

Ministry of Defence Annual Report and Accounts 2018–19

For the year ended 31 March 2019

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
22 July 2019

HC 2347



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ISBN 978-1-5286-1100-8

CCS0319755884 07/19

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
Performance Report	
Overview	
Foreword by Secretary of State for Defence	4
Introduction from the Permanent Secretary and the Chief of Defence Staff	5
Defence Purpose	6
Strategic Objectives – Notable Achievements	7
Departmental Structure	8
Modernising Programme	10
Defence Operating Model	11
DG Finance: Financial Performance Summary	12
Performance Analysis	
Protect Our People: National Strategic Objective 1	23
Project Our Global Influence: National Strategic Objective 2	39
Promote Our Prosperity: National Strategic Objective 3	55
Manage the Department of State and the Defence Enterprise: Strategic Objective 4	67
Accountability Report	
Corporate Governance Report	103
Remuneration and Staff Report	128
Parliamentary Accountability and Audit Report	151
Annual Accounts	
Financial Statements	178
Notes to the Accounts	183
Annexes	
Statement of Approved Maximum Armed Forces Numbers	246
Sponsorship Agreements over £5,000	248
Core Tables	249
Energy and Carbon Emissions Data	253
Water and Waste Data	254





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. 2018 has been another busy year for Defence and I am proud of all that was achieved during this time.

The Modernising Defence Programme is an ambitious programme of work which will ensure that we continue to protect the people of Britain, prevent conflict, and remain the strongest defence player in Europe, at a time when external threats have grown. Through the programme we have established a new set of policy approaches and capability investments that will help us to deliver the right UK Defence in future years and have earmarked funding to drive the development of innovative new capabilities. Supported by the additional £1.8 billion funding for Defence, we will now: mobilise, making the most of what we have to ensure our Armed Forces are the best placed to protect our security; modernise, through embracing new technologies to assure our competitive edge; and transform, by radically changing the way we do business and staying ahead of emerging threats.

We have continued to make a difference globally. We have achieved key successes in the fight against Daesh in Syria, provided relief effort to help those affected by the Sulawesi Earthquake and subsequent tsunami, continued our specialist support on the streets of Salisbury and Amesbury, and conducted a number of important exercises across the globe. During the year we celebrated both the centenary of the end of the Great War and the creation of the Royal Air Force and celebrated the 50th unbroken year of the Continuous at Sea Deterrent in April and the 75th anniversary of D-Day in June.

We have continued to act as the President of the Chiefs of Defence Women, Peace and Security Network, we have broadened the UN Security Council Resolutions to include children and armed conflict and human trafficking and the network are now running courses in 'Human Security in Military Operations', showing how seriously we take this important issue. We have made good progress in support of our Veterans, notably publishing the 'Strategy for our Veterans' and accompanying consultations, supported by a new transition policy and I am making it my personal priority that our veterans should not be subject to unfounded allegations of wrongdoing.

We continue to support industry and prosperity, publishing the Dunne Review into opportunities for growing Defence's contribution to UK Prosperity. We have launched the 'Defence Prosperity Programme' and published the Combat Air Strategy and the Small & Medium Sized Enterprises Action plan. These will all help us to ensure our economic and national security go hand in hand. We have developed a vibrant Innovation Community across Defence, through Innovation Hubs and an Innovation Advisory Panel, funding ground breaking research through the Defence and Security Accelerator and Defence Innovation Fund, working alongside the private sector and academia to do so.

Given all that we have achieved this year I can safely say we are the best Armed Forces and the best Defence Civilians in the world. The Department will continue to do all we can do to make Defence stronger.

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

The purpose of Defence is to protect the people of the UK, prevent conflict and be ready to fight our enemies and the last year has shown yet again that we can deliver against these aims.



Our presence in Iraq and Syria continues, recognising there is still a substantive and pervasive threat from Daesh. We are extending our presence in Afghanistan by committing additional troops and continuing financial assistance for the Afghan National Defence and Security Forces until 2024. We have supported our allies against continued Russian aggression and continue to play a leading role within NATO, taking part in TRIDENT JUNCTURE, the alliance's largest exercise in years. We have also strengthened our relationships in the Middle East and North Africa, signing the UK/Oman Joint Defence Agreement with Oman and taking part in exercise SAIF SAREEA 3. We continue to provide vital military assistance to Civil Authorities, including in the wildfires in North West England and during the illegal drone activity at Gatwick Airport. The challenge is to mobilise Defence to meet today's threats.

We have started to modernise to embrace new technologies and to ensure we have the competitive edge. Alongside a range of science and technology exercises, the multinational exercise AUTONOMOUS WARRIOR, which combined trials, experimentation and simulation, was conducted to reduce the danger to troops during combat. We continue to work closely with industry. In March we launched our Defence Prosperity programme, informed by the Dunne Review, and in July 2018 announced a major new strategic prosperity relationship with Lockheed Martin Corporation, where we will work together on innovation, research into new technologies and strengthening supply chains. We have made good progress with phase 2 of the Dreadnought programme, which began in April 2018, under the management of the new Dreadnought Alliance. Through our major programmes we have seen HMS QUEEN ELIZABETH enter service and initial flight trials of the F35 Lightning aircraft from her were successful. Over the last year, we have increased our investment in space policy and capabilities and in December attended an annual meeting of senior officials and military officers to agree proposals for strengthening space co-operation in the future.

We are also continuing to transform the way we do business. Alongside the changes delivered through the Modernising Defence Programme, we are making good progress with the Enterprise Approach, meaning we can collaborate better with industry on critical skills areas; we have laid the groundwork for trials of our Future Accommodation Model which will begin later this year and have published our Strategy for Veterans. We have published our new Diversity and Inclusion Strategy 'A Force for Inclusion'; and as part of the introduction of Flexible Service our regular service personnel can now apply to work part time or reduce their separation from their home base to provide greater flexibility for our people, reflecting modern lifestyles, and increasing the attractiveness of our careers. As an organisation we know we need to build a more empowered workforce where we encourage our people to be bold and ask questions. As a result, we have launched an Empowerment Programme to change how we work, in order to deliver on our aims.

All this hard work by our people means we will have the stronger Defence required to perform in an increasingly challenging and risky world – we are prepared for the present and fit for the future.

Stephen Langmore *Nick Carter*

Defence Purpose

To protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies. We are prepared for the present, fit for the future.

Our aims:

Mobilise to make the most of existing capabilities:

- Defence already has world-leading personnel and an array of capabilities. We will make the most of these and invest to improve the readiness and availability of key Defence capabilities. We must reinforce and improve our alliances and become fully integrated within the pan-Government effort to amplify our strengths.

Modernise to embrace new technologies to assure our competitive position:

- We must keep pace with our adversaries by accelerating the development of new capabilities. This is about investing in new technology and equipment. We must build strength in the space and cyber domains. But this is also about investing in our people – making sure we have the right skills and that we maximise our talent.

Transform to radically improve the way we do business:

- We need to improve the way we run Defence. We must place Defence on a sustainable financial footing, led by smarter decision making and streamlined processes. To maintain our leading edge, we must gain an information advantage through better use of insight and data.



Strategic Objectives – Notable Achievements

Protect our people



- Over **£1.5 billion** invested since April 2018 in Dreadnought Submarine Programme delivery phase 2
- Supported the liberation of **Eastern Syria** from Daesh
- Military aid to civil authorities provided on over **120** occasions
- **Exercise SAIF SAREEA** took place in Oman, the largest exercise of its kind in 17 years

Project our global influence



- We maintain an extensive global network with **140** Defence Attaché posts, **16** loan service teams and exchange officers deployed across the world
- Package of measures to strengthen defence agreed at **2018 NATO summit**
- Offered **2,269** International Defence Training places to other nations
- Over **400** bespoke training activities took place in the Middle East and North Africa

Promote our prosperity



- We achieved the target of enrolling **50,000** apprentices in the MOD, 16 months ahead of the target date
- The **Small and Medium-sized Enterprises Action Plan** published
- Launched the **Defence Prosperity programme** in March 2019
- Defence and Security Accelerator has funded over **200** proposals and allocated over **£36 million**

Manage the Department of State and the Defence Enterprise



- **£15.9 billion** allocated to Defence Equipment and Support
- **17** F35 Lightning aircraft have been delivered to date
- The **Strategy for our Veterans** was published
- **3,000th** signatory of the Armed Forces Covenant

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 their fellow Defence 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 role¹ 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.

Sir 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.

¹ 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. 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.

During 2018–19 Defence was organised into seven 'Top Level Budgets' (TLBs):

- The four military commands:
 - Navy Command, TLB Holder – Admiral Sir Philip Jones (in 2018–19); Admiral Tony Radakin (from June 2019).
 - Army Command, TLB Holder – General Sir Mark Carleton-Smith.
 - Air Command, TLB Holder – Air Chief Marshal Sir Stephen Hillier.
 - Joint Forces Command, TLB Holder – General Sir Chris Deverell (in 2018–19); General Patrick Sanders (from May 2019)
- The Defence Infrastructure Organisation (DIO), TLB Holder – David Goldstone (in 2018–19); Graham Dalton (from April 2019).
- The Defence Nuclear Organisation (DNO), TLB Holder – Julian Kelly (in 2018–19); Vanessa Nicholls (from May 2019).
- Head Office and Corporate Services (HOCS), TLB Holder – David Goldstone.

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 the 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.

Modernising Defence Programme

The Modernising Defence Programme (MDP) was launched in January 2018 to strengthen and modernise the Armed Forces in the face of a more complex and challenging international security situation. The MDP has established a set of policy approaches and capability investments that will help to keep us on track to deliver the right UK Defence for the coming decade. This is supported by the additional £1.8 billion funding, including £1 billion announced in the Autumn Budget.

Going forward we will now prioritise three broad aims, which together will enable us to deliver the Defence Purpose:

- Mobilise, making more of what we already have to ensure our Armed Forces are best placed to protect our security.
- Modernise, embracing new technologies and assuring our competitive edge over our adversaries.
- Transform, radically changing the way we do business and staying ahead of emerging threats.

All parts of Defence will need to transform and modernise to meet this ambitious vision, and it will be an ongoing theme in the organisation going forward.

Defence Operating Model

The Defence Operating Model is currently being reviewed as part of the Modernising Defence Programme. The aim is to ensure all parts of MOD work together effectively, efficiently and coherently to deliver Defence outputs. The new model will clarify roles, responsibilities, authorities, accountabilities and MOD's processes for taking key decisions. It will be published within the Department during 2019–20.

Key developments in the Defence Operating Model during 2018–19 have included:

- Introduction of a new Functional Leadership approach to coherently oversee cross-cutting functions. Implementation is underway with a number of functions already established and others expected during 2019–20. This is aligned with the Government Functional model and will eventually replace and enhance the existing Defence Authority framework;
- A revision to senior board and committee structures from January 2019, clarifying corporate governance at the top of Defence;
- Introduction of new Head Office sponsorship arrangements for enabling organisations and Arm's Length Bodies, to improve governance and adopt best practice across Defence;
- A reinvigorated transformation drive to deliver change and efficiency as set out in the Modernising Defence Programme;
- Reviews of the Acquisition System, of the relationships between the Head Office and the single Service Commands, and of the role of the Joint Forces Command. Findings will be reflected where appropriate in the new iteration of the Operating Model.

Financial Performance Summary

We have continued to develop our financial management, focusing on better management information and more accurate forecasting. We remained within Parliamentary Control Totals in 2018–19 resulting in small under-spends for non-ring fenced Resource Departmental Expenditure Limit (DEL) and Capital DEL of £22 million and £81 million respectively.



Our Finance Functional Leadership (FFL) programme and Financial Management Improvement Plan (FMIP) set out our aims for how we run the finance function and how we deliver and improve financial management in the Department. The FFL includes the standards for how the finance function operates and the improvements we are making to professional qualifications and the operating model across Defence – this includes the optimisation of systems and processes. The FMIP is a multi-year programme focused on improving the areas of most concern including forecasting, costing, financial risk and balance sheet management. Performance against both plans are monitored monthly and form a critical part of senior finance leader and Top Level Budget holder objectives.

We have made progress in improving our financial management processes. At the start of the year we made forecasting accuracy a priority and asked that TLB AP6 forecasts should aim to be within 1% of final outturn. We set our Top Level Budget (TLB) holders taut and realistic budgets, and then held them to account for delivery against annual plans. We made some early programming choices and expected TLBs to prioritise funding to deliver capability. We have improved consistency and transparency of our financial data through the creation of a single Corporate Finance Management Information (MI) pack which has been reviewed by the Finance Committee monthly throughout the year. The 2019 budget process was concluded in December 2018 – some 6 months earlier than previously, allowing TLBs to set performance targets and allocate resources earlier with greater mobilisation and planning.

Training to aid the accurate reporting of Contingent Liabilities has been delivered to 1,300 cross functional staff and guidance on the HM Treasury and Parliamentary reporting process has been improved. In June 2018 a new approval process for consultancy expenditure was introduced which imposes greater discipline on the use of consultancy and adds challenge and rigour to the rationale behind proposals. We are the lead department for the Technical Accounting Centre of Excellence for Government, which was set up in July 2018, to improve the quality of financial accounting and to share best practise across government. We continue to work with other departments in leading the Government Tax Centre of Excellence.

However, progress is tempered by a few long-standing issues.

The Department does not materially comply with International Financial Reporting Interpretations Committee (IFRIC) 4 and International Accounting Standard (IAS) 17 – *Leases*, to do so would involve the identification of many thousands of historical lease documents. To undertake significant historical work on a soon to be out of date standard does not represent good use of time or taxpayers' money. We are prioritising full compliance with the new accounting standard on leases – International Financial Reporting Standard (IFRS) 16, which is due to be implemented in April 2020.

The NAO have observed continued improvements made in the banking and cash environment, we recognise there is still significant work to do. A programme of work has been initiated across MOD; a banking transformation project will deliver a modern application for recording expenditure alongside transition to more digital transactions; a banking modernisation project will reduce, rationalise and repatriate bank accounts and make more use of the services offered by Government Banking Services. The Cash Forecasting FMIP workstream will drive behavioural changes to improve the MOD's performance when compared against other departments.

As part of ongoing FMIP work to improve the Statement of Financial Position (SOFP) and the outcome of the interim financial audit, the Department decided to correct certain historic omissions and misstatements in the financial accounts. These resulted from errors in applying accounting policies, oversights and misinterpretation of information, using a Prior Period Adjustment (PPA). In addition, a proportion of our nuclear provisions have now been recognised as relating to in-service assets, a sub-set of our inventory was assessed as more accurately reflecting the characteristics of non-current assets so have been recategorised as such and we have implemented International Accounting Standard 2 in full as planned. Full details can be found at Note 9 to the accounts.

When a department makes a PPA there is a requirement to seek Parliamentary approval for the provision that should have been sought previously. We therefore included £5 billion for this activity within the Supplementary Estimates to ensure we had enough cover, and had transparently set out the issues to Parliament.

Performance against Estimates

Overview

The Department receives authority from Parliament for resources, capital and cash to run the Department via the Supply Estimates process, which is published twice in each financial year.

The Treasury is responsible for the design of the budgeting system against which the Department is controlled. DEL limits are set in the Spending Review and departments may not exceed the limits they have been set. Resource Budgets control current expenditure such as pay or non-capital procurement and include depreciation. Capital budgets exist to control new investment and allow spending on capital assets. Within the Resource DEL budget there is a separate Administration budget set in spending reviews to cover expenditure on running central government entities but excluding their frontline activities. In addition, some expenditure is specifically ringfenced and requests to switch expenditure to other budget areas will not be approved. For MOD, this includes depreciation and impairment costs classed as ringfenced RDEL, and the Cost of Operations. Annually Managed Expenditure (AME) budgets, which are demand led and volatile so cannot be absorbed within normal controls, are set by the Treasury and any expected increases require Treasury Approval. There is also a non-budget section of the Statement of Parliamentary Supply (SoPS) to cover any prior period adjustments that may be required within the current year's accounts.

A breakdown of expenditure against the Parliamentary and Treasury Controls can be found in the table overleaf.

Analysis of Departmental Performance

Comparison of Estimate to Outturn	Estimate £ billion	Outturn £ billion	Variance £ billion	Variance %
Resource DEL, of which:	36.758	34.571	2.187	5.9
Resource DEL (non ringfenced); of which	27.162	27.140	0.022	0.1
Admin Costs	1.755	1.681	0.074	4.2
Resource DEL (ringfenced)	8.896	6.805	2.091	23.5
Cost of Operations (ringfenced)	0.699	0.626	0.073	10.4
Total Resource DEL	36.758	34.571	2.187	5.9
Capital DEL, of which:	10.401	10.294	0.107	1.0
Capital DEL (non ringfenced)	10.281	10.201	0.080	0.8
Cost of Operations (ringfenced)	0.120	0.094	0.026	21.7
Total Capital DEL	10.401	10.294	0.107	1.0
AME (Resource)	(3.868)	(7.883)	4.015	103.8
Non-Budget (Resource)	5.000	1.060	3.940	78.8

1. Individual figures may not sum to the total due to rounding.

We have managed our resources carefully to enable us to remain within the Parliamentary Control Total for non-ringfenced expenditure. This has been achieved through a combination of internal spend control systems; measures directed by Head Office; realism adjustments in programme spend; and, additional funding from HM Treasury for Dreadnought and other investments.

In 2018–19 our total voted non ringfenced Resource Departmental Expenditure Limit (DEL) was £27.2 billion against which we underspent by £22 million (0.1%).

The majority of the RDEL variance of (£2.1 billion) was in ringfenced RDEL and was partly due to the Department not being required to impair as many assets as originally proposed. In addition, there has been a movement from this ringfenced expenditure to non budget expenditure of some £0.7 billion as a result of the prior period restatement. This ringfenced RDEL cannot be used elsewhere and hence does not impact Defence's spending power.

The majority of the Capital DEL budget is for non ringfenced expenditure where there was a variance of £80 million against estimate of £10.3 billion (0.8%).

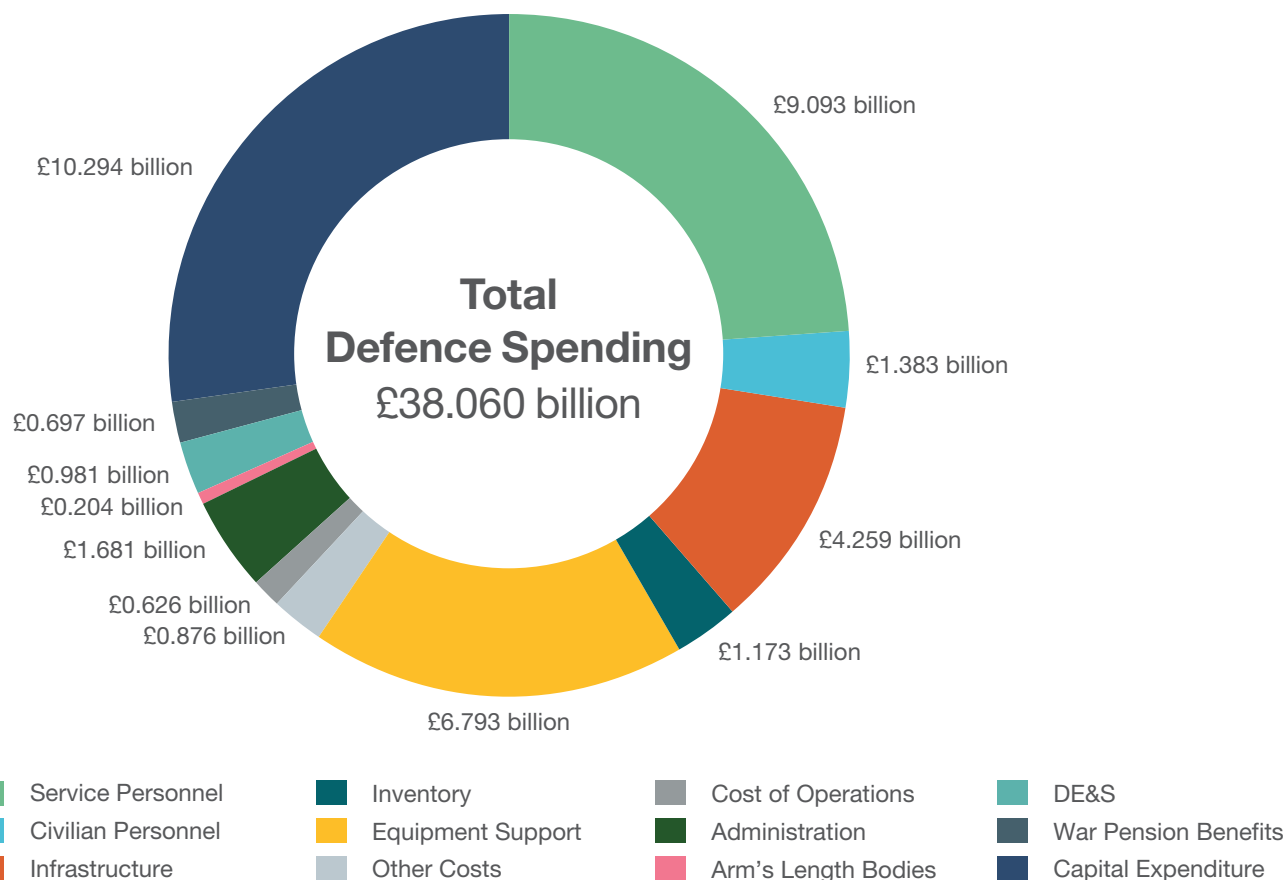
For Annually Managed Expenditure (AME), which is demand led and volatile so cannot be absorbed within normal controls, the outturn was (7.8 billion) against an estimate of (3.9 billion). The majority of the (4.0 billion) variance is due to uncertainty around the valuation of nuclear provisions held. This underspend cannot be used elsewhere and hence does not impact Defence's spending power.

The Department was voted £5 billion Non Budget expenditure to absorb any prior period adjustments in the accounts against which outturn was £1.060 billion. Again, this is an accounting adjustment and does not impact Defence's spending power.

Where We Spent Our Money in 2018–19

The chart below provides a breakdown of all non ringfenced expenditure incurred by the Department in 2018–19. This expenditure is controlled by the Department through close scrutiny of the In Year Management Process. It is this close scrutiny that has resulted in the Departments outturn against non ringfenced RDEL and CDEL being 0.1% and 0.8% respectively.

Where We Spent Our Money in 2018–19



Notes

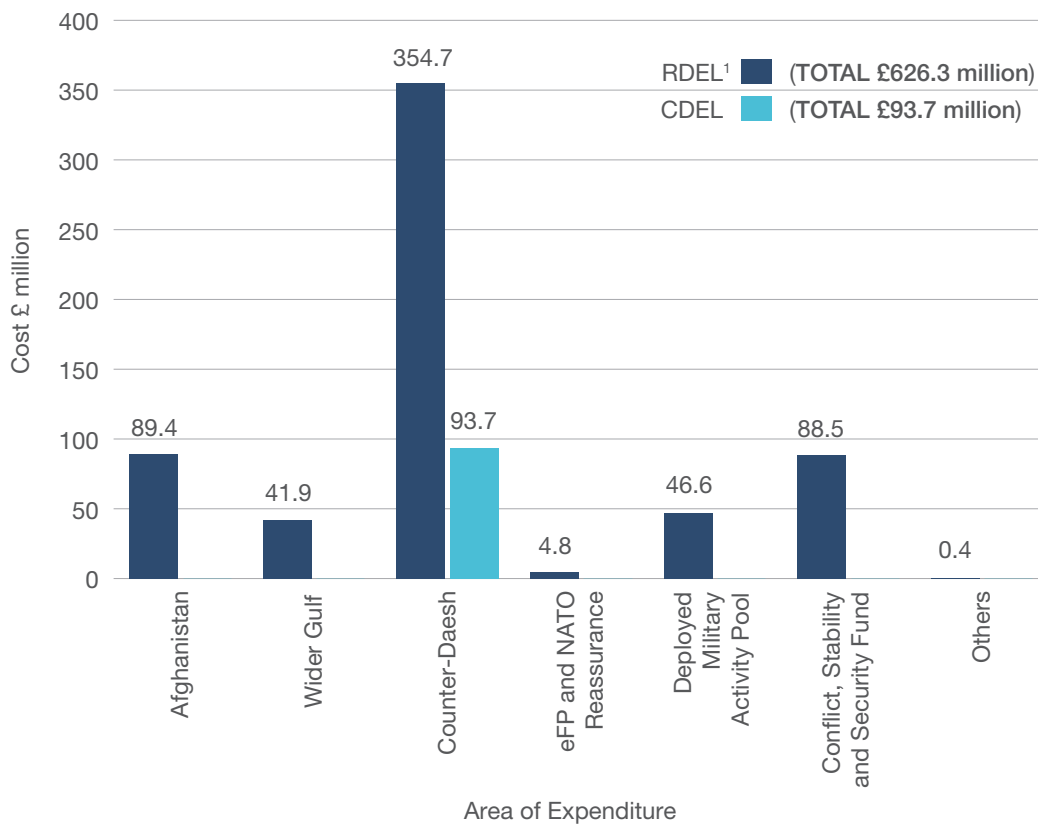
1. Total Defence Spending is Non ringfenced Cash Resource DEL and Capital DEL plus the cost of operations. Non ringfenced Cash Resource DEL refers to cash available to the Department for spending on Defence Capability. It excludes Depreciation and Impairment costs which are included in ringfenced DEL.
2. 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.
3. Includes Other Costs and Services, Receipts and Other Income, Cash Release of Provisions and Research and Development Costs related to Provision of Defence Capability.
4. Capital Expenditure includes Capital Expenditure related to Operations.

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 2018–19. The spend profile is broadly in line with that reported in 2017–18.

Net Additional Cost of Operations



1. RDEL expenditure is both ringfenced and non ringfenced expenditure.

In 2018–19 a £50 million allocation from the HM Treasury Special Reserve was made available in addition to the MOD funding of the same amount. The Deployed Military Activity Pool (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 2018–19 the DMAP funded elements of counter-Daesh and overseas counter-terrorism, infrastructure repairs at RAF Akrotiri, support to French forces in NW Africa, NATO reinsurance activity, Kosovo Force and Naval activity in the Asia Pacific region.

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 NSC. The CSSF funded disaster relief support to the Caribbean Islands damaged in the wake of Hurricane Irma.

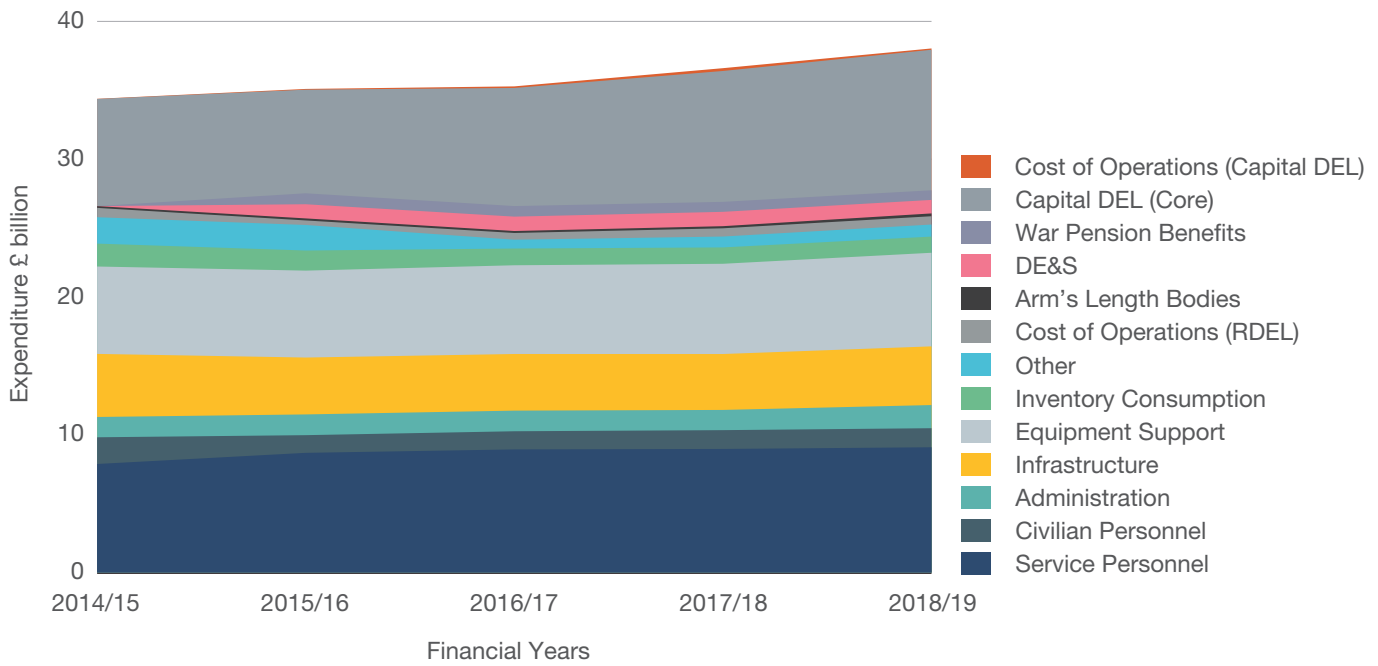
Further details on military operations can be found within the Performance Report.

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. There was also a commitment that the MOD budget will continue to rise by 0.5% above inflation annually during this Parliament.

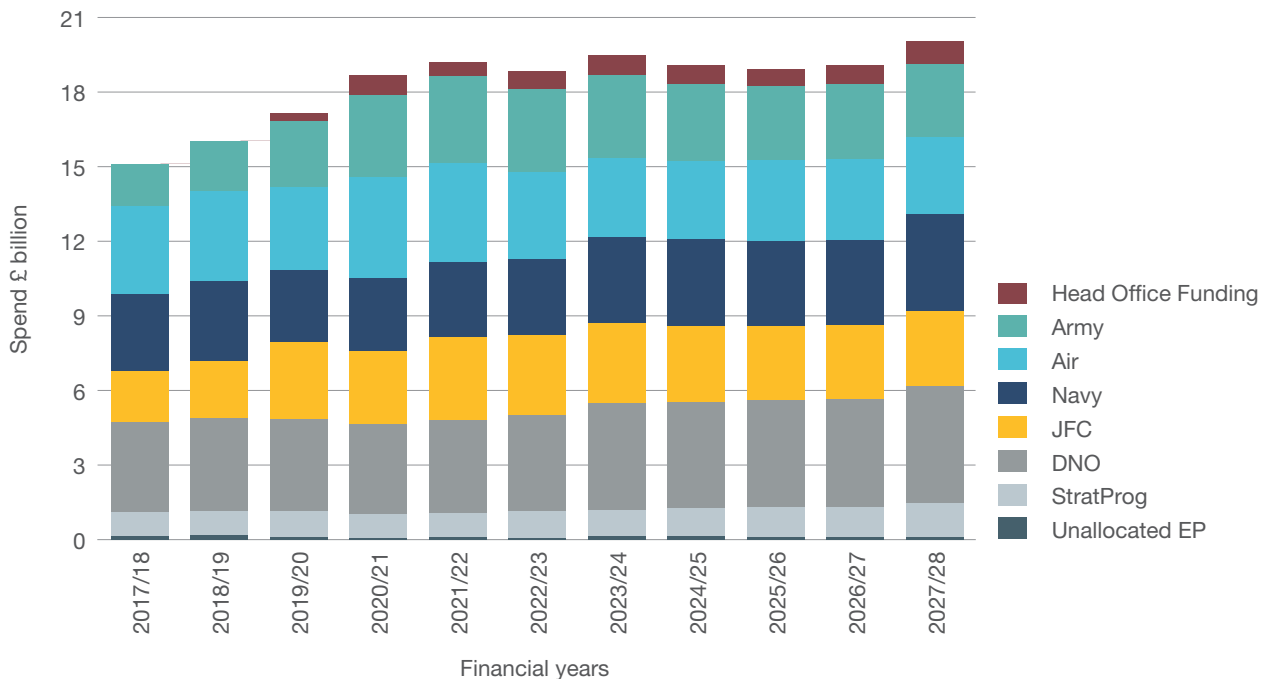
The graph below shows the long-term trend for Resource and Capital expenditure, excluding asset depreciation and impairment, from 2014–15 to the current year. Resource DEL expenditure has remained relatively stable over the past 5 years. In contrast, after a period of stability Capital DEL expenditure is increasing, representing additional investment in the Equipment programme.

Analysis of Capital DEL and Cash Resource DEL by Type of Expenditure 2014–15 to 2018–19



A graph showing the long-term trend of Equipment programme spend by TLB can be found below. The Defence Equipment Plan was the subject of a Public Accounts Committee (PAC) report published 1 February 2019. The report concluded that the Department had made little progress in tackling affordability of the Equipment Programme particularly around which programmes to stop, delay or scale back. As a Department, we have been very transparent and clear that we are facing severe financial challenges within the Equipment Programme which will need to be considered as part of the Spending Review.

Long Term Equipment Programme Spend by TLB¹



1. Source: MOD Equipment Plan 2018.
 2. 2017–18 and 2018–19 figures show actual outturn, with 2017–18 figures being restated for the Prior Period Adjustments set out at Note 23.

Notable Achievements within 2018–19

The following provides a summary of the capability enhancements and deliveries to the Front Line Commands during 2018–19.

Significant milestones in the recapitalisation of the Fleet were achieved. All four of the TIDE class tankers have been delivered whilst HMS MEDWAY, the second of five new patrol boats, has been accepted into the Fleet. HMS QUEEN ELIZABETH saw the first deck landings by a UK F35B, making significant progress in the completion of flying trials. In addition, the competitive design phase for T31e commenced. The T26 has been a tremendous export success, providing a real boost to the UK's prosperity agenda, with both Australia and Canada committing to purchase the class. This is testament to the mark of quality other nations associate with the Royal Navy.

The RAF continues to transition towards the Next Generation Air Force, as set out in the RAF Strategy. Integration of cutting-edge weapons systems onto Typhoon aircraft, including the Storm Shadow deep strike cruise missile, the Meteor air-to-air missile, and the Brimstone precision attack missile, has been completed ensuring its future into the 2040s. The F-35 Lightning programme has now taken delivery of 17 of the 5th generation aircraft, with the first in fleet arriving at RAF Marham in June 2018. Airseeker, which comprises 3 River Joint reconnaissance aircraft, reached full operational capability ahead of schedule. Building on the success of the RAF's first ever satellite, Carbonite-II, we have become a core nation in the Combined Space Operations Centre.

Looking to the future, the procurement of five E7 Airborne Early Warning aircraft was announced, which will replace the existing E3-D Sentry aircraft. Finally, the then Secretary of State announced that swarm squadrons of network enabled drones capable of confusing and overwhelming enemy air defences would be procured from the Transformation Fund.

The first 6 of the Army's new family of Ajax Armoured vehicles, which is in the Manufacture Phase, have now been delivered. The deal to provide 50 Apache helicopters through Foreign Military Sales agreement with the US is also currently in the Manufacture Phase.

Within Joint Forces Command a Joint Logistic Support Base and Regional Land Training Hub was opened around the port of Duqm, Oman – proof of our Global Britain intent. The Defence Medical Rehabilitation Centre was relocated from Headley Court to Stanford Hall, achieving Initial Operating Capability in January 2019. The UK-Omani Exercise SAIF SAREEA 3, the UK's largest Joint exercise in 17 years and involving 65,000 Omani and 5,500 UK personnel, showcased our ability to operate together at scale in an austere desert environment. From within our Information System and Services organisation we delivered MODNet OFFICIAL rollout to over 175,000 users across the UK.

DIO have delivered a capital programme of around £1 billion, including completing infrastructure at RAF Marham to support the F35 ahead of the first aircraft arrival. There have been accelerated improvements to the living experience in many establishments through the delivery of £250 million of additional work services tasks.

Next Steps

There has been significant progress in establishing the functional leadership programme within the finance function. The programme, which will run for between 3 and 5 years, will develop a new finance operating model and develop the role of the Finance Business Partner within the MOD. It will also look to ensure we have the optimal sized Finance Function with the right people and skills in the right place.

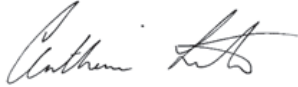
We already have some targets in place (described below) but we will add and refine these in the next stage of the work we have underway as part of the Finance Functional Leadership Programme. This will allow us to assess the progress made on the transformation journey which is likely to take three to five years. As these metrics evolve, we will also remain aligned with the cross-government work expected in this area later in 2019. The intent is to measure our performance against accepted best-practice, for example Global Design Principles.

In 2019/20 we will monitor performance in the following areas: Forecasting; Costings; Upskilling; Assurance; and, Financial Accounting.

- Improving forecasting accuracy is a key strand of the Financial Management Improvement Plan and a priority area for improvement. Monitoring is being introduced using best practice from the cross-government Finance Function and includes the metrics we are required to report to HM Treasury. In 2018/19, accuracy of Top Level Budget area forecasts at AP06 were tracked against outturn, with a target of $\pm 1\%$. Monthly cash forecasting accuracy was also tracked, which should be within $\pm 5\%$. During 2019/20 we will continue to place a focus on forecast accuracy as an area of priority and will be trialling additional metrics during the year. As well as metrics monitoring improvements in forecasting accuracy, we are developing our approach to financial risk management. This is forming part of our monthly review process and involves considering potential mitigating actions throughout the process.
- The Cost Assurance and Analysis Service (CAAS) provides a level of assurance through their Independent Cost Estimates which indicate an improvement in project costings, however there remain good reasons why the two are different. We intend to reduce the gap between the CAAS estimates and programme estimates each year. Our focus is on the work already underway in the Delivery Organisations to improve processes, skills and tools and Departmentally we will monitor the forecasting accuracy KPIs being tracked at Board level.
- There has already been some progress in upskilling finance professionals within the Department. We will continue to monitor the proportion of qualified staff within the profession; we are currently at 41% and our target is 60%. This will include monitoring the development programmes which support progress in this area, such as the Corporate Accountancy Training Scheme. This has seen a significant increase in the number of staff participating over the last year (from 28 at the end of 2017/18 to 87 at the end of 2018/19). In due course, we will consider how to best monitor staff undertaking foundation level training which could be used to monitor progress in the level of financial awareness across the wider Department.
- We monitor the performance of a number of Departmental controls through the Internal Control and Assurance Framework (ICAF). The ICAF is supported by quarterly self-assessment reporting by TLBs, which is subject to independent review by Defence Internal Audit on a sample basis. We already monitor the delivery of actions following internal audits and will consider how this might contribute to the performance metrics in due course. I am looking to achieve substantial assurance across the Finance Function within 5 years.
- We work closely with the NAO to understand possible audit issues early. We aim to reduce both the number of significant errors identified through the audit and to identify them earlier. We also monitor closely responses to both internal audit and NAO findings with an aim to ensure timely follow up and that actions are responded to effectively. We are working towards reducing the number of errors identified by the NAO in the financial accounts, by number and by value.

Throughout all these workstrands there will be a need to optimise and exploit current systems and look for ways of introducing greater automation into our financial processes. Transactional activity will be considered for transfer into Defence Business Service and greater use of Centres of Expertise will be sought.

This will be an exciting time for all those staff involved in the delivery of financial management and I am extremely pleased to be taking this programme forward on behalf of the MOD.



Catherine Little
Director General Finance



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.

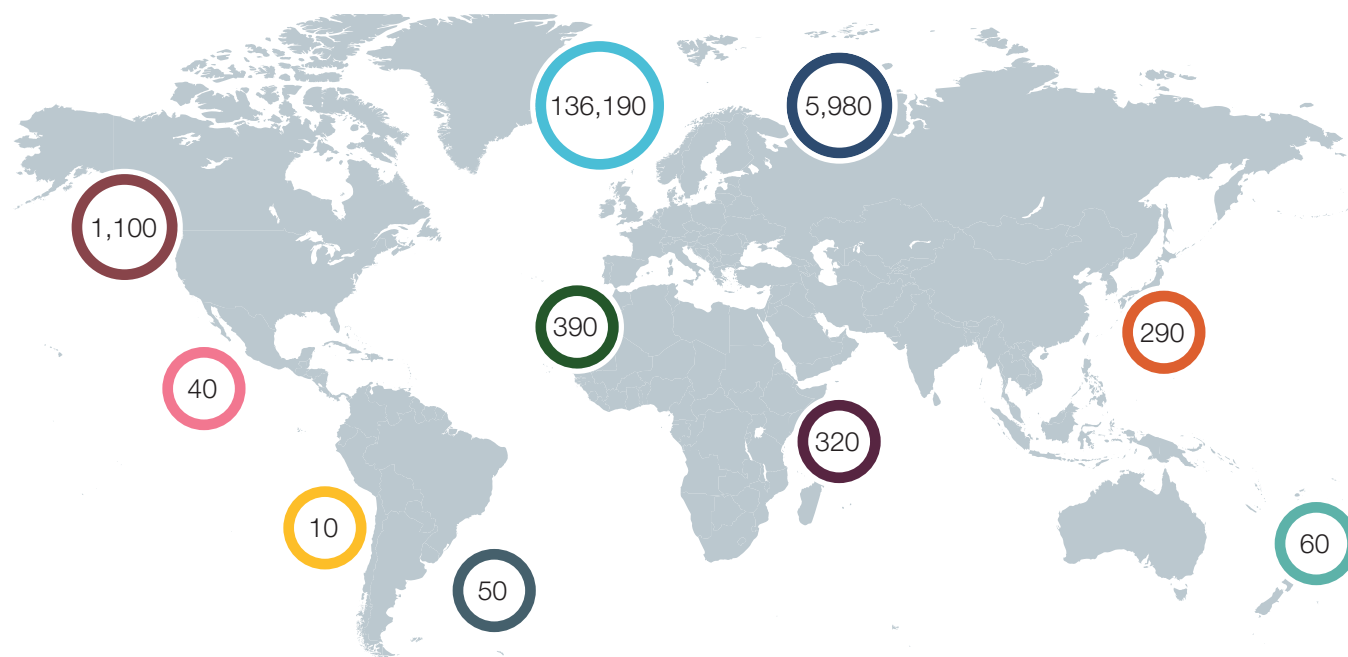
Key achievements in 2018–19:

- Over £1.5 billion of investment so far to support second delivery phase of Dreadnought programme
- Celebrated 50 years of Continuous At Sea Deterrence
- Provided Military Aid to the Civil Authorities on over 120 occasions, including assistance to the police following illegal drone activity at Gatwick Airport
- Supported liberation of the last territory held by Daesh in Eastern Syria
- Increased the number of Armed Forces Personnel in Afghanistan from 650 to around 1,100
- Participated in Exercise SAIF SAREEA 3, the largest joint operation of its kind for 17 years
- Conducted many exercise and training events in 2018 most prominently Exercise TRIDENT JUNCTURE in Norway which was NATO's biggest exercise in recent years
- Deployed 4 Typhoon in Romania as part of NATO Air Policing

Overview

Throughout 2018 the Armed Forces remained committed to over 30 operations and were deployed in more than 25 countries. The UK maintained its contribution to coalition operations in Iraq and Syria and, whilst no territory remains under the control of Daesh, operations continue to prevent a resurgence. We have defended the homeland and supported the civil authorities, including assisting with the detection of the illegal unmanned air vehicles that disrupted commercial airports; and the cross-Whitehall Brexit contingency planning efforts. We have continued to provide the Continuous at Sea Deterrent, completed successful trials of the F-35B Lightning II on HMS QUEEN ELIZABETH and contributed to, and commanded, a number of NATO and EU operations. We demonstrated our commitment to NATO and our Allies through persistent deployments and partnership building, specifically in the High North and Baltic regions. In addition, we led two Standing NATO Maritime Groups forming part of the Very High Readiness Task Force, maintaining an effective presence and deterrent in the Mediterranean.

Location of UK Regular Forces 1 April 2019*



Total	144,430
UK	136,190
Europe (exc. UK)	5,980
Asia (exc. Middle East)	290
North Africa/Middle East	390
Sub Saharan Africa	320

North America	1,100
Central America/Caribbean	40
South America	10
South Atlantic	50
Oceania	60
Unallocated	10

* 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.

Defence of the United Kingdom

In 2018–19 we continued to defend UK airspace with an integrated Air Defence system that included Quick Reaction Alert Typhoon aircraft, Voyager tankers, and air surveillance and control facilities. We also provided such capabilities to police NATO airspace alongside our Allies. We provided Royal Navy assets to defend our territorial waters and overseas territories, and to maintain our Continuous At Sea Deterrent. The Home Office, through the Police and maritime authorities, have primacy for domestic security of the UK coastline against criminal elements, but Defence maintains forces to provide support to these authorities if required. We remained fully and demonstrably committed to the defence of UK Territories in the South Atlantic. 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.



HMS ST ALBANS during an intercept and escort of Russian Missile Cruiser in the Channel

Continuous at Sea Deterrence

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 the 1 October 2016. Over £1.5 billion of investments have been made to support the second delivery phase of the Dreadnought programme so far, which commenced in April 2018. The Dreadnought programme remains on track to deliver on time and within the £31 billion (excluding £10 billion contingency) forecast.

The Strategic Defence and Security Review (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 is 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.



Two Typhoon FGR4 aircraft, flown by 29 (R) Squadron from RAF Coningsby, its most essential role remains the provision of Quick Reaction Alert (QRA)

Operation TEMPERER

Operation TEMPERER is available if the police decide that they require military support to respond to exceptional incidents. Every police force in England, Scotland and Wales has established plans in place to manage the receipt and deployment of Military Personnel alongside their existing firearms officers at key locations throughout their area. Police would retain primary control of any operation with support of military colleagues to command their troops in line with police direction. TEMPERER was not activated in 2018–19.

Cyber

Ensuring our cyber capabilities are robust and continue to keep pace with our adversaries remains one of our top priorities. We have enhanced our cyber defence capabilities with an investment of over £40 million in developing a new Cyber Security Operations Capability (CSOC). The CSOC will amplify our ability to secure Defence networks and systems against cyber threats and bring together our

defensive cyber activity which will enable us to continue to operate safely and securely. 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. The continued investment in our people’s skills remains at the heart of maintaining our robust cyber capabilities, with the state-of-the-art Defence Cyber School celebrating its first birthday in March 2019.

Space

Over the past year, the Department has again increased its investment in space policy and capabilities and deepened co-operation with the UK Space Agency and international Allies. This continues to be 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.

We made more 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 fully supported the UK Space Agency’s assessment of a potential UK Global Navigation Satellite System, providing technical expertise and personnel to deliver the current phase of activity.

We have continued the Skynet 6 programme and procurement activity for a Ballistic Missile Defence Radar. In December 2018 the CARBONITE-2 capability demonstrator satellite was launched, which provides video imagery from low-earth orbit. We have invested £50 million 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 December 2018, the UK attended the annual meeting of senior officials and military officers to agree proposals for strengthening space co-operation. This included further Table Top Exercises focused on enhancing multinational political and operational cooperation in the event of a regional crisis, as well as developing a series of crisis-response policy measures.

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 120 occasions in 2018–19. These ranged from: involvement in the multi-agency response to the Chemical Weapons incidents in Salisbury and Amesbury (Operation MORLOP); supporting the Fire and Rescue Service responding to wildfires in the Northwest of England (Operation LIGHTFACE); deployment of Counter Unmanned Air Systems (C-UAS) equipment and personnel to Gatwick Airport and

Heathrow Airport to assist the Police Services in countering illegal drone activity; and the employment of HMS MERSEY in support of the Home Office to tackle illegal immigration in the Channel.

Three Army battalions totalling up to 1,200 soldiers are now 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 2018–19, EOD teams responded to 450 Improvised Explosive Device Disposal incidents (452 in 2017–18) and 2,006 Conventional Munitions Disposal Incidents (1,972 in 2017–18).

Fisheries Protection



Fisheries Protection Squadron

Completed **2,169** patrol hours

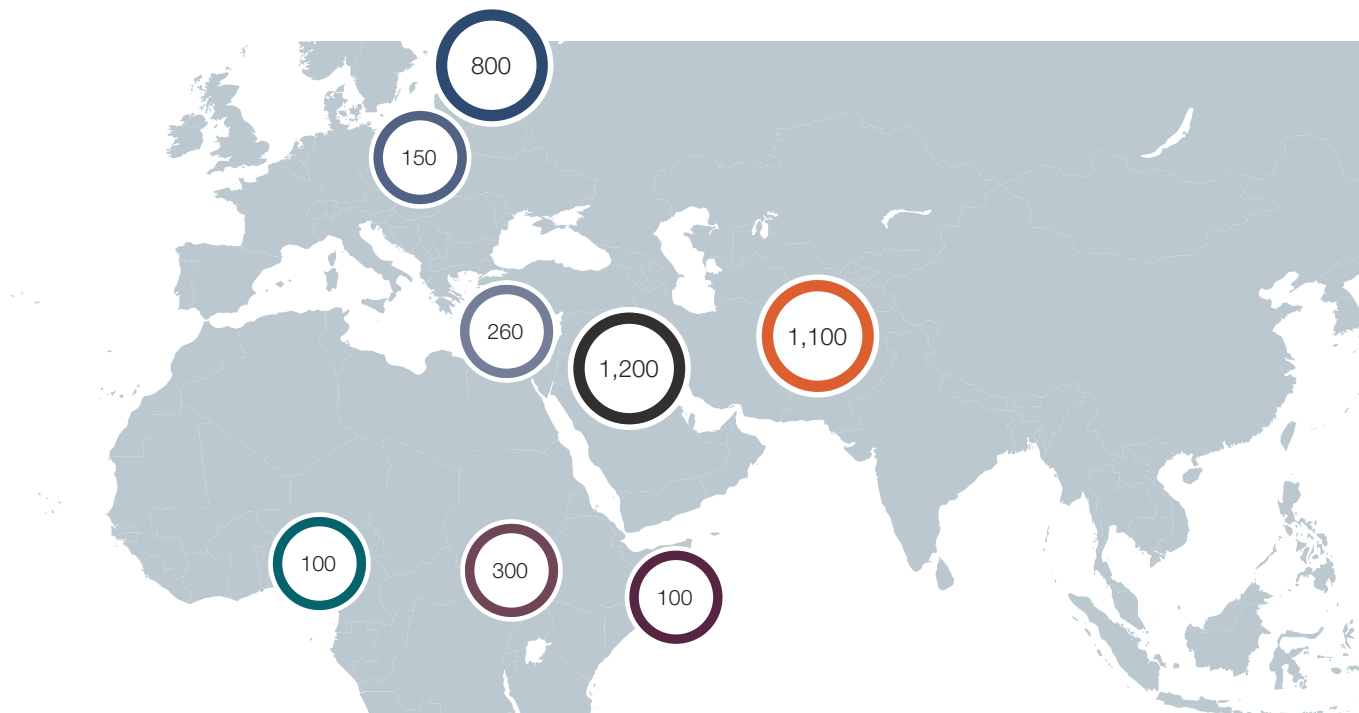
Boarded **178** fishing vessels

Issued: **31** verbal rebriefs, **6** official written warnings, **2** financial written penalties

Forwarded statements regarding **6** 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 currently responsible for the inspection of all fishing vessels in UK waters (with the exception of Scottish waters), enforcing UK and EU fisheries legislation. The Squadron achieved over the requested 2,000 Marine Enforcement patrol hours in the first 11 months of the FY 2018–19. FPS boarded 178 fishing vessels and issued 31 verbal re-briefs, six official written warnings, two financial penalties and forwarded written statements regarding an additional six 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 used to support counter migration operations in the English Channel. FPS has continued to support National Tasking and has contributed significantly to cross Government EU Exit maritime security preparedness work.

Key Global Military Commitments



Counter Daesh	Around 1,200 currently deployed
Afghanistan	The UK increased its commitment to around 1,100 in 2018
Estonia	Around 800 currently deployed as part of NATO's Enhanced Air Policing on 24/7 standby to respond instantly to incursions into Baltic Air Space
Poland	Around 150 currently deployed as part of NATO's Enhanced Forward Presence
Cyprus	Around 260 currently deployed in support of UN operations
Somalia	Commitment to deploy up to 100 at any one time in support of EU and UN operations
South Sudan	Around 300 currently deployed in support of UN operations
Nigeria	Around 100 personnel deployed at any one time on a range of tasks in support of the Nigerian Government and counter Boko Haram operations

Overseas Defence Activity

Counter Daesh – Iraq/Syria

On 23rd March 2019, Syrian Democratic Forces announced the liberation of the last territory held by Daesh in Eastern Syria. This was a significant achievement: over the last five years our Armed Forces have made an outstanding contribution in supporting the Syrian Democratic Forces and the Iraqi Security Forces to win back the territory once controlled by these terrorists.

Daesh's finances have been severely reduced, their narrative has been compromised and they have lost their freedom to move. We must recognise however, that their ideology still poses a substantive and pervasive threat. Complacency on our part would be a mistake and our Armed Forces will remain ready to confront the threat, whether by maintaining our support to the local forces who have already taken the fight to Daesh and won, or by working with the international community to defeat Daesh's ideology and propaganda at home and overseas.



Actions taken to help defeat Daesh include...

More than **4,300** precision ground attack weapons used against targets as part of Operation SHADER to date

Around **1,200** Military Personnel deployed in the region in support of operations at one time

Helping to train over **94,000** Iraqi Security Forces to date

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 2018–19, around 1,200 Military Personnel were deployed on Operation SHADER, of which around two thirds were based within the region supporting the air campaign and in key staff roles at coalition HQs. The remaining personnel were on the ground in Iraq providing training and military advice.

Contribution to the Air campaign

UK involvement in the Counter-Daesh air 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 RAF has made a significant contribution to the campaign since 2014; the UK now delivers an enduring capability across the full spectrum of air power, with effects in Strike/Attack, ISR, Airborne Command and Control, Air-to-Air Refuelling and Air Mobility/Transport. Exact deployments vary according to force generation and recuperation requirements, but capabilities currently committed to Operation

SHADER include: 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.

In the course of the campaign, the RAF has employed its full range of precision ground attack weaponry including Brimstone and Hellfire missiles, laser- and GPS-guided bombs – predominantly Paveway IV – and, on occasion, the long-range Storm Shadow cruise missile. In total these have been used 4,300 times to date.

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. To date they have helped train over 94,000 Iraqi Security Forces (including the Peshmerga) in preparations for operations against Daesh.

We 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. Ministry of Defence officials have developed a range of Defence activities which are delivering: a continued contribution to the Coalition training effort; a new contribution to the NATO Mission in Iraq; UK support to central Iraqi National Security Institutions; and a persistent partnership and focused investment on transforming priority areas of Iraqi military capability such as officer training and aviation.

Afghanistan

The UK remains committed to Afghanistan's future, alongside our coalition partners, and has strengthened its contribution to NATO's non-combat Resolute Support mission this year. This provides training, institutional capacity-building and financial support for the Afghan National Defense and Security Forces (ANDSF) to enable them to deliver security independently for Afghanistan while also helping reduce the wider terrorist threat, including to the UK.



In our continued support to Afghanistan...

We have committed **1,100** troops;

The UK led Kabul Security Force provide protection for approximately **8,000** personnel working within the city;

We are the coalition lead support for the Afghan National Army Officer Academy which has trained around **4,300** graduates, including almost **250** women to date.

UK Contribution

As announced at the NATO Summit in Brussels in July 2018, the number of UK Armed Forces personnel in Afghanistan has increased from 650 to around 1,100. This makes us the third largest troop contributor to the NATO mission. As part of this NATO 'Train, Advise and Assist' mission, UK personnel are supporting the training and mentoring of the ANDSF, including:

- at the Afghan National Army Officer Academy, which is developing the next generation of Afghan military leaders;
- advising the Afghan security ministries;
- supporting the development of the Afghan Air Force and Afghan National Police; and
- providing security for NATO Forces and advisors in Kabul.

At the July 2018 NATO Summit, the UK also committed to continue providing financial support to the ANDSF through to 2024. This funding supports a range of institutions including the Ministry of Interior Affairs, the Afghan National Police, the Counter Narcotics Police of Afghanistan, the Office of the National Security Council and the National Directorate of Security.

The then Secretary of State for Defence, Chief of Defence Staff and Secretary of State for Wales visited Kabul to meet British personnel, and to receive progress updates from NATO commanders.

The UK-led Kabul Security Force provides protection for UK and wider NATO military and civilian personnel (approximately 8,000) working within the city, so they can deliver around 1,700 training missions each month. This is a vital and complex task, and includes coordinating NATO's base protection measures and providing quick-reaction support to NATO personnel endangered by any security incidents in Kabul. The ANDSF retain overall responsibility for delivering security for the Afghan population within Kabul.

Training Support

The UK is the coalition lead for the Afghan National Army Officer Academy (ANAOA), helping Afghanistan develop the next generation of its 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 annually. The UK works with Australia, Denmark and New Zealand at the ANAOA, and owing to our mentoring support, Afghans are now self-sufficient in delivering training at the Academy.

By spring 2019, 4,295 personnel had graduated from the ANAOA, of whom 245 were female. In 2019, the prestigious Duntroon 'Sword of Honour' for best cadet was awarded for the third time to a female cadet. Female ANAOA graduates are now operating in intelligence, logistics, HR and combat support.

