level Budget holders and senior representatives from key Defence suppliers. Topics we have also focused on this year have included the People Portfolio, Security, Science and Technology, Commercial and Industrial partnerships, Nuclear Enterprise and more recently the Modernising Defence Programme.*

*The Board has continued to undertake a series of visits to different Defence locations across the UK, which has allowed the Board to engage with people across the Services who are contributing to the Defence effort, and to hold to account the different delivery arms of the MOD. Most recently the Board has visited the Joint Forces Command in Northwood, the Royal Navy at Devonport and the Royal Air Force at Brize Norton.*

*Another priority this year has been to ensure the smooth induction of our new Non-Executive Director, Simon Henry, who joined the Defence Board on the departure of Graham Williams who gave very many valuable insights during his 6 years on the Board as well as ably chairing the Audit Committee. We have worked hard during the year to increase the depth and diversity of the Non-Executive cadre throughout Defence to ensure we have people of the right calibre and quality to add value and provide positive challenge to civilian and military colleagues. The network of Non-Executives meets from time to time to receive briefings and to share experience.*

*I continue to monitor the performance of the Board, working closely with the Defence Secretary, the Permanent Secretary and the Chief of the Defence Staff. I have had the privilege of serving four Defence Secretaries during my role as Lead Non-Executive, all of course very able but each understandably with different styles and priorities. We continually evolve our way of working to ensure that, as well of overseeing the work of the Department, we remain relevant and offer clear and practical advice.*

*With the global geopolitical situation being more challenging than it has been for some time, and with budgetary constraints meaning that we can never do all that we might want, a clear understanding of risks is essential if our priorities are to be rationally determined. Our work in this area, as well as making sure that Defence's organisational design and ways of working remain fit for purpose, will be amongst our priorities for the coming year.*

Sir Gerry Grimstone

The Defence Board is supported by three sub-committees: the Defence Audit and Risk Assurance Committee, the Investment Approvals Committee and the People Committee. The executive function for the Department runs through the Executive Committee and the Armed Forces Committee.

In previous years, the Defence Board met on a monthly basis which was the most frequent comparative to other Government Departments. From January 2018, to drive a sharper focus on strategy, plans and strategic risks, the Defence Board now meets six times per annum, and in addition, holds two Strategic 'Awayday' meetings.

The Defence Board met 7 times during 2017-18, considering a rolling programme of risk reviews where different strategic risks are subject to a more detailed discussion at each Board meeting.

The Board refreshed its view of strategic risks at the start of the year and receives a regular report on this, the combined risk profile and the shorter-term delivery risks to the current Defence Plan, as well as having visibility of the key risks being managed by the TLB Holders and Defence Authorities.



## The Defence Audit and Risk Assurance Committee

The Defence Audit and Risk Assurance Committee (DARAC) is chaired by Simon Henry, Non-Executive Defence Board Member who replaced Graham Williams in January 2018. During 2017-18 there were three Non-Executive members: Mary Hardy, Paul Smith and Stephen Barrett. As well as being Non-Executive Directors of the relevant Boards, Mary Hardy is Chair of the Royal Navy Audit Committee, Stephen Barrett chairs the Royal Air Force Audit Committee and Paul Smith now chairs the Joint Forces Command Audit Committee. During 2017-18 Paul Smith also chaired the audit committees of DIO and DE&S.

The DARAC reviews and challenges the Department's approach to internal control and provides independent advice both to the Defence Board and me, as the Accounting Officer, as to the effectiveness of the policies and processes in use. Risk assurance was added to the title of the Committee in February 2018 to more properly reflect its role. The main focus from the new Chair's perspective was to underline that the DARAC is providing more support to the Board to drive the risk programme with a greater degree of feedback, as well as attempting to provide a higher level of assurance and hold risk owners to account. The Committee provides assurance to the Defence Board and me, as the Accounting Officer, that financial reporting, systems, risk and internal controls and processes are working as they should.



The DARAC met 5 times (plus one extraordinary meeting) during this reporting period. Director General Finance, as the Executives' representative, the National Audit Office (NAO) and Defence Internal Audit (DIA), attended each meeting, and I am briefed as Accounting Officer on key issues.

The Defence Board receives a summary report following each of the DARAC meetings and the Chair has direct access to me as the Accounting Officer. During the year, the DARAC's programme of work has focused on the Department's internal control and assurance framework and fully supported the Department's assurance process of the TLB holders and Defence Authorities by providing further scrutiny of their annual assurance reports, and raising any issues to the attention of the Defence Board. It also reviewed Defence's strategic risks, transformation and the efficiency programmes.

The DARAC reviewed the DIA outputs and considered the 3 year strategic internal audit plan and the audit programme for next year, giving top-down input on where the focus should be. During the year, the DARAC monitored the progress of issues raised in DIA and NAO Management letters and other key audit outputs.

The DARAC Chair has also convened meetings of the Chairs of the TLB Audit Committees to address cross-cutting issues and provide guidance on how Audit Committees can add the most value and drive improvements across Defence. DARAC has continued to visit Defence establishments to understand the breadth of Defence business and to get an overview of readiness and support at various single Service bases. In 2017 the Committee visited RAF Conningsby.

The DARAC reviewed the Departmental Annual Report and Accounts, Governance Statement and progress of key audit issues. It was satisfied that the Governance Statement reflected the aggregate assessment of assurance from the TLB Holders and Defence Authorities.

## **The Investment Approvals Committee**

I have delegated responsibility for approving Departmental investment decisions to the Director General Finance, supported by the Investment Approvals Committee (IAC) which she chairs. The Committee met 13 times in 2017-18. The Director General Finance provided a monthly oral update on the IAC's activities to the Defence Board and a summary of IAC considerations in the monthly Management Information pack.

The IAC is responsible for considering major investment proposals on behalf of the Defence Board, forwarding advice to Ministers as necessary on high-value, complex, innovative, risky, novel or contentious investments. The IAC decides cases itself or delegates those decisions to a level consistent with the risk or nature of the proposal.

The IAC considered a broad range of projects across all TLBs including (as a small illustrative selection): Defence Fire and Rescue; Dreadnought and Astute-class submarines; Type 31e; Type 26; Mechanized Infantry Vehicle; Future Defence Infrastructure Services; US visiting forces Infrastructure; Lossiemouth Development Program Progress Discussion; New Style of IT Deployed; and Defence Estates Optimisation Programme Portfolio.

During 2017-18, the IAC concluded its consideration of 121 investment approval cases for projects categorised as the most significant<sup>1</sup>, including 24 Main Gate or Initial Gate Business Cases. The

---

<sup>1</sup> Including Equipment Procurement and Equipment Support cases over £400M; ICT cases over £250M; Infrastructure cases over £75M (e.g. HESTIA); and Policy cases where the IAC supports the Defence Board (e.g. Armed Forces People Programme); and novel or contentious cases.

remaining 97 cases considered by the IAC related to Review Notes and Information Notes submitted by project teams.

To ensure that investment decisions are made at the appropriate level, each project is categorised from A to D. Category A projects (above £400M) are approved by the IAC. TLBs have delegated approvals up to £400 million for all other categories:

Category B £100 million to £400 million

Category C £20 million to £100 million

Category D below £20 million

An exception is infrastructure approvals where delegated approvals are limited to £75 million;

No Category B

Category C £10 million to £75 million

Category D below £10 million

In 2017-18, in addition to the 40 Category C and 114 Category D infrastructure cases, TLBs have approved 16 Category B, 91 Category C and 52 Category D cases.

Under the leadership of Director General Finance (as SRO) and the IAC (as the Sponsoring Board) a review into the approvals process and how it enables effective timely decisions whilst safeguarding the confidence of HM Treasury was launched in February 2018. The MOD's Approach to Investment Decisions (MAID) review aims to improve the department's approach to approvals, in terms of behaviours, culture and process, to deliver a more risk based and proportionate approach. At the conclusion of the discovery phase the MAID team identified three interlinked areas for focus; driving earlier engagement, taking a risk based approach and clarifying roles and responsibilities, including those of SROs and Sponsors. The IAC were briefed in March 2018 and endorsed the next phase of work which is currently ongoing.

## **The People Committee**

The People Committee is chaired by Danuta Gray, a Non-Executive Defence Board Member. It provides Departmental direction, guidance and oversight on all strategic Defence people and training matters, oversees the delivery of the People Change Portfolio and holds the Chief of Defence People to account for delivery and for his role as the Defence Authority for People. It also assures the Defence Board that people issues are being appropriately managed.

The People Committee met 10 times this year. An update on progress and key issues is provided by the Chair to the Defence Board after each meeting. During the year, the Committee has discussed and continued to take decisions on the main elements of the Armed Forces People Programme, including the Future Accommodation Model and the Flexible Engagements System. It has also held in-depth examinations of the Capability Review, the Department's performance on recruitment, retention and diversity and inclusion, the Department's critical skills requirements and Defence Medical Services, including mental health.

## **The Executive Committee**

The Executive Committee (ExCo), which I co-chair, was established to consider the major managerial and strategic policy issues impacting Defence at a more delivery-focused level than the Defence Board.

Its membership comprises CDS, who has delegated his co-chairmanship of this committee to VCDS, and Directors General in Head Office and it has met 17 times this year.

The ExCo provides top-level leadership across Defence, as a Department of State, by:

- owning the operating model of Defence and managing its risks;
- agreeing plans for delivery of defence objectives;
- ensuring coherence; and
- leading transformation.

The Committee drives the annual Defence Plan and is the portfolio board for change. During the year, the Committee has discussed and continued to take decisions on key cross cutting issues including main elements of the Single Departmental Plan, Defence Infrastructure Model, Corporate and Future Defence Business Services, Diversity and Pay. The Committee is kept abreast of governance, audit, risks and issues through regular routine updates on sub-committee activity and by taking papers on these (and other) issues put forward by members and the secretariat. The Finance Committee is a sub-committee of the ExCo and the chair, DG Finance, provides regular updates on financial matters.

### **The Armed Forces Committee**

The Armed Forces Committee (AFC) is the senior executive committee of the Armed Forces, jointly chaired by CDS and me, with membership made up of all TLB holders.

The executive function for the Department runs through the Executive and Armed Forces Committees. The two meet to discuss major strategic issues, in order to provide advice to the Defence Board. During 2017-18 CDS and I have led collective discussion of the Department's financial and business planning at the AFC.

### **Arm's Length Bodies**

The Defence Equipment and Support (DE&S), Defence Electronics and Components Agency (DECA) and Defence Science and Technology Laboratory (Dstl) are executive agencies, within the the Departmental accounting boundary. Four Executive Non-Departmental Public Bodies<sup>2</sup>, the National Museum of the Royal Navy, the National Army Museum, the Royal Air Force Museum, and the Single Source Regulations Office are sponsored by the Department and also fall within the Departmental accounting boundary. Each has an Accounting Officer appointed by me and produces an Annual Report and Accounts.

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

The Oil and Pipelines Agency<sup>3</sup>, a Public Corporation which provides an Oil Fuel Depot and Petroleum Storage Depot capability to the Department, is governed by the Oil and Pipelines Act 1985. It falls outside the Departmental accounting boundary and its Annual Accounts are published separately.

Full details of the accountability relationships within the MOD are included in the Accounting Officer Systems Statement which is updated and published annually.

---

<sup>2</sup> A full list of agencies and public bodies, can be found here: <https://www.gov.uk/government/organisations#ministry-of-defence>

<sup>3</sup> In 2015-16 the Department sold its interest in the Government Pipelines and Storage System, which was managed by the Oil and Pipelines Agency.

## Defence Authorities

Sixteen senior individuals are appointed as Defence Authorities, and are held to account for how effective the function is, how proportionate its rules are and its development to reflect changes to regulation or strategic direction. Each Defence Authority is required to provide me with an Annual Assurance Report capturing risks and outlining how relevant controls have operated during the year. The Defence Authority framework is under review as part of the Operating Model elements of the Modernising Defence Programme (Workstream 1). A new Functional Leadership approach, aligned with Cabinet Office best practice, will be rolled-out during 2018-19 and appropriate assurance arrangements are being developed as part of this work.

## The Risk and Control Framework

The Department's overall approach to risk management is summarised in 'How Defence Works'<sup>4</sup>. The detailed guidance underpinning it is captured in an internal Joint Service Publication which was updated during the year.

The detailed list of risks is not published for reasons of national security but it includes risks associated with:

- the right numbers of people with the right skills;
- the alignment of the workforce to planned outputs;
- the delivery of operational capability;
- the effectiveness of governance arrangements;
- the affordability of the vision for Defence;
- protection of our assets and people, including from cyber-attack; and
- a disruptive event such as a flu epidemic or terrorist attack.

The risk management framework continues to mature and remains fully aligned to the Cabinet Office's guidance on the Management of Risk in Government<sup>5</sup> which was published in January 2017.

The Department has continued to operate the annual assurance process which uses a standard reporting template supported by a questionnaire which covers key governance, risk management and internal control matters for completion by the TLB Holders and Defence Authorities. For the TLBs, these are reviewed by their Audit Committees and are scrutinised as part of the Performance and Risk Reviews. DARA reviews all the Defence Authority Annual Assurance Reports and provides a briefing note to aid the scrutiny process which is undertaken by the Corporate Committee or other relevant Management Boards. In addition DARA has produced an overall Departmental Annual Assurance Report for me and the DARAC highlighting key internal control issues. DARA has provided an overall opinion of 'limited assurance' for 2017-18. The key internal control issues and management action being undertaken to address these are set out in more detail in the section "Significant Control Risks".

The DARAC reviews the Department's approach to internal control and provides independent advice both to the Defence Board and me, as the Accounting Officer, as to the effectiveness of the policies and processes in use.

TLB Holders, with the exception of Head Office and Corporate Services TLB, are supported by an Audit Committee or equivalent, which is chaired by a Non-Executive director and at which representatives

---

<sup>4</sup> <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>

<sup>5</sup> <https://www.gov.uk/government/publications/management-of-risk-in-government-framework>

from the internal and external auditors are present. Like the DARAC, these committees focus their activities on providing advice on wider business risk and assurance processes. The DARAC also meets the Chairs of the TLB Audit Committees at least once a year.

An annual risk-based programme of internal audit is provided by DIA which is the primary source of independent assurance within MOD. The audit programme is comprehensive and covers the Department's strategic and operational risks and key operational processes.

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

- 2017-18 has seen an improving control environment particularly around the governance, monitoring and delivery of TLB change programmes, projects and selected operational processes.
- Progress has been made in the roll out of more specific internal control requirements in functional areas such as Finance and Commercial. However, further work is required to define the required internal controls and ensure consistent application across the department, particularly at unit level.
- Compliance audits on behalf of Defence Authorities have identified examples of a lack of adequate communication of policy intent and inherent issues over their ability to monitor and receive assurance that their directives are being achieved. Improvements are required in overall governance and oversight arrangements, to ensure functional areas receive adequate assurance of compliance by TLBs and other bodies.
- Internal audit work has identified the need to continue to strengthen contract management, improve the quality and use of management information and mitigate the impact of resourcing shortages.

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

## Accounts Qualification

### IFRIC 4

MOD has not complied with the IFRIC 4 requirement in the Financial Reporting Manual to assess its supplier arrangements to determine whether they have the characteristics of a lease and if so to recognise the associated assets and liabilities in the financial statements. The Department has decided, with the support of HM Treasury, not to implement IFRIC 4 for existing contractual arrangements, as it does not represent value for money, given the complexity, time and considerable costs involved in doing so. The Department policy is to implement IFRIC 4 for new contracts which involve single use contractor sites under one Departmental contract whilst continuing to work with HM Treasury to shape the implementation of IFRS16 which replaces IAS 17 and IFRIC 4 in January 2019.

## Quality Assurance of Analytical Models

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

In line with the delegated model recommended in the Levene review, quality assurance in MOD is delegated to the individual TLBs and ALBs. This works particularly well as the different TLBs and ALBs produce different types of model which require different types of quality assurance. Head Office works with the TLBs and ALBs to help facilitate and develop these processes and to share best practice. For example, critical business cases which are to go to ministers or the IAC for approval are required



to have the value for money evidence endorsed by Defence Economics and this evidence typically includes a report from within the departmental organisation responsible. This report states what quality assurance has been undertaken and fulfilled in accordance with the Aqua Book and internal standards in order to meet the requirements of the Macpherson Review of quality assurance of government analytical models. The DE&S' Cost Assurance and Analysis Service (CAAS) has developed a range of supporting materials, which include standards and guidance on validation and verification, training for model Senior Responsible Officers and a standardised baseline model for Category C and D projects.

The Department has been effective in extending this good practice to other parts of the business and it will continue to focus on this in the coming year. To ensure consistent standards across models we:

- Run a Quality Assurance Working Group, with representatives from each organisation within MOD responsible for analytical models;
- Are bringing together all analytical assurance guidance developed by those organisations into a Modelling Centre of Excellence which will act as a central resource to advise on analytical quality activities, and develop tools and processes to improve analytical quality activities;
- Collate and publish a list of our latest business critical models. MOD is one of the leading departments in taking forward this recommendation of the Macpherson review. The April 2018 list comprised of 134 models.

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

## Compliance with the Corporate Governance Code

I have reviewed the Department's compliance with the Code of Good Practice<sup>6</sup> issued in April 2017 and confirm that the Department complies with all the requirements, with two exceptions.

Section 5.9 of the Code requires that at least one Non-Executive Defence Board Member should sit on the Audit Committee, in addition to the Chair. The DARAC is chaired by one of the Defence Board Non-Executive Board Members and the other three members are Non-Executive chairs of the Royal Navy, the Royal Air Force, and JFC Audit Committees. I believe that this membership provides a broad perspective of the Department's business, whilst maintaining the necessary independence of Audit Committee members.

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

## Effectiveness of Whistleblowing

The DARAC considered the Annual Whistleblowing Report and noted both progress and challenges. Progress included the launch of the revised Whistleblowing and Raising A Concern Policy, to provide additional clarity and support to those considering raising a concern. The department continues to work hard to ensure that concerns raised by individuals are appropriately considered and any necessary action taken. In response to a case raised in the year the Non-Executive Chair of the DARAC is conducting an independent review for the Accounting Officer which will include consideration of the Department's whistle blowing policy and the culture that exists in implementing the policy. An effective

---

<sup>6</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

whistleblowing process is a hallmark of a great organisation and Defence is deeply committed to this, as well as to ensuring we support those courageous individuals who raise concerns. It is envisaged that the review will report its findings over the summer.

## **Tackling Fraud and Corruption**

The DARAC considered the Annual Tackling Fraud and Corruption Report and recognised the strong progress made in building a collaborative relationship with Defence Industry to tackle fraud and corruption throughout the Defence supply chain. This included running a conference for Defence Industry focused on discussing fraud and corruption challenges, sharing leading practices and identifying ways Defence Industry and the Department could work together to reduce procurement fraud and corruption. The DARAC noted that the Department had been asked to host a similar event for NATO in April 2018, to share its experience in countering procurement fraud and corruption with NATO partners.

The DARAC noted the commitments made by the Department in the UK Anti-Corruption Strategy. It also recognised that the Department continued to actively support the development of the cross-Government counter-fraud profession and the implementation of the Functional Standards for Counter Fraud.

## **Ministerial Directions**

There were no ministerial directions to me as Accounting Officer during 2017-18.

## **Conclusion**

There remain challenges in a complex Department operating with a delegated model. The significant control risks detailed earlier in this report underline the need to transform the way that we operate. The Modernising Defence Programme will optimise how the MOD is organised and is operating, identify further efficiencies and ways to be more productive, including an aggressive modernisation programme, and improve management of our commercial and industrial issues. I am also in the process of refining further senior level governance arrangements. These will take time to implement but it is imperative that we get this right.

**Stephen Lovegrove**

Accounting Officer

12 July 2018

## The Remuneration and Staff Report

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

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

### Remuneration Report

#### Remuneration Policy

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

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

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

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

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

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

#### Performance and Reward

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

For the SCS below Permanent Secretary level, MOD implements its own pay and non-consolidated award arrangements within the Cabinet Office framework through an agreed pay strategy. Any non-consolidated award is based on a judgement of how well an individual has performed and awards are made to individuals judged to have made the highest 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 must be linked to demonstrable evidence of delivery.

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

All senior (2-star and above) military officers' pay (except for: the Chief of the Defence Staff (CDS), Legal Branch 2-star officers, medical and dental officers and those in the chaplaincy branches) is dependent on their performance, time in rank and position on the pay scale. Individuals can be awarded a single increment or no increment, and progress accordingly up the incremental pay scale for their rank. The average value of one incremental rise was 2.6% of salary in 2017-18 (2016-17: 2.6%).

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

### **Senior Manager Contracts**

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

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

The lead NEBM appointment to the Defence Board was approved by the Prime minister from a list of candidates recommended by the Cabinet Office. The appointment was for an initial period of three years, which was extended for a further three years and then for a further two years to September 2019.

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

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

## **Remuneration and Pension Entitlements**

The following pages contain details of the pay, pensions and benefits-in-kind of individuals who served as Ministers or members of the Defence Board during the financial year. The disclosures cover only the periods individuals were Ministers or Board Members in the MOD, i.e. if an individual moves Department during the year the disclosure covers only remuneration earned to that date.



## Ministerial Salaries, Allowances and Taxable Benefits-in-Kind

Ministers who had responsibility for the Department during the year are set out below:

	2017-18				2016-17			
	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to nearest £1,000)	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to nearest £1,000)
<b>Secretary of State for Defence</b>								
The Rt Hon Gavin Williamson CBE MP								
(from 02 November 2017)	27,940	Nil	7,000	35,000	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>	67,505							
The Rt Hon Sir Michael Fallon MP								
(to 01 November 2017)	39,565	Nil	8,000	48,000	67,505	Nil	18,000	86,000
<i>Full year equivalent salary</i>	67,505							
<b>Minister of State and Spokesperson on Defence in The House of Lords</b>								
The Rt Hon The Earl Howe PC**								
(from 12 May 2015)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Minister of State for the Armed Forces</b>								
The Rt Hon Mark Lancaster TD MP***								
(from 13 June 2017)	29,818	Nil	7,000	37,000	22,375	Nil	6,000	28,000
<i>Full year equivalent salary</i>	31,680							
The Rt Hon Sir Mike Penning MP								
(to 12 June 2017)	6,336	Nil	1,000	7,000	22,568	Nil	6,000	29,000
<i>Full year equivalent salary</i>	31,680				31,680			

		2017-18			2016-17				
		Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to nearest £1,000)	Salary (£)	Benefits-in-kind (to the nearest £100)	Pension Benefits (to the nearest £1,000)*	Total (to nearest £1,000)
<b>Parliamentary Under-Secretary of State and Minister for Defence Procurement</b>									
Guto Bebb MP									
	(from 10 January 2018)	5,052	Nil	1,000	6,000	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>									
Harriett Baldwin MP****									
	(to 09 January 2018)	17,323	Nil	4,000	21,000	15,879	Nil	4,000	20,000
<i>Full year equivalent salary</i>									
<b>Parliamentary Under-Secretary of State and Minister for Defence People and Veterans</b>									
The Rt Hon Tobias Ellwood MP									
	(from 14 June 2017)	17,838	Nil	5,000	23,000	Nil	Nil	Nil	Nil
<i>Full year equivalent salary</i>									

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

\*\* Earl Howe has waived his right to remuneration

\*\*\* Mark Lancaster was Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel until 13 June 2017 when he was appointed Minister for the Armed Forces.

\*\*\*\* The disclosures cover only the periods individuals were Ministers in the MOD. The total salary paid by the Department to Harriett Baldwin was £18,646 (including the balance of pay for the month in which she transferred Departments).

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. During 2017-18, in addition to the amounts set out in the table above, a severance payment of £7,920 was paid to Rt Hon Sir Mike Penning MP (a severance payment of £5,594 was made in 2016-17).

### **Ministerial Salary**

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

In respect of Ministers in the House of Commons, the Department bears only the cost of the additional Ministerial remuneration; the salary for their services as an MP – £76,011 pa with effect from 1 April 2017 (£74,962 pa with effect from 1 April 2016) and various allowances to which they are entitled, are borne centrally. The arrangements for Ministers in the House of Lords are different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and, if applicable would be shown in full overleaf.

### **Ministers Benefits-in-Kind**

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

## Ministerial Pension

The real increase in the value of the accrued pension compared to the 2016-17 value is shown *in italics* (in bands of £2,500) in the first column of the table below.

	Total Accrued Pension at Retirement as at 31 Mar 18 £000	CETV* at 31 Mar 17 or date of Appointment if Later £000	CETV* at 31 Mar 18 or on Cessation of Appointment if Earlier £000	Real Increase in CETV* £000
<b>Secretary of State for Defence</b>				
The Rt Hon Gavin Williamson CBE MP	<b>0-5</b>			
	<i>0-2.5</i>	<b>7</b>	<b>12</b>	<b>2</b>
The Rt Hon Sir Michael Fallon MP	<b>5-10</b>			
	<i>0-2.5</i>	<b>155</b>	<b>169</b>	<b>8</b>
<b>Minister of State and Spokesperson on Defence in The House of Lords</b>				
The Rt Hon The Earl Howe PC	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Minister of State for the Armed Forces</b>				
The Rt Hon Mark Lancaster TD MP	<b>0-5</b>			
	<i>0-2.5</i>	<b>26</b>	<b>33</b>	<b>2</b>
The Rt Hon Sir Mike Penning MP	<b>5-10</b>			
	<i>0-2.5</i>	<b>91</b>	<b>93</b>	<b>1</b>
<b>Parliamentary Under-Secretary of State and Minister for Defence Procurement</b>				
Guto Bebb MP	<b>0-5</b>			
	<i>0-2.5</i>	<b>7</b>	<b>8</b>	<b>1</b>
Harriett Baldwin MP	<b>0-5</b>			
	<i>0-2.5</i>	<b>11</b>	<b>16</b>	<b>3</b>
<b>Parliamentary Under-Secretary of State and Minister for Defence People and Veterans</b>				
The Rt Hon Tobias Ellwood MP	<b>0-5</b>			
	<i>0-2.5</i>	<b>16</b>	<b>21</b>	<b>2</b>

\* CETV – Cash Equivalent Transfer Value.

## **Cash Equivalent Transfer Value (CETV)**

A Cash Equivalent Transfer Value (CETV) is the actuarially-assessed capitalised value of the pension scheme benefits accrued by a member at a point in time. The pension figures shown for individuals relate to benefits accrued based on cumulative membership of the pension scheme, not just their service in the senior capacity to which disclosure applies.

## **Real Increase in CETV**

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

## **Ministerial Pension Benefits**

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF: this pension is not included in the table above.

Further details of the scheme are available at: <https://www.mypcpcfension.co.uk/>



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

The Defence Board is the main corporate board of MOD and is chaired by the Secretary of State. During the year the following people served as members of the Defence Board (disclosures cover the periods individuals were members of the Board).

	2017-2018				2016-2017					
	Salary £000 Ministers £	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000	Salary £000 Ministers £	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000
<b>Secretary of State for Defence</b> The Rt Hon Gavin Williamson CBE MP (from 02 November 2017) <i>full year equivalent salary</i>										
The Rt Hon Sir Michael Fallon MP (to 01 November 2017) <i>full year equivalent salary</i>										
<b>Minister of State in the House of Lords</b> The Rt Hon The Earl Howe PC (from 12 May 2015)										
<b>Permanent Under-Secretary of State</b> Stephen Lovegrove CB (from 25 April 2016) <i>full year equivalent salary</i>	180-185	Nil	Nil	67,000	245-50	165-170 175-180	Nil	Nil	59,000	225-230
<b>Chief of the Defence Staff</b> Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL (from 19 July 2016) <i>full year equivalent salary</i>	255-260	Nil	87,900	Nil	340-345	170-175 245-250	Nil	49,700†	Nil	220-225
<b>Vice Chief of the Defence Staff</b> General Sir Gordon Messenger KCB DSO* OBE ADC (from 21 May 2016) <i>full year equivalent salary</i>	175-180	Nil	51,400	99,000	325-330	145-150 170-175	Nil	43,300†	292,000	480-485
<b>Director General Finance</b> Catherine Little (from 25 September 2017) <i>full year equivalent salary</i>	65-70 130-135	Nil	Nil	27,000	95-100	Nil	Nil	Nil	Nil	Nil

See Minister's Salary Table

	2017-2018				2016-2017					
	Salary £000 Ministers £	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000	Salary £000 Ministers £	Annual Performance Award £000	Benefits-in- kind (to the nearest £100)*	Pension Benefits (to the nearest £1,000)**	Total £000
Louise Tulett CBE (to 24 September 2017) <i>full year equivalent salary</i>	65-70 135-140	Nil	Nil	31,000	95-100	130-135	Nil	Nil	132,000	260-265
<b>Non-Executive Board Members</b>										
Sir Gerry Girmstonet†† (from 15 September 2011)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Simon Henry (from 01 January 2018) <i>full year equivalent salary</i>	0-5 15-20	Nil	Nil	Nil	0-5	Nil	Nil	Nil	Nil	Nil
Graham Williams (to 31 December 2017) <i>full year equivalent salary</i>	10-15 15-20	Nil	Nil	Nil	10-15	15-20	Nil	Nil	Nil	15-20
Paul Skinner CBE††† (from 1 September 2014)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Danuta Gray (from 1 February 2015)	15-20	Nil	Nil	Nil	15-20	15-20	Nil	Nil	Nil	15-20

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

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

†† Sir Gerry Grimstone and Paul Skinner have elected to waive the £15,000 fee to which they are entitled.

## Defence Board Salary

Salary includes gross salary, taxable allowances and payment in lieu of untaken leave (if applicable). Any annual performance award paid is shown separately and is in respect of amounts paid in 2017-18 but based on performance in an assessment period prior to the start of the financial year. The payment of business expenses, e.g. travel costs incurred on duty, is not part of salary and is not disclosed in the table.

## Defence Board Benefits-in-Kind

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

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

## Pay Multiples

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

Remuneration of the highest paid directors is based on annual equivalents which include salary, performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions or the cash equivalent transfer value of pensions. A separate multiple has been calculated for the Armed Forces comparing the 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, e.g. medical personnel, fire fighters, police and teachers; it also excludes locally employed civilians overseas and agency staff covering permanent posts.

	2017-18	2016-17
<b>Military Pay Multiple</b>		
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning military Board member in the table above.	£342,500	£317,500
Median total remuneration of Armed Forces personnel	£33,620	£33,674
Ratio	10.2	9.4
<b>Civilian Pay Multiple</b>		
Mid point of the £5,000 band for the annual equivalent remuneration of the highest earning civilian Board member in the table above.	£182,500	£182,500
Median total remuneration of civilian staff	£29,828	£29,188
Ratio	6.1	6.3

The military pay ratio increased due to a slight decrease in the median pay of the Armed Forces and an increase in the salary of the highest paid military board member together with an increase in benefit-in-kind for the use of official cars. This increase is the result of more than one official car being liable for taxable car and fuel benefit in 2017-18.

The slight decrease in the civilian pay ratio is due to an increase in the median civilian pay figure whilst the mid-point of the remuneration has remained the same as 2016-17.

In 2017-18 the remuneration of civilian employees ranged from £16,047 to £314,985 and 12 (2016-17: 5) civilian employees received remuneration in excess of the highest paid director.

### **Defence Board Pension Benefits**

Pension benefits for Defence Board members are set out below. NEBMs are not employees and are therefore not enrolled in an employee related pension scheme. The real increase in the pension, from 2016-17, and where applicable the real increase in the lump sum payment, are shown in *italics* in the first column of the table below.

	Total Accrued Pension at Retirement as at 31 Mar 18 £000	CETV at 31 Mar 17 or date of Appointment if Later £000	CETV at 31 Mar 18 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
<b>Secretary of State for Defence</b> The Rt Hon Gavin Williamson CBE MP  The Rt Hon Sir Michael Fallon MP	See Ministers' Pensions Table			
<b>Minister of State and Spokesperson on Defence in the House of Lords</b> The Rt Hon The Earl Howe PC				
<b>Permanent Under-Secretary of State</b> Stephen Lovegrove CB	Pension <b>35-40</b> 2.5-5 Lump Sum <i>Nil</i>			
		<b>479</b>	<b>549</b>	<b>31</b>
<b>Chief of the Defence Staff</b> Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL	Pension <b>85-90</b> <i>Nil</i> Lump Sum <b>255-260</b> <i>Nil</i>			
		<b>1,954</b>	<b>1,939</b>	<b>-35†</b>
<b>Vice Chief of the Defence Staff</b> General Sir Gordon Messenger KCB DSO* OBE ADC	Pension <b>85-90</b> 2.5-5 Lump Sum <b>265-270</b> 12.5-15			
		<b>2,149</b>	<b>2,253</b>	<b>80</b>
<b>Director General Finance</b> Catherine Little	Pension <b>10-15</b> 0-2.5 Lump Sum <i>Nil</i>			
		<b>88</b>	<b>100</b>	<b>7</b>
Louise Tulett CBE	Pension <b>25-30</b> 0-2.5 Lump Sum <b>85-90</b> 2.5-5			
		<b>588</b>	<b>630</b>	<b>29</b>
<b>Non-Executive Board Members</b>				
Sir Gerry Grimstone	N/A	N/A	N/A	N/A
Simon Henry (from 01 January 2018)	N/A	N/A	N/A	N/A
Graham Williams (to 31 December 2017)	N/A	N/A	N/A	N/A
Paul Skinner CBE	N/A	N/A	N/A	N/A
Danuta Gray	N/A	N/A	N/A	N/A

† Where an individual has a small or no pay rise in year, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value has reduced, hence a negative value is disclosed.

Further details of various pension schemes available to Armed Forces personnel and MOD employees can be found at Note 16 of the accounts – Retirement Benefit Schemes.



## Staff Report

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

The figures in the table below are for average Full Time Equivalent (FTE) staff for the Core Department and Agencies. Locally Engaged Civilians (LECs) and Royal Fleet Auxialiary (RFA) personnel are excluded. UK Hydrographics Office (UKHO) is also excluded as it is a trading fund.

	2017-18	2016-17*
SCS Pay Band		
Band 1	159	161
Band 2	38	38
Band 3	4	7

\* 16-17 comparator restated to reflect the exclusion of DE&S Senior Civil Service grades as they are no longer comparable

As of 1 April 2017 Defence Equipment and Support (DE&S) have operated their own grading structure which is not comparable with MOD Main and so are excluded from 2017-18 figures. The number of employees which DE&S designates within their Senior Leadership Group (SLG) is as follows:

### Average Number of DE&S Senior Leadership Group (SLG) Staff

	2017-18	2016-17
SLG Pay Band		
Band 1	111	109
Band 2	18	16
Band 3	4	3

Defence Science and Technology Laboratory (Dstl) is an Executive Agency and their Senior Civil Servants are employed under different terms and conditions to MOD Main. They are also excluded from the above table. The number of Senior Civil Servants within Dstl in 2017-18 is 6.

### Staff Composition

The following table provides an analysis of the number of persons of each gender who were directors, Senior Civil Servants/Senior Military Officers and military and civilian MOD employees. Figures reflect staff composition as at 31<sup>st</sup> March 2018.

Gender*	Defence Board Members	SCS**/ Senior Military Officers	Military/ Civilian Employees
<b>MALE</b>	8	570	162,144
<b>FEMALE</b>	2	80	35,537

\* Gender information reported is obtained from individuals on joining the Department

\*\* DE&S and Dstl Senior Civil Servant grade structure is not commensurable with that of MOD Main and are excluded from this table. In 2017-18 the staff composition of DE&S Senior Civil Servant equivalents was: Male 99 Female 34. For Dstl the staff composition of Senior Civil Service equivalents was: Male 5 Female 1.

## Staff Numbers

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

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff				
Permanent Staff	55,890	58,946	51,760	54,781
Temporary Staff	60	117	110	200
Ministers and special advisers	7	7	7	7
Armed Forces	159,187	159,187	161,254*	161,254*
<b>Totals</b>	<b>215,144</b>	<b>218,257</b>	213,131	216,242

\*Armed Forces figures for 2016-17 restated to include Mobilised Reservists, Military Provost Guard Service and Non-Regular Permanent staff.

The increase in staff numbers in 2017-18 compared to the prior year is primarily due to c3,600 Dstl staff being included within the 2017-18 accounts and therefore in the table above.

In order to align with the total pay costs incurred during the year, the staff numbers in the table above for the Core Department and its Agencies are based on the weighted average number of FTE personnel and is used to compensate for organisational and structural changes during the 12 month period. The staff numbers also include the number of FTE personnel of other organisations within the departmental accounting boundary at the year end.

Locally Employed Civilians are included as permanent staff because the additional detail required to analyse the figures between permanent and temporary staff is not available.

The figures for Military personnel include trained and untrained full-time Service personnel, including Nursing Services, Full Time Reserve Service personnel, Gurkhas and Locally Engaged Personnel.

Mobilised Reservists, Military Provost Guard Service and Non-Regular Permanent Staff were not previously included in the staff numbers disclosure but are now included to ensure consistency with the Costs table below. 2016-17 figures are restated to reflect the inclusion of these employees.

The number of FTE staff in the Departmental Group is the sum of the weighted average figure for the Core Department and Agencies plus the number of FTE staff at year end for the organisations listed at Note 23 to the accounts.

More information on the Department's staff numbers, and the statistical calculations used, is available on the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>.

## Staff Costs

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

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Staff costs comprise:	£000	£000	£000	£000
Salaries and wages	8,239,007	8,317,912	8,019,225	8,094,208
Social security costs	791,007	802,270	765,057	778,511
Pension costs	3,293,790	3,301,331	3,285,816	3,293,204
Redundancy and severance payments	946	946	12,533	12,533
	<b>12,324,750</b>	<b>12,422,459</b>	12,082,631	12,178,456
Paid to:				
Armed Forces	9,840,410	9,840,410	9,776,731	9,776,731
Civilian	2,484,340	2,582,049	2,305,900	2,401,725
	<b>12,324,750</b>	<b>12,422,459</b>	12,082,631	12,178,456

For the year to 31 March 2018, of the total pension contributions for the Departmental Group in the table above, £352M (2016-17: £338M) were payable in respect of the various schemes in which civilian staff were members. Contributions to the Principal Civil Service Pension Scheme in the same period were £331M (2016-17: £294M). The contribution rates are set by the Scheme actuary to meet the cost of the benefits accruing to members up to retirement.

Where employees have opened a stakeholder pension with an employer contribution, the Department has made contributions of £3.4M (2016-17 £2.8M) to the pension providers; contributions range from 8% to 14.75% of salary depending on the age of the member. MOD also matches any employee contributions up to 3% of pensionable pay and in addition made contributions of £0.7M (2016-17 £0.5M) representing 0.5% of pensionable pay to the PCSPS to cover the cost of provision of lump sum benefits on death in service and ill health retirement of these employees.

The Armed Forces Pension Schemes are unfunded, non-contributory, defined benefit, salary-related, occupational pension schemes. For the year to 31 March 2018 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £2,949M (2016-17: £2,955M) based on employer's contribution rates determined by the Government Actuary.

Further details of pension schemes covering departmental personnel can be found at Note 16 – Retirement Benefits, in the Accounts section.

### Special Advisors costs and severance payments

The salaries and other costs of Special Advisors paid during the year was £170,389 (2016-17: £166,371). The amount of severance paid to Special Advisors, in line with the terms of the Model Contract for Special Advisors during the year was £42,931. The amount of additional severance paid to Special Advisors, in line with the Prime Ministerial Direction to the Cabinet Office Secretary of 13 July

2016 was Nil. Further details of additional severance payments are available in the Cabinet Office Annual Report and Accounts 2017-18.

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

The figures in the following table include redundancy and other departure costs paid in accordance with the Civil Service Compensation Scheme (CSCS). In 2017-18 148 people retired on health grounds (2016-17: 168); these figures are not included in the table below. Their total accrued pension liabilities for the year were £0.4M (2016-17: £0.3M).

Where the Department has agreed early retirements, costs are met by MOD and not by the CSCS. For staff leaving under voluntary exit or voluntary redundancy terms, the cost includes any top-up to compensation provided by MOD to buy out the actuarial reduction on an individual's pension as well as the compensation payment.

Armed Forces redundancies are normally made on a compulsory basis only, in order to retain the right balance of skills and experience across the rank structures. Occasionally, personnel may apply for consideration for redundancy and, where successful, applicants are included in the table as 'Other Departures Agreed.'

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
<£10,000	–	–	6	14	6	14
£10,000 – £25,000	1	13	24	132	25	145
£25,000 – £50,000	2	–	27	117	29	117
£50,000 – £100,000	–	–	4	139	4	139
£100,000 – £150,000	1	–	2	5	3	5
£150,000 – £200,000	–	–	–	–	–	–
£200,000 – £250,000	–	–	–	–	–	–
£250,000 – £300,000	–	1	–	–	–	1
<b>Total Number of Exit Packages</b>	<b>4</b>	14	<b>63</b>	407	<b>67</b>	421
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>Total Resource Cost</b>	<b>0.2</b>	0.5	<b>1.9</b>	16.8	<b>2.1</b>	17.3

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

### Staff Sickness

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

Levels of sickness absence for MOD Civil Servants, including UKHO, have reduced slightly over the year. The Average Working Days lost per person for the 12 months ending 31 March 2018 was

7.06 (7.18 days for the 12 months ending 31 March 2017). Mental and behavioural disorders continue to be the highest cause of sickness absence at 23% of all absences (21% for the 12 months ending 31 March 2017). The percentage of staff with no sick absence for the 12 months ending 31 March 2018 was 46% (46% for the 12 months ending 31 March 2017).

We continually review policy and initiatives to reduce sickness absence and improve health and wellbeing in the workplace. Further detail can be found at the following link: <https://www.gov.uk/government/collections/mod-civilian-sickness-absence>.

## **Health and Safety**

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

Health and safety is a key priority for MOD and we maintain a number of policies which are brought together in our 'Management of health and safety in defence' guidance.

Official Statistics are published annually showing injury and ill health incidents among UK Armed Forces personnel, MOD Civilian employees, Other Civilians and Cadet Forces that were reported through our Health & Safety systems. The statistics show the most recently available information as well as a five-year period trend.

Our latest report, published in February 2018, can be found at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/681702/Enclosure 1- MOD Health and Safety Statistics Annual Report 2016-17.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/681702/Enclosure_1- MOD Health and Safety Statistics Annual Report 2016-17.pdf)

The statistics are due to be published next in September 2018.

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

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

We are dedicated to achieving a more diverse and inclusive workforce, and recruiting the best people regardless of whether they have a disability. We don't discriminate against disabled people and positively encourage disabled candidates to apply for jobs within Defence. In September 2017, we were accredited by the Business Disability Forum as a 'Disability Confident Leader.'

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

We have a dedicated Reasonable Adjustments Service Team, who are responsible for supporting staff with workplace adjustments, and they have helped more than 2,700 people with conditions varying from back injuries, mobility issues, dyslexia, arthritis / rheumatism, to vision impairment and mental health issues in the last four years. The team also plays a significant role in providing a voice for disabled people. They have a unique knowledge and experience of making adjustments for people in a diverse range of employment types within the MOD environment, capturing our colleagues' workplace experiences, collaborating with others to find best practice, and sharing knowledge across other Government Departments.



The Workplace Adjustment Passport has been introduced by all Government Departments to make it easier for employees who have a disability, health condition or who are undergoing gender reassignment to move jobs within the Civil Service. The Passport helps in circumstances such as line manager changes, aiding new managers to understand the workplace adjustments the employee has in place, avoiding the need to revisit the process again. It can also be helpful in identifying non-visible disabilities, such as mental health issues.

We have an anonymous sifting process for recruitment to help us ensure a 'level playing field' in the assessment process. Recruiting line managers complete unconscious bias training to help them identify where potential issues may arise. We also participate in the Guaranteed Interview Scheme, whereby individuals who declare a disability are guaranteed an interview if they meet the minimum requirements. Also, to encourage and support applications from a more diverse applicant pool, we no longer have a minimum educational qualifications threshold for entry roles to the Civil Service.

We are also fully committed to supporting staff who become disabled whilst employed by the Department and a range of learning and support is available to them. We created the Defence Civilian Disability Toolkit in 2016 to support disabled staff and their line managers. It offers, amongst other things, information on what employees should do once a diagnosis is confirmed and where they can seek support, including Access to Work, the Employee Wellbeing Service and the MOD Counselling Service.

Our approach to training, career development and promotion is inclusion, and opportunities are offered on a fair and open basis. The Career Consultancy Service is open to all staff and provides specific support to those with a disability, offering tailored and impartial advice around career planning, training needs, job interview coaching, preparing applications and CV-writing. In addition, the MOD Talent Management Toolkit offers advice and guidance to managers to ensure that all employees are treated fairly with regards to career advancement. We actively promote talent programmes such as the Positive Action Pathway which is open to under-represented groups, including those with a disability.

## **Other Employee Matters**

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

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

- *Diversity* – We currently run a Defence Diversity and Inclusivity Programme to increase the diversity of our workforce in line with the targets that we have set. Our diversity statistics are included in the Performance Report.
- *People strategies* – Two key programmes (the Modernising Defence Programme and Armed Forces People Programme) are underway to shape our future workforce to the evolving requirements of MOD.
- *Armed Forces Covenant (AFC)* – The AFC is enshrined in law and exists to ensure that those who have served are treated fairly, and are put front and centre when it comes to policy-making and delivery.
- *Health and wellbeing* – We have introduced a number of initiatives aimed at increasing the health and wellbeing of our people. Information on Health and Safety statistics is available in the Health and Safety section of the Staff Report.
- *Employee consultation* – We undertake consultation with our people on an ongoing basis, and through two key annual surveys (the Armed Forces Continuous Attitude Survey and MOD People Survey).

- *Trade union relationships* – MOD recognises a number of trade unions and has a regular pattern of engagement with them, listening to union representatives who will articulate members' views to our management. Representatives are given paid time off so they may undertake union activities alongside their role with the Department.
- *Human capital management* – We work with our people continuously to ensure they have access to support and can access the best of the opportunities we can offer both in MOD and for life afterwards. Further information is included in the section on Staff Policies in the Staff Report.

## Expenditure on Consultancy and Temporary Staff

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

It does not make economic sense for the MOD to maintain all the specialist skills needed permanently in house, and access to some level of private-sector expertise is consequently of enduring value to the Department. This has particularly been the case over the past few years as the Department has been going through a period of fundamental change in the way defence business is conducted. We have therefore needed to contract short term both for independent advice and for specialist skills which cannot currently be found among the permanent workforce.

The MOD, including On Vote Agencies and Arms Length Bodies, spent the following on consultancy and temporary staff (also known as Contingent Labour) in 2017-18.

### Consultancy and Contingent Labour Costs

Body	Consultancy (to the nearest £1,000)	Contingent Labour/ Temporary Staff (to the nearest £1,000)
<b>MOD MAIN</b>	£31,120,000	£64,335,000
<b>On-Vote Agencies</b>		
Defence Equipment & Support Bespoke Trading Entity	£15,707,000	£27,196,000
Defence Electronics & Components Agency	Nil	£100,000
Defence Science & Technology Laboratory	£630,000	£10,759,000
<b>Executive Non-Departmental Public Bodies</b>		
National Museum of the Royal Navy	£372,000	£15,000
National Army Museum	£3,000	£58,000
Royal Air Force Museum	£160,000	£10,000
Single Source Regulations Office	Nil	£165,000
<b>Other Bodies</b>		
Commonwealth War Graves Commission	Nil	Nil
Royal Hospital Chelsea	£124,000	£453,000
Reserve Forces and Cadet Associations (RFCA)	£440,000	£524,000
<b>Total Expenditure 2017-18</b>	<b>£48,556,000</b>	<b>£103,615,000</b>

Consultancy is the provision of objective advice on strategy, structure, management or operations. It is provided when in-house skills are not available and is time limited. It covers the specialist areas of: finance, information technology, strategy, legal, property and construction, human resources

and training, technical, marketing and communications, organisation and change management, procurement and programme and project management.

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

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

### Prior Years Comparator

Financial Year	Consultancy (£ million)	Contingent Labour (£ million)
2016-2017	60.5	135.4
2015-2016	48.7	112.7
2014-2015	91.2	118.7
2013-2014	90.3	99.3

### Off-Payroll Engagements

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

Following changes to tax legislation in April 2017, we are required by HM Treasury to publish information relating to any highly-paid and/or senior off-payroll engagements we hold. The tables below show information relating to this in several respects:

#### Table 1

*For all off-payroll engagements as at 31 March 2018, for more than £245 per day and that last longer than 6 months*

	Main Department	ALBs
No. of existing engagements as of 31 March 2018	454	Nil
Of which...		
No. that have existed for less than one year at time of reporting.	323	Nil
No. that have existed for between one & two years at time of reporting.	77	Nil
No. that have existed for between two and three years at time of reporting.	26	Nil
No. that have existed for between three and four years at time of reporting.	21	Nil
No. that have existed for four or more years at time of reporting.	7	Nil

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

## Table 2

*For all new off-payroll engagements, or those that reached 6 months in duration, between 1 April 2017 and 31 March 2018, paid more than £245 per day*

	Main Department	ALBs
No. of new engagements, or those that reached six months in duration, between 1 Apr 17 and 31 Mar 18	495	Nil
Of which...		
No. assessed to be in-scope of IR35	474	Nil
No. assessed to be out of scope of IR35	21	Nil
No. engaged directly (via PSC contracted to department) and are on the departmental payroll	2	Nil
No. of engagements reassessed for consistency / assurance purposes during the year.	14	Nil
No. of engagements that saw a change to IR35 status following the consistency review	2	Nil

425 of the total 495 arrangements in Table 2 have been engaged via Contingent Labour (CL) One contract with Crown Commercial Services (CCS), or the Temporary Healthcare Worker frameworks. This reflects our policy decision to only engage workers through these frameworks who are on their supplier's payroll.

With respect to the remaining 70 engagements, 3 were 'Fee Earners' (individuals who were paid directly through our payroll, but are not officially MOD employees); 4 were arrangements with Dstl legacy CL One; 24 were DE&S arrangements with Paragon specialist recruiters within the power engineering industry; 5 were arrangements through the DIO Management Support Provider; 30 were engaged through the CCS Non-Medical / Non-Clinical framework and 4 were arrangements through JFC contracts.

14 arrangements have been re-assessed in the year, and 21 of the arrangements, assessed using HMRC's tool, are currently considered as out of scope for IR35. Two of the latter are engaged directly through our payroll.

### Table 3

*Off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 Apr 17 and 31 Mar 18*

	Main Department	ALBs
No of individuals that have been deemed “board members, and/or senior officials with significant financial responsibility”, during the financial year.	59	70

There have been no off-payroll engagements of board members and/or senior officials with significant financial responsibility during the financial year: the disclosure above relates to on-payroll engagements only.

We have considered those with ‘significant financial responsibility’ within the Department to be Top Level Budget (TLB) Holders, Directors of Resources and the DIO Director of Commissioning Services. Within Departmental Agencies and Arm’s Length Bodies, the Board Members are considered to be those with ‘significant financial responsibility.’

#### **Trade Union Facility Time**

*(This is an estimate based on current available information, it is planned to publish full details on the Gov.uk website during July)*

In accordance with the requirements of the Trade Union (Facility Time Publication requirements) Regulations 2017 the following is a summary of trade union officials employees and facility time incurred during 2017-18.

In core MOD, which includes executive agencies, 90 employees were Trade Union (TU) representatives. In total, 13,796 hours were spent on TU business, against a total of 142,524 available hours available for these staff (this assumes all staff were all Full-Time employees). This equates to 9.68 percent of their time being spent on TU business. MOD employees are only allowed to spend up to 50 percent of their working hours on facility time. The total cost of the facility time was £259,544 which is 0.1 percent of the total pay bill for civilian staff.



## The Parliamentary Accountability and Audit Report

The Parliamentary Accountability and Audit Report describes how we have been financed through the Westminster Estimates process, and includes a number of other ‘accountability’ disclosures which are required by Parliament. Details are also provided regarding the regularity of our expenditure, meaning that Parliament can be assured that funds have been spent in the manner intended. The Report concludes with the Certificate and Report of the Comptroller and Auditor General. Further details of the Department’s Estimate and Outturn are included in the DG Finance Financial Performance Summary in the Performance Report.

### Statement of Parliamentary Supply (SoPS)

*(this section has been subject to audit)*

In addition to the primary statements prepared under IFRS (included in the Financial Statements), the FReM requires us to prepare a SoPS and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

### Summary of Resource and Capital Outturn 2017-18

	Note	Estimate			Outturn			2017-18	2016-17
		Voted	Non Voted	Total	Voted	Non Voted	Total	Total Voted Outturn Compared to Estimate Saving / (Excess)	Outturn
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Departmental Expenditure Limit</b>									
Resource	SoPS 1.1	36,219,627	–	36,219,627	34,198,736	–	34,198,736	2,020,891	35,422,775
Capital	SoPS 1.2	9,793,192	–	9,793,192	9,703,586	–	9,703,586	89,606	8,688,553
<b>Annually Managed Expenditure</b>									
Resource	SoPS 1.1	10,050,786	–	10,050,786	9,690,365	–	9,690,365	360,421	(210,694)
Capital	SoPS 1.2	100,000	–	100,000	44,486	–	44,486	55,514	–
<b>Total</b>		<b>56,163,605</b>	<b>–</b>	<b>56,163,605</b>	<b>53,637,173</b>	<b>–</b>	<b>53,637,173</b>	<b>2,526,432</b>	<b>43,900,634</b>
Total Resource	SoPS 2	46,270,413	–	46,270,413	43,889,101	–	43,889,101	2,381,312	35,212,081
Total Capital		9,893,192	–	9,893,192	9,748,072	–	9,748,072	145,120	8,688,553
<b>Total</b>		<b>56,163,605</b>	<b>–</b>	<b>56,163,605</b>	<b>53,637,173</b>	<b>–</b>	<b>53,637,173</b>	<b>2,526,432</b>	<b>43,900,634</b>

The majority of the £2Bn variance in Resource DEL was due to the Department not being required to impair as many assets as originally proposed. There was also a one-off amnesty granted by HM Treasury to write-off obsolete raw materials and consumables (RMC) stock from prior years, as part of the change in budgeting treatment for RMC, this contributed to the overall total variance. The significant Resource DEL under spend does not impact on Defence spending power as it is a non-cash accounting adjustment.

Annually Managed Expenditure is demand led and volatile so cannot be absorbed within normal Departmental Expenditure Limit controls. For 2017-18 the estimate included £5.8Bn for change in HM Treasury’s long-term discount rates, mainly related to updated nuclear provisions, of which only £5.3Bn was subsequently required. The £0.4Bn variance does not impact on Defence spending power as it is a non-cash accounting adjustment.