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 and Ministry of Interior Affairs. 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 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 around **800** personnel in Estonia

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

European Support and Assurance Missions

In Europe, the UK contributed widely to NATO and EU operations whilst continuing to provide important 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 since 2017 as the framework nation for the eFP battlegroup in Tapa. The deployment of the King's Royal Hussars in early 2019 saw the first deployment of an armoured battlegroup with an increased number of Challenger II main battle tanks. A UK light cavalry squadron (approximately 150 personnel) is 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 missions. Between May and August 2018, RAF Typhoon aircraft were based at Mihail Kogălniceanu Air Base in Romania, ready to respond to any incursions into NATO's Air Policing Area, as well as conducting valuable interoperability training with regional allies. In the Western Balkans, the UK has provided HQ Staff Officers and ISR capabilities in support of the NATO mission in Kosovo and the EU mission in Bosnia and Herzegovina. We held an infantry battalion at readiness as part of the pan-Balkans Strategic Reserve. In Ukraine, the UK further strengthened bi-lateral relationships through the provision of Short-Term Training Teams that provided training to personnel from the Ukrainian Armed Forces.

NATO Response Force

The UK's commitment to the very-high readiness NATO Response Force (NRF) in 2018–19 has been significant.

In the **maritime** environment, the Royal Navy contributed warships to the Standing Naval Forces in the North Sea, Baltic Sea, Black Sea and Mediterranean sea. This included a period commanding two of the task groups in the Mediterranean sea. The UK has continued to provide maritime assets to Operation Sea Guardian, the NATO mission to maintain maritime situation awareness and contribute to maritime security in the Mediterranean. In addition, throughout 2019 we are providing the core of NATO's Amphibious Task Group containing 4 ships and a battalion-sized landing force (approximately 600 personnel), ready to respond to a crisis or conflict.

In the **land** environment, Headquarters 3 (UK) Division and Headquarters 20 Armoured Infantry Brigade (approximately 3,250 personnel) were committed to the NRF until the end of 2018. In Jan 2019, 3 SCOTS Light Mechanised Infantry Battlegroup (approximately 1,000 personnel) stepped-up, ready to deploy as part of a Polish-led Brigade at 45 days' notice to move. Throughout 2019 the UK Allied Rapid Reaction Corps Headquarters are fulfilling the role of Multi-Corps Land Component Command on the Long-Term Commitments Plan.

In the **air** environment, the UK held a broad range of combat and support aircraft at high-readiness in support of the NRF. In addition, the UK's E3-D Airborne Early Warning aircraft contributed to NATO's assurance measures.

We conducted many exercise and training events in 2018 most prominently Exercise TRIDENT JUNCTURE in Norway which was the Alliance's biggest exercise in recent years.



Soldiers from the Duke of Lancaster's Regiment conducting fighting in woods and forests (FIWAF) training in Norway as part of Exercise TRIDENT JUNCTURE

International Counter-Terrorism

Operation MONOGRAM is the MOD's programme for providing counter-terrorism training and equipment to foreign security forces. The programme is predominantly administered in parts of the Middle East, Africa and Asia to support the overseas element of the UK's counter-terrorism strategy (CONTEST). It has supported the 'Pursue' strand of CONTEST through its capability to disrupt terrorist groups overseas, such as Daesh in Syria and Iraq. It also supports the 'Prepare' strand through 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 maintains a permanent presence in the Middle East, North Africa, and the Levant through significant military deployments to the region, constant military engagement with partner nations, and considerable contributions to international coalitions. This 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 Combined Maritime Force we continue to have a vital role in countering the illegal smuggling of people.

Regular bilateral and international coalition exercises, often at significant scale, continue to serve as confirmation of our commitment and capability. In 2018, Exercise SAIF SAREEA 3 in **Oman** was the largest joint exercise of its kind for 17 years. The exercise supported one of the UK's bilateral strategic partnerships, which was then reinforced by the signing of the UK/Oman Joint Defence Agreement.

We are expanding the range of partners with whom we can show our commitment and share and improve our capability: for example, in March 2019, we conducted Exercise AHMOSE, our first bilateral exercise with **Egypt**.

The UK has supported the efforts towards a political solution to the **Yemen** conflict and to alleviate humanitarian suffering there. We welcome the outcome of the Stockholm talks which took place in December 2018, and continue to support the UN in the implementation of a ceasefire as the first step towards long term stability and the return of the legitimate Yemeni Government.



Armoured Repair and Recovery Vehicle being transported from the port to the Joint Logistics Support Base in Duqm, Oman during Exercise SAIF SAREEA

Africa

In **Somalia**, the MOD continues to play a key role, 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 further progress in the South West State, completing construction of Phase 2 of the Baidoa Training Centre and providing interim training to around 400 soldiers and officers to help strengthen Somalia's national capability. The three-year commitment to UNSOS (Operation CATAN) came to an end on 31 March 2019 following training of 5,000 AMISOM soldiers in medical, engineering, logistical and infrastructure support. A reduced commitment to UNSOS will endure in 2019–20, supporting transition from AMISOM to the Somali National Army.

The UK's contribution to the UN Mission in **South Sudan** (UNMISS) has now reduced from its full strength of around 380 to 300 troops, having successfully handed over responsibility for the Role 2 Field Hospital which offers care for the 1,800 entitled UN personnel, to Vietnamese Peacekeepers. Having announced a one-year extension to our UNMISS commitment in October 2017, our combined total of 300 engineers will remain in Bentiu and Malakal until 31 March 2020. UK troops continue to work 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. The UK also continues to provide a small number of staff officers (8) to UNMISS, predominately based in Juba.

Following the announcement at the January 2018 UK-France Sandhurst Summit, the UK MOD has successfully deployed three CH47 helicopters to **Mali** in support of French forces. UK personnel have integrated seamlessly into the mission, where they provide logistical support to French forces, reducing the risks involved in dangerous road moves through a hostile and remote environment, and freeing up French aviation assets to focus on combat tasks. 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.

As lead in the Lake **Chad** Basin, we are coordinating the P3 (UK, US and France) support to the region to counter Boko Haram and Islamic State West Africa, including through the Intelligence Fusion Cell, Liaison Support Team in Maiduguri, Nigeria, and through the P3 Cell for Coordination and Liaison in N'djamena, Chad.

UK Overseas Territories

South Atlantic

We remained fully and demonstrably committed to the defence of UK Territories in the South Atlantic utilising our Ice Patrol Ship, HMS Protector, and standing military commitments to the South Atlantic from all three services. 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.



No. 1435 Flight Typhoon FGR4 pair flying over West Falkland island during a routine training flight

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).

Following the response to hurricanes Irma and Maria in 2017, the MOD refined plans to support OTs in the Caribbean for 2018. This again saw the deployment of Royal Fleet Auxiliary (RFA) MOUNTS BAY, as well as an array of supporting capabilities, including helicopters and landing craft. The support forms a key element of a cross-government response to hurricanes in the region.

Counter-Narcotics



In tackling the threat of illicit drugs

In the Caribbean and Atlantic the RFA seized or disrupted **1.4 metric tonnes** of cocaine and cannabis, worth over **£45 million**

In the Indian Ocean the Royal Navy seized or disrupted **17 metric tonnes of hashish** and **0.5 metric tonnes of heroin**, worth over **£30 million**.

Defence has continued to support UK Government and international efforts to tackle the threat from illicit drugs. The 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 the UK and Europe. The RFA has seized or disrupted approximately 1.4 metric tonnes of illicit cocaine and cannabis from the region, worth over £45 million had those drugs reached the streets of UK. The Royal Navy has also been very active in conducting 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 17 metric tonnes of hashish and half a metric tonne of heroin trafficked from Afghanistan, with a combined estimated value in excess of £30 million. The MOD supports the National Crime Agency, as UK's lead on countering narcotics and other illicit trafficking activity worldwide.

UK Embedded Forces

On 17 December 2015 the then Secretary of State Sir Michael Fallon MP 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 table sets out the position during financial year 2018–19 and provides a snapshot of the numbers of "UK Service Personnel embedded in another nation or organisation's Armed Forces, who are deployed on operations together with those who work on operations in deployed coalition or single nation headquarters roles".

Numbers at end of 31 March 2019:	Embedded HQ Staff	Embedded Exchange Officers
Australia	0	4
Canada	0	0
Coalition HQs	83	0
EU HQs	37	0
France	6	6
Germany	0	1
Netherlands	0	0
New Zealand	0	1
Italy	0	1
NATO	18	0
UN HQs	18	0
United States of America	22	13
Total	184	26

Note: 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 2018–19:

- Offered 2,269 International Defence Training places to other nations
- Maintained an extensive global network with 140 Defence Attaché posts, 16 Loan Service Teams and exchange officers deployed across the world
- Trained over 13,000 Ukrainian Armed Forces personnel
- Agreed a package of measures aimed at strengthening the NATO's defence and deterrence at the 2018 NATO Summit
- Broadened our implementation of the UN Security Council Resolutions relating to Women, Peace and Security to include children and armed conflict and human trafficking
- Signed 23 new Foreign Military Sales agreements with the USA for a total value of \$328 million
- Held the first ever UK-German Defence Ministerial Council
- Ships' visits to key Allies (including SUTHERLAND, ALBION, ARGYLL and MONTROSE) delivered high level engagement for the MOD and partners across Government focussing on partnership building and presence
- Over 400 bespoke training activities took place in the Middle East and North Africa

Defence Engagement Overview

We have continued to develop our Defence Engagement programme as a core funded MOD task as set out in the SDSR 15. The Modernising Defence Programme (MDP) most recently reaffirmed 'International by Design' as one of the key policies which will continue to sit at the heart of our approach. We have updated our International Defence Engagement Strategy² which outlines the ends, ways and means by which the UK Armed Forces will conduct Defence Engagement. By the end of 2019, we will have revised and re-published our Defence Engagement doctrine as the handbook for practitioners.

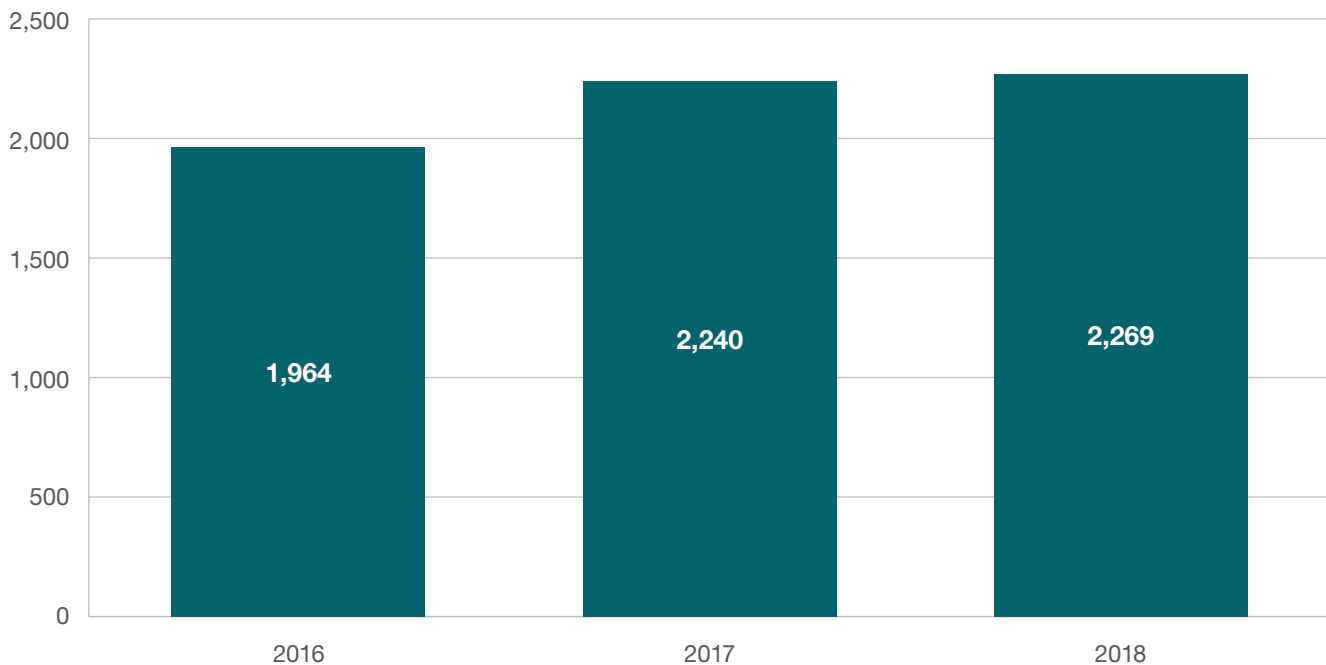
Defence has a total of 140 attachés serving in 88 Defence Sections worldwide and a further 80 countries are covered by Non-Residential Attachés. There are 16 Loan Service teams and 4 regional British Defence Staff teams in addition to liaison officers and exchange officers deployed around the world. The global network continues to evolve to meet changing Defence and wider Governmental priorities. This year, the network has developed to include new Defence Sections in Sri Lanka, Tunisia, Belarus and Moldova. The Sections in Ukraine and Georgia have been strengthened and from April 2019 a new Attaché post will stand up in Belgium to further support UK interests in 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

² March 2017, FCO and MOD joint publication.

maintained the substantial 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.

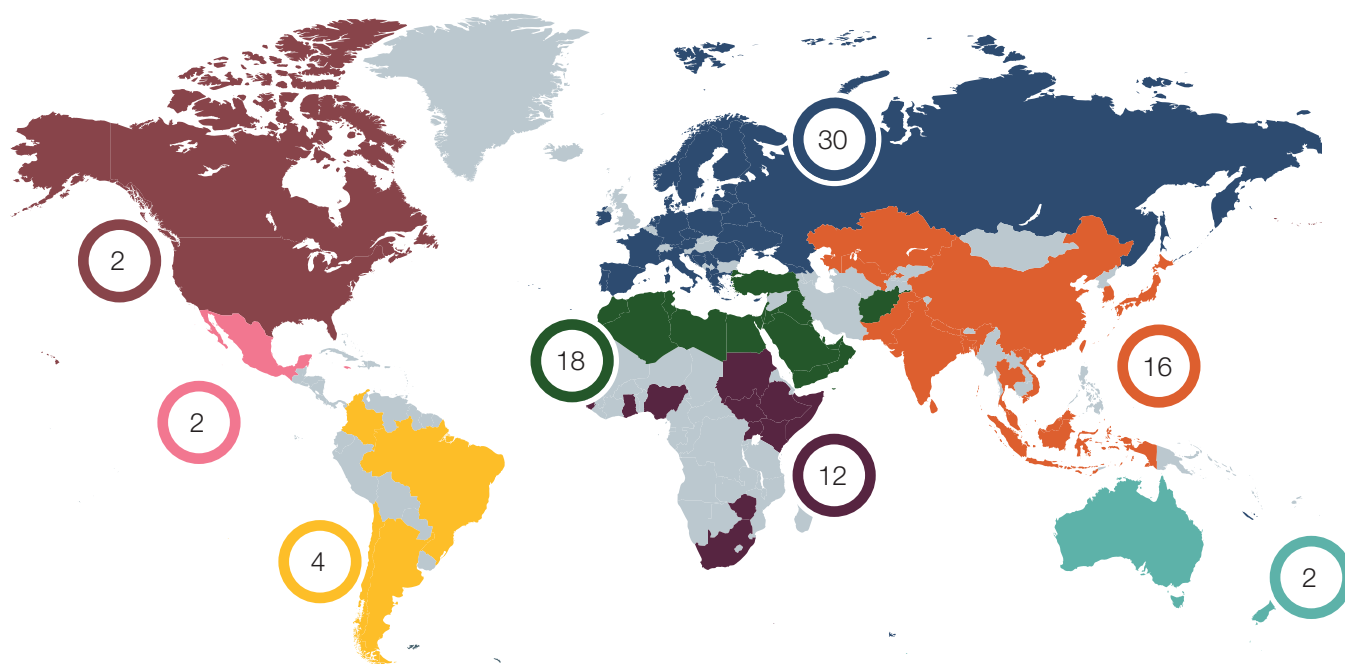
International Defence Training Places



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 in 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 from 104 nations accredited to the UK, the second-highest number of defence attachés in residence in the world outside the USA. The foreign attachés receive a comprehensive programme of events which showcase UK Defence, impart core UK messages, and support national objectives such as the UK prosperity agenda.

Location of Defence Advisers / Attachés



Region	No. of Countries	Countries
Asia (exc. Middle East)	16	Bangladesh, Brunei, China, India, Indonesia, Japan, Kazakhstan, South Korea, Malaysia, Nepal, Pakistan, Singapore, Sri Lanka, Thailand, Uzbekistan, Vietnam
Central America/ Caribbean	2	Jamaica, Mexico
Europe (ex. UK)	30	Albania, Austria, Belarus, Bosnia & Herzegovina, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Macedonia, Moldova, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Spain, Sweden, Ukraine
North Africa/ Middle East	18	Afghanistan, Algeria, Bahrain, Egypt, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, 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
Others	2	United Nations, Organization for Security and Co-operation in Europe
Total	88	

NATO

NATO is the cornerstone of UK Defence and the last year has seen the UK continue to play a leading role within the Alliance. UK forces have been active across 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.

At the 2018 NATO Summit, Allies agreed a package of measures aimed at strengthening the Alliances' defence and deterrence, continuing NATO efforts to counter terrorism, and the announcement of a new NATO training mission in Iraq and a renewed commitment by Allies to greater Defence investment. As a leading European Ally, and one of the few to consistently meet the NATO spending targets, the UK welcomed this package of measures, with the Prime Minister in turn committing an additional 440 UK troops to NATO's Resolute Support Mission in Afghanistan and agreeing that the UK would play its full part in the new NATO Readiness Initiative. Work has continued on NATO's adaptation, including of the NATO Command Structure, ensuring it is ready and able to respond to the full range of modern threats facing Alliance security. As part of the adaptation process, the UK will meet its commitment to uplift the number of UK personnel in NATO by 2021.

2019 is NATO's 70th anniversary, and the Prime Minister accepted the NATO Secretary General's invitation to host a meeting of NATO Heads of State and Government in December 2019.

European Union

Work in 2018–19 has focused on the Withdrawal Agreement, including a protocol on arrangements for the Sovereign Base Areas. This work included ensuring that Defence aims for a future security partnership and Defence interests in the future economic partnership, were reflected in the accompanying Political Declaration on the future relationship between the UK and the EU. We continue to place high importance on Europe remaining strong, prosperous, able to 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.

In parallel, the Department prepared for a no deal scenario. We developed plans to mitigate against potential disruption to our people (particularly those serving overseas), our bases overseas and our supply chains and industry. We placed 3,500 Military Personnel, as well as other military capabilities, on standby in order to help support the civil authorities implement their 'no deal' contingency plans, if required. In addition, we have provided Service Personnel and civilian augmentees to other Government Departments to support the process.

United Nations

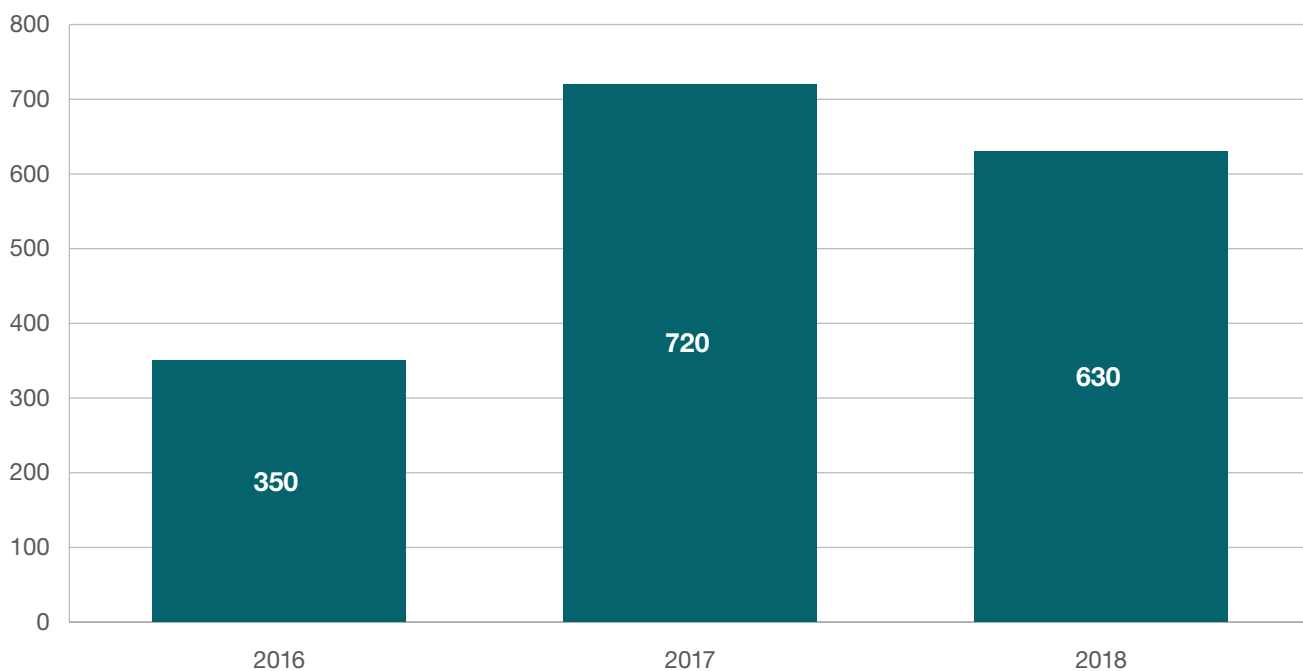
UN Peacekeeping plays a significant role in containing some of the worst consequences of armed conflict globally. Backed by UN Security Council Resolutions, Peacekeeping operations offer an unparalleled opportunity for the UK to contribute to international peace and security in support of the rules based international system. UN Peacekeeping provides an opportunity to work alongside the widest possible group of international partners. In the last year, we have provided support to six UN missions with over 600 troops and some 30 staff officers deployed to South Sudan, the Democratic Republic of Congo, Somalia, Mali, Libya and Cyprus. The UK's largest deployment was to South Sudan with a peak of some 380 personnel providing an Engineering Task Force and a Level 2 Field Hospital.

Our long-standing commitment to the UN mission in Cyprus continues, with around 260 Service Personnel deployed. Some 40 personnel were deployed to Somalia.

Beyond our deployments, the UK has provided training to other UN troop contributing countries, including the delivery of pre-deployment training to Malawian and Zambian battalions destined for missions in the Democratic Republic of Congo and the Central African Republic. The UK has also provided expertise to the UN to assist the development of Peacekeeping Military Intelligence, medical training courses and Explosive Ordnance Disposal doctrine and standards.

In December 2018, the UK co-hosted a global UN Peacekeeping Ministerial Preparatory Meeting in Montevideo, which focussed on training and capacity building. This brought together over 40 countries and organisations in advance of the March Ministerial event at the UN headquarters.

Number of UK Military Personnel Deployed on UN-Led Peacekeeping Operations



Women, Peace and Security

The UK enjoyed a second year as President of the Chiefs of Defence Women, Peace and Security Network and will hand over presidency to Canada in 2019. In support of our Women, Peace and Security objectives, the UK announced £1 million of funding for the Canadian Elsie Initiative Fund for Uniformed Women in Peace Operations which aims to increase the number of women deployed in Peacekeeping.

Over the last 12 months UK Defence has broadened its implementation of UN Security Council Resolutions relating to Women, Peace and Security to include children and armed conflict and human trafficking.

The then Secretary of State for Defence established an MOD and Civil Society Engagement Group. Members of Civil Society are invited to make recommendations to the military which will strengthen their understanding of the threats and risks faced by women, men, girls and boys. The Engagement Group meets twice a year and the then Secretary of State for Defence stipulated that they and senior military officers will meet with Civil Society in the areas where British troops are deployed.

Defence training on women, peace and security, children in armed conflict and human trafficking has also been increased over the last year. The UK Defence Academy now runs a two-week course on Human Security in Military Operations for British and international officers. Single Service doctrine and training is also being developed. Members of 77 Brigade have conducted training on Human Security in Military Operations from Kazakhstan to Uruguay and UK staff have delivered briefings on women, peace and security to senior military officers from Asia, the Balkans, the Middle East and South America.

In 2019, the UK will deploy the sixth military Gender and Protection Adviser to the UN mission in the Democratic Republic of Congo.

The Chiefs of Defence Women, Peace and Security Network established by General Messenger, the then Vice Chief of Defence, now has over 50 members and will meet in New York in 2019. This Network is proving an excellent platform for senior military officers to share challenges and best practice.

Arms Control and Counter Proliferation

In 2018–19, 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 use of chemical weapons in breach of the Chemical Weapons Convention, and its failure to fully declare and destroy its chemical weapons programme. On 7 April 2018, the Assad regime attacked the Syrian city of Douma with chemical weapons, resulting in the deaths of up to 75 people. In response, the UK, with our US and French Allies, conducted airstrikes against chemical weapons facilities in Syria to alleviate the extreme humanitarian suffering, by degrading the regime's chemical weapons capability and deterring their further use. There has been no credible reported use of a chemical weapon by the Assad regime since.

During the year, the MOD continued to work with the Foreign and Commonwealth Office (FCO) and international partners with the goals of achieving the full declaration and destruction of Syria's entire chemical weapons programme, and of ensuring effective investigation and response to the use of chemical weapons in Syria. This included achieving international agreement to mandate the Organisation for the Prohibition of Chemical Weapons (OPCW) to identify the perpetrators of chemical weapon attacks in Syria.

Following the attempted murder of the Skripals in Salisbury in March 2018 using a Novichok agent, and the subsequent death of Dawn Sturgess as a result of the same attack, MOD provided expertise to support the investigations throughout the year, including analysis by the Defence Scientific and Technology Laboratory (Dstl) at Porton Down of environmental and biomedical samples. The results, which were independently validated by the OPCW, played an important role in informing the response by the Government and the international community to the use of a chemical weapon in the UK. The MOD also provided technical advice on the proposal that the Novichok agent used at Salisbury should be subject to the routine verification provisions of the Chemical Weapons Convention and undertook a variety of tasks in support of the response by the civilian authorities, focusing on sampling and cleaning of affected sites.

The MOD and Dstl have played an important part in implementing the Government's Biological Security Strategy published in July 2018. This has included working 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 under the International Biological Security Programme to strengthen biological security, primarily in Central Asia and the Middle East, as well as funding work to promulgate internationally educational material which highlights the potential risks associated with biological science and the responsibilities of scientists to prevent misuse.

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. During 2018, MOD also hosted six inward missions, which checked that the UK was compliant with Conventional Arms Control agreements, and led or participated in 31 verification missions in other countries.

As part of national obligations under the Anti-Personnel Mine Ban Convention (the Ottawa Convention), MOD and FCO jointly fund and manage 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 (CCW) and supports UK engagement on International Humanitarian Law in a number of national and international fora.

The MOD has contributed to the cross-Government work examining the threat posed by the misuse of drones and is exploring technical, behavioural and legislative solutions to mitigate the threat. During December 2018, the MOD played a key role in responding to a drone incursion at Gatwick Airport, and it has continued to maintain counter-drone capability at readiness, to be able to support UK civilian authorities, when required.



UK Military personnel working in support of the civil authorities with the recovery operation in Salisbury in the aftermath of the nerve agent attack

USA

The USA remains our pre-eminent ally. The UK-US defence and security relationship underpins our shared national and international interests, projects our influence and values, and generates good will and prosperity for the UK. We continue to work with the USA in NATO and around the world, where US support often magnifies the UK contribution to joint operations. Together, the UK and USA provide global leadership, and work to uphold the rules-based international order.

The UK and USA sustain several long-running partnerships, such as our intelligence relationship, which are of great benefit to both countries. 2018 saw the 60th anniversary of the Mutual Defence Agreement, which continues to underpin successful nuclear cooperation between the UK and USA. During 2018 UK troops rehearsed fielding a division integrated into a US Army Corps for a substantial military exercise – the only foreign army able to work alongside the US in this way – demonstrating an unmatched level of readiness for joint deployments.

Defence featured strongly in the visit of the US President to the UK in July 2018, and the UK's defence capabilities were showcased when the HMS QUEEN ELIZABETH docked in New York harbour in October. In engaging with the US Department of Defense, the wider Administration, and with Congress, the UK seeks opportunities to strengthen our bilateral defence cooperation and enhance our interoperability across all Services. We are engaging with the US at all levels to strengthen our current relationships and explore new opportunities for joint endeavours, including the next generation of capability cooperation.

Our defence and security relationship with the US is central to the UK's programme to deliver cutting-edge weaponry to our Armed Forces, and to the UK's own prosperity agenda. The UK's first cohort of F35 Lightnings arrived during 2018 – a fifth generation fighter aircraft which will profoundly change our airborne capabilities – and the UK has just won its second worldwide contract to repair, upgrade and overhaul F35 from partner nations around the world.



In the foreground is a Royal Air Force CH-77 Chinook flying with US CH-53 Sea Stallions during a twilight training sortie in Arizona, USA



In 2018–19 we signed 23 new Foreign Military Sales agreements with the USA for a total value of \$328 million and made 49 Amendments & Modifications for a total value of \$88 million.

Notable cases include:

Reaper Contractor Logistics Support – \$148 million

Tomahawk Land Attack Missile Support – \$93 million

Phalanx upgrade – \$44 million

P-8A Sonobuoys – \$16 million

F-18 Pilot Training – \$14 million

Reaper Training – \$13 million

Chinook Extended Range, Long Lead Items – \$13 million

The total case portfolio is currently 368 Cases at \$12.8 billion

France

We continued to take forward the programme of defence cooperation set out at the January 2018 Sandhurst Summit. UK and French Armed Forces operated and trained together around the world.

- In the Middle East, UK and French aircraft cooperated in the joint air strikes with the US in April 2018 in response to use of chemical weapons against the Syrian population. The UK commanded the maritime Coalition Task Force 150 for four months in the Gulf.
- In Africa, the UK deployed three CH47 Chinook helicopters to Mali to provide well received logistic support to France's Operation BARKHANE in the Sahel.
- In the Indian and Pacific Oceans UK Wildcat helicopters supported the French 2018 Jeanne d'Arc deployment.
- Exercise CATAMARAN in June 2018 saw UK and French Amphibious Forces training together off the coast of Brittany to develop our Maritime Combined Joint Expeditionary Force (CJEF) capability.
- Similarly, Exercise FALCON AMARANTE in the Autumn saw UK and French paratroopers from 16 Air Assault Brigade and 11e Brigade Parachutiste training together to develop our Airborne Combined Joint Expeditionary Force capability.

We also worked together to develop our joint capabilities in other areas, overseen by the new Defence Ministerial Council, which met twice during the year. We made good progress on joint Future Combat Air Technology Development, on a range of Complex Weapons projects, and on Maritime Mine Counter Measures, as agreed at the Sandhurst Summit. The Defence Committees of the British and French Parliaments conducted a joint enquiry in London and Paris into the UK-French Future Cruise/Anti-Ship Weapon project – the first time either Parliament has held an inquiry jointly with counterparts from another state. We worked with France on the initiation and development of the European Intervention Initiative, under which European States with the ability and will to conduct operations beyond their border can work together to improve this capability. This was formally launched with the signing of

a Letter of Intent by Defence Ministers from the UK, France, Germany, Spain, Portugal, Belgium, the Netherlands, Denmark and Estonia in June 2018, subsequently joined by Finland in November.

Germany

During 2018–19 the bilateral relationship continued to strengthen as we continued our programme of meetings at Ministerial and senior official/military levels. We signed the UK-Germany Joint Vision Statement in October 2018 and finalised the UK-Germany Roadmap which underpins it. In February 2019 the then Secretary of State jointly opened the Munich Security Conference with German Defence Minister Ursula von der Leyen, and we held the first-ever UK-German Defence Ministerial Council, dubbed the “Oxford Format”, at RAF Brize Norton.

In July 2018, our annual Operations Planning meeting was held in Berlin and a Defence Development meeting was held in Berlin in September 2018 between the MOD, Department for International Development, and their German equivalents, focussing on Africa.

Capability co-operation continued to strengthen, and the UK agreed to re-join the Boxer programme and explore options to equip the Army with the German troop carriers to meet the UK’s mechanised infantry vehicle requirement. Ministerial Equipment Capability Co-operation talks were held in December 2018.

The UK announced a continued military presence in Germany beyond 2020, based around the Sennelager Training Area, the combined river crossing capability in Minden, and the vehicle storage facility at Ayrshire Barracks. These facilities will continue to provide important assets for UK forces, and support to German and other NATO forces. It was also announced that RAF Coningsby will be twinned with the Laage airbase in Germany, following the twinning of transport bases RAF Brize Norton and Wunsdorf. Such partnerships boost understanding and learning of best practices through pilot exchange programmes.

Europe Bilateral Relations

The UK continues to play a leading role in the defence and security of Europe. Our continued commitment to the security of our continent has been reflected by a number of new agreements including a Statement of Intent with **Italy**, Memoranda of Understanding (MOU) with **Romania** and **Iceland**, and an Action Plan with the **Netherlands**. The then Secretary of State for Defence and Foreign Secretary hosted their Polish counterparts at the annual ‘Quadriga’ meeting in June 2018, during which a bilateral Defence Co-operation Plan was agreed. In December, the Prime Minister led Inter-Governmental Consultations with **Poland**, during which the then Secretary of State for Defence and his Polish counterpart agreed further actions to strengthen the bilateral defence relationship. In June 2018, the Ministers of Defence from all nine members of the UK-led Joint Expeditionary Force³ gathered at Lancaster House in London to sign the Comprehensive MOU that marked the declaration of the Full Operating Capability of the high-readiness force.

The 12-strong **Northern Group**⁴ continued to develop as a forum for promoting more coherent and effective defence and security co-operation in northern Europe. Throughout the year, we have added value to our NATO deployments in Europe by maximising the opportunities for joint training and exercises with Allies and partners in the region.

³ Denmark, Estonia, Finland, Latvia, Lithuania, the Netherlands, Norway, Sweden and the UK.

⁴ Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, the Netherlands, Norway, Poland, Sweden and the UK.

Ukraine

The UK remains committed to providing support and assistance to the Ukrainian Armed Forces and its Ministry of Defence, as the country continues to face aggression in both the East and – more recently – the Black Sea. The UK has encouraged senior political and military leaders to pursue a programme of comprehensive defence and security reform. The UK's military training mission Operation ORBITAL continues to be delivered and has been extended until 2020. ORBITAL's short term training teams have now directly trained over 13,000 personnel and the Operation has this year expanded into the maritime domain. Following Russian aggression against Ukrainian vessels entering the Sea of Azov in November 2018, the then Secretary of State for Defence visited Odesa, alongside HMS ECHO, in demonstration of the UK's support to Ukraine. ECHO was the first foreign military ship to visit Ukraine following the incident and has been followed by visits from a number of Allies and partners. The UK also continues to fund and manage a wide-ranging programme in support of Ukraine's ambitious defence reform programme. This is led, day-to-day, by the UK Special Defence Advisor embedded in the Ukrainian MOD and has been enhanced by advice and guidance offered by a senior retired British 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

Russia remains an enduring security challenge for the UK and Defence is playing a full part in addressing it. Defence is a major contributor to the UK's cross-government strategic approach on Russia. This has been demonstrated by the response to the Russian nerve agent attack in Salisbury in 2018. The coherent national and international response including diplomatic expulsions and other measures ensure Russia is held accountable for its actions. Our Russia-facing defence approach is primarily delivered through NATO. The Alliance principles of deterrence, defence and dialogue with Russia remain its basis. The UK has made a variety of contributions to NATO including an Army battlegroup, air policing and naval deployments. We ensure variability in our military activity through working in different formations in different locations with different nations including the Joint Expeditionary Force (JEF). This shows our agility and ability to deliver greater effect through and with others. Our defence assistance to Allies and Partners is also being better focused to support those at risk from adverse Russian influence.

Middle East and North Africa

Our commitment to the relationships with our partners in the Gulf, North Africa, and the Levant remains strong, with 411 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, and developing Maritime Security to counter terrorist activity, 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 270 UK courses, including 86 of our top-class Tier 1 UK Defence Education Courses. In addition to this capability building and training effort, we have undertaken some 18 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.

The territorial defeat of Daesh has created new opportunities to strengthen countries that were affected by its rise and prevent its resurgence. The UK is building a persistent defence partnership with **Iraq**, building capacity and supporting reform for the Iraqi security forces to develop Iraq's resilience against

extremist organisations. In January 2018, the then Secretary of State for Defence signed a Statement of Intent with Iraqi Defence Minister Erfan al-Hiyali underlining our commitment to Iraq. In **Kuwait**, amphibious teams have supported this key regional partner and strategic base, to build and maintain their security in the land and maritime domain through restructuring and training in tactical level capabilities. This has built the capacity of their Armed Forces on land and sea, countering terrorism and improving their ability to protect their waterways to promote regional security. In **Lebanon**, 2018 was marked by the milestone achievement of the completion of 75 towers to protect Lebanon's land border with Syria. From the Mediterranean to Mount Hermon, the Lebanese Armed Forces now provide State-led security on the border for the first time in Lebanon's history, supported by UK funding, training and mentoring. Hizballah and Daesh have been removed, and the risks from other Syrian-backed groups managed. In **Oman**, maritime training teams have focused on developing the Partner Nation's maritime security, improving their ability to prevent the transit of illicit people and goods and to protect the high volume of marine traffic that makes a significant contribution to world trade.

We have continued to maintain a significant defence presence of over 1,500 people (rising to over 7,000 during Exercise SAIF SAREEA 3) to promote stability in the region, support our relationships and oversee our engagement efforts, including 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.

Africa

In August 2018, the Prime Minister led a three day visit to South Africa, Nigeria and Kenya, where she announced a new and distinctive offer to work alongside, invest in, and partner with African nations for our mutual benefit. Security and stability was one of the key themes of the visit, as an essential foundation for growth and prosperity. The visit underlined Defence's strategic approach to Africa, tackling our shared threats by supporting African countries' and communities' efforts to address the underlying drivers of fragility and conflict. The then Secretary of State for Defence further cemented the importance of Africa to the UK with visits to Nigeria, Kenya, South Sudan and Somalia (including the first Secretary of State-level visit to Somaliland).

In **Nigeria**, the British Defence Staff (West Africa), the British Military Advisory and Training Team and the Liaison and Support Team have continued to build a strong partnership with the Nigerian Armed Forces, to support the professionalisation of their Armed Forces and counter the threat posed by Islamic State West Africa and Boko Haram in the North East of the country. The teams have continued to build ever stronger links with key international partners, to provide joined-up and coherent training and equipment support. In 2018, more than 100 British Military Personnel deployed concurrently on a range of tasks in support of the Nigerian Armed Forces, including the delivery of operational Pre-Deployment Training to the Nigerian Navy Special Boat Service by Royal Marine Commando teams. These efforts are complemented by the efforts of the Senior Military Advisor to **Cameroon**, whose capacity building programme focuses on Counter violent extremist organisations efforts in the Lake Chad Basin.

In **Kenya**, British Army Training Unit Kenya (BATUK) has resumed a full programme of training with agreement from the Kenyan Ministry of Defence. Around 7,500 British troops per year train at BATUK, increasingly alongside their Kenyan counterparts, facilitating closer co-operation and opportunities to share best practice with our African partners. The British Peace Support Team for Africa has continued to transition from a sub-regional delivery organisation to fulfilling its continental remit. The team will increasingly focus on delivering capacity building for African partners on the continent, building capability to support both African Union and UN Peacekeeping missions.

Following the successful Counter-Illegal Wildlife Trade pilot in **Malawi** in 2017, the project has expanded to cover three parks in Malawi, with plans to expand into neighbouring countries including **Botswana** and **Zambia** in future years. Funded by the Department for Environment, Food and Rural Affairs Illegal Wildlife Trade (IWT) Challenge Fund, the project builds capacity of counter-poaching operatives, and improves intelligence and information sharing between parks, with the intention of creating a “protected belt” for wildlife in southern Africa.

The International Maritime Training Team, the International Commonwealth Training Unit and other bespoke maritime training teams have delivered capacity building across Africa, including in: **Sierra Leone, Nigeria, Tunisia, Kenya, Uganda, Tanzania, South Africa** and **Egypt**. Developing their maritime security, improving their ability to police their own waterways, preventing terrorism and narcotic activity thereby denying safe havens to criminals, and promoting best practice with strategic partners.

East Asia-Pacific

Over the past year we have strengthened both our defence relationships and our engagement across South East Asia, East Asia and Oceania. HM Ships SUTHERLAND, ALBION, ARGYLL and MONTROSE exercised with our key Allies and partners. Notably, all ships helped enforce UN Security Council Resolutions against the Democratic People’s Republic of Korea by providing naval support to maritime surveillance operations, as well as activity to uphold the international rules-based system. HMS ARGYLL also took part in Exercise BERSAMA LIMA, the key annual Five Powers Defence Arrangements exercise; HMS MONTROSE transited the south Pacific visiting Pitcairn Island, the first visit to this UK Overseas Territory since 2000. Bespoke maritime training teams have conducted capacity building with **Singapore** and **Vietnam**, improving their ability to patrol their Exclusive Economic Zone, maintaining territorial integrity and promoting peace and stability in the region.

UK troops exercised on Japanese soil for the very first time during Exercise VIGILANT ISLES, in October. This was the first time in over 70 years that any foreign ground troops, other than from the US Army, had exercised on Japanese soil. In December 2018, HMS ARGYLL and elements of the Japan Maritime Self Defense Force took part in their first trilateral anti-submarine exercise with the US Navy, and HMS MONTROSE took part in a second trilateral exercise in 2019.

We have pursued our application for observer status on the ASEAN⁵ Defence Ministers Meeting Plus Expert Working Groups focussing on Peacekeeping Operations and Military Medicine, demonstrating our commitment to deepening our relations with ASEAN nations. We have also begun negotiations to renew the Garrison agreement to enable the continuation of British Forces Brunei. Following meetings with the Prime Minister and the Secretary of State, Japan and Malaysia agreed to collaborate on new defence technologies, including co-operation on future combat aircraft, missile development and autonomous systems.

We supported the relief effort to help those affected by the Sulawesi earthquake and subsequent tsunami. The UK was able to provide an A400M aircraft that proved vital in delivering key elements of aid to the affected area.

We have promoted UK defence industry in the region and consequently strengthened our relationship with Australia in a number of ways, including the successful bid by BAES to provide the Type 26 Global Combat Ship as the design for the new Australian Hunter Class. The closeness of the relationship

⁵ ASEAN members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore and Thailand, plus Australia, China, India, Japan, New Zealand, the Republic of Korea, Russia and the United States.

was further underlined when the then Secretary of State for Defence hosted his counterpart, the Hon Marise Payne in Glasgow, to see progress of the UK T26 programme as part of the annual AUKMIN discussions in July 2018. The MOD and the Australian Department of Defence are now working closely to take this project forward and ensure that we capitalise on the opportunities presented.



An RAF A400M delivers aid to Indonesia in support of the relief effort following the Sulawesi Earthquake in September 2018

South Asia

The **UK-India** defence relationship continues to strengthen under the Defence and International Security Partnership, agreed in 2015. Work is progressing across the capability partnerships spanning Counter Terrorism to Carrier Cooperation and military doctrine to training. In 2018 the Royal Navy exercised off the coast of India with HMS DRAGON as part of the successful Exercise KONKAN, and the UK and India commemorated the Indian Army's contribution to WWI as part of Centenary events in India. The Permanent Secretary visited India for the Defence Consultative Group meeting, furthering the bilateral capability relationship. The UK was pleased to host the Indian Chief of the Naval Staff, Admiral Sunil Lanba, and the Indian Defence Secretary Sanjay Mitra, both visits included tours of HMS QUEEN ELIZABETH.

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. Building on this, in January 2019 MOD established a resident Defence Advisor in Colombo. In the few months in post, there has been extensive defence engagement looking at ethical leadership and doctrine development, culminating in the visit of HMS MONTROSE and a joint exercise with the Sri Lankan Navy in April 2019.

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. Our Counter Terrorism Partnership is developing military capabilities and we are a key strategic partner in Humanitarian Assistance and Disaster Response training for cross-governmental agencies.

In **Nepal**, we remain focused on reinforcing our long and very distinguished relationship. We continue to enhance the Nepalese Army's capabilities and professionalise the Nepal Army through military education and training to ensure that they remain a major troop contributing country to UN Peacekeeping Operations. In addition, we have broadened our Defence Engagement activity and continue to develop Counter Improvised Explosive Device, Humanitarian and Disaster Response training.

Afghanistan and Pakistan have made continued efforts to improve bilateral relations, including the signing in May 2018 of the long-negotiated agreement for peace and solidarity. The UK recognises the critical role Pakistan has to play in facilitating stability in the region, and in enabling the conditions for meaningful peace talks between Afghanistan and the Taliban. This is one of the many reasons that the UK continues to invest in the close Defence relationship with Pakistan.

The UK-Pakistan Defence relationship is reinforced through annual Army, Navy and Air Force staff talks to promote understanding and collaboration between our respective Defence forces. This has been further supported by regular interaction of senior military officers. This year the fourth annual UK-Pakistan military to military forum was held in Pakistan and focused on exchanging knowledge and experience in stabilisation operations. Pakistan also hosted the 16th Defence Cooperation Forum at which the UK and Pakistan MODs jointly considered important bilateral and security issues.

We have continued our efforts to develop Pakistan's Counter Improvised Explosive Devices expertise through our capacity-building programme. This aims to support Pakistan in establishing and maintaining a multi-agency capability for tackling Improvised Explosive Devices placed by terrorist groups, these have historically been a severe threat, but are now substantially reduced. Our medical capacity-building project has also continued to share knowledge and skills with the Pakistan Military Medical establishment.

Meanwhile, the UK has also continued its international staff exchange and training co-operation programmes, 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

Across Latin America, the UK has continued to build links with partner nations, in particular in support of Counter Narcotics operations. 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. In the maritime domain, training teams have developed the capabilities of regional partners to prevent illicit activity and increase maritime security, while the wider Naval Service conducted narcotic seizures in conjunction with regional partners. This is made possible through the persistent deployment of vessels, a reliable presence that also provides assistance during the hurricane season, proving interoperability and providing wider security.

We held Strategic Defence Dialogue talks with both **Chile** and **Argentina**. The talks focused on identifying opportunities for sharing information and experience in various fields, including Peacekeeping and deployed medical expertise.

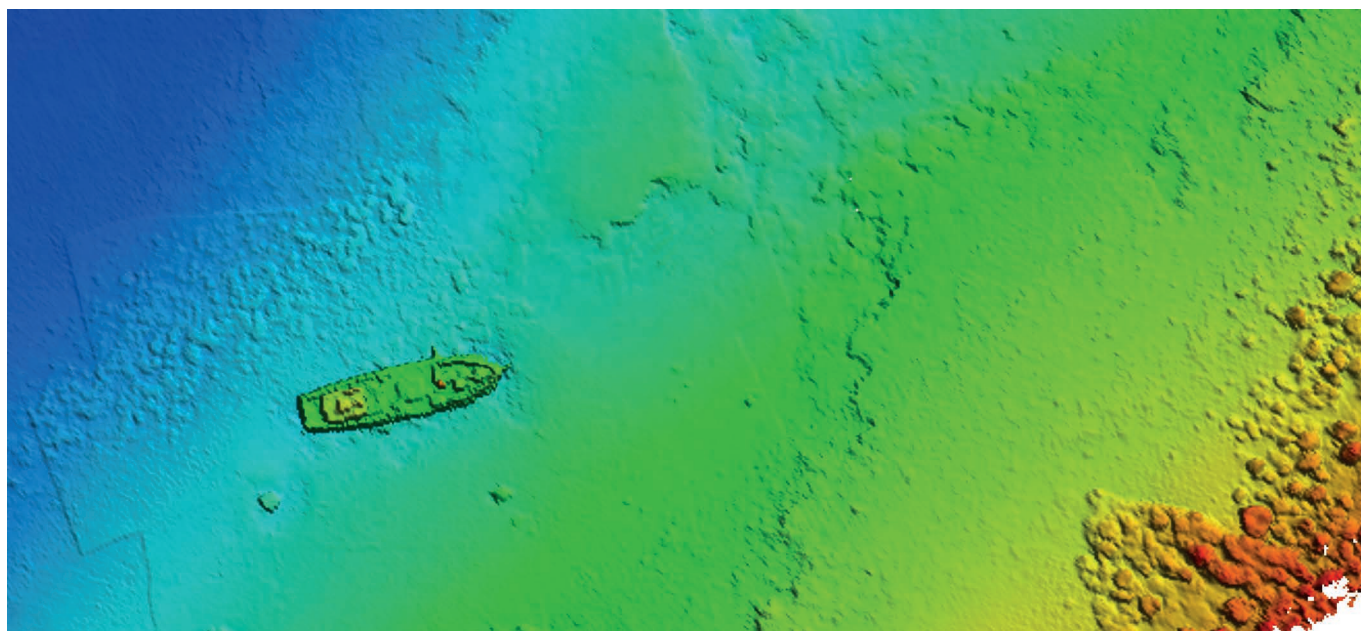
Official Development Assistance

The MOD spent approximately £5.0 million⁶ of Official Development Assistance (ODA) in calendar year 2018. 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;
- 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 such as the Conflict, Stability & Security Fund have been reported as ODA against those budgets, for example: the Hydrographic Office contribution to the Commonwealth Marine Economies Programme, or programmes to support security sector reform and countering corruption in the Defence sector.

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.



As part of the Commonwealth Marine Economies and Occupied Territories Seabed Mapping Programmes, UKHO have identified 134 previously uncharted dangerous wrecks, such as the MV Bedgell found off the coast of St Helena in 2018

⁶ 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 2018 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 2018–19:

- Philip Dunne MP published his independent review of opportunities for “Growing the Contribution of Defence to UK Prosperity” in July 2018
- Launched the Department’s ‘Defence Prosperity Programme’ which aims to grow Defence’s contribution to the UK economy, alongside the inaugural ‘Defence Prosperity Conference’ in Coventry
- Published the Combat Air Strategy
- Published the Small and Medium-sized Enterprises (SME) Action Plan in March demonstrating our commitment to SME and held a Defence Suppliers Forum SME Conference
- Provided £36 million in funding through the Defence and Security accelerator
- Exceeded the target to enrol 50,000 apprenticeships between 1 April 2015 and 31 March 2020 over a year ahead of target
- 440 cadet units now parading in schools

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. In March 2019 we updated Parliament on the Defence Prosperity Programme, which was informed by Philip Dunne MP’s Independent Review “Growing the Contribution of Defence to UK Prosperity” (July 2018) and our refreshed Defence Industrial Policy (December 2017). During the last year we also published our Combat Air Strategy.

Defence Industrial Policy

The 2015 Strategic Defence and Security Review (SDSR) introduced a third National Strategic Objective to ‘Promote UK Prosperity’, this was reaffirmed in the National Security Capability Review in 2018. To promote our prosperity, we need to seize opportunities, working innovatively and supporting UK industry which in turn strengthens our national security, and ensures we have the capabilities and equipment that we need.

Subsequently we launched the Defence Innovation Initiative in 2016 and refreshed our Defence Industrial Policy in 2017, with a new emphasis on supporting growth and competitiveness and which closely aligns with the Government’s Industrial Strategy. Also in 2017, we published the National Shipbuilding Strategy, which sets out our approach for shipbuilding and driving prosperity.

In 2018 we published the Combat Air Strategy outlining how the UK will retain its ability to choose how we meet our future requirements and initiates the programme to deliver the successor capability to Typhoon. The Strategy also recognises the importance of the Combat Air Sector to UK prosperity, providing an annual turnover of approximately £6.5 billion, directly supporting approximately 18,000 jobs and around an additional 28,000 jobs in the wider supply chain⁷. The UK's ability to generate and employ Combat Air power remains critical to delivering our national security and to supporting the Government's vision for a strong, prosperous and global Britain.

In July 2018 Philip Dunne MP published his review "Growing the Contribution of Defence to UK Prosperity", representing a major piece of independent work that was commissioned by the then Secretary of State for Defence to highlight Defence's contribution to UK prosperity and seek views on where we could do more. The report contains over 40 substantive recommendations. Some of these are already being incorporated into the Department's overall Defence Prosperity Programme.

Defence Prosperity Programme

In March 2019 we launched the Defence Prosperity Programme, which was informed by our refreshed Defence Industrial Policy and the Dunne review and we held the inaugural Defence Prosperity Conference at the Manufacturing Technology Centre in Coventry. The conference was an opportunity to outline some of the areas of the Defence Prosperity Programme and attendance included a range of defence industry partners.

We have designed our approach to prosperity to ensure that, whilst growing our contribution to the economy, we do not put at risk our objective of delivering defence capability at the best value for money. The programme focuses around four major areas of work:

- Embedding prosperity into MOD policy, process and culture.
- Quantifying the Defence contribution to the UK economy.
- Sustaining an internationally competitive and productive defence sector for the UK.
- Growing exports and inward investment.

It also sets out a number of specific actions, which include:

- Sharing lessons learned and identifying best practice within the Department.
- Working with the Defence Growth Partnership and the Department for Business, Energy and Industrial Strategy (BEIS) on a proposal for a new Joint Economic Data Hub within the UK Defence Solutions Centre.
- A commitment of £500,000 from the Defence Innovation Fund for a pilot project to develop, test and validate how defence can make better use of infrastructure in the design, manufacture and support of future equipment and to help create more resilient and efficient supply chains.
- Working with BEIS and Innovate Northern Ireland to pilot a new Defence Technology Exploitation Programme in Northern Ireland to support innovation with SMEs and help develop stronger links and new routes to market through Primes and upper tier companies across the UK.
- Collaborating with the Welsh Government to identify the potential of an Advanced Manufacturing Research Institute alongside the Defence Electronics and Components Agency Sealand, North Wales.

As we take this important programme forward, we will continue to work closely with colleagues across Government, industry and academia.

⁷ These figures are based on RAND analysis using 2016 data, completed for the Combat Air Strategy report.

Working closely with industry

We have continued to explore new ways of working with industry to unlock value for the UK economy and deliver benefits for UK companies. Key elements of this work include:

MOD leading the Government's strategic prosperity relationship with Boeing, which was signed in 2016. In October 2018, the MOD, working in partnership with other Departments, Boeing, and ADS (the UK aerospace and defence trade body), organised a successful event for UK defence companies to showcase their technologies and capabilities to senior Boeing personnel in the US. The event was very positively received, and several companies have reported improved prospects and potential new business following the event.

A major new strategic prosperity relationship with Lockheed Martin Corporation was announced by the Minister for Defence Procurement at the Farnborough International Air Show in July 2018. Under this new Prosperity Framework the Government and the company will work together in the UK on innovation; research into new technologies; strengthening supply chains enabling UK companies to contribute to Lockheed Martin programmes worldwide; and supporting the development of the advanced manufacturing and technology sectors in the UK.

Supporting Small and Medium Enterprises

The MOD is committed to taking action to make it easier for Small and Medium-sized Enterprises (SMEs) 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 be directly or indirectly with SMEs by 2022.

The MOD's Chief Commercial Officer is the Department's SME Champion, and is leading work to support SMEs through a detailed SME Action Plan; this was endorsed by the Minister for Defence Procurement, and was published on gov.uk in March 2019.

The Action Plan sets out MOD's commitment to supporting smaller businesses across the defence supply chain, by addressing behavioural, policy and process changes. It outlines the measures we will take to improve our procurement spend with SMEs, through working with our major suppliers to remove barriers and by improving access to opportunities for doing business with Defence. The plan addresses key themes, including strengthening our supplier engagement, improving procurement policy and process, making it easier to do business with defence and encouraging innovation.

It includes actions to improve visibility of upcoming business opportunities throughout our supply chain, working with our Strategic Suppliers who have each appointed an SME Champion, to make this happen. A Defence Suppliers Forum SME Conference was held in January 2019 to understand barriers to working in the Defence supply chain.