## Net Cash Requirement 2017-18

	Note	2017-18				2016-17
		Estimate	Outturn	Outturn compared to Estimate: Savings/ (Excess)	Outturn	
		£000	£000	£000	£000	
<b>Net Cash Requirement</b>	<b>SoPS 3</b>	<b>38,817,305</b>	<b>36,324,368</b>	<b>2,492,937</b>	35,866,342	

## Administration Costs 2017-18

	2017-18				2016-17
	Estimate	Outturn	Outturn compared with Estimate	Outturn	
	£000	£000	£000	£000	
<b>Administration Costs</b>	<b>1,554,146</b>	<b>1,467,084</b>	<b>87,062</b>	1,497,004	

## SoPS Note 1 Net Outturn

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

Spending in Departmental Expenditure Limits (DEL)	2017-18						2016-17	
	Administration Expenditure	Programme Expenditure	Programme Income	Total Net Resource Outturn	Total Net Resource Estimate	Total Net Outturn Compared to Estimate	Total Net Outturn Compared to Estimate Adjusted for Virements	Total Net Resource Outturn*
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Voted Expenditure</b>								
A. Provision of Defence Capability – Service Personnel Costs	–	8,970,633	–	<b>8,970,633</b>	9,081,617	110,984	54,702	8,936,726
B. Provision of Defence Capability – Civilian Personnel Costs	–	1,363,922	–	<b>1,363,922</b>	1,538,699	174,777	174,777	1,317,797
C. Provision of Defence Capability – Infrastructure Costs	–	4,057,523	–	<b>4,057,523</b>	4,168,361	110,838	110,838	4,109,609
D. Provision of Defence Capability – Inventory Consumption	–	1,187,498	–	<b>1,187,498</b>	1,344,322	156,824	156,824	1,213,611
E. Provision of Defence Capability – Equipment Support Costs	–	6,548,798	–	<b>6,548,798</b>	6,599,315	50,517	50,517	6,440,168
F. Provision of Defence Capability – Other Costs and Services	–	1,344,094	–	<b>1,344,094</b>	1,382,247	38,153	38,153	1,224,402
G. Provision of Defence Capability – Receipts and Other Income	–	–	(1,069,897)	<b>(1,069,897)</b>	(1,676,583)	(606,686)	(606,686)	(1,001,626)
H. Provision of Defence Capability – Depreciation and Impairment Costs	–	7,236,889	–	<b>7,236,889</b>	9,024,000	1,787,111	1,787,111	8,773,560
I. Provision of Defence Capability – Cash Release of Provisions	–	292,907	–	<b>292,907</b>	279,880	(13,027)	–	253,552
N. Provision of Defence Capability – Research and Development Costs	–	223,050	–	<b>223,050</b>	187,858	(35,192)	–	164,191
Q. Operations – Service Personnel Staff Costs	–	42,608	–	<b>42,608</b>	29,000	(13,608)	–	27,617
R. Operations and Peacekeeping – Civilian Personnel Staff Costs	–	5,621	–	<b>5,621</b>	7,200	1,579	1,579	4,840
S. Operations – Infrastructure Costs	–	56,714	–	<b>56,714</b>	81,000	24,286	24,286	42,939
T. Operations – Inventory Consumption	–	95,821	–	<b>95,821</b>	130,386	34,565	34,565	66,085
U. Operations – Equipment Support Costs	–	282,316	–	<b>282,316</b>	296,000	13,684	13,684	233,445
V. Operations – Other Costs and Services	–	35,451	–	<b>35,451</b>	81,000	45,549	28,882	41,510
W. Operations – Receipts and Other Income	–	–	(11,941)	<b>(11,941)</b>	(15,000)	(3,059)	–	(16,698)
X. Operations – Depreciation and Impairment Costs	–	49,723	–	<b>49,723</b>	63,600	13,877	13,877	45,272

2017-18								2016-17
Spending in Departmental Expenditure Limits (DEL)	Administration Expenditure	Programme Expenditure	Programme Income	Total Net Resource Outturn	Total Net Resource Estimate	Total Net Outturn Compared to Estimate	Total Net Outturn Compared to Estimate Adjusted for Virements	Total Net Resource Outturn*
Voted Expenditure	£000	£000	£000	£000	£000	£000	£000	£000
AA. Arm's Length Bodies Costs	-	164,637	-	<b>164,637</b>	170,823	6,186	6,186	153,063
AC. Defence Capability DE&S BTE	-	1,041,063	-	<b>1,041,063</b>	1,033,000	(8,063)	-	1,044,059
AD. War Pensions Benefits	-	723,228	-	<b>723,228</b>	736,869	13,641	13,641	764,817
AE. Conflict, Stability and Security Fund	-	90,994	-	<b>90,994</b>	121,887	30,893	30,893	86,832
<b>Administration Costs*</b>								
O. Administration Costs - Civilian Personnel Costs	363,297	-	-	<b>363,297</b>	430,740	67,443	67,443	430,741
P. Administration Costs - Other Costs and Services	423,226	-	-	<b>423,226</b>	451,772	28,546	17,893	395,656
AB. Administration Costs - Service Personnel Costs	670,653	-	-	<b>670,653</b>	660,000	(10,653)	-	658,904
AF. Administration Costs - Cash Release of Provisions	9,908	-	-	<b>9,908</b>	11,634	1,726	1,726	11,703
<b>Total Resource Spending in DEL</b>	<b>1,467,084</b>	<b>33,813,490</b>	<b>(1,081,838)</b>	<b>34,198,736</b>	<b>36,219,627</b>	<b>2,020,891</b>	<b>2,020,891</b>	35,422,775

\* The Department does not record any income as Administrative.

2017-18								2016-17
Spending in Annually Managed Expenditure (AME)	Administration Expenditure	Programme Expenditure	Programme Income	Total Net Resource Outturn	Total Net Resource Estimate	Total Net Outturn Compared with Estimate	Total Net Outturn Compared to Estimate Adjusted for Virements	Total Net Resource Outturn
Voted Expenditure	£000	£000	£000	£000	£000	£000	£000	£000
AG. Provision of Defence Capability – Depreciation and Impairment Costs	-	861,134	-	<b>861,134</b>	1,064,700	203,566	203,566	142,253
AH. Provision of Defence Capability – Provisions Costs	-	8,548,134	-	<b>8,548,134</b>	8,977,600	429,466	145,554	501,333
AI. Provision of Defence – Cash Release of Provisions Costs	-	-	(302,815)	<b>(302,815)</b>	(291,514)	11,301	11,301	(265,255)
AJ. Movement on the Fair Value of Financial Instruments	-	583,912	-	<b>583,912</b>	300,000	(283,912)	-	(589,025)
<b>Total Resource Spending in AME</b>	<b>-</b>	<b>9,993,180</b>	<b>(302,815)</b>	<b>9,690,365</b>	<b>10,050,786</b>	<b>360,421</b>	<b>360,421</b>	(210,694)
<b>Total Resource Outturn</b>	<b>1,467,084</b>	<b>43,806,670</b>	<b>(1,384,653)</b>	<b>43,889,101</b>	<b>46,270,413</b>	<b>2,381,312</b>	<b>2,381,312</b>	35,212,081

## SoPS Note 1.2 – Analysis of Net Capital Outturn

Capital Spending in Departmental Expenditure Limits (DEL)	2017-18							2016-17
	Administration Expenditure	Programme Expenditure	Programme Income	Total Net Capital Outturn	Total Net Capital Estimate	Total Net Outturn Compared with Estimate	Total Net Outturn Compared to Estimate Adjusted for Virements	Total Net Capital Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
J. Provision of Defence Capability – Capital – Single Use Military Equipment (SUME)	–	5,530,091	–	<b>5,530,091</b>	5,211,972	(318,119)	–	5,192,513
K. Provision of Defence Capability – Other Capital (Fiscal)	–	2,929,616	–	<b>2,929,616</b>	3,085,872	156,256	143,858	2,279,278
L. Provision of Defence Capability – Fiscal Assets / Estate Disposal	–	–	(33,224)	<b>(33,224)</b>	(159,203)	(125,979)	(125,979)	(36,560)
M. Provision of Defence Capability – New Loans and Loan Repayments	–	–	–	–	12,800	12,800	12,800	(63,292)
N. Provision of Defence Capability – Research and Development Costs	–	1,007,683	–	<b>1,007,683</b>	1,313,404	305,721	–	1,104,141
Y. Operations Capital Single Use Military Equipment (SUME)	–	178,258	–	<b>178,258</b>	200,000	21,742	21,742	111,350
Z. Operations Other Capital (Fiscal)	–	20,716	–	<b>20,716</b>	34,000	13,284	13,284	3,616
AA. Arm's Length Bodies	–	1,754	–	<b>1,754</b>	10,647	8,893	8,893	2,145
AC. Defence Capability DE&S BTE	–	64,315	–	<b>64,315</b>	77,700	13,385	13,385	94,941
AE. Conflict, Stability and Security Fund	–	4,377	–	<b>4,377</b>	6,000	1,623	1,623	421
<b>Total Capital Spending in DEL</b>	<b>–</b>	<b>9,736,810</b>	<b>(33,224)</b>	<b>9,703,586</b>	<b>9,793,192</b>	<b>89,606</b>	<b>89,606</b>	8,688,553

Capital Spending in Annually Managed Expenditure (AME)	2017-18							2016-17
	Administration Expenditure	Programme Expenditure	Programme Income	Total Net Capital Outturn	Total Net Capital Estimate	Total Net Outturn Compared with Estimate	Total Net Outturn Compared to Estimate Adjusted for Virements	Total Net Capital Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
AH. Provision of Defence Capability – Provisions Costs	–	44,486	–	<b>44,486</b>	100,000	55,514	55,514	–
<b>Total Capital Spending in AME</b>	<b>–</b>	<b>44,486</b>	<b>–</b>	<b>44,486</b>	<b>100,000</b>	<b>55,514</b>	<b>55,514</b>	–
<b>Total Capital Outturn</b>	<b>–</b>	<b>9,781,296</b>	<b>(33,224)</b>	<b>9,748,072</b>	<b>9,893,192</b>	<b>145,120</b>	<b>145,120</b>	8,688,553

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

	Note	2017-18 Outturn £000	2016-17 Outturn £000
<b>Net Resource Outturn (Statement of Parliamentary Supply)</b>	SoPS	<b>43,889,101</b>	35,212,081
Adjustment for changes in discount rates not passing through net operating costs		(542)	(128,442)
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		26,134	4,405
Income in respect of donated assets treated as capital income		(1,372)	(1,182)
Loss / (gain) on foreign exchange contracts in respect of Capital purchases		(128,299)	(188,000)
Less movements on capitalised provisions included in resource outturn but not passing through net operating costs		(912,548)	17,298
Adjust for the net effect of capital grants included in operating costs but excluded from resource outturn and included in resource outturn but excluded from operating costs		1,754	71,430
Gain on transfer by absorption of Dstl		(347,400)	–
Add capitalised Research and Development Costs included in operating costs but excluded from resource outturn		621,512	655,037
<b>Net Expenditure</b>		<b>43,148,340</b>	35,642,627

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

	Note	Estimate £000	Outturn £000	Net Total Outturn Compared with Estimate: Savings/ (Excess) £000
Net Resource Outturn	SoPS 1.1	46,270,413	43,889,101	2,381,312
Net Capital Outturn	SoPS 1.2	9,893,192	9,748,072	145,120
Adjustments for Arm's Length Bodies (ALBs):				
Remove voted outturn (Resource and Capital)		(181,470)	(166,391)	(15,079)
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		172,556	185,895	(13,339)
Adjustments to remove non-cash items:				
Depreciation and impairment		(10,452,300)	(7,483,585)	(2,968,715)
New provisions and adjustments to previous provisions		(8,977,600)	(8,626,969)	(350,631)
Other non-cash items			(1,553,460)	1,553,460
Adjustment to reflect movement in working capital:				
Increase / (Decrease) in Inventory		225,000	(275,738)	500,738
Increase / (Decrease) in Receivables		475,000	(433,627)	908,627
(Increase) / Decrease in Payables		1,101,000	766,936	334,064
Use of provisions and unfunded pensions		291,514	274,134	17,380
<b>Net Cash requirement</b>		<b>38,817,305</b>	<b>36,324,368</b>	<b>2,492,937</b>



## Parliamentary Accountability Disclosures

### Fees and Charges

*(this section has been subject to audit)*

Where we have spare capacity, we provide a range of services to external organisations. The majority of these services are in the form of military support to foreign governments and other government departments. Costs are recovered in accordance with Managing Public Money. Where a chargeable activity produces a tangible benefit to Defence, we may reduce any charges levied below the full costs of the activity.

### Remote Contingent Liabilities and Financial Guarantees

*(this section has been subject to audit)*

In addition to IAS 37 liabilities disclosed within the Notes to the Accounts, we disclose – for Parliamentary reporting and accountability purposes – certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which are reported to Parliament in accordance with the requirements of Managing Public Money.

We have entered into the following contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. Details of restricted indemnities are not given due to reasons of commercial confidentiality and / or national security.

These liabilities are uncertain and recognise the fact that further expenditure may arise if one or more uncertain future events occur that are not wholly within our control.

Following a review during 2017-18, MOD identified that the correct approval process had not been followed in 18 cases. In each case, MOD entered into a contingent liability, in order to drive best value from defence contracts. To regularise the position with Parliament, two HMT approved Departmental Minutes were laid, notifying Parliament retrospectively of the contingent liabilities. Whilst this was only for a small number of cases, to prevent repeat occurrences, a response plan has been put in place to address the shortfalls identified. This includes improved guidance, briefing of staff and widening and deepening specialist training on contingent liabilities. As a direct result of this review, there has been an increase in the value of contingent liabilities disclosed in the 2017-18 Annual Report and Accounts.

## Quantifiable Contingent Liabilities

	31 March 2017	Increase / (Decrease) in year	Liabilities crystallised in year	Obligation expired in year	31 March 2018
	£000	£000	£000	£000	£000
Indemnity for possible damage caused by contractors on Government property	280,000	1,736,035			2,016,035
Restricted. Not disclosed due to reasons of commercial confidentiality and / or national security	278,162			(1,197)	276,965
Statutory liability for International Military Sales		100,000			100,000
Limit of contractor liability for consequential or indirect loss arising from Light Aircraft Flying Training		20,000			20,000
Remediation costs associated with the discovery of unknown environmental contamination at the Fleetlands site	17,000				17,000
Potential redundancy liability for employees at several sites due to USVF re-basing as part of US European Infrastructure Consolidation (EIC)	6,000				6,000
Government Pipeline and Storage System (GPSS) – compensation to landowners where GPSS is laid outside deviation limits or where the SofS' rights in respect of GPSS are lost	5,606				5,606
Limit of contractor liability for public and employees in relation to the RAF Northolt Multi Activity Contract		5,000			5,000
Liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force	2,645	1,041		(737)	2,949
Potential redundancy costs for employees at the Defence College of Technical Training	1,900				1,900
Liabilities arising from the use of Generic Indemnities in MOD contracts		335			335
<b>Total</b>	<b>591,313</b>	<b>1,862,411</b>	<b>–</b>	<b>(1,934)</b>	<b>2,451,790</b>

Following a full review of Contingent Liabilities, an additional £978M has been disclosed for cases requiring retrospective approval, to limit contractor liability for possible damage caused by contractors on Government property. In addition, a number of pre-approved Contingent Liabilities have been included, for example £335,000 for liabilities arising from the use of Generic Indemnities in MOD contracts have been combined in a new serial.

## Unquantifiable Contingent Liabilities

A number of contingent liabilities are considered unquantifiable. This is due to the difficulty of estimating liabilities which may involve multiple improbable scenarios and permutations (often involving complex and changing technology) and the uncertainty surrounding those events that may lead to any obligations crystallising. Objective evidence to support valuations of these liabilities is not available and hence we cannot measure them with sufficient reliability.

Although we consider that they are unlikely to occur, we have disclosed these liabilities as they relate to possible obligations triggered by our involvement in enduring companies, products, projects, equipment, technologies and property.

The liabilities are:

- Indemnities to AWE Management Ltd for nuclear and non-nuclear risks.
- Indemnities to Rolls-Royce and BAE Systems for risks associated with the handling of fissile materials.
- Indemnity to Rolls Royce for redundancy costs in the event of the termination of the nuclear submarine construction programme.
- 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 in respect of nuclear risk in support of framework contracts under Next Generation Estate Contracts.
- Standard shipbuilding indemnity in respect of Astute class submarines.
- 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 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.
- Indemnity for residual employee disease liability arising from the disbanding of Defence Evaluation and Research Agency (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 Defence Evaluation and Research Agency (DERA) as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.
- Indemnity for environmental losses incurred by QinetiQ arising from certain defined materials at specific properties before the formation of QinetiQ on 1 July 2001.
- Indemnity for contractors under standard contract terms for Joint Operational Fuel Systems and Cerberus Project.
- Indemnities under standard terms to contractors for contractors' personnel on Government premises for Sensors Support Optimisation Project.
- New Fair Deal Arrangements for staff pensions.
- Indemnity of early termination of the Forces Broadcasting Service Contract.
- On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed. In accordance with accounting standards, no contingent assets can be recognised. During this two year period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

- Overall cap on contractor liability within the future submarine design phase contract with Devonport Royal Dockyard Limited.
- Cap on contractor liability for inadequate performance within the future submarine design phase contract with BAE Systems Ltd.
- Indemnities and limits of liability to contractors in respect of consequential and indirect losses.
- Catastrophic Risk indemnity encompassing claims above £50M for direct or indirect costs not covered by the standard Special Risk Indemnity for Shipbuilders to BAE Systems Ltd for Type 26 Global Combat Ship Manufacture Phase 1.
- Potential liability from the use of standard terms and conditions in Public Finance Initiative (PFI) schemes.
- Liabilities arising from the use of Special Risk Indemnities in MOD contracts.
- Liabilities arising from the use of Generic Indemnities in MOD contracts.
- Liabilities arising from Foreign Military Sales activity.

## Financial Guarantees

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

## Accountability to Parliament

Ministers have accounted to Parliament during the financial year 2017-18 on all aspects of the Ministry of Defence's business. Defence Ministers participated in five debates on Defence issues in the House of Commons which were two Opposition Day Debates and three debates determined by the Backbench Business Committee. Ministers responded to 11 debates in Westminster Hall. There were five debates on Defence in the House of Lords. Details are published in Hansard.

There were 13 debates on legislation (six in the House of Commons and seven in the House of Lords). The MOD has taken the Armed Forces (Flexible Working) Bill through Parliament this session.

Ministers made three oral statements to the House of Commons and three to the House of Lords – details are published in Hansard. A total of 2,563 oral and written Parliamentary Questions were answered. Ministers also made 38 Written Ministerial Statements to the House of Commons and the House of Lords – details are published on the Parliamentary written questions and answers system at the following link – <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/>.

## Ministerial Correspondence

From 1 April 2017 to 31 March 2018, Defence Ministers received 2,430 items of correspondence from Members of Parliament, Peers and members of the public where a Ministerial response was appropriate. Of these, 2,317 (95%) were answered within the target of 20 working days.

## Evidence to the Defence Select Committee

Since 1 April 2017, the Ministry of Defence has given evidence to the Defence Select Committee on a number of occasions covering a wide range of issues, and the Government has responded to a number of the Committee's reports. All Committee publications, including published evidence given to the Committee, are available at: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/defence-committee/publications/>

Government responses submitted by the Ministry of Defence to Committee reports published during this reporting period are listed below.

### Parliamentary session 2017-18: MOD responses to reports published in the previous Parliamentary session

Report	Title	Publication Date
HC 310	Armed Forces Covenant Annual Report 2016: Government Response to the Committee's Ninth Report of Session 2016-17	15 September 2017
HC 311	SDSR 15 and the Army: Government Response to the Committee's Eighth Report of Session 2016-17	15 September 2017
HC 549	Investigations into Fatalities in Northern Ireland involving British Military Personnel: Government Response to the Committee's Seventh Report of Session 2016-17	13 November 2017

### Financial Year 2017-18: Defence Select Committee reports (Government responses, if published, are listed in brackets after the report to which they relate)

Report	Title	Publication Date
HC 431 (HC 846)	Gambling on 'Efficiency': Defence Acquisition and Procurement	17 December 2017
HC 326 (HC 845)	Unclear for take-off? F35 Procurement	19 December 2017
HC 622	Sunset for the Royal Marines? The Royal Marines and UK Amphibious Capability	4 February 2018

### Visits by the Defence Committee to UK Armed Forces

Date of Visit	Establishment	Related Inquiry
23 October 2017	Air Combat Power Visit – RAF Coningsby	SDSR 15 and the RAF

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

Since 1 April 2017, 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:



## Parliamentary session 2017-18: Reports/evidence

Select Committee	Subject	Publication/Oral Evidence Date
Foreign Affairs Committee HC 722	The UK's response to hurricanes in its Overseas Territories	15 November 2017
Defence Committee HC 571	Annual Report and Accounts 2016-17	21 November 2017
House of Commons International Development Committee	Sexual exploitation and abuse in the aid sector inquiry	Publication pending
House of Commons International Development Committee	DFID's work on Bangladesh, Burma and the Rohingya crisis inquiry	Publication pending
House of Commons Science and Technology Committee	Research Integrity	Publication pending
House of Lords EU External Affairs Sub-Committee	Brexit: Common Security and Defence Policy (CSDP) missions inquiry	Publication pending

## Visits by Other Select Committees to UK Armed Forces

Select Committee	Date of Visit	Establishment	Related Inquiry
House of Lords EU External Affairs Sub-Committee	28 February 2018	EU Operation Atalanta Operational Headquarters, Northwood	Brexit: Common Security and Defence Policy (CSDP) missions inquiry

## Public Accounts Committee

The Permanent Secretary as the MOD's Accounting Officer is accountable to the Public Accounts Committee.

## Evidence to the Committee of Public Accounts and report publications following NAO Value for Money Reports

Report	Title	Hearing Date	Publication Date
HC394/HC1057	Delivering Carrier Strike	11 October 2017 & 4 December 2017	01 March 2018
HC724/HC412	Non-competitive procurement of defence equipment	10 January 2018	23 March 2018
HC724/HC525	Support arrangements and cannibalisation of naval equipment	10 January 2018	23 March 2018
HC717	The Equipment Plan 2017 – 2027	13 March 2018	11 May 2018
HC762/H880	MOD contract with Annington Homes inquiry	14 May 2018	Publication pending

All Committee publications, including published evidence given to the Committees, are available at: <https://www.parliament.uk/business/committees/committees-a-z/>

## **Performance in Responding to Correspondence from the Public**

### **Freedom of Information**

Each government department has a publication scheme, which makes information available to the public about how it operates and how it spends its budget. There are a variety of ways members of the public can obtain information from the Ministry of Defence. Some information is released proactively and can be accessed through the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/publication-scheme> while other categories of information are only available on request.

### **Complaints to the Parliamentary and Health Service Ombudsman**

The Parliamentary and Health Service Ombudsman (PHSO) investigate complaints from individuals who feel they have been treated unfairly, improperly or have received a poor service from Government Departments or their agencies.

During 2017-18, the most recent period for which information is available, 16 complaints were submitted to the PHSO of which 3 were accepted for investigation. After investigation 2 of these were partly upheld and 1 was not upheld.

### **Regularity of Expenditure**

*(this section has been subject to audit)*

### **Losses, Special Payments and Gifts**

Further information on the categories of losses and special payments can be found in HM Treasury's Managing Public Money at: <https://www.gov.uk/government/publications/managing-public-money>.

## Losses

### Summary of all closed cases:

	2017-18		2016-17	
	Number of Cases	£000	Number of Cases	£000
Bookkeeping Adjustments	30	28,292	33	4,180
Cash and Overpayment Losses	18	45	118	749
Stores Losses	6,128	14,299	6,771	9,409
Fruitless Payments	1,710	11,143	1,496	36,481
Constructive Losses	4	137,140	14	151,748
Claims Waived or Abandoned	1,973	3,089	2,926	15,880
<b>Total Losses</b>	<b>9,863</b>	<b>194,008</b>	11,358	218,447

### Details of closed cases over £300,000:

	£000
<b>Bookkeeping Adjustments</b>	
Write off of unsupported balances. This loss consists of balances that could not be verified with the information available. The losses are described below:	
Reconciliation adjustments following implementation of new financial systems in 2016-17. The loss consists of 2 cases	<b>20,985</b>
Unsubstantiated assets under construction legacy balances within a missile system project	<b>2,308</b>
Reconciliation adjustments following review of issues raised in the 2016-17 Management Letter. This loss consists of 3 cases	<b>1,489</b>
Inventory record discrepancies following a major refit of HMS Triumph	<b>965</b>
Write-off of historical reconciliation balances within several Air Platform projects	<b>821</b>
Unsubstantiated assets under construction balances within a Flight Simulation and Synthetic Trainer project	<b>312</b>
<b>Stores Losses</b>	
Repairs to HMS Ambush following a collision	<b>4,678</b>
<b>Fruitless Payments</b>	
The MOD's budget for 2018-19 has been reduced as a result of the Department's cash forecasting performance during 2017-18	<b>3,300</b>
Contractual payment for gas canisters belonging to a contractor which were lost while in MOD's custody	<b>3,275</b>
Disposal of expired ration packs following changes to operational deployment planning assumptions	<b>363</b>
Penalty and interest payment due to HMRC on tax and NI liabilities	<b>332</b>
<b>Constructive Losses</b>	
Cancellation of the Fire Shadow munition programme	<b>95,494</b>
Cancellation of Queen Elizabeth Class aircraft carrier conversion programme, following the decision to revert to Short Take Off and Vertical Landing (STOVL) variant of the Joint Strike Fighter Aircraft	<b>40,821</b>
Costs incurred on early termination of a contract	<b>802</b>

£000	
<b>Claims waived or abandoned</b>	
Supplies and services provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British ports at Clyde, Portsmouth, Devonport and Gibraltar	<b>625</b>
<b>TOTAL CLOSED CASES OVER £300,000</b>	<b>176,570</b>

**ADVANCE NOTIFICATIONS:** HM Treasury's Managing Public Money requires early notification to Parliament of significant losses. Details of open cases identified during the year that are over £300,000 can be found in the table below. The values are estimates and may change when the case is finally closed.

£000	
<b>Cash and overpayment losses</b>	
Unrecoverable overpayment of military allowances	<b>2,500</b>
<b>Stores Losses</b>	
Damage to Challenger 2 tank due to gun malfunction	<b>1,558</b>
<b>Claims waived or abandoned</b>	
Claims waived in respect of an overpayment of military allowances	<b>1,151</b>
Claims abandoned in respect of training and other services supplied to overseas customers. This loss consists of 2 cases	<b>961</b>
<b>TOTAL ADVANCE NOTIFICATIONS OVER £300,000</b>	<b>6,170</b>

## Special Payments

	2017-18		2016-17	
	Number of Cases	£000	Number of Cases	£000
Total Special Payments – closed cases	160	1,826	406	44,266

## Details of closed cases over £300,000:

£000	
<b>Extra Gratia Payments</b>	
Extra-contractual payment in respect of remediation to a former MOD property	<b>550</b>
Extra-contractual payment to settle a legal challenge	<b>400</b>
Ex gratia payments authorised by Treasury	<b>350</b>

**There are no advance notifications of Special Payments over £300,000**

## Special Severance Payments

During the year **five** Special Severance Payments totalling **£77,121** were made. Further details (to the nearest £1,000) are:

Maximum Payment	30,000
Median Payment	10,000
Minimum Payment	7,000

## Gifts

Gifts with a total value of **£3,080,000** (to the nearest £1,000) were made during the year, including the following individual gifts over £300,000:

	£000
Counter Improvised Explosive Device equipment to the Libyan Government of National Accord	<b>3,037</b>
	<b>3,037</b>
<b>The following gifts over £300,000 were identified during the year and have yet to be handed over to the recipient.</b>	<b>£000</b>
Devonport Collection – a large number of Royal Navy related artefacts to The National Museum of the Royal Navy	<b>650</b>
Franklin Wrecks – HMS Erebus and HMS Terror and their associated artefacts to the Government of Canada. The value is unquantifiable	<b>-</b>
<b>TOTAL ADVANCE NOTIFICATIONS OF GIFTS</b>	<b>650</b>

**Stephen Lovegrove**

Accounting Officer

**12 July 2018**



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

## Opinion on financial statements

I certify that I have audited the financial statements of the Ministry of Defence and of its Departmental Group for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2017. The financial statements comprise: the Department's and Departmental Group's Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

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

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2018 and of the Department's net expenditure and Departmental Group's net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Basis for qualified opinion on financial statements

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

- The Department has not undertaken sufficient work to analyse underlying and supporting documentation to enable it to comply with the Financial Reporting Framework and account for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17, Leases. Consequently, I have concluded that the Ministry of Defence has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2016, 31 March 2017 and 31 March 2018. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not obtained the records or information required to comply with International Financial Reporting Standards in this respect.

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Ministry of Defence in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Ministry of Defence's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the Ministry of Defence's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence

obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

## Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability 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 solely of the absence of accounting records held by the Department to support the proper application of IAS 17; described above:

- adequate accounting records have not been kept; and,
- I have not received all of the information and explanations I require for my audit.

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

- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Opinion on Votes A

The Ministry of Defence's Votes A is presented annually to Parliament to seek statutory authority for the maximum numbers of personnel to be maintained for service with the armed forces. As reported in Annex A of the Annual Report, the maximum numbers maintained during 2017-18 for the Naval, Army and Air Force Services in all active and reserve categories were within the numbers voted by Parliament. I obtain evidence sufficient to give reasonable assurance as to whether the Votes A Statement as presented in Annex A properly presents the maximum numbers maintained against voted Parliamentary control totals and whether those totals have not been exceeded.

In my opinion the Votes A Statement properly presents the maximum numbers maintained against voted Parliamentary control totals for the year ended 31 March 2018 and that those totals have not been exceeded.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

**17 July 2018**

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

# Report of the Comptroller and Auditor General on the 2017-18 Accounts of the Ministry of Defence

## Introduction

1. The Ministry of Defence's (the Department) principal activity is to protect the security, independence and interests of the United Kingdom and its Overseas Territories both at home and abroad. In 2017-18 the Departmental Group incurred £43.5 billion of net operating costs and held assets of £143.7 billion and gross liabilities of £37.3 billion.
2. The Department is required to prepare its financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury. Under the FReM, the Department is required to apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

## The purpose of my report

3. This report explains the basis for the qualification of my audit opinion on the Department's 2017-18 financial statements.

## Accounting for lease type arrangements

### Basis of my qualification

4. I have qualified my opinion for a ninth year because the Department has not accounted for the assets and liabilities arising from certain contracts in accordance with International Accounting Standard (IAS) 17, Leases. I cannot quantify precisely the extent of the omitted leased assets and lease liabilities as the Department has not maintained the records or obtained the information required to do so. However, I consider the impact on the financial statements of this noncompliance with IAS 17 to be material.

### Accounting requirements

5. The FReM requires those preparing accounts to establish whether contracts contain lease-type arrangements and whether those are, in substance, either a finance or operating lease and account for these leases under International Accounting Standard (IAS) 17, Leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is any other type of lease. The classification made by those preparing accounts could have a significant impact on the financial statements.
6. If the contract is classified as a finance lease then the value of assets used to deliver the service would be recognised in the Statement of Financial Position at the lower of fair value and the present value of the minimum lease payments due under the contract. A corresponding liability of the same value would also be recognised. If it is classified as an operating lease, no assets would be recognised and the payments made under the lease would be reflected in the Statement of Comprehensive Net Expenditure as spend is incurred.
7. I regard the accounting requirements for lease type arrangements as particularly relevant to the Department. The Department must enter into strategic arrangements with certain contractors to procure specialist defence platforms on a non-competitive basis. These arrangements may provide for the exclusive, or near exclusive, use of industrial assets and capability that have only limited use for other



customers. Consequently, the contractual terms may result in the Department controlling a significant majority of the outputs of a supplier's assets. An example is where shipyards are used exclusively on defence contracts and the pricing of the contract recognises this by allowing the contractor to recover fixed costs other than through market rate or unit cost pricing. These arrangements may be considered to contain the characteristics of a finance lease as defined by IAS 17 – Leases and should therefore be recognised as finance leases in the Department's Statement of Financial Position.

### Action by the Department

**8.** The Department believes there may be a number of contracts that should be accounted for as leases, but it does not have accurate information to enable it to do so. In 2012-13, following a review of twenty five contracts that demonstrate characteristics of a lease under IAS 17, the Department assessed eight of these as being finance leases. The Department estimated that if recognised, these finance leases would lead to assets with an estimated initial net book value of some £860 million being recognised in its Statement of Financial Position. There have not been any significant changes in the assets and arrangements underpinning the Department's assessment since 2012-13. In addition, the Department also recognises that there are significant completeness concerns over the scope of its review and that across the Department as a whole the scale of the omission of assets and liabilities arising from lease arrangements could be higher than £860 million. The Department's analysis confirms the material impact of not recognising leases, although the quality of evidence is still insufficient for the purposes of my opinion. Further management information and supplier engagement is needed to complete this review and confirm what values would need to be included in the accounts.

**9.** The Department has concluded that compliance with IAS 17 for existing contracts would create significant challenges. It would need to change its business systems and processes as well as wider interaction with its supplier base to obtain the necessary asset and liability information. As such, the Department has, in agreement with HM Treasury, decided not to obtain more detailed information on the grounds that doing so would not represent value for money.

**10.** The Department is seeking to apply IAS 17 for any new contracts on a single site with a single supplier. To date, the Department has not identified any new contracts that fall under IAS 17 using this limited criteria. This application of IAS 17 is limited and will not consider any legacy contracts. As such, there is still a material impact of non-compliance arising from legacy contracts.

**11.** The International Accounting Standards Board (the Board) is responsible for setting IFRS, of which IAS 17, is a part. In January 2016, the Board issued a new accounting Standard – IFRS 16 – Leases which sees the accounting treatment of finance and operating leases aligned, so that all leases are recognised in the Statement of Financial Position and not just finance leases. In May 2018, HM Treasury published IFRS 16 Exposure Draft 18(01). This Exposure Draft invited comments on proposed amendments to the Government Financial Reporting Manual (FReM) in respect of IFRS 16 and any adaptations for the public sector. The Exposure Draft also confirmed that IFRS 16 will be effective from 1 April 2019 for the public sector and the Department will have to adhere to these new requirements for 2019-20 onwards.

**12.** The Department is considering how it can use its knowledge from IAS 17 in preparing for the new standard and to consider what impact this may have on the current qualification. It also needs to consider the wider implications of the new standard on the full range of its activities, including whether the impact of bringing contracts currently recorded as operating leases onto the SoFP would be material. The Department has begun the process of collecting contract and asset information for the

contracts most likely to fall under the scope of IFRS 16. The Department will need to commit sufficient resources to review these contracts and to develop the systems and process required to manage and report lease data from 1 April 2019 onwards. Wider engagement between the Department and its suppliers to obtain better contractual information supporting the utilisation of assets is also likely to contribute to the more effective management of these arrangements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

**17 July 2018**

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



Ministry  
of Defence

# Ministry of Defence Annual Accounts 2017-18

(For the year ended 31 March 2018)

## Consolidated Statements of Comprehensive Net Expenditure (SoCNE) for the year ended 31 March 2018

	Note	2017-18		2016-17	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Income from provision of supplies and services	4	(659,008)	(659,008)	(554,929)	(554,929)
Other income	4	(651,068)	(731,618)	(705,341)	(814,026)
<b>Total Income</b>		<b>(1,310,076)</b>	<b>(1,390,626)</b>	(1,260,270)	(1,368,955)
<b>Expenditure – non-cash</b>					
Depreciation and amortisation	3	6,606,879	6,617,304	6,852,400	6,862,243
Movement on provisions, derivatives and discount on payables and receivables	3	8,000,473	8,000,473	(473,922)	(473,922)
Asset – impairments, project write on/off and deficit on disposal	3	1,751,100	1,751,100	2,566,155	2,566,155
Other non-cash expenditure	3	2,659	2,659	2,356	2,356
<b>Sub total – non cash expenditure</b>	3	<b>16,361,111</b>	<b>16,371,536</b>	8,946,989	8,956,832
<b>Expenditure – cash</b>					
Staff Costs	3	12,324,750	12,422,459	12,082,631	12,178,456
Equipment and equipment support	3	6,221,317	6,221,317	5,955,707	5,955,707
Property management and utilities	3	2,719,881	2,719,881	2,677,661	2,677,661
Inventory and fuel consumption	3	1,264,703	1,264,703	1,095,830	1,095,830
IT and telecommunications	3	1,416,568	1,416,568	1,443,028	1,443,028
Research and Development	3	561,357	561,357	824,765	824,765
Cost of personnel travelling, subsistence / relocation costs and movement of stores and equipment	3	609,684	609,684	640,682	640,682
War pensions / benefits	3	723,228	723,228	764,817	764,817
Professional fees	3	742,309	742,309	758,801	758,801
Other expenditure (including interest payable on PFI projects and finance leases)	3	1,158,671	1,111,583	1,124,874	1,107,933
Training, Safety and Welfare	3	721,741	721,741	607,070	607,070
<b>Total Expenditure</b>	3	<b>44,825,320</b>	<b>44,886,366</b>	36,922,855	37,011,582
<b>Net Expenditure For The Year</b>	SoCF	<b>43,515,244</b>	<b>43,495,740</b>	35,662,585	35,642,627
Non-operating gain on the transfer of Dstl to the Department	23.1	(347,400)	(347,400)	–	–
<b>Net expenditure for the year including the non-operating gain on the transfer of Dstl to the Department</b>		<b>43,167,844</b>	<b>43,148,340</b>	35,662,585	35,642,627

## Other Comprehensive Expenditure

	Note	2017-18		2016-17	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Net (gain) / loss on revaluation of property, plant and equipment	SoCiTE	(2,509,066)	(2,515,575)	(3,037,654)	(2,672,775)
Net (gain) / loss on revaluation of intangible assets	SoCiTE	(280,897)	(280,897)	(568,090)	(568,090)
Net (gain) / loss on revaluation of assets held for sale	SoCiTE	2,379	2,379	11,466	11,466
Net (gain) / loss on revaluation of inventories	SoCiTE	(200,253)	(200,253)	(287,404)	(287,404)
Net (gain) / loss on pensions	SoCiTE	(4,161)	23,484	126,690	126,655
Changes in capitalised decommissioning liabilities		892,538	892,538	–	–
Assets written-on and transferred in	SoCiTE	(136,020)	(138,014)	(53,264)	(84,941)
<b>Total Other Comprehensive Expenditure</b>		<b>(2,235,480)</b>	<b>(2,216,338)</b>	<b>(3,808,256)</b>	<b>(3,475,089)</b>

Notes 1 to 24 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.



## Consolidated Statements of Financial Position (SoFP) as at 31 March 2018

	Note	31 March 2018		31 March 2017	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Non-current assets</b>					
Intangible assets	5	28,611,929	28,611,929	27,778,615	27,778,615
Property, plant and equipment	6	105,189,223	105,800,142	101,735,069	102,316,122
Retirement benefit scheme assets	16	–	15,918	–	15,918
Financial assets	8.1	13,267	13,267	13,267	13,267
Receivables due after more than one year	12	576,445	576,945	467,728	467,728
<b>Total non-current assets</b>		<b>134,390,864</b>	<b>135,018,201</b>	129,994,679	130,591,650
<b>Current assets</b>					
Financial assets held for sale	7.7	6,447	42,101	1	36,014
Non-current assets held for sale	10	18,384	18,384	25,570	25,570
Inventories	11	4,348,166	4,356,528	4,548,973	4,557,339
Receivables due within one year	12	2,241,331	2,253,305	2,797,026	2,815,093
Financial assets	7.7	136,265	136,265	607,812	607,812
Cash at bank and in hand	13	1,825,798	1,918,986	1,591,395	1,653,208
<b>Total current assets</b>		<b>8,576,391</b>	<b>8,725,569</b>	9,570,777	9,695,036
<b>Total assets</b>		<b>142,967,255</b>	<b>143,743,770</b>	139,565,456	140,286,686
<b>Current liabilities</b>					
Payables due within one year	14	(10,451,790)	(10,527,820)	(10,670,148)	(10,715,868)
Provisions due within one year	15	(627,924)	(628,924)	(405,028)	(405,028)
Financial liabilities	7.7	(231,824)	(231,824)	(121,872)	(121,872)
<b>Total current liabilities</b>		<b>(11,311,538)</b>	<b>(11,388,568)</b>	(11,197,048)	(11,242,768)
<b>Non-current assets plus net current assets</b>		<b>131,655,717</b>	<b>132,355,202</b>	128,368,408	129,043,918
<b>Non-current liabilities</b>					
Provisions due after one year	15	(19,004,916)	(19,010,243)	(10,874,977)	(10,874,977)
Retirement benefit scheme liabilities	16	(594,500)	(617,545)	(593,800)	(598,400)
Payables due after more than one year	14	(6,304,536)	(6,306,110)	(6,542,529)	(6,544,262)
<b>Total non-current liabilities</b>		<b>(25,903,952)</b>	<b>(25,933,898)</b>	(18,011,306)	(18,017,639)
<b>Assets less liabilities*</b>		<b>105,751,765</b>	<b>106,421,304</b>	110,357,102	111,026,279
<b>Taxpayers' equity and other reserves</b>					
General fund	SoCITE	79,151,911	79,151,911	84,634,771	84,634,771
Revaluation reserve	SoCITE	26,599,854	26,599,854	25,722,331	25,722,331
<b>Taxpayers' Equity</b>		<b>105,751,765</b>	<b>105,751,765</b>	110,357,102	110,357,102
Arm's Length Bodies' restricted reserves	SoCITE	–	207,586	–	123,962
Arm's Length Bodies' unrestricted reserves	SoCITE	–	461,953	–	545,215
<b>Total Arm's Length Bodies' reserves</b>		<b>–</b>	<b>669,539</b>	–	669,177
<b>Total taxpayers' equity and other reserves</b>		<b>105,751,765</b>	<b>106,421,304</b>	110,357,102	111,026,279

\* 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 of the Department's application of IFRIC 4 are set out in Note 1 to the accounts Accounting Policies; specifically notes 1.34 to 1.36.

**Stephen Lovegrove**

Accounting Officer 12 July 2018

Notes 1 to 24 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

## Consolidated Statements of Cash Flows (SoCF)

for the year ended 31 March 2018

	Note	2017-18		2016-17	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Cash flows from operating activities</b>					
Net operating cost	SoCNE	43,515,244	43,495,740	35,662,585	35,642,627
Adjustments for non-cash transactions		(15,814,106)	(15,818,829)	(8,850,394)	(8,853,298)
Increase / (Decrease) in trade and other receivables	SoFP	(446,978)	(452,571)	537,507	376,276
Adjustment for movements on receivables relating to items not passing through operating costs		13,351	225,583	32,692	212,833
Movement in net inventories and financial assets held for sale		(275,738)	(276,101)	200,960	167,436
(Increase) / Decrease in trade payables	SoFP	456,351	426,200	(173,464)	30,844
Adjustment for movements in payables relating to items not passing through operating costs		310,585	107,833	(154,952)	(327,461)
Dividends and Equity Repayments		18,093	18,093	68,400	68,400
Realised loss / (gain) on derivatives		(214,811)	(214,811)	(262,196)	(262,196)
Use of provisions and unfunded pensions		274,134	274,134	264,139	264,139
<b>Net cash outflow from operating activities</b>		<b>27,836,125</b>	<b>27,785,271</b>	<b>27,325,277</b>	<b>27,319,600</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	6	7,418,547	7,438,026	6,968,078	6,999,401
Purchase of intangible assets	5	2,057,058	2,057,058	2,196,228	2,196,228
Adjustment for non cash movements relating to PPE and intangibles		(1,136,132)	(1,136,132)	(718,947)	(718,947)
Proceeds on disposal of property, plant and equipment		(107,051)	(107,051)	(190,460)	(190,460)
Dividends and Equity Repayments		(16,952)	(16,952)	(68,400)	(68,400)
Repayments from other bodies		–	–	(12,880)	(12,880)
<b>Net cash outflow from investing activities</b>		<b>8,215,470</b>	<b>8,234,949</b>	<b>8,173,619</b>	<b>8,204,942</b>
<b>Cash flows from financing</b>					
Consolidated Fund (Supply) – current year	SoCITE	(36,417,684)	(36,417,684)	(35,666,749)	(35,666,749)
Repayment of loans from the National Loans Fund		2,520	2,520	2,641	2,641
Capital element of payments in respect of finance leases and Service Concession Arrangements		177,044	177,044	364,805	364,805
Movement on collaborative projects		(47,878)	(47,878)	(149,987)	(149,987)
<b>Net financing</b>		<b>(36,285,998)</b>	<b>(36,285,998)</b>	<b>(35,449,290)</b>	<b>(35,449,290)</b>
<b>Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>234,403</b>	<b>265,778</b>	<b>(49,606)</b>	<b>(75,252)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	13	1,591,395	1,653,208	1,641,001	1,728,460
<b>Cash and cash equivalents at the end of the period</b>	13	1,825,798	1,918,986	1,591,395	1,653,208

Notes 1 to 24 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

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

### For the period ended 31 March 2018

	Note	Core Department and Agencies			Arm's Length Bodies (ALBs)			Departmental Group
		General Fund £000	Revaluation Reserve £000	Taxpayers Equity £000	Restricted Reserves £000	Unrestricted Reserves £000	Total of ALBs' Reserves £000	Total Reserves £000
<b>Balance at 1 April 2016</b>		<b>81,923,416</b>	<b>24,419,317</b>	<b>106,342,733</b>	<b>93,739</b>	<b>888,647</b>	<b>982,386</b>	<b>107,325,119</b>
Parliamentary Funding – drawn down in-year	SoCF	35,666,749	–	35,666,749	–	–	–	35,666,749
Parliamentary Funding – deemed funding		895,829	–	895,829	–	–	–	895,829
Parliamentary Funding – Supply payable	14	(696,236)	–	(696,236)	–	–	–	(696,236)
Non-cash charge – auditors remuneration		2,356	–	2,356	–	–	–	2,356
Net Expenditure for the year	SoCNE	(35,662,585)	–	(35,662,585)	–	19,958	19,958	(35,642,627)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	–	3,037,654	3,037,654	–	(364,879)	(364,879)	2,672,775
Net (loss) / gain on revaluation of intangible assets	SoCNE	–	568,090	568,090	–	–	–	568,090
Net (loss) / gain on revaluation of assets held for sale	SoCNE	–	(11,466)	(11,466)	–	–	–	(11,466)
Net (loss) / gain on revaluation of inventories	SoCNE	–	287,404	287,404	–	–	–	287,404
Net (loss) / gain on pensions	SoCNE	(126,690)	–	(126,690)	–	35	35	(126,655)
Transfer between reserves and asset write-on / (write off)	SoCNE	2,631,932	(2,578,668)	53,264	30,223	1,454	31,677	84,941
<b>Balance at 31 March 2017</b>		<b>84,634,771</b>	<b>25,722,331</b>	<b>110,357,102</b>	<b>123,962</b>	<b>545,215</b>	<b>669,177</b>	<b>111,026,279</b>
Parliamentary Funding – drawn down in-year	SoCF	36,417,684	–	36,417,684	–	–	–	36,417,684
Parliamentary Funding – deemed funding		696,236	–	696,236	–	–	–	696,236
Parliamentary Funding – Supply Payable	14	(789,552)	–	(789,552)	–	–	–	(789,552)
Gain on transfer by absorption of Dstl		251,100	96,300	347,400	–	–	–	347,400
Non-cash charge – auditors remuneration	3	2,659	–	2,659	–	–	–	2,659
Net Expenditure for the year	SoCNE	(43,515,244)	–	(43,515,244)	–	19,504	19,504	(43,495,740)
Other net comprehensive expenditure:								
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	–	2,509,066	2,509,066	–	6,509	6,509	2,515,575
Net (loss) / gain on revaluation of intangible assets	SoCNE	–	280,897	280,897	–	–	–	280,897
Net (loss) / gain on revaluation of assets held for sale	SoCNE	–	(2,379)	(2,379)	–	–	–	(2,379)
Net (loss) / gain on revaluation of inventories	SoCNE	–	200,253	200,253	–	–	–	200,253
Net (loss) / gain on pensions	SoCNE	4,161	–	4,161	–	(27,645)	(27,645)	(23,484)
Changes in capitalised decommissioning liabilities*	SoCNE	–	(892,538)	(892,538)	–	–	–	(892,538)
Assets written-on and transferred in	SoCNE	158,557	(22,537)	136,020	83,624	(81,630)	1,994	138,014
Transfers between reserves	SoCNE	1,291,539	(1,291,539)	–	–	–	–	–
<b>Balance at 31 March 2018</b>		<b>79,151,911</b>	<b>26,599,854</b>	<b>105,751,765</b>	<b>207,586</b>	<b>461,953</b>	<b>669,539</b>	<b>106,421,304</b>

\* The Department has changed its policy on accounting for changes in capitalised decommissioning liabilities from the cost model to the revaluation model under IFRIC 1. As the impact is not material, this change has been accounted for in 2017-18, with £497M of the £893M relating to changes in the prior period.

Notes 1 to 24 which follow the Statements of Changes in Taxpayers' Equity form part of these accounts.

## Notes to the Accounts

### 1. Statement of Accounting Policies

#### Basis of Preparation

**1.1** These Accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM) 2017-18 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 the impact on the financial statements are provided in Notes 1.34 to 1.36. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context in the UK.

**1.2** Where the FReM permits a choice, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the MOD for the purpose of giving a true and fair view has been selected. Accounting policies have been applied consistently in dealing with items that are considered material and comply with the requirements of the FReM except where HM Treasury has approved the departure. The departures are:

- Accounting for inventory under current cost. The Department currently departs from the FReM by accounting for its inventory under current cost. It has been agreed with HM Treasury this is an appropriate basis for valuation until 2018-19 when the valuation will change to the lower of cost and Net Realisable Value.

#### Accounting Convention

**1.3** These financial statements have been prepared on an accruals basis under the historical cost convention, modified by the revaluation of intangible assets, property, plant and equipment assets and inventories.

#### Going Concern

**1.4** The future financing of the Department's liabilities is met by the funding from Parliament. This is through the receipt of Supply finance and future income which are both approved annually by Parliament by the passing of the Supply and Appropriation (Main Estimates) Act. The amount for 2018-19 is due to be voted on account when the 2018-19 Bill is put to Parliament. The Defence Board considers there is no reason to believe that future approvals will not be forthcoming. Hence, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

#### Basis of Consolidation

**1.5** The financial statements comprise the consolidation of the Department (including its Agencies); its Non-Departmental Public Bodies (NDPBs) and other Arm's Length Bodies (ALBs) as listed in Note 23.

**1.6** ALBs use categories for their costs which do not always align with MOD categories. As they are not considered to be material, or financially significant, the operating costs of the ALBs are split into three categories for the purpose of consolidation – 'staff costs', 'depreciation' and 'other.' ALBs operate a lower capitalisation threshold for Property Plant and Equipment than the Department. Given the financial insignificance of these lower value capitalisations to the Department, no adjustments have been made and all ALB Property, Plant and Equipment are consolidated into the accounts.

**1.7** The MOD have assessed that it holds an interest in a Joint Operation. This has been accounted for in line with IFRS 11 and, as such, the assets, liabilities, revenues and expenses relating to the interest in the joint operation are accounted for in accordance with the applicable IFRSs as applied by the FReM.

### **Changes in accounting policies and disclosures**

**1.8** There were no significant changes in accounting policies during 2017-18 and no new or amended accounting standards affecting the preparation of the accounts.

### **Changes impacting the Preparation of Future Annual Accounts**

**1.9** There are two significant changes to accounting policies in the 2018-19 FReM for the implementation of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. Application is required for accounting periods beginning on or after 1 January 2018, but as the standards have not yet been adopted by the FReM, early adoption is not permitted. A further change is anticipated for the 2019-20 FReM (IFRS 16 – Leases).

#### *IFRS 9 Financial Instruments*

**1.10** IFRS 9 introduces changes to the classification and measurement of financial instruments. The Department is currently assessing the impact of the change and has carried out an initial assessment. This initial assessment considered material financial assets and the financial liabilities separately. It concluded that the treatment of material financial assets (excluding derivatives) is not expected to change under IFRS 9 as they are being held to collect the cash flows and the cash flows are solely for the payments of principal and interest (if chargeable). However, it is expected that there would be an increase in the level of impairments due to the expected credit loss approach but, given the size of the balances involved, it is unlikely to lead to a material change in impairments. The treatment of the MOD's derivative contracts is not expected to change. There are also no changes expected for the Department's material financial liabilities under IFRS 9. Therefore, given the nature of the changes and the Department's initial assessment, it is expected there will be an increase in the value of impairments following adoption of the new Standard, but that this is unlikely to be material.

#### *IFRS 15 Revenue from Contracts with Customers*

**1.11** IFRS 15 introduces changes to the timing of revenue recognition for contracts, matching revenue to performance obligations, and changes to revenue disclosure requirements. The Department is currently assessing the impact of the change and has carried out an initial assessment. This initial assessment considered: the Departmental revenue that was outside the scope of the Standard; the Departmental revenue that was in the scope of the Standard but the accounting treatment is expected to be unchanged; and the Departmental revenue where the accounting treatment is potentially impacted by the Standard. It is considered that the amount of revenue likely to be impacted by the Standard is not material. Therefore given the nature and level of the Department's revenue likely to be impacted by the Standard, at this stage the Department does not anticipate material changes following the adoption of the IFRS 15.

#### *IFRS 16 Leases*

**1.12** The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off-balance sheet financing) and a finance lease (on-balance sheet financing). The new Standard requires recognition of all leases which last over 12 months to be recognised as a finance lease



(on-balance sheet). This will result in the recognition of a right-of-use asset, measured at the present value of future lease payments, with a matching liability. The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised.

**1.13** The new leasing Standard will have a significant impact on the Department. Assets subject to leases that are currently accounted for as operating leases will become right-of-use assets included within Property, Plant and Equipment. There will also be recognition of the associated lease liability. The Department is working towards assessing the quantitative impact of the introduction of this Standard. The financial impact is not yet known and a reasonable estimate cannot yet be made.

**1.14** As described in Note 1.35 and Note 1.36, the Department does not materially comply with IFRIC 4 – Determining whether an Arrangement Contains a Lease on the grounds that it does not represent value for money. To comply with IFRS 16, the Department will need to make a number of judgements in assessing whether contracts are, or contain, a lease for an identified asset. This will particularly be the case in determining if the supplier has the substantive right to substitute the asset and which party has the right to direct the use of an identified asset.

#### *Valuation Basis for Inventory*

**1.15** For 2018-19, it has been agreed with HM Treasury that the valuation basis for inventory will change from current cost to the lower of cost and Net Realisable Value; the Department will then be compliant with IAS 2 – Inventories. The change is expected to be introduced prospectively due to limitations in the availability of data and the estimated impact is likely to be a reduction in value of inventories by approximately £280M.

#### *Change in Discount Rates*

**1.16** HM Treasury plans to change the methodology for setting discount rates to be applied to general provisions. HM Treasury currently specifies real discount rates (for cash flows which exclude the impact of inflation). From 2018-19, HM Treasury plan to change this by specifying nominal rates (applied to cash flows which include inflation) to discount general provisions. The impact will be that the Department will be required to forecast and apply inflation assumptions to calculate inflationary adjusted cash flows for its general provisions.

### **Property, Plant and Equipment Non-Current Assets**

#### *Recognition*

**1.17** The Department's capitalisation threshold is £25,000. Assets are recognised initially at cost, which comprises purchase price, construction costs, after deducting for any discounts or rebates and any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended.

**1.18** Assets Under Construction are capitalised during the period of construction and on completion, balances are released into the appropriate asset category.

**1.19** The capitalisation threshold is not applied to individual capital spares and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, these items are treated as pooled assets and included within the Single Use Military Equipment (SUME) category.

## Valuation

**1.20** Assets are expressed at their fair value through valuation and/or the application of indices. Specialised assets are valued at their Depreciated Replacement Cost (DRC). Assets Under Construction are not subject to indexation where the contract payments are deemed to reflect fair value.

**1.21** Prospective Indices appropriate for the class of asset, produced by Defence Statistics, are applied at the start of each financial year. The carrying values of the assets are revised at the year-end via an accrual to reflect the actual price indices at the year-end. The value of the overseas estate assets is also adjusted to take account of the year-end exchange rates.

**1.22** Property assets are also subject to a quinquennial revaluation by internal and external valuers in accordance with IAS 16 as interpreted by the FReM. In use non-specialised assets are valued at market value in existing use and specialised assets current value in existing use which is interpreted as the present value of the asset's remaining service potential. Land is valued taking into account region and type. Further details on the valuation of land in scope of the Defence Estate Optimisation Programme is stated in Note 9.

**1.23** Assets which are not held for their service potential are valued in accordance with IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations or IAS 40 – Investment Property depending on whether the asset is actively held for sale.

**1.24** Assets which are surplus are valued in accordance with IFRS 13 Fair Value. The Department interprets surplus to mean that the assets are no longer required and there is no clear plan to bring them back into service.

## Depreciation

**1.25** All the assets are depreciated on a straight-line basis. The useful life of an equipment asset is based on the estimated out of service date and for other assets the estimated period of use. The useful economic lives (UEL) of property, plant and equipment are reviewed annually and revised where necessary to reflect changing circumstances such as decisions taken in the latest finalised Annual Budget Cycle and in Strategic Defence and Security Reviews.

**1.26** The principal asset categories, together with their useful lives, are set out in the Table below.

Category		UEL
Land and Buildings	Land	Not depreciated unless held under agreement with The Federal Republic of Germany or as part of a finance lease.
	Buildings (dwellings and non-dwellings):	
	– permanent	40 – 50
	– temporary	5 – 20
	Leasehold	Shorter of expected life and lease period
Single Use Military Equipment (including GWMB)		10 – 50
Plant and Machinery	Equipment	10 – 25
	Plant and Machinery	5 – 30

Transport		3 – 35
IT and Communications Equipment	Office Machinery	3 – 10
	Communications Equipment	3 – 30
Capital Spares	Items of repairable material retained for the purpose of replacing parts of an asset undergoing repair, refurbishment, maintenance, servicing, modification, enhancement or conversion.	As life of prime equipment supported
Operational Heritage Assets	Operational Heritage Assets are included within the principal asset category to which they relate.	As other non-current assets

## Componentisation and Subsequent Expenditure

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

- Newly built property assets, with the exception of specialist assets, are not subject to componentisation at the point of initial capitalisation as the cost of any potential component is not significant to the total cost of the asset. Specialist assets such as runways are considered for componentisation.
- Where a property asset is refurbished or part of it replaced, the expenditure is recognised within the carrying amount of the overall asset. For assets above £500,000, the carrying amount of the part which is replaced is de-recognised. The Quinquennial Revaluation is used to adjust any short term valuation differences.
- Material expenditure on major refits and overhauls in the Sea Environment and to complex weapons that display similar characteristics to those assets in the Sea Environment are accounted for separately when their value is consumed by the Department over a different period from the life of the corresponding core asset.

### *Impairment*

**1.28** Impairment charges reduce the carrying amount of intangible and property, plant and equipment assets to their recoverable amount. When an asset's carrying value decreases due to a clear consumption of economic benefit or service potential, the decrease is charged directly to the SoCNE, with any remaining Revaluation Reserve balance released to the General Fund. In contrary, reversal of an impairment loss is then recognised in the SoCNE to the extent that the original charge was previously recognised, with any remaining amount recognised in the Revaluation Reserve.

**1.29** Capitalised development costs that are directly linked to a class of asset are impaired if the whole class of the associated tangible non-current asset is impaired. The magnitude of the impairment applied is in the same proportion as that applied to the underlying asset class.

### *Disposal*

**1.30** Disposal of assets is handled principally by two specialist internal organisations: the Defence Infrastructure Organisation for property assets and the Defence Equipment Sales Authority for non-property assets.