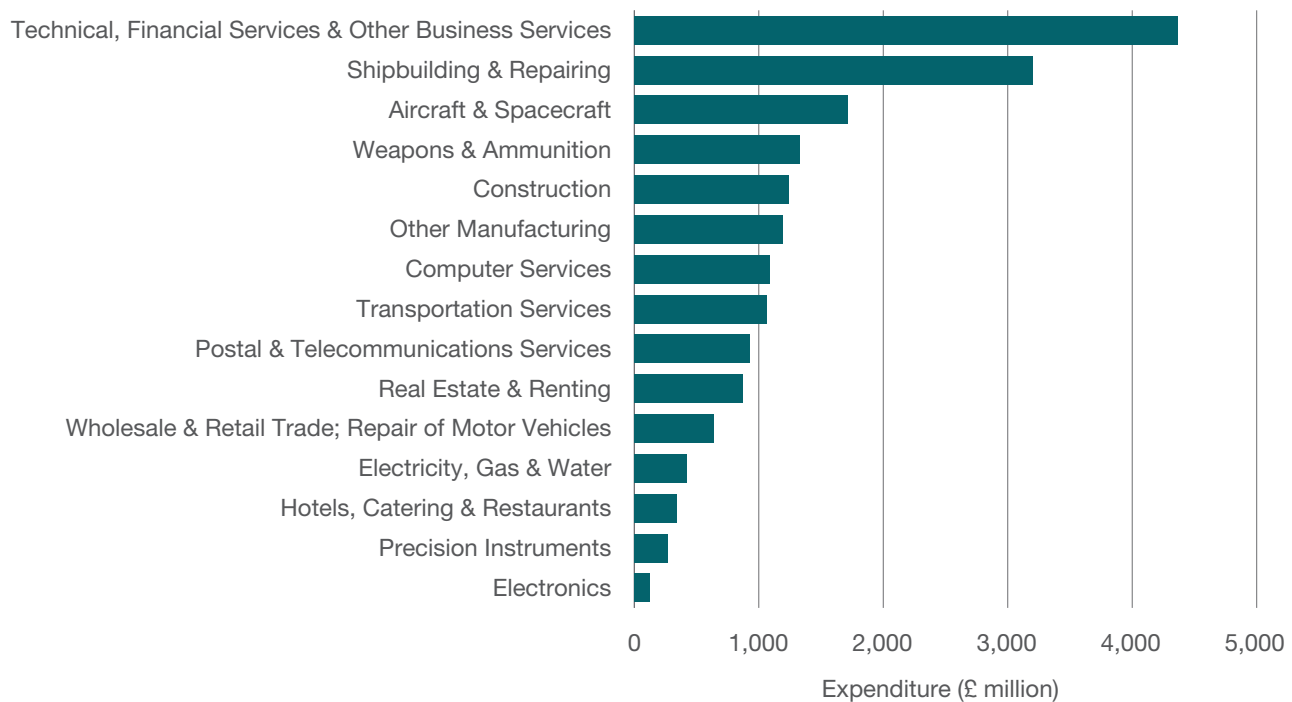
We have improved the functionality of the Defence Contracts Online⁸ portal to support sub-contract advertising. To reinforce the MOD's commitment to prompt payment, which can be a key issue for smaller businesses, we have engaged with major suppliers reiterating the importance of paying sub-contractors on time and reminding them of their obligations to become signatories of the Prompt Payment Code. We are working to implement new Government policy to take payment performance into account in the procurement of major Government contracts with an anticipated value over £5 million. We have also nominated a Non-Executive Director as Prompt Payment Champion to take responsibility for oversight of payment performance.

8 <https://www.contracts.mod.uk/>

We have refreshed our MOD Supplier Portal, hosted on Defence Contracts Online which brings together supplier-focused information in one place, and have hosted webinars to enable suppliers to access defence opportunities. Our Twitter channel @defenceproc is specifically aimed at smaller and non-traditional suppliers, and we use this to highlight upcoming contract opportunities, industry days, innovation events and to provide ‘top tips’ for smaller businesses.

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: 2017–18



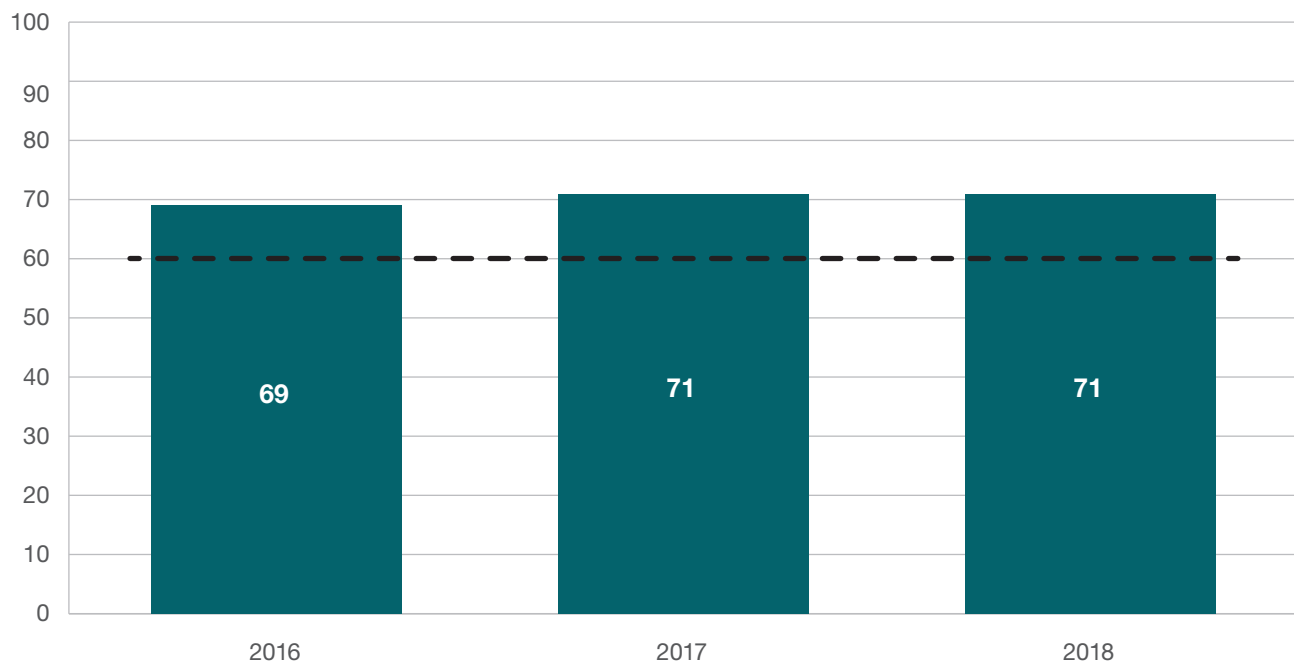
Defence Exports

The MOD leads on supporting strategic defence export campaigns. We have been leading campaigns for Typhoon, Complex Weapons and the F35 Maintenance, Repair, Overhaul and Upgrade programme, working closely with British industry on prospective export opportunities. In addition, we continue to support the Department for International Trade (DIT) on various export campaigns such as the Type 26 frigate and the future Type 31e programme, which will have exportability as a fundamental consideration from the outset.

DIT’s 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 the 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. Through its team, which is part of the Government’s Export Control Joint Unit (ECJU), the MOD acts as the authority that enables the 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). We assess 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 applications within 30 working days, which was again exceeded this year. In 2018 the MOD processed 71% of applications within this timescale.

Assessment of Applications for Proposed Release of Equipment or Information to Foreign Entities (Percentage of MOD Form 680 applications cleared)



Science & Technology

Science and Technology (S&T) is critical to the defence and security of the UK. 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. MOD’s S&T community has been at the forefront of Government’s efforts to address the strategic challenges posed by technology, with substantial contributions to both the Modernising Defence Programme and working across Whitehall in support of policy and operational issues.

During 2018, S&T was at the heart of UK resilience, operations, capability delivery, international collaboration, and the Department’s modernisation agenda. Our contribution to the Salisbury incident demonstrated the importance of maintaining our investment in S&T capabilities over the long-term. S&T investment played a critical role in achieving F-35 Initial Operating Capability and setting direction for Future Combat Air. The multinational exercise AUTONOMOUS WARRIOR 2018 in November laid strong foundations for future international capability collaboration and interoperability.

We have continued to build on a strong S&T foundation, including through:

- delivering the Core Research Programme to prioritise high-risk high-reward research and achieve a better balance between MOD's long and short-term needs, whilst maintaining capability health and sustaining critical sovereign S&T capabilities;
- enhancing the role of technology in MOD thinking and decision-making to enable it to modernise, mobilise, and transform through:
 - introducing new policy initiatives for Technology-led Modernisation, to ensure that technology-driven opportunities are considered in a more structured and systematic way, including the development of the Defence Technology Framework;
 - establishing the Defence Artificial Intelligence & Autonomy Unit in response to rapidly-evolving technologies with game-changing transformational potential;
 - raising awareness of new external science and technology, through the Innovation and Research Insights Unit (IRIS) explaining the associated opportunities and threats for Defence, and providing advice on how Defence should respond to these;
 - improving the overall governance of S&T and innovation through the Defence Technology and Innovation Board;
- exploiting S&T through supporting novel Spearhead Programmes and the Transformation Fund, designed to pull through technology and deliver rapid capability enhancements by establishing innovative ways to mobilise and modernise technology-centric initiatives.



Scientists at the Defence Science and Technology Laboratory (Dstl) are working to develop the Army's Future Soldier Vision (FSV), showcasing the personal equipment that soldiers could be using by the mid-2020s

Innovation



To support Innovation we have

Funded 228 proposals
...worth £36 million through the Defence and Security Accelerator

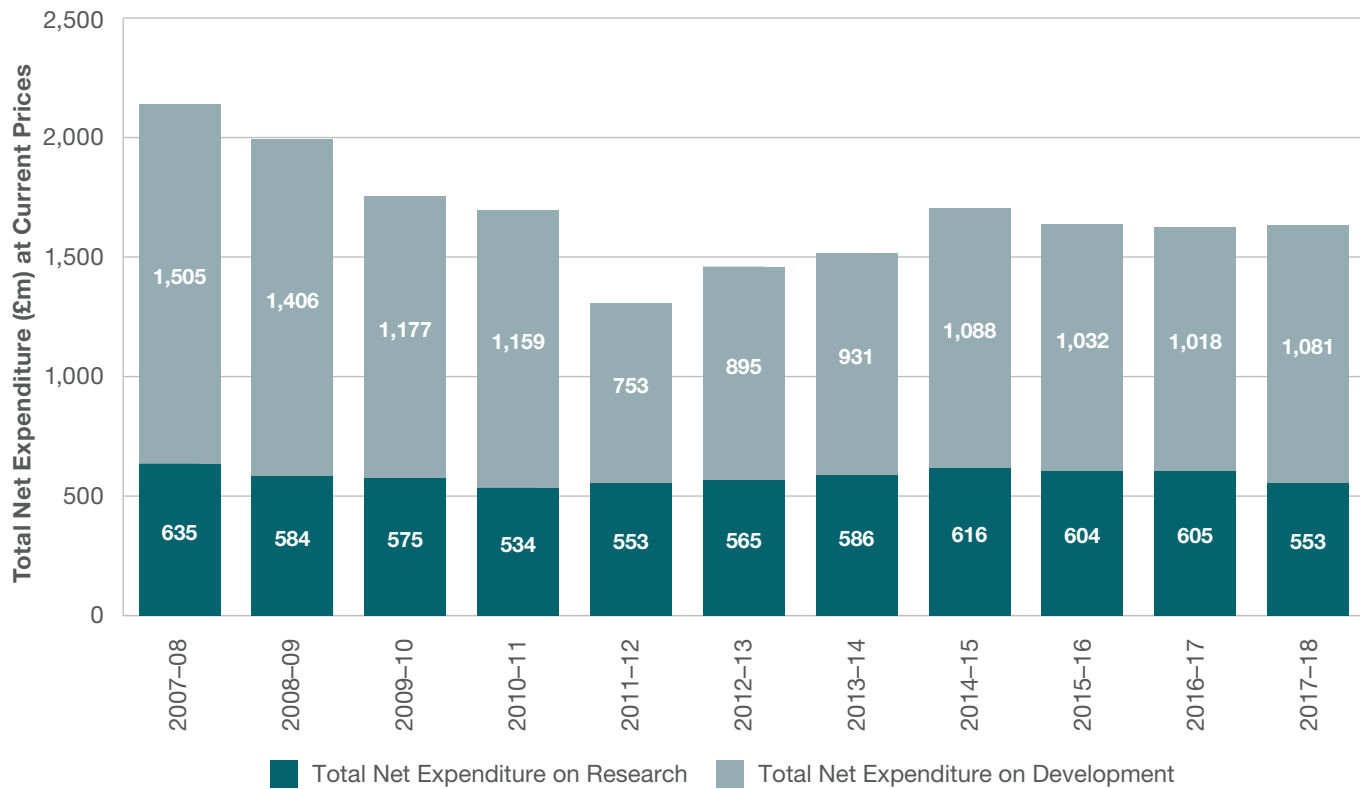
Funded 70 projects
...worth £17 million through the Defence Innovation fund

In September 2016, the MOD launched the 'Defence Innovation Initiative' to enable the Armed Forces to maintain military edge into the future and develop an innovation ecosystem to capitalise on innovation expertise and fertile partnerships with innovators in industry.

Across Defence there is now a vibrant innovation community including Hubs in each of the military commands, supported by a Defence Innovation Advisory Panel and a Defence Innovation Directorate. The Directorate incorporates the Defence Innovation Unit, which delivers innovation policy, provides co-ordination across Defence and administers the Defence Innovation Fund, and the Defence and Security Accelerator.

- The **Defence Innovation Advisory Panel** is formed of external entrepreneurs and leaders who advise, scrutinise and challenge the MOD, identify opportunities to improve innovative practices and thinking, and develop a more innovative culture. The first independent annual Panel report on Defence's approach to innovation was published in November 2018 along with the Department's response to the report.
- The **Defence Innovation Fund** of around £800 million over 10 years, aims to incentivise changes in behaviours, provides freedoms to pursue and deliver innovative solutions, and helps to overcome identified barriers to the realisation of the Initiative as a whole. Since April 2018 the Department has funded over 70 new projects from the Defence Innovation Fund, spending around £17 million to the end of March 2019. These projects include the new Spearheads Programmes.
- The **Defence and Security Accelerator** (DASA) finds and funds exploitable innovation to support UK Defence and security quickly and effectively, and supports UK prosperity, bringing together the private sector, academia, and Government organisations to find innovative solutions. Since April 2018, DASA has launched 14 new themed competitions, run 5 cycles of the open call, received nearly 800 proposals from over 480 organisations, funded 228 of these (over 50% from SMEs), and allocated over £36 million in funding.

MOD Research & Development Expenditure 2007–18



Note: 2018–19 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.

Property and Infrastructure

During 2018–19, the Department has implemented its first full year of its new infrastructure system operating model, with the majority of infrastructure budgets delegated to the military Commands and Top Level Budget-holders. The Defence Infrastructure Organisation (DIO) has been transforming itself to fulfil its changed role as the expert infrastructure adviser, primary infrastructure delivery agent and steward of the estate. MOD has established an Infrastructure Function to oversee the new model.

Delivering the Defence Estate Optimisation Programme (DEOP) and the commitment to create a smaller, more modern and capability-focused estate between now and 2040 remains a priority for the MOD. The Department has completed the assessments supporting disposals in the first phase of delivery and to date 12 of the sites announced for disposal in 2016 through “A Better Defence Estate”⁹ have either been sold, had a transfer agreed with a Land Sale Delivery Partner or Homes England, or had their lease terminated. Integrated plans have been developed for the investment of £1.5 billion for those sites intended for re-development or disposal in the next five years¹⁰, as announced in February 2019.

The Department is committed to implementing an asset management system across the estate, and in 2018 set out its strategic asset management framework.

⁹ <https://www.gov.uk/government/publications/better-defence-estate-strategy>

¹⁰ <https://www.gov.uk/government/news/defence-secretary-announces-five-year-plan-for-key-military-sites>

More than 95% of the Department's Service Families Accommodation (SFA) properties are at the Decent Homes Standard. The Department does not allocate properties below that standard to our Armed Forces personnel and their families. In the last four years, the Department has invested more than £530 million to improve SFA further, including fitting external wall insulation and replacing windows, doors, roofs and boilers to improve thermal efficiency; installing new kitchens and bathrooms to maintain modern standards; and general refurbishment to ensure a good quality of accommodation for our Armed Forces and their families. During the next year, this investment will continue with c£70 million earmarked for further improvement works. The focus will be on improving thermal efficiency and modernising kitchens and bathrooms, together with, new build and upgrade projects to support Army re-basing from Germany.

Land Release

The Department has continued to release estate no longer required for defence purposes, contributing to the Government's public sector land for housing programme target¹¹. 1,900 hectares of land with the potential for 6,862 homes¹² has been delivered between 2015 and 2018–19 against the target of 55,000 homes by 2020¹³. The Department also entered into a partnering agreement with Homes England in September 2018 which has the potential to deliver 10,000 homes. However, achievement of the target by 2020 remains a significant challenge for MOD with many of the sites identified for release forming part of the Defence Estate Optimisation Programme, which takes place over the longer term to 2040. There are complex interdependencies around the investment and re-provision of military capabilities, and relocation of units to new sites, to enable release of the sites no longer required.

Government Estate Strategy

The Department continues to work with the Office of Government Property and the Government Property Agency on Government Estate Strategy¹⁴ initiatives, including Government Hubs, One Public Estate and the Whitehall Campus.

MOD continues to improve utilisation in its offices, with current office utilisation at 10.32m² per Full Time Equivalent, against a target of 8m² per FTE, however, we recognise there is more to do. The quality of data provision on office benchmarking across the estate is, in many cases poor and the Defence Infrastructure Organisation is working to resolve this through more thorough and consistent reporting.

The Department is working in partnership with the Government Property Agency on One Public Estate and colleagues from other Government departments now occupy around 15% of MOD Main Building in London, as part of the Whitehall Campus.

The Department has also been implementing a range of projects to support Smarter Working, and in February 2019, the Defence Infrastructure Organisation won an award at the Smarter Working Awards¹⁵ for smarter working behaviours that have led change across the organisation.

11 MOD target to release sufficient land with the potential for 55,000 homes by 2020.

12 This figure is based on the amount of land that has been scored for release (meaning they have sufficient planning certainty and a contract with the private sector for their sale is in place by 2020). Sites are scored in several ways including transfers to the Homes England, building of single living or service family 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 several factors (e.g. location, size of site, types of homes likely to be built) and validated by Homes England.

13 Including land for up to 3,500 housing units transferred to Homes England.

14 <https://www.gov.uk/government/publications/government-estate-strategy-2018>

15 <http://www.smarterworkingawards.com/winners>

MOD Apprenticeships

The Ministry of Defence is proud to be one of the largest deliverers of apprenticeships in the UK, with around 20,000¹⁶ personnel engaged on a nationally recognised apprenticeship programme at any one time and over 90% of our non-commissioned military recruits offered an apprenticeship on the back of their trade training.

Public sector bodies with 250 or more staff have a target to employ an average of at least 2.3% of their staff as new apprentice starts over the period 1 April 2017 to 31 March 2021. The Armed Forces are exceeding this target with 9.1% of employees starting an apprenticeship in 2017–18. The MOD's Civil Service achieved 1.6% against the 2017–18 target.

The MOD is committed to enrolling 50,000 apprenticeships between 1 April 2015 and 31 March 2020 and we exceeded that target in November 18; over a year ahead of target.

Defence needs a skilled, sustainable, capable workforce trained and equipped to defend the nation's interests; the MOD apprenticeship programme is intrinsic to the achievement of this aim. Over 90 apprenticeships are offered across the three Services and the Civil Service, ranging from Aeronautical Engineering to Clinical Healthcare Support and Business Administration. Most of the apprenticeships awarded in the Armed Forces are at Level 2 (equivalent to GCSE grades A-C) and level 3 (equivalent to A-level), but through our programme of Through Life Development, they are also available up to degree Level (i.e. level 6). The MOD Civil Service offers around 30 different apprenticeships at a range of levels (including at level 5 and above) in areas such as leadership and management, policy, digital and finance. These are available to all Defence personnel.

Fully supportive of the Government's Apprenticeship Reform aimed at improving the quality of apprenticeships for all, the MOD is involved in Trailblazer groups which are developing the new Apprenticeship Standards. Defence develops these standards in collaboration with employers from different sectors of industry, so the standards will prepare Defence personnel for work both inside and outside of MOD. The MOD is a member of the Apprenticeship Ambassador Network and the 5% Club, the latter being an employer movement working to drive forward a nationwide 'Earn and Learn' agenda.

The Royal Navy, Army and Royal Air Force received a special recognition award at the 2018 National Apprenticeship Awards. The Royal Air Force was awarded the Apprentice Employer of the Year at the Annual Apprenticeship Awards 2019.

¹⁶ These figures include all apprenticeship places that meet the Skills Funding Agency Definition for an apprenticeship. While these numbers have been quality controlled, they have not undergone the full quality assurance process that would be used for official statistics.



A Royal Engineer working towards his Level-2 Apprenticeship in Fabrication and Welding at the Royal School of Military Engineering, Chatham

Cadets



To provide challenging opportunities for young people...

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

Meaning, in total, over **440** units are already parading in schools

There are just over **128,000** cadets in the UK

The Ministry of Defence sponsors and supports five different cadet forces (voluntary youth organisations): the Sea Cadet Corps, the Volunteer Cadet Corps, the Army Cadet Force, the Air Training Corps based in the community, and the Combined Cadet Force based in schools. In total, there are nearly 128,000 cadets in over 3,500 units across 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 social mobility and employability. Through the Cadet Expansion Programme the Government has committed £50 million of LIBOR funding to increase the number of cadet units parading in schools across the UK to 500 by 2020. The programme, which 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 440¹⁷ units already parading in schools. The next ambition is to grow the numbers of cadets parading in schools to 60,000.

The Ministry of Defence is also implementing its Cadet Force 2025 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 latest initiative is the introduction of training in cyber skills for cadets. 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.



Cadets from the Combined Cadet Force take on a STEM (Science, Technology, Engineering and Mathematics) challenge

¹⁷ 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 2018–19:

- Published the 'Strategy for our Veterans' and accompanying consultation
- Published the Diversity & Inclusion strategy
- Agreed the People Committee Critical Skills Campaign
- On 1 April regular Service Personnel became eligible to apply for Flexible Service
- 3,000th signatory to the Armed Forces Covenant achieved in November 2018
- Delivered the 17th F35 Lightning Aircraft
- £15.9 billion allocated to Defence Equipment and Support

Overview

Managing the Department of State and the Defence Enterprise underpins the three National Strategic Objectives. Over the last year we have made considerable progress in this area, particularly as a response to MDP. With regards to our People, we have been working to address critical skills shortages and modernised our approach to the workforce. As part of the Defence Major Programmes Portfolio we have seen a number of key deliverables achieved, including HMS QUEEN ELIZABETH entering service.

A dedicated central transformation team was established in January 2018, in response to the MDP, to support the Chief Operating Officer in driving forward a new strategic approach to transformation across Defence, to help us Mobilise, Modernise and Transform Defence. We recognise that we need a step change in the way we do business to remove bureaucracy, improve our agility and maximise our investment in the front-line.

Fundamental to this approach is:

- Identifying where sustainable longer-term savings can be made through wider and better use of modern digital technology and automation of back-office processes.
- Building change management capability, developing a targeted approach to behavioural change and empowering our people to unlock their full potential and drive transformative change.
- Ensuring that the Department has the necessary skills, governance, and support it needs, with the right people – military, civilian, and contractor – in the right jobs doing the right things.

The new approach is based on digitally-enabled transformation rather than unsustainable cuts and is at the heart of the vision set out in the MDP.

People

People are at the heart of Defence capability, and we continue to invest in our Regular and Reserve Armed Forces and our Civil Service. We also continue to look after Service families and Veterans, and strengthen the Armed Forces Covenant with Society.

In 2018–19 we have worked to address critical skills shortages, especially in science, technology, engineering, maths (STEM) and entrepreneurship. We have piloted a novel approach to working with industry under the Enterprise Approach and adopted new practices in relation to the Defence contribution to the National Cyber Force. We have also invested in growing our civilian leadership and management capability through ‘Leading Through Uncertainty’ training.

We are working to modernise our approach to the workforce, to ensure it provides a sustainable workforce structure, maximises the use of the diverse talent we have and attracts and retains the talent we need in the future. Our focus is on improving our ability to respond to future demands on Defence and on creating opportunities that motivate, empower and engage our people across the Whole Force. An important part of our future work will be to strengthen the People Function, including through closer links between People and other elements of capability planning, and strengthened governance arrangements. This requires better data and insight and improved workforce planning, both of which form part of the People Transformation work that we will carry forward into 2019–20 and beyond.

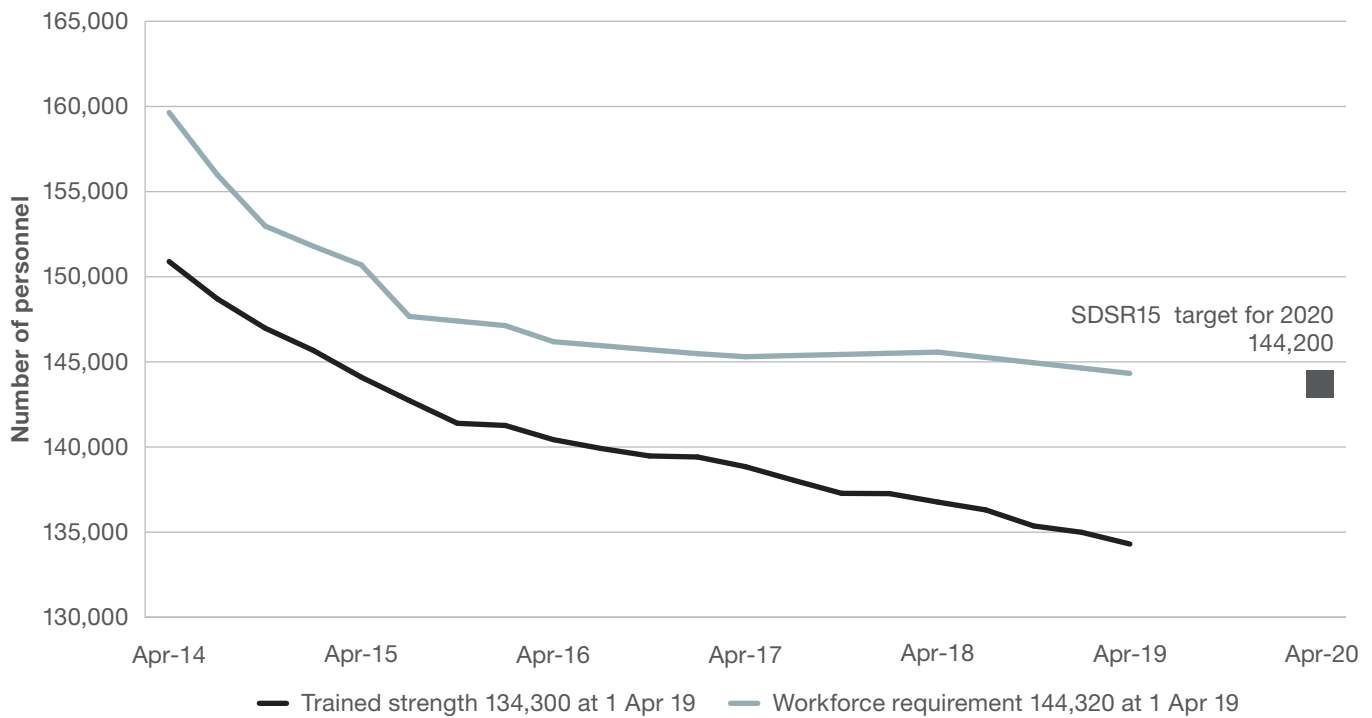
Workforce Size, Shape and Dynamics

The total size of the trained Defence workforce (Regular and Reserve Service Personnel and Civil Servants) decreased over the year to 224,620.

Military Full Time Trained (RN/RM and RAF) and Trade Trained (Army) Strength and Civilians	1 April 2019	2020 Target
Royal Navy / Royal Marines (RN/RM)	29,220	30,450
Army	75,070	82,000
RAF	30,010	31,750
Total Full Time Full Time Trained (RN/RM and RAF) and Trade Trained (Army) strength	134,300	144,200
Civilian	57,760	~
Total Personnel	192,060	
Future Reserves 2020 Trained Strength	1 April 2019	2020 Target
Maritime Reserve	2,830	3,100
Army Reserve	27,070	30,100
RAF Reserves	2,660	1,860
Total Reserves	32,560	35,060

~Future workforce requirements are being addressed as part of the people transformation programme.

Military Full-Time Trained Strength against Workforce Requirement

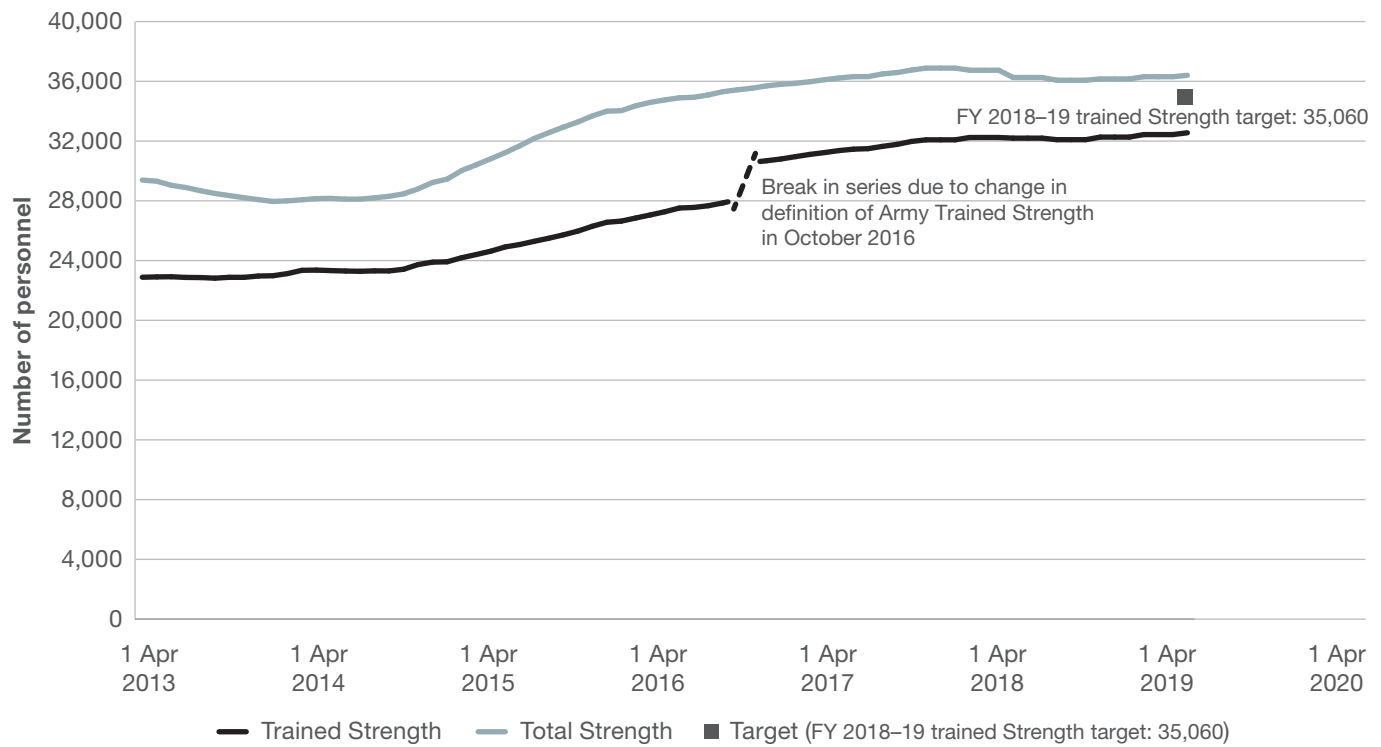


Notes:

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 1.8% decrease in the overall size of the Full Time Trained strength of the Regular Armed Forces to 134,300. This reflects shortfalls in recruitment in a challenging market with high levels of national employment (particularly amongst young people) and increased competition for skills. The Armed Forces have active and targeted recruitment campaigns amongst those communities where Armed Forces recruitment has been traditionally low. However, female recruitment decreased by 0.1 percentage points (as at April 2019) and the proportion of BAME recruitment decreased by 0.2 percentage points (as at April 2019) following a peak in 2017 reflecting increased commonwealth recruitment.

Strengths for Tri Service Future Reserves 2020 as at 1 April 2019

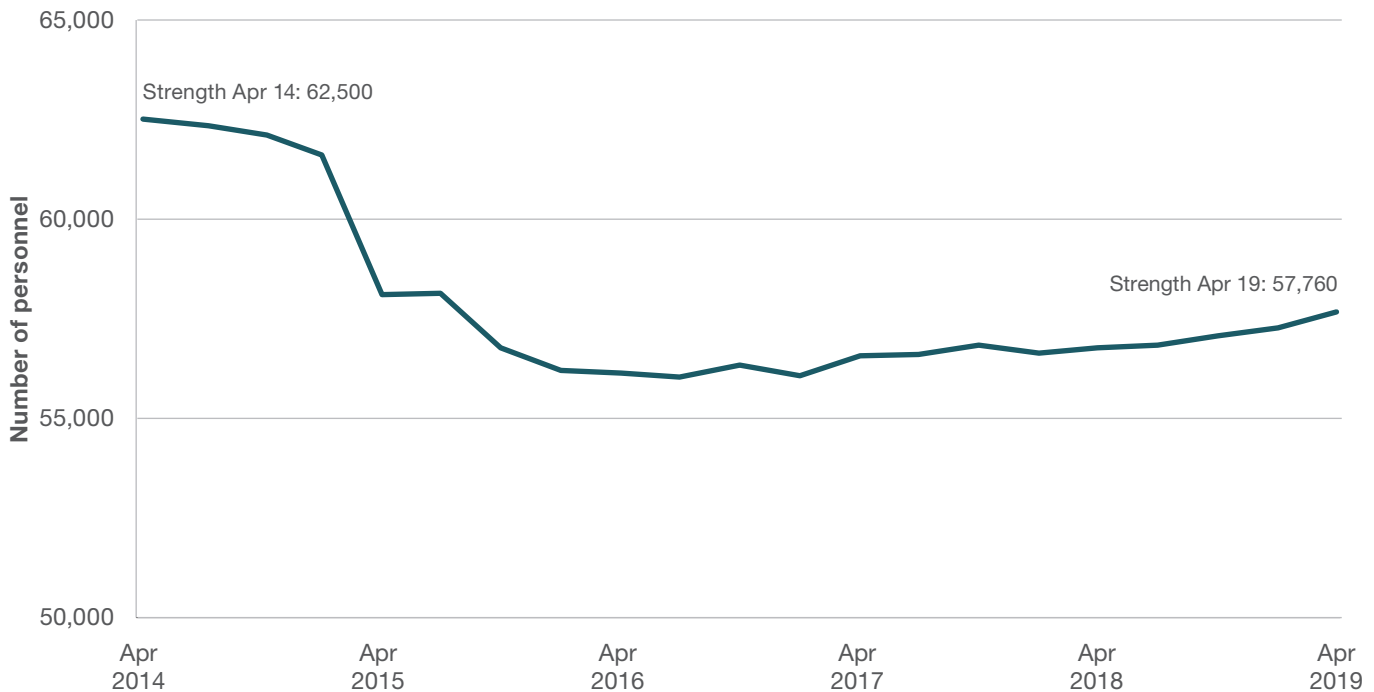


Notes:

1. 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.
2. 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 1.1% to 32,560 during the last year as part of the Future Reserves 2020 programme, which is a £1.8 billion 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 the Reserves recruitment process.

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



Note: The quarterly fall in the April 2015 civilian personnel population was mainly due to the privatisation of Defence Support Group (about 2,000 personnel) and the reduction of LEC personnel in Germany (about 1,000 personnel).

MOD Civilian numbers increased by 1.6% to 57,760. The shape and size of future Civilian workforce is being considered as part of the 10-year People Transformation Programme, which forms part of the Modernising Defence Programme. People Transformation will unlock new opportunities to manage our workforce challenges at a Defence level. This includes maximising the use of digital technology to enable people to operate more effectively.

Diversity and Inclusion

Over recent years, Defence has increasingly challenged itself to become a more diverse and inclusive organisation. As well as the clear moral case for action, the need to act is based on an understanding that diversity and inclusion (D&I) is critical to Defence’s ability to safeguard our nation’s security, stability and prosperity.

This recognition of the importance of D&I to Defence prompted the establishment of a Defence Diversity and Inclusion Programme (DDIP) in 2015. This was designed 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 have also been 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.

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

	2015	2016	2017	2018	2019
Regulars					
RN/RM	3.5%	3.5%	3.5%	3.8%	4.1%
Army	10.2%	10.2%	10.6%	11.1%	11.5%
RAF	2.1%	2.2%	2.2%	2.3%	2.6%
Reserves					
Maritime Reserve	2.8%	3.0%	2.9%	3.1%	3.2%
Army Reserve	5.3%	5.6%	5.8%	5.8%	5.9%
RAF Reserves	3.9%	3.9%	4.5%	4.7%	4.8%
Civilian	4.1%	4.2%	4.4%	4.7%	5.2%

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:	2017	2017	2018	2018	2019	Target
	31 Mar	30 Sep	31 Mar	30 Sep	31 Mar	
All Services	7.2%	9.2%	7.3%	6.6%	7.1%	10%
RN/RM	3.0%	4.0%	1.0%	6.1%	5.2%	
Army	9.0%	11.8%	10.0%	7.3%	8.3%	
RAF	4.1%	4.2%	4.4%	4.7%	5.6%	

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

	2015	2016	2017	2018	2019
Regulars					
RN/RM	9.3%	9.3%	9.3%	9.4%	9.4%
Army	9.0%	9.0%	9.1%	9.3%	9.5%
RAF	13.9%	14.0%	14.0%	14.1%	14.5%
Reserves					
Maritime Reserve	15.9%	14.9%	15.0%	14.5%	14.6%
Army Reserve	13.1%	12.9%	13.2%	13.6%	13.8%
RAF Reserves	17.9%	19.6%	20.6%	20.9%	22.4%
Civilian	38.1%	40.6%	41.6%	42.4%	43.0%

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 2015 and 2016.

Female intake to the UK Regulars and Reserves

12 Months Ending:	2017 31 Mar	2017 30 Sep	2018 31 Mar	2018 30 Sep	2019 31 Mar	Target
All Services	11.4%	12.2%	12.2%	12.4%	12.1%	15%
RN/RM	11.3%	10.4%	9.8%	10.8%	10.7%	
Army	10.1%	11.4%	11.8%	11.7%	10.7%	
RAF	17.5%	18.4%	17.1%	17.1%	19.2%	

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.

Defence has made good progress on diversity and inclusion over the last few years, however, we are continuously striving for greater improvements. To facilitate this, a new 2018–30 D&I Strategy (A Force for Inclusion)¹⁸ was published in October 2018. The new strategy builds on the good work already undertaken and ensures we have a clear idea of what good looks like in Defence, as well as what areas of activity will help us achieve this. It is also coherent with the Civil Service D&I Strategy.

¹⁸ <https://www.gov.uk/government/publications/defence-diversity-and-inclusion-strategy-2018-to-2030-a-force-for-inclusion>

An Armed Forces Disability Champion (AFDC) was appointed in 2018 to address a gap in Defence support to Service Personnel living with a life-changing¹⁹ or life-limiting²⁰ condition. Over the past year, the AFDC and the Defence People with a Significant Illness project lead have worked alongside a group of highly capable and motivated individuals to launch a new Defence Network: The Chronic Conditions and Disability in Defence (CANDID) Network, which launched in April 2019. This aims to better support members of the Armed Forces whose lives have been touched or affected in some way by chronic illness and disability.

MOD also has a dedicated Reasonable Adjustments Service Team, who are responsible for supporting civilian staff with workplace adjustments. The team also plays a significant role in providing a voice for disabled people.

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

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

Skills Gaps

Defence has a number of skills gaps, called Pinch Points. The 2018 National Audit Office (NAO) Report recommended a systematic review of the approach to Pinch Points, which we have been developing and plan to introduce in 2019–20. Currently we use Operational Pinch Points (OPPs), which occur where shortfalls in the trained strength of a branch specialisation, sub-specialisation or area of expertise need to be mitigated to prevent a measurable, detrimental impact on current, planned or contingent operations. 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. At April 2019, the OPPs were:

- Naval Service: Sixteen OPPs, which is a reduction of three since April 2018. The most significant pinch points relate to engineering roles, plus some specialist roles such as Chefs and Royal Marines General Duties.
- Army: Six OPPs, which is a reduction of three since April 2018. The most significant pinch points relate to Logistics roles.
- RAF: Seven OPPs, which is the same as April 2018. The most significant pinch points relate to Intelligence Analysts and Air Operations Controllers roles.

¹⁹ The diagnosis of a chronic medical condition is generally an unwanted event which may impact on the person physically, psychologically and socially e.g. employment, career choice; personal or organisational expectation; the ability to conduct or maintain personal relationships; fertility; social life, holidays, travelling and education.

²⁰ The term life-limiting or life-threatening is used to describe illnesses where it is expected that death will be a direct consequence of the specified illness. Life-limiting or threatening would also constitute as a major-life changing event. Such illnesses may include, but are not limited to cancer, heart disease and kidney disease.

Further work to address skills gaps was a key consideration of the People related transformation elements of the Modernising Defence Programme. Since then, a programme initiation exercise has been carried out. It aims to bring together execution of this plan and the Enterprise Approach Project into a single and coherent programme of activity. This is in response to the NAO and Public Accounts Committee reports of April 2018 and September 2018 respectively.

People Transformation

A range of change projects are underway to modernise the terms and conditions for Service Personnel and make sure we are well positioned for future strategic challenges. Updates against some of them are included below.

Flexible Service: On 1 April 2019 regular members of the Armed Forces became eligible to apply for Flexible Service, allowing them for the first time to work part-time and restrict their separation from home base for a time. This change adds to the flexible working policies introduced in 2015, recognises the increasing demand for greater flexibility in Service commitments by our people, and reflects modern lifestyles in broader society and so increases the attractiveness of a Service career.

Part-time arrangements will allow personnel to reduce their work routine by 20% or 40%, while restricting separation will limit time away from home base to no more than 35 days a year. These options can be combined, but any request will remain subject to the Service being able to sustain operational capability. To allow broad access for as many personnel as possible, individuals are limited to a maximum of four years of Flexible Service in each rolling period of 12 years.

The project, which was delivered on time and under budget, was delivered collaboratively by a whole force policy team in the MOD, the Services and Joint Commands, it involved extensive new secondary legislation for pensions and terms of service and extensive IT systems change which was delivered by Defence Business Services.

Future Accommodation Model (FAM): Affordable, good quality accommodation is a key part of our employment offer to Service Personnel. While still meeting the needs of the Services and remaining affordable, the new model will give Service Personnel more choice over where and with whom they live by making use of the private rental sector and by offering increased support for home ownership alongside existing options of Single Living Accommodation (SLA) and Service Families Accommodation (SFA). Entitlement will be based on need rather than service, rank, age or marital status.

Through FAM, the MOD will offer personnel accommodation payments, which means that personnel can choose to rent or buy a property, paying broadly the same amount as they would have paid in Service Families Accommodation. This will support those who wish to keep their families stable in a location of their choosing.

Options for the model have been developed through ongoing consultation and engagement with the single Services, JFC, Service Personnel and their families.

The roll-out of a three-site pilot will start in HMNB Clyde in September 2019, followed by Aldershot Garrison and RAF Wittering in early 2020. The pilot will last for approximately three years and will then be assessed. If approved, we expect wider roll-out across the UK through the 2020s and 2030s.

As part of this work we have also amended the current accommodation policy to allow greater access to Service Family Accommodation. From 1 April 2019, all Service Personnel who have more than four years' service in the Armed Forces and who are in a long-term relationship or have residential responsibility for a child will be eligible to apply to live together in surplus Service Family Accommodation at all UK bases where properties are available. This important change in policy to allow cohabitation will benefit all Services and all ranks and recognises that accommodation policy did not sufficiently align the requirements of the Services with the reasonable demands of our people and their families. Defence has committed itself to making a new accommodation offer which reflects the realities of modern life and changing societal trends; allowing Service personnel to live how and with whom they wish. Opening up service accommodation to cohabiting couples is the first step in delivering widened support to more of our personnel.

In July 2018, the Public Accounts Committee flagged a requirement for MOD to develop a coherent accommodation strategy that maximises opportunities for development and disposal. Part of the mandate for FAM was to widen entitlement to accommodation to those in Long Term Relationships so this initiative is an early implementation of one element of the FAM mandate.

The Defence Accommodation Strategy (DAS) has been developed and looks out 25 years, with the key principles of delivering a Whole Force policy according to business need. The DAS is a separate programme that will include FAM along with other accommodation initiatives, such as Defence Estate Optimisation Programme (DEOP) in developing an overall strategy for Accommodation issues.

New Joiner Offer (NJO) / Early Departure Payment (EDP): 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.

Following a review of the New Joiner Offer project a decision was made in May 2018 to develop the opportunities it had identified through two new projects – reform of the Early Departure Payment, and delivery of continued improvements to the pay structure for all Service Personnel through the next Quinquennial Review of pay structures in the Armed Forces, due in 2021.

The Early Departure Payment Project has been under review since March 2019 in the light of wider transformation priorities and uncertainties presented by the Macleod legal case in relation to the 2015 pension scheme reforms. Policy development work is continuing, because Early Departure Payment reform will be required to inform any wider pension re-design that may be required in response to the Public Service Pension litigation.

Enterprise Approach: 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. A proof of concept has been developed and is approaching the mid-way point that will make it easier for people to move between the different elements of the Defence Sector over their career. We will be initially focusing on the critical skills areas of Cyber, Logistics, and Complex Weapons Engineering before wider adoption in other areas.

Stage 1 of the concept ran from April 2016 to Autumn 2017 with exclusive focus on the Submarine Enterprise. During stage 1 we worked with the maritime key industry prime contractors to develop an outline operating model for the sharing of skills. Such was the quality of that model that it has been transferred to the Defence Nuclear Organisation to mature it further and explore what interventions might be needed for an enterprise solution.

Stage 2 sought to scale the operating model in four other critical skills shortage areas: Cyber, Logistics, Complex Weapons Engineering and Health. As many of the operating model interventions identified through the Health study are similar to the initiatives being pursued through the Defence Medical Services 2020 Programme, the case study has been transferred to the Surgeon General of the Armed Forces for detailed policy development and implementation.

A number of interventions have been developed with thirty-four external organisations and these are now subject to detailed costing and benefit appraisal before launching a number of trials, including professional placements and joint training against national standards for Cyber defensive operations.

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 2019 shows that ratings of “high morale” and satisfaction with basic pay are showing signs of recovery following a dip in 2017 and 2018. Satisfaction with Service life in general and the overall engagement index remain stable at 46% and 60% respectively. Three quarters of Service Personnel are proud to be in their Service, unchanged from 2018.

There continues to be general agreement that people have the necessary skills, knowledge and training to do their current jobs (86%), with 72% agreeing that their skills and experience are currently being used. Agreement that change is managed well at all levels has increased compared with 2018, though Service Personnel agree that change is managed better within their immediate teams (61%) and establishments/units (41%) than in their Service (25%).

MOD People Survey

We measure staff engagement through the MOD People Survey. We want to create the right environment so that staff can contribute as effectively as possible and feel that the MOD is a great place to work.

	2017 Result	2018 Result	Percentage point change
Engagement Index	58%	61%	+3
My Work	74%	76%	+2
Organisational Objectives and Purpose	76%	76%	+1
My Line Manager	64%	66%	+2
My Team	77%	78%	+1
Learning and Development	50%	52%	+3
Inclusion and Fair Treatment	73%	76%	+3
Resources and Workload	67%	69%	+2
Pay and Benefits	28%	30%	+2
Leadership and Managing Change	31%	35%	+4

The figures above may not add up due to rounding.

In 2018, over 24,000 staff completed the survey, giving our highest ever response rate at 62%. Our staff engagement score (comprised of the 5 key questions that make up the score/ engagement index) increased by 3 percentage points to 61%. This is the highest score of the Big 5 Departments²¹ and was only 1 percentage point below the Civil Service average. The survey measures experiences at work through 9 themes, this year we improved our score in all themes.

A range of activities are being implemented in response to the results. We have launched Leading through Uncertainty training and have developed Line Management in Defence training, to develop managers' skills and provide confident and empowering leadership and management. We are also focusing on providing greater clarity for our Organisational Objectives and Purpose. The department has bolstered the central Internal Communications function to enhance focus on leadership, managing change and employee engagement communications to military and civilian audiences. As part of that work, extensive consultation took place throughout 2018 to develop a re-stating of the Defence Purpose. This new version of the organisational narrative was launched in May 2019, allowing employees and leaders to more clearly understand the purpose of Defence and their role within the organisation.

The 2018 MOD People Survey, while positive in many respects, indicates that there is still more we should be doing to ensure fair treatment in the workplace. In the last year we have held staff engagement events to discuss the findings of the Sue Owen Bullying, Harassment and Misconduct Review survey²². Following this engagement, we are developing a blended set of actions to take forward, including launching a new civilian dispute resolution and discipline policy framework, working with colleagues in the Armed Forces to review Bullying and Harassment policy, and testing a new Bullying, Harassment and Discrimination (BHD) data capture tool that will help build a better picture of the type, scale and scope of BHD across the organisation.

Our major business units are developing local action plans targeting specific priority areas within their unit. As always, we are sharing learning across the Department in order to accelerate and widen the benefits from any local initiatives.

As well as the People Survey, we ensure there are a range of opportunities for staff to voice their views to enable a more diverse contribution to our Department, such as informal lunches with senior leaders. Having highly engaged staff in MOD is important to us and we are determined to continue our efforts to increase our staff engagement score this year.

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, and that special provision may be appropriate for those who have sacrificed the most.

The principle of the Covenant was formalised in the 2011 Armed Forces Act. In accordance with the Act, in November 2018 the then Secretary of State for Defence laid before Parliament the Annual Report on progress delivering the Covenant, setting out the key deliverables under the Covenant in that calendar year. This included the launch of the Veterans Mental Health Complex Treatment Service, the

²¹ The big five Departments are: Department for Work and Pensions, Ministry of Justice, Her Majesty's Revenue and Customs, Ministry of Defence and Home Office.

²² <https://www.gov.uk/government/publications/bullying-harassment-and-misconduct-review>

extension of the MOD's Educational Support Fund for a further two years and extension of the Forces Help to Buy Scheme.

Driving this approach, the Ministerial Covenant and Veterans Board, which is jointly-chaired by the Secretary of State for Defence and the Chancellor of the Duchy of Lancaster, is tasked with having strategic oversight of Covenant delivery. The Board 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 for the award of grants under the £10 million per annum Covenant Fund. In April 2018 the Covenant Fund moved from the MOD to become an independent charitable trust, the Armed Forces Covenant Fund Trust. During 2018–19 funds were allocated through various priority streams: Local Grants projects; the Armistice and Armed Forces Communities Programme; and Tackling Serious Stress in Veterans, Carers and Families' Programme. In addition, it has funded the University of Northumbria's 'Map of Need' project which is building a full picture of the needs of the Armed Forces Community and the services available, to support initiatives such as the Veterans' Gateway. Continuing the emphasis on community, in 2018–19 £2.4 million was made available to 150 projects to strengthen delivery of the Covenant at a local level. Funds were allocated in support of projects which looked to improve integration between civilian and military communities, including through sporting events and artistic and commemorative experiences.

Priorities for the Covenant across Government in 2019 include working with the Home Office to investigate whether more can be done to support our Foreign and Commonwealth families who may wish to settle in the UK and to ensure that they understand how policies affect them; working with Service families with children with special educational needs and/or disabilities to help mitigate the impact of Service life on the support they require; looking at childcare insofar as Service people are specifically disadvantaged in terms of out of hours or no-notice work or postings; and in the longer term, reviewing what "special provision for those who have given the most" should look like in practice.

In November 2018, the Post Office became the 3,000th signatory of the Covenant, reflecting the fast-growing support for the Armed Forces Community within the private sector. To ensure this is harnessed effectively, MOD asked the Forces in Mind Trust to commission an independent review into the Covenant in the private and charitable sectors so that we can build a better understanding of why companies pledge support and the barriers that prevent others from doing so. The resulting 'Benefit not Burden' report²³ was published in January 2019 and a cross-Government working group has been set up to consider the recommendations from the report.



In delivering the Armed Forces Covenant...

HM Government provide **£10 million** per year to support Covenant delivery through the Covenant Fund administered by the independent Armed Forces Covenant Fund Trust

The Post Office became the **3,000th signatory** of the Covenant in November 2018.

£2.4 million was allocated through the Covenant Fund Trust to 150 projects at the local level.

²³ <https://www.fim-trust.org/wp-content/uploads/2019/01/20190131-Final-digital-report.pdf>

Veterans

In November 2018, to mark Armistice 100, Ministers from across HM Government launched the cross-Government ‘Strategy for Our Veterans’²⁴, in partnership with the Scottish and Welsh Governments (and Northern Ireland Office given the suspension of the Northern Ireland Executive at Stormont). This set an enduring vision and principles for the whole of the UK to continue to meet the needs of veterans and establish the right conditions for society to empower – and support – Veterans into the future. The Strategy was a joint UK, Scottish and Welsh Government document, developed in collaboration with all the relevant Departments of sitting Governments, and was followed by three formal consultations across the UK. The UK Government’s consultation covered England, Northern Ireland and reserved issues across the UK; with a further two consultations taking place in Scotland and Wales on devolved issues.

The consultations have now closed, and over 4,000 responses are being analysed, with the aim to formally respond later in 2019. Relevant information from all three consultations will be shared between Governments to continue the collaborative approach. Implementation plans will be drawn up by all three sitting Governments to support the delivery of the ‘Strategy for our Veterans.’ Progress towards the strategic outcomes will be regularly reviewed.

A key element of the ‘Strategy for Our Veterans’ is a new Transition Policy, which will be published this year. This policy will recognise that successful transition from the Armed Forces into civilian life is wider than finding employment and will cover the breadth of issues which need to be appropriately addressed to ensure successful transition into civilian life. It will provide a centrally co-ordinated policy to enable MOD to further enhance the support we provide personnel and their families at the end of their service.

This new policy will include the new bespoke Defence Transition Services. This will provide a “helping hand” for those Service leavers and families who may face the most challenges when leaving the Armed Forces. Its aim is to provide positive resolutions to issues and to develop an individual’s personal resilience and independence. This will supplement and enhance the employment and training support already available through the Career Transition Partnership, which celebrated its 20th anniversary this year.

Welfare

A top priority continues to be reviewing and updating the policy for Casualty and Compassionate processes, especially with the British Forces Germany drawdown at the end of September 2019. We are closely engaged with the Single Service and War Widows Bereaved Associations and various Service charities, co-ordinated through the Defence Bereaved Family Group. The Group is updating the Family Purple Pack Bereavement Guide for bereaved families of Service Personnel, which is now available through gov.uk and provides guidance, information and support to those who have lost a loved one whilst still in service.

The MoneyForce Programme is maintained and delivered in collaboration with the Royal British Legion. It has now been running for six years and continues to support the improvement of knowledge regarding debt, savings and the wider area of personal finance. Improved access to credit via Joining Forces Credit Union has given additional choice to our people when they consider their financial options, additional work is underway to tailor potential new products to the needs of our Service Personnel.

The Navy, Army and Air Force Institutes (NAAFI) continues as a successful business supporting UK Armed Forces across the globe. Profits from NAAFI’s many facilities are reinvested in the business and provide additional funding for welfare projects across the wider Armed Forces community.

²⁴ <https://www.gov.uk/government/publications/strategy-for-our-veterans>

The Defence Discount Service continues to go from strength to strength with 11,000 companies and 505,000 members (including both serving Personnel and Veterans).

A 'Discover My Benefits' has been developed and went live on 8 May 2019. It aims to provide Service Personnel (Regulars and Reservists), their families and those interested in joining the Armed Forces with information on the benefits, allowances and support available to them. By answering questions, they will be able to see which ones they are currently eligible for and the impact of a change in their circumstances, such as if they were to be moved.

Defence published its first Domestic Abuse Strategy, the 'No Defence For Abuse Strategy'²⁵, in July 2018. Work is now developing on the implementation of its recommendations.

Health and Wellbeing

The Defence People Health and Wellbeing vision is for "all Defence People to enjoy a state of positive physical and mental health and wellbeing, feeling connected with, and supported by, the military and wider community". The physical and mental health and wider wellbeing of Defence people contributes directly to our operational capability; improving and promoting the mental and physical fitness of our people through a co-ordinated approach to physical and mental health remains a key focus for Defence.

Defence continues to implement, develop and identify new work strands set out in the Defence People Mental Health and Wellbeing Strategy 2017–2022 by using health data, research and innovation to deliver the Defence Mental Health and Wellbeing Operating Model. This model is focused around the pillars of Promote, Prevent, Detect and Treat. By strengthening existing and forging new partnerships with the Department of Health and Social Care, the NHS, the Devolved Administrations and the third sector we continue to uphold and progress shared best practice and resources to ensure a flexible, integrated though-life approach to mental health and wellbeing.

In line with other Government departments, the MOD is supporting the cross-government initiative on the implementation of the Lord Stevenson-Farmer Report recommendations on Mental Health and managing mental health in the workplace.

Having created a partnership with the Royal Foundation in 2017 on mental fitness to support Defence People, the Royal Foundation is now working closely with Defence to promote good mental health. In 2018, the Royal Foundation initiated the development of training resources, which will be launched across Defence in early 2020. These will equip Service Personnel with a better understanding of mental fitness and tools to improve it.

In 2018, Defence completed a four-month Defence-focused review on Suicide Prevention among serving personnel. The Defence Suicide Prevention Working Group is implementing these recommendations while identifying further work regarding Suicide Prevention and Deliberate Self Harm. These recommendations include:

- Reinvigorating the Suicide Prevention Working Group to drive the implementation of suicide prevention measures and to share best practice across Defence.
- Defence to continue to monitor suicide rates in Service Personnel and to publish an annual statistical note on suicide that highlights the limitations of the current methodology.
- Defence to consider the benefits of joining the National Suicide Prevention Alliance and present the case for having representation to the Defence Health and Wellbeing Board.

²⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/725400/Domestic_Abuse_MOD_booklet_Digital.pdf

The Intrinsic Leadership and Behaviours Team at the Defence Academy have established a Senior Leadership resilience training programme to develop and equip all MOD Civil Servants and military Senior Leaders to role-model and embed Mental Fitness and Resilience into their organisation to optimise individual and organisational performance.

In addition, work continues in rolling out a successful phased Smoke Free Work Environment across Defence by 2022; the new Armed Forces weight management and nutrition policy is being implemented, targeting help at those that need it the most; and we are currently developing a Defence Alcohol Care Pathway.

Families

A new two-year Families action plan was agreed in September 2018, to continue delivery of the Families Strategy.

In April 2018, we received the initial findings of the ongoing review into the Armed Forces assignment policy. The review is considering whether additional flexibility can be provided to families with children at critical stages of their education. While assignment notice periods have gradually increased since 2015, more can be done to improve the sharing of information on children with Special Educational Needs and / or Disability as part of the career management process.

Between 9 January and 8 March 2018, the Ministry of Housing, Communities and Local Government ran a consultation on improving access to social housing for members of the Armed Forces Community. This included the recommendation to remove the local connection test for divorced and separated spouses of serving personnel, which is a key deliverable of the Families Strategy Action Plan.

The British Forces Broadcasting Service Fact or Fiction videos proved a popular and successful way of engaging families with the Covenant, covering issues such as eligibility for the Service Pupil Premium and access to commercial goods and services tailored to the unique circumstances of Service life.

Work continues to consider the options available for improving the support provided to spouses and partners of serving personnel, to mitigate any disadvantage they may experience due to frequent mobility.

A focus for 2019 and beyond will be improving our understanding of the challenges faced by dispersed families.

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 Expenditure on Equipment and Support between 2018 to 2028



Source: MOD Equipment Plan 2018.

This year has seen:

- The UK taking delivery of its 17th F35 Lightning aircraft, and declaring Initial Operational Capability (land, Dec 2018).
- ATLAS (A400M) replacing the C130 Hercules in the Falkland Islands, bringing welcome capacity and endurance benefits over its predecessor.
- First of the Class, HMS QUEEN ELIZABETH entering service in February 2018, and the first landing of the F35B Lightning 5th Generation combat aircraft onboard in Autumn 2018.
- A remotely piloted PROTECTOR flying across the Atlantic from the USA, transiting through UK airspace and landing at the Royal International Air Tattoo at RAF Fairford, a world first (Jul 2018).

These programmes form part of the Defence Major Programmes Portfolio (DMPP) which consists of 39 of the most strategically important and technically challenging programmes across the Ministry of Defence, of which 35 are in the Government Major Programmes Portfolio.

In this financial year, performance across the portfolio has improved, albeit the overall delivery confidence remains at Amber²⁶. The portfolio still faces some significant challenges including suitably qualified and experienced personnel (SQEP) shortages and supplier performance, which the Department is seeking to address, working closely with the Infrastructure and Projects Authority and key suppliers. Delivery highlights across the breadth of the DMPP in this financial year include:

LE TacCIS

The LE TacCIS Programme is a transformational change programme that will ‘information-enable’ the Land Environment across the full spectrum of operations. It will deliver improved tactical Information and Communications Services, integrated across Joint and Allied Force elements, including interoperability with NATO and Combined, Joint, Intergovernmental, Interagency and Multinational partners.

The programme will deliver financial benefits to Defence and performance benefits to the user. Critically, the programme will enable a continuous cycle of capability development and delivery known as Evolutionary Capability Delivery.

HMNB Clyde

The Clyde Infrastructure Programme has been established to manage the design, delivery and transition into operational use of new build and updated infrastructure facilities at HMNB Clyde (Faslane and Coulport) in order to: enable the continued safe and secure operation of submarines; support the arrival of the next generation DREADNOUGHT (Future SSBN); and create a single submarine centre of specialisation. It is a programme of strategic national importance that is critical to sustaining Continuous at Sea Deterrence (CASD), and the safe, sustainable and cost effective operation of the Submarine Force. The end state of the programme will be: “An integrated submarine operating base at Clyde, supporting a Submarine Force that is safe, secure, sustainable and resilient, and ready to excel in operations today and in the future”. The programme has made significant progress over the past 12 months, with 3 new build training facilities on track, and the completion of new build accommodation as well as upgrades to existing accommodation.

²⁶ Amber Delivery Confidence Assessment – Successful delivery appears feasible but significant issues exist requiring management attention. These appear resolvable at this stage and if addressed promptly, should not present a cost/schedule overrun.

F-35 Lightning

The F-35 Lightning aircraft is an advanced, 5th Generation aircraft procured to operate alongside the RAF's Typhoon. The first tranche of 48 aircraft will be the F-35B, which will be jointly operated by the Royal Air Force and Royal Navy and will be capable of operating from both land and sea. The UK took delivery of its 17th Lightning aircraft in November 2018. We will accelerate the number of Lightning aircraft we are buying in the early 2020s to generate 2 front-line squadrons, from 2023.

The past year has seen significant success with the declaration of an Initial Operating Capability (IOC) in December 2018, with the UK's first operational Squadron (617 Squadron). This marks a step change in UK Combat Air capability and our first time of fielding a true 5th Generation Capability. It is initially equipped with Paveway IV, Advanced Short Range Air to Air Missile and Advanced Medium Range Air to Air Missiles.

In Autumn 2018 the first phase of Initial flight trials of the F-35 Lightning aircraft from HMS QUEEN ELIZABETH have been completed successfully, this is the first major step in allowing a coherent build-up towards delivering a carrier Strike capability for the UK from 2020.



An RAF F-35B Lightning (II) from 617 Squadron based at RAF Marham performing a hover manoeuvre during The Royal International Air Tattoo 2018

A400M

The past 12 months have seen a great deal of progress in the A400M Programme, which is delivering the RAF's latest transport aircraft (known as 'ATLAS') into service. 2018 saw ATLAS replace the C130 Hercules in the Falkland Islands, bringing welcome capacity and endurance benefits over its predecessor. With 20 out of what will ultimately be a fleet of 22 of these highly capable aircraft already in service, but at an early production standard, the Programme's focus is on ensuring the aircraft will deliver its benefits and promise. The successful trial airdrop of cargo in ATLAS's improved Container Delivery System was the largest such airdrop on record, and Beach Landing trials on Pembrey Sands have proven her ability to operate where no runway exists. Many more capabilities are scheduled for delivery prior to Programme Graduation.



An RAF A400M Atlas transport aircraft carrying out a series of spectacular test landings and take offs on a beach in South Wales

Maritime Patrol Aircraft

SDSR 2015 directed that the UK should purchase nine Boeing P-8A Poseidon Maritime Patrol Aircraft to provide a long-range reconnaissance and attack capability over the sea. The Poseidon will provide the ability to detect, track and destroy enemy submarines as well as track, report and if necessary attack enemy ships. Its role will be to protect our nuclear deterrent and our maritime interests, including the UK's vital sea trade routes. In addition, the aircraft will be able to drop life rafts to survivors in the water, assisting civil authorities with search and rescue duties. During the last year, our first people entered Poseidon training with the US Navy and construction of our first aircraft began. Our first aircraft will be handed over to the RAF in October 2019 with all nine in service by December 2021. During the year the first P8A squadron was established at Lossiemouth and the first fuselage has been delivered to Boeing Seattle for final assembly.

Queen Elizabeth Carrier

The 12-year, £6.3 billion Queen Elizabeth Carrier build programme is now entering the final phase. The largest warships ever built in the UK under a novel Aircraft Carrier Alliance between the Ministry of Defence, BAES, Thales and Babcock, these iconic Defence strategic assets will be in service for the next 50 years as the central component of Carrier Enabled Power Projection. First of the Class, HMS QUEEN ELIZABETH entered service in February 2018. A busy period of trials and aircraft integration testing continued through 2018, culminating in the first landing of the F35B Lightning 5th Generation combat aircraft onboard in Autumn 2018 to dates declared in Parliament in 2012. Further operational testing will take place this year, ahead of declaration of initial Carrier Strike operational capability by December 2020 and the inaugural Carrier Strike deployment in 2021. The second and final platform, HMS PRINCE OF WALES is forecast to achieve acceptance in December 2019, ahead of In-Service-Date of March 2020.



HMS Queen Elizabeth, the 65,000-tonne Royal Navy flagship sailing from her home in Portsmouth

Armoured Cavalry Programme

The Ajax project is one element of the Army's Armoured Cavalry Programme. Ajax is the British Army's new multi-role, fully-digitised armoured fighting vehicle delivering a step-change in versatility and agility. Ajax will equip the British Army's Armoured Cavalry Regiments, as well as elements of the Armoured and Armoured Infantry battlegroups and Combat Support and Combat Support elements. Ajax will perform a number of roles, including support of the British Army's new Strike Brigades.

The project is concurrently in the Demonstration and Manufacture Phases. Validation and Verification trials started in 2015 and will continue until 2021.

The British Army took receipt of the first ARES variants of the Ajax vehicles on 14 February 2019. We now own 6 ARES vehicles which are being used to develop training courses for users, to support the introduction of the capability.

The build of the Tidworth training simulator infrastructure to support the Armoured Cavalry Programme is progressing well. The risky groundworks are now complete, and the build of the structure is on track. The building will be operational in Mar 2020.

A series of briefings designed to assist with the cultural change required to realise the full benefits of the capability have been delivered to the Field Army in advance of them receiving training and their first vehicles.



The British Army's new multi-role, fully-digitised armoured fighting vehicle AJAX In-Country cold weather system trialling at Tame Ranges in Sweden

SDSR Efficiency Programme

In the 2015 Spending Review, the Department agreed to an ambitious efficiency programme aiming to save £7.8 billion by 2021. The Department remains committed to delivery of this target. In the final years of the programme we are taking a revised approach, based on a strategic, pan-Defence transformation portfolio, focussing on a small number of large scale and long-term strategic transformation initiatives and developing detailed credible and evidence-based business cases for transformation activity. Work to date has focused on consolidating the significant progress already made in Top Level Budgets, whilst also developing transformation proposals for four key functional areas of MOD business.

- Support – Transforming the way we enable military capabilities at readiness.
- Acquisition – Creating a more agile, adaptable and streamlined acquisition system to increase pace of procurement.
- Digital & IT – Embracing modern technologies to improve business processes, remove bureaucracy, and increase productivity.
- People – Delivering a sustainable workforce which maximises the use of our talent.

This work is ambitious and will take time, but is key to:

- meeting the vision of the Modernising Defence Programme (an adaptable and modern Armed Forces able to meet the emerging threats of today and tomorrow);
- delivering a more efficient and productive department, enabled by modern business processes.

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) investigate diligently and expeditiously those allegations that require investigation. SPLI have completed 88% of their caseload and it is expected that their investigations will be substantially complete by the end of 2019. 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 2019.

In addition, the Secretary of State has established a dedicated team to examine all the options for enhancing the legal protections for current and former Service Personnel in connection with historic operations. As announced on 21 May 2019, the Secretary of State for Defence intends shortly to undertake a public consultation on the proposed measures.

The MOD continues to work with other Government departments to ensure our Armed Forces overseas are not subject to persistent human rights claims that undermine their ability to perform at their most effective. We are working with FCO to adapt and strengthen our Overseas Security and Justice Assistance policy to better protect those in countries where we give advice as well as our Armed Forces personnel that are active there. We are also working with the Cabinet Office on the 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 second to none.

Chilcot

In 2018–19, the MOD wound up its Chilcot Team and moved management of the Department's progress in learning from Chilcot to Director International Security. Much of the team's work to address the issues identified in the 2016 Iraq Inquiry (Chilcot) has now been embedded in the Department's business practices, including:

- An improved culture of reasonable challenge in decision-making, drawing on greater diversity of thought. The 2018 People Survey for Defence introduced new questions on challenge to help us understand how well we were doing, which showed that 63% of staff agreed that they felt comfortable offering reasonable challenge to someone more senior in their business area, however, only 49% felt confident that if they did challenge someone more senior in their business area they would be open to receiving the challenge.
- The Guide to Reasonable Challenge, which is now widely used across the Department, has been incorporated into Defence Academy course curricula and made available to wider Government.
- 'The Good Operation' handbook for those involved in operational policy and its implementation, which has now been widely promulgated and used both within and beyond MOD.
- Continuing to address the UK Government's approach to assessing civilian casualties in conflict, including publishing the number of civilians admitted to deployed UK military field hospitals and maintaining a dialogue on the issue with relevant NGOs.

Counter Fraud and Corruption

The Department responds robustly to fraud and corruption. We recognise that fraud and corruption can have a wide range of impacts, including the risk to the public purse if our procurement processes are corrupted, the harm to our reputation from failures of personal integrity and conduct, the tangible security threats from insider corruption, and potential for denigration in our operational effectiveness.

Our counter-fraud activities remain risk and intelligence led and respond to the evolutionary nature of the threat. Defence seeks continuous improvement and innovation through working collaboratively across government, internationally and with Defence Industry.

We continue to be closely engaged with the development of the Government Counter Fraud Profession which was successfully launched in October 2018. We continue to work jointly with Whitehall partners, enabling better understanding of fraud and corruption risks at all stages of the procurement cycle and to develop common guidance and shared solutions.

Defence continues to support the delivery of priorities under the *UK Anti-Corruption Strategy* and reported progress in the first *Annual Update to Parliament* on steps taken to reduce the risk from insider threat, promote integrity across the public and private sectors, reduce corruption in public procurement and grants, and reduce corruption in partner countries. The update highlighted Defence engagement with UK strategic suppliers and the launch of the NATO Building Integrity Public Private Partnership. The latter reflects our continued engagement as a Lead Nation with the NATO Building Integrity programme and our work to build a collaborative relationship with Defence Industry. Additionally, the MOD funded the Building Integrity UK Programme, and has continued to extend its reach overseas. Since 2014, more than 2,000 senior officials from over 90 countries ranging from Afghanistan to Uzbekistan have benefitted from the programme. Notable recent changes include the development of the Building Integrity Principles Presenters' course which is significantly enhancing host nations' capacity to deliver their own training and the initial development of the UK's Building Integrity Centre of Excellence at the Defence Academy.



Since 2014, more than 2,000 Senior Defence & Security Sector officials from over 100 countries have benefitted from the UK funded Building Integrity programme (shown above)

Sustainable MOD

For defence, sustainability is about ensuring that we have the people, equipment, training and resources to deliver our objectives, whilst protecting the environment, our societies values and promoting UK prosperity. The Sustainable MOD Strategy 2015–25²⁷ provides direction on how we address sustainability risks to our business and capabilities, and highlights how, if these are made more sustainable, this will enable us to be more efficient, resilient and adaptable in the future.

MOD Chief Operating Officer (COO) and the Deputy Chief of Defence Staff for Military Capability (DCDS (MilCap)) are the Department’s sustainability champions. During 2018–19 the sustainability agenda was managed via a senior Steering Group, co-chaired by sustainability champions, with support from a team focussed on scrutiny and oversight of performance against our sustainability objectives and priorities.



















There are two key aspects to delivering MOD sustainability that this section reports on; identifying MOD’s contribution to the UN Global Sustainable Development Goals (SDG) and progress against the Greening Government Commitment Targets 2016–20²⁸. Additional detail on MOD’s sustainability performance is provided on the gov.uk webpage.

























UN Global Sustainable Development Goals

Defence makes a significant contribution towards the UK commitment to deliver UN Global Sustainable Development Goals. A review of the Sustainable MOD strategy has commenced to strengthen the links with the objectives of the UN Goals. The following table outlines the main areas in this report where the goals are supported by defence activity.

²⁷ <https://www.gov.uk/government/publications/sustainable-mod-strategy-2015-to-2025>

²⁸ <https://www.gov.uk/government/publications/greening-government-commitments-2016-to-2020>

Objective	SDG Goal	Activity
Protect Our People		
Play a leading role in NATO through the NATO Response Force		Operation Temperer Cyber
Enforce the sovereignty of the United Kingdom, including its territorial waters and airspace, and of the Overseas Territories and Permanent Joint Operating Bases		Military Aid to the Civil Authorities Explosive Ordnance Disposal
Develop Joint Force 2025 and deliver it into service in order to respond to future threats		Fisheries Protection Overseas Defence Activity
Work with the civil authorities and security & intelligence agencies to counter terrorism and enhance homeland security and resilience		Counter-Narcotics
Be present overseas and conduct operations with Allies and Agencies in response to world events		
Project Our Global Influence		
Remain at the forefront of the NATO alliance standing shoulder to shoulder with our Allies		Defence Engagement Women, Peace and Security
Strengthen the rules based international order through capacity building, international Defence training and counter-proliferation		Arms Control and Counter Proliferation Official Development Assistance
Strengthen our international Defence partnerships through regional engagement strategies		
Promote Our Prosperity		
Maintain an industrial base sufficient to maintain operational advantage and freedom of action whilst ensuring value for money	  	Defence Industry Policy Supporting SMEs Defence Exports Science & Technology
Promote exports by ensuring that UK equipment is 'International by Design'	  	Innovation MOD Apprentices Cadets
Support the UK skills agenda through skills development with academia, industry and defence provided educational facilities	   	
Release surplus MOD land to support the national house building programme		

Objective	SDG Goal	Activity
Manage the Department of State and the Defence Enterprise		
Efficiency and Productivity	  	Efficiency and Innovation Diversity & Inclusion Talent Management Armed Forces Covenant
Departmental Culture and Behaviour	 	Defence Estates Optimisation Programme GGC objectives
Ensure Defence has the right numbers of capable and motivated people that represent the breadth of society it exists to defend	  	Designated Sites
Develop and manage departmental infrastructure across the defence estate in the most effective, efficient and sustainable way to meet defence needs	        	
Ensure a culture of safety and compliance with the Defence Regulatory Framework		
Contribute to Greening Government Commitments	     	

Greening Government Commitments

The Greening Government Commitments (GGC) 2016 to 2020 are a mixture of the operational targets and commitments UK government departments and their agencies must take to reduce their impact on the environment. The GGC targets are included in the annual Defence Plan and cascaded into TLB Command Plans. Our 2018–19 GGC performance is scrutinised externally by Building Research Establishment (BRE) who validate this on behalf of Defra. A full breakdown of estate emissions, water consumption and waste generation are in Annex D and E.



Key achievements

We are currently meeting the Greenhouse Gas reduction target (42% reduction against target of 39.9%) and the target of diverting waste from landfill (7% compared with a target of less than 10%)

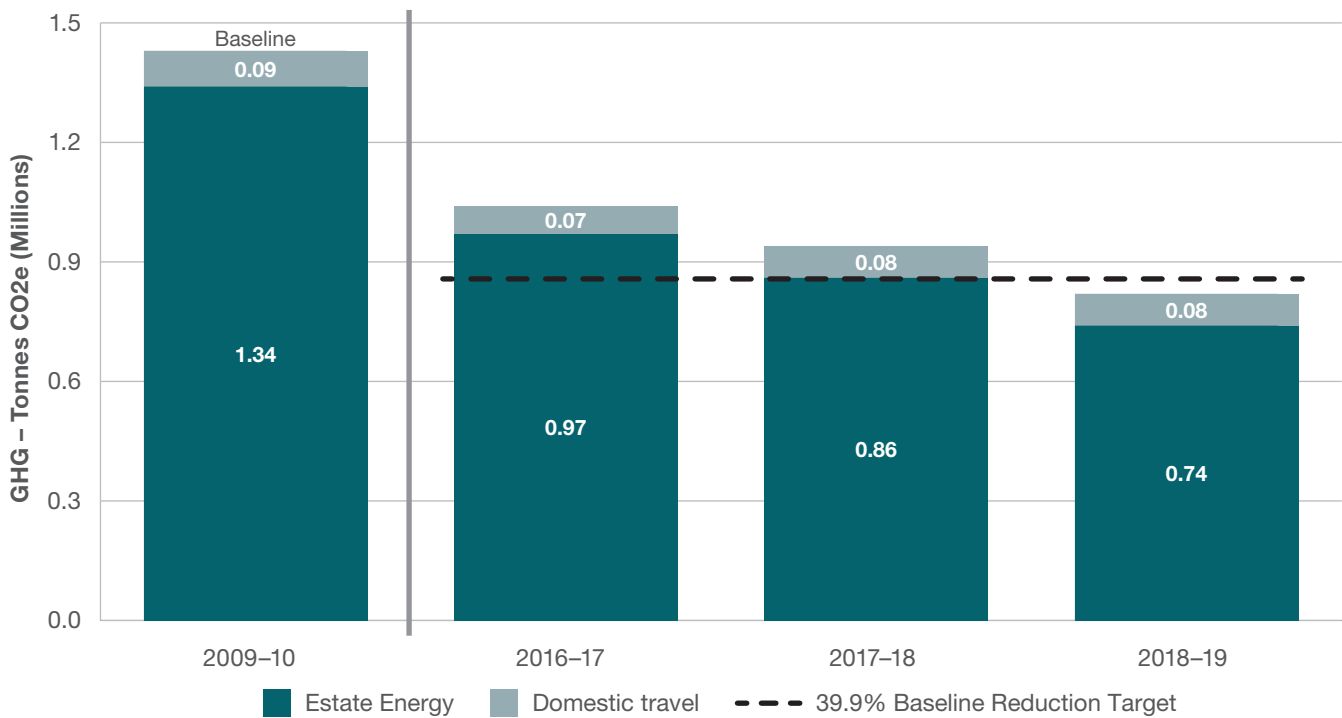
We have made a 10% reduction in water consumption (against a target of 15%) and expect to meet the target

We are making progress on the domestic flight target (21% reduction against a 30% target) and the paper reduction target (33% against a 50% target), but still have some way to go

GGC Operational Targets (all targets are from a baseline at 2009–10 and must be achieved by 2019–20)

Greenhouse Gas (GHG) Emissions

Target: Reduce GHG Emissions from Estate Energy and Business Travel by 39.9% A combined reduction of 42% has been achieved.



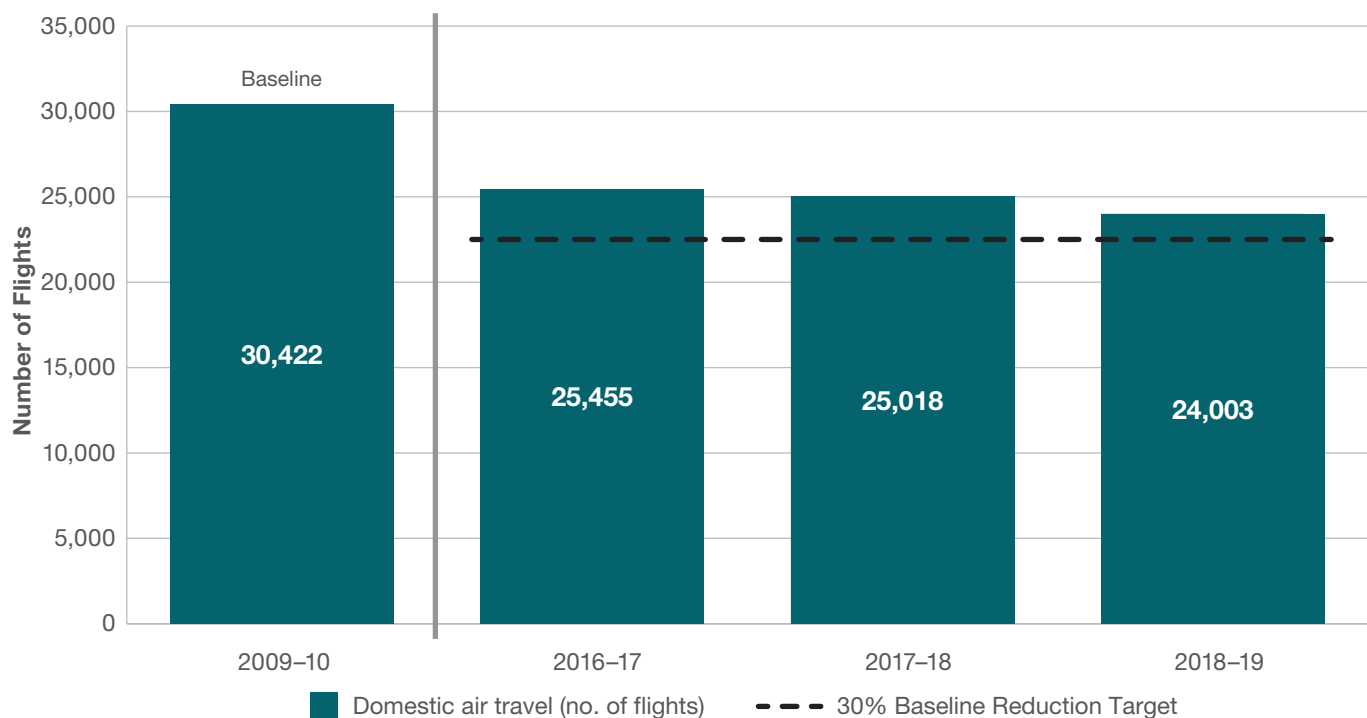
Estate Energy: MOD has achieved a reduction of 45% to date. Along with decarbonisation of the national grid the improved efficiency has been achieved through a combination of targeted investment and co-ordinated awareness and behaviour change campaigns. This has included using the existing network of Area Utilities Managers to drive activity and behaviours at local level, and development of an Energy Master Planning approach which has been rolled-out to the top 50 energy consuming sites, allowing site specific efficiency measures to be pursued on an ongoing basis. Estate energy savings achieved have in part been offset by increased demand and consumption from new assets and an increased use of synthetic training.

Business Travel: By 2018–19, MOD had reduced GHG emissions from travel (including international air travel) by 8%. This in part has been achieved through improvements in remote collaborative working as part of our drive to embed smarter ways of working. The challenge remains in balancing travel avoidance against the need to meet face-to-face where there is a genuine business benefit.

The new GGC target that 25% of the cars the Department operates will be ultra-low emission by 2021–22, will be a challenging priority. MOD has completed its initial pilot and is working to raise the number of such vehicles to 100 by December 2019.

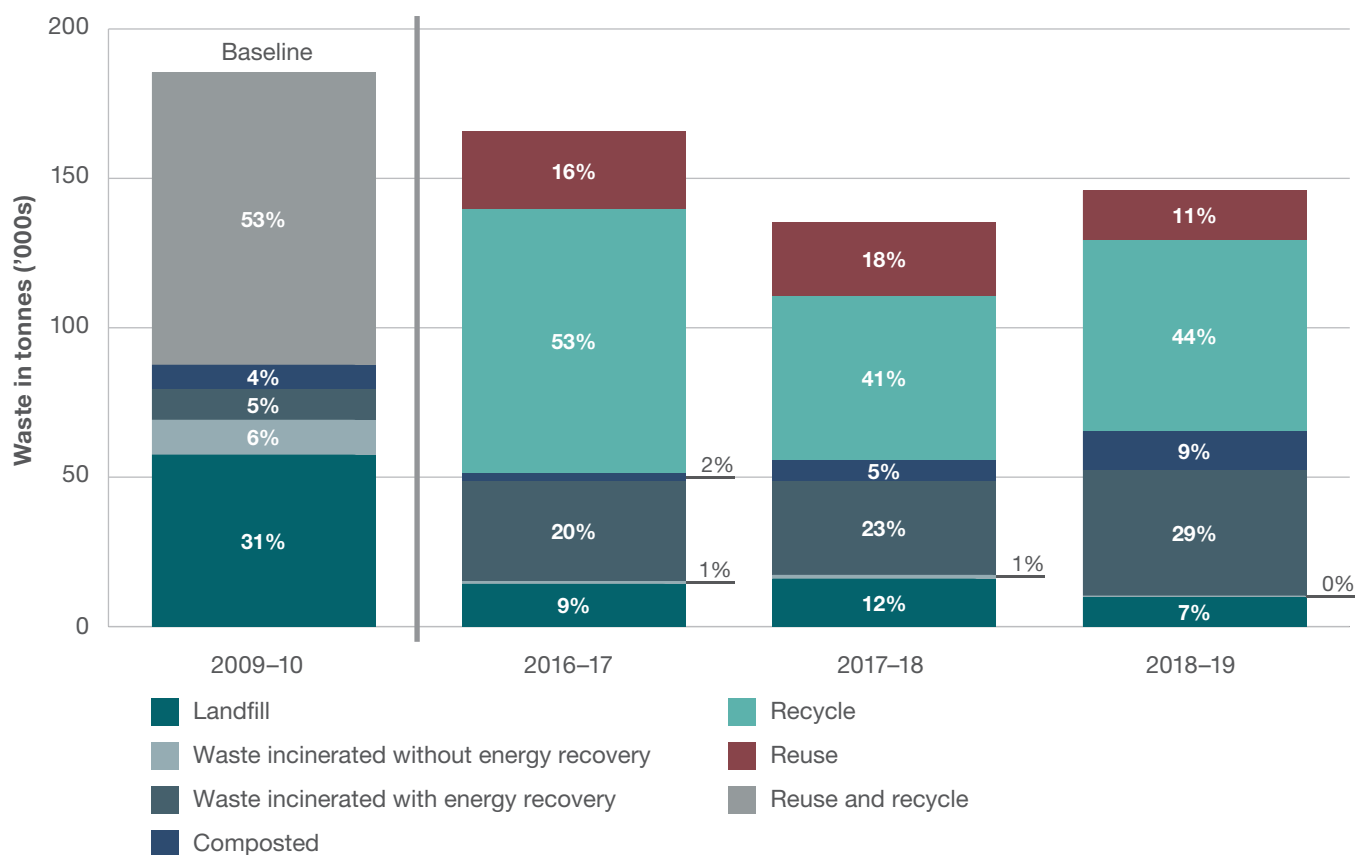
Flights

Target: Reduce the number of domestic business flights by at least 30% (excludes front line command military flights). We have achieved a 21% reduction so far. There is still a lot of work to do to reach the target, having a presence across the UK means ongoing business and operational requirements continue to affect our performance, but we remain committed to reducing flights.



Waste

Target: Reduce the amount of waste going to landfill to less than 10%. The MOD has a year early met the GGC target with 7% consigned to landfill. During the year MOD diverted 93% of waste and surplus material from landfill, with 55% of its waste going to recycling and reuse, 9% was composted or went for anaerobic digestion, and the remaining 29% went to incineration with energy recovery. Compared with 2017–18, the recycling rate has increased by 3%, and the landfill rate has decreased by 5%. The total amount of waste and surplus material produced has increased by 7% compared with last year.

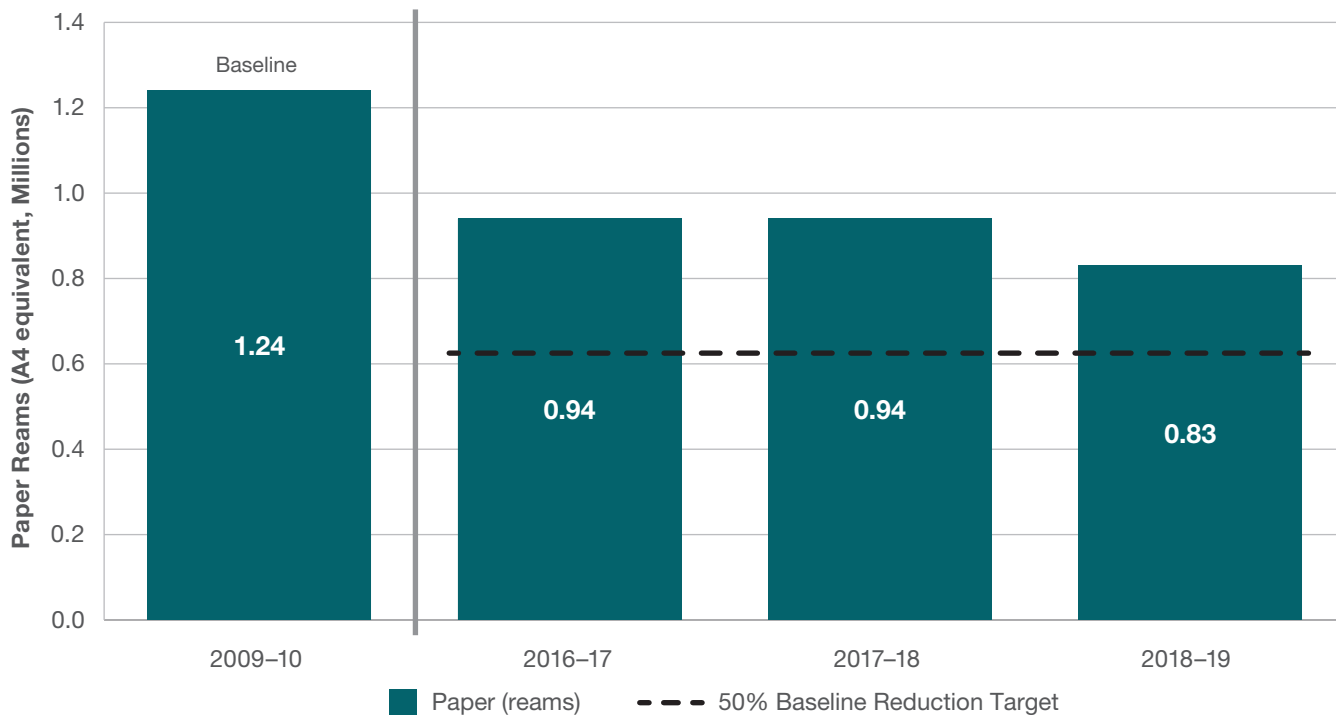


The target of landfill diversion was included in the next generation of facilities management contracts therefore, we remain confident that this performance of landfill diversion can be maintained through to the target date of 2020. However, operational requirements and ongoing estate rationalisation will affect MOD's ability to reduce the amount of waste and surplus material it produces.

MOD ICT waste generation figures show a considerable reduction over the last year (over 40%). It is likely that this decline is due to assets being retained longer as a result of wider financial pressures and major programmes managing obsolescence within the current ICT fleet. Over 140,000 devices have recently been procured to replace aged desktops and two data centres will be decommissioned as services move to the Cloud, therefore we can expect that next year we will see a significant increase in ICT waste.

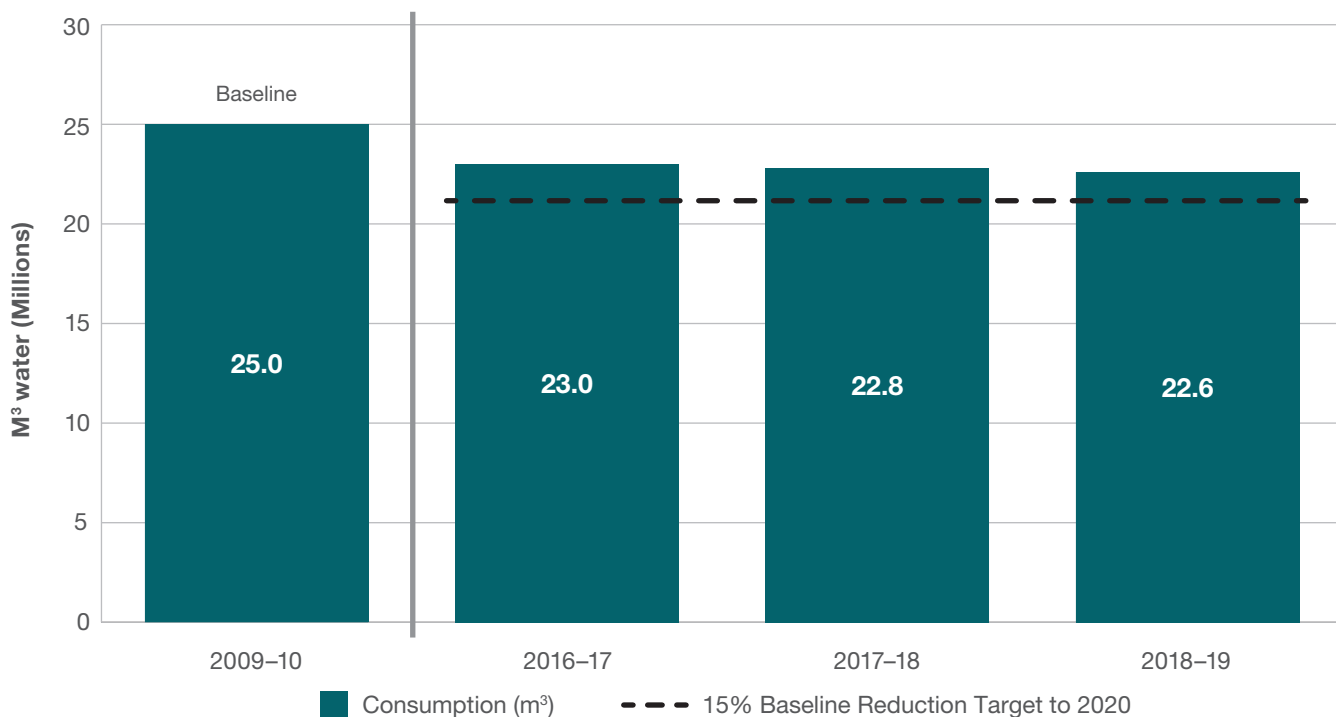
Paper

Target: Reduce paper use by 50%. In 2018-19 we achieved a reduction of 33% in paper demand against the baseline. Performance has continued to improve against 2017-18 demand and whilst we have seen reductions it is unlikely that we will meet the target however, we remain committed to reducing the quantity of paper purchased and improving performance in 2019-20.



Water

Target: Reduce water consumption on sites in Great Britain by 15%. There has been a 10% reduction in water consumption. As the benefits of water efficiency initiatives and behavioural change programmes in place are realised, we expect that the target will be achieved.



Target – Reduce consumption at locations defined as the government office estate, to less than 6m³ per FTE. MOD is achieving 14m³/FTE performance at applicable sites. Attainment of the target is highly unlikely as there is no way of separating water required for district heating systems at some locations from individual use without major investment.

Capability Energy

Energy is critical to the delivery of military capability, to aid this the MOD is working to improve the efficiency of use and in the longer term to reduce reliance on fossil fuels. In 2018–19 the MOD consumed 664 million litres of fuel, a 10% reduction from a 2015–16 baseline. This reduction was delivered through a variety of efficiencies and initiatives such as synthetic training, equipment modernisation, improvements in logistical planning, and reductions in operational tempo.

Achieving a continued reduction in consumption will be challenging as our fuel demand is heavily dependent on operational activity. The introduction of new equipment into service such as the Queen Elizabeth Class aircraft carriers and the associated carrier Strike group may increase demand. The MOD will continue to drive efficiencies in fuel consumption, such as identifying potential modifications to existing platforms to utilising them in a more efficient manner. The MOD also continues to work alongside partners such as NATO and the European Defence Agency to promote collaborative working on energy and environmental issues in military capability.

GGC Commitments

Sustainable Construction

MOD continues to work to embed sustainability and efficiency objectives into the asset management of the estate through optimisation activities, construction, refurbishment or maintenance projects. We have aligned the supply and specification of our built assets with industry norms and updated specific Defence infrastructure standards. The MOD Building Performance Standards publication has replaced the Accommodation Scales, these better align the supply and specification of our built assets with today's military capability demand.

Climate Adaptation

Over the last year we have progressed actions on the Infrastructure Climate Resilience Delivery Plan including working with TLBs to develop focused solutions and clarify roles and responsibilities. The adaptation capacity of the organisation has been enhanced by providing targeted climate resilience advice and training and by increasing awareness of climatic risks and climate resilience. A quarterly Climate Resilience Newsletter has been created and a strategy has been developed to support TLBs completing and/or reviewing CIRAMs (MODs tool for improving climate change resilience). A total of 14 CIRAMs have been completed during 2018–19. MOD has continued support to wider Government including the Met Office UK Climate Impact Projections project work.

Biodiversity and Natural Environment

DIO ecologists work closely with consultants and regulators to identify and avoid, mitigate or compensate for all potential biodiversity impacts, with an aim of achieving a long-term net gain in biodiversity across the estate. In 2018–19 MOD has completed a major update to almost all of the Integrated Rural Management Plans across the UK training and test and evaluation areas.

As part of its Conservation Stewardship Fund (CSF) the MOD directly invested £0.94 million in 2018–19 to manage Sites of Special Scientific Interest (SSSIs). This is delivering tangible improvements in site condition. In 2018–19 nearly £0.47 million was spent on a range of natural environment projects on the

Defence estate. The annual MOD Sanctuary Magazine²⁹ highlights biodiversity/sustainability achievements, initiatives and projects across the estate, including the winners of the annual Sanctuary Awards.

Historic Environment (Heritage)

MOD is steward of the largest historic estate in Government ownership, being responsible for a wide range of heritage and historic assets in the UK and overseas. The overall number of Scheduled Monuments under our management remains at 777 and Listed Buildings have increased from 839 to 856. Protecting and improving assets classified as Heritage at Risk remains an important part of our work, and we have been working with Historic England and the devolved administrations to address this difficult issue. MOD had 61 assets in the Historic England Heritage at Risk register 2015–17.

Access and Recreation

MOD follows a policy presumption in favour of public access wherever this is compatible with operational and military training uses, public safety, security, conservation and the interests of tenants. The large-scale development needed to house and train the returning troops and their families from Germany has focused work to ensure that the impacts of an increased population on the sensitive natural environment of Salisbury Plain are minimised.

In the Home Counties, partnership work with local authorities and stakeholders is supporting the development of multi-user routes. Surfaced routes, often on the boundary of training areas, are being adopted to allow for year-round safe, green links between the growing local communities. Work continues to inform and educate the visiting public of key environmental and safety messages through online, onsite and published information as well as direct public engagement. Partnerships formed with a range of different stakeholders and organisations are essential to support and endorse this information delivery.

Sir Stephen Lovegrove, KCB

Accounting Officer

19 July 2019

²⁹ <https://www.gov.uk/government/publications/sanctuary>





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 several disclosures about those who have authority or responsibility for directing or controlling MOD.

Who We Are

The tables below set out the Ministers and members of the Defence Board, Executive Committee, People Committee (Non-Executive Members only), and Defence Audit and Risk Assurance Committee who have had responsibility for the Department during 2018–19. They also include detail on the number of meetings attended during the year.

Ministers	Role	Defence Board
The Rt Hon Gavin Williamson CBE MP (to 1 May 19)	Secretary of State for Defence	6 of 6
The Rt Hon The Earl Howe PC	Minister of State in the House of Lords	6 of 6
The Rt Hon Mark Lancaster TD MP	Minister of State for the Armed Forces	-
The Rt Hon Tobias Ellwood MP	Minister for Defence People and Veterans	-
Stuart Andrew MP (from 17 July 18)	Minister for Defence Procurement	-
Guto Bebb MP (to 16 July 18)	Minister for Defence Procurement	-

Non-Executive Members	Role	Defence Board	People Committee	Defence Audit & Risk Assurance Committee
Sir Gerry Grimstone	Non-Executive Board Member	6 of 6	-	-
Simon Henry	Non-Executive Board Member	6 of 6	-	6 of 6
Paul Skinner CBE	Non-Executive Board Member	6 of 6	-	-
Danuta Gray	Non-Executive Board Member	4 of 6	10 of 10	-
Laura Whyte	Non-Executive Member	-	9 of 10	-
Mary Hardy	Non-Executive Member	-	-	6 of 6
Paul Smith (to 20 April 18)	Non-Executive Member	-	-	1 of 1
Stephen Barrett	Non-Executive Member	-	-	6 of 6

Executive Members of the Defence Board and Executive Committee	Role	Defence Board	Executive Committee (ExCo)	Defence Audit & Risk Assurance Committee ¹
Sir Stephen Lovegrove KCB	Permanent Secretary	5 of 6	28 of 31	2 of 6
General Sir Nick Carter GCB CBE DSO ADC Gen (from 11 June 18)	Chief of the Defence Staff (CDS)	4 of 5	18 of 27	-
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL (to 10 June 18)	Chief of the Defence Staff (CDS)	1 of 1	-	-
General Sir Gordon Messenger KCB DSO* OBE ADC	Vice Chief of the Defence Staff (VCDS)	5 of 6	24 of 31	-
Catherine Little	Director General Finance (DG Finance)	6 of 6	25 of 31	5 of 6
Air Marshal Richard Knighton CB (from 20 December 18)	Deputy Chief of the Defence Staff (Financial and Military Capability) (DCDS(Mil Cap))	-	10 of 13	-
Lieutenant General Sir Mark Poffley KBE OBE (to 19 December 18)	Deputy Chief of the Defence Staff (Financial and Military Capability) (DCDS(Mil Cap))	-	16 of 18	-
Lieutenant General Doug Chalmers DSO OBE (from 18 June 18)	Deputy Chief of the Defence Staff (Military Strategy and Operations) (DCDS(MSO))	-	16 of 27	-
Lieutenant General Mark Carleton-Smith CBE (to 17 June 18)	Deputy Chief of the Defence Staff (Military Strategy and Operations) (DCDS(MSO))	-	3 of 4	-
Lieutenant General Richard E Nugee CVO CBE	Chief of Defence People (CDP)	-	22 of 31	-
David Goldstone (CBE)	Chief Operating Officer (COO)	-	29 of 31	-
Charlie Forte	Chief Information Officer (CIO)	-	13 of 31	-
Angus Lapsley (from 5 November 18)	Director General Strategy and International (DG Strat & Int)	-	14 of 19	-
Peter Watkins CBE (to 4 November 18)	Director General Strategy and International (DG Strat & Int)	-	10 of 13	-
Dominic Wilson	Director General Security Policy	-	22 of 31	-
Nicole Kett (from 9 March 19)	Director General Nuclear (DG Nuclear)	-	1 of 2	-
Julian Kelly (to 8 March 19)	Director General Nuclear (DG Nuclear)	-	14 of 29	-
Dr Simon Cholerton (from 27 August 18)	Chief Scientific Adviser (CSA)	-	21 of 24	-
Professor Hugh Durrant-Whyte (to 26 August 18)	Chief Scientific Adviser (CSA)	-	6 of 7	-

1. The Terms of Reference of the DARAC indicate attendance by either DG Finance or Permanent Secretary.

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 20 – Related Party Transactions.

Personal Data Related Incidents

Under General Data Protection Regulation (GDPR) the definition of what constitutes “personal data” has been expanded to include a wide variety of identifiable data items, therefore, considerably more data is covered by the scope of the regulations for the 2018–19 reporting year. An incident is defined as a loss, unauthorised disclosure or insecure disposal of personal data. Protected personal data is information that links an identifiable living person with information about them which, if released, could put the individual at risk of harm or distress. The definition includes sources of information that, because of the nature of the individuals or the nature, source or extent of the information, is treated as protected personal data by the Department. Those incidents reported to the Information Commissioner's Office (ICO) are all notified via the MOD Security Incident Reporting Scheme (MSIRS).

The following tables set out details of the Department's personal data related incidents during the year.

Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioners Office (ICO)¹

Month of Incident	Nature of Incident	Nature of Data Involved	Number of People Affected
July	Loss of a box containing personal records.	Basic personal identifiers and health data	Unknown
August	Alleged improper use of JPA. Incident fully investigated, no substantive evidence found and incident closed.	Details relating to transfer to a new job.	1
August	Release of incorrect persons details for a motoring offence to DVLA.	Personal contact details	1
September	Permanent member of staff sent text messages to phase 1 recruits.	Phone numbers	2
October	Potential unauthorised access to medical records.	Medical	4
October	Disclosure of information to insurance company.	Medical	1
November	Information shared with persons without a need to know.	Medical	1

1. There were no data related incidents formally reported to the ICO in 2017–18.

At the time of the introduction of DPA18/GDPR communication and training across the Department highlighted the need to report personal data breaches and the penalties associated with failure to do so. Along with the extension to the scope of GDPR this has led to an increase in the number of reported incidents when compared to the previous year.

Summary of Other Protected Personal Data Related Incidents

Incidents deemed by the Data Controller not to fall within the criteria for reporting to the ICO 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	2018–19	2017–18
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	62	22
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	21	11
III	Insecure disposal of inadequately protected paper documents.	-	4
IV	Unauthorised disclosure.	352	73
V	Other.	28	7
Total		463	117

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 (ALBs) designated by order made under the GRAA by Statutory Instrument 2018 No. 1335 (together known as the 'Departmental Group', consisting of the Department and sponsored bodies listed at Note 21 to the Accounts). The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows 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 ALBs.
- 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.

Sir Stephen Lovegrove KCB was appointed as the Permanent Secretary and the Department's Accounting Officer on 25 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 ALBs 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.

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 Function Leads, 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 Risk and Assurance (DRA).
- 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.

As a result of a review of the MOD Board structure undertaken in 2018–19 the following changes have been made to the governance of the Department. The Defence Safety and Environment Committee (DSEC) has been established to provide a clear focus for the governance of Health, Safety and Environmental Protection (HS&EP) within Defence. A new Defence Delivery Group (DDG) was established in November 2018, bringing together the Service Chiefs and Chief Executives of the major delivery organisations, to develop mutual understanding of Departmental priorities and planning, and to hold to account those responsible for delivery. The DDG also helps to drive transformation, and collectively

considers pan-Department challenges. A rebranding of the Change and Efficiency Board occurred in late 2018 and the new Transformation Board will ensure the totality of transformation is delivered coherently.

Supported by a strengthened central transformation team led by the Chief Operating Officer we are driving forward a revised approach to modernise and transform the MOD. The new approach will be based on digitally-enabled transformation rather than unsustainable cuts and will be at the heart of the vision set out in the Modernising Defence Programme. This Transformation Programme will improve the effectiveness and efficiency of the Department as a whole.

The roll-out of Functional Leadership began during 2018–19 as part of the wider work on the Defence Operating Model. Functional Leadership is aligned with Cabinet Office best practice and will replace the 16 Defence Authorities which are currently held to account for the effectiveness of the function.

Through the Modernising Defence Programme, supported by an additional £1.8 billion funding across multiple financial years, the Department has established a set of policy approaches and capability investments that will help deliver the right UK Defence for the coming decade.

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. My personal judgement is that in the last 12 months we have continued to deliver improvements to the way Defence is managed and operates. However, there are still a number of areas where we have extant control weaknesses, these are detailed below along with the action we are taking.

Significant Control Risks

Workforce and Skills Risk

The Department continues to face significant challenges in recruiting and retaining Suitably Qualified, Experienced Personnel (SQEP) in some areas, including engineering, commercial and Project, Programme and Portfolio Management (P3M). Newer domains, such as cyber and information also reflect risk areas as Defence seeks to attract talent that is in demand nationally.

Progress has been made in developing a Defence People Strategy to close existing skills gaps, secure the new skills needed and build resilience. This work includes better capture of skills information as part of the People Transformation Programme, and an assessment of the Department's ability to compete in recruitment markets for more specialist skills, particularly in light of the UK's planned exit from the European Union. The Defence People Strategy report is due to be completed in Autumn 2019.

Under the Armed Forces People Programme 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 in future accommodation provision, a focus on improving diversity and inclusion, and evolving systems to target pay and retention issues. The programme will be brought into the wider People Transformation Portfolio to ensure the coherence of our change activity and broaden our capacity to respond to the challenges and emerging opportunities.

Recommendations from the National Audit Office (NAO) report 'Ensuring Sufficient Skilled Military Personnel' published in April 2018 and the subsequent Public Accounts Committee report 'Skills Shortages in the Armed Forces' published in September 2018 are being addressed. This includes work to resolve critical skills pinch points, the exploitation and analysis of people data, and greater collaborative working. These recommendations are being taken forward through a new Defence People

Operating Model, along with recommendations from two further NAO reports, 'Investigation into the British Army's Recruiting Partnering Project' published in December 2018 and 'Reforming the Civilian Workforce' published in March 2019.

A report on 'Inappropriate Behaviours in Defence' was published on 15 July. The report found that, whilst the vast majority of our men and women conduct themselves honourably and often go above and beyond what their duty demands of them, inappropriate behaviour persists which harms people, the teams they serve in and, ultimately, operational output. In response to the Report, a range of new measures will be introduced including new routes to anonymously report inappropriate behaviour and a centralised body to set policy, capture common data, measure performance and audit progress against the Reports recommendations.

Business and Financial Planning

As reported last year, the Department's Annual Budget Cycle process is well established however the challenge remains to construct a sustainable, long term balance between the available budget and the cost of the programme. This year we have worked hard to develop a more consistent and common understanding of the complex financial challenges we face as a Department. I have continued to improve the control framework as reported last year in two ways: firstly, by improving transparency of the budget setting process and secondly through collective discussion of the Department's financial and business planning between the Head Office and TLB holders. This continues to be supported by regular dialogue and information sharing between Finance and Military Capability staffs across the Department.

The Autumn Budget announced an additional £1 billion funding for Defence in 2018–19 and 2019–20 in addition to an £800 million increase announced in spring 2018. This funding will allow Defence to modernise critical assets, such as our offensive cyber capabilities, anti-submarine warfare and our nuclear deterrent; and lays the foundation for Annual Budget Cycle 19 implementation. The approaching Spending Review is the right moment to consider these issues further.

The NAO published a report in November 2018 on the Equipment Plan 2018 to 2028 in which it stated that the plan was unaffordable. We are taking action, through the planned Spending Review in the Autumn this year, to reduce the risk to affordability over the longer term, including through improved delivery of efficiencies and a review of our acquisition processes.

Commercial Capability and Governance

The shortage of professional commercial staff reported in previous years remains a concern given the level of procurement activity that is undertaken in the Department. In the last twelve months' work has continued to mitigate this risk and some improvement has been seen in reducing the overall resourcing gap. In 2017 the resource gap against full capacity was 18% and in 2018 this reduced to 13%. Investment has been made in our senior commercial leadership, with significant new talent hired from across sectors to strengthen the Senior Leadership Team. A commercial market skills allowance has also been introduced to encourage recruitment and retention.

The Commercial Professionalism Programme has delivered in excess of 12,000 training days over the past year, and we have recently introduced a process for testing and accrediting staff with contractual authority to evidence they have reached the required standard to be a Commercial Licence Holder (including holding the mandated level of Chartered Institute of Procurement and Supply qualification). Senior staff, as part of the Government Commercial Organisation, are benefitting from shared best practice, training and development. The function has also strengthened governance across its business units and continues to support programme management of its transformational activities.

In response to the high-profile cases across government where contract and supplier delivery issues have arisen, significant investment is being made in improving contract management capability. A pan-government Contract Management Capability Programme has been launched to improve the awareness and critical skills necessary to manage our contracts and supplier performance. It is aimed at colleagues across Defence (outside the Commercial Function) that are responsible for the management of key contracts and supplier relationships.

To address lessons learned and define robust future approaches, principles, practices and policies for future activities, significant work has been undertaken as part of the Government's Outsourcing Review. The Government's Outsourcing Playbook, which will shape the Department's future approach, was published on 20 February 2019.

Strategic Suppliers and the Supply Chain

We continue to focus on understanding and monitoring supply chain fragility and risk including gaining better visibility of our indirect supply chain and its impact on Defence outputs. A significant amount of coordinated work has been undertaken to understand and plan for the impact of Brexit and to mitigate risks with our strategic suppliers and our extended supply chain. The strategic plans we are now implementing seek to improve performance and relationships with individual suppliers, and our collective engagement with industry.

Following the appointment of the Commercial Director Supply Chain, the Defence Supplier Forum has been restructured in line with Industrial Strategy and Defence Industrial Policy. A dedicated Programme Management Office has been established within the Strategic Supplier Management team, to focus on a smaller number of working groups aligned with a joint industry vision and with better representation from across the supply chain.

The December 2018 NAO report 'Investigation of the Army's Recruiting Partnering Project' identified that the Army and its commercial partner, Capita Business Services Ltd (Capita), have not met recruitment targets in any year since the 10-year partnering contract began. It has been acknowledged that the Army and Capita underestimated the complexity of the recruitment challenges, compounded by the Army's initial failure to provide the IT infrastructure and Capita's subsequent delays in developing the new technology needed to launch an online recruiting system. This system is now operational, and the contract has been re-aligned to ensure that it is more suitable for the recruiting environment. The strategic relationship between the Army and Capita has been reset, and a recruitment campaign is underway, which is being closely monitored by Ministers, the Army Board and the Chief Executive of Capita. This campaign is aimed at addressing all areas of recruitment, with a range of measures to speed up the process and improve conversion rates from application to enlistment.

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 more than £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 reporting procedures had not been followed. This issue was addressed by Public Accounts Committee hearings in January 2017 and January 2018.

During the year training was delivered to 1300 staff alongside the publication of further internal guidance to ensure that the requirements of the reporting process are fully understood. Further internal policy improvements and training are planned to ensure that contingent liabilities continue to be identified and correctly approved going forward. The Department is working with HM Treasury on future policy changes to be the insurer of last resort.

Estates

Condition

The mixed approach to management and funding of the estate has created a significant variation in condition and user experience. Where Private Finance Initiatives and programme-led investment include infrastructure assets, these are generally in good condition, but the remainder of the estate is in long-term decline due to under investment.