**1.31** Non-current assets are reclassified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. The asset must be available

for immediate sale, subject only to terms that are usual and customary for the sale of such assets, the sale must be highly probable and expected to complete within one year.

**1.32** 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**

**1.33** Assets held under finance leases are capitalised as non-current assets and a corresponding liability recognised. The assets are depreciated over the shorter of the lease term and their estimated useful economic life. Expenditure under operating leases is charged to the SoCNE in the period to which the charge relates.

**1.34** The Department also enters into arrangements that do not take the legal form of a lease but which give the Department the right to use an asset. IFRIC 4 – 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.

**1.35** The Department's most significant lease type arrangements where IFRIC 4 is likely to apply are not currently recognised and cannot be accurately quantified. As a result of the complex, resource intensive and costly practical issues the Department, with HM Treasury support, has decided not to apply IFRIC 4 to existing contracts on the grounds that it does not represent value for money. The Department is applying IFRIC 4 to new contracts impacting a single site and a single contract. As a result of the decision not to implement IFRIC 4 for all existing and a proportion of new contracts, MOD's accounts will continue to receive a qualified audit opinion for the foreseeable future.

**1.36** The impact on the financial statements of not materially complying with IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the SoFP and Note 19 – Commitments under leases.

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

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

**1.38** Development costs are capitalised in accordance with IAS 38 – Intangible Assets (as adapted in the FReM). Capitalised development costs are amortised, on a straight-line basis, over the planned life of the resultant asset, e.g. class of ship or aircraft (the Table at paragraph 1.26 above states the useful lives for principal tangible non-current asset categories). Amortisation commences when the asset type first enters operational service.

**1.39** The Department's capitalisation threshold is £25,000. After initial recognition, intangible non-current assets are revalued to current value in existing use, using a market value where an active market exists. Where no market exists, indices are used to revalue the intangible asset to DRC or, if the asset is income generating, to value in use if lower than DRC. Intangible Assets Under Construction are not subject to indexation where the contract payments capitalised during the period of construction are deemed to reflect fair value.

## **Public Private Partnerships (PPP) including Private Finance Initiative (PFI) Arrangements**

**1.40** Where PPP, including PFI arrangements fall within the definition of a Service Concession Arrangement (SCA) in IFRIC12, the infrastructure assets and liabilities are reported on the Department's SoFP. Unitary charges are apportioned between reduction in the capital obligation and charges to the SoCNE for service performance and finance costs.

**1.41** Where PPP including PFI arrangements are outside the scope of IFRIC 12, new arrangements may be assessed to establish whether it contains a lease under IFRIC 4 (as noted in 1.35). 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**

**1.42** 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. Further details are given in Note 7.

**1.43** Public Dividend Capital is reported at historic cost less any impairment. In accordance with the FReM, the Department's investments in special or 'golden' shares are not recognised on the SoFP. The entities in which the Department holds special shares are listed at Note 8.3 and 8.4.

**1.44** Receivables, including trade receivables, staff loans and advances 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 as the FReM requires the discount rate to be the higher of the rate intrinsic to the financial instrument and the real discount rate set by HM Treasury as applied to cash flows expressed in current prices. Provisions are only made for specific bad debts.

**1.45** Liabilities covering trade payables and accruals 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 due to the FReM requirement for the discount rate referred to in paragraph 1.44 above.

## **Inventories and Stockpile Goods**

**1.46** On transition from UK GAAP to IFRS, HMT confirmed that the introduction of IAS 2 (which requires Inventories to be held at the lower of cost or net realisable value) would not require any immediate changes in the MOD's accounting treatment of inventories. The Department and HM Treasury have discussed the continued appropriateness of valuing inventories at current cost and HM Treasury, as the Relevant Authority, has confirmed an adaptation to the FReM – that the Department can continue with current replacement cost accounting for Inventories this year. It has also been agreed that the valuation basis for inventories will change to the lower of cost and net realisable value by Financial Year 2018-19. This is to allow time for changes to the financial systems to support an historic cost valuation in accordance with the FReM.

**1.47** Inventories are recognised on the Department's SoFP from the point of acquisition to the point of issue for consumption, sale, write-off or disposal.

**1.48** Inventory which is expected to be used is valued at the cost of replacement – i.e. at current cost based on purchase price or estimated through indexation. Where inventories have become surplus, unserviceable, defective or obsolete, an estimated financial provision is applied to their carrying value to reduce it to net realisable value. Details of inventories balances are given in Note 11.



**1.49** Some items of inventory, for example munitions, have a limited shelf life and depreciation on a straight line basis is applied throughout the life of these items.

**1.50** The Department holds Stockpile goods which meet the definition in the FReM. Such goods are accounted for as SUME Non-Current Assets.

### **Cash and Cash Equivalents**

**1.51** Cash balances are held by the Government Banking Service, commercial banks and cash in hand. Cash in hand includes gold coins and deposits denominated in foreign currencies.

### **Provisions for Liabilities and Charges**

**1.52** Provisions for liabilities and charges are recognised in line with IAS 37 and are based on realistic estimates of the expenditure required to settle legal or constructive obligations.

**1.53** On initial recognition, provisions are charged to the SoCNE unless the provision results from an obligation to dismantle and decommission a specific item of property, plant and equipment, in which case a capitalised asset provision is created. Changes to capitalised asset provision are accounted for in accordance with IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities, following the approach for where the related asset is measured using the revaluation model. The carrying amount of any capitalised asset provision is depreciated and charged to the SoCNE over the remaining estimated useful economic life of the underlying asset. Provisions are discounted at rates advised by HM Treasury and three different rates are used for provisions depending on the time boundary they fall into. The pensions discount rate advised by HM Treasury is used for provisions relating to employee benefits. The discount is unwound over the remaining life of the provision and shown as an interest charge in the SoCNE. Further details are given in Note 15.

### **Foreign Currency**

**1.54** All transactions denominated in a foreign currency are translated into Sterling using the General Accounting Rate (GAR) at the date of each transaction. For each currency, the GAR is updated monthly based on spot rates. Exchange differences arise when a transaction is settled at a GAR which differs from the rate used when the transaction was initially recorded. Monetary assets and liabilities are re-translated at the mid-market closing rate at the Reporting Period date and any exchange differences from their initially-recognised value are reported in the SoCNE.

### **Income**

**1.55** Income principally comprises of revenue from the provision of supplies and services; receipts from foreign governments; sale of non-current assets; repayment of wage advances; and investment or dividend income. It is included within operating income, net of related VAT, where applicable.

**1.56** Income in respect of services provided is recognised when the service is rendered, stage of completion of the transaction at the end of the reporting period can be measured reliably and it is probable that economic benefit associated with the transaction will flow to the Department. Income is measured at fair value of the consideration receivable. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred. 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. Further information on the Department's income is given in Note 4.

## **Expenditure**

**1.57** Expenditure includes a number of costs as listed in the SOCNE, of which the key areas include depreciation and amortisation; impairments; staff costs (wages and salaries; benefits); property management; and IT & telecommunication costs. Costs are charged to the SoCNE in the period in which they are incurred and matched to any related income. Costs of contracted-out services are included net of recoverable VAT. Surpluses and deficits on disposal of inventory are included in Note 3 – Expenditure.

### **Salaries, wages and employment-related payments**

**1.58** Short-term benefits – Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. Where material, performance pay and annual leave earned but not taken by the year end are recognised on an accruals basis in the financial statements. Further details are given in the Accountability Report.

### **Retirement benefit costs**

**1.59** The main pension schemes to which staff belong are not consolidated in the Department's accounts (the schemes prepare separate accounts). For the few pension schemes which are consolidated into the financial statements, IAS 19 Employee Benefits (IAS 19) has been adopted to account for them. Further details are at Note 16 – Retirement Benefit Schemes.

**1.60** Accordingly, for funded defined benefit schemes the Department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the Department has a legal or constructive obligation to make good the deficit in the scheme. The Department's share of pension scheme surplus (to the extent that it is considered recoverable) or deficit is recognised in full on the face of the SoFP. For unfunded defined benefit schemes the Department recognises a liability in respect of any deficit to the extent that the Department has a legal or constructive obligation to make good the deficit in the schemes. Actuarial gains/losses from schemes are recognised in reserves.

**1.61** The Department additionally makes contributions to several other pension schemes which are not consolidated in the financial statements. These contributions payable are recognised in the SoCNE.

**1.62** Further details of the pension schemes are available in Note 16.

### **Value Added Tax (VAT)**

**1.63** The Department is registered for VAT. Costs of contracted-out services are included net of recoverable VAT. Income from services provided to third parties is included within operating income, net of related VAT. Where it arises, irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets.

### **Heritage Assets**

**1.64** Operational heritage assets are valued at fair value using the same methodology applied to other assets of the same general type. Non-operational heritage assets are valued at fair value if information can be obtained at a cost commensurate with the benefits to users of the accounts. Heritage assets are not separately disclosed as they are not considered material. Further information is available at: <https://www.gov.uk/government/publications/MOD-heritage-report>.

## Critical accounting judgements and key sources of estimation uncertainty

**1.65** The preparation of these accounts requires the Department to make judgements, estimates and assumptions in respect of a range of activities that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**1.66** The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### *Valuation of Non-Current Intangible and Property, Plant and Equipment assets*

**1.67** Non-Current Intangible and Property, Plant and Equipment assets are expressed at their fair value or at depreciated replacement cost (DRC). This requires the application of estimates and judgements. Land and property assets are revalued at least every 5 years from the anniversary of their initial recognition in accordance with FReM requirements. Between valuations, the Department updates asset values through the application of indices produced by Defence Statistics. The selection and application of indices represents a key judgement, and there is a risk that this could result in different values in the intervening years compared to a full valuation if these had been undertaken each year. See Notes 5 & 6 for further details.

**1.68** There is uncertainty in the valuation of land in scope of the Defence Estate Optimisation Programme due to estimated sales values. Further details are given in Note 9.

**1.69** The useful life of assets are based on an estimated out of service date or the estimated period of use. The out of service date is subject to change depending on factors such as strategic defence policy and predicted obsolescence. The Useful lives are reviewed annually.

### *Impairments*

**1.70** In addition to considering the valuation of Non-Current Intangible and Property, Plant and Equipment assets, the Department considers more broadly whether there are any indications of impairments to the carrying amounts of the Department's assets. Where such an indication exists, the Department makes a judgement as to the impairment required to bring the asset to the value it considers it should be held at. Further details are given in Note 9.

### *Accruals*

**1.71** The Department recognises a large number of accruals. Whilst some accruals are straightforward to identify and quantify, others involve a greater element of judgement, requiring management to make an estimate of the liability accruing to the Department based on the information they hold at that point in time (for example, accruing for the value of work completed but not yet invoiced on MOD projects). Further details are given in Note 14.

### *Provisions*

**1.72** 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.

**1.73** In calculating the provisions, an estimate has been made of the cash flows required to settle the obligations. As there is uncertainty surrounding the cash flows required, key assumptions made in this estimate are: the time period over which the provisions are estimated; the costs for the future storage and decommissioning 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, together with the assumptions used and sensitivity analysis, are included in Note 15.

**1.74** The Department holds a number of other provisions. Judgement is made on the best estimate that can be made of the amount of the obligation in line with IAS 37. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where applicable, provisions are discounted according to rates set by HM Treasury.

## 2. Segmental Analysis

**2.1** The Department's organisational structure is set out in *How Defence Works* available at: <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>. The structure is the key factor in determining the reporting segments disclosed below.

**2.2** The Royal Navy, the Army, and the Royal Air Force are supported by: Joint Forces Command – which develops and prepares integrated joint forces for current and future operations; Defence Equipment and Support – responsible for procurement and support of equipment; the Defence Nuclear Organisation (established in 2016-17) which focuses on the procurement and in-service support of our nuclear submarines, the Defence Infrastructure Organisation – responsible for managing the Defence Estate and Head Office and Corporate Services – responsible for policy, strategy and corporate services such as payroll.

**2.3** Forecasts of expenditure against budgets (Resource and Capital) are regularly reviewed by the Defence Board when considering performance and resource allocation. The tables below set out the detail of this net expenditure, by segment (where the Board consider the net expenditure at that level of detail), and analyse the net expenditure reviewed between Resource and Capital.

**2.4** Transactions allocating income and costs to and between segments take two main forms:

- Costs such as payroll, equipment support, centralised contract costs, estate management, inventory consumption etc. are allocated to segments by the main accounting systems e.g. accounts payable, accounts receivable, civilian payroll, military payroll, inventory and Non-Current Asset registers.
- Costs incurred by one segment on behalf of another are subject to agreement and are centrally managed to ensure the net effect on the Department's consolidated accounts remains correct.

2.5 The tables below set out the segmental information as considered by the Defence Board.

	2017-18	2016-17
Net Resource DEL Outturn	£000	£000
<b>Top Level Budget Plan Outturn</b> (reviewed by the Board)		
Royal Navy	2,603,350	2,559,431
Army	6,441,374	6,535,727
Royal Air Force	2,447,308	2,453,973
Joint Forces Command	2,017,031	1,931,340
Defence Equipment & Support	1,041,063	1,044,069
Defence Infrastructure Organisation	2,506,161	2,433,677
Head Office & Corporate Services*	1,178,492	1,040,625
Defence Nuclear Organisation	18,861	–
	<b>18,253,640</b>	17,998,842
* The Head Office & Corporate Services figure for 2016-17 includes the Defence Nuclear Organisation costs for that year		
<b>Equipment Plan Outturn by Top Level Budget</b> (reviewed by the Board)		
Royal Navy	1,624,113	1,310,891
Army	979,498	1,031,105
Royal Air Force	1,927,055	1,713,603
Joint Forces Command	1,577,333	1,675,900
Strategic programme	386,859	380,098
Defence Nuclear Organisation	1,053,686	988,530
Defence Equipment & Support	152,383	147,526
	<b>7,700,927</b>	7,247,653
<b>Sub total of Net Resource Outturn reviewed by the Board during the financial year</b>		
	<b>25,954,567</b>	25,246,495
Net Resource Outturn for Cost of Operations (excluding depreciation, impairments and provisions)		
	597,586	486,571
War Pensions Benefits		
	723,228	764,817
Balance of Net Resource Outturn (depreciation, impairment, provisions, Annually Managed Expenditure (AME) and Arm's Length Bodies)		
	16,613,720	8,714,198
<b>Total Resource Outturn (See SoPS Note 1)</b>		
	<b>43,889,101</b>	35,212,081
Reconciliation to Net Expenditure:		
Adjustment for items included in Net Resource Outturn but not included in Net Operating Costs (see SoPS Note 2)		
	(721,257)	450,504
<b>Total Departmental Net Expenditure (See Statement of Comprehensive Net Expenditure)</b>		
	<b>43,167,844</b>	35,662,585



	2017-18	2016-17
Net Capital DEL Outturn	£000	£000
<b>Top Level Budget Plan Outturn</b> (reviewed by the Board)		
Royal Navy	10,725	9,646
Army	7,394	20,339
Royal Air Force	14,004	5,969
Joint Forces Command	17,811	20,629
Defence Equipment & Support	64,315	94,940
Defence Infrastructure Organisation	948,043	783,067
Head Office & Corporate Services	413,378	354,486
	<b>1,475,670</b>	1,289,076
<b>Equipment Plan Outturn</b> – (reviewed by the Board)		
Royal Navy	1,514,007	1,784,105
Army	767,351	475,941
Royal Air Force	1,611,354	1,655,012
Joint Forces Command	508,307	564,323
Strategic Programme	553,906	552,896
Defence Nuclear Organisation	2,606,404	2,326,947
Defence Equipment & Support	(7,743)	60,237
	<b>7,553,586</b>	7,419,461
<b>Sub total of Net Capital Outturn reviewed by the Board during the financial year</b>	<b>9,029,256</b>	8,708,537
Net Capital outturn for the Cost of Operations excluding Annually Managed Expenditure (AME)	203,351	115,387
Balance of Capital outturn (AME and ALBs' Capital outturn)	515,465	(135,371)
<b>Total Capital Outturn (See SoPS Note 1)</b>	<b>9,748,072</b>	8,688,553

### 3. Expenditure

	2017-18		2016-17	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Expenditure – non-cash</b>				
Depreciation and amortisation:				
– Property, plant and equipment (PPE) owned assets*	4,808,919	4,819,344	4,905,567	4,915,410
– Intangible assets	1,425,791	1,425,791	1,389,105	1,389,105
– PPE held under service concession arrangements	250,246	250,246	432,364	432,364
– PPE held under finance leases	121,923	121,923	125,364	125,364
Movement on provisions, derivatives and discount on payables and receivables:				
– Increase/(Decrease) in nuclear provisions	7,511,166	7,511,166	(8,799)	(8,799)
– Movement on Derivatives	369,980	369,980	(845,205)	(845,205)
– Increase/(Decrease) in other provisions	189,281	189,281	451,966	451,966
– Unwinding of discount on provisions, payables and receivables – net	(69,954)	(69,954)	(71,884)	(71,884)
Asset – impairments, inventory and project write on/off and surplus/deficit on disposal:				
– Asset impairment- Arising on Quinquennial valuation	369,300	369,300	206,300	206,300
– Asset impairment – arising on other items	507,406	507,406	1,196,165	1,196,165
– Provisions to reduce inventory to net realisable value	(313,225)	(313,225)	110,752	110,752
– Inventory write off / (on) – net	488,020	488,020	417,615	417,615
– Non-cash cost of disposal of property, plant and equipment and intangible assets	136,203	136,203	142,007	142,007
– (Surplus) / deficit arising on disposal of inventory – net	(24,108)	(24,108)	(21,836)	(21,836)
– Intangible and property, plant and equipment assets write off / (write on) – net	169,772	169,772	302,216	302,216
– Capital project expenditure write off / (write on) – net	417,668	417,668	214,546	214,546
– Bad debts written off	547	547	1,958	1,958
– Increase/(Decrease) in bad debt provisions – net	(483)	(483)	(3,568)	(3,568)
Other non-cash expenditure:				
Auditors' remuneration – audit work only†	2,659	2,659	2,356	2,356
<b>Sub total – expenditure – non-cash</b>	<b>16,361,111</b>	<b>16,371,536</b>	<b>8,946,989</b>	<b>8,956,832</b>
<b>Expenditure – cash</b>				
Staff Costs (see Remuneration and Staff Costs Report for further details)				
Salaries and wages	8,239,007	8,317,912	8,019,225	8,094,208
Social security costs	791,007	802,270	765,057	778,511
Pension costs	3,293,790	3,301,331	3,285,816	3,293,204
Redundancy and severance payments	946	946	12,533	12,533
<b>Sub total – staff costs</b>	<b>12,324,750</b>	<b>12,422,459</b>	<b>12,082,631</b>	<b>12,178,456</b>

	2017-18		2016-17	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£000	£000	£000	£000
Equipment and Equipment Support:				
– equipment support – owned equipment	4,533,668	4,533,668	4,393,780	4,393,780
– contractor logistic and operational support contracts for equipment support	1,268,359	1,268,359	1,297,281	1,297,281
– equipment support – under Service Concession Arrangements	291,325	291,325	140,059	140,059
– equipment support – equipment under finance lease	54,653	54,653	55,837	55,837
– payments under operating leases – plant & equipment	7,188	7,188	13,210	13,210
– plant and equipment under Service Concession Arrangements	66,124	66,124	55,540	55,540
Property management and utilities:				
– property management	1,209,581	1,209,581	1,174,460	1,174,460
– property management under Service Concession Arrangements	597,032	597,032	591,137	591,137
– utilities	309,353	309,353	305,107	305,107
– accommodation charges	332,127	332,127	352,384	352,384
– payments under operating leases – other	187,380	187,380	176,982	176,982
– defence housing costs under finance leases	84,408	84,408	77,591	77,591
Inventory and fuel consumption:				
– inventory consumption	940,441	940,441	799,837	799,837
– fuel consumption	324,262	324,262	295,993	295,993
IT and telecommunications:				
– IT and telecommunications	1,115,802	1,115,802	1,109,757	1,109,757
– IT and telecommunications under Service Concession Arrangements	300,766	300,766	333,271	333,271
Research expenditure and expensed development expenditure	561,357	561,357	824,765	824,765
Movements:				
– travelling, subsistence and relocation costs and movement of stores and equipment	562,791	562,791	589,303	589,303
– transport under Service Concession Arrangements	46,893	46,893	51,379	51,379
War Pensions Benefits	723,228	723,228	764,817	764,817
Professional fees	742,309	742,309	758,801	758,801
Training, safety and welfare	721,741	721,741	607,070	607,070
Other Expenditure:				
Other expenditure*†	527,731	664,784	506,535	662,615
Cost of: PFI, finance lease and other interest payable	417,229	417,229	423,318	423,318
Grants-in-Aid	197,602	29,570	188,326	22,000
Other Grants to bodies within the accounting boundary	16,109	–	6,695	–
<b>Sub total – expenditure – cash</b>	<b>28,464,209</b>	<b>28,514,830</b>	27,975,866	28,054,750
<b>Total Expenditure</b>	<b>44,825,320</b>	<b>44,886,366</b>	36,922,855	37,011,582

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

† In addition to the notional audit fee for the Department's audit (including the cost of the audit of the Armed Forces Pension Scheme accounts (2017-18: £145,000; 2016-17 £145,000); Defence Equipment and Support (BTE) accounts (2017-18: £300,000; 2016-17 £300,000), DECA (2017-18: £30,500; 2016-17 £30,500) and Dstl (2017-18: £84,000)), expenditure for the Departmental Group includes, as Other Expenditure, the cash cost of the audit of: the National Museum of the Royal Navy, the National Army Museum, the RAF Museum, the Royal Hospital Chelsea, the Single Source Regulations Office, the Commonwealth War Graves Commission and the Reserve Forces and Cadets Associations: £387,285 in 2017-18 (2016-17 : £397,305).

## 4. Income

	2017-18		2016-17	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
Receipts – supplies and services	245,402	245,402	215,704	215,704
Receipts – NATO/UN/US Forces/Foreign Governments	278,952	278,952	254,998	254,998
Receipts from sale of fuel	62,738	62,738	15,978	15,978
Rental income – property	52,146	52,146	31,835	31,835
Invoiced goods and services supplied to UKHO and QinetiQ	19,770	19,770	36,414	36,414
Sub total – Income from provision of supplies and services	<b>659,008</b>	<b>659,008</b>	554,929	554,929
Income Other – receipts personnel	284,755	284,755	268,243	268,243
Income Other – proceeds from the sale of PPE and intangible assets	209,973	209,973	223,629	223,629
Income Other – dividends and other income from investments*	18,093	18,093	68,400	68,400
Income Other – donated assets	1,372	1,372	1,182	1,182
Income Other – other income*	136,875	217,425	143,887	252,572
<b>Total Income</b>	<b>1,310,076</b>	<b>1,390,626</b>	1,260,270	1,368,955

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

## 5. Consolidated Departmental Group – Intangible Assets

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

	Note	Single Use Military Equipment £000	Software £000	AUC £000	Others* £000	Total £000
<b>Cost or Valuation†</b>						
Balance at 1 April 2016		22,937,936	16,615	9,594,578	9,480,644	42,029,773
Additions	i	1,104	1,883	2,191,538	1,703	2,196,228
Disposals		(209,118)	–	–	(104,715)	(313,833)
Impairments	ii	(54,528)	(299)	(430)	19,505	(35,752)
Revaluations	iii	953,842	(229)	–	179,557	1,133,170
Reclassifications	iv	866,390	1,392	(741,709)	(58,656)	67,417
<b>Balance at 31 March 2017</b>		<b>24,495,626</b>	<b>19,362</b>	<b>11,043,977</b>	<b>9,518,038</b>	<b>45,077,003</b>
Additions	i	4,948	416	2,052,777	(1,083)	2,057,058
Disposals		(288,227)	–	(195,184)	(130,123)	(613,534)
Impairments	ii	4,898	(863)	–	1,075	5,110
Revaluations	iii	414,179	239	(34,042)	176,165	556,541
Reclassifications	iv	629,409	(12,162)	(667,772)	88,254	37,729
<b>Balance at 31 March 2018</b>		<b>25,260,833</b>	<b>6,992</b>	<b>12,199,756</b>	<b>9,652,326</b>	<b>47,119,907</b>
<b>Amortisation</b>						
Balance at 1 April 2016		(11,440,074)	(2,769)	–	(4,256,506)	(15,699,349)
Charged in Year		(924,680)	(3,526)	–	(460,899)	(1,389,105)
Disposals		182,000	–	–	100,399	282,399
Impairments	ii	59,569	–	–	(4,479)	55,090
Revaluations	iii	(424,446)	17	–	(140,651)	(565,080)
Reclassifications	iv	17,193	134	–	330	17,657
<b>Balance at 31 March 2017</b>		<b>(12,530,438)</b>	<b>(6,144)</b>	<b>–</b>	<b>(4,761,806)</b>	<b>(17,298,388)</b>
Charged in Year		(955,341)	(2,477)	–	(467,973)	(1,425,791)
Disposals		172,501	–	–	310,894	483,395
Impairments	ii	(1,882)	–	–	(862)	(2,744)
Revaluations	iii	(183,547)	(132)	–	(91,965)	(275,644)
Reclassifications	iv	17,261	5,903	–	(11,970)	11,194
<b>Balance at 31 March 2018</b>		<b>(13,481,446)</b>	<b>(2,850)</b>	<b>–</b>	<b>(5,023,682)</b>	<b>(18,507,978)</b>
<b>Net Book Value</b>						
Balance at 1 April 2016		11,497,862	13,846	9,594,578	5,224,138	26,330,424
Balance at 31 March 2017		11,965,188	13,218	11,043,977	4,756,232	27,778,615
<b>Balance at 31 March 2018</b>		<b>11,779,387</b>	<b>4,142</b>	<b>12,199,756</b>	<b>4,628,644</b>	<b>28,611,929</b>
Of the total net book value as at 31 March 2018						
Core Department		<b>11,779,387</b>	<b>4,142</b>	<b>12,199,756</b>	<b>4,628,644</b>	<b>28,611,929</b>
ALBs		–	–	–	–	–
Total		<b>11,779,387</b>	<b>4,142</b>	<b>12,199,756</b>	<b>4,628,644</b>	<b>28,611,929</b>

### Notes

- Additions include accruals of £787M (2016-17: £626M) and Dstl assets of £6.6M. (See Note 23.1 for further details of the Dstl transfer in to the Department). Information on Frascati compliant R&D expenditure can be found on the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>.
  - Capitalised development costs directly linked to a class of asset are only impaired if the whole class of the associated non current asset is impaired e.g. when a whole class of asset is withdrawn from service. Reversals of prior year impairments are also included here.
  - Revaluations include changes due to indexation. Where the price inflation embedded within contracts provides for a reasonable estimate of fair value, the additional annual application of indexation is not required.
  - Reclassifications include assets classified to or from property, plant and equipment.
- † Intangible asset valuations are based on the actual costs incurred, or derived by applying a ratio to the property, plant and equipment asset valuations based on the historical relationship between development and production costs.
- \* The category 'Others' includes £3.5Bn of transport intangible assets; of this £1.7Bn relates to Merlin helicopters and £0.8Bn relates to A400M transport aircraft. In 2016-17 there was a £0.4Bn reclassification from Others to SUME.



## 5.1 Movement in the revaluation reserve relating to intangible assets

	2017-18 £000	2016-17 £000
Balance – 1 April	2,912,178	2,561,469
Revaluation	280,897	568,090
Transfers / reclassifications	16,045	–
Realised reserve transferred to the General Fund	(273,016)	(217,381)
<b>Balance – 31 March</b>	<b>2,936,104</b>	2,912,178

## 5.2 Details of intangible assets with a net book value greater than 0.5Bn

Description	Net Book Value 31 March 2018 £Bn	Remaining Useful Economic Life
Typhoon development costs	5.4	22 years 1 month
Merlin helicopter development costs	1.7	12 years 10 months
Type 45 destroyer development costs	1.3	20 years 10 months
Airbus A400M Atlas development costs	0.8	30 years 8 months
Lynx Wildcat helicopter development costs	0.6	26 years 6 months
Spearfish torpedo development costs	0.5	22 years 8 months

\* In the interests of national security details of Astute submarine intangible assets are no longer disclosed.

## 6. Consolidated Departmental Group – Property, Plant and Equipment

Note	Land Dwellings		Land Other Buildings		Dwellings		Other Buildings		Single Use Military Equipment (SUME)		Plant and Machinery		Transport		Communication Equipment		IT and		Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000		£000
<b>Cost or Valuation</b>																				
Balance at 1 April 2016	2,621,627	7,151,189	12,537,641	26,584,771	75,106,890	3,676,295	18,358,675	4,742,496	14,300,262	5,566,519	170,646,365									
Additions	1,882	3,833	25,121	143,641	413,558	12,755	313,859	209,801	3,694,856	2,163,082	6,982,388									
Disposals	(10,170)	(1,036)	(69,799)	(277,776)	(2,190,389)	(216,096)	(923,405)	(122,629)	(135,131)	(4,083)	(3,950,514)									
Impairments	(40,574)	(178,043)	(298,675)	(653,748)	(217,176)	982	9,725	(5,951)	19,899	(415)	(1,363,976)									
Reclassifications	(267)	(56,938)	316,852	52,648	615,886	89,109	972,949	59,703	(1,621,115)	(1,726,574)	(1,297,747)									
Revaluations	(180,200)	252,372	805,846	1,712,928	2,043,110	68,683	603,649	51,307	–	(8)	5,357,687									
<b>Balance at 31 March 2017</b>	<b>2,392,298</b>	<b>7,171,377</b>	<b>13,316,986</b>	<b>27,562,464</b>	<b>75,771,879</b>	<b>3,631,728</b>	<b>19,335,452</b>	<b>4,934,727</b>	<b>16,258,771</b>	<b>5,993,521</b>	<b>176,374,203</b>									
Additions	–	51,517	8,409	374,208	526,359	33,459	8,783	(276,314)	4,017,131	2,314,490	7,438,026									
Disposals	(19,868)	(6,455)	(132,886)	(425,990)	(3,144,972)	(127,897)	(446,968)	(30,061)	(271,270)	(38,976)	(4,893,596)									
Impairments	1,606	(39,077)	(220,093)	(400,964)	(947,003)	1,352	(29,134)	(30,061)	(1,914)	–	(1,665,288)									
Reclassifications	(370)	(7,573)	732,419	(299,476)	5,306,277	468,551	602,510	21,615	(5,706,521)	(1,837,614)	(720,182)									
Revaluations	6,833	(9,788)	1,176,040	422,049	1,512,874	85,442	275,323	126,545	–	204,100	3,799,418									
<b>Balance at 31 March 2018</b>	<b>2,380,499</b>	<b>7,158,001</b>	<b>14,880,875</b>	<b>27,232,291</b>	<b>79,025,414</b>	<b>4,092,635</b>	<b>19,745,966</b>	<b>4,880,182</b>	<b>14,296,197</b>	<b>6,640,521</b>	<b>180,332,581</b>									
<b>Depreciation</b>																				
Balance at 1 April 2016	(92,313)	(29,723)	(3,475,753)	(13,169,308)	(41,315,827)	(1,816,603)	(7,681,096)	(2,520,249)	–	–	(70,100,872)									
Charged in Year	(11,360)	(9,603)	(285,148)	(754,065)	(2,888,554)	(174,306)	(958,622)	(391,480)	–	–	(5,473,136)									
Disposals	9,558	1	27,901	263,448	1,563,142	198,680	916,329	107,334	–	–	3,086,393									
Impairments	1,856	4,163	8,865	32,609	(112,011)	(981)	13,565	(1,516)	–	–	(53,450)									
Reclassifications	–	(442)	514	76,557	1,053,352	2,701	31,399	3,817	–	–	1,167,898									
Revaluations	248	–	(348,559)	(1,045,320)	(947,047)	(32,899)	(277,485)	(33,850)	–	–	(2,684,912)									
<b>Balance at 31 March 2017</b>	<b>(92,011)</b>	<b>(35,604)</b>	<b>(4,072,180)</b>	<b>(14,596,079)</b>	<b>(42,646,945)</b>	<b>(1,823,408)</b>	<b>(7,955,910)</b>	<b>(2,835,944)</b>	<b>–</b>	<b>–</b>	<b>(74,058,081)</b>									
Charged in Year	(11,113)	(9,228)	(283,834)	(571,191)	(2,912,693)	(172,018)	(826,079)	(405,357)	–	–	(5,191,513)									
Disposals	109	299	98,580	329,432	3,040,507	113,605	309,446	258,420	–	–	4,150,398									
Impairments	289	–	12,792	1,999	740,296	(1,056)	13,998	18,204	–	–	786,522									
Reclassifications	–	1,265	(240,269)	331,519	919,465	(103,122)	155,062	158	–	–	1,064,078									
Revaluations	(68)	–	(599,494)	18,809	(502,310)	(43,977)	(81,529)	(75,274)	–	–	(1,283,843)									
<b>Balance at 31 March 2018</b>	<b>(102,794)</b>	<b>(43,268)</b>	<b>(5,084,405)</b>	<b>(14,485,511)</b>	<b>(41,361,680)</b>	<b>(2,029,976)</b>	<b>(8,385,012)</b>	<b>(3,039,793)</b>	<b>–</b>	<b>–</b>	<b>(74,532,439)</b>									
Net Book Value																				
Balance at 1 April 2016	2,529,314	7,121,466	9,061,888	13,415,463	33,791,063	1,859,692	10,677,579	2,222,247	14,300,262	5,566,519	100,545,493									
Balance at 31 March 2017	2,300,287	7,135,773	9,244,806	12,966,385	33,124,934	1,808,320	11,379,542	2,098,783	16,258,771	5,993,521	102,316,122									
<b>Balance at 31 March 2018</b>	<b>2,277,705</b>	<b>7,114,733</b>	<b>9,796,470</b>	<b>12,746,780</b>	<b>37,663,734</b>	<b>2,062,659</b>	<b>11,360,954</b>	<b>1,840,389</b>	<b>14,296,197</b>	<b>6,640,521</b>	<b>105,800,142</b>									

### Notes

- Additions include accruals of £2.5Bn (2016-17: £2.2Bn) and Dstl assets of £0.3Bn (See Note 23.1 for further details of the Dstl transfer in to the Department).
- Assets are impaired for a variety of reasons e.g. loss, damage, obsolescence, abandonment of AUC and as part of the disposal process.
- Includes reclassifications to or from: inventory £112M (2016-17: £8M) and intangible assets £49M (2016-17: £85M) and reclassifications to Assets Held for Sale of £26M (2016-17: £45M).
- Revaluations include changes due to indexation, impairment and impairment reversals. Where the price inflation embedded within contracts provides for a reasonable estimate of fair value during development and construction, the additional annual application of indexation is not required. To ensure accurate fair values for AUC, MOD conducts fair value reviews annually on its AUC and on their reclassification to assets in use.
- Property, plant and equipment as at 31 March 2018 include capitalised provisions (gross cost) of £1,363M (2016-17: £407M).

Note	Land Dwellings		Land Other Buildings		Dwellings		Other Buildings		Single Use Military Equipment (SUME)		Plant and Machinery		Transport		Communication Equipment		IT and Equipment		Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Asset Financing</b>																				
Owned	319,095	6,648,794	4,145,293	11,371,771	37,656,311	1,655,474	9,417,889	1,110,228	14,296,197	6,605,566	93,226,558									
Donated	112,011	304,881	37,958	77,742	7,423	-	-	2,359	-	-	542,374									
Long Lease	5,665	53,129	17,809	37,763	-	-	-	-	-	-	114,366									
Short Lease	55	9,948	267	22,061	-	-	-	-	-	-	32,331									
Operating Lease (Lessor)	-	-	-	9,230	-	-	-	-	-	-	-									
Finance Lease	1,756,236	-	4,675,970	-	-	276,825	62	-	-	-	6,709,093									
Service Concession Arrangements	84,643	98,041	919,173	1,228,213	-	130,360	1,943,003	727,802	-	34,955	5,166,190									
<b>Balance at 31 March 2018</b>	<b>2,277,705</b>	<b>7,114,733</b>	<b>9,796,470</b>	<b>12,746,780</b>	<b>37,663,734</b>	<b>2,062,659</b>	<b>11,360,954</b>	<b>1,840,389</b>	<b>14,296,197</b>	<b>6,640,521</b>	<b>105,800,142</b>									
<b>Of the total net book value as at 31 March 2018</b>																				
Core Department	2,248,018	7,064,873	9,720,564	12,505,633	37,663,734	1,858,728	11,352,759	1,838,717	14,296,197	6,640,000	105,189,223									
Arm's Length Bodies	29,687	49,860	75,906	241,147	-	203,931	8,195	1,672	-	521	610,919									
Total	2,277,705	7,114,733	9,796,470	12,746,780	37,663,734	2,062,659	11,360,954	1,840,389	14,296,197	6,640,521	105,800,142									

**6.1** Land and Buildings, with the exception of AUC, are subject to quinquennial revaluation (QQR), a rolling programme with approximately 25% of the estate re-valued in each of the first 4 years allowing any residual work to take place in year 5; although not all of MOD's assets have been valued in the last 5 years, this has not had a material impact and omitted assets have been subject to indexation. 2017-18 represents the fifth year of the current programme. Valuations for the UK estate were performed by the Valuation Office Agency (VOA) and for the overseas estate in-house by Defence Infrastructure Organisation personnel and reviewed by VOA. All valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual. Non-specialist properties are valued at fair value, interpreted as market value for existing use; Specialist properties, for which there is no external market, are valued at depreciated replacement cost.

**6.2** Data from the 2017-18 QQR resulted in a £56.8M increase in the value of Land and a £269.3M decrease in the value of Buildings at Net Book Value. Valuations received during the year were dated 1 Nov 17 and were effective from 1 Apr 17; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 Apr 17.

**6.3** The net charge to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings assets is £369.3M impairment write off. This is made up of: Land, £20.5M net impairment write off; Buildings, £348.8M net impairment write off. The figures include all Land and Building assets professionally valued during Financial Year 2017-18, including Donated, IFRIC 12 and IAS 17 finance lease assets.

**6.4** In addition to the above, a number of outstanding valuations from prior financial years were applied during 2017-18 which resulted in a £12.2M decrease in the value of land and a £74.2M increase in the value of buildings at Net Book Value. The net charge to the SoCNE in respect of these valuations was £35.2M impairment write-off, made up of land £0.2M net impairment reversal and buildings net impairments of £35.4M.

**6.5** Following announcements of plans to dispose of various sites as part of the Department's estate optimisation programme, the land valuations of the impacted sites were reviewed. The review used a slightly different approach to that, described at Note 9 – Impairments, adopted for the buildings.

**6.6** The approach adopted for land was as follows. The sales receipts, at the time of the expected date of disposal, of impacted sites, were estimated and adjusted for a risk factor. These estimated sales receipts are based on appraisals for alternative use. The risk adjustment factor reduces this figure to reflect the planning risk in the estimated sales receipts. The risk adjusted estimated sales receipts were then discounted to take account of the time until the receipt of the payment. A further adjustment is made to the discounted net receipt to reflect the economic benefit of the use of land until the expected date of disposal. This adjustment is based on a percentage of the current carrying value for each year it is expected that the site will be used. The sum of the discounted net receipt and economic benefit is then compared to the carrying value of the land. Where this valuation figure was above the current carrying value, the current carrying value of the impacted sites has then been revised upwards to reflect this new valuation. Where the valuation was below the current carrying value, the current carrying value was adopted. For some of the impacted sites, the land has been impaired, where the calculated value is less than the fair value – see Note 9 Impairments.

## 7. Financial Instruments

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

**7.2** The MOD trades with a large number of diverse customers spread over a wide geographical area and receivables are only impaired where there is sufficient knowledge to indicate that recovery is improbable. The Department has cash balances with commercial banks in the Eurozone and is therefore exposed to some credit risk in respect of these holdings however the cash balances are relatively small and managed to minimise risk.

**7.3** 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 are not in hedging relationships in accordance with IAS 39.

### Foreign Exchange and Fuel Price Risk

**7.4** The Department has foreign currency forward purchase contracts, denominated in US Dollars and Euros, and fuel fixed price swap contracts denominated in US Dollars; all these contracts are accounted for as derivatives and classified as Held for Trading financial instruments.

**7.5** The forward purchase contracts are held with the Bank of England and covered 90% and 63% respectively of the in-year expenditure in US dollars and Euros. The fair value of the financial asset / liability arising from the contracts is determined using the mid-market rate for 31 March published by the Bank of England and movements in the value are charged or credited to the SoCNE.

**7.6** The fixed price swap contracts, placed with a small range of major financial institutions, are used to manage exposure to fluctuations in the market prices of aviation, marine and other fuels. The contracts are measured at fair value with movements in fair value being charged or credited to the SoCNE.

## Categories of Financial Instruments

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

	Note	31 March 2018		31 March 2017	
		Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Financial Assets</b>					
Fair value through Net Operating Cost – Held for Trading	SoFP	136,265	136,265	607,812	607,812
Loans and receivables (including cash and cash equivalents)*		3,112,106	3,209,154	3,195,401	3,268,772
Available for Sale		6,447	42,101	1	36,014
		<b>3,254,818</b>	<b>3,387,520</b>	3,803,214	3,912,598
<b>Financial Liabilities</b>					
Payables and accruals		(8,721,480)	(8,797,510)	(9,202,543)	(9,248,263)
Fair value through Net Operating Cost – Held for Trading	SoFP	(231,824)	(231,824)	(121,872)	(121,872)
		<b>(8,953,304)</b>	<b>(9,029,334)</b>	(9,324,415)	(9,370,135)

The assets and liabilities disclosed at Fair Value through Net Operating Cost – Held for Trading above, comprise the Department's foreign currency forward purchase contracts and fuel fixed price swap contracts. The financial assets comprise foreign currency forward purchase contracts of £79.2M and fuel fixed swap contracts of £57M. The financial liabilities comprise foreign currency forward purchase contracts of £228.3M and fuel fixed swap contracts of £3.5M.

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

	31 March 2018 Net Operating Cost £000	31 March 2017 Net Operating Cost £000
<b>Financial Assets</b>		
Fair value through Net Operating Cost – Held for Trading	369,980	(845,205)
Loans and receivables	3,704	(1,067)
Available for Sale	200	–
<b>Financial Liabilities</b>		
Payables and accruals	410	2,554
	<b>374,294</b>	(843,718)

## 8. Investments

**8.1** The Department holds, as an investment, Public Dividend Capital of £13,267,000 in the UK Hydrographic Office; a Trading Fund operating outside the Department's accounting boundary. During the year the Department received income from this investment of £18,093,000 (2016-17 £10,400,000). The department through its on-vote Agency Dstl, wholly owns Ploughshare Innovations Ltd (Ploughshare). Ploughshare was set up to license Intellectual Property (IP) and create companies from the new technologies and knowledge created in Dstl's research. Its remit has been expanded to commercialise IP across UK government defence and security. MOD's equity capital in Ploughshare is currently valued at £3.75m in MOD's accounts.

**8.2** The Department is a party to a joint arrangement. The company, Sealand Support Services Limited (SSSL), is incorporated with equal shareholdings between the Department and two private sector companies. SSSL has been established to deliver a global repair hub providing maintenance, repair, overhaul and upgrade services for avionic and other components on the F-35 aircraft. The company has not yet begun trading.

### Other Financial Assets

**8.3** Special Shares confer on the Secretary of State for Defence rights regarding ownership, influence and control, including voting rights in certain circumstances, under the individual Articles of Association of the relevant companies in which the shares are held. Further detailed information can be obtained from the companies' annual reports and accounts. As at 31 March 2018 The Department held a Preferential Special Share valued at £1 in each of the following companies:

Company	Registration Number
Devonport Royal Dockyard Limited	02077752
Rosyth Royal Dockyard Limited	SC101959
AWE plc	02763902
AWE Pension Trustees Limited	02784144
QinetiQ Group plc	04586941
QinetiQ Holdings Limited	04154556
QinetiQ Limited	03796233
BAE Systems Marine (Holdings) Limited	01957765
CLH Pipeline System (CLH-PS) Ltd	09497223

**8.4** 7.5% non-cumulative irredeemable preference shares at £1 each were held in the following companies as at 31 March 2018:

Company	Registration Number	Number of shares
The Chamber of Shipping Ltd	02107383	688
The British Shipping Federation Limited	02107375	55,040



The shares are valued at 1p each reflecting the value at which they would be recovered by the two companies should membership by the Department be ceded, as laid down in the Articles of Association of the respective companies.

**8.5** The Department has a 100% interest in the non-preferential shares of International Military Services Limited (registration number 00924462), 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.

## 9. Departmental Group – Impairments

### 9.1 Details of impairments and impairment reversals through Net Operating Costs:

	2017-18		2016-17	
	Net Operating Cost	Net Operating Cost	Net Operating Cost	Net Operating Cost
	Impairment	Impairment Reversal	Impairment	Impairment Reversal
	£000	£000	£000	£000
Intangibles	–	(2,366)	47,399	(66,735)
Land	94,666	(57,484)	369,606	(157,009)
Property	707,787	(101,521)	1,075,039	(164,091)
Single Use Military Equipment (SUME)	345,537	(138,830)	566,702	(237,513)
Plant & machinery	–	(296)	362	(363)
Transport	15,628	(492)	11,606	(34,896)
IT	13,820	(1,963)	10,952	(3,485)
Assets under construction	1,914	–	2,824	(22,308)
Assets held for sale	306	–	4,375	–
	<b>1,179,658</b>	<b>(302,952)</b>	2,088,865	(686,400)

**9.2** The 2017-18 figures for impairment included reductions in the value of: buildings £5M (2016-17: £940M) and land £12M (2016-17: £144M), following announcements of plans to dispose of various sites as part of the Defence Estate Optimisation Programme. The land and buildings impairment was charged to the SoCNE (Net Operating Costs) and any balances on the revaluation reserve (up to the value of the impairment for the relevant assets) was transferred to the General Fund. The impairment amount for buildings was determined by accelerating the depreciation from the current out of service date to the estimated vacation date. For land, the impairment amount was established by comparing the carrying amount to the recoverable amount. Estimate of sales proceeds was considered when reviewing these values. As the sales proceeds are estimates, there is uncertainty around these amounts.

## 10. Departmental Group – Property Plant and Equipment Assets Held For Sale

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

	Property £000	Plant and Equipment £000	Total £000
Balance at 1 April 2016	24,988	7,882	32,870
Additions (transfers in)	39,715	5,060	44,775
Disposals	(30,225)	(8,392)	(38,617)
Transfers out*	(12,840)	(618)	(13,458)
Balance at 31 March 2017	21,638	3,932	25,570
Additions (transfers in)	26,033	173	26,206
Disposals	(32,410)	(841)	(33,251)
Transfers out*	(3,201)	3,060	(141)
<b>Balance at 31 March 2018</b>	<b>12,060</b>	<b>6,324</b>	<b>18,384</b>

\* Transfers out includes an element of revaluation where the anticipated sale did not take place in the current year.

**10.1** Assets classified as held for sale 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 SoCNE.

## 11. Departmental Group – Inventories

**11.1** To conduct its activities across the world, on operations and standing commitments, the armed forces require a wide range of supplies and spares for immediate and potential use. A large part of these supplies and spares are recorded on the inventory accounting systems and comprise over 640,000 different types and over 740 million items. The type and range of items accounted for include: Guided Weapons, Missiles and Bombs (GWMB) and significant equipment spares (e.g. engines) some of which are reported in the accounts at Note 6 – PPE (as part of the Single Use Military Equipment figures); as well as Raw Materials and Consumables (RMC) which are reported in the table below.

**11.2** The total, approximate, gross value of all these different ‘categories’ is £27Bn, £21.4Bn is included in Note 6 and £5.6Bn in inventory (as at 31 March 2017 these figures were £27.3Bn, £21Bn in Note 6 and £6.3Bn in inventory).

**11.3** The net book value — i.e. after deducting depreciation and other costs (to reflect net realisable value for example for when items become surplus, unserviceable, defective or obsolescent) — of all the ‘categories’ is £10.2Bn, of which £5.8Bn is included in Note 6 and £4.4Bn in the table below, (as at 31 March 2017 these figures were £10.1Bn, £5.5Bn in Note 6 and £4.6Bn in the table below).

**11.4** Further analysis of the net £4.4Bn figure for Raw Materials and Consumable is below:

	31 March 2018	31 March 2017
	£000	£000
Munitions	<b>1,174,796</b>	1,192,007
Clothing & textiles	<b>321,244</b>	285,788
Engineering & technical	<b>2,407,772</b>	2,657,224
General	<b>201,709</b>	185,397
Medical, dental & veterinary	<b>53,678</b>	48,548
Oil, fuel & lubricants	<b>188,689</b>	180,009
Work in Progress	<b>278</b>	–
<b>Total Core Department and Agencies</b>	<b>4,348,166</b>	4,548,973
Inventory held by ALBs	<b>8,362</b>	8,366
<b>Total Departmental Group</b>	<b>4,356,528</b>	4,557,339

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

## 12. Trade Receivables and Other Assets

	31 March 2018		31 March 2017	
	Core Department & Agencies £000	Departmental Group £000	Core Department & Agencies £000	Departmental Group £000
<b>Amounts falling due within one year:</b>				
Trade receivables	273,344	274,441	296,169	301,720
Deposits and advances	49,463	49,463	43,712	43,712
Value Added Tax	435,874	436,612	439,495	441,610
Other receivables	441,303	444,066	686,058	692,065
Staff loans and advances	85,154	85,154	77,310	77,310
Prepayments and accrued income	950,294	957,670	1,219,273	1,223,667
Current part of Service Concession Arrangement prepayment	5,899	5,899	35,009	35,009
	<b>2,241,331</b>	<b>2,253,305</b>	2,797,026	2,815,093
<b>Amounts falling due after one year:</b>				
Trade receivables	45,758	45,758	25,167	25,167
Other receivables	18,942	19,442	144,923	144,923
Staff loans and advances	144,771	144,771	131,138	131,138
Prepayments and accrued income	366,974	366,974	166,500	166,500
	<b>576,445</b>	<b>576,945</b>	467,728	467,728
<b>Total Receivables</b>	<b>2,817,776</b>	<b>2,830,250</b>	3,264,754	3,282,821

The Department holds cash in accounts with foreign governments due to contractual requirements to trade with defence contractors through foreign military sales. These have been recognised as prepayments.

### 13. Cash and Cash Equivalents

	Core Department & Agencies £000	Departmental Group £000
Balance at 31 March 2017	1,591,395	1,653,208
Net change in cash and cash equivalents	234,403	265,778
Balance at 31 March 2018	<b>1,825,798</b>	<b>1,918,986</b>
	31 March 2018 £000	31 March 2017 £000
The following balances were held at:		
Government Banking Service	612,132	538,695
Commercial Banks and Cash in Hand	1,306,854	1,114,513
<b>Totals</b>	<b>1,918,986</b>	1,653,208

The commercial banks and cash in hand figure as at 31 March 2018 includes £943M (31 March 2017: £895M) of sums advanced by foreign governments to the Department on various collaborative projects where the United Kingdom is the host nation. Advances made by foreign governments for the procurement of defence equipment on their behalf are also included in this amount. The corresponding liability for these advances is shown under payables due within one year.

## 14. Trade Payables and Other Liabilities

	31 March 2018		31 March 2017	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
	£000	£000	£000	£000
<b>Amounts falling due within one year:</b>				
VAT	40,599	40,599	78,075	78,075
Other taxation and social security	214,822	214,998	209,919	210,024
Trade payables	506,457	517,324	470,108	475,781
Other payables*	2,032,784	2,043,717	2,268,646	2,277,838
Payments received on account	18,590	18,590	15,548	15,548
Accruals and deferred income	6,518,432	6,572,486	6,635,603	6,666,353
Current part of finance leases	8,556	8,556	8,709	8,709
Current part of imputed finance lease element of Service Concession Arrangement contracts	319,490	319,490	284,784	284,784
Current part of NLF loans**	2,508	2,508	2,520	2,520
Supply Payable***	789,552	789,552	696,236	696,236
	<b>10,451,790</b>	<b>10,527,820</b>	10,670,148	10,715,868
<b>Amounts falling due after one year:</b>				
Other payables	40,658	42,232	45,650	47,383
Accruals and deferred income	36,759	36,759	55,653	55,653
Finance leases	1,756,826	1,756,826	1,765,382	1,765,382
Imputed finance lease element of Service Concession Arrangement contracts	4,450,082	4,450,082	4,653,125	4,653,125
NLF loans**	20,211	20,211	22,719	22,719
	<b>6,304,536</b>	<b>6,306,110</b>	6,542,529	6,544,262
<b>Total Payables</b>	<b>16,756,326</b>	<b>16,833,930</b>	17,212,677	17,260,130

\* Other payables includes: amounts advanced by foreign governments in respect of various collaborative projects where the United Kingdom is the host nation of £943M; and a further £451M due to the International Court of Justice.

\*\* Under the Armed Forces (Housing Loans) Acts 1949, 1958 and 1965, £94M was borrowed from the National Loans Fund for the construction of married quarters over the period 1950-51 to 1967-68. These loans are fully repayable between 2012 and 2028, with the last instalment due on 20 February 2028. Interest on the loans is payable at rates ranging from 4% to 7% per annum.

\*\*\* Amounts received from the Consolidated Fund for Supply but not spent as at 31 March 2018.

## 15. Provisions for Liabilities and Charges

### 15.1. Departmental Group — Provisions for Liabilities and Charges

	Other Provisions					Total £000
	Nuclear Decommissioning*	Other Decommissioning and Restoration Costs	Early Retirement Commitments	Legal	Other**	
	£000	£000	£000	£000	£000	
Balance at 1 April 2016	10,416,981	45,114	104,526	476,017	597,231	11,639,869
Increase in provisions in-year	361,002	600	10,863	247,497	239,338	859,300
Provisions written back and reclassifications**	(475,406)	–	(16,622)	(18,518)	(465,378)	(975,924)
Provisions utilised in year	(102,510)	–	(13,851)	(109,460)	(25,265)	(251,086)
Unwinding of, and changes in, discount rate	27,945	594	5,106	(9,295)	794	25,144
Provisions capitalised	(17,298)	–	–	–	–	(17,298)
<b>Balance at 31 March 2017</b>	<b>10,210,714</b>	<b>46,308</b>	<b>90,022</b>	<b>586,241</b>	<b>346,720</b>	<b>11,280,005</b>
Increase in provisions in-year	3,240,515	10,431	10,922	150,045	108,719	3,520,632
Provisions written back and reclassifications	(202,529)	(14,260)	(2,924)	(24,514)	(38,529)	(282,756)
Provisions utilised in year	(137,876)	(1,603)	(11,053)	(140,046)	(29)	(290,607)
Unwinding of, and changes in, discount rate	5,284,144	697	695	(5,023)	1,437	5,281,950
Provisions capitalised	129,943	–	–	–	–	129,943
<b>Balance at 31 March 2018</b>	<b>18,524,911</b>	<b>41,573</b>	<b>87,662</b>	<b>566,703</b>	<b>418,318</b>	<b>19,639,167</b>

\* Provisions are discounted using HM Treasury's annually issued rates. In 2017-18 these rates included a significant change to the long term (over 10 year) rate; this resulted in a large increase in the value of the Nuclear Decommissioning provision for 2017-18.

\*\* In 2016-17 the reclassification in the Other column of Other Provisions includes the reclassification of £593,800,000 now separately disclosed as Retirement Benefit Schemes liabilities.

### 15.2 Analysis of expected timing of discounted cash flows\*

	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other Provisions £000	Total £000
Due within 1 year	212,059	16,264	9,416	391,185	628,924
Due over 1 year and less than 5 years	837,882	25,172	33,602	302,798	1,199,454
Due over 5 years	17,209,601	137	44,644	291,038	17,545,420
Assets held solely for decommissioning	265,369	–	–	–	265,369
<b>Balance at 31 March 2018</b>	<b>18,524,911</b>	<b>41,573</b>	<b>87,662</b>	<b>985,021</b>	<b>19,639,167</b>



	Nuclear Decommissioning £000	Other Decommissioning and Restoration Costs £000	Early Retirement Commitments £000	Other Provisions £000	Total £000
Due within 1 year	236,087	17,183	7,780	143,978	405,028
Due over 1 year and less than 5 years	749,749	28,988	25,134	533,855	1,337,726
Due over 5 years	8,956,090	137	57,108	255,128	9,268,463
Assets held solely for decommissioning	268,788	–	–	–	268,788
<b>Balance at 31 March 2017</b>	<b>10,210,714</b>	<b>46,308</b>	<b>90,022</b>	<b>932,961</b>	<b>11,280,005</b>

\* Expected cash flows due within one year have been shown as Current Liabilities on the Statement of Financial Position and the remaining expected cash flows are shown as Non-current Liabilities; the liabilities as at 31st March 2017 have also been separated and disclosed in this new format.

## Nuclear Decommissioning

Critical accounting judgements and key sources of estimation uncertainty

**15.3** Provisions have been made for the cost of the treatment, storage and disposal of the nuclear materials, Irradiated Fuel and Radioactive Waste used in the Defence Nuclear Programme as well as for the decommissioning of sites, facilities and 30 out of service and operational submarines for which the MOD is ultimately responsible.