The Department is investing significantly through the Defence Estate Optimisation (DEO) Programme to deliver a smaller, more modern and capability-focused built estate. Following a financially-led reprioritisation of the programme, significant adjustments were made and announced to Parliament on 28 February 2019. This provided an update on plans for the next 5 years, including revised forecast dates for site closures and confirmation that nearly £1.5 billion will be invested in the Defence estate. Following the announcement in the Autumn 2018 Budget that there will be no new Private Finance Initiatives, an assessment is being made of the impact on the DEO Programme. Disposal of sites delivers significant value back to the Department, which is reinvested in the estate. DEO disposal receipts will augment the receipts already being delivered, including from successful long-term Land Sale Delivery Partners. The Department also continues to pursue wider Government objectives, including making a substantial contribution to the release of public sector land for housing.

Infrastructure System Operating Model

The delegation of the majority of infrastructure expenditure is encouraging more informed decision-making and helping to prioritise funding to improve the condition of assets, close or dispose of under-utilised buildings, and release surplus land in support of wider estate rationalisation. The infrastructure system operating model continues to mature, but sufficient progress has been made to allow full delegation to go ahead from 1 April 2019.

Having launched the Future DIO transformation programme in 2017, to transform DIO from landlord to an expert Estate Services Business, DIO supported successful delegation to TLBs of infrastructure budgets and stood up a regional delivery structure from 1st April 2018. This provides the customer with a responsive, professional service at a local level. The third phase of the Future DIO Programme, from April 2019 until March 2020, builds on and embeds the good progress made to date and tackles the remaining challenges and changes ahead.

With effect from 1 April 2018, the majority of infrastructure expenditure was delegated to TLBs providing them with the financial levers to balance levels of investment in the estate with the needs of and risks to military outputs and capabilities. This is encouraging more informed decision-making and helping to prioritise funding for infrastructure programmes to improve the condition of assets, close or dispose of under-utilised buildings, and release surplus land in support of wider estate rationalisation.

As part of the Modernising Defence Programme, further changes to the Defence Operating Model have progressed during 2018–19, including strengthening infrastructure governance, with the establishment of an Infrastructure Function, aligned with the Government Property Function.

Contract Management

Last year I reported that work to develop and embed DIO's contract management processes had continued to mature during the year but, nevertheless, DIO had identified a small number of additional breaches of approval within internal MOD delegations. This year work has continued to deliver action plans and strengthen controls through training and process improvement as part of the Commercial Transformation Programme.

Strategic Management

Previously I reported that the Defence Infrastructure Model Review (DIMR) recommendations to replace key Strategic Business Partner (SBP) roles with Civil Servants had been implemented, and a major change programme had been launched to align DIO's operations with TLB Customer requirements. In addition, the DIO board had been refreshed during the year with the appointment of a new chairman and three new Non-Executive Directors, and an agreed phased transition plan was in place to replace other key SBP roles with civil servants by summer 2019. This plan remains on track and the SBP contract ended 30 June 2019.

Service Family Accommodation

Providing good quality accommodation is one of the MOD's top priorities, and we are committed to improving the accommodation offer for Service personnel and their families. We are investing more than £80 million a year to improve the quality of our homes, and have built more than 1,500 new properties in areas where demand exceeds availability. We are also modernising the way we provide accommodation, by introducing new measures on 1 April 2019 to support co-habitation and implementing a pilot scheme from 1 September 2019 to give Service personnel more choice as to how, where and with whom they live. Improvements to the National Housing Prime contract reported last year have been sustained and there is increased confidence in the ability and capacity of the contractor to consistently deliver the level of service expected by service families. Turning to the future, the DIO is consulting with key stakeholders, including the Families Federations, to support the development and design of the new housing contracts under the Future Defence Infrastructure Services Programme, building on lessons learned from the current contract. In April 2019 the Department agreed a Defence Accommodation Strategy to set out enduring accommodation objectives and a clear governance model to better align and articulate accountability, responsibility and authority for Defence accommodation. The January 2018 NAO report into the sale and leaseback of housing with Annington Property Ltd in 1996 concluded that the deal was based on pessimistic views of future growth in property values, and that the rents charged were restricted for the first twenty five years. Agreement was reached in March 2019 with Annington Property Ltd to streamline and accelerate the formal Site Rent Review process which will agree the Departmental discount on market rent charges. Initially due to start in 2021, the agreement now means there is an intent to complete the process by Spring 2021.

Safety

Defence activity is often, by necessity, inherently dangerous. The Department's approach to safety management involves the owners of risk (TLB and duty holders) taking responsibility for appropriate safety, and the Defence Safety Authority providing independent assurance that appropriate policies and regulations are being complied with. During the year, the Department commissioned work to improve Head

Office governance of Health, Safety and Environmental Protection. As a result, a new Director has been appointed to oversee policy and a new senior committee has been created, chaired by myself. This forum is supporting me, as the Accounting Officer, in the governance of Health Safety and Environmental Protection and provides a forum in which pan-Defence safety performance, risks and issues can be addressed.

Management Information

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 and fragmented legacy systems and no single automated 'version of the truth' across the Department. The Modernising Defence Programme (now being delivered under the Defence Transformation Programme) identified good data, analytics and MI as key enablers to realising efficiency and effectiveness gains, specifically in the areas of People and Logistics. The Chief Information Officer (CIO) is leading on a Digital and Information Technology (D&IT) Functional Transformation Programme, as set out in his Functional Leadership Strategy published February 2019, which over the next few years will generate new capabilities to cohere, govern and deliver data analytics, and so meet the growing demand signal from other areas of Defence. One of the first steps is a Centre of Expertise for Analytics and Artificial Intelligence which is being established to stand up in the Autumn of 2019 and provide pan-Defence data capabilities, governance and skills to manage and exploit information. Our goal is to ensure that information is managed and used across defence as a strategic asset that creates new insights and drives confident action. This will be progressively delivered over the course of the next 2 years and new skills and capability will be built both within the D&IT Function and across defence to support this intent.

Business Resilience

Last year I reported that development of the centrally directed process for identifying, assessing and reporting the status of Defence elements of Critical National Infrastructure (CNI) had improved the understanding of resilience at a site level. This had enabled us to reach a higher level of maturity in producing the annual Defence Sector Security and Resilience Plan. Resilience had been integrated into Defence Planning and a new Security and Resilience governance structure had been introduced during the year. Good progress has been made in embedding these improvements and consequently this area is no longer considered to be a significant control risk.

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. The threat we face is escalating at a rapid pace and this means we have to ensure that we are agile in our responses and that we continue to prioritise resources to the management of this risk. 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 to ensure we have positive feedback that can be used to deliver continuous improvement to our defences. Our risk management program has six key themes: Behavioural Change to ensure we have a workforce that understand how to operate safely in the digital arena, Illuminating the Supply Chain to address risks in supply, Remaining Evergreen to address obsolescence in platforms, Building Network Resilience to protect our ability to communicate, Sense and Respond to improve real time awareness, and Network Defence to ensure core IT and communication systems are protected and operated effectively. The requirement for us to maintain higher levels of security than most other organisations can result in challenges in introducing certain functionality and usability and we have established processes through which we balance benefits against risks in our decision making. As a result we apply clear rigour and discipline to the classification of data and assets so we can prioritise

protection to where it matters most. 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.

UK Security Vetting (UKSV)

During 2018–19 UKSV service provision has continued to be monitored by Head Office in conjunction with Defence Business Services and UKSV. The Recovery plan for ‘Developed Vetting’ (DV) remains in place, with substantial improvements in clearance timelines being achieved during the year, although not yet reaching key performance indicator levels.

Following Ministerial approval of the UKSV transfer from MOD to the Cabinet Office, with a target date for transition of April 2020, MOD, UKSV and Cabinet Office are working together to deliver a controlled handover of responsibility, while ensuring UKSV performance is not impacted. Key challenges include the management of staff transfers from MOD to the Cabinet Office and transitioning back office services for UKSV from MOD to Cabinet Office provision. Lessons learned from the transfer of the Foreign and Commonwealth Office (FCO) Vetting Service into MOD are being utilised to help with the identification and management of key risks.

The September 2018 NAO report “Investigation into National Security Vetting”, which reviewed the creation of UKSV as the single vetting provider, identified that delays to the replacement IT system had resulted in delays to the establishment of the organisation, and that subsequent system issues led to checks failing and personal data attached to cases needing to be recovered. During the transfer of services from the Foreign and Commonwealth Office to the Ministry of Defence there was an increased level of staff resignations, creating resourcing problems. MOD and Cabinet Office are therefore working to ensure stable performance levels within UKSV throughout the transition period, and deconflicting IT system changes from transition activity. Once transition is complete, Vetting Reform will deliver further transformation of vetting services, improving processes and increasing the effective use of technology.

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 separate lines of assurance. The capacity to carry out third line assurance of the Department’s most critical assets has increased and is expected to be extended further through 2019–20. Improvements to security governance and performance assessment arrangements have enhanced the Department’s functional oversight of threats, risks and mitigating action.

National Audit Office Management Letter

The NAO reported within the 2017–18 Management Letter, that inconsistencies remained in balance sheet management and these continue to contribute to a large incidence of error on the Statement of Financial Position (SOFP). Over the next 3–5 years, the Department is implementing Finance Functional Leadership and the Financial Management Improvement Plan, an important element of which is the regular review and reporting on the SOFP. As part of this, the SOFP Group has been created and has met monthly since November, to identify and progress issues and share best practice.

As part of the ongoing Financial Management Improvement Plan the Department has conducted a number of reviews designed to improve the quality of financial reporting. As a result of these reviews the Department has identified several prior period errors that have been adjusted for by retrospective restatement of the Accounts in accordance with IAS 8. The Department has also corrected a number

of other historical omissions and misstatements, which previously were assessed as immaterial both individually and in aggregate. Further detail is Note 23 to the Financial Statements.

Accounts Qualification

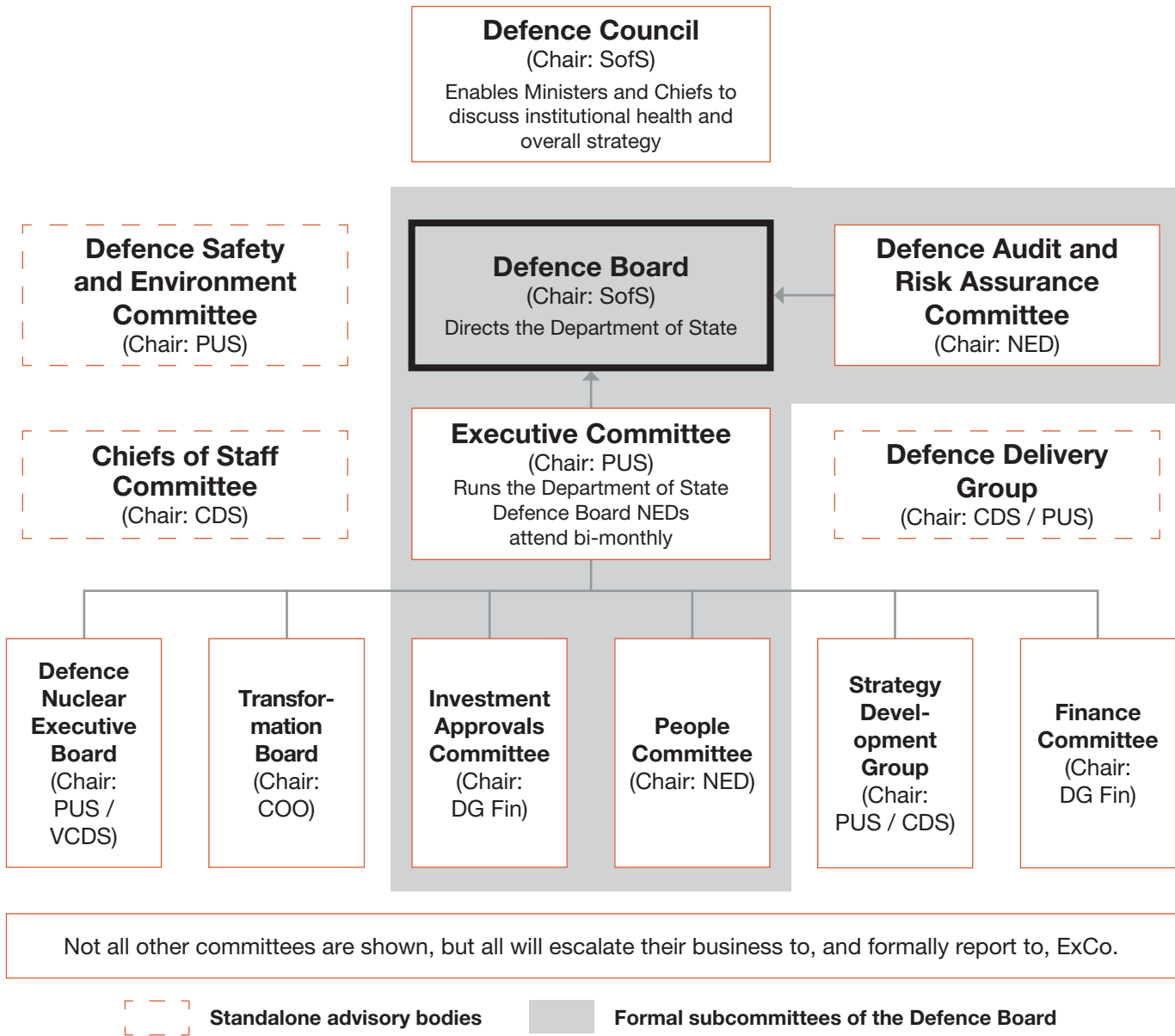
MOD has not complied with the IFRIC 4 requirement in the Financial Reporting Manual to assess its supplier arrangements to determine whether they have the characteristics of a lease and if so to classify leases as operating or finance leases in accordance with IAS 17. The Department has decided, with 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. As a result of this decision, MOD's accounts have continued to receive a qualified opinion in respect of the material omission of assets held under finance leases and the associated liabilities that should be recognised under IAS 17.

A new accounting standard on leases (IFRS 16) will be effective from 2019–20 onwards. The Department is working towards establishing the quantitative impact of the introduction of IFRS 16 and aims to have completed its assessment by October 2019. Further details are included within notes 1.15 to 1.17 of the accounts.

Governance Framework

The following diagram details the MOD Board structure and its sub-committees.

Defence Board Sub-Committees and the Executive Committee



Defence is a complex enterprise involving multiple organisations with a legitimate requirement to be consulted and involved in decision making. Its governance architecture is, therefore, more complicated than some other departments but necessarily so. The above diagram provides an overview of the main Boards and Committees within MOD.

Defence Council

Chaired by the Secretary of State, the Defence Council was created by Letters Patent in 1964 and is essential to the legal functioning of the MOD. Via powers of prerogative, it gives the Secretary of State the ability to administer and command the Armed Forces by the Service Boards.

Defence Board (DB)

Chaired by the Secretary of State, the Defence Board (DB) 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.

The DB is supported by sub-committees: the Defence Audit and Risk Assurance Committee (DARAC), the Executive Committee (ExCo), the Investment Approvals Committee (IAC) and the People Committee. Details of these and other committees follow below.

The DB meets on alternate months to ensure that the right business plans are in place to generate military forces, to ensure that funding and resources are in place across the various Commands, Enabling Organisations and Arm's Length Bodies (ALBs) within Defence and to consider key risks. The DB met 6 times during 2018–19, considering a rolling programme of reviews of different strategic risks. The DB 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 Task owners.

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

Defence has faced a number of challenges over the last year as it saw through the National Security Capability Review and the Modernising Defence Programme, as well as putting real momentum behind a new swathe of transformation and efficiency work. All of these will help the MOD as it prepares for the expected Spending Review, on which the Defence Board is already being engaged. In the last 12 months Defence Board agendas have also focused on Brexit, reflecting the increased tempo of planning and preparation that the Department was engaged in during the period to 29 March 2019. We conducted deep dives into areas of special interest, for example the Army's recruitment contract with Capita and continued to routinely and regularly consider and monitor the top-level Departmental risks.

Feedback from the Defence Board suggests that during this period, and particularly with the appointment of a Chief Operating Officer, MOD has achieved a step change in the quality of its governance. The improving financial controls were also singled out for praise despite the Departmental accounts remaining qualified. MOD is seeking to address this in time for the introduction of the International Financial Reporting Standard 16 in April 2020. The Board's supporting management information has been excellent in its detail and clarity, although there remains some work for Department officials to help the Board 'see the wood for the trees' in the wealth of information that is provided. The MOD also needs to continue to ensure that the Board agendas and meetings focus on the most strategic issues, and gives the necessary time to discussions on both performance and risk.

Understandably and appropriately, different Defence Secretaries use the Defence Board in different ways. During the last year, our meetings have changed to a bi-monthly rhythm, which has caused the Defence Board NEDs to be more engaged in Departmental business outside of formal Board meetings. NEDs have regularly attended meetings of the Executive Committee, giving them the opportunity to provide their experience and insight in a new forum. Individual NEDs have also attended the Strategy Development Group and other committees, as appropriate. I hope that in the coming year, we will recommence our Board visits to our various military and delivery locations outside London to help the Board better engage with people across the Services and to better connect with the different delivery organisations of the MOD.

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 feel privileged to have served another year as the Lead Non-Executive and look forward to continuing to evolve and improve the Board in the year ahead where our priorities must include making the best use of the resources that we have available, our strategy in the face of the constantly evolving threats, the need to develop new capabilities, driving continued transformation and efficiencies throughout Defence, a renewed focus on Defence's biggest industrial partners and, of course, any further Brexit preparations that are needed. We will continue to utilise the skills of the wide cadre of Non-Executives throughout Defence who give their time and energies unstintingly in the national interest.

Sir Gerry Grimstone

The Defence Audit and Risk Assurance Committee (DARAC)

The Defence Audit and Risk Assurance Committee (DARAC) is chaired by Simon Henry, Non-Executive Defence Board Member.

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. The Chair's main focus is to assure the integrity of financial reporting and effectiveness of risk management, and to advise on the Department's transformation activities. The Committee provides assurance that financial reporting, systems, risk and internal controls and processes are working as they should.

The DARAC met 6 times during this reporting period. Director General Finance, as the Executives' representative³⁰, the 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, Defence Authorities, Functional Leaders and Defence Task owners 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. 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 2018, the Committee visited the Royal Marines HQ at Lympstone to review, inter alia, safety risk.

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, Defence Authorities and Functional Owners.

³⁰ The Terms of Reference of the DARAC indicate attendance by either DG Finance or Permanent Secretary.

The Executive Committee (ExCo)

The Executive Committee (ExCo), which I chair, was established in 2016 to consider the major managerial and strategic policy issues impacting Defence at a more delivery-focused level than the Defence Board. It 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.
- Leading transformation.

ExCo drives the annual Defence Plan. 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. ExCo meets every two weeks.

ExCo membership comprises Chief of the Defence Staff (CDS), Vice Chief of the Defence Staff (VCDS), and Head Office Directors General and Deputy Chiefs of Defence. In 2018–19 it met 31 times. On months where the Defence Board did not meet, the Defence Board Non-Executive Board Members were invited to attend ExCo to ensure we continue to reap the benefits of their experience and knowledge.

Importantly, in 2018–19, in addition to routine ExCo meetings I called a number of extraordinary meetings to consider Brexit contingency planning. These were attended by ExCo members and key officials working on Operation Redfold, the Department's response to emerging cross-government requirements to support no deal planning and implementation. The main topics under discussion were the use of the defence estate, service personnel and civil servants.

The Investment Approvals Committee (IAC)

The Investment Approval Committee (IAC) is chaired by DG Finance and is responsible for considering major investment proposals on behalf of the Defence Board. The Committee met 12 times in 2018–19. The Director General Finance provides to the Defence Board an oral update on the IAC's activities at each meeting and a summary of IAC considerations in the monthly Management Information pack.

Approvals for investment decisions below £400 million for Army, JFC and Air TLBs; £250 million for Navy and DNO TLB and £10 million for HOCS TLB (except infrastructure approvals where the threshold is £75 million; and Information Communication and Technology (ICT) where the threshold is £100 million) are delegated to the Finance Directors in each TLB. TLBs are allowed, without referral, to sub-delegate expenditure below £10 million to Defence Equipment and Support (DE&S) and Information Systems and Services (ISS). The Defence Infrastructure Organisation (DIO) has a delegated limit of £1 million.

During 2018–19 the IAC considered a broad range of projects, including: Dreadnought and Astute-class submarines; Armed Forces People Programme; Type 31e; Type 26; Attack Helicopter and Chinook Capability Sustainment; Protector; Reaper; Beyond Line of Sight Communications; Cryptographic Enabling Services; New Style of Information Technology; and Future Combat Air System.

In total 196 investment approval cases, categorised as the most significant³¹, were reviewed representing a circa 24% increase overall in cases when compared to the previous financial year. Of these, 70 were Main Gate or Initial Gate Business Cases. The remaining 126 cases considered by the IAC related to Review Notes (60 cases) and Information Notes (66 cases) submitted by project teams. In addition to the 196 significant approval cases, there were 436 cases approved by TLBs within their delegations.

Project MAID (MOD's Approach to Investment Decisions) has identified, developed and tested a range of policy and process changes to make the scrutiny, assurance and approvals process as efficient as possible whilst striving to deliver business cases and supporting evidence of appropriate quality to approval committees for endorsement. The programme is about to enter its implementation phase where the aforementioned policy and process changes will be rolled out.

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 Department's performance on recruitment, retention and diversity and inclusion, the Department's critical skills requirements and Defence Medical Services, including mental health.

The Defence Safety and Environment Committee (DSEC)

In 2018–19 the Department commissioned work to improve Head Office governance of Health, Safety and Environmental Protection (HS&EP). As a result, the Defence Safety and Environment Committee (DSEC) has been established, chaired by me, which brings together VCDS, the Command Chiefs, leaders of enabling organisations (Defence Equipment & Support (DE&S), DIO, Defence Science Technology Laboratory (Dstl), the Submarine Delivery Agency (SDA) and other senior Defence personnel. The DSEC provides a clearer focus for the governance of HS&EP within Defence and a forum in which pan-Defence HS&EP performance, risks and issues can be addressed. The committee will meet three times a year from April 2019.

Defence Delivery Group (DDG)

A new Defence Delivery Group (DDG) was established to engage all relevant stakeholders, not just TLB Holders, and develop mutual understanding of priorities and planning, to provide context, to collectively hold to account those responsible for delivery, and to help drive transformation. Co-chaired by CDS and me, this group brings together VCDS, Command Chiefs, the leaders of the largest organisations (DE&S, DIO and ISS), with the relevant members of ExCo. It met twice in 2018–19.

³¹ The most significant cases include Equipment Procurement and Equipment Support cases over £400 million, ICT cases over £100 million and infrastructure cases over £75 million; Policy cases where the IAC supports the Defence Board, ExCo, People Committee and novel and contentious cases.

Chiefs of Staff Committee

The Chiefs of Staff (COS) Committee, chaired by CDS, brings professional and informed military judgment to the core decision making processes in the Department. The Committee has a clear focus to inform and advise CDS and VCDS in advance of other governance meetings. It also supports CDS as professional Head of the Armed Forces and enables decisions on the institutional health of the Services. It met 16 times in 2018–19.

Defence Nuclear Executive Board

The Defence Nuclear Executive Board is a sub-group of the Defence Board and the most senior board within the MOD that deals exclusively with nuclear-related matters. It provides a forum for myself and VCDS to oversee and assure the delivery of Continuous at Sea Deterrence (CASD) and the associated Defence Nuclear Enterprise on behalf of the Defence Board. As part of the assurance function the chairs hold to account Director General Nuclear for the delivery of the Defence Nuclear Enterprise, Second Sea Lord for the in-service elements of the enterprise and Fleet Commander for the delivery of CASD.

The Transformation Board

The Transformation Board is chaired by the Chief Operating Officer and supported by VCDS. It is a formal sub-committee of the Executive Committee (ExCo) and is attended by Deputy Chiefs of Staff from all Front Line Commands (FLCs) and Chief Executive Officers (CEOs) of Enabling Organisations. It was established in 2018, originally as the Change and Efficiency Board, to provide direction and drive delivery of MOD's efficiency targets. Through this work it was established that a new approach was required, based on cross-cutting transformation as well as TLB-driven efficiencies, and the board was subsequently renamed the Transformation Board in late 2018. In its new guise it ensures that the totality of transformation is delivered coherently, and that TLBs and Transformation Senior Responsible Officers (SROs) are supported and challenged to maximise delivery.

The Transformation Board has met 3 times during 2018–19 and will continue to meet monthly. The Board receives regular updates on the development of the four Functional Transformation Portfolios (People, Support, Digital & Information Technology, Acquisition) and provides endorsement/approval for pan-Defence transformation activities. Key issues that it discusses and takes decisions on include endorsing proposals for transformation and underlying business cases, ensuring an accurate global view of benefits, and assessing how behavioural insights can be used to maximise delivery success.

The Strategy Development Group (SDG)

Following the Modernising Defence Programme, and in an evolution to the previous Defence Strategy Group (SDG), the SDG was established in 2018 to focus on what Defence is aiming to achieve in the longer term (in the context of wider Government security work) and what capabilities it needs for that purpose. The SDG is the forum for integrating long term thinking and strategic planning and enables MOD to develop its own position on defence and security matters to inform National Security Council (NSC) discussions. It is co-chaired by CDS and me and reports in an advisory capacity to ExCo. It met 6 times in 2018–19 and focused primarily on preparing for and supporting the 2019 HM Treasury Spending Review.

The Finance Committee

The Finance Committee is chaired by DG Finance. The Finance Committee, part of the core governance structure of the Department, reporting to the Executive Committee and working alongside the Military Capability Board (MCB) to ensure delivery of a balanced Defence budget and coherent programme,

supports DG Finance as the Functional Leader for Finance, setting the direction for the policies and processes that drive forward improvements in financial management across the MOD. It is the key forum for Finance Directors and senior Head Office finance staff to come together to collectively discuss and reach agreement on the resolution of strategic financial management issues and other areas of common interest across the Finance Function. The Committee meets monthly and is supported through a monthly Management Information pack which is the single version of the financial performance on the whole Department.

Review and Challenge

There is a cross-government requirement to conduct an annual board effectiveness review. In common with other departments, the MOD have completed this exercise and submitted the response to the Cabinet Office. The review, which is endorsed by the Lead Non-Executive Director, found that MOD runs an effective Boards and Committees system which facilitates key decision makers in their work.

To prevent group-think and to ensure challenge is embedded in the heart of the business, a number of senior Boards and Committees within Defence, including the ExCo and some of the Service Command Boards, operate a shadow or Challenge Board system. This is where more junior members of staff meet ahead of the main Board or Committee to consider the same agenda items. The Challenge Boards then submit their comments on each item to the main Board and two members attend in person to reflect the views and opinions raised.

Performance and Risk Review meetings are held quarterly to review the performance of the Commands and Enabling Organisations through a formal challenge and support session between the Head Office and the Chief or Chief Executive. In the last year, myself and the CDS have chaired quarterly meetings with the Chiefs of the Navy, Army, Royal Air Force and the Joint Forces Command as well as the Chief Executive of the DIO. They have discussed key performance issues and standing items such as safety, security, finance, people, current operations and infrastructure at each meeting. Decisions and actions are recorded and followed up to ensure that performance issues are addressed. The Defence Nuclear Organisation Performance and Risk Reviews are conducted as part of the Defence Nuclear Executive Board agenda.

Arm's Length Bodies (ALBs)

The Defence Equipment and Support (DE&S), Defence Electronics and Components Agency (DECA), Defence Science and Technology Laboratory (Dstl) and Submarine Delivery Agency (SDA) are executive agencies, within the Departmental accounting boundary. The SDA was established on 1 April 2018. Four Executive Non-Departmental Public Bodies³², the National Museum of the Royal Navy, the National Army Museum, the Royal Air Force Museum, and the Single Source Regulations Office are sponsored by the Department and fall within the Departmental accounting boundary. 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, 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.

³² A full list of agencies and public bodies can be found here: <https://www.gov.uk/government/organisations/ministry-of-defence>

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

Defence Authorities / Functional Leadership

Defence Authorities and Functional Owners for each of the key cross-cutting functions are held to account for how effective their function is, how proportionate its rules are and its development to reflect changes to regulation or strategic direction. Each Defence Authority or Functional Owner 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 gradually being replaced as part of the wider work on the Defence Operating Model by the new Functional Leadership approach aligned with Cabinet Office best practice. Roll-out of this new approach began during 2018–19 and includes development of appropriate assurance arrangements.

The Risk and Control Framework

The Department's overall approach to risk management is summarised in 'How Defence Works'³³. Departmental policy on managing risk defines the strategy, principles and requirements to manage risk effectively, as well as the governance, roles and responsibilities for those involved. Specific strategic risks are assigned to individual 'risk owners', who are responsible for making sure they have appropriate structures, processes and activities in place to manage risk.

To make sure the Department meets its aims within the risk management process, it operates 'three lines of defence'.

- First, the way the organisation controls and manages risk day-to-day,
- Second, ensuring the control framework operates effectively,
- Third, mainly through audit, providing reasonable (not absolute) assurance to the Permanent Secretary and the Defence Board of the overall effectiveness of the control framework.

An internal Joint Service Publication sets out the mandatory requirements for risk management activities within the MOD.

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

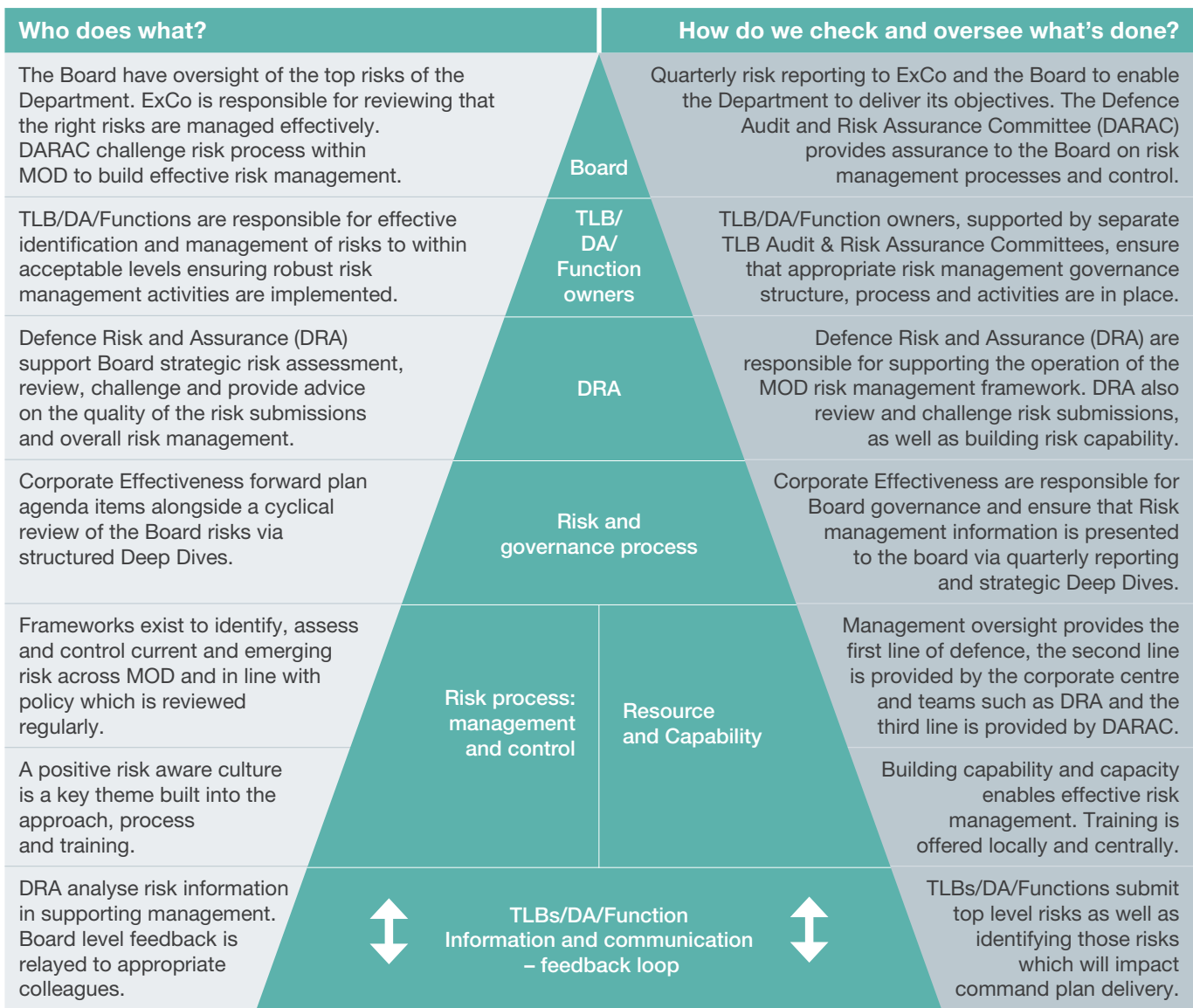
- The right numbers of people with the right skills.
- The alignment of the workforce to planned outputs.
- The delivery of operational capability.
- The effectiveness of governance arrangements.
- The affordability of the vision for Defence.
- The failure of industry in delivery of outputs.
- Protection of our assets and people, including from cyber-attack.
- A disruptive event such as a terrorist attack on our personnel and assets.

The risk management framework continues to mature and remains fully aligned to the Cabinet Office's guidance on the Management of Risk in Government³⁴ which was published in January 2017.

³³ <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>

³⁴ <https://www.gov.uk/government/publications/management-of-risk-in-government-framework>

Risk Management Framework



When the ExCo and DB review the regular risk reports they confirm whether the risks currently assessed, and their expected assessment once the benefits of funded activities are realised, remain tolerable or whether investment should be re-balanced to ensure the risks remain within the Board's risk appetite.

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, Function Leads and Defence Authorities. For the TLBs, these are reviewed by their Audit Committees and are scrutinised as part of the Performance and Risk Reviews. Defence Risk and Assurance (DRA) reviews all the Function and Defence Authority Annual Assurance Reports and provides a briefing note to aid the scrutiny process which is undertaken by the Executive Committee or other relevant Management Boards. In addition, DRA has produced an overall Departmental Annual Assurance Report for me and the DARAC highlighting key internal control issues. DRA has provided an overall opinion of 'limited assurance' for 2018-19. 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, except for Head Office and Corporate Services (HOCS) and Defence Nuclear Organisation (DNO) TLBs, are supported by an Audit Committee or equivalent, which is chaired by a Non-Executive director and at which representatives 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.

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 NAO.

Overall, the opinion provided by Group Head of Internal Audit (GHIA) for 2018–19 was one of Limited Assurance. Improvements in the adequacy and effectiveness of internal controls were identified in a number of areas, leading to an increase in the number of individual internal audit assignments receiving "substantial assurance". However, the following key themes were identified in the annual internal audit report:

- Programme and Project Management governance and the embedding and use of key PPM principles across the TLBs.
- Contract management arrangements were inconsistent across the department, including in failure to implement adequate contract management controls, in some areas.
- Further work was required to develop and embed Functional assurance arrangements and continue to mature risk management.

Improvements in the above will assist delivery of the Department's transformation agenda.

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 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.

Consequently, different areas of Defence have different quality assurance arrangements in place. For example, critical business cases which are to go to ministers or the Investment Approval Committee 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 to meet the requirements of the Macpherson Review of quality assurance of government analytical models. To give another example, the Cost Assurance and Analysis Service (CAAS), part of the Directorate for Performance and Analysis, 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 embedding quality assurance of analytical models into the Standards workstream of the Department's Analysis Function, which will be launched in 2019.
- 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 2019 list comprised 128 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 Practice³⁵ 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 one other member is Non-Executive chair of the Royal Navy Committee. I believe that the current mix of Non-Executive support to the DARAC 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 Governance Statement has been reviewed by members of the ExCo. 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 Department values the important role of Whistleblowers who, by raising their concerns, help us get things right. A review of the whistleblowing policy and culture is expected to be finalised during 2019-20. The MOD Confidential Hotline continues to provide a secure single point of contact for all our people – whether Service, civilian or contractor and, since early last year, concerned members of the public. We provide management information on the nature and conduct of our whistleblowing cases to the Cabinet Office every 6 months, and we have improved the granularity of the information we provide with the introduction of a new case management system this year.

We take it as a measure of success of our policy and process that our Hotline receives a large and growing number of reports, each which can then be investigated and resolved appropriately.

We continue to raise awareness of this process and the expectations that go with it across the Department. Increased awareness of the Confidential Hotline was given prominence during this year's Fraud Awareness week programme. Defence was also fully engaged with the Whistleblowing Awareness Day which included the Chief of Defence People and the Defence Whistleblowing Nominated Officer restating their personal commitment to maintaining an environment in which it is safe to raise concerns.

³⁵ <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

Tackling Fraud and Corruption

During the year the Department has focussed on continually improving its management of fraud and corruption risk. We have reviewed and renewed our Fraud Policy this year – setting out expectations and responsibilities and strengthening the Department’s intent in countering fraud. We have engaged across government with the shared development of the Government Counter Fraud Profession. We are working with the National Fraud Initiative supporting public and private sector bodies to prevent and detect fraud. We are exploring ways to better understand the risk of fraud and corruption in procurement, including bid rigging. The Department continues to work closely with cross-government colleagues in the professionalisation of fraud risk management. This included hosting the first Government Fraud Risk Network Conference, drawing delegates from across Government to share and learn from leading practices.

Following their introduction by the Cabinet Office, Defence has been assessed against the *Government Counter Fraud Functional Standards* and was assessed as meeting all 11 standards in 2018.

Ministerial Directions

There were no ministerial directions to me as Accounting Officer during 2018–19.

Conclusion

We have implemented important changes to the way that the MOD is organised and operates, strengthening Head Office so that it exercises a stronger grip over the wider Department and amending the governance to help the system run more smoothly as part of wider work on the Defence Operating Model. Effective governance will ensure that the right decisions are taken at the right level, increasing both empowerment and accountability and help to make decision making clear and transparent. The establishment of a Defence Safety and Environment Committee will ultimately make Defence safer, both for our own people and wherever we are working in the world. The SDG will directly support and shape the 2019 Spending Review and the Transformation Board will better manage the portfolio of business change projects, to genuinely modernise the way we all work to make sure we deliver the outcome we need. The DDG will better inform the planning process, as well as giving us a forum to collectively discuss the performance of the MOD’s key delivery agents and Commands. All decision-making boards and committees, except the DARAC, now report through the ExCo, chaired by myself, directly supporting the DB.

The changes we have made to date under the Modernising Defence Programme will enable the Department to be more effective, but it is imperative that we sustain this momentum if we are to realise our long-term goals and address the challenges we face.

Sir Stephen Lovegrove, KCB

Accounting Officer

19 July 2019

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 (SCS) 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.
- The Government's inflation target.

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

There is an established Departmental procedure for the appointment of NEBMs which requires a transparent recruitment and selection process, with appointment on merit, thus mirroring the Civil Service Commission's 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 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 2018–19 (2017–18: 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 NEBMs 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.

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

CDS and Vice Chief of the Defence Staff (VCDS) 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:

Ministerial salary, benefits in kind and pension benefits

	2018-19				2017-18			
	Salary (£)	Benefits-in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000) ¹	Total £ (to nearest £1,000)	Salary (£)	Benefits-in-kind £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000) ¹	Total £ (to nearest £1,000)
Secretary of State for Defence								
The Rt Hon Gavin Williamson CBE MP ²								
(from 02 November 2017)	67,505	Nil	17,000	85,000	27,940	Nil	7,000	35,000
Full year equivalent salary					67,505			
Minister of State and Spokesperson on Defence in The House of Lords								
The Rt Hon The Earl Howe PC ³								
(from 12 May 2015)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Full year equivalent salary								
Minister of State for the Armed Forces								
The Rt Hon Mark Lancaster TD MP								
(from 13 June 2017)	31,680	Nil	8,000	40,000	29,818	Nil	7,000	37,000
Full year equivalent salary					31,680			
Parliamentary Under-Secretary of State and Minister for Defence Procurement								
Stuart Andrew MP								
(from 17 July 2018)	15,819	Nil	4,000	20,000	Nil	Nil	Nil	Nil
Full year equivalent salary	22,375							
Parliamentary Under-Secretary of State and Minister for Defence Procurement								
Guto Bebb MP								
(from 10 January to 16 July 2018)	6,556	Nil	2,000	9,000	5,052	Nil	1,000	6,000
Full year equivalent salary	22,375				22,375			
Severance Payment	5,594							
Parliamentary Under-Secretary of State and Minister for Defence People and Veterans								
The Rt Hon Tobias Ellwood MP								
(from 14 June 2017)	22,375	Nil	6,000	28,000	17,838	Nil	5,000	23,000
Full year equivalent salary					22,375			

1. 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.
2. The Rt Hon Gavin Williamson CBE MP Secretary of State until 1 May 2019 when he was succeeded by The Rt Hon Penny Mordaunt MP.
3. Earl Howe has waived his right to remuneration.

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 months, are eligible for a tax free severance payment of one quarter of the annual salary being paid. During 2018–19, a severance payment of £5,594 was paid to Guto Bebb MP (a severance payment of £7,920 was made to The Rt Hon Sir Mike Penning MP in 2017–18).

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 – £77,379 pa with effect from 1 April 2018 (£76,011 pa with effect from 1 April 2017) 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, 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 2017–18 value, is shown *in italics* (in bands of £2,500) in the first column of the table overleaf:

Ministerial Accrued Pension and Cash Equivalent Transfer Value (CETV)

	Total Accrued Pension at Retirement as at 31 March 18 £000	CETV at 31 March 18 or date of Appointment if Later ¹ £000	CETV at 31 March 19 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Secretary of State for Defence				
The Rt Hon Gavin Williamson CBE MP	0-5			
	0-2.5	14	28	6
Minister of State and Spokesperson on Defence in The House of Lords				
The Rt Hon The Earl Howe PC	Nil	Nil	Nil	Nil
Minister of State for the Armed Forces				
The Rt Hon Mark Lancaster TD MP	0-5			
	0-2.5	40	49	4
Parliamentary Under-Secretary of State and Minister for Defence Procurement				
Stuart Andrew MP	0-5			
	0-2.5	5	8	2
Guto Bebb MP	0-5			
	0-2.5	8	10	1
Parliamentary Under-Secretary of State and Minister for Defence Veterans, Reserves and Personnel				
The Rt Hon Tobias Ellwood MP	0-5			
	0-2.5	23	29	3

1. The factors used to calculate the CETV were changed by the Government Actuary in November 2018, CETV figures have changed due to the basis of calculation change.

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 a senior capacity to which disclosure applies.

Real Increase in CETV

This reflects the increase in CETV 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.mypcpfpension.co.uk>

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

The Defence Board is the main corporate board of the 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).

Defence Board salaries, awards, benefits-in-kind and pensions benefits

	2018–2019					2017–2018				
	Salary £000	Annual Performance Award £000	Benefits-in- kind ¹ £ (to the nearest £100)	Pension Benefits ² £ (to the nearest £1,000)	Total £000	Salary £000	Annual Performance Award £000	Benefits-in- kind ³ £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £000
Secretary of State for Defence										
The Rt Hon Gavin Williamson CBE MP										
Minister of State in the House of Lords										
The Rt Hon The Earl Howe PC										
Permanent Under-Secretary of State										
Sir Stephen Lovegrove KCB ⁴ (from 25 April 2016)										
Chief of the Defence Staff										
General Sir Nick Carter GCB CBE DSO ADC Gen (from 11 June 2018)										
<i>full year equivalent salary</i>										
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL (to 10 June 2018)										
<i>full year equivalent salary</i>										
Vice Chief of the Defence Staff										
General Sir Gordon Messenger KCB DSO OBE ADC (from 21 May 2016)										
Director General Finance										
Catherine Little (from 21 May 2016)										
<i>full year equivalent salary</i>										
See Minister's Salary Table										
	180–185	Nil	Nil	77,000	260–265	180–185	Nil	68,000	245–50	
	205–210	Nil	68,700	560,000	835–840	Nil	Nil	Nil	Nil	
	255–260									
	50–55	Nil	16,500	Nil	65–70	255–260	84,600†	Nil	340–945	
	265–270									
	185–190	Nil	55,100	32,000	270–275	175–180	50,000†	99,000	325–330	
	135–140	5–10	Nil	53,000	190–195	65–70	Nil	27,000	95–100	
						130–135				

	2018-2019					2017-2018				
	Salary £000	Annual Performance Award £000	Benefits-in- kind ¹ £ (to the nearest £100)	Pension Benefits ² £ (to the nearest £1,000)	Total £000	Salary £000	Performance Award £000	Benefits-in- kind ³ £ (to the nearest £100)	Pension Benefits £ (to the nearest £1,000)	Total £000
Non-Executive Board Members										
Sir Gerry Grimstone ⁵	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Simon Henry (from 01 January 2018)	15-20	Nil	Nil	Nil	15-20	Nil	Nil	Nil	Nil	0-5
<i>full year equivalent salary</i>										
Paul Skinner CBE ⁵	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Danuta Gray	15-20	Nil	Nil	Nil	15-20	Nil	Nil	Nil	Nil	15-20

1. Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL was in the post of CDS for 71 days, and General Sir Nick Carter GCB CBE DSO ADC held the position for 294 days.

2. 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.

3. 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 †.

4. Sir Stephen Lovegrove KOB Pension Benefits and Total for 2017-18 has been recalculated due to a retrospective change to Reckonable Service.

5. 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 2018–19 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 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 pays the tax liability that would normally be paid by the individual, this liability is included in the figures.

Defence Board Pension Benefits

Pension benefits for individuals who served on the Defence Board are set out below. NEBMs are not employees and are therefore not enrolled in an employee related pension scheme. The real increase in the pension, from 2017–18, and where applicable the real increase in the lump sum payment, are shown in *italics* in the first column of the table below.

Defence Board Accrued Pension and Cash Equivalent Transfer Value (CETV)

	Total Accrued Pension at Retirement as at 31 Mar 18 £000	CETV at 31 Mar 18 or date of Appointment if Later £000	CETV at 31 Mar 19 or on Cessation of Appointment if Earlier £000	Real Increase in CETV £000
Secretary of State for Defence				
The Rt Hon Gavin Williamson CBE MP				
Minister of State and Spokesperson on Defence in the House of Lords				
The Rt Hon The Earl Howe PC				
Permanent Under-Secretary of State	Pension			
Sir Stephen Lovegrove KCB	35–40			
	2.5–5			
	Lump Sum			
	<i>Nil</i>			
		418¹	531	44
Chief of the Defence Staff	Pension			
General Sir Nick Carter GCB CBE DSO ADC Gen	135–140			
	22.5–25			
	Lump Sum			
	410–415			
	72.5–75	2,542	3,377	611
Air Chief Marshal Sir Stuart Peach GBE KCB ADC DL	Pension			
	85–90			
	<i>Nil</i>			
	Lump Sum			
	260–265			
	<i>Nil</i>	1,939	1,997	0
Vice Chief of the Defence Staff	Pension			
General Sir Gordon Messenger KCB DSO* OBE ADC	90–95			
	0–2.5			
	Lump Sum			
	275–280			
	2.5–5	2,253	2,413	92
Director General Finance	Pension			
Catherine Little	15–20			
	2.5–5			
	Lump Sum			
	<i>Nil</i>			
		100	147	18

1. Sir Stephen Lovegrove KCB CETV on 31 Mar 2018 restated. This has been recalculated due to a retrospective change to Reckonable Service.

Further details of various pension schemes available to Armed Forces personnel and MOD employees can be found at Note 14 of the accounts – Retirement Benefit Schemes.

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 CDS to the military pay median. The civilian multiple uses a median based on civil service pay i.e. it excludes staff who are paid under arrangements outside the Department's control, for example: medical personnel, fire fighters, police and teachers; it also excludes locally employed civilians overseas and agency staff covering permanent posts.

Military and Civilian Pay Multiple

	2018–19	2017–18 ¹
Military Pay Multiple		
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	£337,500
Median total remuneration of Armed Forces personnel	£34,484	£33,620
Ratio	9.9	10.0
Civilian Pay Multiple		
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	£30,193	£29,828
Ratio	6.0	6.1

1. Military Pay Multiple published in the 2017–18 Annual Report and Accounts was based on an estimated benefit-in-kind remuneration, this figure has been restated to reflect actuals.

The military pay ratio has seen very little change from 2017–18. This is the result of a slight increase in the annual equivalent remuneration of the highest paid Board Member being offset by an increase in the median total remuneration of Armed Forces personnel. In 2018–19 the remuneration of military employees ranged from £15,230 to £362,770 and 11 (2017–18: 3) military employees received remuneration in excess of the highest paid Board Member.

The civilian pay ratio has also shown a slight decrease from 2017–18. This is the result of the mid-point of the highest paid Board Member remaining the same and a slight increase in the median total remuneration of civilian staff. In 2018–19 the remuneration of civilian employees ranged from £16,336 to £361,375 and 7 (2017–18: 12) civilian employees received remuneration in excess of the highest paid Board Member.

Staff Report

Staff Numbers

Senior Civil Service (SCS)

The figures in the table below are for average Full Time Equivalent (FTE) staff for the Core Department and Agencies. Locally Engaged Civilians (LECs) are excluded. UK Hydrographic Office (UKHO) is also excluded as it is a trading fund. 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 table. The total number of Senior Civil Servants within Dstl in 2018–19 is 7 (2017–18: 6). Senior Civil Service Band 3 figures for 2017–18 have been restated to correct the 2017–18 disclosure.

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

	2018–19	2017–18
SCS PAY BAND		
Band 1	164	159
Band 2	39	38
Band 3	8	7
Band 4	1	1

DE&S and SDA Senior Leadership Group (SLG)

Defence Equipment and Support (DE&S) and Submarine Delivery Agency (SDA) operate their own grading structure which is not comparable with MOD Main and so are excluded from the above table. The number of employees which DE&S and SDA designate within their Senior Leadership Group (SLG) is as follows:

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

	2018–19	2017–18
SLG PAY BAND		
Band 1	86	111
Band 2	14	18
Band 3	1	3
Band 4	1	1

Average Number of SDA Senior Leadership Group (SLG) Staff

	2018–19	2017–18
SLG PAY BAND		
Band 1	12	-
Band 2	2	-
Band 3	1	-

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/Civilian MOD employees as at 1 April. The analysis only includes UK regular military personnel and those designated as permanent civilian staff, therefore, a comparison with those contained in the Average Number of Full-Time Equivalent Persons Employed Table is not possible. UKHO is excluded as it is a trading fund. SCS and Equivalent contains Senior Civil Servants, Senior Military Officers (1* & above), Dstl, DE&S and SDA Senior Leadership Groups.

Of the Defence Board Members, 3 of the male directors and 1 of the female directors are NEBMs (2017–18: Male 3 Female 1). In 2018–19, the staff composition of DE&S SLG and equivalent was: Male 91 Female 26, for SDA SLG the staff composition was Male 10 Female 5 (2017–18: Male 99 Female 34, combined DE&S and SDA) for Dstl the staff composition was: Male 6 Female 1 (2017–18: Male 5 Female 1).

Analysis of the Number of Persons of Each Gender

Gender ¹	2018–19			2017–18		
	Defence Board Members	SCS and equivalent	Military/Civilian Employees	Defence Board Members	SCS and equivalent ²	Military/Civilian Employees ²
Male	8	681	160,127	8	669	162,045
Female	2	130	36,295	2	114	35,503

1. Gender information reported is obtained from individuals on joining the Department.

2. 2017–18 SCS and equivalent and Military/Civilian Employees' numbers have been restated for consistency with 2018-19 analysis of SCS and equivalent.

Analysis of Staff Numbers

The average number of full-time equivalent persons employed are set out in the following table. The number of LECs has been included in Other Staff, this is a change from 2017–18 where previously LECs were included in Civilian Staff numbers.

Average Number of Full-Time Equivalent Persons Employed.

	2018–19		2017–18	
	Core Department & Agencies	Departmental Group	Core Department & Agencies	Departmental Group
Civilian Staff	52,140	55,268	51,640	54,696
Other Staff	6,316	6,352	6,572	6,629
Ministers	5	5	5	5
Special Advisors	2	2	2	2
Armed Forces	155,984	155,984	159,187	159,187
Totals	214,447	217,611	215,144 ¹	220,519 ¹

1. 2017–18 Core Department and Agencies and Departmental Group Figures restated. These totals now include average Manpower Substitutes and Fee Earners in year.

In order to align with the total pay costs incurred during the year, the number of FTE civilian staff for the Core Department & Agencies (shown above) is based on a weighted average for the financial year and is used to compensate for organisational and structural changes during the 12 month period. The figures reflect the number of personnel in organisations within the Departmental Boundary for the Annual Accounts and therefore exclude those in UKHO.

The number of FTE staff in the Departmental Group is the sum of the weighted average figures for the Core Department and Agencies plus the number of FTE staff at year end for the other organisations within the Departmental Group.

Other staff is defined as personnel who are engaged on the objectives of the Department but do not fall under the definition of permanent civilian staff. This includes short term contract staff, agency and temporary staff, locally engaged staff overseas.

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.

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:

Analysis of Staff Costs

	2018-19					2017-18	
	Permanent Staff £M	Armed Forces £M	Other staff £M	Ministers £M	Special Advisors £M	Departmental Group Total £M	Departmental Group Total £M
Salaries and Wages	1,894.7	6,364.7	267.5	0.2	0.2	8,527.3	8,375.9
Social Security Costs	191.5	602.9	0.2	-	-	794.6	802.3
Pension Costs	330.6	2,995.3	1.1	-	-	3,327.0	3,301.3
Redundancy and Severance Payments	3.5	-	-	-	-	3.5	1.0
Sub Total	2,420.3	9,962.9	268.8	0.2	0.2	12,652.4	12,480.5
Less Recoveries in Respect of Outward Secondments	(22.2)	(31.8)	-	-	-	(54.0)	(58.0)
Total net costs	2,398.1	9,931.1	268.8	0.2	0.2	12,598.4	12,422.5

As for staff numbers, the costs of other staff is defined as personnel who are engaged on the objectives of the Department but do not fall under the definition of permanent civilian staff.

For the year to 31 March 2019, of the total pension contributions for the Departmental Group in the table above, £332 million (2017–18: £352 million) were payable in respect of the various schemes in which civilian staff were members. This is made up of the contributions to the Principal Civil Service Pension Scheme (PCSPS) in the same period of £338 million (2017–18: £331 million); the movement on non-PCSPS pension provision of -£26 million (2017–18: +£2 million); and contributions to non-PCSPS of £19 million (2017–18: £19 million).

Where employees have opened a stakeholder pension with an employer contribution, the Department has made contributions of £4.0 million (2017–18 £3.4 million) to the pension providers; contributions range from 8% to 14.75% 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 £0.8 million (2017–18 £0.7 million) 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 (AFPS) are unfunded, non-contributory, defined benefit, salary related, occupational pension schemes. For the year to 31 March 2019 total employer's pension contributions (including an estimate in respect of IAS 19 – Employee Benefits) payable to the AFPS were £2,995 million (2017–18 £2,949 million) based on employer's contribution rates determined by the Government Actuary.

Further details of pension schemes covering Departmental personnel can be found at Note 14 – 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 £203,706 (2017–18: £170,389). The amount of severance paid to Special Advisors, in line with the terms of the Model Contract for Special Advisors during the year was £14,790 (2017–18: £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 2018–19.

Civil Service and other Compensation Schemes – Exit Packages

The figures in the following table include redundancy and other departure costs paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS). For ill health retirements, where there is a cost to the Department, these individuals are included in the table below; 171 individuals retired early on ill-health grounds during 2018–19 (2017–18: 148); their total accrued pension liabilities for the year were £0.4 million (2017–18 £0.4 million). For 2017–18, the numbers and values have been restated to include Dstl exit packages.

Where the Department has agreed early retirements, the costs are met by the 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 the Department 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'.

The table shows 2018–19 numbers and resource costs in £million, followed in brackets by the 2017–18 numbers and costs.

Number of Exit Packages and Resource Costs

Exit Package Cost Band	Core Department & Agencies			Departmental Group		
	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band
	2018–19 (2017–18)	2018–19 (2017–18)	2018–19 (2017–18)	2018–19 (2017–18)	2018–19 (2017–18)	2018–19 (2017–18)
<£10,000	-	4 (7)	4 (7)	5 (-)	7 (7)	12 (7)
£10,000 – £25,000	3 (-)	49 (43)	52 (43)	7 (1)	50 (43)	57 (44)
£25,000 – £50,000	- (2)	29 (48)	29 (50)	3 (3)	35 (48)	38 (51)
£50,000 – £100,000	-	10 (18)	10 (18)	-	10 (18)	10 (18)
£100,000 – £150,000	- (1)	- (1)	- (2)	- (1)	- (2)	- (3)
£150,000 – £200,000	-	-	-	-	-	-
£200,000 – £250,000	-	-	-	-	-	-
£250,000 – £300,000	-	-	-	-	-	-
Total Number of Exit Packages	3 (3)	92 (117)	95 (120)	15 (5)	102 (118)	117 (123)
Total Resource Cost £ million	£0.041 (£0.184)	£2.597 (£3.888)	£2.638 (£4.072)	£0.283 (£0.235)	£2.706 (£3.997)	£2.989 (£4.232)

Of the 123 Exit Packages for 2017–18, 56 in number, costs of £2.1 million relating to Dstl were not disclosed in ARAc 2017–18 (disclosed 67 in number, costs of £2.1 million). Of these 56, 45 relate to Science and Technology Staff who left as part of a Voluntary Exit Entitlement (VEE) Scheme. This scheme was introduced to assist the reshaping of Dstl to ensure that the correct capabilities and skills were in place for the future.

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 2019 was 6.68 (7.06 days for the 12 months ending 31 March 2018). Mental and behavioural disorders continue to be

the highest cause of sickness absence at 24% of all absences (2017–18: 23%). The percentage of staff with no sick absence for the 12 months ending 31 March 2019 was 45% (2017–18: 46%).

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>

In July 2017, the Defence People Mental Health and Wellbeing Strategy 2017–2022 was launched to improve the mental health and wellbeing of the Armed Forces, their families, veterans and Defence civilians, this includes standardised training, improved access to assessment and communication on help on offer. <https://www.gov.uk/government/publications/defence-people-mental-health-and-wellbeing-strategy>

Health and Safety

(This section has not been subject to audit)

Health and safety is a key priority at 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 recent available information as well as a five-year period trend.

Our latest report, published in September 2018, can be found at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741286/Enclosure_1_MOD_Health_and_Safety_Statistics_Annual_Report_2017-18.pdf

The statistics are next provisionally due to be published in November 2019.

Civilian Staff Policies Applied During the Financial Year

(This section has not been subject to audit)

The MOD is dedicated to achieving a more diverse and inclusive civilian workforce and is committed to recruiting the best people regardless of whether they have a disability. The Civil Service (CS) does not discriminate against disabled people and positively encourages disabled candidates to apply for jobs within Defence. The MOD has been an accredited ‘Disability Confident Leader’ since September 2017. 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.

MOD has a dedicated Reasonable Adjustments Service Team, who are responsible for supporting staff with workplace adjustments. In the last five years, they have helped more than 3,600 people with conditions varying from back injuries, mobility issues, dyslexia, arthritis / rheumatism, to vision impairment and mental health issues. The team also plays a significant role in providing a voice for disabled people. They have specialist knowledge and experience of making adjustments for people in a diverse range of employment types within the MOD, capturing our colleagues’ workplace experiences,

collaborating with others to find best practice, and sharing knowledge across Government. 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 CS. The Passport helps with changes of line manager, aiding new managers to understand the workplace adjustments the employee has in place and avoiding the need to revisit the process again. It can also be helpful in identifying non-visible disabilities, such as mental health issues.

MOD has an anonymous sifting process for recruitment to help us ensure a 'level playing field' in the assessment process. Recruiting line managers are required to complete unconscious bias training prior to recruiting to help minimise the possibility of unconscious bias within the selection process. For recruitment campaigns advertised on promotion or externally, they must make use of an independent, ensuring the recruitment meets the requirements of fair, open and on the basis of merit. The MOD offers a Guaranteed Interview Scheme, whereby individuals who declare a disability are guaranteed an interview providing they meet the minimum requirements for the role. Also, to encourage and support applications from a more diverse applicant pool, we no longer have minimum educational qualifications threshold for entry roles to the CS or mandate selection tests across all grades (online tests are only used to assess particular skills/behaviours required for a role). During 2018 the CS transitioned from CS Competencies to CS Success Profiles, enabling managers to assess candidate's suitability for the role using a range of selection methods (including personal statements, CVs, online tests etc) rather than CS competencies (which external candidates are not familiar with).

The Department is fully committed to supporting staff who become disabled whilst employed by MOD 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.

MOD's approach to training, career development and promotion is inclusion, and opportunities are offered on a fair and open basis. 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 CS Positive Action Pathway which is open to under-represented groups, including those with a disability.

MOD has carried out a significant review of existing Attendance Management Policies to bring them more into line with the recommendations made in the Thriving at Work review of mental health and employers. The new Policy and procedure was launched in July 2019 and it has a stronger emphasis on taking a supportive approach, highlighting support options for staff with disabilities – including reasonable adjustments, disability leave, separate absence review points and a focus on line managers working with their employees to support attendance.

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 operate 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 – The Armed Forces People Programme continues work to shape our future workforce and to meet 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 at the forefront when it comes to policy-making and delivery.
- Health and wellbeing – We have introduced several initiatives aimed at increasing the health and wellbeing of our people.
- 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 several 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.
- Armed Forces Disability Champion appointed to address a gap in Defence support to service personnel living with a life changing or life limiting³⁶ condition.

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. Over the past few years as the Department has been going through a period of fundamental change in the way defence business is conducted, there has been a need for consultancy and temporary staff. We have needed to contract short term both for independent advice and for specialist skills which cannot currently be found among the permanent workforce.

Consultancy and Contingent Labour Costs

The MOD, including On Vote Agencies and ALBs, spent the following on consultancy and temporary staff (also known as Contingent Labour) in 2018–19. Submarine Delivery Agency and the Armed Forces Covenant Fund are disclosed for the first time as separate entities in 2018–19, and hence are shown as 'Nil' spend in 2017–18.

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.

³⁶ The term life-limiting or life-threatening is used to describe illnesses where it is expected that death will be a direct consequence of the specified illness. Life-limiting or threatening would also constitute as a major-life changing event. Such illnesses may include, but are not limited to cancer, heart disease and kidney disease.

Analysis of Consultancy and Contingent Labour Costs

Body	2018–19		2017–18	
	Consultancy £M	Contingent Labour £M	Consultancy £M	Contingent Labour £M
MoD Main	53.251	83.554	32.956	82.574
On Vote Agencies				
Defence Equipment & Support Bespoke Trading Entity	5.334	33.603	15.707	27.662
Defence Electronics & Components Agency	Nil	0.287	Nil	0.100
Defence Science & Technology Laboratory	Nil	13.687	0.039	10.759
Submarine Delivery Agency	5.477	3.353	N/A	N/A
Executive Non-Departmental Public Bodies				
National Museum of the Royal Navy	0.040	Nil	0.372	0.015
National Army Museum	0.003	Nil	0.003	0.058
Royal Air Force Museum	0.032	0.022	0.160	0.010
Single Source Regulations Office	0.027	0.134	Nil	0.165
Other bodies				
Commonwealth War Graves Commission	0.124	0.543	0.154	0.346
Royal Hospital Chelsea	0.183	0.330	0.124	0.453
Reserve Forces and Cadet Associations	0.637	0.295	0.440	0.524
Armed Forces Covenant Fund	0.042	0.006	N/A	N/A
Total Expenditure 2018–19	65.150	135.814	49.955	122.666

In addition to the items in the Contingent Labour column in the table above, we have identified other expenditure which is disclosed in the Annual Accounts as professional fees. Some of this is likely to meet the definition of Specialist Services, interim manager or temporary worker used in the Cabinet Office definition of Contingent Labour.

Professional fees includes c£350 million of manpower support and c£150 million of technical support, provided through framework contracts, and private sector support, mainly in DES&S and SDA. Further work will be undertaken during the forthcoming year to complete the analysis of this type of expenditure against the published definitions and to report fully in 2019–20, with comparative values for 2018–19.

Off-Payroll Engagements

(This section has not been subject to audit)

HM Treasury requires departments to publish information on their high paid and/or senior off-payroll engagements. There were no high paid and/or senior off-payroll engagements in ALBs.

Off-Payroll Engagements Earning More Than £245 Per Day and Lasting Longer Than 6 Months as at 31 March 2019.

Main Department	
Number of existing engagements as of 31 March 2019	443
Of which...	
Number that have existed for less than one year	227
Number that have existed for between one & two years	160
Number that have existed for between two and three years	37
Number that have existed for between three and four years	16
Number that have existed for four or more years	3

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

New Off-Payroll Engagements, or Those that Reached 6 Months in Duration, Paid More than £245 per Day between 1 April 2018 and 31 March 2019

Main Department	
Number of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019	431
Of which...	
Number assessed to be in-scope of IR35	405
Number assessed to be out of scope of IR35	26
Number engaged directly (via PSC contracted to Department) and are on the Departmental payroll	
	0
Number of engagements reassessed for consistency / assurance purposes during the year.	18
Number of engagements that saw a change to IR35 status following the consistency review	0

Of the total engagements in the table above 94% (405 in number) have been engaged via either 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 suppliers' payroll.

With respect to the remaining 26 (6%) engagements, 17 were DE&S arrangements with specialist recruiters; 1 was an arrangement through the DIGA/DIO Management Support Provider; 8 were engaged through the CCS Non-Medical / Non-Clinical framework and 1 was arranged through a JFC bespoke contract.

On-Payroll Engagements of Board Members and/or Senior Officials with Significant Financial Responsibility between 1 April 2018 and 31 March 2019

	Main Department	ALBs
Number of individuals that have been deemed "board members, and/or senior officials with significant financial responsibility", during the financial year.	76	58

There were no off-payroll engagements of Board Members, and/or, senior officials with significant financial responsibility, during the financial year. We have considered those with 'significant financial responsibility' within the Department to be Top Level Budget (TLB) Holders, Finance Directors and the DIO Chief Finance Officer. Within Departmental Agencies and ALBs, the Board Members are considered to be those with 'significant financial responsibility'. There has been an increase in the Board Members in the Main Department due to the creation of the SDA on 1 April 2018.

Trade Union Facility Time

The following is a summary of trade union officials and facility time incurred during 2018–19.

Number of Trade Union Officials

Relevant union officials	
Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
126	217,611

Percentage of Time Spent on Facility Time

Percentage of time spent on facility time	
Percentage of time	Number of employees
0%	-
1–50%	126
51%–99%	-
100%	-

Percentage of Pay Bill Spent on Facility Time

Percentage of pay bill spent on facility time	
Total cost of facility time	£305,985
Total pay bill	£2,420.3 million
Percentage of the total pay bill spent on facility time	0.01%

Time Spent on Trade Union Activities

Paid trade union activities	
Time spent on paid trade union activities as a percentage of total paid facility time hours	0.08%

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 International Financial Reporting Standard (IFRS) (included in the Financial Statements), the Financial Reporting Manual (FRm) 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 2018–19

		2018–19						2017–18	
		Estimate			Outturn			Total Voted Outturn Compared to Estimate Saving / (Excess)	Outturn
Note		Voted £000	Non Voted £000	Total £000	Voted £000	Non Voted £000	Total £000	£000	£000
Departmental Expenditure Limit									
Resource	SoPS 1.1	36,757,875	-	36,757,875	34,571,491	-	34,571,491	2,186,384	34,198,736
Capital	SoPS 1.2	10,400,662	-	10,400,662	10,294,437	-	10,294,437	106,225	9,703,586
Annually Managed Expenditure									
Resource	SoPS 1.1	(3,868,050)	-	(3,868,050)	(7,882,708)	-	(7,882,708)	4,014,658	9,690,365
Capital	SoPS 1.2	-	-	-	-	-	-	-	44,486
Total Budget		43,290,487	-	43,290,487	36,983,220	-	36,983,220	6,307,267	53,637,173
Non-budget									
Resource		5,000,000	-	5,000,000	1,060,400	-	1,060,400	3,939,600	-
Total		48,290,487	-	48,290,487	38,043,620	-	38,043,620	10,246,867	53,637,173
Total Resource	SoPS 2	37,889,825	-	37,889,825	27,749,183	-	27,749,183	10,140,642	43,889,101
Total Capital		10,400,662	-	10,400,662	10,294,437	-	10,294,437	106,225	9,748,072
Total		48,290,487	-	48,290,487	38,043,620	-	38,043,620	10,246,867	53,637,173

The majority of the £2.2 billion variance in Resource DEL (RDEL) is attributable to ringfenced RDEL. The Department's property assets are subject to a quinquennial revaluation by internal and external valuers. Changes to the asset valuation are accounting adjustments so do not impact on Defence's spending power. In 2018–19 the Department did not impair as many assets as originally proposed and therefore outturn was £2.2 billion lower than estimate. The variance between estimate and outturn on non-ringfenced RDEL was £22 million which was within 1% of the estimate.

The Annually Managed Expenditure (AME) budget is for programmes that are demand-led and extremely volatile in a way that cannot be controlled by the department or where programmes are so large the expenditure cannot be absorbed within voted DEL limits which must not be exceeded. For MOD, the AME budget is set to manage the impact of changes to the HM Treasury discount rate which is applied to provisions, and in year impairments and write-offs on Non-Current Assets where the impairment is deemed to be outside of management control. The Resource Estimate for AME was set in line with previous years outturn updated for 2018-19 activities. The outturn on Depreciation and Impairment costs was £0.3 billion lower than the estimate. HM Treasury also revised the method for calculating the discount rate which accounts for a further £1.1 billion.

The Department was voted £5 billion for these non-budget adjustments which included cover for expected significant movements in the provisions balances. Outturn was £1.1 billion as movements in the provisions balance were lower than initially anticipated. As part of an ongoing Financial Management Improvement Plan the Department has conducted a number of reviews designed to improve the quality of financial reporting. As a result of these reviews the Department has identified several prior period errors that have been adjusted for by retrospective restatement of the Accounts in accordance with IAS 8. The Department has also corrected a number of other historical omissions and misstatements, which previously were assessed as immaterial both individually and in aggregate. Further detail is Note 23 to the Financial Statements.

It is proper for the Department to seek Parliamentary authority for the provision that should have been sought previously. In 2018–19, the following PPAs have been made and have been included as non-budget expenditure against the voted Supply Estimate.

Prior Period Adjustments (PPAs)

Description of Prior Period Adjustment	Resource / Capital	DEL / AME	£000
Reclassification of Raw Materials and Consumables (RMC)	Resource	DEL	469,500
Property, other PPE and intangible assets	Resource	DEL	144,800
Nuclear decommissioning and other provisions	Resource	AME	433,800
Other adjustments	Resource	AME	(42,200)
Other adjustments	Resource	DEL	54,500
Total			1,060,400

Net Cash Requirement 2018–19

	Note	2018–19			2017–18
		Estimate £000	Outturn £000	Outturn compared to Estimate: Savings/ (Excess) £000	Outturn £000
Net Cash Requirement	SoPS 3	39,620,616	37,757,740	1,862,876	36,324,368

The variance between Estimate and Outturn of Net Cash Requirement was submitted based on AP08 and AP09 forecasts. Trend analysis at this time suggested that the estimate would be insufficient to cover expenditure to the remainder of the Financial Year. Additional funding was requested to ensure payments could continue for the remainder of the financial year. This forecast subsequently reduced as actual cash requirements replaced the forecast resulting in a £1.8 billion underspend against the estimate. Improvements to Cash forecasting are part of the Financial Management Improvement Plan to deliver improvements in forecast accuracy.

Administration Costs 2018–19

	2018–19		2017–18	
	Estimate £000	Outturn £000	Outturn compared with Estimate £000	Outturn £000
Administration Costs	1,754,610	1,680,879	73,731	1,467,084

SoPS Note 1 Net Outturn

SoPS Note 1.1 – Analysis of Net Resource Outturn

Spending in Departmental Expenditure Limits (DEL)	2018–19						2017–18	
	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 ¹
	£000	£000	£000	£000	£000	£000	£000	£000
A. Provision of Defence Capability – Service Personnel Costs	-	9,093,174	-	9,093,174	9,081,990	(11,184)	-	8,970,633
B. Provision of Defence Capability – Civilian Personnel Costs	-	1,382,590	-	1,382,590	1,466,222	83,632	-	1,363,922
C. Provision of Defence Capability – Infrastructure Costs	-	4,258,514	-	4,258,514	4,284,735	26,221	-	4,057,523
D. Provision of Defence Capability – Inventory Consumption	-	1,173,172	-	1,173,172	1,138,595	(34,577)	-	1,187,498
E. Provision of Defence Capability – Equipment Support Costs	-	6,792,882	-	6,792,882	6,718,267	(74,615)	-	6,548,798
F. Provision of Defence Capability – Other Costs and Services	-	1,345,918	-	1,345,918	1,360,363	14,445	-	1,344,094
G. Provision of Defence Capability – Receipts and Other Income	-	-	(1,088,379)	(1,088,379)	(1,086,898)	1,481	1,481	(1,069,897)
H. Provision of Defence Capability – Depreciation and Impairment Costs	-	6,805,446	-	6,805,446	8,896,437	2,090,991	2,090,991	7,236,889
I. Provision of Defence Capability – Cash Release of Provisions	-	389,329	-	389,329	380,000	(9,329)	-	292,907
N. Provision of Defence Capability – Research and Development Costs	-	228,963	-	228,963	168,014	(60,949)	-	223,050
Q. Operations – Service Personnel Staff Costs	-	30,728	-	30,728	35,000	4,272	4,272	42,608
R. Operations and Peacekeeping – Civilian Personnel Staff Costs	-	3,014	-	3,014	5,000	1,986	1,986	5,621
S. Operations – Infrastructure Costs	-	63,814	-	63,814	76,000	12,186	12,186	56,714
T. Operations – Inventory Consumption	-	80,522	-	80,522	106,000	25,478	22,379	95,821
U. Operations – Equipment Support Costs	-	271,531	-	271,531	282,000	10,469	10,469	282,316
V. Operations – Other Costs and Services	-	66,477	-	66,477	76,700	10,223	10,223	35,451
W. Operations – Receipts and Other Income	-	-	(2,901)	(2,901)	(6,000)	(3,099)	-	(11,941)

Spending in Departmental Expenditure Limits (DEL)	2018-19						2017-18	
	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 ¹
	£000	£000	£000	£000	£000	£000	£000	£000
Voted Expenditure								
X. Operations – Depreciation and Impairment Costs	-	24,585	-	24,585	32,000	7,415	7,415	49,723
AA. Arm's Length Bodies Costs	-	204,025	-	204,025	183,107	(20,918)	-	164,637
AC. Defence Capability DE&S BTE	-	981,367	-	981,367	995,300	13,933	13,933	1,041,063
AD. War Pensions Benefits	-	697,262	-	697,262	718,135	20,873	-	723,228
AE. Conflict, Stability and Security Fund	-	88,579	-	88,579	92,298	3,719	3,719	90,994
Administration Costs¹								
O. Administration Costs – Civilian Personnel Costs	483,679	-	-	483,679	480,000	(3,679)	-	363,297
P. Administration Costs – Other Costs and Services	530,519	-	-	530,519	582,610	52,091	-	423,226
AB. Administration Costs – Service Personnel Costs	661,235	-	-	661,235	680,000	18,765	776	670,653
AF. Administration Costs – Cash Release of Provisions	5,446	-	-	5,446	12,000	6,554	6,554	9,908
Total Spending in DEL	1,680,879	33,981,892	(1,091,280)	34,571,491	36,757,875	2,186,384	2,186,384	34,198,736

1. The Department does not record any income as Administrative.

Spending in Annually Managed Expenditure (AME)	2018-19						2017-18	
	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
	£000	£000	£000	£000	£000	£000	£000	£000
Voted Expenditure								
AG. Provision of Defence Capability – Depreciation and Impairment Costs	-	70,897	-	70,897	402,550	331,653	331,653	861,134
AH. Provision of Defence Capability – Provisions Costs	-	(7,377,334)	-	(7,377,334)	(3,670,600)	3,706,734	3,683,005	8,548,134
AI. Provision of Defence – Cash Release of Provisions Costs	-	(394,775)	-	(394,775)	(400,000)	(5,225)	-	(302,815)
AJ. Movement on the Fair Value of Financial Instruments	-	(181,496)	-	(181,496)	(200,000)	(18,504)	-	583,912
Total Voted Expenditure in AME	-	(7,882,708)	-	(7,882,708)	(3,868,050)	4,014,658	4,014,658	9,690,365
Total Resource Outturn	1,680,879	26,099,184	(1,091,280)	26,668,783	32,889,825	6,201,042	6,201,042	43,889,101

SoPS Note 1.2 – Analysis of Net Capital Outturn

Capital Spending in Departmental Expenditure Limits (DEL) Capital – Voted Expenditure	2018–19							2017–18
	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)	-	5,817,644	-	5,817,644	5,733,133	(84,511)	-	5,530,091
K. Provision of Defence Capability – Other Capital (Fiscal)	-	3,253,912	-	3,253,912	3,299,552	45,640	45,640	2,929,616
L. Provision of Defence Capability – Fiscal Assets / Estate Disposal	-	-	(42,725)	(42,725)	(138,008)	(95,283)	-	(33,224)
M. Provision of Defence Capability – New Loans and Loan Repayments	-	8,609	-	8,609	15,742	7,133	7,133	-
N. Provision of Defence Capability – Research and Development Costs	-	1,110,050	-	1,110,050	1,317,778	207,728	27,148	1,007,683
Y. Operations Capital Single Use Military Equipment (SUME)	-	75,113	-	75,113	80,000	4,887	4,887	178,258
Z. Operations Other Capital (Fiscal)	-	18,583	-	18,583	40,000	21,417	21,417	20,716
AA. Arm's Length Bodies	-	18,900	(16,400)	2,500	2,465	(35)	-	1,754
AC. Defence Capability DE&S BTE	-	50,751	-	50,751	50,000	(751)	-	64,315
AE. Conflict, Stability and Security Fund	-	-	-	-	-	-	-	4,377
Total Capital Spending in DEL	-	10,353,562	(59,125)	10,294,437	10,400,662	106,225	106,225	9,703,586

Capital Spending in Annually Managed Expenditure (AME) Capital – Voted Expenditure	2018–19							2017–18
	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
Total Capital Voted Expenditure in AME	-	-	-	-	-	-	-	44,486
Total Capital Outturn	-	10,353,562	(59,125)	10,294,437	10,400,662	106,225	106,225	9,748,072

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

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

	Note	2018–19 Outturn £000	2017–18 Outturn £000
Net Resource Outturn (Statement of Parliamentary Supply)			
Budget		26,688,783	43,889,101
Non Budget	SoPS	1,060,400	-
Total Net Resource Outturn	SoPS	27,749,183	43,889,101
Prior Period Adjustments not passing through operating costs in 2018–19. Costs arising from: new provisions and changes to existing provisions, reclassification of assets, changes to asset values and write off of assets. These costs are treated as non-budget in the 2018–19 resource outturn.	SoPS	(1,060,400)	-
Adjustment for changes in discount rates not passing through net operating costs		46,333	(542)
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		19,176	26,145
Income in respect of donated assets treated as capital income		(98,024)	(1,372)
Loss / (gain) on foreign exchange contracts in respect of Capital purchases		(53,970)	(128,299)
Less movements on capitalised and other provisions included in resource outturn but not passing through net operating costs		1,473,600	(912,548)
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		(13,221)	1,754
Prior Period Adjustment (Non Budget) Impacting the 2017–18 SoCNE		-	(313,100)
Gain on transfer by absorption of Dstl		-	(347,400)
Add capitalised Research and Development Costs included in operating costs but excluded from resource outturn		722,641	621,512
Net Expenditure		28,785,318	42,835,251

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

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	37,889,825	27,749,183	10,140,642
Net Capital Outturn	SoPS 1.2	10,400,662	10,294,437	106,225
Adjustments for Arm's Length Bodies (ALBs):				
Remove voted outturn (Resource and Capital)		(185,572)	(206,525)	20,953
Add cash Grant in Aid and other Departmental expenditure on behalf of ALBs		182,009	200,725	(18,716)
Adjustments to remove non-cash items:				
Depreciation and impairment		(9,130,987)	(6,752,000)	(2,378,987)
New provisions and adjustments to previous provisions		3,670,600	7,326,500	(3,655,900)
Prior Period Adjustment		(5,000,000)	(1,060,400)	(3,939,600)
Other non-cash items		-	(391,580)	391,580
Adjustment to reflect movement in working capital:				
Increase / (Decrease) in Inventory		303,091	500,000	(196,909)
Increase / (Decrease) in Receivables		550,797	434,900	115,897
(Increase) / Decrease in Payables		540,191	(713,600)	1,253,791
Use of provisions and unfunded pensions		400,000	376,100	23,900
Net Cash requirement		39,620,616	37,757,740	1,862,876

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 (MPM). Where a chargeable activity produces a tangible benefit to Defence, we may reduce any charges levied below the full costs of the activity. The net receipt for 2018–19 was less than £0.5 million and as this is not considered material to Defence, it has not been itemised here. Details are held within the Department.

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, limitations to contractors' liability, indemnities or by giving letters of comfort. There are some liabilities where details are not given due to the reasons of commercial and/or national security, the estimated value of these is £72.5 million.

Remote 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. 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.

A number of contingent liabilities are considered unquantifiable. This is due to the unfeasibility 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. The details of any unquantified contingent liabilities are included in the narrative below.

Special and Generic risk indemnities

HMT have delegated to MOD approval for a range of Special and Generic risks which can be utilised when conducting normal business. These are contractual indemnities which can lead to Contingent Liabilities. Generic indemnities for the Department are Protection Against Excess Profit or Loss, Failure of Performance including Research and Development Contracts. Special Risk Indemnities cover areas such as Aircraft Flight and Taxiing Trials, Research and Development Contracts for Guided Weapons, Shipbuilding and Nuclear Risks. The total value of quantifiable contingent liabilities reportable under Managing Public Money for Generic and Special risks is £239.9 million, in addition there are unquantifiable elements, full details are held centrally within the Department.

Contract terms

Under contract terms the Department may indemnify or limit a contractor's liability in relation to a specific area. These include damage to government property, damage to issued property, default, deferment, termination and indirect and consequential losses.

These limits or indemnities have been provided in relation to the Cerberus Project, AWE Management Ltd for non-nuclear risks and Babcock Group for non-nuclear risks resulting from claims for damage to property or death and personal injury to a third party. The potential value relating to damage caused on Government Property is £1,523.8 million.

The estimated value for liability for consequential or indirect loss, redundancy, loss or damage arising from Light Aircraft Flying Training is £25 million. The Department has provided an indemnity to contractors for loss or damage to issued property with a potential value of £10 million.

The value for contractor claims relating to project deferment or termination is £0.5 million.

The Department has provided an indemnity for contractor's liability relating to explosion or ignition of Authority owned ammunition or explosives with a value of £2.0 million. There is an unquantified CL relating to the Strategic Weapons System Activities Future Delivery Project where the contract includes an indemnity for non-nuclear events and unintended detonation of explosives.

The Department has provided an overall cap on contractor liability within the future submarine design phase contract with Devonport Royal Dockyard Limited and BAE Systems Ltd.

A Catastrophic Risk indemnity encompassing claims above £50 million for direct or indirect costs not covered by the standard Special Risk Indemnity for Shipbuilders has been provided to BAE Systems Ltd for Type 26 Global Combat Ship Manufacture Phase 1.

Nuclear

Indemnities have been provided to a number of companies relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965. These include:

- Rolls-Royce
- BAE Systems
- AWE Management Ltd
- Babcock Group
- Mott MacDoanld, Jacobs and White Young Green in support of framework contracts under Next Generation Estate Contracts.

An indemnity has been issued 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.

People

The MOD has provided a guarantee to the NAAFI pensions Trustees' underwriting the ability to pay full benefits to members with a value £146.4 million. In addition, there is an unquantified guarantee to NAAFI that the Department will reimburse 90% of their additional costs arising from any changes in MOD's service requirements. This unquantified liability covers the costs of redundancy (on a 90/10 basis) of any structural changes that would affect NAAFI operations. The Department is unable to

ascertain how much this might cost as this will depend on the individual's length of service, and grade of those NAAFI employees involved.

There is a potential redundancy liability for employees, in a number of circumstances, these are:

- USVF re-basing as part of US European Infrastructure Consolidation (EIC)
- Employees at the Defence College of Technical Training
- Redundancy following contractorisation

The total value of quantifiable redundancy risk outlined above is £9.9 million.

MOD liability to pay ex civil servants employer pension contribution to the principle civil service pension scheme in the event that the responsible contractor does not. This is under New Fair Deal arrangements, the estimated value is £0.7 million.

Environmental

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. This is the case for an indemnity for environmental losses incurred by QinetiQ arising from certain defined materials at specific properties before the formation of QinetiQ on 1 July 2001.

The 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. The estimated value of the liability relating to this is £5.6 million.

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.

Defence Science and Technology Laboratory (Dstl) operations mean that their sites and specialist buildings may become liable to significant decommissioning and remediation costs. The likelihood of the experimental establishments owned by Dstl transferring outside the public sector is considered remote, and the costs associated with such liabilities that could arise due to a transfer of ownership or significant change of use are considered unquantifiable.

EU exit

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable contingent liability is disclosed, relating to the potential financial impact to the Department from the changes outlined above. In accordance with accounting standards, no contingent assets can be recognised.

During this interim 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.

HMG guarantee for EU funding streams as announced in August and October 2016. The Department's responsibility covers the Preparatory Action on Defence Research Programme.

PFI

The Department has issued an indemnity to SERCO under the Marine Services Private Finance Initiative (PFI) contract for losses and costs incurred due to the unintended detonation of explosives while being handled in performance of the contract. There is also a potential liability from the use of PFI standard terms and conditions in schemes in relation to circumstances such as qualifying changes in law.

Other Contingent Liabilities

The Department incur an unquantifiable statutory liability for International Military Services and potential liabilities arising from Foreign Military Sales activity.

There are liabilities arising from insurance risk of exhibits on loan to the museums of the Royal Navy, Army and Royal Air Force with the potential value of £2.9 million.

An indemnity has been provided for residual employee disease liability and residual public liability arising from the disbanding of DERA as a MOD Trading Fund and the formation of QinetiQ on 1 July 2001.

Financial Guarantees

The Department has entered 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 Restore 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 2018–19 on all aspects of the Ministry of Defence's business. Defence Ministers participated in 37 debates on Defence issues in Parliament. Ministers responded to eight debates in the House of Commons and 12 debates in Westminster Hall. There were six debates on Defence in the House of Lords. There were 11 debates on legislation (five in the House of Commons, six in the House of Lords). Details are published in Hansard.

Ministers made five oral statements to the House of Commons and three to the House of Lords – details are published in Hansard. A total of 2,454 oral and written Parliamentary Questions were answered. Ministers also made 61 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 2018 to 31 March 2019, Defence Ministers received 2,353 items of correspondence from Members of Parliament, Peers and members of the public where a Ministerial response was appropriate. Of these, 2,315 (98%) were answered within the target of 20 working days.

Evidence to the Defence Select Committee

Since 1 April 2018, the MOD 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 MOD to Committee reports published during this reporting period are listed below. Government responses, if published, are listed in brackets after the report to which they relate.

Parliamentary Session 2018–19: MOD responses to reports published in the previous Parliamentary Session

Report	Title	Publication Date
HC 1044	Sunset for the Royal Marines? The Royal Marines and UK amphibious capability: Government Response to the Committee's Third Report	16 May 2018

Financial Year 2018–19: Defence Select Committee Reports

Report	Title	Publication Date
HC 327 (HC 1155)	Rash or Rational? North Korea and the threat it poses	5 April 2018
HC 572 (HC 1568)	Lost in Translation? Afghan Interpreters and Other Locally Employed Civilians	26 May 2018
HC 594 (HC1570)	The Government's proposals for a future security partnership with the European Union	8 June 2018
HC 818 (HC 1994)	Beyond 2 per cent: A preliminary report on the Modernising Defence Programme	18 June 2018
HC 387 (HC 1569)	Indispensable allies: US, NATO and UK Defence relations	26 June 2018
HC 707 (HC1571)	Armed Forces Covenant Annual Report 2017	30 June 2018
HC 818 (HC 1635)	Mental Health and the Armed Forces, Part One: The Scale of mental health issues	25 July 2018
HC 388 (HC 1659)	On Thin Ice: UK Defence in the Arctic	15 August 2018
HC 1071 (HC 2033)	Future Anti-Ship Missile Systems: Joint inquiry with the Assemblée Nationale's Standing Committee on National Defence and the Armed Forces	12 December 2019
HC 1481	Mental Health and the Armed Forces, Part Two: The Provision of Care	25 February 2019

Financial Year 2018–19: Evidence to Defence Committee Inquiries without Reports

Select Committee	Inquiry
Defence Committee	Mechanised Infantry Vehicle Procurement
Defence Committee	UK Military Operations in Mosul and Raqqa
Defence Committee	Departmental Priorities post-NATO Summit
Defence Committee	Work of Defence Equipment and Support
Defence Committee joint with Business, Energy and Industrial Strategy Committee	National Security and Investment
Defence Committee	European Defence Industrial Development Programme
Defence Committee	Work of the Chief of Defence Staff
Defence Committee	Work of the Service Complaints Ombudsmen
Defence Committee	Ministry of Defence Annual Report and Accounts

Visits by the Defence Committee to UK Armed Forces

Date of Visit	Establishment	Related Inquiry
N/A	N/A	N/A

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

Since 1 April 2018, 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. Government responses, if published, are listed in brackets after the report to which they relate.

Other Select Committee Reports

Select Committee	Subject	Publication Date
International Development Committee	Sexual exploitation and abuse in the aid Sector HC 840 (HC 1764)	31 July 2018
Science and Technology Committee (Commons)	Quantum Technologies HC 820 (HC 2030)	6 December 2018

Evidence to Other Select Committee Inquiries without Reports

Select Committee	Inquiry
Science and Technology Committee (Commons)	Galileo

Visits by Other Select Committees to UK Armed Forces

Select Committee	Date of Visit	Establishment	Related Inquiry
House of Lords International Relations Committee	21 March 2019	Atomic Weapons Establishment, Aldermaston	Nuclear Non-Proliferation Treaty and Nuclear Disarmament

Public Accounts Committee

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

Evidence to the Committee of Public Accounts and Report Publications Following NAO Value for Money Reports

Report	Title	Hearing Date	Publication Date
HC 974	Ministry of Defence's contract with Annington Homes Limited	14 May 2018	13 July 2018
HC 1027	Skill Shortages in the Armed Forces	4 June 2018	18 July 2018
HC 2028	The Defence Nuclear Programme	27 June 2018	21 September 2018
HC 1519	The Defence Equipment Plan 2018 - 2028	3 December 2018	1 February 2019
HC 1736	Capita's contracts with the Ministry of Defence	14 January 2019	1 March 2019
HC 2041	Nuclear Submarine Defueling and Dismantling	1 May 2019	19 June 2019
HC 2136	Military Homes	8 May 2019	28 June 2019

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> 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.

In 2018–19, the PHSO received 28 complaints about the MOD. The Ombudsman assessed 8 complaints to decide whether it should investigate the case or whether it could be resolved without a full investigation. No complaints were accepted for investigation.

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

	2018–19		2017–18	
	Number of Cases	£000	Number of Cases	£000
Cash and Overpayment Losses	500	3,607	18	45
Bookkeeping Adjustments	1,583	25,622	30	28,292
Stores Losses	5,609	7,496	6,128	14,299
Fruitless Payments	2,769	6,019	1,710	11,143
Constructive Losses	6	80,775	4	137,140
Claims Waived or Abandoned	2,926	6,370	1,973	3,089
Total Losses	13,393	129,889	9,863	194,008

Details of Closed Cases over £300,000

Cases	£000
Cash and overpayment losses	
Unrecoverable overpayment of military allowances	2,500
JPA Discharged Debtors – Legacy debts which are too old to recover	916
Bookkeeping Adjustments	
Write off of unsupported balances. This loss consists of balances that could not be verified with the information available. This loss consists of four cases.	24,441
Constructive Losses	
Reduction of AS90 Howitzer self-propelled guns due to a change in the operational environment	50,540
Tornado synthetic training contract terminated early	15,159
Reduction in the number of reconnaissance vehicles – Combat Vehicle Reconnaissance (Tracked)	8,765
Variant of the Army's 'Ajax' ambulance not taken up	6,240
Stores Losses	
Landing craft destroyed by fire	580
Fruitless Payments	
The MOD's budget for 2019–20 has been reduced as a result of the Department's cash forecasting performance during 2018–19	2,007
Claims waived or abandoned	
Claims waived in respect of an overpayment of military allowances	1,151
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	882
TOTAL CLOSED CASES OVER £300,000	113,181

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.

Advance Notifications over £300,000

Cases	£000
Stores Losses	
Damage on landing to 2 remotely piloted aircraft. This was reported as an advance notification in 2016–17 but the loss value has changed in line with confirmed asset values in the accounts	12,010
Damage to remotely piloted aircraft in June 2018	3,056
Medical stores damage following a power outage	2,438
Damage to Warrior vehicle following electrical fire	400
Tornado jettisoned equipment on operational sortie	321
Fruitless Payments	
Payment for unused travel bookings	4,282
Claims waived or abandoned	
Claims waived in respect of an overpayment of movement and storage allowances	638
TOTAL ADVANCE NOTIFICATIONS OVER £300,000	23,145

Special Payments

Details of Special Payments

	2018–19		2017–18	
	Number of Cases	£000	Number of Cases	£000
Total Special Payments – closed cases	2,678	9,911	160	1,826

Details of Closed Cases over £300,000

Cases	£000
Extra Gratia Payments	
Extra-contractual payment to settle a legal challenge	8,000
TOTAL ADVANCE NOTIFICATIONS OVER £300,000	8,000

Advance Notifications of over £300,000

Cases	£000
Extra Gratia Payments	
Extra-contractual payments to settle a legal challenge. This consists of 2 cases.	13,000
TOTAL ADVANCE NOTIFICATIONS OVER £300,000	13,000

Special Severance Payments

During the year **8** Special Severance Payments totalling **£494,000** were made. Further details (to the nearest £1,000) are:

Analysis of Special Severance Payments

	(to the nearest £1,000)
Maximum Payment	245,000
Median Payment	23,000
Minimum Payment	7,000

Gifts

Gifts with a total value of **£15,000** (to the nearest £1,000) were made during the year. There were no individual gifts with a value of £300,000 or more.

Sir Stephen Lovegrove, KCB

Accounting Officer

19 July 2019

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 2019 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 2018. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, 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 2019 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 1 April 2017, 31 March 2018 and 31 March 2019. 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 2019 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.

Conclusions relating to going concern

I am required to 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 Departmental group's and the Ministry of Defence's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

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.
 - 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 Departmental 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 but does not include 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 Department 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 and Accountability Reports 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 2018-19 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 2019 and that those totals have not been exceeded.

Gareth Davies

Comptroller and Auditor General
22 July 2019

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

Report of the Comptroller and Auditor General on the 2018–19 Accounts of the Ministry of Defence

Introduction

1. The Ministry of Defence's (the Department) primary purpose is to protect the people of the United Kingdom, prevent conflict, and be ready to fight our enemies. In 2018–19 the Departmental Group incurred £ 28.8 billion of net operating costs and held assets of £ 148.5 billion and liabilities of £30.0 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 2018–19 financial statements.

Accounting for lease type arrangements

Basis of my qualification

4. I have qualified my opinion for a tenth consecutive 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 am unable to quantify 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 to be particularly relevant to the Department. The Department enters 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 are 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 2013, following a review of a limited number of contracts that demonstrated the characteristics of a lease under IAS 17, the Department assessed eight of these contracts to be finance leases, with the initial book value of the affected assets exceeding the materiality level set for my audit. In addition, the Department recognised that there were significant completeness concerns over the scope of its review and that the scale of the omission of assets and liabilities arising from lease arrangements was highly likely to extend significantly beyond the eight identified contracts.

9. Following this exercise, the Department concluded that compliance with IAS 17 for existing contracts would create significant challenges as further management information and supplier engagement would be needed to complete the review and confirm what values would need to be included in the accounts. 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. As a result, the Department has not undertaken any further analysis of its legacy contracts, nor has it updated the original values in its 2013 analysis. I am unable therefore, to quantify the exact impact of the omission of assets and liabilities arising from leasing arrangements on the financial statements because the quality of evidence is insufficient for the purposes of my opinion.

10. The Department is seeking to apply IAS 17 for any new contracts on a single site with a single supplier, until the new leasing standard IFRS 16 is implemented. To date, the Department has not identified any new contracts that fall under IAS 17 using this limited criterion. As this prospective application of IAS 17 will not consider any legacy contracts, it will not address the reasons for my qualification of the financial statements.

11. In January 2016, the International Accounting Standards 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) which confirmed that IFRS 16 will be effective for the public sector. The Department will have to adhere to these new requirements which will be effective for the financial year 2020–21 onwards.

12. The Department is adopting a three-stage approach to IFRS16 implementation. It has introduced a process of collecting contract information from across the Department, checking this for completeness, and identifying those contracts most likely to fall under the scope of IFRS 16. This process is scheduled to complete by October 2019. These contracts will then be subject to a secondary assessment against detailed IFRS 16 lease criteria. This second stage of work is being undertaken in parallel with stage one, and again is scheduled to complete in October 2019. Stage three is yet to commence but is designed to arrive at the valuation of any assets and liabilities for those contracts assessed as meeting the IFRS16 criteria.

13. While the Department has made initial progress, it will need to commit sufficient resources to ensure that its analysis is complete to manage and report lease data from 1 April 2020 onwards. In particular, further engagement with the Department's supplier base will be required to fully understand the nature of the assets underpinning the relevant contracts. At present, the Department has not undertaken sufficient analysis to enable it to reassess its non-compliance with IAS 17, nor is it in a position to assess whether it will be in a position to fully comply with IFRS 16 and to remove the historic qualification.

Gareth Davies

Comptroller and Auditor General
22 July 2019

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





Ministry
of Defence



Ministry of Defence Annual Accounts 2018–19

(For the year ended 31 March 2019)



REACH & ENGAGEMENT

- Protect Our People: 18.5M reach
- Project Our Influence: 2.8M reach
- Promote Our Priority: 12.7M reach

SOCIAL MEDIA GROWTH

Defence Communications Reputation Barometer

Quarterly Return
Quarter 4
(October, November, December 2016)

Consolidated Statements of Comprehensive Net Expenditure (SoCNE) for the year ended 31 March 2019

	Note	2018-19		2017-18	
		Core Department & Agencies £M	Departmental Group £M	Restated: Core Department & Agencies ¹ £M	Restated: Departmental Group ¹ £M
Income from provision of supplies and services	3	(724.2)	(724.2)	(659.0)	(659.0)
Other income	3	(722.1)	(829.1)	(651.1)	(731.6)
Total operating income		(1,446.3)	(1,553.3)	(1,310.1)	(1,390.6)
Staff costs	4.1	12,499.1	12,598.4	12,324.8	12,422.5
Purchase of goods and services	4.2	14,957.9	14,957.9	14,245.4	14,245.4
Depreciation, impairment, writes on/off and disposals	4.3	7,032.6	7,042.4	8,418.4	8,428.9
Movement on provisions, derivatives and discounted cashflows ²	4.4	(6,172.1)	(6,172.1)	7,639.0	7,639.0
War pensions / benefits		697.3	697.3	723.2	723.2
Interest paid (including on Service Concession Arrangements)		451.1	451.1	417.2	417.2
Other expenditure	4.5	770.4	763.6	744.3	697.1
Total operating expenditure		30,236.3	30,338.6	44,512.3	44,573.3
Total net operating expenditure²		28,790.0	28,785.3	43,202.2	43,182.7
Non-operating gain on the transfer of Dstl to the Department		-	-	(347.4)	(347.4)
Net expenditure for the year		28,790.0	28,785.3	42,854.8	42,835.3
Other Comprehensive Expenditure					
Net (gain) / loss on revaluation of property, plant and equipment	SoCiTE	(2,358.5)	(2,359.3)	(2,423.2)	(2,429.7)
Net (gain) / loss on revaluation of intangible assets	SoCiTE	427.1	427.1	(278.9)	(278.9)
Net (gain) / loss on revaluation of assets held for sale	SoCiTE	1.3	1.3	2.4	2.4
Net (gain) / loss on revaluation of inventories	SoCiTE	-	-	(200.2)	(200.2)
Net (gain) / loss on pensions	SoCiTE	(18.8)	(20.5)	(4.2)	23.4
Changes in capitalised decommissioning liabilities	SoCiTE	(1,473.6)	(1,473.6)	1,372.2	1,372.2
Assets written-off (on) and transferred in	SoCiTE	(192.7)	(236.4)	(136.0)	(137.9)
Reduction in inventory value following adoption of weighted average cost valuation (see inventory note for further details)	SoCiTE	336.1	336.1	-	-
Total other comprehensive expenditure		(3,279.1)	(3,325.3)	(1,667.9)	(1,648.7)
Comprehensive Net Expenditure for the Year		25,510.9	25,460.0	41,186.9	41,186.6

1. Prior year comparators have been restated following a number of Prior Period Adjustments – further details are at Note 23.
2. The significant reduction in net operating expenditure compared to 2017-18 is mainly a result of the change in HMT's discount rates and their application to provisions. This caused a £13.8 billion movement in the charge for provisions compared to the previous year.

The content of the Consolidated Statements of Comprehensive Net Expenditure has been restructured to better reflect the Department's areas of income and expenditure with additional details provided in the Notes to the accounts.

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

Consolidated Statements of Financial Position (SoFP) as at 31 March 2019

	Note	31 March 2019		Restated as at 31 March 2018 ¹		Restated as at 1 April 2017 ¹	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Non-current assets							
Intangible assets	5	28,818.8	28,818.8	28,180.8	28,180.8	27,544.4	27,544.4
Property, plant and equipment	6	110,156.7	110,819.2	106,655.2	107,266.2	102,987.5	103,568.7
Retirement benefit scheme assets	14	-	15.9	-	15.9	-	15.9
Financial assets	8.1	13.3	13.3	13.3	13.3	13.3	13.3
Receivables due after more than one year	10	591.3	591.4	576.4	576.9	467.7	467.7
Total non-current assets		139,580.1	140,258.6	135,425.7	136,053.1	131,012.9	131,610.0
Current assets							
Non-current assets held for sale		29.6	29.6	18.4	18.4	25.6	25.6
Inventories	9	3,678.9	3,687.2	3,630.4	3,638.7	3,850.5	3,858.9
Receivables due within one year	10	2,706.5	2,724.8	2,287.1	2,299.1	2,792.4	2,810.4
Financial assets		251.4	287.7	150.7	186.4	607.8	643.8
Cash at bank and in hand	11	1,407.5	1,533.4	1,755.6	1,848.8	1,571.6	1,633.4
Total current assets		8,073.9	8,262.7	7,842.2	7,991.4	8,847.9	8,972.1
Total assets		147,654.0	148,521.3	143,267.9	144,044.5	139,860.8	140,582.1
Current liabilities							
Payables due within one year	12	(10,724.8)	(10,828.8)	(10,502.4)	(10,578.5)	(10,712.3)	(10,757.9)
Provisions due within one year	13	(343.8)	(344.8)	(720.2)	(721.2)	(405.1)	(405.1)
Financial liabilities		(106.6)	(106.6)	(197.6)	(197.6)	(121.9)	(121.9)
Total current liabilities		(11,175.2)	(11,280.2)	(11,420.2)	(11,497.3)	(11,239.3)	(11,284.9)
Non-current assets plus net current assets		136,478.8	137,241.1	131,847.7	132,547.2	128,621.5	129,297.2
Non-current liabilities							
Provisions due after one year	13	(12,020.2)	(12,024.2)	(19,346.4)	(19,351.8)	(11,002.4)	(11,002.4)
Retirement benefit scheme liabilities	14	(556.3)	(585.4)	(594.5)	(617.5)	(593.8)	(598.4)
Payables due after more than one year	12	(6,138.5)	(6,147.3)	(6,382.5)	(6,384.1)	(6,641.1)	(6,643.0)
Total non-current liabilities		(18,715.0)	(18,756.9)	(26,323.4)	(26,353.4)	(18,237.3)	(18,243.8)
Assets less liabilities²		117,763.8	118,484.2	105,524.3	106,193.8	110,384.2	111,053.4

	Note	31 March 2019		Restated as at 31 March 2018 ¹		Restated as at 1 April 2017 ¹	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Taxpayers' equity and other reserves							
General fund	SoCITE	90,542.9	90,542.9	80,018.2	80,018.2	85,360.5	85,360.5
Revaluation reserve	SoCITE	27,220.9	27,220.9	25,506.1	25,506.1	25,023.7	25,023.7
Taxpayers' equity		117,763.8	117,763.8	105,524.3	105,524.3	110,384.2	110,384.2
Total Arm's Length Bodies' reserves		-	720.4	-	669.5	-	669.2
Total taxpayers' equity and other reserves		117,763.8	118,484.2	105,524.3	106,193.8	110,384.2	111,053.4

1. Prior year comparators have been restated following a number of Prior Period Adjustments – further details are at Note 23.
2. 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 1.35 to 1.36.

Sir Stephen Lovegrove, KCB

Accounting Officer

19 July 2019

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

Consolidated Statements of Cash Flows (SoCF) for the year ended 31 March 2019

	Note	2018-19		Restated 2017-18 ¹	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Cash flows from operating activities					
Net operating cost	SoCNE	28,790.0	28,785.3	43,202.2	43,182.7
Adjustments for non-cash transactions ²		(843.5)	(847.1)	(15,474.1)	(15,478.8)
Increase / (decrease) in trade and other receivables	SoFP	434.3	440.2	(396.6)	(402.2)
Adjustment for movements on receivables relating to items not passing through operating costs		0.6	172.6	13.4	225.5
Movement in net inventories and financial assets held for sale		500.0	500.6	(295.2)	(295.6)
(Increase) / decrease in trade payables	SoFP	21.6	(13.5)	468.5	438.4
Adjustment for movements in payables relating to items not passing through operating costs		(735.2)	(921.9)	291.0	88.2
Dividends and equity repayments		11.7	11.7	18.1	18.1
Realised loss / (gain) on derivatives		(170.1)	(170.1)	(214.8)	(214.8)
Use of provisions and unfunded pensions		376.1	376.1	274.1	274.1
Net cash outflow from operating activities		28,385.5	28,333.9	27,886.6	27,835.6
Cash flows from investing activities					
Purchase of property, plant and equipment	6	8,035.1	8,054.0	7,514.5	7,534.0
Purchase of intangible assets	5	1,788.9	1,788.9	2,057.1	2,057.1
Adjustment for non cash movements relating to PPE and intangibles		(451.4)	(451.4)	(1,232.1)	(1,232.1)
Proceeds on disposal of property, plant and equipment		(167.0)	(167.0)	(107.1)	(107.1)
Dividends and equity repayments		(11.7)	(11.7)	(17.0)	(17.0)
Net cash outflow from investing activities		9,193.9	9,212.8	8,215.4	8,234.9
Cash flows from financing					
Consolidated Fund (Supply) - current year	SoCITE	(37,473.0)	(37,473.0)	(36,417.7)	(36,417.7)
Repayment of loans from the National Loans Fund		2.5	2.5	2.5	2.5
Capital element of payments in respect of finance leases and Service Concession Arrangements		198.9	198.9	177.0	177.0
Movement on collaborative projects		40.3	40.3	(47.8)	(47.7)
Net financing		(37,231.3)	(37,231.3)	(36,286.0)	(36,285.9)
Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(348.1)	(315.4)	184.0	215.4
Cash and cash equivalents at the beginning of the period	11	1,755.6	1,848.8	1,571.6	1,633.4
Cash and cash equivalents at the end of the period	11	1,407.5	1,533.4	1,755.6	1,848.8

1. Prior year comparators have been restated following a number of Prior Period Adjustments – further details are at Note 23.
2. The adjustment for non-cash transactions in 2017-18 includes: -£7.3 billion change to the provisions, mainly driven by the nuclear decommissioning provision and the impact of the change in the rate for discounting this; and -£6.7 billion depreciation and amortisation on non-current assets. The adjustment for non-cash transactions in 2018-19 includes: £5.8 billion change to provisions, mainly driven by the nuclear decommissioning provision and the impact of the change in the rate for discounting this; and -£6.9 billion depreciation and amortisation on non-current assets.

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

Consolidated Statements of Changes in Taxpayers' Equity (SoCiTE) for the year ended 31 March 2019

		Core Department and Agencies				Departmental
		General Fund ¹	Revaluation Reserve ¹	Taxpayers Equity	Total of ALBs' Reserves ¹	Total Reserves
Restated Balance as at 1 April 2017²		85,360.5	25,023.7	110,384.2	669.2	111,053.4
Parliamentary Funding – drawn down in-year	SoCF	36,417.7	-	36,417.7	-	36,417.7
Parliamentary Funding – deemed funding		696.2	-	696.2	-	696.2
Parliamentary Funding – Supply payable	12	(789.6)	-	(789.6)	-	(789.6)
Gain on transfer by absorption of Dstl		251.1	96.3	347.4	-	347.4
Non-cash charge – auditors remuneration	4.5	2.7	-	2.7	-	2.7
Net expenditure for the year ²	SoCNE	(43,202.2)	-	(43,202.2)	19.5	(43,182.7)
Other net comprehensive expenditure:						
Net (loss) / gain on revaluation of property, plant and equipment ²	SoCNE	-	2,423.2	2,423.2	6.5	2,429.7
Net (loss) / gain on revaluation of intangible assets ²	SoCNE	-	278.9	278.9	-	278.9
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(2.4)	(2.4)	-	(2.4)
Net (loss) / gain on revaluation of inventories	SoCNE	-	200.2	200.2	-	200.2
Net (loss) / gain on pensions	SoCNE	4.2	-	4.2	(27.6)	(23.4)
Changes in capitalised decommissioning liabilities		-	(1,372.2)	(1,372.2)	-	(1,372.2)
Assets written-on / (off) and transferred in	SoCNE	158.6	(22.6)	136.0	1.9	137.9
Transfers between reserves	SoCNE	1,119.0	(1,119.0)	-	-	-
Restated Balance as at 31 March 2018²		80,018.2	25,506.1	105,524.3	669.5	106,193.8
Adjustments for transition to IFRSs 9 and 15		(10.1)	-	(10.1)	-	(10.1)
Balance at 1 April 2018²		80,008.1	25,506.1	105,514.2	669.5	106,183.7
Parliamentary Funding – drawn down in-year	SoCF	37,473.0	-	37,473.0	-	37,473.0
Parliamentary Funding – deemed funding		789.6	-	789.6	-	789.6
Parliamentary Funding – Supply payable	12	(504.8)	-	(504.8)	-	(504.8)
Non-cash charge – auditors remuneration	4.5	2.7	-	2.7	-	2.7
Net expenditure for the year	SoCNE	(28,790.0)	-	(28,790.0)	4.7	(28,785.3)
Other net comprehensive expenditure:						
Net (loss) / gain on revaluation of property, plant and equipment	SoCNE	-	2,358.5	2,358.5	0.8	2,359.3
Net (loss) / gain on revaluation of intangible assets	SoCNE	-	(427.1)	(427.1)	-	(427.1)
Net (loss) / gain on revaluation of assets held for sale	SoCNE	-	(1.3)	(1.3)	-	(1.3)
Reduction in inventory value following adoption of weighted average cost valuation (see inventory note for further details)	SoCNE	-	(336.1)	(336.1)	-	(336.1)
Net (loss) / gain on pensions	SoCNE	18.8	-	18.8	1.7	20.5
Changes in capitalised decommissioning liabilities	SoCNE	-	1,473.6	1,473.6	-	1,473.6
Assets written-on / (off) and transferred in	SoCNE	192.7	-	192.7	43.7	236.4
Transfers between reserves	SoCNE	1,352.8	(1,352.8)	-	-	-
Balance at 31 March 2019		90,542.9	27,220.9	117,763.8	720.4	118,484.2

1. The General Fund represents the total assets less liabilities of the Department, to the extent that the total is not represented by other reserves and financing items. The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The total of the Arm's Length Bodies' reserves includes general fund and revalued items but these are not shown separately as the detail is not considered material.
2. Prior balances and movements have been restated following a number of Prior Period Adjustments – further details are at Note 23.
3. Taxpayers equity and other reserves have been adjusted for the effects of introducing IFRS9 and IFRS 15.

Notes 1 to 23 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 International Financial Reporting Standards (IFRS) as adapted and interpreted by the Government Financial Reporting Manual (FRoM) 2018-19 issued by HM Treasury except that International Financial Reporting Interpretations Committee (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 1.37.

1.2 Where the FRoM permits a choice, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. Accounting policies have been applied consistently in dealing with items that are considered material and comply with the requirements of the FRoM.

Accounting Convention

1.3 These financial statements have been prepared on an accruals basis under the historic cost convention, modified by the revaluation of intangible assets and property, plant and equipment assets.

Going Concern

1.4 The future financing of the Department's liabilities 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 2019-20 is due to be voted on account when the 2019-20 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 21 Entities within the Departmental Boundary.

1.6 ALBs use categories for their costs which do not always align with the Department's categories. As the ALBs are not considered to be material, or financially significant, the operating costs of the ALBs are split into three categories for 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 balances are consolidated into the accounts.

1.7 The Department has assessed that it holds an interest in a joint operation. This has been accounted for in line with IFRS 11 – *Joint Arrangements* 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 IFRS as applied by the FReM.

Changes in Accounting Policies and Disclosures

1.8 There were two new accounting standards and one significant change in accounting policy during 2018-19 affecting the preparation of the accounts. The change in accounting policy related to the valuation basis for inventory and is described in paragraph 1.9 below. The two new accounting standards are IFRS 9 (described below in paragraph 1.10) and IFRS 15 (described below in paragraphs 1.11 to 1.13).

Valuation Basis for Inventory

1.9 Previously HM Treasury allowed the Department to depart from International Accounting Standard (IAS) 2 – *Inventories* and account for inventory at current costs. The exemption has ceased for 2018-19 and the Department is following IAS 2 in full (i.e. lower of cost and net realisable value (NRV)). HM Treasury directed that this change should be accounted for as an in-year adjustment.