**15.4** The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 120 years. In estimating the value of the provision required to settle the Department's obligations, there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them. Should outcomes differ from assumptions in any of the following areas this may require material adjustments to the value of the nuclear decommissioning provisions and related assets and liabilities:

- the time over which the work will be delivered with the programme of work not scheduled to conclude until well into the next century;
- interdependencies between programmes of work, for example, a Geological Disposal Facility (GDF) is assumed to be the end point for MOD's higher activity waste. If the assumptions underpinning a GDF were to change, this would have a direct impact on the provisions held by the Department;
- uncertainty over future Government policy positions and potential regulatory changes, especially in relation to the Nuclear Decommissioning Authority (NDA);
- possible technological advances which could impact the work to be undertaken to decommission and clean up the sites.

**15.5** The discounted nuclear provision at the end of 2016-17 was £10.2Bn. Since then the movements have been:

- provisions utilised in year -£0.1Bn;
- increases from inflation +£0.2Bn;
- unwinding of the existing discount applied to the provision every year -£0.1Bn

- the impact of the changes in discount rates +£5.4Bn; and
- cost estimate changes which increase the liability estimate by a net +£2.9Bn

These movements bring the 2017-18 MOD estimate for nuclear decommissioning to £18.5Bn discounted.

## General assumptions

**15.6** A key assumption that impacts the value of the nuclear decommissioning provisions is HM Treasury's general discount rate (which is applied to forecasted cashflows at constant 2017-18 prices). While the undiscounted provision based on constant 2017-18 prices is £9.2Bn, the application of discounting increases the provision to £18.5Bn. From 2012-13 HM Treasury introduced different rates for short, medium and long term cash flows. The impact on the value of the nuclear decommissioning provisions of recent rate changes can be seen below:

	Short Term Rate (0-5 years)	Medium Term Rate (5-10 years)	Long Term Rate (>10 years)	Impact of change (£m) Increase/(Decrease)
2004-05 to 2011-12	2.20%	2.20%	2.20%	-
2012-13	-1.80%	-1.00%	2.20%	324
2013-14	-1.90%	-0.65%	2.20%	(17)
2014-15	-1.50%	-1.05%	2.20%	15
2015-16	-1.55%	-1.00%	-0.80%	5,463
2016-17	-2.70%	-1.95%	-0.80%	106
2017-18	-2.42%	-1.85%	-1.56%	5,366

**15.7** The most significant impacts have been the introduction of a negative discount Long Term Rate in 2015-16 and a further negative increase (0.76%) in the Long Term Rate in 2017-18, both of these changes were intended to represent the real term cost of government borrowing. To illustrate further the sensitivity of provision values to changes in the discount rates, a reduction of 0.5% (-2.92% Short Term, -2.35% Medium Term and -2.06% Long Term) would result in a £5.7Bn increase in the nuclear decommissioning provision. Conversely, an increase of 0.5% in the three rates would result in a £4Bn decrease in the value.

**15.8** The other general assumption that impacts the value of the provision is the inflation rate used in calculations. Wherever supportable by evidence, inflation rates specific to each provision are used to inflate cashflows stated at prior year prices to current year prices. Where specific inflation rates are not apparent or supportable by evidence, a general rate of 2.5% is applied which is in line with Departmental accounting policy. A variation in this generic inflation rate of +/-0.5% would result in the value of inflation charge in the provision changing by +/-£7M.

## Significant Provisions

Nuclear Fuel Management (£7.6Bn -41.1% of the value of the provision), (2016-17: £2.4Bn -23% of the value of the provision)

**15.9** Since 1968, irradiated fuel from the defueling of submarines has been stored at the NDA's Sellafield site. The current policy is to consolidate all the Department's irradiated fuel at Sellafield in the Wet Inlet Facility (WIF). The value of this element of the provision assumes that the costs of storage will continue at a broadly constant level, with a reduction when all material is consolidated in the WIF. It has

been estimated that a variation of 1% in storage costs (increase or decrease) would lead to a £17M change in the value of the provision.

**15.10** The long-term disposal strategy for irradiated fuel is to use a GDF. Planning for this involves the building of a facility that will condition irradiated fuel taken from the WIF to meet GDF entry requirements. The cost of this conditioning facility is included in the provision based on estimates previously provided by the NDA and these have been revised following an update this year, causing an increase of £2Bn discounted. The key sensitivities for this element of the provision are:

- The costs of the conditioning facility are inherently uncertain as the assumption is that construction will not commence for over fifty years. It has been estimated that a variation of 1% in the costs of the construction, operation, Post Operational Clean Out (POCO) and decommission (increase or decrease) would lead to a £57M change in the value of the provision; and
- It has been estimated that if the date when a GDF will be available is delayed by ten years, for example, the provision would increase by £338M as the MOD would incur additional storage / maintenance costs and, due to the effect of the long term negative discount rate, the discounted value of the conditioning facility operational costs would increase.

Submarine 'Afloat' provisions (£3Bn -16.2% of the value of the provision) (2016-17: £2Bn - 20% of the value of the provision)

**15.11** The MOD incurs costs for the maintenance and safe storage of out of service nuclear submarines prior to disposal. This element of the provision (covering all nuclear submarines up to and including the three In-Service Astute Class boats) is calculated from projections of these costs which include removal of fuels and an allocation of overhead costs incurred as part of the Maritime Support Delivery Framework (MSDF) contract. The majority of such costs form part of the fixed cost element of the current MSDF contract. As the provision is primarily driven by fixed costs, the overall length of the programme is a key assumption. The provision is therefore routinely updated to reflect the impact of any changes to the submarine programme (specifically in respect to vessel out of service dates and the knock on impact these have on the timing of platforms entering the dismantling phase). The MSDF contract is scheduled to end during 2019-20 and cash flow estimates assume similar cost profiles beyond this date. For every 1% change in costs after this point (increase or decrease), it is estimated that the liability would change by £16M.

Atomic Weapons Establishment (£2.1Bn -11.4% of the value of the provision), (2016-17: £1.6Bn -15% of the value of the provision)

**15.12** The Atomic Weapons Establishment (AWE) is responsible for the design, manufacture and support of warheads for the United Kingdom's strategic nuclear deterrent. The Department holds provisions for the decommissioning of facilities, decontamination and storage of materials relating to the warhead programme; the largest of which is for the decommissioning of AWE's sites at Aldermaston and Burghfield.

**15.13** The AWE provision is based upon the cost of decommissioning current and redundant facilities, and other ancillary activities to support this i.e. waste management activities. The provision does not consider any facilities that have yet to be built or are not contaminated. The provision assumes decommissioning timeframes as set out in the AWE annual liabilities report as agreed by the Office of Nuclear Regulation. AWE provide cost information at Minimum / Most Likely / Maximum estimate levels which consider programme risk and timescale uncertainty. The department ordinarily uses the Most Likely estimate level as the basis for investment decisions as it reflects the risk adjusted Most Likely estimate of programme costs. This rationale has also been applied in the costing of provisions

as it reflects the best estimate available on the cost of decommissioning activities. To place this in some context, the difference between the Most Likely estimate for AWE and the Minimum estimate is circa -£146M (at current prices, undiscounted and excluding management fees) and between the Most Likely and Maximum estimate is circa +£354M (at current prices, undiscounted and excluding management fees).

**15.14** The AWE provision currently assumes a GDF is the end point for any higher activity waste. It has been estimated that if the date when a GDF will be available is delayed by, for example, ten years the AWE provision would increase (at current prices, including discounting and management fees) by £34M.

Submarine Dismantling Project (£1.9Bn -10.3% of the value of the provision), (2016-17: £1.4Bn -13.5% of the value of the provision)

**15.15** The Submarine Dismantling Project (SDP) aims to deliver safe, environmentally responsible and cost-effective dismantling of 27 of the UK's defueled nuclear-powered submarines (the dismantling costs for the three In-Service Astute Class boats are provided for separately outside the scope of this Project). The Department has yet to fully dismantle any of its nuclear-powered submarines and, as such, the estimates of the time and cost of dismantling are inherently uncertain. The SDP provision cashflows are predicated on the planning assumption that, following the completion of those submarines which are forecast to undergo initial dismantling in two stages, initial dismantling will take 18 months for each submarine. The SDP commenced in December 2016 with a demonstrator submarine that will define and refine the process, and provide more certainty for the cost of the project. The first stage of demonstration is still ongoing and is forecast to complete by December 2018.

**15.16** To illustrate the sensitivity of the provision to changes in the dismantling time, the following changes would lead to an estimated increase of £922M in the value of this and other co-dependent MOD provisions:

- for submarines that are due to undergo dismantling in two stages, the duration for the removal of Intermediate Level Waste is extended from 12 to 18 months; and
- for the remaining submarines, the time taken for the initial dismantling of each submarine is extended from 18 to 24 months.

**15.17** The availability of a GDF as an end point is important to the SDP with any delays resulting in additional costs for the interim storage of waste. It has been estimated that if the date when a GDF will be available is delayed by, for example, ten years the SDP provision would increase by £88M.

Geological Disposal Facility (£2.3Bn -12.4% of the value of the provision), (2016-17: £1.4Bn -13.3% of the value of the provision)

**15.18** One of the key assumptions that underpin several of the individual provisions is the availability of a GDF as an end point for MOD's higher activity waste. The construction of a GDF is managed by the NDA and the value of the Department's nuclear decommissioning provision currently includes a share of the forecast project costs provided by the NDA. MOD's share of GDF costs is currently expected to be 6%. The current planned date for the facility to receive waste is 2045. The key sensitivities for this provision are as follows:

- the cost of constructing and operating a repository in the long term which, dependent on the location and construction requirements, range from a reduction of £1.1Bn in the provision value to an increase of £4.3Bn; and

- the NDA has identified a risk that the construction and opening of a facility may be delayed. Such a delay may increase the costs of a facility as well as increasing the discounted value of such costs. A delay of a small number of years is considered to be within the overall tolerance of the estimate for GDF construction and waste transfer, and is not considered to have a material impact on the the provision estimate. It is estimated that a longer delay, for example for ten years, would increase the current provision by £452M due mainly to the effect of the long term negative discount rate on costs moved to later years.

## Other Decommissioning and Restoration

**15.19** Other decommissioning and restoration provisions relate primarily to contaminated sites where the Department has a constructive or a legal obligation to restore the sites for normal use. The estimated payments are discounted by the Treasury discount rates listed at paragraph 15.6.

## Early Retirement

**15.20** Prior to December 2010, for those employees covered by the Civil Service Compensation Scheme who retired early, the Department met the additional costs of benefits beyond the normal civil service pension scheme benefits by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate applicable to such provisions: 0.10% with effect from 31 March 2018 (0.24% from 31 March 2017). Employees who retire early now do so on a 'clean break' basis so no provision is required as there are no costs in future years. During 2017-18 increases of £11M were made to existing schemes and early retirement / redundancy costs charged during the period amounted to £11M.

## Legal

**15.21** Legal liabilities include amounts payable under guarantees, litigation and contractual arrangements; some legal liabilities (where the probability of settlement against the Department is remote) have been reported as contingent liabilities.

## Other

**15.22** Other provisions include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

## 16. Retirement Benefit Schemes

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

**16.2** The Department's share of the transactions and balances of other unfunded multi-employer defined benefit pension schemes to which employees belong (e.g. under Civil Service Pension (CSP) arrangements, the NHS Superannuation Scheme and the Teachers' Pension Scheme) cannot

be separately identified and are therefore 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>

<https://www.gov.uk/government/collections/teachers-pension-scheme>

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

**16.3** Other employees are members of smaller pension schemes e.g. schemes for Locally Employed Civilians overseas. The liabilities for unfunded schemes are included as ‘Retirement benefit scheme liabilities’ as part of the non-current liabilities on the Department’s SoFP. For the funded pension schemes within the accounting boundary i.e. the Commonwealth War Graves Commission Superannuation Scheme and the Reserve Forces and Cadets Associations Pension Scheme; estimates of the ‘Retirement benefit scheme assets and liabilities’ are included as part of the non-current assets and non-current liabilities on the Group SoFP as non-current receivables and payables respectively. Further details of these smaller schemes are set out below.

**16.4** The Department’s three unfunded, defined benefit pension schemes are:

- the British Forces Cyprus pension scheme — a pension scheme for locally engaged fire fighters, employed by the MOD in Cyprus.
- the Sovereign Bases Administration Areas pension scheme – a pension scheme for locally engaged police and civilian grades in Cyprus; and
- the United Kingdom Departments Gibraltar pension scheme – for locally employed staff in Gibraltar.

Details of the liabilities of these three schemes are shown in the table below:

	2017-18				2016-17			
	British Forces Cyprus (BFC) £000	Sovereign Bases Administration Areas (SBAA) £000	United Kingdom Departments Gibraltar (UKDG) £000	Total £000	British Forces Cyprus (BFC) £000	Sovereign Bases Administration Areas (SBAA) £000	United Kingdom Departments Gibraltar (UKDG) £000	Total £000
Opening Balances	71,200	152,800	369,800	<b>593,800</b>	-	-	-	-
Reclassification from provisions	-	-	-	-	49,200	104,500	288,200	441,900
Current Service Cost	2,500	5,500	8,300	<b>16,300</b>	1,900	4,000	6,000	11,900
Interest Charges	2,000	4,300	10,300	<b>16,600</b>	1,800	3,800	10,300	15,900
Changes in assumptions	(2,700)	(7,000)	(13,100)	<b>(22,800)</b>	14,700	32,900	75,300	122,900
Benefits Paid	(700)	(2,100)	(10,300)	<b>(13,100)</b>	(900)	(1,900)	(10,500)	(13,300)
Exchange Rate (gain)/loss	1,100	2,300	-	<b>3,400</b>	4,300	9,200	-	13,500
Experience (gain)/loss	100	200	-	<b>300</b>	200	300	500	1,000
Closing Balances	<b>73,500</b>	<b>156,000</b>	<b>365,000</b>	<b>594,500</b>	71,200	152,800	369,800	593,800

**16.5** The numbers of members in these three schemes are:

	Active	Pensioners	Deferred Pensioners
British Forces Cyprus (BFC)	117	47	1
Sovereign Bases Administration Areas (SBAA)	340	106	1
United Kingdom Departments Gibraltar (UKDG)	570	1161	305



**16.6** The schemes have been subject to actuarial valuation, by the Government Actuary's Department, as at 31 March 2018. The results of any actuarial calculation are inherently uncertain because of the financial, demographic and exchange rate assumptions which must be made. The following tables show the indicative effects, on the liabilities of the 3 schemes of changes to these assumptions:

British Forces Cyprus (BFC)		2017-18		2016-17	
		Approximate effect on total liability		Approximate effect on total liability	
		% change	£ million	% change	£ million
<b>Change in assumption</b>					
<b>Financial assumptions</b>					
(i) discount rate*	+1/2% a year	-9.0%	-6.6	-9.5%	-6.7
(ii) (long term) earnings increase*	+1/2% a year	+4.0%	3.0	+4.0%	2.9
(iii) pension increase*	+1/2% a year	+8.0%	5.7	+8.0%	5.5
<b>Demographic assumptions</b>					
(iv) additional 1 year increase in life expectancy at retirement		+1.5%	1.1	+1.5%	1.2
<b>Exchange rate</b>					
(v) appreciation of the Euro against the pound sterling by 10%		+10%	7.4	+10%	7.1

\* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

Sovereign Bases Administration Areas (SBAA)		2017-18		2016-17	
		Approximate effect on total liability		Approximate effect on total liability	
		% change	£ million	% change	£ million
<b>Change in assumption</b>					
<b>Financial assumptions</b>					
(i) discount rate*	+1/2% a year	-10.0%	-15.2	-9.5%	-14.6
(ii) (long term) earnings increase*	+1/2% a year	+5.0%	8.1	+6.0%	8.8
(iii) pension increase*	+1/2% a year	+7.5%	11.7	+8.5%	12.8
<b>Demographic assumptions</b>					
(iv) additional 1 year increase in life expectancy at retirement		+2.0%	2.9	+2.0%	2.7
<b>Exchange rate</b>					
(v) appreciation of the Euro against the pound sterling by 10%		+10%	15.6	+10%	15.3

\* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

United Kingdom Departments Gibraltar (UKDG)		2017-18		2016-17	
		Approximate effect on total liability		Approximate effect on total liability	
Change in assumption		% change	£ million	% change	£ million
<b>Financial assumptions</b>					
(i) discount rate*	+1/2% a year	-8.5%	-30.3	-9.5%	-34.8
(ii) (long term) earnings increase*	+1/2% a year	+2.5%	9.8	+2.5%	9.6
(iii) pension increase*	+1/2% a year	+8.5%	30.3	+9.0%	33.2
<b>Demographic assumptions</b>					
(iv) additional 1 year increase in life expectancy at retirement		+4.0%	13.7	+4.0%	13.9

\* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

**16.7** The Group Accounts also include two funded, defined benefit schemes:

- the Commonwealth War Graves Commission Superannuation Scheme; and
- the Reserve Forces and Cadets Associations Pension Scheme.

Details of the assets, liabilities and number of members are set out in the following tables:

	2017-18			2016-17		
	Reserve Forces and Cadets Association Pension Scheme	Commonwealth War Graves Commission Superannuation Scheme	Total	Reserve Forces and Cadets Association Pension Scheme	Commonwealth War Graves Commission Superannuation Scheme	Total
	£000	£000	£000	£000	£000	£000
<b>Scheme Assets</b>						
Opening Asset Balances	113,636	82,315	195,951	97,700	81,911	179,611
Net increase / (decrease)	-	4,274	4,274	15,936	404	16,340
Closing Asset Balances	<b>113,636</b>	<b>86,589</b>	<b>200,225</b>	113,636	82,315	195,951
<b>Scheme Liabilities</b>						
Opening Liability Balances	(97,718)	(86,915)	(184,633)	(86,100)	(96,601)	(182,701)
Net (increase) / decrease	-	(22,719)	(22,719)	(11,618)	9,686	(1,932)
Closing Liability Balances	<b>(97,718)</b>	<b>(109,634)</b>	<b>(207,352)</b>	(97,718)	(86,915)	(184,633)
<b>Net Scheme Asset / (Liabilities)</b>	<b>15,918</b>	<b>(23,045)</b>	<b>(7,127)</b>	15,918	(4,600)	11,318

The numbers of members in the schemes are:

	Active	Pensioners	Deferred Pensioners
Reserve Forces and Cadets Association Pension Scheme	855	1126	305
Commonwealth War Graves Commission Superannuation Scheme	202	405	169

## 17. Departmental Group – Capital Commitments

In addition to the liabilities listed in the Statement of Financial Position the Department, as part of its ongoing work enters into undertakings for substantial future capital expenditure which, when the liability is incurred, will be recorded in future financial statements. The following future capital commitments are not yet accounted for in the financial statements:

	31 March 2018 £000	31 March 2017 £000
Intangible assets	2,800,473	3,361,953
Property, plant and equipment	19,310,133	17,704,731
	<b>22,110,606</b>	21,066,684

## 18. Departmental Group – Other Financial Commitments

The MOD has entered into non-cancellable contracts which are not leases or PFI contracts. Details of the payments to which the MOD is committed are disclosed below, analysed by the period during which the commitment expires.

	31 March 2018 £000	31 March 2017 £000
<b>Not later than 1 year</b>	711,727	754,385
<b>Later than 1 year but not later than 5 years</b>	2,284,490	2,341,282
<b>Later than 5 years</b>	1,081,880	1,078,759
	<b>4,078,097</b>	4,174,426

## 19. 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.

### 19.1 Operating leases:

Significant commitments for leased land, as at 31 March 2018 are: The Royal Armoured Corps Gunnery School £18M (2016-17: £18M) and Okehampton Training Camp £11M (2016-17: £11M).

The most significant operating leases for buildings, as at 31 March 2018, are for: Service Families Accommodation £37M (2016-17: £45M), Aldershot Health Centre £27M (2016-17: £27M), Walker House, Liverpool £14M (2016-17: £14M) and Dstl sites £19M (2016-17: £Nil).

Other operating lease commitments include leased vehicles (including operational support vehicles) of £264M (2016-17: £269M) and Light Aircraft Training £20M (2016-17: £12M). Remaining lease commitments are less than £10M.

	31 March 2018	31 March 2017
	£000	£000
<b>Obligations under operating leases comprise:</b>		
Land		
Not later than one year	5,625	7,340
Later than one year and not later than five years	17,628	14,489
Later than five years	50,129	50,304
	<b>73,382</b>	72,133
Buildings		
Not later than one year	58,252	53,722
Later than one year and not later than five years	98,472	114,465
Later than five years	59,784	78,554
	<b>216,508</b>	246,741
Other		
Not later than one year	108,796	114,817
Later than one year and not later than five years	172,471	210,057
Later than five years	37,500	57,967
	<b>318,767</b>	382,841

## 19.2 Finance leases:

	31 March 2018	31 March 2017
	£000	£000
<b>Obligations under finance leases comprise:</b>		
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	8,503,436	8,551,477
	<b>8,743,646</b>	8,791,687
Less interest element	(7,884,943)	(7,942,983)
	<b>858,703</b>	848,704
Buildings		
Not later than one year	47,848	47,848
Later than one year and not later than five years	191,392	191,392
Later than five years	8,469,106	8,516,953
	<b>8,708,346</b>	8,756,193
Less interest element	(7,863,071)	(7,910,917)
	<b>845,275</b>	845,276
Other		
Not later than one year	13,344	14,110
Later than one year and not later than five years	53,374	53,374
Later than five years	23,351	36,695
	<b>90,069</b>	104,179
Less interest element	(18,664)	(24,069)
	<b>71,405</b>	80,110

The Land and Buildings finance leases relate to the arrangement with Annington Homes Ltd for the provision of homes for the service personnel and their families £1,694M (2016-17: £1,694M).

## 20. Departmental Group – Commitments Under Service Concession Arrangements

**20.1** All PPP / PFI arrangements have been assessed in accordance with IFRIC 12 – Service Concession Arrangements as adopted by HM Treasury. The following arrangements fulfilled the criteria for IFRIC 12 and the assets have been accounted for as assets of the Department:

Project Description	Contract Start*	Contract End
Defence Fixed Telecommunications System: Integration of 50 fixed telecommunications networks used by the Armed Forces and MOD, including the delivery of voice, data, LAN interconnect and other WAN services.	Jul-1997	Jul-2019
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson.	Oct-1997	Oct-2037
Veolia PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage at Tidworth.	Feb-1998	Aug-2018
Joint Services Command and Staff College (JSCSC): Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters.	Jun-1998	Aug-2028
RAF Lossiemouth Family Quarters: Redevelopment and re-provision of 279 Service family quarters.	Jun-1998	Aug-2019
Attack Helicopter Training Service: Provision of full mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training.	Jul-1998	Sep-2023
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton.	Jul-1998	Jul-2028
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, to meet regulatory standards at RAF Lyneham.	Aug-1998	Aug-2023
RAF Fylingdales: Provision of guaranteed power supply.	Dec-1998	Mar-2024
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury.	Mar-1999	Jun-2025
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy.	Apr-1999	Jan-2021
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth.	Jun-1999	Jun-2031
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service families in Central Scotland.	Aug-1999	Jun-2021
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers.	Feb-2000	Sep-2030
Main Building Refurbishment: Redevelopment and management services for MOD Main Building.	May-2000	May-2030
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington.	Jul-2000	Dec-2030
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew.	Jul-2000	Mar-2018
Family quarters at Wattisham: Provision of married quarters accommodation for 250 Service families.	May-2001	May-2028
Astute Class Training: Provision of a training environment for crewmen and maintainers to support Astute Class submarines for 30 years.	Sep-2001	Sep-2037

Project Description	Contract Start*	Contract End
Family quarters at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families.	Nov-2001	Sep-2028
Heavy Equipment Transporters: Provision of vehicles to replace existing fleet and meet future requirements.	Dec-2001	Jul-2024
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field.	Jun-2002	Jun-2022
Flight Simulation and Synthetic Trainers: Provision of a Flight Simulation and Synthetic Trainers Integrated Aircrew Synthetic Training Service.	Oct-2002	Dec-2020
Aquatrine Project A: Provision of water and waste water services.	Apr-2003	Nov-2028
Naval Communications: Submarine fleet communications service.	Jun-2003	Dec-2030
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service.	Jun-2003	Aug-2033
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-2003	Aug-2022
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops).	Feb-2004	Feb-2039
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base.	Jul-2004	Mar-2029
Aquatrine Project B: Provision of water and waste water services.	Sep-2004	Mar-2030
Aquatrine Project C: Provision of water and waste water services.	Oct-2004	Mar-2030
C Vehicles: Provision of Earthmoving and Specialist Plant, Engineer Construction Plant and Material Handling Equipment and support services.	Jun-2005	May-2021
Portsmouth 2 Housing: Provision of 148 Family quarters in Portsmouth.	Oct-2005	May-2030
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-2006	Apr-2041
Northwood: Rebuild, refurbishment, management and operation of facilities for the Permanent Joint Headquarters.	Jul-2006	Oct-2031
Combined Aerial Targets (CATS): Provision of aerial targets and associated ground equipment and support services.	Dec-2006	Mar-2028
Provision of Marine Services: Provision of marine services at UK Dockyard Ports at Portsmouth, Devonport and Clyde and support to military exercises, training and deep water trials, worldwide.	Dec-2007	Dec-2022
Future Strategic Tanker Aircraft (FSTA): FSTA is an innovative PFI programme that will provide modern air-to-air refuelling and passenger air transport capabilities.	Mar-2008	Mar-2035
UK Military Flying Training System: Advanced Jet Trainer, Ground Based Training Equipment Element: Management and provision of Fast Jet Phase IV training and Fixed Wing Training.	May-2008	May-2033
Corsham Development Project: Rebuild, refurbishment, management and operation of facilities at the Basil Hill site.	Aug-2008	Jul-2033

\* Date when contract signed.



**20.2** The substance of an arrangement accounted for under IFRIC 12 is that the Department has a finance lease with the provider with payments comprising an imputed finance lease charge, a repayment of capital and a service charge. Payments are accounted for within the SoCNE – Service Concession Arrangements (SCA) and charges for 2017-18 were £1.3Bn (2016-17: £1.7Bn). Total obligations under SCA (consisting of the minimum lease payments, interest and any minimum service charges) analysed by time periods are shown in the tables below:

	31 March 2018	31 March 2017
	£000	£000
<b>Details of the imputed finance lease charges</b>		
Not later than one year	610,666	588,175
Later than one year and not later than five years	2,263,433	2,272,701
Later than five years	4,651,622	4,996,322
	<b>7,525,721</b>	7,857,198
Less interest element	(2,756,151)	(2,919,290)
Present value of obligations	<b>4,769,570</b>	4,937,908

	31 March 2018	31 March 2017
	£000	£000
<b>Details of the minimum service charge</b>		
Not later than one year	1,133,480	1,106,768
Later than one year and not later than five years	3,622,987	3,584,025
Later than five years	7,143,898	7,142,249
	<b>11,900,365</b>	11,833,042

The most significant Service Concession Arrangements are:

- Future Strategic Tanker Aircraft (FSTA) – providing air to air refuelling and passenger air transport capabilities £2,115M (2016-17: £3,658M).
- Project Allenby Connaught – a project for the rebuild, refurbishment, management and operation of facilities for Service accommodation at: Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down £658M (2016-17: £686M).
- Skynet 5 – satellite services £522M (2016-17: £711M.)

## 21. Departmental Group -

### Contingent Liabilities and Contingent Assets Disclosed Under IAS 37

#### Contingent Liabilities

The following liabilities are either: possible obligations arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Department's control; or present obligations where it is not probable that an outflow of economic resources will be required to settle the obligation. Details of restricted liabilities are not given due to reasons of commercial confidentiality and / or national security.

During the year potential liabilities in respect of: International Military Sales Ltd, the handling of fissile materials, Third Party claims, Rolls-Royce redundancy and the Forces Broadcasting Service have been reclassified as remote and are reported in the Accountability Report.

Following a review during 2017-18, we identified that the correct approval process had not been followed in 18 cases, three of which met the IAS 37 criteria and are reported here. Further details are provided in the Accountability Report.

## 21.1 The following quantifiable contingent liabilities have been identified:

Description	31 March 2017 £000	Increase / (Decrease) in year £000	Liabilities crystallised in year £000	Obligation expired in year £000	31 March 2018 £000
Indemnity to contractors for third party claims	422,000	(140,000)	–	–	282,000
Liability for redundancy following contractorisation	248,465	–	–	(900)	247,565
Limit of contractors' liability for possible damage caused on Government property	386,000	–	–	(271,000)	115,000
Legal claims (personal)	58,411	(11,503)	–	–	46,908
Environmental clean up costs	38,302	8,599	–	(50)	46,851
Potential liability arising from the Colchester Garrison PFI	–	20,000	–	–	20,000
Indemnity for utilities and services following the sale of Service housing	17,031	–	–	–	17,031
Indemnity to contractors for loss or damage to issued property	10,000	–	–	–	10,000
Commercial dispute in respect of contractor claims following a fire at a UK MOD property	–	9,882	–	–	9,882
Restricted – not disclosed due to reasons of commercial confidentiality and / or national security	32,000	1,350	–	(27,000)	6,350
New Fair Deal arrangements for staff pensions: staff transferred from Central Government	684	2,319	–	–	3,003
Indemnity to contractors for Intellectual Property Rights*	–	1,361	–	–	1,361
Indemnity related to work to relocate cables, in support of the dredging necessary for the QE Class Carriers	1,080	–	–	–	1,080
Contractor claims relating to project deferment or termination	500	–	–	–	500
Indemnity to contractors for service failure as a result of loss of transacting ability i.e. bankruptcy	392	–	–	–	392
Indemnity to contractors for risks associated with the handling of fissile materials	140,000	(140,000)	–	–	–
Statutory liability for International Military Sales	100,000	(100,000)	–	–	–
MOD exposure when providing an overall cap on contractor liability	57,000	–	–	(57,000)	–
Compensation for loss of revenue and costs incurred following non-award of contract	1,350	(1,350)	–	–	–
<b>Total quantifiable contingent liabilities</b>	<b>1,513,215</b>	<b>(349,342)</b>	<b>–</b>	<b>(355,950)</b>	<b>807,923</b>

\* Following a full review of Contingent Liabilities, an additional £1M has been disclosed for a case requiring retrospective approval, to indemnify contractors for Intellectual Property Rights.

**21.2** The Department has the following unquantifiable liabilities in accordance with IAS 37. Details of restricted liabilities are not given due to reasons of commercial confidentiality and / or national security. The liabilities below are unquantifiable. This could be due to a variety of reasons such as: the possibility of multiple scenarios and permutations (often involving complex and changing technology); and the variety and the uncertainty surrounding the events that may lead to crystallisation of any obligation. Objective evidence to support valuations of these liabilities is not available and hence they cannot

be measured with sufficient reliability. The liabilities will remain for the foreseeable future because they relate to possible obligations in respect of enduring companies, products, projects, equipment, technologies and property. The liabilities are:

- Indemnity to contractors for potential third party risks arising from construction of the Queen Elizabeth carriers.
- Strategic Weapons System Activities Future Delivery Project – outsourced contract includes an indemnity for non-nuclear events and unintended detonation of explosives.
- Indemnity to SERCO under the Marine Services PFI contract for losses and costs incurred due to the unintended detonation of explosives while being handled in performance of the contract.
- Indemnity to the contractor appointed to assist MOD with the sale of electromagnetic spectrum; covers potential damages awarded in respect of successful complaints following the sale.
- Guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements.
- Indemnity to third parties for damage caused by live firing of missiles at overseas ranges.
- The Department has a number of sites where it may be necessary to carry out decontamination work. It is not practicable or cost effective to identify all contamination at these sites, any possible liability is therefore not quantified and possible site remediation exposure is recognised as an unquantifiable contingent liability.
- Military personnel are entitled, after specified periods of service, to claim a training allowance. The claim can be made while serving in the Armed Forces or up to 10 years after leaving.
- Service Life Insurance is a life insurance scheme for Service personnel which aims to guarantee access to life insurance cover throughout their Service. The insurer undertakes to cover the risk for all deaths regardless of cause within a contracted mortality rate of 75 deaths per 100,000 members. Above this mortality rate MOD would be liable. Details of the scheme and key features can be found at [www.sli365.com](http://www.sli365.com).
- Potential claims under UK employment legislation following a Court of Appeal decision that Dependent Locally Employed Civilians are covered by the legislation.
- HMG guarantee for EU funding streams as announced in August and October 2016. MOD's responsibility covers the Preparatory Action on Defence Research Programme.
- Under the Defence Marine Services contract losses or claims which relate to towing are handled according to the terms of the International Ocean Towing Agreement (TOWCON). Under TOWCON the contractor is indemnified by the MOD for injury to persons on towed vessels, loss or damage caused to towed vessels, and loss or damage caused to 3rd parties by towed vessels.
- Indemnity for environmental losses arising in specific circumstances following the sale of DSG to Babcock in 2014.

## 22. Related Party Transactions

**22.1** The Department is the parent of the agencies (DE&S BTE, DECA and Dstl) and other bodies, and sponsor of the non-departmental public bodies shown in in Note 23 – Entities Within the Departmental Boundary. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

**22.2** The Department owned a Trading Fund during the year; the UK Hydrographic Office (UKHO); Dstl ceased to be a Trading Fund from 1 April 2017 when it became part of the Department, as an on-vote Agency. The Oil and Pipelines Agency (OPA) and the Navy Army Air Force Institutes (NAAFI) are Public Corporations. The Trading Fund, the NAAFI and the OPA are regarded as related parties outside the Departmental Boundary with which the Department has had material transactions. Transactions are carried out on terms which are contracted for on an arms-length basis, and are subject to internal and external audit. The value of transactions with these and other related parties are set out below.

## Trading Fund

**22.3** The UKHO provides charts of the world's oceans with the primary aim of saving and protecting lives at sea. During the year there were £3.1M (2016-17: £3.5M) of receipts from UKHO; payments to UKHO were £15.1M (2016-17: £13M).

## Oil and Pipelines Agency (Public Corporation)

**22.4** During the year MOD paid fees of: £20.3M comprising agency fees of £8.1M and other fees of £12.2M (2016-17: £15.8M comprising agency fees of £7.3M and other fees of £8.5M) The Department is represented on the OPA Board – further details are at: <https://www.gov.uk/government/organisations/oil-and-pipelines-agency>

## Navy Army Air Force Institutes (NAAFI)

**22.5** The NAAFI Council acts as the most senior NAAFI body responsible for approving the policy and direction of NAAFI's business. The rules governing the NAAFI Council and its proceedings are laid out in NAAFI's Memorandum and Articles of Association. Further details of the activities of the NAAFI including membership of The Council can be found at <http://www.naafi.co.uk>. During 2017-18 there were no receipts from NAAFI (2016-17: £Nil); payments to NAAFI were £13M (2016-17: £16M). 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)

**22.6** The following are Executive NDPBs of the MOD. They are designated NDPBs under the National Heritage Act 1983 and produce their own annual accounts. The value of the NDPBs' income, expenditure, assets and liabilities are consolidated in the accounts as part of the Departmental Group. Further details of these organisations can be found at:

- **The National Museum of the Royal Navy**  
<http://www.nmrn.org.uk>
- **National Army Museum**  
[www.national-army-museum.ac.uk](http://www.national-army-museum.ac.uk)
- **Royal Air Force Museum**  
[www.rafmuseum.org.uk](http://www.rafmuseum.org.uk)

During the year Grants-in-Aid (GiA) were made to: The National Museum of the Royal Navy £3.4M (2016-17: £3.4M); the National Army Museum £7.3M (2016-17: £6M) and the Royal Air Force Museum £9.1M (2016-17: £8.8M). The MOD provided an additional loan of £3.5M to the RAF Museum during the year; a total loan of £4.06M; this loan was funded by the Department for Culture Media and Sport, and the RAF Museum repaid the loan in full during the year.

**22.7** The Single Source Regulations Office (SSRO) is an Executive NDPB of the Department established under the Defence Reform Act 2014 with the aim of ensuring value for money is obtained for the UK taxpayer in MOD expenditure on qualifying defence contracts, and that single source suppliers are paid a fair and reasonable price under those contracts. During the year the SSRO was paid GiA of £5.7M (2016-17: £5.8M). Further information on the organisation is at: <https://www.gov.uk/government/organisations/single-source-regulations-office>

## Other

**22.8** The Department also pays a number of grants and grants-in-aid to other bodies included in the Departmental Group e.g. the Reserve Forces and Cadets Associations £94M (2016-17: £87M), the Commonwealth War Graves Commission £54M (2016-17: £50M) and the Royal Hospital Chelsea £12M (2016-17: £12M), as well as grants-in-aid to bodies outside the accounting boundary e.g. the Marine Society & Sea Cadets £12M (2016-17: £11M) and the Gurkha Welfare Scheme £3M (2016-17: £2M).

**22.9** The MOD has also had a number of transactions with other government departments and central government bodies. These are undertaken under normal trading circumstances, at arm's length, and are included in MOD's net resource outturn.

**22.10** Details of individuals who served as Ministers and Board Member during the year are listed in the Remuneration Report. No Minister or Board Member or other related party has undertaken any material transactions with the Department during the year.

## 23. Entities Within the Departmental Boundary

The entities within the boundary during 2017-18 were as follows:

<b>On-Vote Defence Agencies*</b>
Defence Electronic Components Agency
Defence Equipment and Support – Bespoke Trading Entity
Defence Science and Technology Laboratory
<b>Non-Departmental Public Bodies</b>
National Museum of the Royal Navy
National Army Museum
Royal Air Force Museum
Single Source Regulations Office
<b>Advisory Non-Departmental Public Bodies</b>
Advisory Committee on Conscientious Objectors
Armed Forces Pay Review Body
Defence Nuclear Safety Committee
National Employer Advisory Board
Nuclear Research Advisory Council
Science Advisory Committee on the Medical Implications of Less Lethal Weapons
Veterans Advisory and Pensions Committees
<b>Other Bodies</b>
Advisory Group on Military Medicine
Central Advisory Committee on Pensions and Compensation
Commonwealth War Graves Commission
Defence Scientific Advisory Council
Independent Monitoring Board for the Military Corrective Training Centre, Colchester
Royal Hospital, Chelsea
Territorial, auxiliary and volunteer reserve associations established under section 110 of the Reserve Forces Act 1996 c14

\* The Submarines Delivery Agency (SDA) was established as an on-vote Agency on 1 April 2018 and will be included in the 2018-19 Annual Report and Accounts

**23.1** On 1 April 2017 the Defence Science and Technology Laboratory (Dstl), until 31 Mar 17 a Trading Fund outside the Department's accounting boundary, was transferred to the MOD as an on-vote Agency. Dstl delivers cutting-edge science and technology (S&T) for the benefit of national defence and security. As a result of the transfer of this S&T function, and in accordance with the FRoM, the net assets of the Agency (£347.4M) have been included in the MOD's accounts for 2017-18 (the details are in the table below) and prior year figures have not been adjusted. The net assets were subsequently reduced (by £96.7M to £250.7M) by removing inter-group balances of payables and receivables due to and from MOD and as a result of aligning accounting policies (the details are in the table below).

	Dstl balances transferred 31 March 2017 £'000	Adjustments to align accounting policies and remove inter Group balances 1 April 2017 £'000	Adjusted balances following absorption of Dstl into MOD 1 April 2017 £'000
<b>Non-current assets</b>			
Intangible assets- Net Book Value	6,630	(38)	<b>6,592</b>
Property plant and equipment- Net Book Value	327,328	(4,157)	<b>323,171</b>
Financial assets and receivables	5,850		<b>5,850</b>
<b>Total non-current assets</b>	<b>339,808</b>	<b>(4,195)</b>	<b>335,613</b>
<b>Current assets</b>			
Work in progress	118		<b>118</b>
Trade and other receivables	206,954	(151,383)	<b>55,571</b>
Cash at bank and in hand	5,120		<b>5,120</b>
<b>Total current assets</b>	<b>212,192</b>	<b>(151,383)</b>	<b>60,809</b>
<b>Total assets</b>	<b>552,000</b>	<b>(155,578)</b>	<b>396,422</b>
<b>Liabilities</b>			
Payables and provisions	(204,600)	58,852	<b>(145,748)</b>
<b>Total liabilities</b>	<b>(204,600)</b>	<b>58,852</b>	<b>(145,748)</b>
<b>Assets less Liabilities</b>	<b>347,400</b>	<b>(96,726)</b>	<b>250,674</b>
<b>Taxpayers' equity and other reserves</b>			
General fund	251,100	(95,823)	<b>155,277</b>
Revaluation reserve	96,300	(903)	<b>95,397</b>
<b>Total Taxpayers' equity and other reserves</b>	<b>347,400</b>	<b>(96,726)</b>	<b>250,674</b>

## 24. Events After the Reporting Date

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

**24.2** On 16 July 2018, the Minister for Defence Procurement resigned his position.







Ministry  
of Defence

## ANNEXES

# Annex A

## Statement of Approved Maximum Armed Forces Numbers

**A.1** Votes A provide the formal mechanism by which Parliament sets limits for and monitors the maximum numbers of personnel retained for service in the Armed Forces. They are presented to the House shortly before the start of each financial year (mid-February), and form part of the Parliamentary Supply process.

**A.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.

**A.3** The tables included below compare, for each service, the numbers voted by the House of Commons with the maximum numbers maintained and the date at which this peak occurred. The aggregate maximum numbers maintained may not equal the sum of Officers plus Men and Women as these categories peak at different times of the year. The “Men and Women” categories represent the Services’ Ratings and Other Ranks.

### Maximum numbers of personnel to be maintained for service with the Armed Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Naval Service</b>				
Royal Navy	Officers	6,380	6,040	October 2017 and February 2018
	Men and Women	21,000	19,490	March 2018
	Aggregate	27,380	25,510	March 2018
Royal Marines	Officers	890	820	**
	Men and Women	7,200	6,513	April 2017
	Aggregate	8,090	7,328	April 2017
<b>Army Service</b>				
Army (Other than Services below)	Officers	14,180	12,973	October 2017
	Men and Women	89,150	73,616	April 2017
	Aggregate	103,330	86,295	April 2017
Commonwealth, Colonial, &c., troops abroad and Gurkhas	Officers	200	134	September 2017
	Men and Women	4,400	3,178	March 2018
	Aggregate	4,600	3,310	March 2018
<b>Air Force Service</b>				
Royal Air Force	Officers	7,850	7,538	February 2018
	Men and Women	27,280	25,742	April 2017
	Aggregate	35,130	33,261	April 2017

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

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Reserve Naval and Marine Forces</b>				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,960	2,701	April and May 2017
	Men and Women	9,000	2,393	April 2017
	Aggregate	13,960	5,094	April 2017
Royal Fleet Reserve (Marine Officers and Marines)	Officers	470	231	August 2017
	Men and Women	2,610	779	March 2018
	Aggregate	3,080	999	March 2018
Royal Naval Reserve	Officers	1,350	1,055	March 2018
	Men and Women	2,300	1,660	January 2018
	Aggregate	3,650	2,708	January 2018
Royal Marines Reserve	Officers	110	86	February and March 2018
	Men and Women	1,200	931	November 2017
	Aggregate	1,310	1,014	November 2017
Royal Naval Reserve (List 7)	Officers	1,100	977	December 2017
<b>Reserve Land Forces</b>				
Army Regular Reserve	Officers	10,600	8,549	April 2017
	Men and Women	24,340	21,411	October 2017
	Aggregate	34,940	29,582	September 2017
Army Reserve	Officers	10,230	5,518	March 2018
	Men and Women	35,240	29,319	April 2017
	Aggregate	45,470	34,741	November 2017
<b>Reserve Air Forces</b>				
Royal Air Force Reserve	Officers	4,500	3,752	March 2018
	Men and Women	9,000	7,900	July 2017
	Aggregate	13,500	11,634	February 2018
Royal Auxiliary Air Force	Officers	550	544	March 2018
	Men and Women	2,980	2,423	December 2017
	Aggregate	3,530	2,945	February 2018

## Maximum numbers of personnel to be maintained for service as special members of the Reserve Forces:

		Numbers voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
<b>Special Members of The Reserve Naval Forces</b>				
Royal Naval Reserve	Officers	850	113	March 2018
	Men and Women	1,620	85	**
	Aggregate	2,470	195	**
<b>Special Members of The Reserve Land Forces</b>				
Army Regular Reserve	Officers	20	0	*
	Men and Women	30	0	*
	Aggregate	50	0	*
Army Reserve	Officers	20	0	*
	Men and Women	430	75	June 2017
	Aggregate	450	75	June 2017
<b>Special Members of The Reserve Air Forces</b>				
Royal Air Force Reserve	Officers	100	63	July 2017
	Men and Women	180	139	November 2017
	Aggregate	280	199	June and July 2017

Some figures for Maximum Numbers Maintained have been rounded to the nearest 10, with numbers ending in 5 being rounded to the nearest multiple of 20 to prevent systematic bias.

The figure quoted for Officers, Men and Women and Aggregate represents the highest value in any given month in 2017-18. The aggregate numbers may not equal the total of Officers and Men and Women as the maximum for aggregate strength may have been attained in a different month.

\* Strength has been zero for the whole time period.

\*\* Strength has been at the highest level for more than two months

# Annex B

## Sponsorship Agreements over £5,000

Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
<b>Antarctic Expedition – Ice Maidens</b>		
	Qioptiq Phonics Ltd	20,000
	BlackRock Corporate	30,000
	AECOM	100,000
<b>Armed Forces in Wales Awards</b>		
	General Dynamics UK	5,000
<b>Battle of Britain Memorial Flight</b>		
	Rolls-Royce PLC	10,000
	Jaguar Land Rover	11,116
	Optare Group PLC	12,913
	BAE Systems	69,216
<b>British Army Staff Flagship Event Reception – Association of the US Army</b>		
	Oshkosh Defense LLC	9,645
<b>Defence Rehabilitation Conference 2017</b>		
	Technogym UK Ltd	10,000
<b>HMS Prince of Wales Naming Ceremony Families Event</b>		
	Thales Group	5,000
	Aircraft Carrier Alliance	10,000
<b>HMS Queen Elizabeth Commissioning Ceremony</b>		
	BAE Systems Surface Ships Ltd	13,000
<b>Movie Screening – Dunkirk</b>		
	BAE Systems	5,000
<b>Non-Commissioned Aircrew Liaison Team</b>		
	Griffin Group	8,590
<b>RAF Falcons Parachute Display Team</b>		
	Cineflow	14,400
<b>RAF Red Arrows</b>		
	Leeds Commercial	6,500
	Alexandre (BMB) Menswear	10,000
	Breitling UK Ltd	12,000
	Oxford Vaughan Ltd	12,445
	WL Gore and Associates (Gore-tex)	13,000
	Jaguar Land Rover	39,000
	BAE Systems	75,000



Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
<b>RAF Typhoon Display Team</b>		
	Leonardo	20,000
	W L Gore & Associates (UK) Ltd	21,240
<b>Science &amp; Technical Autonomous Vehicle Workshop</b>		
	Airbus (ADS Group)	5,898
<b>RAF 100 Celebrations</b>		
	MBDA	7,154
	BAE Systems	28,058
	Northrup Grumman	98,678

# Annex C

## Core Tables

### Organisation (All)

#### Total departmental spending, 2013-14 to 2021-22

Resource DEL	2013-14		2014-15		2015-16		2016-17		2017-18		2018-19		2019-20		2020-21	
	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	PLANS	PLANS	PLANS	PLANS	PLANS	PLANS
Provision of Defence Capability Service Personnel Costs	9,046,632	7,878,834	8,688,284	8,936,726	8,970,633	8,928,181	9,194,173	9,468,570	9,046,632	7,878,834	8,688,284	8,936,726	8,970,633	8,928,181	9,194,173	9,468,570
Provision of Defence Capability Civilian Personnel Costs	192,110	1,937,614	1,282,598	1,317,796	1,363,922	1,626,881	1,628,426	1,606,565	192,110	1,937,614	1,282,598	1,317,796	1,363,922	1,626,881	1,628,426	1,606,565
Provision of Defence Capability Infrastructure costs	4,545,389	4,576,992	4,127,877	4,109,609	4,057,523	3,901,768	4,843,375	4,920,541	4,545,389	4,576,992	4,127,877	4,109,609	4,057,523	3,901,768	4,843,375	4,920,541
Provision of Defence Capability Inventory Consumption	1,765,487	1,661,847	1,458,575	1,213,611	1,187,498	1,572,851	1,609,359	1,638,722	1,765,487	1,661,847	1,458,575	1,213,611	1,187,498	1,572,851	1,609,359	1,638,722
Provision of Defence Capability Equipment Support Costs	6,065,557	6,343,245	6,308,897	6,440,168	6,548,798	7,268,571	7,382,431	7,327,766	6,065,557	6,343,245	6,308,897	6,440,168	6,548,798	7,268,571	7,382,431	7,327,766
Provision of Defence Capability Other Costs and Services	1,849,154	1,854,880	1,777,086	1,224,403	1,344,094	2,381,572	2,699,165	3,437,441	1,849,154	1,854,880	1,777,086	1,224,403	1,344,094	2,381,572	2,699,165	3,437,441
Provision of Defence Capability Receipts and other Income	-1,169,263	-1,091,806	-990,842	-1,001,626	-1,069,897	-1,568,182	-1,657,314	-1,784,793	-1,169,263	-1,091,806	-990,842	-1,001,626	-1,069,897	-1,568,182	-1,657,314	-1,784,793
Provision of Defence Capability Depreciation and Impairments Costs	8,911,222	8,187,241	7,690,147	8,773,560	7,236,889	8,496,135	8,500,000	8,500,000	8,911,222	8,187,241	7,690,147	8,773,560	7,236,889	8,496,135	8,500,000	8,500,000
Provision of Defence Capability Cash Release of Provisions Costs	175,030	201,855	238,288	253,552	292,907	338,000	-	-	175,030	201,855	238,288	253,552	292,907	338,000	-	-
Provision of Defence Capability Research and Development Costs <sup>1</sup>	-	-	-	164,191	223,050	168,014	157,390	158,670	-	-	-	164,191	223,050	168,014	157,390	158,670
Provision of Defence Capability Administration Civilian Personnel Costs	2,112,064	371,688	1,198,116	430,740	363,297	430,000	430,000	430,000	2,112,064	371,688	1,198,116	430,740	363,297	430,000	430,000	430,000
Provision of Defence Capability Administration Other Costs and Services	17,139	463,849	465,947	395,656	423,226	370,895	435,000	412,000	17,139	463,849	465,947	395,656	423,226	370,895	435,000	412,000
Operations Service Personnel Staff Cost	108,909	85,480	12,864	27,617	42,608	14,000	-	-	108,909	85,480	12,864	27,617	42,608	14,000	-	-

£000	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	PLANS	PLANS	PLANS
Operations and Peacekeeping Civilian Personnel Staff Costs	13,777	6,036	3,962	4,840	5,621	1,000	-	-
Operations Infrastructure Costs	162,069	86,516	48,926	42,939	56,714	19,000	-	-
Operations Inventory Consumption	395,649	160,055	56,224	66,085	95,821	35,000	-	-
Operations Equipment Support Costs	345,016	184,400	143,437	233,445	282,316	156,000	-	-
Operations Other Costs and Services	236,067	138,302	19,856	41,510	35,451	25,000	-	-
Operations Receipts and other Income	-26,764	-40,914	-9,969	-16,698	-11,941	-	-	-
Operations Depreciation and Impairment Costs	550,366	322,349	21,029	45,272	49,723	-	-	-
Operations Cash Release of Provisions Costs	2,980	2,869	-	-	-	-	-	-
Conflict Pools Resource Costs	49,648	55,518	-	-	-	-	-	-
Non Departmental Public Bodies Costs	187,466	130,021	164,842	153,063	164,637	180,194	-	-
Defence Capability Admin Service Pers Costs	-	623,716	617,879	658,904	670,653	660,000	660,000	660,000
Defence Capability DE&S DEL Costs	-	-	1,028,443	1,044,059	1,041,063	894,354	872,405	885,567
War Pension Benefits Programme Costs	-	-	-	764,818	723,228	718,135	697,389	676,117
Conflict, Stability and Security Fund	-	-	53,397	86,832	90,994	78,148	-	-
Cash Release of Provisions Admin Costs	-	14,451	18,157	11,703	9,908	12,000	-	-
<b>Total Resource DEL</b>	<b>35,535,704</b>	<b>34,155,038</b>	<b>34,424,020</b>	<b>35,422,775</b>	<b>34,198,736</b>	<b>36,707,517</b>	<b>37,451,799</b>	<b>38,337,166</b>
<b>Resource AME</b>								
Provision of Defence Capability Depreciation and Impairment Costs	-208,143	450,416	562,876	142,253	861,134	952,550	-	-
Provision of Defence Capability Provisions Costs	141,371	679,896	6,096,468	501,333	8,548,134	480,000	-	-
Provision of Defence Cash Release of Provisions Costs	-200,392	-216,306	-256,445	-265,255	-302,815	-350,000	-	-
Movement On Fair Value of Financial Instruments	368,147	42,768	-299,576	-589,025	583,912	300,000	-	-
Operations Depreciation and Impairment Costs	-	10,757	-	-	-	-	-	-

£000	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	PLANS	PLANS	PLANS
Operations Provisions	6,152	61,995	-	-	-	-	-	-
Operations Cash Release of Provisions Costs	-2,980	-2,869	-	-	-	-	-	-
War Pensions Benefits Programme costs	858,964	837,649	-	-	-	-	-	-
<b>Total Resource AME</b>	<b>963,119</b>	<b>1,864,306</b>	<b>6,103,323</b>	<b>-210,694</b>	<b>9,690,365</b>	<b>1,382,550</b>	-	-
<b>Total Resource Budget</b>	<b>36,498,823</b>	<b>36,019,344</b>	<b>40,527,343</b>	<b>35,212,081</b>	<b>43,889,101</b>	<b>38,090,067</b>	<b>37,451,799</b>	<b>38,337,166</b>
<b>Capital DEL</b>								
Provision of Defence Capability Capital Single Use Military Equipment	3,855,046	3,970,897	4,255,772	5,192,513	5,530,091	4,333,133	4,829,667	5,807,655
Provision of Defence Capability Other Capital (Fiscal)	2,877,247	3,110,988	2,509,470	2,279,278	2,929,616	2,701,486	2,531,161	2,121,524
Provision of Defence Capability Fiscal Assets / Estate Disposal	-43,573	-250,881	-423,365	-36,560	-33,224	-213,000	-187,000	-202,000
Provision of Defence Capability New Loans and Loan Repayment	-5,573	-56,626	-3,220	-63,292	-	15,742	-3,277	-1,222
Provision of Defence Capability Research and Development Costs <sup>1</sup>	1,673,339	1,950,000	1,921,983	1,104,141	1,007,683	1,772,000	1,761,000	1,848,000
Operations Capital Single Use Military Equipment	72,533	17,908	51,862	111,350	178,258	80,000	-	-
Operations Other Capital (Fiscal)	53,070	-8,978	1,020	3,616	20,716	-	-	-
Non Departmental Public Bodies Costs	2,527	2,414	2,322	2,145	1,754	2,465	-	-
Defence Capability DE&S DEL Costs	-	-	86,624	94,941	64,315	69,167	62,449	61,043
Conflict, Stability and Security Fund	-	-	-	421	4,377	-	-	-
<b>Total Capital DEL</b>	<b>8,484,616</b>	<b>8,735,722</b>	<b>8,402,468</b>	<b>8,688,553</b>	<b>9,703,586</b>	<b>8,760,993</b>	<b>8,994,000</b>	<b>9,635,000</b>
<b>Capital AME</b>								
Provision of Defence Capability Provisions Costs	-128,612	50,559	29,130	-	44,486	136,735	-	-
<b>Total Capital AME</b>	<b>-128,612</b>	<b>50,559</b>	<b>29,130</b>	<b>-</b>	<b>44,486</b>	<b>136,735</b>	<b>-</b>	<b>-</b>

£'000	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	PLANS	PLANS	PLANS
<b>Total Capital Budget</b>	<b>8,356,004</b>	<b>8,786,281</b>	<b>8,431,598</b>	<b>8,688,553</b>	<b>9,748,072</b>	<b>8,897,728</b>	<b>8,994,000</b>	<b>9,635,000</b>
<b>Total departmental spending<sup>2</sup></b>	35,214,346	35,778,780	40,967,707	35,516,368	44,894,725	37,235,245	37,945,799	39,472,166

1 The R&D costs have been restated to comply with European System of Accounts (ESA 10) as per HMT directive.

2 Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

### Administration budget , 2013-14 to 2020-21

£'000	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	OUTTURN	OUTTURN	OUTTURN	OUTTURN	OUTTURN	PLANS	PLANS	PLANS
<b>Resource DEL</b>								
Provision of Defence Capability Administration Civilian Personnel Costs	2,112,064	371,688	403,342	430,741	363,297	430,000	430,000	430,000
Provision of Defence Capability Administration Other Costs and Services	17,139	463,849	465,947	395,656	423,226	370,895	435,000	412,000
Defence Capability Admin Service Pers Costs	-	623,716	617,879	658,904	670,653	660,000	660,000	660,000
Cash Release of Provisions Admin Costs	-	14,451	18,157	11,703	9,908	12,000	-	-
<b>Total administration budget</b>	<b>2,129,203</b>	<b>1,473,704</b>	<b>1,505,325</b>	<b>1,497,004</b>	<b>1,467,084</b>	<b>1,472,895</b>	<b>1,525,000</b>	<b>1,502,000</b>

ISBN 978-1-5286-0237-2  
CCS0318104056

---