IFRS 9 – Financial Instruments

1.10 IFRS 9 – *Financial Instruments* introduced changes to the classification and measurement of financial instruments. As required by the FReM, the Department has accounted for the application of IFRS 9 as a change in accounting policy by recognising the difference between the Department's financial assets' previous carrying amount and the carrying amount under IFRS 9 in the 1 April 2018 opening retained earnings. The reduction in their carrying amount is due to an increase in expected credit losses by applying the expected credit loss model under IFRS 9. There has been no impact on the Department's financial assets other than that described as follows. Two immaterial receivables are measured at fair value through profit or loss. There has been an increase in the level of impairments due to the expected credit loss approach – see Note 1.43 and Note 1.46. The financial impact is immaterial and so the full transitional disclosures have not been presented. The accounting policies for financial instruments are set out in Notes 1.43 to 1.47.

IFRS 15 – Revenue from Contracts with Customers

1.11 IFRS 15 – *Revenue from Contracts with Customers* introduced changes to the timing of revenue recognition for contracts, matching revenue to performance obligations and is a change in accounting policy. MOD has applied IFRS 15, as adapted by the FReM, in full. As required by the FReM, the Department has accounted for the application of IFRS 15 as a change in accounting policy by recognising the difference between the Department's contractual performance obligations under IFRS 15 and the re-stated carrying amount in the 1 April 2018 opening retained earnings. In assessing the impact of IFRS 15 MOD excluded contracts with a value of less than £20,000 on the grounds of materiality. The definition of 'contract' includes arrangements covered by Memoranda of Understanding (MoU), even though these are not legally enforceable. MoU are assessed on a case by case basis against the five step model set out in IFRS 15. The remaining contracts were categorised as either: outside the scope of IFRS 15; in scope of IFRS 15, but the accounting treatment is assessed as being unchanged; or in scope but the accounting treatment has changed.

1.12 The bulk of what MOD provides to external customers is the provision of services on a rolling basis, e.g. repair and maintenance services. The performance obligations in these contracts are satisfied over time using output methods to recognise revenue on the basis of direct measurement of value to the customer using items such as milestones and time elapsed. Income recognition on such contracts will not change under IFRS 15. In some instances, MOD is providing goods and services where the performance obligations are satisfied at a point in time, such as training courses, or fitting of security systems. In these cases the performance obligations are deemed to be met when the customer assumes control of the relevant asset. The security system fitting is the only task where revenue recognition is affected by IFRS 15, resulting in a change to opening equity of £2.9 million. The Department has not discounted the promised consideration when it expects, at contract inception, that the period between the transfer of a promised good or service to a customer and the date the customer pays for it will be for one year or less.

1.13 The impact of IFRS 15 implementation is not material, affecting only a small number of contracts in the Defence Infrastructure Organisation. Consequently, full transitional disclosures are not provided on the grounds of materiality. The detailed ongoing accounting policy for revenue can be found in Note 1.57.

Changes Impacting the Preparation of Future Annual Accounts

1.14 There are no significant anticipated changes to the 2019–20 FReM. HM Treasury has deferred adoption of IFRS 16 – *Leases* for the public sector to 2020-21. IFRS 16 is expected to have a significant impact for the Department.

IFRS 16 – Leases

1.15 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 and a finance lease. The new Standard requires recognition of all leases which last over 12 months unless the underlying asset is of low value. 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-of-use asset and an associated finance cost being recognised.

1.16 The new leasing Standard will have a significant impact on the Department. The current finance leases, Note 17.2, will be brought across under IFRS 16 with no impact on the accounts. Assets subject to leases that are currently accounted for as operating leases per Note 17.1 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 currently working towards establishing the quantitative impact of the introduction of this Standard. The assessment project is ongoing and is currently focused on some 600 contracts. Due to the number of potential leases within scope of the Standard the financial impact is not yet known and an estimate cannot yet be made until the end of the project which is due for completion October 2019.

1.17 As described in Note 1.35 and Note 1.36, the Department does not materially comply with IFRIC 4 and IAS 17 – *Leases* because compliance does not represent value for money. It is however the intention as highlighted in 1.15 that moving forward the Department will become compliant under IFRS 16 when it becomes fully implemented at 1 April 2020.

Property, Plant and Equipment Non-Current Assets

Recognition

1.18 The Department's capitalisation threshold is £25,000. Assets are recognised initially at cost, which comprises purchase price, construction costs, after deducting 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.

1.19 Assets under construction are capitalised during the period of construction and on completion, balances are released into the appropriate asset category. On completion of the project or on delivery of an asset with phased deliveries the costs are transferred to the asset register.

1.20 The capitalisation threshold is not applied to individual capital spares (defined in Table 1 below) and assembled Guided Weapons Missiles and Bombs (GWMB). Instead, these items are grouped together and accounted for accordingly.

Valuation

1.21 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.

1.22 Prospective indices appropriate for the class of asset are applied at the start of each financial year for all non-current assets. 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.

1.23 Property assets are also subject to a quinquennial revaluation by internal and external valuers in accordance with IAS 16 – *Property, Plant and Equipment* as interpreted by the FReM. In use non-specialised assets are valued at market value in existing use and in use specialised assets are valued at 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. This is further explained in Note 6 Property, Plant and Equipment.

1.24 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.

1.25 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

1.26 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 Lives (UL) 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 (ABC) and in Strategic Defence and Security Reviews (SDSR).

1.27 The principal asset categories, together with their useful lives, are set out in the table below.

Note to the Accounts Table 1: Principal Asset Categories and Useful Lives

Category		Useful Life (UL)
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

Componentisation and Subsequent Expenditure

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

- Newly built property assets, except for 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

1.29 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. Any reversal of such impairment losses is recognised in the SoCNE to the extent that the original charge was previously recognised, with any remaining amount recognised in the revaluation reserve.

1.30 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

1.31 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.

1.32 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.

1.33 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

1.34 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.

1.35 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 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.

1.36 The Department's most significant lease type arrangements where IFRIC 4 is likely to apply are not currently recognised. As a result of 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, the Department's accounts will continue to receive a qualified audit opinion in respect of the material omission of assets held under finance leases and the associated liabilities that should be recognised under IAS 17.

1.37 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 17 – *Commitments under Leases*.

Intangible Non-Current Assets

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

1.39 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 class, e.g. class of ship or aircraft (the table at paragraph 1.27 above states the useful lives for principal tangible non-current asset categories). Amortisation commences when the asset type first enters operational service.

1.40 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

1.41 Where PPP including PFI arrangements fall within the definition of a Service Concession Arrangement (SCA) in IFRIC 12 – *Service Concession Arrangements*, the infrastructure assets and liabilities are reported on the Department's SoFP. Unitary charges are apportioned between reduction in the capital obligation and charges to the SoCNE for service performance and finance costs.

1.42 Where PPP including PFI arrangements are outside the scope of IFRIC 12, a new arrangement 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

1.43 The Department classifies and measures its financial assets in accordance with IFRS 9 as adapted by the FReM. Financial assets are classified according to the business model for holding them and the contractual cash flow characteristics of the financial asset. The treatment of the Department's material receivables is to measure them at amortised cost. This is because they are being held to collect the cash flows and the cash flows are solely for the payments of principal and interest (if chargeable). Where financial assets do not meet the measurement categories of amortised cost or fair value through other comprehensive income, they are measured at fair value through profit or loss.

1.44 With the exception of two immaterial receivables measured at fair value through profit or loss, receivables, including trade receivables, staff loans and advances are initially measured at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate. This is because 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.

1.45 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 measured at fair value through profit or loss. In accordance with the FReM, public dividend capital is reported at historic cost less any impairment and 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 Investments.

1.46 Loss allowances are made for expected credit losses for those financial assets not already held at fair value. The Department uses the practical expedient in IFRS 9 to use a provisions matrix to determine percentages to estimate expected credit losses for different classes of receivables, such as trade receivables, staff receivables and bespoke receivables for asset sales. The expected credit loss percentages are based on the actual bad debts incurred in the past adjusted for future uncertainties, this adjustment is based on the Department's judgement. Sensitivity analysis was undertaken to test the significance of changes to this judgement and the impact was not material. Expected credit loss provisions are also made against specific receivables where there is objective evidence of impairment. In accordance with the FReM, the balances with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are excluded from recognising Stage 1 and Stage 2 impairments.

1.47 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

1.48 Inventories are valued at the lower of weighted average cost (the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period) and net realisable value (estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale).

1.49 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.

1.50 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 9 Inventories.

1.51 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.

Cash and Cash Equivalents

1.52 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 held in foreign bank accounts.

Provisions for Liabilities and Charges

1.53 Provisions for liabilities and charges are recognised in line with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* and are based on realistic estimates of the expenditure required to settle legal or constructive obligations.

1.54 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 for operational assets only. Changes to the 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, see Note 13 Provisions for Liabilities and Charges for further information. The carrying amount of any capitalised asset provision is depreciated and charged to the SoCNE over the remaining estimated useful life of the underlying asset. The capitalised provision asset is valued using the depreciated replacement cost (DRC) methodology.

1.55 Provisions are discounted at the nominal rates advised by HM Treasury. There is a rebuttable presumption that departments will use the inflation rates in the latest Public Expenditure System (PES) paper, obtained from the Office for Budget Responsibility (OBR) Consumer Price Index (CPI) forecasts, when inflating provision cash flows. The Department applies the CPI (recommended by HM Treasury) and circumstances where there is deviation from this (as per the rebuttal presumption) are detailed in Note 13. 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. Details are given in Note 13 Provisions for Liabilities and Charges.

Foreign Currency

1.56 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

1.57 Income principally comprises revenue from the provision of supplies and services; receipts from foreign governments; sale of non-current assets; and investment or dividend income. It is included within operating income, net of related VAT, where applicable.

1.58 Income from contracts with customers is recognised in accordance with IFRS 15 as detailed in paragraph 1.11. In accordance with IAS 10 – *Events after the Reporting Period*, 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. IFRS 15 has been applied, as adapted by the FReM, in full. The Department recognises revenue in accordance with the 5 step model in IFRS 15, by applying the following steps:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

1.59 The Department has applied some inclusions and exclusions in the application of IFRS 15. Contracts with a value of less than £20,000 were excluded on the grounds of materiality and excluded income from sales of fixed assets as IAS 16 states (para 68) 'Gains shall not be classed as revenue'. The Department has included rental income under IFRS 15 to the extent that it is not covered by IFRS 16.

Expenditure

1.60 Expenditure includes a number of costs as listed in the SoCNE, of which the key areas include depreciation and amortisation; impairments; staff costs; equipment support; 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 4.3 Expenditure.

Salaries, Wages and Employment-Related Payments

1.61 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

1.62 The main pension schemes to which staff belong are not consolidated in the Department's accounts (the schemes prepare separate accounts). The main schemes are either defined contribution or are multi-employer defined benefit schemes where the Department's shares of assets and liabilities cannot be identified and that in accordance with IAS 19 – *Employee Benefits*, these are thus also treated as defined contribution schemes. All other MOD schemes, detailed in Note 14 Retirement Benefit Schemes, are consolidated into the financial statements as defined benefit schemes and IAS 19 has been adopted to account for them.

1.63 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.

1.64 The Department additionally makes contributions to several other pension schemes which are not consolidated in the financial statements. These contributions are recognised in the SoCNE.

Value Added Tax (VAT)

1.65 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

1.66 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/collections/mod-heritage-reports-index>.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

1.67 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 experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1.68 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

1.69 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 such as through undertaking valuations and the selection of indices described below. 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 the Valuation Office Agency for property assets and Defence Statistics for non-property assets. 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.

1.70 There is uncertainty in the valuation of land in scope of the Defence Estate's Optimisation Programme. The sales values have been estimated and are therefore subject to variation. There are also uncertainties in respect of planning permission, costs to prepare sites for sale and the forecast disposal date.

1.71 The useful lives 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.

Changes in Discount Rate

1.72 The change in discount rate is treated as a change in estimate (processed in-year) under IAS 8. HM Treasury has changed the methodology for setting discount rates to be applied to general provisions. HM Treasury now specifies nominal rates (applied to cash flows which include inflation) to discount general provisions. Previously, HM Treasury specified real discount rates (for cash flows which exclude the impact of inflation). The impact is that the Department now forecasts and applies inflation assumptions to calculate inflationary adjusted cash flows for its general provisions. HM Treasury sets a rebuttable presumption that CPI will be used to calculate inflation. This has been followed by the Department unless stated in Note 13 Provisions for Liabilities and Charges.

Impairments

1.73 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.

Accruals

1.74 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 the Department's projects). Details are given in Note 12 Trade Payables and Other Liabilities. The Department only recognises manual accruals above £10,000.

Provisions

1.75 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.

1.76 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; 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 13 Provisions for Liabilities and Charges.

1.77 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.

Prior Period Adjustments

1.78 Where there are adjustments required of a material nature that affect the comparator years the Department will restate the relevant periods.

1.79 As part of an ongoing Financial Management Improvement Plan the Department has conducted a number of reviews designed to improve the quality of financial reporting. As a result of these reviews the Department has identified several prior period errors that have been adjusted for by retrospective restatement of the Accounts in accordance with IAS 8. The Department has also corrected a number of other historical omissions and misstatements, which previously were assessed as immaterial both individually and in aggregate. Further detail is Note 23.

2. Segmental Analysis

2.1 The Department's organisational structure is set out in the Performance Report and 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 (DE&S) – responsible for procurement and support of equipment; the Defence Nuclear Organisation (including, from 1 April 2018, the Submarine Delivery Agency which was formerly part of DE&S) which focuses on the procurement and in-service support of our nuclear submarines, the Defence Infrastructure Organisation (DIO) – 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 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, where applicable, 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 systems 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.

Resource and Capital Outturn Reviewed by the Board	2018–19 £M	2017–18 ¹ £M
Royal Navy	6,343.8	5,752.2
Army	10,055.5	8,195.7
Royal Air Force	6,593.8	5,999.6
Joint Forces Command	4,612.2	4,120.4
Defence Equipment & Support	1,049.6	1,097.7
Defence Infrastructure Organisation ²	948.6	3,454.2
Head Office & Corporate Services	1,758.1	1,591.9
Defence Nuclear Organisation	3,841.9	3,679.0
Strategic Programme	992.4	940.8
Unallocated Equipment Plan	146.2	152.4
War Pension Benefits	697.3	723.2
Sub total of Resource & Capital reviewed by the Board during the financial year	37,039.4	35,707.1
Outturn (Resource & Capital) for Cost of Operations (excluding depreciation, impairments, provisions)	698.7	800.9
Balance of Resource and Capital Outturn (depreciation, impairment, provisions, Annually Managed Expenditure (AME) and Arm's Length Bodies)	(754.9)	17,129.2
Total Resource and Capital Outturn (See SoPS)	36,983.2	53,637.2
Reconciliation to Net Expenditure:		
Adjustment: for items included in Net Resource Outturn but not included in Net Operating Costs, and for the impact of Prior Period Adjustments on the re-stated 2017–18 Net Expenditure (see SoPS Note 2)	2,101.2	(1,034.3)
Adjustment for capital expenditure not included in Net Expenditure (see SoPS Note 1)	(10,294.4)	(9,748.1)
Total Departmental Net Expenditure (See Statement of Comprehensive Net Expenditure)	28,790.0	42,854.8

1. The 2017–18 figures have been reorganised to reflect changes in the way the Board reviews financial information.
2. The Infrastructure Plan disclosures (below) are new for 2018–19. The separately disclosed costs were previously recorded as part of the Near Cash Outturn for the Defence Infrastructure Organisation. Comparative figures have not been adjusted as the information was not available and the cost to obtain it would be excessive.

Equipment Plan Outturn	2018–19 £M	2017–18 £M
Equipment Plan – Resource Outturn		
Royal Navy	1,552.8	1,624.1
Army	940.9	979.5
Royal Air Force	2,076.9	1,927.0
Joint Forces Command	1,758.4	1,577.3
Strategic Programme	364.5	386.9
Defence Nuclear Organisation	1,055.5	1,053.7
Defence Equipment & Support	146.2	152.4
Equipment Plan – Total Resource Outturn	7,895.2	7,700.9
Equipment Plan – Capital Outturn		
Royal Navy	1,671.5	1,514.0
Army	1,078.9	767.4
Royal Air Force	1,540.9	1,611.3
Joint Forces Command	547.9	508.3
Strategic Programme	627.9	553.9
Defence Nuclear Organisation	2,655.7	2,606.4
Defence Equipment & Support	15.4	(7.7)
Equipment Plan – Total Capital Outturn	8,138.2	7,553.6
Infrastructure Plan Outturn	2018–19 £M	2017–18 £M
Infrastructure Plan – Resource Outturn¹		
Royal Navy	157.7	-
Army	839.5	-
Royal Air Force	253.1	-
Joint Forces Command	257.7	-
Defence Equipment & Support	77.5	-
Defence Infrastructure Organisation	459.5	-
Head Office & Corporate Services	98.7	-
Defence Nuclear Organisation	5.8	-
Infrastructure Plan – Total Resource Outturn	2,149.5	-
Infrastructure Plan – Capital Outturn¹		
Royal Navy	224.2	-
Army	620.0	-
Royal Air Force	146.3	-
Joint Forces Command	67.4	-
Defence Equipment & Support	5.0	-
Defence Infrastructure Organisation	55.2	-
Infrastructure Plan – Total Resource Outturn	1,118.1	-

1. The Infrastructure Plan disclosures (above) are new for 2018–19. Comparative figures are not included as the information was not available and the cost to obtain it would be excessive.

3. Income

	2018-19		2017-18	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Receipts – revenue from contracts with customers ¹	121.7	121.7	-	-
Receipts – supplies and services	219.4	219.4	265.2	265.2
Receipts – NATO/UN/US Forces/Foreign Governments	286.0	286.0	279.0	279.0
Receipts from sale of fuel	47.5	47.5	62.7	62.7
Rental income – property	49.6	49.6	52.1	52.1
Sub total – Income from provision of supplies and services	724.2	724.2	659.0	659.0
Income Other – receipts personnel	277.7	277.7	284.8	284.8
Income Other – proceeds from the sale of PPE and intangible assets	217.6	217.6	210.0	210.0
Income Other – including: dividends, donated assets, ALBs' income, commercial exploitation levies and sundry sales ²	226.8	333.8	156.3	236.8
Total Income	1,446.3	1,553.3	1,310.1	1,390.6

1. As directed by HMT no prior year comparators are disclosed. This category is new for 2018-19 and is a result of the implementation of a new accounting standard (IFRS15). The receipts now classified as “revenue from contracts with customers” were previously classified as “Receipts – supplies and services” and “Receipts – NATO/UN/US Forces/Foreign Governments”.
2. The income of Arm's Length Bodies is classified as dividends or other income.

4. Expenditure

4.1 Staff costs

	2018-19		2017-18	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Staff costs comprise:				
Salaries and wages	8,393.2	8,473.3	8,239.0	8,317.9
Social security costs	783.4	794.6	791.0	802.3
Pension costs	3,319.0	3,327.0	3,293.8	3,301.3
Redundancy and severance payments	3.5	3.5	1.0	1.0
	12,499.1	12,598.4	12,324.8	12,422.5
Paid to:				
Armed Forces	9,931.1	9,931.1	9,840.4	9,840.4
Civilian	2,568.0	2,667.3	2,484.4	2,582.1
	12,499.1	12,598.4	12,324.8	12,422.5

4.2 Purchase of goods and services

	2018-19		Restated 2017-18 ¹	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Equipment management:				
Equipment support – owned equipment	4,869.9	4,869.9	4,533.6	4,533.6
Contractor logistic and operational equipment support contracts	1,169.1	1,169.1	1,268.4	1,268.4
Equipment support – under Service Concession Arrangements	321.3	321.3	291.3	291.3
Equipment support – equipment under finance lease	16.1	16.1	54.7	54.7
Payments under operating leases – plant & equipment	5.8	5.8	7.2	7.2
Plant and equipment under Service Concession Arrangements	59.1	59.1	66.1	66.1

	2018-19		Restated 2017-18 ¹	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Estate management:				
Property management	1,271.4	1,271.4	1,209.5	1,209.5
Property management under Service Concession Arrangements	618.4	618.4	597.0	597.0
Utilities	335.3	335.3	309.4	309.4
Accommodation charges	331.6	331.6	332.1	332.1
Payments under operating leases – other	188.7	188.7	187.4	187.4
Defence housing costs under finance leases	85.6	85.6	84.4	84.4
Inventory:				
Inventory consumption	996.0	996.0	940.4	940.4
Fuel consumption	330.5	330.5	324.3	324.3
Information Technology and communications:				
IT and telecommunications	1,332.4	1,332.4	1,115.8	1,115.8
IT and telecommunications under Service Concession Arrangements	272.0	272.0	281.2	281.2
Research expenditure and expensed development expenditure	654.3	654.3	561.4	561.4
Transport and Travel:				
Cost of travel, subsistence, relocation, and movement of stores and equipment	611.5	611.5	570.3	570.3
Transport under Service Concession Arrangements	52.2	52.2	46.9	46.9
Professional fees	787.7	787.7	742.3	742.3
Training, safety and welfare	649.0	649.0	721.7	721.7
Total	14,957.9	14,957.9	14,245.4	14,245.4

1. Restated for the Prior Period Adjustments set out at Note 23.

4.3 Depreciation, impairment, writes on/off and disposals

	2018–19		Restated 2017–18 ¹	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Depreciation of property, plant and equipment (PPE) ²	5,332.8	5,342.6	5,246.9	5,257.4
Amortisation of intangible assets	1,507.2	1,507.2	1,430.7	1,430.7
Impairment / (impairment reversal) – Arising on quinquennial valuation	37.4	37.4	369.3	369.3
Other impairments	(125.4)	(125.4)	635.3	635.3
Inventory adjustments to net realisable value	(67.2)	(67.2)	(313.2)	(313.2)
Inventory write off / (on) – net	(191.0)	(191.0)	488.0	488.0
Non-cash cost of disposal of property, plant and equipment and intangible assets	92.3	92.3	136.2	136.2
(Surplus) / deficit arising on disposal of inventory – net	(36.2)	(36.2)	(24.1)	(24.1)
Intangible and property, plant and equipment assets write off / (write on) – net	270.0	270.0	31.6	31.6
Capital project expenditure write off / (write on) – net	209.4	209.4	417.7	417.7
Bad debts written off	4.7	4.7	0.5	0.5
Increase/(Decrease) in bad debt provisions – net	(1.4)	(1.4)	(0.5)	(0.5)
Total	7,032.6	7,042.4	8,418.4	8,428.9

1. Restated for the Prior Period Adjustments set out at Note 23.

2. Expenditure by Arm's Length Bodies is classified as staff costs, depreciation of PPE or Other expenditure-administrative costs.

4.4 Movement on provisions, derivatives and on the unwinding of discount on payables and receivables

	2018–19		Restated 2017–18 ¹	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Increase/(decrease) in nuclear provisions	(5,517.4)	(5,517.4)	7,191.9	7,191.9
Movement on Derivatives	(342.6)	(342.6)	327.8	327.8
Increase/(decrease) in other provisions	(35.5)	(35.5)	189.3	189.3
Unwinding of discount on provisions, payables and receivables – net	(276.6)	(276.6)	(70.0)	(70.0)
Total	(6,172.1)	(6,172.1)	7,639.0	7,639.0

1. Restated for the Prior Period Adjustments set out at Note 23.

4.5 Other expenditure

	2018–19		2017–18	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Administrative costs - including recruitment, insurance, public relations, funeral expenses and cadet fores pay ¹	536.0	729.6	527.9	664.4
Grants-in-Aid (including to bodies within the accounting boundary)	216.2	30.9	197.6	29.6
Other grants to bodies within the accounting boundary	15.5	-	16.1	-
Auditors' remuneration (for audit work only) – notional (non cash) cost in respect of the Core Department and Agencies	2.7	2.7	2.7	2.7
Auditors' remuneration (for audit work only) – in respect of Arm's Length Bodies	-	0.4	-	0.4
Total	770.4	763.6	744.3	697.1

1. Expenditure by Arm's Length Bodies is classified as staff costs, depreciation of PPE or Other expenditure-administrative costs.

5. Consolidated Departmental Group – Intangible Assets

Intangible assets include development expenditure in respect of non current assets in use and assets under construction. All intangible assets are held by the Core Department and Agencies. For 2018–19 the presentation of the note has been adjusted (including comparatives) by separately disclosing Transport (previously part of the Others column) and by incorporating Software in Others.

	Note	Single Use Military Equipment £M	Transport £M	AUC £M	Others £M	Total £M
Cost or Valuation†						
Balance at 1 April 2017		24,495.6	6,636.2	10,809.8	2,901.2	44,842.8
Additions	i	4.9	-	2,052.8	(0.6)	2,057.1
Disposals		(288.2)	-	(277.1)	(130.1)	(695.4)
Impairments	ii	-	-	-	(0.9)	(0.9)
Impairment reversals	ii	4.9	-	-	1.1	6.0
Revaluations	iii	414.2	90.0	(34.0)	84.2	554.4
Reclassifications	iv	629.4	(125.6)	(775.9)	201.6	(70.5)
Restated Balance as at 31 March 2018¹		25,260.8	6,600.6	11,775.6	3,056.5	46,693.5
Additions	i	-	-	1,786.7	2.2	1,788.9
Disposals		(3,846.8)	(4.6)	(245.8)	(79.2)	(4,176.4)
Impairments	ii	-	-	-	-	-
Impairment reversals	ii	1.0	-	-	0.2	1.2
Revaluations	iii	575.9	162.0	(438.6)	27.6	326.9
Reclassifications	iv	3,410.1	191.2	(3,134.0)	33.1	500.4
Balance at 31 March 2019		25,401.0	6,949.2	9,743.9	3,040.4	45,134.5
Amortisation						
Balance at 1 April 2017		(12,530.5)	(3,100.2)	-	(1,667.7)	(17,298.4)
Charged in Year		(958.9)	(237.0)	-	(234.8)	(1,430.7)
Disposals		172.5	-	-	310.9	483.4
Impairments	ii	-	-	-	0.9	0.9
Impairment reversals	ii	(1.9)	-	-	(1.7)	(3.6)
Revaluations	iii	(183.5)	(38.4)	-	(53.6)	(275.5)
Reclassifications	iv	17.3	243.4	-	(249.5)	11.2
Restated Balance as at 31 March 2018¹		(13,485.0)	(3,132.2)	-	(1,895.5)	(18,512.7)
Charged in Year		(1,046.0)	(233.1)	-	(228.1)	(1,507.2)
Disposals		4,081.4	2.3	-	55.3	4,139.0
Impairments	ii	-	-	-	-	-
Impairment reversals	ii	(0.4)	-	-	(0.1)	(0.5)
Revaluations	iii	(332.7)	(77.4)	-	(343.9)	(754.0)
Reclassifications	iv	(1.0)	-	-	320.7	319.7
Balance at 31 March 2019		(10,783.7)	(3,440.4)	-	(2,091.6)	(16,315.7)
Net Book Value						
Restated Balance as at 1 April 2017 ¹		11,965.1	3,536.0	10,809.8	1,233.5	27,544.4
Restated Balance as at 31 March 2018 ¹		11,775.8	3,468.4	11,775.6	1,161.0	28,180.8
Balance at 31 March 2019		14,617.3	3,508.8	9,743.9	948.8	28,818.8

1. Prior balances and movements have been restated following a number of Prior Period Adjustments – further details are at Note 23.
- i. Additions include accruals of £782 million (2017–18: £787 million and £6.6 million of Dstl assets). Information on Frascati compliant R&D expenditure can be found on the website: <https://www.gov.uk/government/organisations/ministry-of-defence/about/statistics>
- ii. Capitalised development costs directly linked to a class of asset are only impaired if the whole class of the associated non-current asset is impaired e.g. when a whole class of asset is withdrawn from service. Reversals of prior year impairments are shown separately. The net impact of impairments and impairment reversals has been taken to the SoCNE.
- iii. 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.
- iv. Reclassifications include assets classified to or from property, plant and equipment.
- v. Disposals of Single Use Military Equipment during 2018–19 include intangibles associated with Tornado aircraft.
- † 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.

5.1 Movement in the revaluation reserve relating to intangible assets

	2018-19 £M	Restated ¹ 2017-18 £M
Balance 1 April	2,936.1	2,912.2
Revaluation	(427.1)	278.9
Transfers / reclassifications	(31.9)	18.0
Realised reserve transferred to the General Fund	(74.9)	(273.0)
Balance – 31 March	2,402.2	2,936.1

1. Restated for the Prior Period Adjustments set out at Note 23.

5.2 Details of intangible assets with a net book value greater than £0.5 billion

Description	Net Book Value 31 March 2019 £Bn	Remaining Useful Economic Life
Typhoon development costs	5.5	21 years
Merlin helicopter development costs	1.6	11 years 9 months
Lightning II	1.6	29 years 0 months
Type 45 destroyer development costs	1.2	23 years 0 months
Airbus A400M Atlas development costs	0.8	31 years 9 months
Lynx Wildcat helicopter development costs	0.7	25 years 11 months
Spearfish torpedo development costs	0.5	29 years 9 months

Description	Net Book Value 1 April 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 other platforms with intangible assets valued excess of £500 million (NBV) are not disclosed.

6. Consolidated Departmental Group – Property, Plant and Equipment

Cost or Valuation	Note	Land				Single Use				IT and Communication			Total	
		Dwellings	Land Other Buildings	Dwellings	Other Buildings	Military Equipment (SUME)	Plant and Machinery	Transport	Communication Equipment	AUC (SUME)	AUC (Other)	£M		
		£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Restated Balance as at 1 April 2017 ¹		2,445.6	7,156.1	13,407.8	27,859.0	77,965.6	3,501.5	19,335.5	4,934.7	16,386.4	5,998.5		178,990.7	
Additions	i	-	51.5	8.4	374.2	622.4	33.5	8.7	103.7	4,017.1	2,314.5		7,534.0	
Disposals	-	(19.8)	(8.4)	(146.0)	(104.8)	(3,222.0)	(193.1)	(402.6)	(276.3)	(298.8)	(49.6)		(4,721.4)	
Impairments	ii, iv	(49.4)	(113.0)	(258.2)	(562.0)	(1,085.8)	-	(29.9)	(37.6)	(1.9)	-		(2,137.8)	
Impairment reversals	ii, iv	50.9	6.4	37.9	97.3	138.8	1.4	0.8	7.5	-	-		341.0	
Reclassifications	iii	(0.3)	(7.5)	732.5	(153.6)	5,325.6	468.6	602.5	21.6	(5,598.4)	(1,837.6)		(446.6)	
Revaluations	iv	6.8	(21.5)	1,274.8	414.8	2,193.6	85.4	273.1	126.6	-	204.1		4,557.7	
Restated Balance as at 31 March 2018¹	v	2,433.8	7,063.6	15,057.2	27,924.9	81,938.2	3,897.3	19,788.1	4,880.2	14,504.4	6,629.9		184,117.6	
Additions	i	1.6	3.7	4.4	294.0	715.2	16.2	5.6	43.4	4,562.2	2,407.7		8,054.0	
Disposals	-	(61.2)	(10.0)	(21.9)	(784.8)	(2,616.4)	(12.8)	(493.1)	(241.4)	(267.4)	(136.0)		(4,645.0)	
Impairments	ii, iv	(36.4)	(85.3)	(89.5)	(357.8)	-	(41.4)	(166.6)	(23.1)	-	-		(750.1)	
Impairment reversals	ii, iv	85.1	130.9	99.2	172.8	39.8	1.0	-	2.5	-	-		531.3	
Reclassifications	iii	70.3	7.3	279.4	850.3	(135.8)	140.1	824.8	128.5	(2,736.7)	(862.9)		(1,434.7)	
Revaluations	iv	8.9	69.7	1,047.7	1,354.0	1,191.2	25.9	403.1	29.0	-	20.7		4,150.2	
Balance at 31 March 2019	v	2,502.1	7,229.9	16,376.5	29,453.4	81,132.2	4,026.3	20,361.9	4,819.1	16,062.5	8,059.4		190,023.3	
Depreciation													-	
Restated Balance as at 1 April 2017 ¹		(130.3)	(35.6)	(4,080.0)	(14,932.2)	(43,854.4)	(1,689.0)	(7,952.7)	(2,747.8)	-	-		(75,422.0)	
Charged in Year		(15.4)	(9.2)	(287.3)	(571.0)	(2,982.3)	(125.5)	(822.1)	(444.6)	-	-		(5,257.4)	
Disposals		-	0.3	98.6	329.4	2,992.4	113.6	309.4	258.4	-	-		4,102.1	
Impairments	ii, iv	0.1	-	21.8	30.0	740.3	-	14.3	23.9	-	-		830.4	
Impairment reversals	ii, iv	-	-	(5.8)	(28.0)	-	(1.1)	(0.3)	(5.5)	-	-		(40.7)	
Reclassifications	iii	-	1.3	(240.3)	331.5	919.5	(103.1)	155.1	0.2	-	-		1,064.2	
Revaluations	iv	-	-	(650.9)	(81.5)	(1,194.9)	(44.0)	(81.3)	(75.4)	-	-		(2,128.0)	

	Note	Single Use										Total £M
		Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Other Buildings £M	Military Equipment (SUME) £M	Plant and Machinery £M	Transport £M	Communication Equipment £M	AUC (SUME) £M	AUC (Other) £M	
Restated Balance as at 31 March 2018¹		(145.6)	(43.2)	(5,143.9)	(14,921.8)	(43,379.4)	(1,849.1)	(8,377.6)	(2,990.8)	-	-	(76,851.4)
Charged in Year		(15.4)	(8.7)	(331.8)	(750.6)	(2,782.4)	(245.3)	(861.5)	(346.9)	-	-	(5,342.6)
Disposals		-	0.5	37.0	393.1	1,707.4	76.0	279.5	236.5	-	-	2,730.0
Impairments	ii, iv	1.7	-	20.7	173.2	201.4	40.7	95.4	16.9	-	-	550.0
Impairment reversals	ii, iv	(4.3)	-	(17.0)	(52.4)	(167.0)	(0.8)	(0.4)	(2.0)	-	-	(243.9)
Reclassifications	iii	-	-	0.6	27.7	1,575.7	(7.9)	150.4	(1.8)	-	-	1,744.7
Revaluations	iv	(0.9)	(7.5)	(425.0)	(700.3)	(482.9)	1.7	(161.5)	(14.5)	-	-	(1,790.9)
Balance at 31 March 2019		(164.5)	(58.9)	(5,859.4)	(15,831.1)	(43,327.2)	(1,984.7)	(8,875.7)	(3,102.6)	-	-	(79,204.1)
Net Book Value												
Restated Balance as at 1 April 2017		2,315.3	7,120.5	9,327.8	12,926.8	34,111.2	1,812.5	11,382.8	2,186.9	16,386.4	5,998.5	103,568.7
Restated Balance as at 31 March 2018		2,288.2	7,020.4	9,913.3	13,003.1	38,558.8	2,048.2	11,410.5	1,889.4	14,504.4	6,629.9	107,266.2
Balance at 31 March 2019		2,337.6	7,171.0	10,517.1	13,622.3	37,805.0	2,041.6	11,486.2	1,716.5	16,062.5	8,059.4	110,819.2

Notes

1. Prior balances and movements have been restated following a number of Prior Period Adjustments – further details are at Note 23.

i. Additions include accruals of £2.4 billion (2017–18: £2.5 billion).

ii. Assets are impaired for a variety of reasons e.g. loss, damage, obsolescence, abandonment of AUC and as part of the disposal process and have been charged or credited (impairment reversals) to operating costs. Impairments and impairment reversals are now shown separately.

iii. Reclassifications do not net to zero because they include assets reclassified from inventory, reclassified to assets held for sale and reclassified to and from intangible assets.

iv. Revaluations include changes due to indexation. 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.

v. Property, plant and equipment as at 31 March 2019 include capitalised provisions (gross cost) of £2,471 million (2017–18: £4,012 million).

Asset Financing	Note	Single Use										Total
		Land Dwellings £M	Land Other Buildings £M	Dwellings £M	Other Buildings £M	Military Equipment (SUME) £M	Plant and Machinery £M	Transport £M	Communication Equipment	AUC (SUME)	AUC (Other)	
Owned		532.6	7,033.4	4,514.1	12,174.1	37,805.0	1,730.2	9,374.6	984.1	16,062.5	8,059.4	98,270.0
Leased		1,763.3	28.7	5,008.7	67.8	-	-	47.3	-	-	-	6,915.8
Service Concession Arrangements		41.7	108.9	994.3	1,380.4	-	311.4	2,064.3	732.4	-	-	5,633.4
Balance at 31 March 2019		2,337.6	7,171.0	10,517.1	13,622.3	37,805.0	2,041.6	11,486.2	1,716.5	16,062.5	8,059.4	110,819.2
Of the total net book value as at 31 March 2019												
Core Department		2,299.8	7,121.0	10,441.7	13,379.0	37,804.8	1,803.6	11,476.2	1,714.6	16,062.5	8,053.5	110,156.7
Arm's Length Bodies		37.8	50.0	75.4	243.3	0.2	238.0	10.0	1.9	-	5.9	662.5
Total		2,337.6	7,171.0	10,517.1	13,622.3	37,805.0	2,041.6	11,486.2	1,716.5	16,062.5	8,059.4	110,819.2

6.1 Land and Buildings, with the exception of AUC, are subject to quinquennial revaluation (QQR). The new QQR cycle commenced in 2018–19 and has been re-phased so that in future 20% of the MOD estate will be valued each year, including a review of new/refurbished assets where a valuation is required and is not due during that year. 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 peer reviewed by the VOA. 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 2018–19 QQR resulted in a £273.7 million increase in the value of Land and a £895.2 million increase in the value of Buildings at Net Book Value. Valuations received during the year were dated 1 November 2018 and were effective from 1 April 2018; depreciation charged to the SoCNE includes the in-year catch-up depreciation from 1 April 2018.

6.3 The net change to the SoCNE in respect of impairments arising from the movement in values against Land and Buildings assets is a £37.4 million impairment write off. This is made up of: Land, £58.6 million net impairment reversal; Buildings, £96.0 million net impairment write off. The figures include all Land and Building assets professionally valued during Financial Year 2018–19, including Donated, IFRIC 12 and IAS 17 finance lease assets.

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 and managing 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 credit, liquidity or market risk.

7.2 The Department is subject to some 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. These foreign currency forward contracts are not in hedging relationships.

7.3 The Department is subject to some fuel price risk and has fuel fixed price swap contracts to manage exposure to fluctuations in the market prices of aviation, marine and other fuels.

7.4 The total financial assets held by the Departmental Group is £3,358.9 million (31 March 2018: £3,371.1 million; 1 April 2017: £3,888.2 million). The total financial liabilities held by the Departmental Group is £9,322.4 million (31 March 2018: £9,025.3 million; 1 April 2017: £9,392.7 million).

7.5 At 31 March 2019 the total financial assets include foreign currency forward purchase contracts of £208.6 million and fuel fixed swap contracts of £34.2 million. At 31 March 2019 the total financial liabilities include foreign currency forward purchase contracts of £100.1 million and fuel fixed swap contracts of £6.5 million.

7.6 The net gains and losses from the Department's currency forward purchase contracts and fuel swap contracts are disclosed in Note 4.4 as Movement on Derivatives.

8. Investments

8.1 The Department holds, as an investment, Public Dividend Capital of £13.3 million (2017–18: £13.3 million) 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 £11.7 million (2017–18: £18.1 million). 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 & Security. MOD's equity capital in Ploughshare is valued at £1.8 million (2017–18: £3.8 million).

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 avionics 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 2019 the Department held a Preferential Special Share valued at £1 in each of the following companies:

Company	Registration Number
Devonport Royal Dockyard Limited	02077752
Rosyth Royal Dockyard Limited	SC101959
AWE plc	02763902
AWE Pension Trustees Limited	02784144
QinetiQ Group plc	04586941
QinetiQ Holdings Limited	04154556
QinetiQ Limited	03796233
BAE Systems Marine (Holdings) Limited	01957765
CLH Pipeline System (CLH-PS) Ltd	09497223

8.4 As at 31 March 2019, 7.5% non-cumulative irredeemable preference shares at £1 each were held in the following companies:

Company	Registration Number	Number of shares
The Chamber of Shipping Ltd	02107383	688
The British Shipping Federation Limited	02107375	55,040

8.5 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.

8.6 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 – Inventories

9.1 Until 1 April 2018, the Department, with the agreement of HM Treasury, used current replacement cost accounting to value Raw Materials and Consumables (RMC) instead of the IAS 2 requirement of the lower of cost and Net Realisable Value (NRV).

9.2 Previously HM Treasury allowed the Department to depart from International Accounting Standard (IAS) 2 – Inventories and account for inventory at current costs. The exemption has ceased for 2018–19 and the Department is following IAS 2 in full (i.e. lower of cost and net realisable value (NRV)). HM Treasury directed that this change should be accounted for as an in-year adjustment. RMC is now valued at the lower of net realisable value or Weighted Average Cost (WAC). This is a change in accounting policy and the net difference between the FY18/19 opening WAC value and the FY17/18 closing value at current replacement cost is a £228 million reduction of the inventory balance. This has been processed as an in-year adjustment, given that the net difference is not material. The gross value of £336M and the impairments element of £108 million have been processed through revaluation reserves and the SoCNE respectively.

9.3 Following a review the Department has revised its treatment of a proportion of RMC items and decided to reclassify them as Capital Spares, these are now accounted for as Non-Current Assets (NCAs) under IAS 16 Property, Plant and Equipment.

9.4 The financial impact of this change is a reclassification of £717.8 million from RMC to NCA on the SoFP (see Note 23), and a charge for catch up depreciation which has been charged to the SoCNE. The change has been accounted for as a correction of a prior-period error under IAS 8 and the financial statements have been restated.

9.5 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.

9.6 The total, approximate, gross value of all these different ‘categories’ is £26.9 billion, £22.2 billion is included in Note 6 and £4.7 billion in inventory (as at 31 March 2018 these figures were £26.8 billion and £22.1 billion in Note 6 and £4.7 billion in inventory).

9.7 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 £10.2 billion, of which £6.5 billion is included in Note 6 and £3.7 billion in the table below, (as at 31 March 2018 these figures were £9.8 billion and £6.2 billion in Note 6 and £3.6 billion in the table below).

	31 March 2019 £M	Restated 31 March 2018 ¹ £M	Restated 1 April 2017 ¹ £M
Munitions	886.3	1,083.7	1,095.2
Clothing & textiles	172.7	321.2	285.8
Engineering & technical	2,210.3	1,978.2	2,244.2
General	153.4	20.3	10.7
Medical, dental & veterinary	32.5	38.0	34.5
Oil, fuel & lubricants	223.6	188.7	180.1
Work in Progress	0.1	0.3	-
Total Core Department and Agencies	3,678.9	3,630.4	3,850.5
Inventory held by ALBs	8.3	8.3	8.4
Total Departmental Group	3,687.2	3,638.7	3,858.9

1. Restated for the Prior Period Adjustments set out at Note 23.

9.8 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.

10. Trade Receivables and Other Assets

	31 March 2019		Restated 31 March 2018 ¹		Restated 1 April 2017 ¹	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Amounts falling due within one year:						
Trade receivables	322.1	325.1	323.7	324.8	296.2	301.7
Value Added Tax	517.9	518.6	435.9	436.6	439.5	441.6
Other receivables	480.1	486.5	571.3	574.1	802.4	808.4
Prepayments and accrued income	1,363.5	1,371.7	950.3	957.7	1,219.3	1,223.7
Current part of Service Concession Arrangement prepayment	22.9	22.9	5.9	5.9	35.0	35.0
	2,706.5	2,724.8	2,287.1	2,299.1	2,792.4	2,810.4
Amounts falling due after one year:						
Trade receivables	20.0	20.0	45.8	45.8	25.2	25.2
Other receivables	144.4	144.5	163.6	164.1	276.0	276.0
Prepayments and accrued income	426.9	426.9	367.0	367.0	166.5	166.5
	591.3	591.4	576.4	576.9	467.7	467.7
Total Receivables	3,297.8	3,316.2	2,863.5	2,876.0	3,260.1	3,278.1

1. Restated for the Prior Period Adjustments set out at Note 23.

10.1 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.

11. Cash and Cash Equivalents

	Core Department & Agencies £M	Departmental Group £M
Restated as at 31 March 2017 ¹	1,571.6	1,633.4
Net change in cash and cash equivalents	184.0	215.4
Restated as at 31 March 2018 ¹	1,755.6	1,848.8
Net change in cash and cash equivalents	(348.1)	(315.4)
Balance at 31 March 2019	1,407.5	1,533.4

1. Restated for the Prior Period Adjustments set out at Note 23.

11.1 The commercial banks and cash in hand figure as at 31 March 2019 includes £902.7 million (31 March 2018: £943 million) 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.

	31 March 2019 £M	Restated 31 March 2018 ¹ £M	Restated 1 April 2017 ¹ £M
The following balances were held at:			
Government Banking Service	320.7	612.1	538.7
Commercial banks and cash in hand	1,212.7	1,236.7	1,094.7
Totals	1,533.4	1,848.8	1,633.4

1. Restated for the Prior Period Adjustments set out at Note 23.

12. Trade Payables and Other Liabilities

	31 March 2019		Restated 31 March 2018 ¹		Restated 1 April 2017 ¹	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Amounts falling due within one year:						
VAT	94.9	94.9	40.6	40.6	78.1	78.1
Other taxation and social security	228.1	228.2	214.8	215.0	209.9	210.0
Trade payables	706.9	714.9	506.5	517.3	470.1	475.8
Other payables ²	1,818.9	1,847.1	2,051.3	2,062.2	2,284.2	2,293.2
Accruals and deferred income	6,992.3	7,060.0	6,548.5	6,602.7	6,658.2	6,689.0
Current part of finance leases	9.2	9.2	8.6	8.6	8.7	8.7
Current part of imputed finance lease element of Service Concession Arrangement contracts	367.2	367.2	340.0	340.0	304.4	304.4
Current part of NLF loans ³	2.5	2.5	2.5	2.5	2.5	2.5
Supply payable ⁴	504.8	504.8	789.6	789.6	696.2	696.2
	10,724.8	10,828.8	10,502.4	10,578.5	10,712.3	10,757.9
Amounts falling due after one year:						
Other payables	20.4	29.2	40.6	42.2	45.7	47.3
Accruals and deferred income	42.1	42.1	36.8	36.8	55.7	55.7
Finance leases	1,747.6	1,747.6	1,756.8	1,756.8	1,765.4	1,765.4
Imputed finance lease element of Service Concession Arrangement contracts	4,310.7	4,310.7	4,528.1	4,528.1	4,751.7	4,751.9
NLF loans ³	17.7	17.7	20.2	20.2	22.7	22.7
	6,138.5	6,147.3	6,382.5	6,384.1	6,641.2	6,643.0
Total Payables	16,863.3	16,976.1	16,884.9	16,962.6	17,353.5	17,400.9

1. Restated for the Prior Period Adjustments set out at Note 23.

2. Other payables includes: amounts advanced by foreign governments in respect of various collaborative projects where the United Kingdom is the host nation of £902.7M (2017-18 : £943M); and a further £451M (2017-18 : £451M) lodged with the International Court of Justice.

3. 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.

4. Amounts received from the Consolidated Fund for Supply but not spent as at 31 March 2019.

13. Provisions for Liabilities and Charges

13.1 Departmental Group – Provisions for Liabilities and Charges

	Nuclear Decommissioning ¹ £M	Other Decommissioning and Restoration Costs £M	Early Retirement Commitments £M	Other Provisions		Total £M
				Legal £M	Other £M	
Restated 1 April 2017 ²	10,210.7	46.3	90.0	616.1	444.4	11,407.5
Increase in provisions in-year	3,676.7	10.5	10.9	150.0	108.7	3,956.8
Provisions written back and reclassifications	(202.5)	(14.3)	(2.9)	(24.6)	(38.5)	(282.8)
Provisions utilised in year	(137.9)	(1.6)	(11.1)	(139.9)	-	(290.5)
Unwinding of, and changes in, discount rate	5,284.2	0.7	0.7	(5.0)	1.4	5,282.0
Restated 31 March 2018²	18,831.2	41.6	87.6	596.6	516.0	20,073.0
Increase in provisions in-year	4,348.8	0.6	1.2	239.4	(44.5)	4,545.5
Provisions written back and reclassifications	(884.9)	-	(5.3)	(47.6)	(171.8)	(1,109.6)
Provisions utilised in year	(146.7)	(1.7)	(6.0)	(117.4)	(109.1)	(380.9)
Unwinding of, and changes in, discount rate	(10,733.9)	(1.1)	(0.6)	(31.5)	8.1	(10,759.0)
Balance at 31 March 2019	11,414.5	39.4	76.9	639.5	198.7	12,369.0

1. 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 2018–19 there was a significant change to the rates resulting in a large decrease in the value of the Nuclear Decommissioning provision for 2018–19.

2. Restated for the Prior Period Adjustments set out at Note 23.

3. Movements in provisions will pass through expenditure (see note 4.4) but changes in decommissioning liabilities may pass through other comprehensive expenditure.

13.2 Analysis of Expected Timing of Discounted Cash Flows

	Nuclear Decommissioning £M	Other Decommissioning and Restoration Costs £M	Early Retirement Commitments £M	Other Provisions £M	Total £M
Due within 1 year	214.7	16.1	13.3	100.7	344.8
Due over 1 year and less than 5 years	772.0	23.1	9.2	113.3	917.6
Due over 5 years	10,162.6	0.2	54.4	624.2	10,841.4
Assets held solely for decommissioning	265.2	-	-	-	265.2
Balance at 31 March 2019	11,414.5	39.4	76.9	838.2	12,369.0
Due within 1 year	226.3	16.3	9.4	469.2	721.2
Due over 1 year and less than 5 years	838.6	25.2	33.6	352.3	1,249.7
Due over 5 years	17,500.9	0.1	44.6	291.1	17,836.7
Assets held solely for decommissioning	265.4	-	-	-	265.4
Restated 31 March 2018	18,831.2	41.6	87.6	1,112.6	20,073.0
Due within 1 year	236.1	17.2	7.8	144.0	405.1
Due over 1 year and less than 5 years	749.8	29.0	25.1	661.4	1,465.3
Due over 5 years	8,956.0	0.1	57.1	255.1	9,268.3
Assets held solely for decommissioning	268.8	-	-	-	268.8
Restated 1 April 2017	10,210.7	46.3	90.0	1,060.5	11,407.5

Nuclear Decommissioning

Critical accounting judgements and key sources of estimation uncertainty

13.3 Provisions have been made for the cost of the treatment, storage and disposal of the nuclear materials, irradiated fuel and radioactive waste arising from 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.

13.4 The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 118 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 material adjustments may be required 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;
- Possible technological advances which could impact the work to be undertaken to decommission and clean up the sites.

13.5 The discounted nuclear provision at the end of 2017–18 was £18.8 billion. Since then the movements have been:

- Changes in accounting estimates, new provisions, provisions written back, utilised and reclassified +£2.9 billion;
- Increases from inflation +£0.4 billion;
- Application of the Treasury discount rate and unwinding of the existing discount applied to the provision every year -£10.7 billion.

These movements bring the 2018-19 MOD estimate for nuclear decommissioning to £11.4 billion discounted.

General assumptions

13.6 A key assumption that impacts the value of the nuclear decommissioning provisions is HM Treasury's general discount rate. While the undiscounted provision is £30.3 billion, the application of discounting decreases the provision to £11.4 billion in 2018–19.

2004–2018

13.7 Prior to 2018–19, HM Treasury issued real discount rates for Departments to apply. These discount rates were based on the yields of Bank of England index-linked gilts, as a proxy for a risk-free rate of return. Real discount rates account for inflation and so do not require the separate inflation of cash flows. Until 2012–13 the same rates were used for all provisions. From 2012–13 HM Treasury introduced different rates for short, medium and long term cash flows.

Time Frame	Short Term Rate (0–5 years)	Medium Term Rate (5–10 years)	Long Term Rate (10–40 years)	Impact of change on provisions (£M) Increase/ (Decrease)
2004–05 to 2011–12	2.20%	2.2%	2.2%	-
2012–13	-1.80%	-1.00%	2.2%	324
2013–14	-1.90%	-0.65%	2.2%	(17)
2014–15	-1.50%	-1.05%	2.2%	15
2015–16	-1.55%	-1.00%	-0.8%	5,463
2016–17	-2.70%	-1.95%	-0.8%	106
2017–18	-2.42%	-1.85%	-1.56%	5,366

2018–19

13.8 From 2018–19 onwards, HM Treasury introduced a very long term discount rate and has changed the methodology for calculating the discount rates to be applied to provisions. Instead of real rates, HM Treasury has issued nominal rates based on the yield curves of Bank of England conventional gilts, as a proxy for a risk-free rate which does not include an inflationary factor.

Time Frame	Short Term Rate (0–5 years)	Medium Term Rate (5–10 years)	Long Term Rate (10–40 years)	Very Long Term Rate (>40 years)	Impact of change (£M) Increase/ (Decrease)
2018–19	0.76%	1.14%	1.99%	1.99%	(11,536)

13.9 HM Treasury has issued a rebuttable presumption that when inflating provision cash flows the Office for Budget Responsibility (OBR)'s Consumer Price Index (CPI) forecasts will be used. These rates are generally deemed the most statistically reliable measure of inflation and are commonly used across the Public Sector. The CPI inflation rates are:

Time Frame	Inflation Rate
Year 1	2.00%
Year 2	2.00%
Into Perpetuity	2.10%

13.10 The Department has carried out an assessment on whether it meets the criteria set out by HM Treasury to rebut the presumption that OBR CPI rates will be used. Unless there are contractual obligations, or an alternative rate has been recommended by independent experts as being more applicable than CPI, the Department has used the inflation rates listed above. Where the inflation assumption has been rebutted, the inflation rates used in the provisions range from 1.2% to 2.3%.

13.11 To illustrate further the sensitivity of provision values to changes in:

- Discount rates – a reduction of 0.5% (0.26% Short Term, 0.64% Medium Term, 1.49% Long Term and 1.49% Very Long Term) would result in a £2.76 billion increase in the nuclear decommissioning provisions. Conversely, an increase of 0.5% in the four rates would result in a £2.012 billion decrease in the value.
- Inflation rate – a variation in the OBR CPI inflation rate of +/-0.25% would result in the value of inflation charge in the provision changing by circa +/-£1 billion.

Capitalised Provision Assets

13.12 Under IAS 16 Property Plant and Equipment, decommissioning provisions relating to operational assets are capitalised to the cost of that asset. The Department applies the revaluation model approach detailed in IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities to the capitalised provision asset, consistent with the revaluation model used for Property, Plant and Equipment.

13.13 Under this method, the Department uses the revised year-end provision liability to update the respective asset gross value. The Department has assessed that the year end provision liability provides the best estimate of fair value of the asset in accordance with IFRIC 1 and IAS 16, as the liability reflects the latest decommissioning assumptions and their associated costs and the latest estimate of future economic conditions within which the decommissioning activities will take place.

13.14 In 2018–19, the Department undertook a review of its application of IFRIC 1 and related accounting standards IAS 16 Property, Plant and Equipment and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It has identified some additional decommissioning cash flows which should be apportioned to specific assets and therefore under IAS 16 the initial measurement of the assets should have included the costs of decommissioning them, but this was not included previously. Further details of this adjustment can be found in Note 23.

13.15 The value of the capitalised asset provisions in the property plant and equipment is £1.148 billion (2017–18 £1.542 billion).

Significant Provisions

Nuclear Fuel Management (£3.2 billion – 28% of the value of the provision), (2017–18: £7.6 billion – 41.1% of the value of the provision)

13.16 Irradiated fuel from the defueling of submarines is stored at the Nuclear Decommissioning Authority (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 £7 million change in the value of the provision.

13.17 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 provided by the NDA. 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 and decommissioning (increase or decrease) would lead to a £23 million 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 £86.1 million as the MOD would incur additional storage / maintenance costs.

Geological Disposal Facility (£2.03 billion – 17.8% of the value of the provision), (2017-18: £2.3 billion – 12.4% of the value of the provision)

13.18 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 current ongoing contribution to the NDA is 6% of the GDF programme costs. A review in 2018–19 has been undertaken to more accurately forecast the longer term costs of storing waste within a GDF and in particular more detailed consideration of the costs of high heat generating waste. The current planned date for the facility to receive waste is 2045. The key sensitivities for this provision are as follows:

- The review of long term storage costs within a GDF has led to a reduction of £658 million.
- Following a review of the High Heat Generating Waste, it has been identified that a 5% change in the amount of this type of waste stored in a GDF will result in a £66 million movement to the liability.
- 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 £0.75 billion in the provision value to an increase of £3.11 billion; and
- There is 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 provision estimate. It is estimated that a longer delay, for example for ten years, would increase the current provision by £219 million.

Submarine 'Afloat' provisions (£1.63 billion – 14.3% of the value of the provision), (2017-18: £3 billion – 16.2% of the value of the provision)

13.19 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 £18 million.

Submarine Dismantling Project (£1.14 billion – 12.3% of the value of the provision), (2017–18: £1.9 billion – 10.3% of the value of the provision)

13.20 The Submarine Dismantling Project (SDP) aims to deliver safe, secure, 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.

13.21 A demonstrator submarine is being used to define and refine the process. It has completed initial dismantling, and the Department expects to have a fully developed process for steady state disposal by 2026. As the demonstrator programme progresses, the outcomes will provide more certainty in the future costings within the SDP provision. To illustrate the sensitivity, currently for a +/- 1% change in the SDP costs, would change the estimated liability by £9.34 million.

13.22 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 £48 million.

Atomic Weapons Establishment (£1.34 billion – 11.8% of the value of the provision), (2017–18: £2.1 billion – 11.4% of the value of the provision)

13.23 The Atomic Weapons Establishment (AWE) is responsible for the design, manufacture and support of warheads for the UK's strategic nuclear deterrent. The Department holds provisions for the decommissioning of facilities, decontamination and storage of materials relating to the warhead programme; with the largest of these provisions for the decommissioning of AWE's Aldermaston and Burghfield sites.

13.24 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 for 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 -£142 million (at current prices, undiscounted and excluding management fees) and between the Most Likely and Maximum estimate is circa +£316 million (at current prices, undiscounted and excluding management fees).

13.25 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 £7.34 million.

Other Decommissioning and Restoration

13.26 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 using the Treasury discount rates listed at paragraph 13.6.

Early Retirement

13.27 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: 0.29% with effect from 31 March 2019 (0.10% from 31 March 2018). 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 2018–19 increases of £1 million were made to existing schemes and early retirement / redundancy costs paid during the period amounted to £6 million.

Legal

13.28 Legal liabilities include amounts payable under guarantees, litigation and contractual arrangements; some legal liabilities (where the probability of settlement against the Department is less certain) have been reported as contingent liabilities.

Other

13.29 Other provisions include provisions for costs on disposal of non-current assets and redundancy and relocation costs associated with restructuring.

14. Retirement Benefit Schemes

14.1 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>

14.2 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. The schemes are therefore accounted for as defined contribution schemes in accordance with IAS 19. 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>

<https://www.nhsbsa.nhs.uk/nhs-pensions>

14.3 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.

14.4 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 (SBAA) pension scheme – a pension scheme for locally engaged police and civilian grades in Cyprus; and
- the United Kingdom Departments Gibraltar (UKDG) pension scheme – for locally employed staff in Gibraltar.

14.5 The Government Actuary's Department (GAD) completes a full valuation of each scheme every four years and for the intervening years produces actuarial reports using the full valuations as a basis. Full valuations were completed: for the UKDG as at 31 March 2015 and for BFC and SBAA as at 31 March 2018. Details of the liabilities and other information used by GAD in their calculations are shown in the tables below:

	2018–19				2017–18			
	British Forces Cyprus (BFC) £M	Sovereign Bases Administration Areas (SBAA) £M	United Kingdom Departments Gibraltar (UKDG) £M	Total £M	British Forces Cyprus (BFC) £M	Sovereign Bases Administration Areas (SBAA) £M	United Kingdom Departments Gibraltar (UKDG) £M	Total £M
Opening Balances	73.5	156.0	365.0	594.5	71.2	152.8	369.8	593.8
Reclassification from provisions	-	-	-	-	-	-	-	-
Current Service Cost	2.4	5.2	7.8	15.4	2.5	5.5	8.3	16.3
Interest Charges	1.9	4.0	9.3	15.2	2.0	4.3	10.3	16.6
Changes in assumptions	(2.9)	5.8	(10.3)	(7.4)	(2.7)	(7.0)	(13.1)	(22.8)
Benefits Paid	(0.7)	(2.2)	(11.3)	(14.2)	(0.7)	(2.1)	(10.3)	(13.1)
Exchange Rate (gain)/loss	(1.4)	(3.4)	-	(4.8)	1.1	2.3	-	3.4
Experience (gain)/loss ¹	(16.1)	(26.3)	-	(42.4)	0.1	0.2	-	0.3
Closing Balances	56.7	139.1	360.5	556.3	73.5	156.0	365.0	594.5

1. The changes due to experience gains and losses arise due to scheme experience that has not coincided with the actuarial assumptions made for the latest valuation. The primary reason experience was different to assumed is a period of pay restraint for active members for these schemes during the inter-valuation period.

14.6 GAD has completed sensitivity analysis on the key assumptions underlying their valuations of the schemes' liabilities. The analysis showed that there has been no material movement in the total liability for any of the schemes as a result of the assumptions made. The principal actuarial assumptions as at 31 March are below:

	2018-19	2017-18
Discount Rate	2.90%	2.55%
Future Salary Increases	4.10%	3.95%
Future Pension Increases	2.60%	2.45%

14.7 The numbers of members used in the calculations for each scheme were:

	Number of Members as at the Current Valuation Date ¹			Number of Members as at the Previous Valuation Date ¹		
	Active	Pensioners	Deferred	Active	Pensioners	Deferred
			Pensioners			Pensioners
British Forces Cyprus (BFC)	109	46	1	117	47	1
Sovereign Bases Administration Areas (SBAA)	293	132	2	340	106	1
United Kingdom Departments Gibraltar (UKDG)	570	1,161	305	710	1,056	453

1. In accordance with the FReM, actuarial valuations of the schemes are carried out every 4 years. The membership data above reflects the updated information used at the time of these valuations. The current valuations for BFC and SBAA are as at 31 March 2018, the previous valuations are as at 31 March 2014. The current valuation for UKDG is as at 31 March 2015, the previous valuation is as at 31 March 2011.

14.8 The Group Accounts also include two funded, defined benefit schemes:

- the Commonwealth War Graves Commission Superannuation Scheme (this scheme was closed to future benefit accrual from 31 March 2016); and
- the Reserve Forces and Cadets Associations Pension Scheme.

14.9 Details of the assets, liabilities and number of members (set out in the following tables) are also reviewed by GAD and include sensitivity analysis on the key assumptions underlying the valuations. The analysis showed that there has been no material movement in the total liability for either of the schemes as a result of the assumptions made.

	2018-19			2017-18		
	Reserve Forces and Cadets Association Pension Scheme £M	Commonwealth War Graves Commission Superannuation Scheme £M	Total £M	Reserve Forces and Cadets Association Pension Scheme £M	Commonwealth War Graves Commission Superannuation Scheme £M	Total £M
Scheme Assets						
Opening Asset Balances	113.6	86.6	200.2	113.6	82.3	195.9
Net increase / (decrease) ¹	-	0.4	0.4	-	4.3	4.3
Closing Asset Balances	113.6	87.0	200.6	113.6	86.6	200.2
Scheme Liabilities						
Opening Liability Balances	(97.7)	(109.6)	(207.3)	(97.7)	(86.9)	(184.6)
Net (increase) / decrease ¹	-	(6.5)	(6.5)	-	(22.7)	(22.7)
Closing Liability Balances	(97.7)	(116.1)	(213.8)	(97.7)	(109.6)	(207.3)
Net Scheme Asset / (Liabilities)	15.9	(29.1)	(13.2)	15.9	(23.0)	(7.1)

1. The increase or decrease in the valuations is the net total of individual movements (current service cost, interest charges, contributions by members, enhancements, past service costs, transfers, changes in assumptions, benefits paid, exchange rate gains or losses, and experience gains or losses) which, separately, are not considered material and are not disclosed.

14.10 The numbers of members used in the calculations for each scheme were:

	Current Number of Members ¹			Previous Number of Members ¹		
	Active	Pensioners	Deferred Pensioners	Active	Pensioners	Deferred Pensioners
Reserve Forces and Cadets Association Pension Scheme	855	1,126	305	807	1,090	288
Commonwealth War Graves Commission Superannuation Scheme	202	405	169	190	408	169

1. The Reserve Forces and Cadets Association Pension Scheme's figures for the current number of members is as at 1 August 2015, the previous number of members is as at 1 August 2012. The Commonwealth War Graves Commission Superannuation Scheme's figures for the current number of members is as at 31 March 2016, the previous number of members is as at 30 November 2013.

15. Departmental Group – Capital Commitments

15.1 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 2019 £M	31 March 2018 £M
Intangible assets	2,506.8	2,800.5
Property, plant and equipment	21,933.9	19,310.1
	24,440.7	22,110.6

16. Departmental Group – Other Financial Commitments

16.1 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 2019 £M	Restated 31 March 2018 ¹ £M
Not later than 1 year	1,855.8	1,286.4
Later than 1 year but not later than 5 years	2,404.1	2,638.3
Later than 5 years	1,055.5	1,096.2
	5,315.4	5,020.9

1. Restated to include commitments below £50 million (which were not previously disclosed).

17. Departmental Group – Commitments under Leases

17.1 The totals of future minimum lease payments under operating and finance leases for the periods: not later than one year; later than one year and not later than five years and later than five years are set out below.

17.2 Operating leases:

	31 March 2019 £M	31 March 2018 £M
Obligations under operating leases comprise:		
Land		
Not later than one year	8.5	5.6
Later than one year and not later than five years	15.9	17.6
Later than five years	44.6	50.2
	69.0	73.4
Buildings		
Not later than one year	53.4	58.2
Later than one year and not later than five years	105.7	98.5
Later than five years	57.3	59.8
	216.4	216.5
Other		
Not later than one year	103.4	108.8
Later than one year and not later than five years	216.4	172.5
Later than five years	3.5	37.5
	323.3	318.8

17.3 Significant commitments for leased land, as at 31 March 2019 are: The Royal Armoured Corps Gunnery School £17 million (2017–18: £18 million).

17.4 The most significant operating leases for buildings, as at 31 March 2019, are for: Service Families Accommodation £27 million (2017–18: £37 million), Aldershot Health Centre £29 million (2017–18: £27 million) and Dstl sites £18 million (2017–18: £19 million).

17.5 Other operating lease commitments include leased vehicles (including operational support vehicles) of £228 million (2017–18: £264 million) and Defence Fuels Global Reserves of £18 million (2017–18: nil). Remaining lease commitments are less than £10 million.

17.6 Finance leases:

	31 March 2019 £M	31 March 2018 £M
Obligations under finance leases comprise:		
Land		
Not later than one year	48.0	48.0
Later than one year and not later than five years	192.2	192.2
Later than five years	8,455.4	8,503.4
	8,695.6	8,743.6
Less interest element	(7,846.9)	(7,884.9)
	848.7	858.7
Buildings		
Not later than one year	47.8	47.8
Later than one year and not later than five years	191.4	191.4
Later than five years	8,421.3	8,469.1
	8,660.5	8,708.3
Less interest element	(7,815.2)	(7,863.0)
	845.3	845.3
Other		
Not later than one year	13.3	13.3
Later than one year and not later than five years	51.2	53.4
Later than five years	13.4	23.4
	77.9	90.1
Less interest element	(15.0)	(18.7)
	62.9	71.4

17.7 The Land and Buildings finance leases relate to the arrangement with Annington Homes Ltd for the provision of homes for service personnel and their families £1,694 million (2017–18: £1,694 million).

18. Departmental Group – Commitments under Service Concession Arrangements

18.1 The following arrangements that fulfilled the criteria for IFRIC 12 have been accounted for as assets of the Department during 2018–19:

Project Description	Contract Start ¹	Contract End
Defence Fixed Telecommunications System: Integration of 50 fixed telecommunications networks used by the Armed Forces and MOD, including the delivery of voice, data, LAN interconnect and other WAN services.	Jul-97	Jul-19
Medium Support Helicopter Aircrew Training Facility: Provision of 6 flight simulator training facilities, covering three different types of helicopter, at RAF Benson.	Oct-97	Oct-37
Veolia PFI (formerly Thames Water and Tidworth Water and Sewage): Pathfinder project providing water, sewerage and surface water drainage at Tidworth.	Feb-98	Aug-23
Joint Services Command and Staff College (JSCSC): Design and delivery of a new tri-Service Command and Staff Training College infrastructure and supporting services, including single residential accommodation and married quarters.	Jun-98	Aug-28
RAF Lossiemouth Family Quarters: Redevelopment and re-provision of 279 Service family quarters.	Jun-98	Aug-19
Attack Helicopter Training Service: Provision of full mission simulator, 3 field deployable simulators, ground crew, maintenance and armament training.	Jul-98	Sep-23
Family Quarters Yeovilton: Provision of married quarters accommodation for 88 Service families at RNAS Yeovilton.	Jul-98	Jul-28
RAF Lyneham Sewage Treatment: Refurbishment of existing sewage treatment facilities, to meet regulatory standards at RAF Lyneham.	Aug-98	Aug-23
RAF Fylingdales: Provision of guaranteed power supply.	Dec-98	Mar-24
RAF Cosford/RAF Shawbury Family Quarters: Provision of married quarters accommodation for 145 Service families at RAF Cosford and RAF Shawbury.	Mar-99	Jun-25
Fire Fighting Training Units: Provision of fire fighting training for the Royal Navy.	Apr-99	Jan-21
Tornado GR4 Synthetic Training Service: Provision of aircraft training service at RAF Marham and RAF Lossiemouth.	Jun-99	Mar-19
Central Scotland Family Quarters: Provision of married quarters accommodation for 164 Service families in Central Scotland.	Aug-99	Jun-21
Army Foundation College: Provision of teaching and training facilities for the further vocational education and military training of high-quality school leavers.	Feb-00	Dec-29
Main Building Refurbishment: Redevelopment and management services for MOD Main Building.	May-00	May-30
E3D Sentry Aircrew Training Service: E3D Sentry simulators instructors and maintainers at RAF Waddington.	Jul-00	Dec-30
Lynx MK 7 and 9 Aircrew Training Service: Provision for simulator training facility for Lynx MK 7 and 9 helicopter aircrew.	Jul-00	Jun-25
Family quarters at Wattisham: Provision of married quarters accommodation for 250 Service families.	May-01	May-28
Training: Provision of a training environment for crewmen and maintainers to support submarines for 30 years.	Sep-01	Sep-37
Family quarters at Bristol/Bath/Portsmouth: Provision of accommodation for 317 Service families.	Nov-01	Sep-28
Heavy Equipment Transporters: Provision of vehicles to replace existing fleet and meet future requirements.	Dec-01	Jul-24
Field Electrical Power Supplies: Provision of generator sets to support operational electrical requirements in the field.	Jun-02	Jun-22
Flight Simulation and Synthetic Trainers: Provision of a Flight Simulation and Synthetic Trainers Integrated Aircrew Synthetic Training Service.	Oct-02	Dec-20
Aquatrine Project A: Provision of water and waste water services.	Apr-03	Nov-28
Naval Communications: Submarine fleet communications service.	Jun-03	Dec-30

Project Description	Contract Start ¹	Contract End
Defence Sixth Form College: Development of a sixth form college to help meet the future recruitment requirements in the Armed Forces and MOD Civil Service.	Jun-03	Aug-33
Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-03	Aug-22
Colchester Garrison: Redevelopment, rebuilding and refurbishment to provide accommodation and associated services (messing, education, storage, workshops).	Feb-04	Feb-39
Devonport Armada Single Living Accommodation: Provision of Support Services and Fleet Accommodation Centre services at Devonport Naval Base.	Jul-04	Mar-29
Aquatrine Project B: Provision of water and waste water services.	Sep-04	Mar-30
Aquatrine Project C: Provision of water and waste water services.	Oct-04	Mar-30
C Vehicles: Provision of Earthmoving and Specialist Plant, Engineer Construction Plant and Material Handling Equipment and support services.	Jun-05	May-21
Portsmouth 2 Housing: Provision of 148 Family quarters in Portsmouth.	Oct-05	May-30
Project Allenby/Connaught: Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-06	Apr-41
Northwood: Rebuild, refurbishment, management and operation of facilities for the Permanent Joint Headquarters.	Jul-06	Oct-31
Combined Aerial Targets (CATS): Provision of aerial targets and associated ground equipment and support services.	Dec-06	Mar-28
Provision of Marine Services: Provision of marine services at UK Dockyard Ports at Portsmouth, Devonport and Clyde and support to military exercises, training and deep water trials, worldwide.	Dec-07	Dec-22
Future Strategic Tanker Aircraft (FSTA): FSTA is an innovative PFI programme that will provide modern air-to-air refuelling and passenger air transport capabilities.	Mar-08	Mar-35
UK Military Flying Training System: Advanced Jet Trainer, Ground Based Training Equipment Element: Management and provision of Fast Jet Phase IV training and Fixed Wing Training.	May-08	May-33
Corsham Development Project: Rebuild, refurbishment, management and operation of facilities at the Basil Hill site.	Aug-08	Jul-33

1. Date when contract signed.

18.2 The substance of an arrangement accounted for under IFRIC 12 is that the Department has a finance lease with the provider with payments comprising an imputed finance lease charge, a repayment of capital and a service charge. Payments are accounted for within the SoCNE – Service Concession Arrangements (SCA) and charges for 2018–19 were £1.3 billion (2017–18: £1.3 billion). 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 2019 £M	Restated 31 March 2018 ¹ £M
Details of the imputed finance lease charges		
Not later than one year	656.5	631.2
Later than one year and not later than five years	2,249.8	2,341.4
Later than five years	4,161.3	4,651.6
	7,067.6	7,624.2
Less interest element		
	(2,389.7)	(2,756.1)
	4,677.9	4,868.1
Details of the minimum service charge		
Not later than one year	1,109.3	1,133.5
Later than one year and not later than five years	3,629.1	3,623.0
Later than five years	6,592.4	7,143.9
	11,330.8	11,900.4

1. Restated for the Prior Period Adjustments set out in Note 23.

18.3 The most significant Service Concession Arrangements are:

- Future Strategic Tanker Aircraft (FSTA) – providing air to air refuelling and passenger air transport capabilities £2,043 million (2017–18: £2,115 million).
- 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 £398 million (2017–18: £408 million).
- Skynet 5 – satellite services £491 million (2017–18: £621 million).

19. Departmental Group – Contingent Liabilities and Contingent Assets Disclosed under IAS 37

19.1 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. There are some liabilities where details, other than the estimated amounts are not given due to reasons of commercial confidentiality and / or national security. Due to the nature of the liabilities disclosed below it is not considered possible for any reimbursement to occur.

19.2 The following quantifiable contingent liabilities have been identified, the estimates shown are based on the most likely value.

Description and Key Uncertainties	31 March 2018 £M	Increase / (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2019 £M
Indemnity to contractors for third party claims					
<i>There are uncertainties around the likelihood of a case being brought against the MOD and determining the value of any potential case. The scope of potential cases is wide ranging, and the timing cannot be predetermined.</i>	282.0	-	-	-	282.0
Liability for redundancy					
<i>There are a number of uncertainties relating to redundancies in this category. Some are due to timing of individuals death, whether any dependants remain and the value of the entitlement. Others are linked to the success of export opportunities within the related contract, in which the redundancy liability resides.</i>	247.6	(13.6)	(0.3)	(8.3)	225.4
Limit of contractor liability for possible damage caused by contractors on Government property					
<i>Uncertainties relating to damage to government property are generally related to whether any damage will occur, the timing of any incident and the associated value.</i>	115.0	(115.0)	-	-	-
Legal claims (personal)					
<i>This liability is created by the percentage of legal claims that are repudiated by the Company who manage the Departments legal claims. The percentage remains variable.</i>	46.9	(2.7)	-	-	44.2
Environmental clean up costs					
<i>There are a number of uncertainties, whether mitigation action has been suitably effective. As a programme of work progresses this could identify that further clean up work is required at any time.</i>	46.9	-	-	-	46.9
Potential liability arising from the Colchester Garrison PFI					
<i>Private Finance Initiative liability due to a qualifying change in law. There is uncertainty around whether this will occur and also the timing of such a change.</i>	20.0	-	-	-	20.0
Indemnity for utilities and services following the sale of Service housing					
<i>There is uncertainty as to whether MoD will hand a site back before the determination date and if the utilities agreement is extended. There is further uncertainty of value of outflow and the timing in which this might occur.</i>	17.0	-	-	-	17.0

Description and Key Uncertainties	31 March 2018 £M	Increase / (Decrease) in year £M	Liabilities crystallised in year £M	Obligation expired in year £M	31 March 2019 £M
Sensitive					
<i>Not disclosed due to reasons of commercial confidentiality and / or national security</i>	16.2	5.9	-	-	22.1
Indemnity to contractors for loss or damage to issued property					
<i>There is uncertainty in relation to the cost of damage. The range of loss would be dependent on the number of platforms physically present in the hangar at the time of any incident.</i>	10.0	(10.0)	-	-	-
New Fair Deal arrangements for staff pensions: staff transferred from Central Government					
<i>There is uncertainty as to whether eligible personnel will choose to transfer accrued pension benefits into Principal Civil Service Pension Scheme and the difference in value between private and public pension entitlements over time.</i>	3.0	(0.7)	-	(0.8)	1.5
Indemnity to contractors for Intellectual Property Rights					
<i>Any further detail are considered sensitive, therefore further detail cannot be published.</i>	1.4	-	-	(1.4)	-
Indemnity related to work to relocate cables, in support of the dredging necessary for the QE Class Carriers					
<i>There is uncertainty around whether any damage to the cables will occur and the potential rectification costs.</i>	1.1	-	-	-	1.1
Contractor claims relating to project deferment or termination					
<i>There is uncertainty as to whether any claim will be made due to the decision to determinate or defer.</i>	0.5	(0.5)	-	-	-
Limitation of contractors liability for service failure resulting in a loss of transacting ability					
<i>There is uncertainty regarding whether the company would fail to provide the required service.</i>	0.3	(0.3)	-	-	-
Total quantifiable contingent liabilities	807.9	(136.9)	(0.3)	(10.5)	660.2

19.3 The Department has the following unquantifiable liabilities in accordance with IAS 37. 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. There are uncertainties around the likelihood of a case being brought against the MOD and determining the value of any potential case. The scope of any potential case is wide ranging, and the timing cannot be predetermined.
- Indemnity to third parties for damage caused by live firing of missiles at overseas ranges. There is uncertainty as to whether such an event will occur and the level of rectification costs that may be incurred as a result.
- 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. Uncertainty whether this will occur is dependent on the site and this is only known as the decontamination work progresses; therefore, timing and costs are uncertain.
- 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. There is uncertainty relating to whether such an event will occur to trigger the liability and the scale that might be involved.
- Potential claims under UK employment legislation following a Court of Appeal decision that dependent locally employed civilians are covered by the legislation. There is uncertainty around how many eligible personnel will claim and the values of any such claims.
- Under the Defence Marine Services contract losses or claims which relate to towing are handled according to the terms of the International Ocean Towage 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. The uncertainty relates to the multiple potential scenarios that would trigger this liability which are numerous in their nature, scale and potential financial impact.
- Potential liability for staff transferred from the Department to request access to pension schemes available under New Fair Deal Arrangements. The uncertainty relating to New Fair Deal comes through not knowing how many entitled personnel will transfer onto the public sector pension scheme and what their accrued benefits would be at the point of transfer compared to their private pension scheme.

20. Related Party Transactions

20.1 The Department is the parent of the agencies (DE&S BTE, DECA, Dstl and SDA) and other bodies, and sponsor of the non-departmental public bodies shown in in Note 21 – Entities Within the Departmental Boundary. These bodies are regarded as related parties with which the Department has had various transactions during the year.

20.2 In addition, the Department has had a number of transactions with other government departments and other central government bodies.

20.3 Details of individuals who served as Ministers and Board Members during the year are listed in the Remuneration Report. No Minister or Board Member or their related parties has undertaken any material transactions with the Department during the year.

21. Entities within the Departmental Boundary

The entities within the boundary during 2018–19 were as follows:

On-Vote Defence Agencies
Defence Electronic Components Agency
Defence Equipment and Support – Bespoke Trading Entity
Defence Science and Technology Laboratory
Submarine Delivery Agency ¹
Non-Departmental Public Bodies
National Museum of the Royal Navy
National Army Museum
Royal Air Force Museum
Single Source Regulations Office
Advisory Non-Departmental Public Bodies
Advisory Committee on Conscientious Objectors
Armed Forces Pay Review Body
Defence Nuclear Safety Committee
Independent Medical Expert Group
Nuclear Research Advisory Council
Science Advisory Committee on the Medical Implications of Less Lethal Weapons
Veterans Advisory and Pensions Committees
Other Bodies
Advisory Group on Military Medicine
Armed Forces Covenant Fund Trustee Limited ²
Central Advisory Committee on Compensation
Commonwealth War Graves Commission
Defence Science Expert Committee
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

1. The Submarine Delivery Agency was established as an on-vote Agency on 1 April 2018.

2. Armed Forces Covenant Fund Trustee Limited was designated as an entity within the departmental boundary from 1 April 2018.

22. Events After the Reporting Date

22.1 On 1 May 2019 The Rt Hon Penny Mordaunt MP was appointed Secretary of State for Defence.

22.2 On 1 April 2019 HM Treasury made the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2019. This Order designates International Military Services Limited for consolidation into the Department's Estimates and accounts for the financial year ended 31 March 2020.

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

23. Prior Period Adjustments

23.1 As part of an ongoing Financial Management Improvement Plan the Department has conducted a number of reviews designed to improve the quality of financial reporting. As a result of these reviews the Department has identified the following prior period errors that have been adjusted for by retrospective restatement of the Accounts in accordance with IAS 8.

- Reclassification of Raw Materials and Consumables (RMC) – a review of the classification of some RMC categories, accounted for as inventory, identified items that display characteristics of non-current assets (they have a life in use greater than 12 months and can be re-used multiple times). This review resulted in £717.8 million of inventory items being reclassified as Single Use Military Equipment and recorded as Property, Plant and Equipment (PPE). £469.5 million additional depreciation has also been charged as at 31 March 2018.
- Major Refits and Overhauls – the Department identified that it had not accounted for major refits and overhauls as a separate asset component for certain assets in the Sea Environment and had not depreciated these costs over a shorter time period than the corresponding core assets. This has resulted in an adjustment to increase accumulated depreciation and reduce non-current assets by £122 million as at 31 March 2018. This is disclosed in the Property, other PPE and intangible assets column in the tables below.
- Capitalised asset provisions – the Department has significant nuclear decommissioning provisions which are charged to the SoCNE on initial recognition, 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. Management judgements are required as to when costs are attributable to specific items of PPE. This year, the Department reviewed the consistency of its judgements and concluded that a number of capitalised asset provisions should have been recognised instead of costs being charged to the SoCNE. This has resulted in an adjustment to increase non-current assets by £968.1 million as at 31 March 2018. This is disclosed in the Nuclear decommissioning and other provisions column in the tables below.

23.2 The Department has also corrected a number of other historical omissions and misstatements, which previously were assessed as immaterial both individually and in aggregate. Details of these are set out below:

Property, other PPE and intangible assets

23.3 The Department's property assets are subject to a quinquennial revaluation by internal and external valuers. Historically delays have been experienced in applying some aspects of the valuation changes. The Department has processed corrections to the property assets this year, in addition to a number of historical adjustments to the value and classification of intangible and tangible assets. The net impact of these adjustments is to decrease non-current assets by £181.5 million as at 31 March 2018.

Nuclear decommissioning and other provisions

23.4 In addition to the capitalised asset provisions adjustment outlined above, the Department has also processed adjustments to improve the completeness of its nuclear decommissioning provisions. New and adjusted liabilities for the settlement of legal claims and other provisions have also been recognised following a review of legal cases and the calculation of a reliable estimate of the cost of potential requests for assistance with training costs from former Service personnel (previously disclosed as an unquantifiable Contingent Liability). The net impact of these adjustments is to increase provisions by £433.8 million as at 31 March 2018.

Other Adjustments

23.5 The Department have also made a number of other small adjustments to improve the accuracy of its working capital balances, PFI and other liabilities at 31 March 2018. The net impact of these adjustments as at 31 March 2018 is a decrease in assets of £32.8 million and an increase in liabilities of £78.0 million.

23.6 The restatement of the primary statements as at 31 March 2018 and 1 April 2017 is shown below:

23.6.1 Restatement of Statements of Financial Position as at 31 March 2018

	31 March 2018 ¹		Reclassification of Raw Materials and Consumables (RMC)	
	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Non-current assets				
Intangible assets	28,611.9	28,611.9	-	-
Property plant and equipment	105,189.2	105,800.2	248.3	248.3
Retirement benefit scheme assets	-	15.9	-	-
Financial assets	13.3	13.3	-	-
Receivables due after more than one year	576.4	576.9	-	-
Total non-current assets	134,390.8	135,018.2	248.3	248.3
Current assets				
Non-current assets held for sale	18.4	18.4	-	-
Inventories	4,348.2	4,356.5	(717.8)	(717.8)
Trade and other receivables	2,241.3	2,253.3	-	-
Financial assets	142.7	178.4	-	-
Cash at bank and in hand	1,825.8	1,919.0	-	-
Total current assets	8,576.4	8,725.6	(717.8)	(717.8)
Total assets	142,967.2	143,743.8	(469.5)	(469.5)
Current liabilities				
Payables due within one year	(10,451.8)	(10,527.9)	-	-
Provisions due within one year	(627.9)	(628.9)	-	-
Financial liabilities	(231.8)	(231.8)	-	-
Total current liabilities	(11,311.5)	(11,388.6)	-	-
Non-current assets plus net current assets	131,655.7	132,355.2	(469.5)	(469.5)
Non-current liabilities				
Provisions due after one year	(19,004.9)	(19,010.3)	-	-
Retirement benefit scheme liabilities	(594.5)	(617.5)	-	-
Payables due after more than one year	(6,304.5)	(6,306.1)	-	-
Total non-current liabilities	(25,903.9)	(25,933.9)	-	-
Assets less liabilities	105,751.8	106,421.3	(469.5)	(469.5)
Taxpayers' equity and other reserves				
General fund	79,151.9	79,151.9	(469.5)	(469.5)
Revaluation reserve	26,599.9	26,599.9	-	-
Taxpayers equity	105,751.8	105,751.8	(469.5)	(469.5)
Total Arm's Length Bodies' reserves	-	669.5	-	-
Total taxpayers' equity and other reserves	105,751.8	106,421.3	(469.5)	(469.5)

1. As published in the MOD Annual Report and Accounts 2017-18 but with the figures here presented in £ million.

Property, other PPE and intangible assets		Nuclear decommissioning and other provisions		Other adjustments		Restated 31 March 2018	
Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
(431.1)	(431.1)	-	-	-	-	28,180.8	28,180.8
249.6	249.6	968.1	968.1	-	-	106,655.2	107,266.2
-	-	-	-	-	-	-	15.9
-	-	-	-	-	-	13.3	13.3
-	-	-	-	-	-	576.4	576.9
(181.5)	(181.5)	968.1	968.1	-	-	135,425.7	136,053.1
-	-	-	-	-	-	18.4	18.4
-	-	-	-	-	-	3,630.4	3,638.7
-	-	-	-	45.8	45.8	2,287.1	2,299.1
-	-	-	-	8.0	8.0	150.7	186.4
-	-	-	-	(70.2)	(70.2)	1,755.6	1,848.8
-	-	-	-	(16.4)	(16.4)	7,842.2	7,991.4
(181.5)	(181.5)	968.1	968.1	(16.4)	(16.4)	143,267.9	144,044.5
-	-	-	-	(50.6)	(50.6)	(10,502.4)	(10,578.5)
-	-	(92.3)	(92.3)	-	-	(720.2)	(721.2)
-	-	-	-	34.2	34.2	(197.6)	(197.6)
-	-	(92.3)	(92.3)	(16.4)	(16.4)	(11,420.2)	(11,497.3)
(181.5)	(181.5)	875.8	875.8	(32.8)	(32.8)	131,847.7	132,547.2
-	-	(341.5)	(341.5)	-	-	(19,346.4)	(19,351.8)
-	-	-	-	-	-	(594.5)	(617.5)
-	-	-	-	(78.0)	(78.0)	(6,382.5)	(6,384.1)
-	-	(341.5)	(341.5)	(78.0)	(78.0)	(26,323.4)	(26,353.4)
(181.5)	(181.5)	534.3	534.3	(110.8)	(110.8)	105,524.3	106,193.8
(135.2)	(135.2)	1,581.8	1,581.8	(110.8)	(110.8)	80,018.2	80,018.2
(46.3)	(46.3)	(1,047.5)	(1,047.5)	-	-	25,506.1	25,506.1
(181.5)	(181.5)	534.3	534.3	(110.8)	(110.8)	105,524.3	105,524.3
-	-	-	-	-	-	-	669.5
(181.5)	(181.5)	534.3	534.3	(110.8)	(110.8)	105,524.3	106,193.8

23.6.2 Restatement of Consolidated Statements of Comprehensive Net Expenditure for 2017–18

	Note	2017–18		Reclassification of Raw Materials and Consumables (RMC)	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Income from provision of supplies and services		(659.0)	(659.0)	-	-
Other income		(651.1)	(731.6)	-	-
Total operating income		(1,310.1)	(1,390.6)	-	-
Staff Costs	Costs	12,324.8	12,422.5	-	-
Purchase of goods and services		14,257.5	14,257.5	-	-
Depreciation, impairment, writes on/off and disposals		8,357.9	8,368.4	28.0	28.0
Movement on provisions, derivatives and discounted cashflows		8,000.7	8,000.7	-	-
War pensions / benefits		723.2	723.2	-	-
Interest paid (including on Service Concession Arrangements)		417.2	417.2	-	-
Other expenditure		744.3	697.1	-	-
Total operating expenditure		44,825.6	44,886.6	28.0	28.0
Total net operating expenditure		43,515.5	43,496.0	28.0	28.0
Non-operating gain on the transfer of Dstl to the Department		(347.4)	(347.4)	-	-
Net expenditure for the year including the non-operating gain on the transfer of Dstl to the Department		43,168.1	43,148.6	28.0	28.0
Other Comprehensive Expenditure					
Net (gain) / loss on revaluation of property, plant and equipment		(2,509.1)	(2,515.6)	-	-
Net (gain) / loss on revaluation of intangible assets		(280.9)	(280.9)	-	-
Net (gain) / loss on revaluation of assets held for sale		2.4	2.4	-	-
Net (gain) / loss on revaluation of inventories		(200.2)	(200.2)	-	-
Net (gain) / loss on pensions		(4.2)	23.4	-	-
Changes in capitalised decommissioning liabilities		892.5	892.5	-	-
Assets written-on and transferred in		(136.0)	(137.9)	-	-
Total other comprehensive expenditure		(2,235.5)	(2,216.3)	-	-
Comprehensive Net Expenditure for the Year		40,932.6	40,932.3	28.0	28.0

Property, other PPE and intangible assets		Nuclear decommissioning and other provisions		Other adjustments		Restated 2017-18	
Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
-	-	-	-	-	-	(659.0)	(659.0)
-	-	-	-	-	-	(651.1)	(731.6)
-	-	-	-	-	-	(1,310.1)	(1,390.6)
-	-	-	-	-	-	12,324.8	12,422.5
-	-	-	-	(12.1)	(12.1)	14,245.4	14,245.4
(4.8)	(4.8)	37.3	37.3	-	-	8,418.4	8,428.9
-	-	(319.4)	(319.4)	(42.3)	(42.3)	7,639.0	7,639.0
-	-	-	-	-	-	723.2	723.2
-	-	-	-	-	-	417.2	417.2
-	-	-	-	-	-	744.3	697.1
(4.8)	(4.8)	(282.1)	(282.1)	(54.4)	(54.4)	44,512.3	44,573.3
(4.8)	(4.8)	(282.1)	(282.1)	(54.4)	(54.4)	43,202.2	43,182.7
-	-	-	-	-	-	(347.4)	(347.4)
(4.8)	(4.8)	(282.1)	(282.1)	(54.4)	(54.4)	42,854.8	42,835.3
(95.3)	(95.3)	181.2	181.2	-	-	(2,423.2)	(2,429.7)
2.0	2.0	-	-	-	-	(278.9)	(278.9)
-	-	-	-	-	-	2.4	2.4
-	-	-	-	-	-	(200.2)	(200.2)
-	-	-	-	-	-	(4.2)	23.4
-	-	479.7	479.7	-	-	1,372.2	1,372.2
-	-	-	-	-	-	(136.0)	(137.9)
(93.3)	(93.3)	660.9	660.9	-	-	(1,667.9)	(1,648.7)
(98.1)	(98.1)	378.8	378.8	(54.4)	(54.4)	41,186.9	41,186.6

23.6.3 Restatement of Statements of Financial Position as at 1 April 2017

	Note	31 March 2017 ¹		Reclassification of Raw Materials and Consumables (RMC)	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M
Non-current assets					
Intangible assets		27,778.6	27,778.6	-	-
Property plant and equipment		101,735.1	102,316.3	256.9	256.9
Retirement benefit scheme assets		-	15.9	-	-
Financial assets		13.3	13.3	-	-
Receivables due after more than one year		467.7	467.7	-	-
Total non-current assets		129,994.7	130,591.8	256.9	256.9
Current assets					
Non-current assets held for sale		25.6	25.6	-	-
Inventories		4,548.9	4,557.3	(698.4)	(698.4)
Trade and other receivables		2,797.0	2,815.0	-	-
Financial assets		607.8	643.8	-	-
Cash at bank and in hand		1,591.4	1,653.2	-	-
Total current assets		9,570.7	9,694.9	(698.4)	(698.4)
Total assets		139,565.4	140,286.7	(441.5)	(441.5)
Current liabilities					
Payables due within one year		(10,670.1)	(10,715.7)	-	-
Provisions due within one year		(405.0)	(405.0)	-	-
Financial liabilities		(121.9)	(121.9)	-	-
Total current liabilities		(11,197.0)	(11,242.6)	-	-
Non-current assets plus net current assets		128,368.4	129,044.1	(441.5)	(441.5)
Non-current liabilities					
Provisions due after one year		(10,875.0)	(10,875.0)	-	-
Retirement benefit scheme liabilities		(593.8)	(598.4)	-	-
Payables due after more than one year		(6,542.5)	(6,544.4)	-	-
Total non-current liabilities		(18,011.3)	(18,017.8)	-	-
Assets less liabilities		110,357.1	111,026.3	(441.5)	(441.5)
Taxpayers' equity and other reserves					
General fund		84,634.8	84,634.8	(441.5)	(441.5)
Revaluation reserve		25,722.3	25,722.3	-	-
Taxpayers equity		110,357.1	110,357.1	(441.5)	(441.5)
Total Arm's Length Bodies' reserves		-	669.2	-	-
Total taxpayers' equity and other reserves		110,357.1	111,026.3	(441.5)	(441.5)

1. As published in the MOD Annual Report and Accounts 2017-18 but with the figures here presented in £ million.

Property, other PPE and intangible assets	Nuclear decommissioning and other provisions				Other adjustments		Restated 1 April 2017	
		Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	Core Department & Agencies £M	Departmental Group £M	
(234.2)	(234.2)	-	-	-	-	27,544.4	27,544.4	
(45.4)	(45.4)	1,040.9	1,040.9	-	-	102,987.5	103,568.7	
-	-	-	-	-	-	-	15.9	
-	-	-	-	-	-	13.3	13.3	
-	-	-	-	-	-	467.7	467.7	
(279.6)	(279.6)	1,040.9	1,040.9	-	-	131,012.9	131,610.0	
-	-	-	-	-	-	25.6	25.6	
-	-	-	-	-	-	3,850.5	3,858.9	
-	-	-	-	(4.6)	(4.6)	2,792.4	2,810.4	
-	-	-	-	-	-	607.8	643.8	
-	-	-	-	(19.8)	(19.8)	1,571.6	1,633.4	
-	-	-	-	(24.4)	(24.4)	8,847.9	8,972.1	
(279.6)	(279.6)	1,040.9	1,040.9	(24.4)	(24.4)	139,860.8	140,582.1	
-	-	-	-	(42.2)	(42.2)	(10,712.3)	(10,757.9)	
-	-	(0.1)	(0.1)	-	-	(405.1)	(405.1)	
-	-	-	-	-	-	(121.9)	(121.9)	
-	-	(0.1)	(0.1)	(42.2)	(42.2)	(11,239.3)	(11,284.9)	
(279.6)	(279.6)	1,040.8	1,040.8	(66.6)	(66.6)	128,621.5	129,297.2	
-	-	(127.4)	(127.4)	-	-	(11,002.4)	(11,002.4)	
-	-	-	-	-	-	(593.8)	(598.4)	
-	-	-	-	(98.6)	(98.6)	(6,641.1)	(6,643.0)	
-	-	(127.4)	(127.4)	(98.6)	(98.6)	(18,237.3)	(18,243.8)	
(279.6)	(279.6)	913.4	913.4	(165.2)	(165.2)	110,384.2	111,053.4	
(149.6)	(149.6)	1,482.0	1,482.0	(165.2)	(165.2)	85,360.5	85,360.5	
(130.0)	(130.0)	(568.6)	(568.6)	-	-	25,023.7	25,023.7	
(279.6)	(279.6)	913.4	913.4	(165.2)	(165.2)	110,384.2	110,384.2	
-	-	-	-	-	-	-	669.2	
-	-	-	-	-	-	-	-	
(279.6)	(279.6)	913.4	913.4	(165.2)	(165.2)	110,384.2	111,053.4	





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
Naval Service				
Royal Navy	Officers	6,380	6,070	October 2018
	Men and Women	21,000	19,570	March 2019
	Aggregate	27,380	25,630	October 2018
Royal Marines	Officers	890	830	October 2018
	Men and Women	7,200	6,210	April 2018
	Aggregate	8,090	7,010	April 2018
Army Service				
Army (Other than Services below)	Officers	14,370	13,060	October 2018
	Men and Women	88,640	70,860	April 2018
	Aggregate	103,010	83,650	April 2018
Commonwealth, Colonial, &c., troops abroad and Gurkhas	Officers	210	140	**
	Men and Women	4,410	3,480	March 2019
	Aggregate	4,620	3,620	March 2019
Air Force Services				
Royal Air Force	Officers	8,090	7,740	November 2018
	Men and Women	27,200	25,340	April 2018 and May 2018
	Aggregate	35,290	32,960	April 2018

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
Reserve Naval and Marine Services				
Royal Fleet Reserve (Naval Officers and Ratings)	Officers	4,960	2,380	May 2018
	Men and Women	9,000	2,140	May 2018
	Aggregate	13,960	4,520	May 2018
Royal Fleet Reserve (Marine Officers and Marines)	Officers	470	220	August 2018
	Men and Women	2,610	840	February 2019
	Aggregate	3,080	1,060	January 2019
Royal Naval Reserve	Officers	1,350	1,150	March 2019
	Men and Women	2,300	1,710	March 2019
	Aggregate	3,650	2,860	March 2019
Royal Marine Reserve	Officers	110	90	May 2018 and June 2018
	Men and Women	1,200	920	November 2018
	Aggregate	1,310	1,010	November 2018
Royal Naval Reserve (List 7)	Officers	1,100	970	January 2019
Reserve Land Forces				
Army Regular Reserve	Officers	10,060	8,160	April 2018
	Men and Women	24,560	20,990	April 2018
	Aggregate	34,620	29,150	April 2018
Army Reserve	Officers	10,710	5,690	March 2019
	Men and Women	34,960	28,190	April 2018
	Aggregate	45,670	33,750	December 2018
Reserve Air Forces				
Royal Air Force Reserve	Officers	4,500	3,780	June 2018
	Men and Women	9,000	7,800	April 2018
	Aggregate	13,500	11,560	April 2018
Royal Auxiliary Air Force	Officers	700	620	March 2019
	Men and Women	2,980	2,450	March 2019
	Aggregate	3,680	3,070	March 2019

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
Special Members of The Reserve Naval Forces				
Royal Naval Reserve	Officers	850	720	May 2018
	Men and Women	1,620	1,060	April 2018
	Aggregate	2,470	1,780	April 2018
Special Members of The Reserve Land Forces				
Army Regular Reserve	Officers	20	0	*
	Men and Women	30	0	*
	Aggregate	50	0	*
Army Reserve	Officers	20	0	*
	Men and Women	430	120	March 2019
	Aggregate	450	120	March 2019
Special Members of The Reserve Air Forces				
Royal Air Force Reserve	Officers	100	60	February 2019
	Men and Women	175	150	December 2018
	Aggregate	275	200	February 2019

- The figures for Maximum Numbers Maintained have been rounded to the nearest 10, with numbers ending in 5 being rounded to the nearest multiple of 20 to prevent systematic bias.
- Totals and sub-totals have been rounded separately and so may not equal the sum of their rounded parts.
 - * Strength has been zero for the whole time period.
 - ** Strength has been more than two months at the highest level.

Annex B

Sponsorship Agreements over £5,000

Activity	Name of Sponsor	Sponsor Contribution £ excluding VAT
Sponsorship of Exercise Norway		
	XL Catlin	10,000
	Jaguar Land Rover Ltd	10,000
	InSitu	8,500
	L3 Communications	5,000
	Patron Capital Advisers LLP	5,000
	Giant Ltd	5,000
RN Engineering Challenge		
	Eaton Ltd	10,000
	Babcock Marine Training Ltd	10,000
	BAE Systems Surface Ships Ltd	5,000
Armed Forces in Wales Awards		
	General Dynamics UK	6,000
Battle of Britain Memorial Flight		
	BAE Systems	30,000
	Optare Group Ltd	12,913
	Jaguar Land Rover Ltd	11,116
	Rolls-Royce PLC	10,000
	Santander UK Plc	7,600
RAF Falcons Parachute Display Team		
	Sonic Communications (Int) Ltd	15,000
	Cotswold Outdoor	6,090
RAF Red Arrows		
	BAE Systems Plc	75,000
	Jaguar Land Rover Ltd	39,000
	Oxford Vaughan Ltd	12,445
	Breitling UK Ltd	12,000
	Alexandre (BMB) Menswear	10,000
	Leeds Commercial Ltd	6,500
RAF Typhoon Display Team		
	Leonardo Ltd	20,000
Army Parachute Display Team – The Red Devils		
	Nissan Westway	25,000
	Vnox (Burton McCall)	25,000
	5.11 Tactical Inc.	24,000
	Chemring Group Plc	24,000
	Ops Core Gentex Corporation	20,000
	Virgin Media Ltd	11,700
	Signbox Ltd	5,000
	Amesbury Printing Company Ltd	5,000
	iFly Indoor Skydiving Ltd	5,000
Army Parachute Display Team – The Tigers		
	Grant and Green	21,750
	Enola Gaye Smoke Grenades	7,000
Exercise Force Atlantic (Talisker Whiskey Challenge)		
	RSS Ltd	10,000
International Flying Training Conference		
	Lockheed Martin	5,000
Service Complaints Conference		
	British Telecom	10,000

Annex C

Core Tables

Organisations (All)

Total departmental spending 2014–15 to 2022–23

Resource DEL	2014–15 Outturn £000	2015–16 Outturn £000	2016–17 Outturn £000	2017–18 Outturn £000	2018–19 Outturn £000	2019–20 Plans £000	2020–21 Plans £000
Provision of Defence Capability Service Personnel Costs	7,878,834	8,688,284	8,936,726	8,970,633	9,093,174	9,676,900	9,323,901
Provision of Defence Capability Civilian Personnel Costs	1,937,614	1,282,598	1,317,796	1,363,922	1,382,590	1,694,024	1,680,748
Provision of Defence Capability Infrastructure costs	4,576,992	4,127,877	4,109,609	4,057,523	4,258,514	3,178,892	3,202,943
Provision of Defence Capability Inventory Consumption	1,661,847	1,458,575	1,213,611	1,187,498	1,173,172	1,145,901	1,187,617
Provision of Defence Capability Equipment Support Costs	6,343,245	6,308,897	6,440,168	6,548,798	6,792,882	8,997,174	8,940,682
Provision of Defence Capability Other Costs and Services	1,854,880	1,777,086	1,224,403	1,344,094	1,345,918	1,909,397	3,057,271
Provision of Defence Capability Receipts and other Income	-1,091,806	-990,842	-1,001,626	-1,069,897	-1,088,379	-1,089,444	-1,105,693
Provision of Defence Capability Depreciation and Impairments Costs	8,187,241	7,690,147	8,773,560	7,236,889	6,805,446	8,496,772	8,500,000
Provision of Defence Capability Cash Release of Provisions Costs	201,855	238,288	253,552	292,907	389,329	340,000	-
Provision of Defence Capability Research and Development Costs ¹	-	-	164,191	223,050	228,963	157,390	158,670
Provision of Defence Capability Administration Civilian Personnel Costs	371,688	1,198,116	430,740	363,297	483,679	492,462	430,000
Provision of Defence Capability Administration Other Costs and Services	463,849	465,947	395,656	423,226	530,519	424,501	412,000
Operations Service Personnel Staff Cost	85,480	12,864	27,617	42,608	30,728	16,392	-

1. The R&D costs have been restated to comply with European System of Accounts (ESA 10) as per HMT directive.

	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Outturn £000	2017-18 Outturn £000	2018-19 Outturn £000	2019-20 Plans £000	2020-21 Plans £000
Operations and Peacekeeping Civilian Personnel Staff Costs	6,036	3,962	4,840	5,621	3,014	1,000	-
Operations Infrastructure Costs	86,516	48,926	42,939	56,714	63,814	42,956	-
Operations Inventory Consumption	160,055	56,224	66,085	95,821	80,522	67,261	-
Operations Equipment Support Costs	184,400	143,437	233,445	282,316	271,531	157,825	-
Operations Other Costs and Services	138,302	19,856	41,510	35,451	66,477	28,826	-
Operations Receipts and other Income	-40,914	-9,969	-16,698	-11,941	-2,901	-2,260	-
Operations Depreciation and Impairment Costs	322,349	21,029	45,272	49,723	24,585	-	-
Operations Cash Release of Provisions Costs	2,869	-	-	-	-	-	-
Conflict Pools Resource Costs	55,518	-	-	-	-	-	-
Non Departmental Public Bodies Costs	130,021	164,842	153,063	164,637	204,025	178,543	-
Defence Capability Admin Service Pers Costs	623,716	617,879	658,904	670,653	661,235	660,000	660,000
Defence Capability DE&S DEL Costs	-	1,028,443	1,044,059	1,041,063	981,367	846,700	1,199,548
War Pension Benefits Programme Costs	-	-	764,818	723,228	697,262	691,708	669,479
Conflict, Stability and Security Fund	-	53,397	86,832	90,994	88,579	82,038	-
Cash Release of Provisions Admin Costs	14,451	18,157	11,703	9,908	5,446	10,000	-
Total Resource DEL	34,155,038	34,424,020	35,422,775	34,198,736	34,571,491	38,204,958	38,317,166
Resource AME							
Provision of Defence Capability Depreciation and Impairment Costs	450,416	562,876	142,253	861,134	70,897	952,550	-
Provision of Defence Capability Provisions Costs	679,896	6,096,468	501,333	8,548,134	-7,377,334	616,735	-
Provision of Defence Cash Release of Provisions Costs	-216,306	-256,445	-265,255	-302,815	-394,775	-350,000	-
Movement On Fair Value of Financial Instruments	42,768	-299,576	-589,025	583,912	-181,496	300,000	-
Operations Depreciation and Impairment Costs	10,757	-	-	-	-	-	-

	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Outturn £000	2017-18 Outturn £000	2018-19 Outturn £000	2019-20 Plans £000	2020-21 Plans £000
Operations Provisions	61,995	-	-	-	-	-	-
Operations Cash Release of Provisions Costs	-2,869	-	-	-	-	-	-
War Pensions Benefits Programme costs	837,649	-	-	-	-	-	-
Total Resource AME	1,864,306	6,103,323	-210,694	9,690,365	-7,882,708	1,519,285	-
Total Resource Budget	36,019,344	40,527,343	35,212,081	43,889,101	26,688,783	39,724,243	38,317,166
Capital DEL							
Provision of Defence Capability Capital Single Use Military Equipment	3,970,897	4,255,772	5,192,513	5,530,091	5,817,644	4,829,667	5,807,655
Provision of Defence Capability Other Capital (Fiscal)	3,110,988	2,509,470	2,279,278	2,929,616	3,253,912	3,769,324	2,571,524
Provision of Defence Capability Fiscal Assets / Estate Disposal	-250,881	-423,365	-36,560	-33,224	-42,725	-137,000	-152,000
Provision of Defence Capability New Loans and Loan Repayment	-56,626	-3,220	-63,292	-	8,609	-	-1,222
Provision of Defence Capability Research and Development Costs ¹	1,950,000	1,921,983	1,104,141	1,007,683	1,110,050	1,261,000	1,348,000
Operations Capital Single Use Military Equipment	17,908	51,862	111,350	178,258	75,113	18,000	-
Operations Other Capital (Fiscal)	-8,978	1,020	3,616	20,716	18,583	-	-
Non Departmental Public Bodies Costs	2,414	2,322	2,145	1,754	2,500	2,511	-
Defence Capability DE&S DEL Costs	-	86,624	94,941	64,315	50,751	37,300	61,043
Conflict, Stability and Security Fund	-	-	421	4,377	-	-	-
Total Capital DEL	8,735,722	8,402,468	8,688,553	9,703,586	10,294,437	9,780,802	9,635,000
Capital AME							
Provision of Defence Capability Provisions Costs	50,559	29,130	-	44,486	-	-	-
Total Capital AME	50,559	29,130	-	44,486	-	-	-
Total Capital Budget	8,786,281	8,431,598	8,688,553	9,748,072	10,294,437	9,780,802	9,635,000
Total departmental spending²	35,778,780	40,967,707	35,516,368	44,857,257	30,254,026	39,752,495	39,452,166

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, 2014-15 to 2021-22

Resource DEL	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Outturn £000	2017-18 Outturn £000	2018-19 Outturn £000	2019-20 Plans £000	2020-21 Plans £000
Provision of Defence Capability Administration Civilian Personnel Costs	371,688	403,342	430,741	363,297	483,679	492,462	430,000
Provision of Defence Capability Administration Other Costs and Services	463,849	465,947	395,656	423,226	530,519	424,501	412,000
Defence Capability Admin Service Pers Costs	623,716	617,879	658,904	670,653	661,235	660,000	660,000
Cash Release of Provisions Admin Costs	14,451	18,157	11,703	9,908	5,446	10,000	-
Total administration budget	1,473,704	1,505,325	1,497,004	1,467,084	1,680,879	1,586,963	1,502,000

Annex D

Energy and Carbon Emissions Data

Greenhouse Gas Emissions		2016-17	2017-18	2018-19
Non-Financial Indicators tCO2e 000's tCO2e 000's	Total gross emissions for scopes 1, 2 & 3 (Estate)	1,043	942	828
	Total gross emissions for scopes 1, 2 & 3 (Capability)	1,811	Not Known	Not Known
	Total net emissions for scopes 1, 2 & 3	1,043	942	828
	Total gross emissions scope 1	471	458	327
	Total gross emissions scope 2 & 3	572	484	382
Related Energy Consumption KWh 000's	Electricity: Non-renewable	1,208,524	1,189,820	1,147,963
	Electricity: Renewable	0	0	0
	Gas	1,992,575	1,911,438	1,832,006
	LPG	50,555	36,532	37,857
	Other	193,242	160,183	170,599
Related Equipment Energy Consumption Litres 000's	Aviation fuel	481,338	458,793	Not Known
	Diesel (retail blend & mineral blend)	Not Known	Not Known	Not Known
	Diesel (retail blend)	44,501	49,512	Not Known
	Diesel (100% mineral)	177,290	155,609	Not Known
	Gas oil	Not known	Not Known	Not Known
	Petrol	Not known	Not Known	Not Known
Financial Indicators £000's	Expenditure on energy	292,201	306,897	331,370
	CRC license expenditure (2012 onwards)	16, 229	16,229	12
	Expenditure on GCOF offsets	Not known	Not Known	0
	Expenditure on official business travel	Not known	Not Known	128,809
	Expenditure on equipment energy (fuel)	295,993	324,262	Not Known
Normalisation	Total scopes 1, 2 & 3 - tCO2e 000	1,043	943	828
	Defence total Spend £000's	35,422,775	35,804,000	38,085,000
	Normalisation – Scope 1 & Scope 2 emissions 000s / budget £000s	0.00003	0.00003	0.00002

Annex E

Water and Waste Data

Water Data

FINITE RESOURCE CONSUMPTION – Water		2016–17	2017–18	2018–19
Non-Financial Indicators 000's m ³	Water consumption (office estate)	276	243	241
	Per Full Time Equivalent	17	14	14
	Water consumption (office & non-office estate)	23,004	22,835	22,598
Financial Indicators £000's	Water supply costs (whole estate)	109.2	124.3	123.3
Normalisation	Department total spend £000's	35,422,775	35,804,000	38,085,000
	Normalisation – consumption m ³ 000s / budget £000s	0.0006	0.0006	0.0006

Waste Data

WASTE		2016–17	2017–18	2018–19	
Non-Financial Indicators tonnes 000's	Total waste	177	111	129	
	Hazardous waste	0.5	0	0	
	Non-hazardous waste	Landfill	12	16	10
		Reused/ Recycled	91	62	77
		Composted	2	7	13
		Incinerated with energy recovery	30	31	42
		Incinerated without energy recovery	0.8	1	1
Financial Indicators £000's	Total disposal cost	Not known	Not Known	Not Known	
	Department total spend £000s	35,422,775	35,804,000	38,085,000	
Normalisation	Normalisation – waste generated tonnes 000s/ total spend £000s	0.000005	0.000003	0.000003	

